

Third Party Evaluation FY 2007
The Ministry of Foreign Affairs of Japan

Country Assistance Evaluation of Indonesia

Summary

March 2008

Preface

This report is a summary of the Country Assistance Evaluation of Indonesia undertaken by the External Advisory Meeting on ODA Evaluation requested by the International Cooperation Bureau of the Ministry of Foreign Affairs of Japan.

Japan's Official Development Assistance (ODA), since its commencement in 1954, has contributed to addressing the international and domestic issues which varies with the times. Recently, there have been increased domestic and international calls for more effective and efficient implementation of assistance. The Ministry of Foreign Affairs, as the coordinating ministry for ODA, has been conducting ODA evaluation mainly at the policy level with two main objectives: to support the implementation and management of ODA and to ensure its accountability.

This study aims to conduct an overall evaluation of Japan's assistance policy for Indonesia in terms of its purposes; effects; and process of planning and implementation, and to derive lessons learned and recommendations contributing to the formulation of effective and efficient policies for Japan's future assistance to Indonesia, including revision of the Country Assistance Program (CAP). Additionally, the study aims to provide accountability to Japanese citizens by widely disseminating evaluation results. Based on the evaluation guideline of the Ministry of Foreign Affairs (ODA Evaluation Guideline, Third Edition, May 2006) and discussion in the External Advisory Meeting on ODA Evaluation, this study analysed the usage of ODA funds mainly from the perspectives of 'relevance of policies', 'effectiveness of results' and 'appropriateness of processes'.

The External Advisory Meeting on ODA Evaluation, which was formed, as an informal advisory body of the Director-General of the International Cooperation Bureau of the Ministry of Foreign Affairs of Japan, to improve the objectivity in evaluation. The Meeting is commissioned to conduct an evaluation of ODA and to report results and recommendations to the International Cooperation Bureau of Ministry of Foreign Affairs. Prof. Izumi Ohno, a member of the Meeting and Professor of the National Graduate Institute of Policy Studies (GRIPS), was in charge of this evaluation.

Dr. Yuri Sato, Director/Senior Research Fellow of the Institute of Developing Economies, and Dr. Takeshi Kohno, Associate Professor of the GRIPS, being an advisor to the study, made enormous contribution to this report. Likewise, the Ministry of Foreign Affairs, the Japan International Cooperation Agency (JICA), the Japan Bank for International

Cooperation (JBIC) and the ODA Taskforces¹ also gave their cooperation. We would like to take this opportunity to express our sincere gratitude to all those who were involved in this study. The ODA Evaluation Division of the International Cooperation Bureau of the Ministry of Foreign Affairs was in charge of coordination. All other supportive works including information collection, analysis and report preparation were provided by the KRI International Corp., under commission of the Ministry of Foreign Affairs.

Finally, we wish to add that the opinions expressed in this report do not necessarily reflect the view or position of the Government of Japan or any other institution.

March 2008

The External Advisory Meeting on ODA Evaluation:

Hiromitsu MUTA (Member of the Board/Executive Vice President, Tokyo Institute of Technology)

Kiyoko IKEGAMI (Director, UNFPA Tokyo Office)

Yoshikazu IMAZATO (Former Editorial Writer, The Tokyo Shimbun)

Izumi OHNO (Professor, National Graduate Institute for Policy Studies)

Yayoi TANAKA (Associate Professor, National Institution for Academic Degrees and University Evaluation)

Masato NODA (Trustee, Nagoya NGO Center/Associate Professor, Chubu University)

Hiroko HASHIMOTO (Professor, Jumonji University)

Katsuya MOCHIZUKI (Director in Charge, Inter-disciplinary Studies Center, Institute of Developing Economies)

Tatsufumi YAMAGATA (Director, Development Strategies Studies Group Development Studies Center/
Professor, Institute of Developing Economies (IDE))

¹ ODA Taskforces are the coordination bodies of all the Japanese concerned agencies, which are set up in the field in order to achieve efficient and effective development assistance. As of 2007, ODA Taskforces have been established in more than seventy countries including Indonesia.

Outline of Evaluation

1. Evaluation Results:

(1) Relevance of Policies

The Country Assistance Program (CAP) for Indonesia is highly consistent with Japan's "ODA Charter" and "ODA Medium Term Policy", as well as Indonesia's National Medium-Term Development Plan (2004-2009). The CAP for Indonesia is also complementary to the priority activities of other donors. Nevertheless, it does not clearly position "Japan's activities to respond to global issues". Prompt attention is necessary in this regard, as environmental issues, natural disasters, avian influenza and other issues affecting Indonesia are global as well as domestic concern.

(2) Effectiveness of Results

Japan's assistance has achieved important results with respect to the fiscal and financial sector reform, which has been regarded as a short-term goal within the CAP for Indonesia. The Japanese government also responded properly to major changes in development policies during the current Yudhoyono administration (e.g., improvements in the investment climate, new policies regarding infrastructure, revisions to Indonesia's policies for receiving aid, deepening of democratization and revision of the Decentralization Law), as well as to unexpected situations (e.g., reconstruction from earthquake and tsunami).

(3) Appropriateness of Process

Japan's assistance to improve the investment climate in close cooperation with the private sector, as well as programmatic assistance to "Supporting Development of Eastern Indonesia" aimed at poverty reduction across sectors through the establishment of a regional coordinating office is appropriate. However, under limited budget, there is a need to prioritize its assistance among competing demands for aid, such as monitoring policy-based program loans, supporting regional development, conducting peace building and implementing the Economic Partnership Agreement (EPA). The ODA Task Force in Indonesia should enhance its functions to discuss and coordinate Japan's aid policy in a comprehensive manner.

2. Major Recommendations

- Sharing a development vision for Indonesia and strategizing Japan's assistance (i.e., reviewing assistance priorities in light of changes in Indonesia's needs and bilateral relationship, strengthening "selection and concentration", assisting Indonesia in becoming a middle-income country, and promoting comprehensive policy dialogues with the Indonesian Government).
- Enhancing the field-level functions (i.e., enhancing analytical capabilities for priority issues, continuing cooperation mechanisms under public-private partnerships, strengthening monitoring systems for policy-based program loans, enhancing policy dialogue and monitoring systems for grant assistance and technical cooperation).
- Building networks with diverse stakeholders (i.e., utilizing human networks and trustful relationship built through cooperation over the years, and expanding assistance through non-governmental channels).
- Strengthening public relations to achieve high impacts with limited budget.

**Country Assistance Evaluation of Indonesia
Summary**

<p>1 . Theme: Evaluation of Country Assistance Program</p>	
<p>2 . Country: Indonesia</p>	
<p>3 . Evaluators: (1) Chief Evaluator: Prof. Izumi Ohno (Professor, GRIPS) (2) Advisors: Dr. Yuri Sato (Director/Senior Research Fellow, Institute of Developing Economies) Dr. Takeshi Kohno (Associate Professor, GRIPS) (3) Consultant: KRI International Corp.</p>	
<p>4 . Period of Evaluation Survey: July 2007-March 2008</p>	
<p>5 . Evaluation Principles:</p> <p><u>(1) Evaluation Objective:</u></p> <p>a. To conduct an overall evaluation of Japan’s assistance policy for Indonesia, and derive lessons learned and recommendations contributing to the formulation of effective and efficient policies for Japan’s future assistance to Indonesia, including revision of the Country Assistance Program (CAP).</p> <p>b. To provide accountability to Japanese citizens by widely disseminating evaluation results, and take responsibility for providing feedback on evaluation results to related stakeholders in the Indonesian Government and other donors in Indonesia.</p> <p><u>(2) Evaluation Scope:</u></p> <p>Japan’s assistance policy to Indonesia since the CAP for Indonesia adopted in November 2004.</p> <p><u>(3) Evaluation Methodology:</u></p> <p>Based on the evaluation guideline of the Ministry of Foreign Affairs (ODA Evaluation Guideline, Third Edition, May 2006), this study has made comprehensive analyses mainly from the perspectives of “relevance of policies”, “effectiveness of results” and “appropriateness of processes” and complied suggestions for Japan’s assistance policy. The study has given due consideration to Japan’s responses to changes in Indonesia’s development policies (e.g., improvements in the investment climate, new policies regarding infrastructure, revisions to Indonesia’s policies for receiving aid, deepening of democratization and revision of the Decentralization Law), diplomatic agenda such as the Economic Partnership Agreement (EPA), investment, energy, and maintenance of public order) under the Susilo Bambang Yudhoyono administration that took office in 2004. This is the period when the country has made significant progress in growth recovery and democratization. At the same time, the study is treated as an interim review because of the relatively brief period of time since 2004.</p> <p>To evaluate the “effectiveness of results,” the study has examined the degree to which</p>	

the initial objectives have been achieved, as well as the degree to which tangible results have been produced according to different time horizons (with short- and medium-term goals addressing “sustainable growth driven by the private sector”, the medium and long term goals addressing “creating a democratic and equitable society”, and all time horizons addressing “peace and stability”). Special attention has been paid to the analyses of the achievements mainly with respect to the short and medium term time horizons.

6. Evaluation Results:

(1) Relevance of Policies:

The CAP for Indonesia is highly consistent with Japan's higher-level aid policies—the “ODA Charter” and the “ODA Medium Term Policy”, as well as Indonesia's National Medium-Term Development Plan (2004-2009). This owes greatly to the fact that the CAP for Indonesia was formulated on the basis of close policy dialogue between the officials and experts of Japan and Indonesia over how to attain Indonesia's growth recovery after the Asian economic crisis.

The CAP for Indonesia has focused on assistance for economic infrastructure to enhance the investment climate as a short- and medium-term goal, under the pillar of “sustainable growth driven by the private sector.” This is complementary to the aid priorities of the World Bank and the Asian Development Bank (ADB). These donor institutions embrace “governance reform” as their basic policy and have focused their assistance on policy and institutional reforms and social services.

However, the CAP does not clearly position “Japan's activities to respond to global issues”. Prompt attention is necessary in this regard, as environmental issues, natural disasters, avian influenza and other issues affecting Indonesia are matters of global as well as domestic concern.

(2) Effectiveness of Results:

Japan's ODA loans have greatly contributed to funding Indonesia's development activities, accounting for more than 40% of the country's outstanding external official debt. Japan's assistance has achieved important results in the fiscal and financial sector reform, meeting one of the short-term goals within the CAP for Indonesia. With respect to the short- and medium-term goals such as building economic infrastructure, fostering supporting industries and small and medium enterprises (SMEs), and developing legal systems for supporting economic activities, important achievements have been made through projects, as well as through program loans co-financed by Japan, the World Bank and the ADB. Especially, with respect to improvements in the investment climate, Japan has made major effort to reflect concrete proposals, based on the experiences of Japanese companies, in policy-based program loans, and earned high appreciation from the government of Indonesia and other donors. However, the view has been expressed that improvements in the investment climate remain limited and have not met the expectations of Japanese companies.

Poverty reduction is a medium- and long-term goal. Overall, progress in achieving the

Millennium Development Goals (MDGs) has been slow, except in the field of education. With respect to peace and stability, Japan has contributed to the reconstruction of infrastructure promptly after the earthquake in Aceh, and such assistance has been highly appreciated by the government of Indonesia. On the other hand, Japan has been assisting peace building in Aceh and Maluku through trial and error processes, in the mid of difficulties regarding ensuring security and also the complex cultural backgrounds involved.

The Japanese government responded appropriately to major changes in development policies under the Yudhoyono administration, and to unexpected situations such as natural disasters, by utilizing various instruments including projects, program loans, public-private partnerships for improving the investment climate, cross-sectoral regional development programs, and emergency relief.

(3) Appropriateness of Process:

Japan's assistance has been appropriate, including activities to improve the investment climate in close cooperation with the private sector (of both Japan and Indonesia), as well as the programmatic assistance for "Supporting Development of Eastern Indonesia" aimed at poverty reduction across sectors through the establishment of the Makassar Field Office as a regional coordinating office. However, under limited budget, there is a need to prioritize Japanese ODA to Indonesia among competing demands for assistance, such as monitoring program loans, supporting regional development, supporting peace building and implementing the EPA. The ODA Task Force in Indonesia should enhance its functions to discuss and coordinate Japan's aid policy in a comprehensive manner.

7. Recommendations

(1) Sharing a Development Vision for Indonesia and Strategizing Japan's Assistance:

Having achieved the recovery from economic crisis and the resumption of growth, Indonesia has entered a new period of stability in which it can aim to become a middle-income country. Therefore, Japan now needs to review its assistance priorities in light of changes in Indonesia's development needs and progress of the bilateral relationship through such as the conclusion of the EPA and to strengthen "selection and concentration." Greater attention should be paid to short- and medium-term goals such as building economic infrastructure, fostering supporting industries and SMEs, developing legal systems for supporting economic activities and strengthening their enforcement. Japan should also review regional development approaches in light of how to combine region-specific growth promotion strategies with distribution and poverty reduction measures, and examine how to position its assistance for peace-building and reconstruction, environmental conservation and disaster prevention, within the CAP for Indonesia. There is a need to conduct comprehensive policy dialogues with the Indonesian Government, building on such analyses and vision sharing.

(2) Enhancing the Field-Level Functions:

In order to enhance analytical capabilities for priority development issues, it is necessary to establish thematic or sectoral teams within the ODA Task Force in Indonesia, so as to develop shared development vision and analyse the situations appropriately, beyond information-sharing. The ODA Task Force needs to establish functions so that sector-specific knowledge and expertise can be flexibly mobilized and so that individual projects can be linked to the related policies.

In implementing assistance for “sustainable growth driven by the private sector,” the ODA Task Force has actively promoted public-private partnerships, working closely with private business groups and the Indonesian Chamber of Commerce (KADIN). The efforts to improve the investment climate through the Indonesia-Japan Joint Forum on Investment (JFI) are notable. It is important to continue such mutually complementary relationships between ODA and private businesses—after the EPA enters into force—based on the public-private partnership experiences accumulated so far.

Policy-based program loans are likely to be a key mechanism for policy coordination after the dissolution of the Consultative Group on Indonesia (CGI). It is necessary to strengthen the monitoring system for program loans to further enhance their effectiveness and transparency. Moreover, as the Indonesian government comes to exercise ownership in establishing a mechanism for aid coordination, it is likely that multi-donor trust funds under a common policy framework would play a large role. If Japan is prepared to strengthen its engagement in program loans and enhance the institutional framework for public-private partnerships, it will be crucial to strengthen policy coordination and monitoring systems for Japan’s grant aid and technical cooperation.

(3) Building Networks Engaging Diverse Stakeholders:

The human networks and relationships of trust built through Japan’s cooperation to Indonesia over the years constitute valuable assets for both countries. Ways in which such relationships could be utilized in the future include: (a) expansion or application of experiences accumulated through Japan’s assistance for improvement of local educational administration systems to other locations, as well as other sectors (health) and peace building (in Maluku); (b) utilization of human resources and networks cultivated through Japan’s past cooperation in Sulawesi to support local capacity building for regional development; (c) development of human resources and human networks through cooperation with local universities; and (d) provision of long-term assistance through combining technical cooperation and grant aid., such as support to the police system.

Some NGOs point out that Japanese ODA has had limited cooperation with NGOs, compared with other donors. It is important to make Japan’s ODA more open to NGOs. This should contribute to expanding the basis of human resources development from the public to the private sector and promoting the public understanding of Japan’s ODA.

(4) Strengthening Public Relations to Achieve High Impacts with Limited Budget

Despite the large volume of aid provided by Japan to Indonesia, Japan’s ODA activities

are not well known among Indonesians (except for government officials). Although there are several high-profile activities, Japan has had difficulties in achieving high impacts through public relations. It is important to organize public relations and outreach activities so as to maximize their impacts with limited budget. In particular it would be useful to consider the following: (a) organizing annual seminar on Japan's ODA activities (publishing and disseminating an annual ODA report); (b) resuming external advisory group meetings for Japan's ODA held at the Embassy of Japan, and sharing the information on Japan's ODA, including visits to project sites; and (c) organizing discussion meetings with NGOs and researchers.

The following are recommendations for Japan's aid policy in general (not limited to Indonesia):

- (1) Actively using local resources more fully (e.g., the utilization of Indonesian experts and consultants for projects that may not require advanced technology, and for the support to peace-building and reconstruction that requires the understanding of local social and cultural contexts).
- (2) Clarifying Japan's policy and position of assistance for peace-building and reconstruction (e.g., how to assess properly the public safety and security situation, how to combine bilateral and multilateral aid effectively, the content of messages Japan wishes to convey to the international society, monitoring mechanisms).
- (3) Enhancing the predictability of project formulation and selection with respect to grant aid and technical cooperation (e.g., the importance of improving aid effectiveness by enhancing policy dialogue with the Indonesian government within the process of project selection and, consequently by improving the government's preparedness for project formulation).
- (4) Clarifying the role and functions of the ODA Task Force in Indonesia under the "new JICA", as well as the division of labour among the Japanese government and implementing agencies in planning and implementing Japan's ODA policy (e.g., the need to investigate the CAP review currently being conducted by the Ministry of Foreign Affairs and its relation to the country assistance implementation plans being formulated by the "new JICA").

(Note: The opinions expressed in this summary do not necessarily reflect the views and positions of the Government of Japan or any other institutions.)

Photo of the Field Survey



At Japanese Embassy in Indonesia



At Ministry of Finance



At BAKORKAMLA



At Ministry of Mines and Energy



At BAPPENAS
(Human Resources and Culture)



With Dr. Faisal Basri (Indonesia
Research & Strategic Analysis)



With Barru District Governor



Site Visit of Pilot Project for Health and Medical Service in Barru



At JICA Makassar Field Office



With Diet Members (Golkar)



At Ministry of Trade



At BKPM Mekarsari (Police Station)



The Republic Indonesia

Source: Edited by the Evaluation Team based on the document of the Institute of Developing Economies

1. Purpose of the Study

The purpose of the Study is primarily to conduct an overall evaluation of Japan's assistance policy for Indonesia, and derive lessons learned and recommendations contributing to the formulation of effective and efficient assistance policies for Japan's future assistance to Indonesia, including revision of the Country Assistance Program (CAP). At the same time, the Study aims to provide accountability to Japanese citizens by widely disseminating evaluation results, and take responsibility for providing feedback on evaluation results to related stakeholders in the Indonesian Government and other donors in Indonesia.

2. Background of the Study

Although only three years have passed since the current CAP for Indonesia was formulated based on Japan's new August 2003 ODA Charter and also related programs remain still at an intermediate stage of implementation, it is important and necessary to evaluate the activities under the current CAP for Indonesia at this stage due to the following reasons. (The previous Country Assistance Evaluation of Indonesia, which evaluated Japan's assistance from FY 1996 through FY 2002, was conducted in FY 2003.)

- (1). After Indonesia experienced significant political and economic changes due to the Asian economic crisis and subsequent fall of the Suharto regime, the country entered a period of stability in 2004, since which time significant progress has been made in terms of the economy as well as democratization. Under the Susilo Bambang Yudhoyono administration that took office in October 2004, progress has been made with respect to new institutional frameworks for improving policies on infrastructure and the investment climate, and policies for receiving aid and promoting democratization. Significant changes in how Indonesia receives aid from other countries have been seen, for instance, with the dissolution of the Consultative Group on Indonesia (CGI). Reflecting the institutional changes under the present administration, this study should be conducted to verify the relevance of the current CAP for Indonesia. Recently, Indonesia has made progress to the next stage of development, although it has faced many difficulties, and the country has stood at a critical crossroads for becoming a middle-income country. Therefore, it is very meaningful to consider what would be the most effective and efficient assistance policies for Japan's future assistance to Indonesia.
- (2). Indonesia has been the largest recipient of Japanese aid for many years, and also is a strategically important partner for Japan. Japan has provided various kinds of support for Indonesia's development (i.e., ODA loans, grant aid, technical assistance). In August 2007, the Economic Partnership Agreement (EPA) between Japan and Indonesia was signed and policy dialogue on effective support for its implementation has begun. It is important to enhance Japan's approach for effective and efficient aid for Indonesia through modalities such as Development Policy Loans (DPL); the Infrastructure Reform Sector Development Program (IRSDP); support for Indonesian

policies through technical cooperation; public-private partnerships for improving the investment climate, such as the Strategic Investment Action Plan (SIAP); and for various assistance programs, as well as cooperation with corporations and the private sector, nongovernmental organizations (NGO) and academia. The evaluation, therefore, pays great attention to Japan's approach in light of the need for 'selection and concentration' within ODA, as well as planning for Japanese aid policy, institutional framework, and cooperation under each aid scheme.

(3). Revision of the CAP for Indonesia is scheduled around 2010 in order to respond to Indonesia's adoption of a revised National Medium-Term Development Plan (the current plan covers 2004-2009) and other issues. Japan will need to revise the CAP for Indonesia based on a consideration of the evolving priorities for Japanese ODA to Indonesia, as well as competing demands for assistance, changes in Indonesian development policy and institutional changes in the country. It is also very timely to make recommendations for enhancing Japan's aid policy under the 'new Japan International Cooperation Agency (JICA)', and its merger with the Japan Bank for International Cooperation (JBIC) scheduled for October 2008.

3. Evaluation Scope

The study evaluates projects and programs for which an Exchange of Notes (E/N) and technical cooperation agreement documents were concluded after FY 2004 and considers policies regarding the 'selection and concentration' of ODA and the ODA use from regional perspectives. Meanwhile, for evaluating Japanese aid to Indonesia in view of the three assistance priorities stated in the CAP and different sectors, the on-going projects and programs during FY 2004 were also examined. Therefore, the scope of the study includes both 'the program of economic policy support for Indonesia' which greatly influenced the current CAP, and the on-going projects and programs which began before FY 2004.

4. Framework of the Evaluation

The study aims to evaluate Japan's assistance policy for Indonesia within the context of any changes in Indonesia's political, economic and social situation. Based on the above, the framework of the evaluation is as follows.

Table 1: The Framework of the Evaluation

Evaluation Perspective		
I. Relevance of Policies	<ul style="list-style-type: none"> • Relevance of priority areas and Japan's presence. • Comparative advantages of Japan • Relevance in view of 'selection and concentration' 	1 Relevance with respect to Japan's higher-level aid policies (the ODA Charter and the ODA Medium Term Policy).
		2 Relevance with respect to Japan's diplomatic policies.
		3 Consistency with respect to Indonesia's National Medium-Term Development Plan.
		4 Complementarities with respect to the aid priorities of other donors and international institutions.
II. Effectiveness	<ul style="list-style-type: none"> • Confirmation of Japan's aid 	5 Degree of contribution to development funding for Indonesia.

of Results	based on the priority areas of the CAP quantitatively and qualitatively.	6	Conformity with need for concentrating on key priorities (goals) and regions.
		7	Expectations for achieving each goal.
		7-1	Sustainable growth driven by the private sector (short- and medium-term goal).
		7-2	Creating a democratic and equitable society (medium- and long-term goal).
		7-3	Peace and stability (relevant to all time horizons).
		8	Respond to political and economic changes in Indonesia.
III. Appropriateness of Process	<ul style="list-style-type: none"> • Appropriateness and effectiveness of planning and implementing process. 	9	Planning and implementing aid policies with consistency.
		10	Appropriateness and effectiveness of policy dialogue with the Indonesian government.
		11	Appropriateness and effectiveness of policy dialogue with other donors; aid coordination and cooperation.
		12	Appropriateness and effectiveness of coordination with the private sector, NGOs, academia and civil society.
		13	Issues to be considered for planning and implementing future policies.

Source: The MOFA Evaluation Study Team

5. Basic Methodology of Evaluation

Based on the evaluation guideline of the Ministry of Foreign Affairs (ODA Evaluation Guideline, Third Edition, May 2006), this study analysed the usage of ODA funds mainly from the perspective of 'relevance of policies', 'effectiveness of results' and 'appropriateness of processes'.

At the same time, the study is treated as an interim review because of the relatively brief period of time since 2004. This is the period when the county has made significant progress in growth and economic recovery, and democratization.

With respect to the 'effectiveness of results', the study has examined the degree to which the initial objectives have been achieved, as well as the degree to which tangible results have been produced according to different time horizons with short-and medium-term goals addressing 'sustainable growth driven by the private sector', the medium- and long-term goals addressing 'creating a democratic and equitable society', and all time horizons addressing 'peace and stability' (See Figure 1). Special attention has been paid to analyses of achievements mainly with respect to the short- and medium-term time horizons). The study has given due consideration to Japan's responses to changes in Indonesia's development policies and institutional reforms under the Susilo Bambang Yudhoyono administration.

This study also aims to re-examine Japan's assistance policy for Indonesia in light of its diplomatic agenda, including the EPA, investment, energy, and maintenance of the public safety and security situation, as well as the position of Indonesia as a strategically important partner for Japan. The analysis will pay great attention to the current political and economic situation in the county and Japan's aid for the country, based on a review of relevant existing documents. The following steps were taken before compiling the report.

(1). Clarifying priority areas and issues for assistance to Indonesia

The evaluation scope was clarified by examining the projects and program since the CAP for Indonesia was formulated in November 2004.

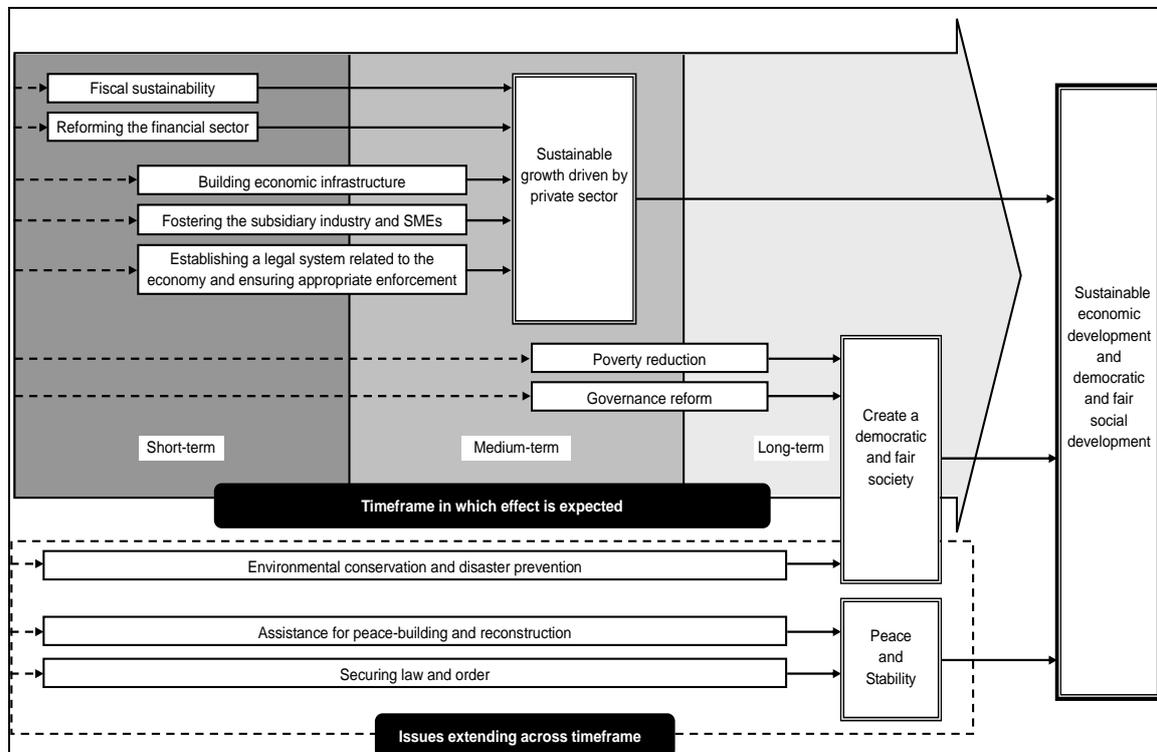
(2). Interviews in Japan

Interviews in Japan were conducted with staff responsible for Indonesia within the Ministry of Foreign Affairs, JICA and JBIC; persons involved in the formulation of the CAP for Indonesia (from JICA, JBIC and academia); and relevant staff within the Ministry of Economy, Trade and Industry. Interviews were held from July to October 2007.

(3). Interviews and data collection in Indonesia

From 29 October to 10 November 2007, the study team conducted in-country interviews of various experts concerning Japan's aid policy for Indonesia. The interviewees were staff of relevant Indonesian government agencies, the Embassy of Japan in Indonesia, Indonesia offices of JICA and JBIC, the ODA Task Force, other donors – the World Bank, Asian Development Bank (ADB), Australian Agency for International Development (AusAID), German Technical Cooperation (GTZ) – and other experts (i.e., academics, researchers, the media, NGOs and members of the Indonesian parliament). Also, the study team visited Makassar in South Sulawesi to hold interviews with relevant persons and to examine the effectiveness and impacts of the 'Supporting Development of Eastern Indonesia Program'.

Figure 1: Japan's Country Assistance Program for Indonesia: Priority Areas for Assistance and Development Issues



Source: The Ministry of Foreign Affairs of Japan. 2004. *Japan's Country Assistance Program for Indonesia*.

Note: The timeframe divides the period into divisions during which effects are expected, assuming that the input is carried out with the principle of "selection and concentration".

6. Conclusions (Evaluation Results)

6-1 Relevance of Policies

The CAP for Indonesia is highly consistent with Japan's higher-level aid policies -- the 'ODA Charter' and the 'ODA Medium Term policy' as well as Indonesia's National Medium-Term Development Plan (2004-2009). This owes greatly to the fact that the CAP for Indonesia was formulated on the basis of close policy dialogue between the officials and experts of Japan and Indonesia over how to attain Indonesia's growth recovery after the Asian economic crisis. However, the CAP does not clearly position 'Japan activities to respond to global issues'. Now Indonesia has entered a new period of stability in which it can aim to become a middle-income county. Prompt attention is necessary in this regard, as environmental issues, natural disasters, avian influenza and other issues affecting Indonesia are matters of global as well as domestic concern.

Regarding the relevance of aid activities to Japan's diplomatic policies, the present CAP was formulated based on Japanese major diplomatic stance for Asian countries with an understanding that Indonesia is one of the strategically important countries for Japan. Therefore, the CAP for Indonesia is consistent with Japan's diplomatic policies.

With regard to Indonesia's needs for development, the CAP is fully consistent with Indonesia's National Medium-Term Development Plan (2004-2009). This owes greatly to the fact that the CAP for Indonesia was formulated on the basis of close policy dialogue between officials and experts in Japan and Indonesia over some two years concerning how to achieve Indonesia's growth recovery, which allowed for the two countries to have a shared vision for the future of development and assistance for Indonesia.

Additionally, the CAP is highly consistent with the aid policies of other donors. The CAP for Indonesia has focused on assistance for economic infrastructure to enhance the investment climate as a short-and medium-term goal, under the pillar of 'sustainable growth driven by the private sector'. This is complementary to the aid priorities of the World Bank and the ADB due to the fact that these donor institutions embrace 'governance reform' as their basic policy and have focused their assistance on policy and institutional reforms and social services.

6-2 Effectiveness of Results

Japan's ODA loans have greatly contributed to funding Indonesia's development activities, accounting for more than 40% of the country's outstanding external official debt, and for approximately 16% of the country's development budget since Japan began providing program loans to the country.

Under the three pillars of 'sustainable growth driven by the private sector', 'creating a democratic and equitable society' and 'peace and stability', Japan's assistance for Indonesia has been conducted based on the priorities of the development issues contained

in the present CAP. In terms of the number and scale of projects, Japan's assistance has greatly focused on building economic infrastructure and poverty reduction.

Japan's assistance has achieved important results with respect to fiscal and financial sector reform, meeting one of the short-term goals within the CAP for Indonesia. With respect to short- and medium- term goals such as building economic infrastructure, fostering supporting industries and small and medium enterprises (SMEs), and developing legal systems for supporting economic activities, important achievements have been made, while the view has been expressed that improvements in the investment climate remain limited and have not met the expectations of Japanese companies.

Poverty reduction is a medium- and long-term goal. Overall, progress in achieving the Millennium Development Goals (MDGs) has been slow, except in the field of education. The lack of administrative capabilities on the part of local governments becomes the issue to be tackled for providing appropriate public service under decentralization in Indonesia. Recent economic development has not resulted in poverty reduction through expanding employment as seen in the unemployment rate which has not seen a major improvement.

The Japanese government responded appropriately to major changes in development policies during the current Yudhoyono administration, such as with improvements to the investment climate, new policies regarding infrastructure, revisions to Indonesia's policies for receiving aid, deepening of democratization and decentralization as well as to unexpected situations such as earthquake and tsunami-related natural disasters by utilizing various instruments including projects, program loans, public-private partnerships for improving the investment climate, the 'SIAP', 'Supporting Development of Eastern Indonesia' and emergency assistance for reconstruction from natural disasters.

With respect to peace and stability, Japan has contributed to the reconstruction of infrastructure promptly after the earthquake in Aceh, which resulted in gaining the high appreciation by the government of Indonesia. On the other hand, Japan has been assisting peace building in Aceh and Maluku through trial and error processes, in the midst of difficulties regarding ensuring security and also the complex cultural backgrounds involved.

6-3 Appropriateness of Processes

The present CAP for Indonesia is an assistance policy in which a development vision for Indonesia has been translated into reality. This development vision is based on close policy dialogue between Japan and Indonesia.

The ODA Task Force in Indonesia works well as a forum for gathering regularly and sharing information on Indonesia. Japan's assistance has been appropriate, including activities to improve the investment climate in close cooperation with the private sector (of both Japan and Indonesia) such as the SIAP, as well as the programmatic assistance for 'Supporting Development of Eastern Indonesia' aimed at poverty reduction across sectors (through the

establishment of the Makassar Field Office as a regional coordinating office).

However, there is a need to consider new problems such as about policy-based program loans, supporting regional development, supporting peace building and mechanisms for coordination between the SIAP and the EPA, in light of changes in Indonesia and the evolving relationship of the two countries. The ODA Task Force in Indonesia does not have a mandate to discuss and coordinate Japan's aid policy in a comprehensive manner. Also, recently, the comprehensive policy dialogues between the both countries, in which Japanese officials from Tokyo can participate has not been held, except for annual discussions concerning Japan's ODA loans.

Japan now needs to review its assistance priorities and strengthen 'selection and concentration' in light of changes to Indonesia's development needs; to share a development vision for Indonesia among Japanese officials; and then to have a comprehensive dialogue with the Indonesian government.

Despite the large volume of aid provided by Japan to Indonesia, Japan's ODA activities are not well known among Indonesians, except for Indonesian government officials. It is important to organize public relations and outreach activities so as to maximize their impacts with limited budget, by utilizing effective instruments such as the external advisory group meetings for Japan's ODA held at the Embassy of Japan and special funds financed by Japan within international institutions.

From interviews conducted by the study team in Indonesia, it was found that some are of the opinion that Japan's assistance has contributed mainly to the Government of Indonesia. While Government-to government cooperation will continue to be the basis of the Japanese assistance, the collaboration with civil societies needs to be expanded as the partnership with NGOs, academia and other organisations already started in various Japan's ODA projects.

7. Lessons and Recommendations

7-1 Lessons and Recommendations for “Japan’s Aid for Indonesia in the Future”

7-1-1 Sharing a Development Vision for Indonesia and Making Japan’s Assistance More Strategic

1. Reviewing Assistance Priorities in Light of Changes in Indonesia’s Needs and the Bilateral Relationship

Indonesia has made significant progress in growth, economic recovery, and democratization starting in 2004 and has entered a new period of stability in which it can aim to become a middle-income country. Therefore, Japan now needs to review its assistance priorities taking into consideration these changes in Indonesia’s development needs, and the progress of the bilateral relationship through such new agreement as the EPA. The three priority pillars of the present CAP for Indonesia -- (a) “sustainable growth driven by the private sector”, (b) “creating a democratic and equitable society” and (c) “peace and stability” -- are consistent with Indonesia’s National Medium-Term Development Plan (PRJM 2004-2009) under the current Yudhoyono administration. However, the following points should be considered in light of changes in Indonesia’s needs and the bilateral relationship.

Regarding (a) “sustainable growth driven by the private sector”, the goals for fiscal sustainability and reforming the financial sector (a short-term goal) have been mostly achieved. Yet, a greater attention should be paid to short- and medium-term goals such as building economic infrastructure, fostering supporting industries and SMEs, and developing legal systems for supporting economic activities and strengthening their enforcement.

Regarding (b) “creating a democratic and equitable society”, the goal for poverty reduction (a short- and medium-term goal) covers wide-ranging assistance for Indonesia. Therefore, it is necessary to narrow down the assistance. Because the Indonesian government aims to promote economic development which can contribute to the expansion of job opportunities in rural areas, Japan should review regional development approaches in light of how to combine region-specific growth promotion strategies with poverty reduction measures, and examine how to position “Supporting Development of Eastern Indonesia” which aims at poverty reduction across sectors.

Regarding (c) “peace and stability”, Japan has been assisting peace building through trial and error processes. As described in 7-2-2, Japan needs to review how much it should focus on, and which approaches would be appropriate for its assistance to peace building through the ODA. For instance, the BRR (the Executing Agency for Rehabilitation and Reconstruction of Aceh) pointed out the need for formulating a new economic strategy for fostering economic development potential of Aceh and for enhancing the agency’s administrative capabilities for strategy implementation. Responding to this request

ultimately means assisting both peace building and the goal of (b) above “creating a democratic and equitable society”.

Regarding the framework of the above three pillars, there is a need to examine how to position Japan’s assistance in environmental conservation and disaster prevention within the CAP for Indonesia. Assistance for environmental conservation covers urban environment, improvement of the residential environment, preservation of the natural environment, and policies for combating global warming which contain the global issues as well. In the present CAP, “measures for natural disasters such as floods, landslide disasters and droughts” is categorized under the “poverty reduction” issue as a fundamental public service issue, while reconstruction for natural disasters such as earthquakes and tsunamis is categorized under the “peace and stability” issue.

As described above, the ODA Task Force in Indonesia should carry out a review of the present CAP for Indonesia in line with the policy of “Reviewing ODA for its Improvement”¹, and re-examine and share the priorities of the assistance to Indonesia through involving officials in Tokyo and Indonesia. In the future, there is a need for Japan to assist Indonesia, which aims to become a middle-income country, as well as an aid donor.

2. Strengthening “Selection and Concentration”

Under the present CAP, wide-ranging assistance for Indonesia, especially through diverse technical assistance activities are expected to be conducted, based on the three assistance priorities. In the future, however, there is a need to choose aid activities based on “selection and concentration” and on programs rather than projects. Recently, the budget for technical assistance for Indonesia has been decreasing while at the same time has resulted in competition among the various aid projects and programs. For example, (a) the Indonesian government expects cooperation projects in the framework of the EPA, (b) there is a demand for technical assistance in light of the effectiveness of policy-based program loans by JBIC, and (c) there also is a demand for technical assistance in “Supporting Development of Eastern Indonesia” by JICA. Thus, Japan needs to review on-going projects and set priorities in this regard. Considering the limited budget and maintaining consistency with the assistance policies for Indonesia formulated by the Japanese government and aid implementing agencies, the aid policies need to be re-examined in accordance with the “selection and concentration” and program approaches.

Since the grant aid budget has been decreasing, the projects which are critically related to diplomatic and strategic issues such as measures regarding terrorism, security,

¹ “Reviewing ODA for its Improvement” (in Japanese, “ODA no tenken to kaizen”) in December 2005 says that each local ODA Task Force tries to review Japan’s ODA. Also, “Reviewing ODA for its Improvement” (in Japanese, “ODA no tenken to kaizen”) in December 2007 says that this review will be conducted regularly (see: MOFA. 2005. *Reviewing ODA for its Improvement* (only in Japanese, “ODA no tenken to kaizen”).pp.18-19.and MOFA. 2007. *Reviewing ODA for its Improvement* (only in Japanese, “ODA no tenken to kaizen”).p.6).

reconstruction after natural disasters and epidemics, and those projects which are directly related to Indonesia's development needs (that are currently funded by the grant aid) would be more appropriately funded by ODA loans.

The present CAP for Indonesia does not focus on cross-sectoral issues while JICA has already conducted cross-sectoral regional assistance such as "Supporting Development of Eastern Indonesia". The ODA Task Force in Indonesia is working on a rolling plan which consists of the projects supported by three aid schemes (loans, grant aid and technical assistance). Therefore, it is important to consider seriously how Japan should position the regional approach within the CAP for Indonesia.

3. Promoting Comprehensive Policy Dialogues with the Indonesian Government

As described above, all of Japan's aid programs and related agencies should re-examine the "selection and concentration" of Japan's aid, and have a comprehensive policy dialogue with the Indonesian government. The present bilateral regular policy dialogue that is held annually is limited to discussions at the stage of determining loans and monitoring their implementations. With respect to grant aid and technical assistance, regular policy dialogues are limited to those dialogues concerning annual aid requests by Indonesia. It will therefore be important to have a policy dialogue between Japan and Indonesia based on a comprehensive development vision for the medium and long term, and this dialogue should be independent of existing aid schemes, and should share a vision between both countries. It must be remembered that in making the present CAP, officials and experts of Japan and Indonesia tried to share a development and aid vision for attaining Indonesia's growth and economic recovery after the Asian economic crisis, through "the program of economic policy support for Indonesia". Therefore, it is significant to hold such comprehensive policy dialogues again in light of changes in Indonesia's development needs and progress made in the bilateral relationship.

7-1-2 Enhancing the Field-Level Functions of the ODA Task Force

1. Enhancing Analytical Capabilities for Priority Issues

We believe that the ODA Task Force in Indonesia needs to hold a policy discussion regarding the priorities for Japan's aid to Indonesia and function beyond a mere information-sharing body so as to develop a shared development vision. The ODA Task Force in Indonesia needs to actively propose aid policies to the respective Tokyo offices. In this regard, the ODA Task Force, which functions according to sector-specific groups, needs to create a new system so that these sector-specific groups are able to exchange views. This new system needs a membership that cross-cuts the existing divisions of the Embassy of Japan, JICA, JBIC, and JETRO, and should include experts outside these offices and utilize consciously the knowledge of JICA experts². The Task Force needs to

² The ODA Task Forces in Vietnam and Bangladesh share information by sector. In keeping with this approach, the ODA Task Force in Indonesia is expected to establish thematic or sectoral teams (see : MOFA. 2007. *Evaluation of Country Assistance Program for Vietnam*.pp.107-122., and MOFA. 2004. *Evaluation of Country Assistance Program for Bangladesh*. pp.3-24-3-27).

establish functions so that sector-specific knowledge and expertise can be flexibly mobilized and so that individual projects can be linked to the related policies.

In this regard, we note the exemplary activities conducted by the ODA Task Force in Indonesia which prepared the program “Supporting Development of Eastern Indonesia” in South Sulawesi. This program successfully concluded the Memorandum of Understanding (MOU) with the provincial government of South Sulawesi and set up the JICA Makassar Field Office and the Advisory Committee, in which experts from local universities, researchers and local NGOs have participated in planning and implementation activities.

2. Continuing Cooperation Mechanisms under Public-Private Partnership

In implementing assistance for “sustainable growth driven by the private sector”, the ODA Task Force has actively promoted public-private partnerships, working closely with private business groups (JJC: Jakarta Japan Club) and the Indonesian Chamber of Commerce (KADIN). The efforts to improve the investment climate through the Indonesia-Japan Joint Forum on Investment, namely SIAP (Strategic Investment Action Plan) are highly appreciated.

Table 2: Outline of the Strategic Investment Action Plan (SIAP)

<p>1. <u>Tax/Customs</u></p> <ol style="list-style-type: none"> 1) Establishing/Strengthening Self Assessment System 2) Reforming VAT system for export promotion 3) Strengthening the protection of taxpayers' rights 4) Promoting transparency and disclosure for tax administration 5) Reforming tax system to reduce real business cost 6) Reforming tax system to promote human exchange 7) Continuing dialogue on tax 8) Reducing administrative obstacles to speed up custom clearance 9) Improving work ethic 10) Socializing new regulation/law and its interpretation 11) Improving EDI system and On-line DGCE official website 12) Enhancing effectiveness of bonded warehouse 13) Enhancing transparency and fairness 14) Other issues indirectly related to custom activities 	<p>3. <u>Infrastructure</u></p> <ol style="list-style-type: none"> 1) Enacting a regulatory and policy reform to encourage private investment 2) Making a concrete national plan 3) Having a close communication with investors and other stakeholders 4) Improving the key infrastructure to promote investment
<p>2. <u>Labour</u></p> <ol style="list-style-type: none"> 1) Reviewing the Labor Law and regulations to ensure competitiveness of private companies 2) Enforcing the Industrial Relations Dispute Settlement Law properly to solve the disputes quickly and fairly 3) Promoting social system(s) (vocational training, job placement and national certification system) to create fair, flexible and productive labor market 4) Simplifying the procedure to obtain business visa for smooth business activities by 	<p>4. <u>Competitiveness • Small and Medium Enterprise</u></p> <ol style="list-style-type: none"> 1) Making an industrial strategy for enhancing competitiveness of Indonesia 2) Promoting supporting industry 3) Strengthening the investment agency's role of providing service to investors 4) Protecting the intellectual property in the domestic market 5) Introducing internationally adopted industrial standard 6) Deepening the understanding of EPA by the public

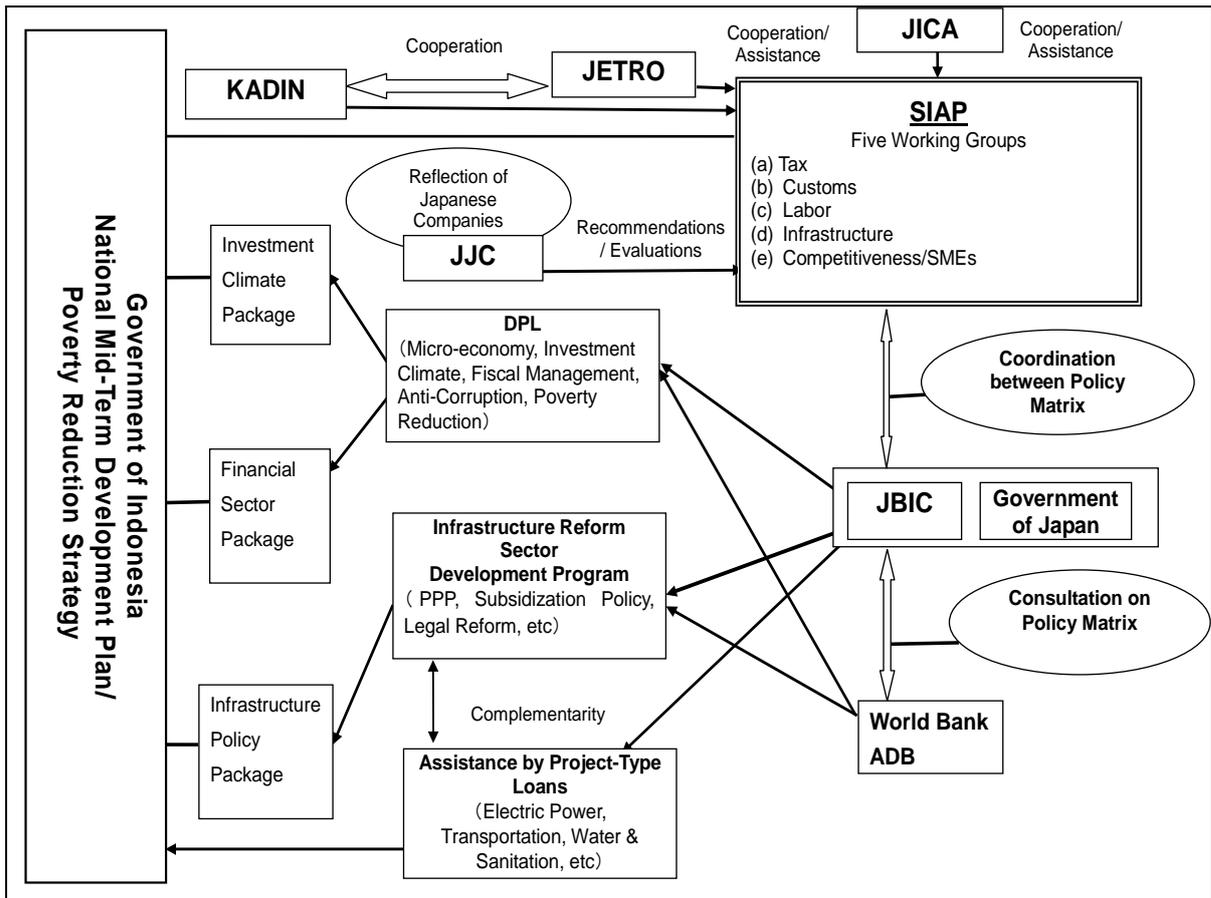
In the near future, an official dialogue on economic partnership between Japan and Indonesia is expected to be advanced in the framework of the EPA after it enters into force. It is important to continue such public-private partnerships which are mutually complementary between SIAP and EPA. The Indonesian government has requested for a rationalization of the channels for bilateral policy dialogue concerning ODA projects and METI (Ministry of Economy, Trade and Industry)'s economic cooperation activities. This request should be considered seriously in developing a cooperation structure for implementing the EPA.

3. Strengthening Monitoring Systems for Policy-Based Program Loans

We believe that the policy-based program loans are the increasingly likely mechanism in the years to come considering the following: (a) that the external debt of Indonesia will hit a peak by 2010, (b) that Indonesia increases the ownership over receiving aid in establishing governmental systems and promoting reforms aiming to be a middle-income country, and (c) that Indonesia plays a major role for policy coordination after the dissolution of the CGI. On the other hand, it should be noted that program loans are difficult to monitor and have higher fungibility compared with project loans. Therefore, strengthening the monitoring system for program loans is necessary in order to further enhance their effectiveness and transparency by providing clear explanations of Japan's ODA to the Japanese public.

Regarding co-financing through Development Policy Loans (DPL) and Infrastructure Reform Sector Development Program (IRSDP), especially, with respect to improvements in the investment climate, Japan has made major efforts to reflect concrete proposals based on the experiences of Japanese companies in its policy-based program loans, which has been appreciated by the Indonesian government and other donors (the World Bank and the ADB). Japanese companies also acknowledge the importance of program loans. Therefore, Japan should continue to make efforts to make the most of its comparative advantage in policy-making. It will be important to establish a mechanism to utilize external knowledge through cooperation with research institutions and local governments, in order to enhance the effectiveness of program loans.

At the same time, in order to confirm transparency regarding loans, Japan should continue to review audit reports by Indonesia and provide assistance for improving the management of public finances through cooperation with the World Bank and the ADB.



Source : Prepared by the MOFA Evaluation Study Team based on documentation on the presentation for "Toward Inclusive and Sustainable Globalization – Bilateral Donor's Perspective-" by Mr. Hiroto ARAKAWA, the executive director of the JBIC Institute Japan Bank for International Cooperation dated on November 8, 2007

Figure 2: The Cooperation Framework of SIAP, DPL and IRSDP

4. Strengthening Policy Dialogue and Monitoring Systems for Grant Assistance and Technical Cooperation

After the dissolution of the CGI, the government of Indonesia seeks to develop a new policy framework and mechanisms of aid coordination under its own ownership, and to receive aid under this new framework. The government has already started to hold discussions with several donors whose funding mainly comes from grant aid. As the Indonesian government comes to exercise ownership in establishing a mechanism for aid coordination, it is likely that multi-donor trust funds would play a large role (e.g., multi-donor trust funds for decentralization and the reconstruction of Aceh). Regarding grant aid and technical assistance, much more enhanced policy coordination with other donors is expected while project-type assistance will not be excluded. This is especially so given that Japan is prepared to strengthen its engagement in program loans and enhance the institutional framework for public-private partnerships (PPP). It will be crucial to strengthen policy coordination and monitoring systems for Japan's grant aid and technical cooperation.

7-1-3 Building Networks with Diverse Stakeholders

1. Utilizing Human Networks and Relationships of Trust Built through Cooperation over the Years

The human networks and relationships of trust built through Japan's cooperation with Indonesia over the years constitute valuable assets for both countries. Given Indonesia's increasing potential to become a middle-income country and Japan's commitment to assist Indonesia, it is wise to utilize these accumulated human assets in Japan's aid activities. We also note with pride that according to our interviews in Indonesia, stakeholders in Indonesia including NGOs, consider Japan to be a trustworthy partner in Asia.

Ways in which such relationships could be utilized in the future include: (a) expansion or application of experiences accumulated through Japan's assistance for improvement of local educational administration systems to other locations (the Regional Education Development and Improvement Program (REDIP) model), as well as other sectors (health) and peace building (in Maluku); (b) utilization of human resources and networks cultivated through Japan's past cooperation in Sulawesi to support local capacity building for regional development (the Sulawesi Capacity Development Project, and the related February 2008 seminar held by the local ODA Task Force with the participation of Indonesian officials, etc); (c) development of human resources and human networks through cooperation with local universities; and (d) provision of long-term assistance through combining technical cooperation and grant aid, such as support to the civilian police project, and a training program for Indonesian police officers and an exchange between Japan and Indonesian police institutions.

2. Expanding Assistance through Nongovernmental Channels

In the interviews in Indonesia, NGOs, researchers and KADIN pointed out that Japanese ODA has had limited cooperation with NGOs and the private sector, compared with other donors. On the other hand, they appreciated Japanese assistance for human resources development. Some NGOs have requested that aid for NGOs be expanded since Japan's aid has assisted in the fostering of civil society, as seen in the important role of NGOs in the reconstruction effort in Yogyakarta after the earthquake. Although Japanese ODA should be primarily channelled through the government, it is also important to make Japan's ODA more open to NGOs. This should contribute to expanding the basis of human resources development from the public to the private sector and promoting the public understanding of Japan's ODA.

On the other hand, Japan's assistance approach of strengthening the capacities of local governments by tying the provincial and district governments are highly appreciated in Indonesia. Japan has put much effort in developing administrative capacities at each level through the central and local governments. These efforts must continue since the

approach is complementary with the other donors that provide aid directly NGOs and communities in local areas.

3. Strengthening Public Relations to Achieve High Impacts with Limited Budget

Despite the large volume of aid provided by Japan to Indonesia, Japan's ODA activities are not well known among Indonesians, especially among politicians, NGOs and the press. Ideally, the budget for public relations activities should be expanded. Under the limited budget, however, it is important to organize public relations activities and outreach so as to maximize their impacts. In particular it would be useful to consider the following: (a) organizing an annual seminar on Japan's ODA activities for Indonesian officials, other donors, researchers and NGOs (publishing and disseminating an annual ODA report); (b) resuming external advisory group meetings for Japan's ODA previously held at the Embassy of Japan for researchers, media, NGOs, private sector and cultural figures in Indonesia (such activities and meetings currently held by the JICA Makassar Office are appreciated), and sharing information on Japan's ODA (including site visits); and (c) organizing discussion meetings with NGOs and researchers (on general and particular issues) such as related to the Jakarta MRT (Mass Rapid Transit) project. Regarding (a) and (c), other donors have already been conducting such activities. "The Golden Year of Friendship 2008 Indonesia-Japan", which marks the 50th anniversary of establishment of diplomatic relations between the two countries, has provided opportunities to review public relations for Japan's ODA.

However, some important public relations activities can take place even without new budget outlays. The English version of the CAP for Indonesia was disclosed three years after the Japanese version was concluded. Sharing information with parliament members and NGOs in Indonesia working with the aim to stabilize democratization becomes more and more important. In this regard, not only the English version, but also the Bahasa Indonesia version of the new CAP should be made available as soon as the Japanese version is finalized.

7-2 General Recommendations for Japan's Aid Policy

1. Actively Using Local Resources More Fully

Many Indonesian officials have pointed out that the costs of Japanese consultants are high and that more active use should be made of local resources. The utilization of Indonesian experts and consultants for projects that may not require advanced technology is desired, especially in support of peace-building and reconstruction, because it requires an understanding of the local society and cultural contexts. The experience from the Community Empowerment Program (CEP) through NGOs and universities for peace building in Maluku, therefore, should be applied to other projects.

2. Clarifying Japan's Policy and Position of Assistance for Peace-Building and Reconstruction

Japan's assistance for peace-building in Aceh was triggered by Japan's aid supporting reconstruction after earthquakes and the tsunami. As shown in the case of Aceh, it is very difficult to make decisions when assistance for peace-building and reconstruction should be started, and what approach should guide such assistance. Primarily, peace-building activities need to be conducted under difficult circumstances of complicated socio-cultural context and ever-changing public safety and security situation. Assistance for peace-building and reconstruction is one of the important issues highlighted by the ODA Charter. It is necessary to review the extent to which Japan should provide aid, how to allocate Japan's resources, and how to convey the messages that Japan wishes to communicate to international society through aid for peace-building and reconstruction. Additionally, in providing aid through international institutions, it is important to review the criteria for choosing appropriate institutions, monitoring mechanisms (e.g., including dispatch of Japanese experts), and how to combine bilateral and multilateral aid effectively.

3. Enhancing Predictability of Project Formulation and Selection for Grant Aid and Technical Cooperation

The Indonesian government has requested Japan to enhance the predictability of project formulation and selection with respect to grant aid and technical cooperation through enhancing policy dialogue during the process of project selection, and by improving the government's preparedness for project formulation. This is a common issue shared by other aid receiving countries. The improvement of predictability of project formulation and selection is expected to assist the mobilization of counterpart funding by aid receiving countries and to improve aid effectiveness. Japan needs to clarify how it makes decisions regarding the projects requested by aid recipient countries and to make the whole picture of project examination and selection clear for these countries.

4. Clarifying the Role and Functions of the ODA Task Force in Indonesia under the "New JICA", and the Division of Labour among the Various Agencies in Planning and Implementing Japan's ODA Policy

The establishment of the "New JICA" will make it possible to combine the three existing aid schemes. This will allow for a review of the functions of the ODA Task Force as well as the division of roles between the Japanese Embassy and the new JICA. The present ODA Task Force system has been established to promote sharing information on aid and vision for development among the Japanese officials in recipient countries under the present situation in which different institutions have provided ODA loans, grant aid and technical cooperation separately. The ODA Task Force mechanism does not provide for decision-making regarding the allocation of human resources, budgets and responsibilities as would be found in a single institution. However, the new JICA will provide an opportunity to have such mechanisms. In the future, the local ODA Task Force is expected to be re-examined in order to improve its functioning.

More fundamentally, it will be necessary to clarify the relationship between the Japanese government and implementing agencies, both in the stages of planning aid policies and in implementing them. As an example, it will be useful to investigate the CAP review currently being conducted by the Ministry of Foreign Affairs and its relation to the country assistance implementation plans being formulated by the new JICA.