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**Working Paper**

## The development of Indonesian social policy in the context of overseas development aid

UNRISD Working Paper, No. 2017-5

**Provided in Cooperation with:**

United Nations Research Institute for Social Development (UNRISD), Geneva

*Suggested Citation:* Wilmsen, Brooke; Kaasch, Alexandra; Sumarto, Mulyadi (2017) : The development of Indonesian social policy in the context of overseas development aid, UNRISD Working Paper, No. 2017-5, United Nations Research Institute for Social Development (UNRISD), Geneva

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# UNRISD

United Nations Research Institute for Social Development

Working Paper 2017–5

## **The Development of Indonesian Social Policy in the Context of Overseas Development Aid**

*Brooke Wilmsen, Alexandra Kaasch and Mulyadi Sumarto*

prepared for the UNRISD project  
New Directions in Social Policy:  
Alternatives from and for the Global South

March 2017



# UNRISD

United Nations Research Institute for Social Development

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## Acronyms

<b>AAA</b>	Accra Agenda for Action
<b>ADB</b>	Asian Development Bank
<b>ASEAN</b>	Association for South East Asian Nations
<b>AUD</b>	Australian dollar
<b>BAPPENAS</b>	<i>Badan Perencanaan dan Pembangunan Nasional</i> (National Planning and Development Agency)
<b>BDT</b>	Biomet Database Tool
<b>BPJS-Kesehatan</b>	<i>Badan Penyelenggara Jaminan Sosial—Kesehatan</i> (health insurance program)
<b>BSM</b>	<i>Bantuan Siswa Miskin</i> (cash transfer program)
<b>CGI</b>	Consultative Group of Indonesia
<b>DFAT</b>	Department of Foreign Affairs and Trade
<b>DJSN</b>	<i>Dewan Jaminan Sosial Nasional</i> (National Social Security Council)
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GNP</b>	Gross National Product
<b>GoI</b>	Government of Indonesia
<b>IDA</b>	International Development Assistance
<b>IGGI</b>	Intergovernmental Group on Indonesia
<b>ILO</b>	International Labour Organization
<b>JICA</b>	Japanese International Cooperation Agency
<b>JKN</b>	National Health Insurance Program
<b>JPS</b>	<i>jaring pengaman sosial</i>
<b>JPY</b>	Japanese yen
<b>MAHKOTA</b>	<i>Menuju Masyarakat Indonesia Yang Kokoh Sejahtera</i> (PRSF renamed)
<b>MIC</b>	Middle Income Country
<b>ODA</b>	Official Development Aid
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PKH</b>	<i>Programme Keluarga Harapan</i> (conditional cash transfer program)
<b>PNPM</b>	<i>Programme Nasional Pemberdayaan Mandiri</i> (National Programme for Community Empowerment)
<b>PRSF</b>	Poverty Reduction Support Facility
<b>RPJPN</b>	<i>Rencana Pembangunan Jangka Panjang</i> (National Development Plan)
<b>TNP2K</b>	<i>Tim Nasional Percepatan Penanggulangan Kemiskinan</i> (The National Team of Poverty Reduction Acceleration)
<b>UNICEF</b>	United Nations International Children's Fund
<b>USD</b>	United States dollar

## Acknowledgements

The authors would like to thank the generous support of the UNRISD for funding this research and the helpful comments of Ilcheong Yi, Kelly Setter and Roman Twerenbold. Particular thanks also to Derya Arslan and Dr Andrew van Hulten for research assistance. Finally, thank you to the interviewees who gave their time so generously and provided thoughtful responses.

## Summary

In the last decade, social protection has risen in prominence as a strategy to address poverty and vulnerability in developing countries (Barrientos 2011). International organizations such as the United Nations and development banks have adopted strategies and policies on social protection.<sup>1</sup> To this end, the International Labour Organization's (ILO) role in promoting social protection floors has been particularly prominent (Deacon 2013). Less is known about the role that Overseas Development Assistance (ODA) plays in the reform of social protection. ODA typically supports the social sector in recipient countries in various ways: general budget support, funding for particular projects with social objectives or investment in infrastructure, such as schools or hospitals. However, it is in filling the gaps in the social programmes of emerging economies that ODA can be most effective.

This working paper explores the specific example of Australia's ODA in shaping the social protection programmes of Indonesia. It begins by reviewing the literature about social protection in Indonesia, with a specific focus on the political and economic history that has influenced its transformation. It then presents the results of interviews conducted with staff of the Australian Government's Department of Foreign Affairs and Trade (DFAT) in Jakarta and Canberra and GRM International (since renamed Palladium). These interviews were primarily concerned with understanding the history, functioning and outcomes of one initiative—the Poverty Reduction Support Facility (PRSF). This programme is interesting because it did not seek to implement its own development initiatives in the social protection space, but rather to support and advise ongoing efforts by the Indonesian government in this area.

By observing the PRSF we observe the actioning of many of the principles of aid effectiveness as outlined in the Paris Declaration. In its engagement with the Government of Indonesia (GoI), Australia acted as a “constructive partner” rather than a “demanding donor”, which contributed to the recipient government retaining ownership over its activities. Two other principles of aid effectiveness—harmonization and alignment—were also observed. The PRSF was embedded within the Indonesian governance structures and operated in a manner that was sensitive to the political culture of the Indonesian bureaucracy. Finally, this paper suggests that two-way transformation can occur as a result of effective ODA investment in social protection reform.

At the time of contribution, **Brooke Wilmsen** was Australian Research Council DECRA Fellow at La Trobe University (Australia), **Alexandra Kaasch** was Junior Professor in Transnational Social Policy at the University of Bielefeld (Germany) and **Mulyadi Sumarto** was a faculty member at the Department of Social Development and Welfare, Gadjah Mada University (Indonesia).

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<sup>1</sup> Asian Development Bank (2001), Department for International Development Bank (2001), Department for International Development (2005), Inter-American Development Bank (2000), International Labour Office (ILO, 2001), United Nations (2000) and World Bank (2001) (Barrientos 2011).

## Introduction

Social policy and development aid are connected. Development aid that is focused on supporting or transforming social policy is considered more likely to be socially responsible and less self-interested than other forms of foreign investment. Furthermore, utilizing development aid to progress social policy can enhance the financial and technical capacities of the recipient nation. Here there is potential for investment that is mutually beneficial. Unfortunately, the conceptual and practical alignment of social policy and development aid is often difficult. Recipient and donor perceptions of social problems and social risks may not align and, accordingly, donors may have different priorities for investment than the recipient. Moreover, some countries may put economic growth ahead of social welfare when defining development goals, creating friction with potential donors.

This research regards good social policies as an inherent part of sustainable and equitable economic growth. Social policies play a critical role in the transitional processes of emerging economies (De Haan 2013:1). As such, we are interested in transformative social policy and the innovative ways in which developing countries are addressing social issues. In this paper, we are particularly interested in Official Development Aid (henceforth, ODA) that is directed into social policy, including its institutions. We seek to understand the role of the donor, the process of aid allocation to the social sector and the strategies used to negotiate ODA investment by exploring the case of Indonesia—a country classified as an “emerging” economy. Given Indonesia’s remarkable progress in expanding and reforming its national social policies as well as the involvement of bilateral and multilateral actors in this process, it provides a remarkable example from which to learn.

Today’s emerging economies are experiencing high levels of social stratification and income inequality, threatening the social stability that is the bedrock of economic growth and international economic competitiveness (Kohlmorgen 2004:59). Emerging economies typically undertake economic adjustment without cushioning the social impact of economic transition. Economic liberalization and policies of market openness also increase demand for social policy in emerging economies. Incongruously, however, during times of economic and political transformation in emerging economies, the main beneficiaries of social policy are often the relatively privileged income groups of formal sector workers rather than the poor and disadvantaged (Kapstein and Milanovic 2003:1). Middle-income groups and those working in the formal sector are better able to engage with policy and have their concerns heard than those on the lowest rungs of society (Kapstein and Milanovic 2003, Betz 2004:7). At the same time, however, in building a social policy system it might be more practical to focus on vulnerable groups in society first and then expand and universalise.

Given that the benefits of social policy are often skewed towards the wealthier segments of society, some claim social policy programmes in emerging economies are mainly introduced as a way of winning political support from those who benefit most (that is, the formal sector workers) and do not, as a general rule, target the poorest in society (Kapstein and Milanovic 2003:1). Indeed, in the case of Indonesia, its social protection programmes are popular and potentially critical to the success of presidential elections. However, universal social programmes in certain sectors (for example, pension reform and unemployment compensation) are more likely to win

the support of the upper stratum than those than targeted responses that underscore cash transfer and subsidies. This is because universal social programmes “may lead to long term pay-offs to the rich, who need productive workers to operate their capital” (Bell 1974:54). Hence, emerging economies mostly invest in universal social programmes that can stimulate the growth of capital markets, promote the privatization of industry and stabilize the budgets of government rather than more targeted poverty reduction programmes (Kapstein and Milanovic 2003).

Development aid can support the social sector in recipient countries in various ways. It can take the form of general budget support or funding for particular projects that have a social outcome, such as to increase employment or health coverage. It can also be used to build infrastructure, such as schools or hospitals. However, it is in filling the gaps in the social programmes of emerging economies that development aid can be most helpful. ODA can reduce the fragmentation of social protection systems, noting, however, that streamlining ODA along particular priority fields or groups can also be exclusionary.

The need for greater inclusive economic growth and risk mitigation has led to the expansion of policies, strategies and programmes under the banner of social protection. The aim of a functioning and effective social protection programme is a comprehensive system of social security covering all major life risks (illness, old age, unemployment and so on), and a reduction in the impacts of economic shocks on the poor and non-poor. Under the umbrella of social protection are a collection of programmes that address risk, vulnerability, inequality and poverty through a system of transfers in cash or in kind (Fiszbein et al. 2014).

In the last decade, social protection has risen in prominence as a strategy to address poverty and vulnerability in developing countries (Barrientos 2011). This is particularly apparent within international organizations such as the United Nations and development banks, which have adopted strategies and policies on social protection.<sup>2</sup> Particularly prominent has been the role of the International Labour Organization (ILO) in promoting social protection floors (Deacon 2013).

This paper explores a specific example of the role that ODA can play in shaping social protection programmes in developing countries—Australia’s ODA programme to Indonesia. Rather than providing general budget support to Indonesia or program-specific investments, Australia provided high-level support to reform social protection institutions and programs. In light of this unique approach, this paper asks: how has Australian ODA influenced Indonesia’s social protection development? To answer this question, interviews were conducted with staff of the Australian Government’s Department of Foreign Affairs and Trade (DFAT) in Jakarta and Canberra and GRM International (since renamed Palladium). Interviews focused on the history and outcomes of a particular program—the Poverty Reduction Support Facility (PRSF). Supporting interviews were also conducted with the Japanese International Cooperation Agency (JICA) and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ). To supplement the qualitative data, a literature review was completed that detailed social protection in Indonesia, with a specific focus on

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<sup>2</sup> Asian Development Bank (2001), Department for International Development Bank (2001), Department for International Development (2005), Inter-American Development Bank (2000), International Labour Office (ILO, 2001), United Nations (2000) and World Bank (2001) (Barrientos 2011).



the political and economic history that has influenced its transformation. Finally, the results of recent independent appraisals of the programme (Ashley et al. 2014; Ashcroft 2015) and a workshop with the Government of Indonesia (GoI), TNP2K (*Team Nasional Percepatan Penanggulangan Kemiskinan*, The National Team of Poverty Reduction Acceleration), PRSF and the Indonesian ministries were also reviewed.

The PRSF example is interesting because the Australian Government did not seek to implement its own development initiatives in the social protection space, but rather to support and advise ongoing efforts of the GoI. This paper details the role of ODA in programme development, the changing influences of multilateral and bilateral relationships, the interests and alliances that have shaped social protection in Indonesia, the unique role Australia has played in social protection reform in Indonesia, and the conditions that need to be met in order to make ODA work in transforming social protection in the future. In conclusion, the paper considers what can be learned from the Australia-Indonesia model and whether it can be applied fruitfully elsewhere.

## Social Policy and Mixed Welfare in Indonesia

The importance of social policy in Indonesian development has increased gradually since Indonesia's independence in 1945. Nevertheless, it is still relatively modest in terms of its percentage of GDP and scope when compared to the welfare states of Europe. This is mainly due to the capacity of the labour markets of welfare states to absorb the labour force compared to that of Indonesia. In established welfare states, social policy relies heavily on formal labour markets, especially for its funding, whether through private or public schemes. The participation rate in the formal labour force is relatively high so that, on one side, the government can finance social programmes through taxation of salaries. At the same time, by helping workers deal with accident, sickness, unemployment and retirement, good social protection policies ensure a healthy and motivated formal workforce.

In contrast, Indonesia possesses a large informal labour sector (see Table 1). Notwithstanding, a decline in the informal employment rate in recent years and a rising formal sector, participation in the formal sector is still comparatively low. Moreover, despite an increase in the scope and number of social protection programmes in Indonesia in recent decades, about 60 percent of workers do not have access to formal social protection programmes through work-based social insurance schemes.

**Table 1: Employment, Informal Employment and Unemployment in Indonesia**

	1995	2000	2005	2010	2011	2012	2013	2014	2015
Employment (million)	80.1	89.8	95.4	109.6	107.4	112.5	112.8	114.6	114.8
Informal employment (percent of total employment)*	n.a.	n.a.	70.5	68.4	63.9	61.4	60.1	59.6	57.8
Unemployment rate (percent)	7.2	6.1	10.5	7.0	7.5	6.1	6.2	5.9	6.2

\* Informal employment is defined as employment in an economic activity that is, in law or practice, not covered or insufficiently covered by formal arrangements.

Source: Modified from OECD (2016b:19)

## ***Social protection in Indonesia***

Indonesia is one of the few countries in South-East Asia to have a significant social protection programme. Yet, its expansion is a fairly recent development. Immediately after independence, defence was prioritised over social protection. Under President Soekarno's first period of administration (1945–1966), confrontation with Malaysia was considered to be imminent and so the majority of the budget was directed toward the defence sector. At the same time, foreign direct investment was very low, in part because Indonesia quit its United Nations (UN) membership, resulting in other UN member countries withdrawing investment. Despite the political context, the Soekarno government initiated some social protection programs, for example, accident benefits, pension and insurance for both private and public workers, economic stagnation and high inflation limited further expansion (Sumarto et al. forthcoming).

The social protection programmes initiated by Soekarno were developed more fully by his successor, President Soeharto (1966–1998). Soeharto expanded the programme for private and public workers. These measures consisted of pension, health insurance and accidental benefits, which were distributed by state owned enterprises (Bender and Knöss 2008; Bender and Rompel 2010; Tambunan and Purwoko 2002). The Soeharto administration was able to enlarge the programme because it successfully encouraged rapid and sustained economic growth. During the Soeharto administration, from 1965–1997, the average economic growth rate was relatively high at about 7.0 percent (Thee 2007). However, the government did not provide social protection for poor households, most of which earned their income in the informal sector (Sumarto et al. forthcoming). For the poor, the government conducted rural development programmes on the basis of geographical or community targeting (Sumarto 2013) using a poverty reduction framework.

After the fall of Soeharto in 1998, the significance of social protection grew considerably. Social protection programmes for public private sector workers were preserved and, with the onset of the Asian Financial Crisis, the first of three phases of social protection began, which specifically targeted the poor. Beginning in 1998, the GoI introduced a rice subsidy program, *Raskin*, to alleviate the financial burden of the Asian Financial Crisis for poor households. *Raskin* is now the largest social assistance programme in Indonesia, accounting for 53 percent of social assistance expenditure (J-PAL 2015). From 1998–2004, under advice from the World Bank, the GoI increased social protection for the poor through the *jaring pengaman sosial* (JPS) program—a system of social safety nets for the poor covering food security, employment, education, health and community empowerment. At this time, the World Bank had significant sway within the GoI by virtue of the loans it had extended to the country in the wake of the Asian economic crisis. Building on the JPS program, in 2005 the government formalised its health insurance program—*Badan Penyelenggara Jaminan Sosial-Kesehatan* (BPJS–Kesehatan).

Phase two began in 2005. President Susilo Bambang Yudhoyono (SBY), invested in three social assistance programs: *Raskin*, health insurance for the poor (*Jamkesmas*) and large-scale unconditional cash transfers (*Bantuan Langsung Tunai*) (Ashley et al. 2014). Funds were generated by the partial removal of the fuel subsidy and the unconditional cash transfers were, in large part, aimed to buffer the inflationary shock associated with the reduced fuel subsidy. Although SBY also had an explicit poverty

reduction target, the cash transfers were controversial. Attempts to distribute the cash in 2008-2009 were thwarted by politicians, governors, mayors/regents, village heads and students (Sumarto 2013, Sumarto 2014). The main reasons for their resistance were the conflicts the cash transfers were causing and the belief that the programme was an attempt at political mobilization rather than social protection (Sumarto 2013).

Phase three began in 2007 and focused on reducing intergenerational poverty through social assistance and social security (Ashley et al. 2014). Key programmes included the *Programme Keluarga Harapan (PKH)*—a conditional cash transfer programme that requires households to access specified health and education services—and the *Bantuan Siswa Miskin (BSM)*—a separate cash transfer programme for poor students.

Since 1998, Indonesia's social protection system has been transitioning from broad economic development and general subsidies to universal programmes and targeted assistance. Under the leadership of President Joko Widodo, Indonesia appears to be transitioning into a fourth phase of social protection (Ashley et al. 2014). Widodo takes a pro-poor, largely populist approach to policy making that is supportive of targeted social protection programs.

## **Institutional Structures of Social Policies in Indonesia**

The existing and evolving institutional structure of the Indonesian system is complex—both regarding central government and ministries, and the decentralised organization of various social protection (and other) policies. At the national level, the Coordinating Ministry of Human and Cultural Development plays a key role in guiding and implementing key social policies (previously the Coordinating Ministry of People Welfare, 2004–2014). One of the important roles of the ministry is the coordination of social protection programs. It oversees the more technical ministries, such as Ministry of Social Affairs, Ministry of Health and Ministry of Education. Although the role of the coordinating ministry is very important, staffing constraints sees it struggle to perform its role fully. Moreover, the minister was appointed due to political allegiances and with limited experience in social protection and social policy, his capacity to perform his role is limited. This issue is not limited to the Minister of Human and Cultural Development. Since the announcement in 2007 of *PNPM* (National Programme for Community Empowerment), Indonesia's flagship poverty reduction program, a number of central government ministries, such a home affairs and several line ministries with no previous experience in poverty alleviation, are directly involved in such activities (Perdana and Maxwell 2011).

The National Planning and Development Agency—*Badan Perencanaan dan Pembangunan Nasional* (Bappenas)—is a government institute equivalent in standing to a government ministry. It is responsible for national development planning and budgeting and coordinates international development cooperation. It plays an important role in the planning of social protection programmes and more recently has been involved in trailing new social protection programs. The agency has a directorate that works specifically on social protection programs. Unlike the Minister of Human and Cultural Development, the head of the Bappenas is a technocrat appointed by the government. This reflects the government's attitude that Bappenas is an important technocratic body that guides policy making.

The technical ministries involved directly in social protection programmes include the Ministry of Social Affairs, Ministry of Manpower, Ministry of Health and Ministry of Education. The Ministry of Social Affairs is the leading government agency responsible for conditional cash transfers and administering social protection programmes for people with disabilities. Since 2015, the Ministry has been responsible for managing population data, specifically for the social protection programmes targeting the poor, which was previously handled by National Statistic Board.<sup>3</sup> The change has been controversial as the government increased the responsibilities of the Ministry without a concomitant increase in resources (Sumarto 2014).

Since 2014, the Social Health Insurance Provider (BPJS–Kesehatan) has provided health insurance to the whole population through contributory and non-contributory schemes. Social protection for workers is provided by the Worker’s Social Security Provider (BPJS–Ketenagakerjaan). These two agencies are legally independent and controlled directly by the President of Indonesia. Both were founded to replace the PT Asuransi kesehatan (Askes) and PT Jamsostek, state owned enterprises, which previously provided health insurance and social protection for workers. The National Social Security Council—*Dewan Jaminan Sosial Nasional* (DJSN)—is the agency responsible for monitoring and evaluation of the social security administering bodies (BPJS). The role of DJSN is to formulate and synchronize policy in the implementation of the national system of social security.

TNP2K is an adhoc inter-ministerial government agency led by the Vice–President (at the time of writing, Jusuf Kalla) and established by presidential decree in 2010. The overarching aim of TNP2K is to develop, synchronize, harmonize, integrate, monitor and evaluate poverty reduction programs. It was formed to address the structural weaknesses of the presidential office, which included its inefficient and at times obstructionist bureaucracy.<sup>4</sup> To avoid resistance to his policies, SBY added new units to existing executive agencies rather than replace them (Sherlock 2015). As the new agencies duplicated the role on the ministries, these additions added unnecessary complexity to the structure of government. Sherlock (2015:109) calls the new units “agencies of circumvention”. The role of TNP2K overlaps with the Coordinating Ministry of People Welfare, the Ministry of Social Affairs, Bappenas and the National Statistics Board (Sumarto 2013). As such, TNP2K has a difficult relationship with the ministries who can be resistant to its authority. Presidential support is critical to asserting the position of TNP2K, and in this vain SBY was said to provide “limited or episodic backing” (Sherlock, 2015:109). This weakened the status of TNP2K in the structural hierarchy. As TNP2K was established by presidential decree, the current president, Joko Widodo has the right to abolish the agency (Sumarto 2014). Therefore, the status of the agency remains uncertain.

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<sup>3</sup> The Poverty Mitigation, 2011, enacted this change in ministerial responsibility.

<sup>4</sup> SBY retained staff selected by and loyal to the Suharto regime and their reluctance to embrace new policies and processes slowed the machination of government.

## **Social Protection Development in Indonesia through Overseas Development Aid (ODA)**

Rather than building a developmental welfare state, Indonesia's government has traditionally relied on the principles of familism, communitarianism and mutual support to deal with many social problems. As such, "social welfare" is provided through a mix of intra-family support mechanisms, private sector employment combined with remittances, and community-based charitable organizations (Gough 2001, Kim 2015). Guided by this philosophy of self-reliance, and the immaturity of Indonesia's welfare state, the contribution of ODA to social policy development had been minimal. Despite accepting short-term crisis aid in 1997 and 1998, Indonesia's foreign interests in social policy are largely constrained to private investments in large profitable hospitals (Gough 2001). However, with the recent expansion of social protection programmes in Indonesia, the importance of ODA investment through strategic bilateral relationships has gained in significance. Even so, Indonesia is not reliant on ODA to fund social protection. Around the time Indonesia graduated to a Middle Income Country (MIC) it passed a number of regulations to limit the size of its foreign aid to 3 percent of its national budget, thereby placing an upper limit on the involvement of foreign donors in domestic affairs (Marut 2015).<sup>5</sup> This section provides a historical sketch of the changing role of ODA in Indonesia, its limited infiltration into the domain of social protection, its changing organizational structure and the political economy that underpins it.

### ***ODA in Indonesia***

Indonesia's dependency on foreign aid follows closely its political position and economic fortunes, particularly the waxing and waning of its GDP. As the economy began to show signs of improvement in the 1970s, gross aid declined to less than 2 percent of GDP but then rose to 6.5 percent of GDP by 1988 due to a drop in oil and gas revenues (Chowdhury and Sugema 2005). During the 1990s, ODA as a share of GNP and per capita continued to decline and was a marginal contributor to the welfare mix (Gough 2001). However, when the Asian Financial Crisis hit, gross aid flows rose from 2 percent in 1996–97 to 4.5 percent of GDP in 1999<sup>6</sup> (Chowdhury and Sugema 2005). Once the economy was stabilised, the aid–GDP ratio declined again (Chowdhury and Sugema 2005)—a pattern that continues today.

The organizational structures directing the use of foreign aid have changed in response to major political and economic changes. These structures influence the sectoral distribution of ODA within Indonesia and its proportional contribution. From 1966 to 1991, Indonesia received foreign aid from twenty countries and thirteen multilateral agencies, most of which were part of the Intergovernmental Group on Indonesia (IGGI) which was chaired by the Netherlands (Infid 2007). However, due to rising tensions between Indonesia and the Netherlands over East Timor, in 1992 the Suharto regime disbanded the IGGI and replaced it with the Consultative Group of Indonesia (CGI) (Winters 2012). The CGI excluded the Netherlands and was instead chaired by the World Bank until 2005 when the GoI took over (although the World Bank continued to exert its influence over proceedings) (Infid 2007). The CGI was a

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<sup>5</sup> These laws include: *Law of Finance (No.17/2003)*, *Law of National Treasury (No. 1/2004)* and the *National Development Plan (No.25/2004)* (Marut 2015).

<sup>6</sup> This figure does not include a loan from the IMF for the balance of payments which would have increased this figure to 10 percent of GDP Chowdhury, A. and I. Sugema (2005). "How Significant and Effective Has Foreign Aid to Indonesia Been?" *ASEAN Economic Bulletin* 22(2): 186-216.

consortium of 30 bilateral and multilateral creditors including the World Bank, the Asian Development Bank (ADB), and countries such as Japan, the United States and Australia (Infid 2007).

Through the IGGI and then the CGI, lenders directed their donations to sectors that would benefit their own economies, imposing heavy conditionalities and raising the debt burden of Indonesia (Winters 2012). Before the Asian Financial Crisis, the key sectors receiving ODA were mining, transport, agriculture, education and national defence (Chowdhury and Sugema 2005). Allocation of foreign aid to these sectors was largely driven by the preferences of CGI members who favoured profitable endeavours that required imported capital goods over initiatives that generated longer-term social benefit. However, the Asian Financial Crisis shifted priorities. Rising unemployment, a reduction in workers' incomes, a sharp decline in GDP per capital growth rate and the doubling of the number of poor in Indonesia forced a sectoral shift in aid allocations (Harvie 1999, Kim 2015). Faced with this social crisis, improved distribution, employment, education programmes and health initiatives were urgently needed (Harvie 1999).

Support largely came from the World Bank and the IMF in the form of international development assistance (IDA) credit. These soft loans imposed heavy conditionalities such as structural adjustment (privatization, liberalization and political economic decentralization over a short period) which exacerbated the country's fiscal deficit (Harvie 1999, Infid 2007). For a short time, Indonesia became one of the most aid-dependent countries in the region, and by 1998–99 the World Bank classified Indonesia as a “severely indebted country” (Chowdhury and Sugema, 2005:189). However, an important conditionality of the World Bank's assistance was the formulation of a social safety net (Kaasch et al. 2015).

As Indonesia's economic fortunes began to improve in the 2000s, reliance on aid declined. By 2004, the aid-GDP ratio dropped from the lofty heights of the late 1990s to just over 1 percent (Chowdhury and Sugema 2005). By 2007, the GoI disbanded the CGI, citing that the majority of Indonesia's foreign assistance was coming from just three sources—the ADB, Japan and the World Bank. There was also significant pressure from civil society groups to stand down the consortium. Invited to participate in CGI meetings from 2000, these groups viewed the CGI as a forum for donors to pressure the government to implement self-interested policies that ignored the GoI's policies and legislation (Edi and Setianingtiyas 2007, Winters 2012). In this view, the CGI operated as a kind of courtroom where powerful players (for example, the World Bank) tried the GoI for its developmental inefficiencies. CGI meetings were not conducted in Indonesia until 2000 (Infid 2007). Thus, disbanding the CGI was an important step in enabling the GoI to determine its own development priorities and asserting political independence.

After the CGI was disbanded, Indonesia prioritised foreign cooperation with the World Bank, ADB and Japan (Marut 2015). The amount of ODA provided by Japan to Indonesia is significant—JPY 547 million per year (JICA 2015). In the past, Japan supported Indonesia with technical cooperation projects on social security, particularly health security.<sup>7</sup> However, Japan now defers to an important global

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<sup>7</sup> JICA Interview, 8 October 2015.

strategy for supporting developing countries, and, as a result, has curtailed many initiatives in the social sectors. Now around 88 percent of Japan's ODA is provided in the form of loans for hard infrastructure (OECD 2014).

Although Japan is focused on supporting infrastructure construction, other foreign partners are still working in Indonesia's social sector. For example, Germany, although not one of Indonesia's major foreign aid donors, is focused on health. The German government provides ODA through GIZ. In the past this took the form of technical cooperation such as facilitating meetings and workshop with health experts. However, as Indonesia's universal health coverage has vastly improved, GIZ is now focused on supporting vulnerable groups of people, particularly those with a disability.<sup>8</sup>

Beginning in 2009, Australia raised its aid contribution to become Indonesia's second largest bilateral donor behind Japan. Although Australia's contribution was only half of Japan's<sup>9</sup> in dollar terms, Australia became Indonesia's donor of choice (Ashcroft 2015). Australia differentiated itself through its commitment to social development, including a focus on social protection. It was here that other bilateral donors were relatively absent and remain so.

### ***Australia's ODA to Indonesia***

Indonesia's strategic and geographical importance to Australia cannot be overstated. It is Australia's second nearest and most populous neighbour, the world's largest Islamic nation (McDougall 2015), a full member of the G20 and central to Australia's diplomacy through the Association for South East Asian Nations (ASEAN) (Roberts and Habir 2014). Moreover, Indonesia is regarded as a critical geographical buffer for Australia's security concerns. Its air space and international shipping lanes shepherd Australian trade and mobility (Hanson 2010). For these reasons, Australia seeks Indonesia's cooperation on many regional and global issues, for example, development cooperation, refugees and asylum seekers and climate change (McDougall 2015). Put simply, Indonesia is one of Australia's most important bilateral relationships, a fact reflected in its ODA contribution. Indonesia is currently Australia's second largest aid recipient, after Papua New Guinea, with AUD 311.6 million provided in the aid budget for 2015-2016 (DFAT 2015a).

Despite the importance of this bilateral relationship, relations between Australia and Indonesia have been strained periodically. While policy bipartisanship is traditionally a shared strength, passionate public responses in both nations to issues such as asylum seekers, the treatment of Australian drug smugglers in Indonesia and the Bali bombings have frayed diplomatic relations at various times (Hanson 2010). Interestingly, the popular perception in Australia is that Indonesia is a poor country that should graciously receive Australia's charity and respond to its demands. When tensions are high there is public pressure to withdraw ODA—an investment that is strategically important to Australia. Indonesia's importance to Australia is not well understood by the Australian public, but explains Australia's diplomatic responsiveness to public pressure.

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<sup>8</sup> Interview with GIZ, October 2015.

<sup>9</sup> Even in 2014 Australia only provided USD 563 million against Japan's USD 1130 million (Piccio 2014).

## ***The rising importance of Indonesia's social protection for Australia***

Under the auspice of successive Labour governments, social protection entered the foreign policy sphere for the first time in 2007. In the wake of the food, fuel and financial crisis of 2007–2008, the Australian Government began to provide support for social protection programmes in many of its partner countries. By 2012 it had increased its commitment to AUD 120 million to strengthen and/or expand social protection across Asia and the Pacific (Brown et al. 2012). It was recognised as a “priority means through which AusAID can contribute to sustainable economic development and the overall goal of helping people overcome poverty” (Brown et al. 2012:11).

Australia's intensified involvement in Indonesia's social protection programme was a matter of good timing. In 2009 SBY was elected as President for a second term. The *Household Conditional Cash Transfer Programme* (PKH) was instrumental in his win. 2008/2009 saw around USD 2 billion provided to Indonesians as compensation for increased fuel prices, school allowance and micro-credit programmes (Meitzner 2009). Not only was this programme popular, but the GoI recognised that without a comprehensive safety net, economic growth, stability and its leadership were threatened (Brown et al. 2012). The financial and economic crises in 1998, 2004 and 2008 exposed Indonesia's social vulnerabilities and demonstrated the importance of a comprehensive and coordinated programme of social protection (Brown et al. 2012). For these reasons, the GoI wished to strengthen its work in this space, but as a relatively new field, it lacked experience and direction. As a result, the GoI actively sought new ideas and inputs<sup>10</sup> (Brown et al. 2012).

Around the time that Indonesia was concentrating on its social protection agenda, Australia's ODA was increasing and Indonesia was a key beneficiary of this increase (see Figure 1). The Australian Government's aid contribution to Indonesia increased from AUD 120 million per year in 2003 to AUD 450 million per year by 2010 (Tapp 2011). Social protection was also given higher priority on AusAID's corporate agenda and a strong team of social protection specialists were gathered together (Brown et al. 2012). By mid-2009, the Australian Government had begun its work on the scope of Australia's engagement in social protection (DFAT, personal communication, 11 October 2015)

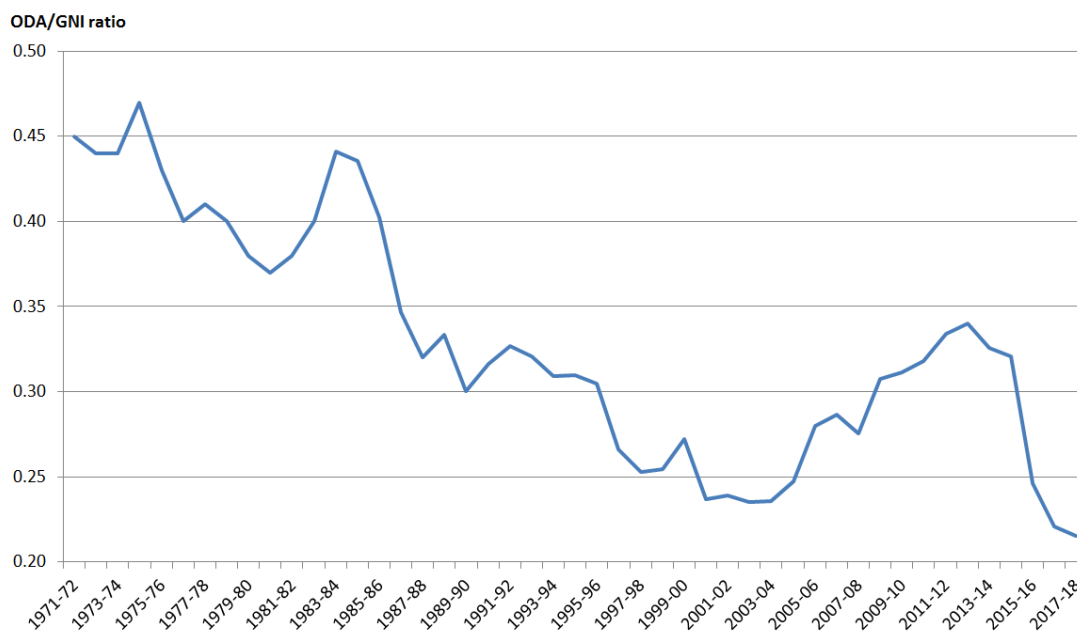
While Australia was expanding its aid program, the GoI was also moving quickly to grow its social protection program. In 2009, it committed to accelerating the pace of poverty reduction with SBY declaring it to be his highest development priority (Ashcroft 2015). To this end the GoI planned to establish TNP2K. However, under Indonesia's procurement rules, tightened under an anti-corruption drive following the Suharto era, the engagement of external consultants was complex and slow (Brown et al. 2012). The GoI needed a donor partner to maximise responsiveness and flexibility, but that partner needed to engage quickly (Brown et al. 2012).

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<sup>10</sup> The GoI expressed significant frustration with the World Bank and bureaucratic issues were getting in the way of effective and flexible operation of the PNPM Support Facility and the Decentralisation Support Facility (Tapp 2011).



**Figure 1: Australia's Aid Generosity\***



\* Amount of aid divided by Australia's GNI  
Source: Howes and Pryke (2014)

In late 2009, Indonesia's Vice-President's office approached AusAID about broadening its support for social welfare and poverty alleviation. Coincidentally, AusAID had the resources and expertise in place to respond decisively and affirmatively. Within six weeks of the Vice-President's request, AusAID had set up a new institution—the Poverty Reduction Support Facility (PRSF) to support TNP2K. The speed with which this occurred was unheard of within AusAID (DFAT-Canberra, personal communication, 10 November 2015) and marked a significant shift for the Australian Government into the social protection space in Indonesia.

## **Social Protection Programmes in Indonesia**

The timing and responsiveness of the Australian Government to the GoI's plans to expand social protection was coincidental, but there was also a general willingness on both sides to enter into policy dialogue rather than a traditional donor-recipient model. The Australian aid programme to Indonesia had evolved from an "imposed response" to a "partnership of equals" (Australian Embassy Indonesia 2015). Between 2010 and 2015, Australia invested AUD 30 million per year into social protection in Indonesia and the GoI invested more than 5 billion annually (DFAT 2015a). Although Australia's contribution is but a fraction of the GoI's funding, its relative value was raised by its flexibility and accessibility (DFAT 2015a). This partnership approach set the tone for AusAID's work with TNP2K through the PRSF and was a significant departure from Australia's previous engagement via the IGGI and CGI.

### **TNP2K**

In 2010, TNP2K was launched by Presidential Decree No. 15 to coordinate the acceleration of poverty reduction (TNP2K 2015). It was established to drive informed policy reform (DFAT, personal communication, 11 October 2015) and virtually all of its activities are funded by the Australian Government (Ashcroft 2015). Its three main duties are:

1. Development of poverty reduction policies and programs;
2. Synergize poverty reduction programmes among ministries/agencies through synchronization, harmonization and integration;
3. Supervise and control the implementation of poverty reduction programmes and activities (TNP2K 2015).

The overall goal of TPN2K was to reduce the poverty rate in Indonesia from the 14.1 percent in 2009 to 8–10 percent by 2014.

TNP2K is a unique institutional arrangement in that it combines significant research and policy analysis with outreach through its social assistance taskforce (PRSF 2015). Although the bulk of its duties are concerned with poverty reduction, TNP2K has a broad range of responsibilities extending across four clusters of projects, providing it with substantial reach (see Box 1).

**Box 1: TNP2K Clusters and Projects**

**CLUSTER I: Social Assistance Programs:**

- *Raskin* – Subsidised Rice for the Poor: to improve the food security of 15.5 million poor households through a monthly distribution of subsidised rice.
- *PKH* – Family Hope Programme: a conditional cash transfer programme to very poor households, currently support 2.8 million households.
- *JAMKESMAS* – National Health Insurance Programme: supports 86.4 million poor and near poor people to access free health services.
- *BSM* – Cash Transfers for Poor Students: conditional cash transfer to cover the basic costs of education for children - 15.5 million poor households.

**CLUSTER II: Community Based Programs**, under the umbrella of the *National Program for Community Empowerment (PNPM)*. The facility strengthens the capacities of Indonesian civil society organizations to reach and empower marginalises groups (World Bank 2013).

**CLUSTER III: Micro and small enterprise programs:**

- *KUR* – Credit for Businesses Programme: is a loans programme in the form of working credit loans and/or investment credit with limits between Rp.5 million and Rp. 500 million.

**CLUSTER IV: affordable housing and transportation programmes.**

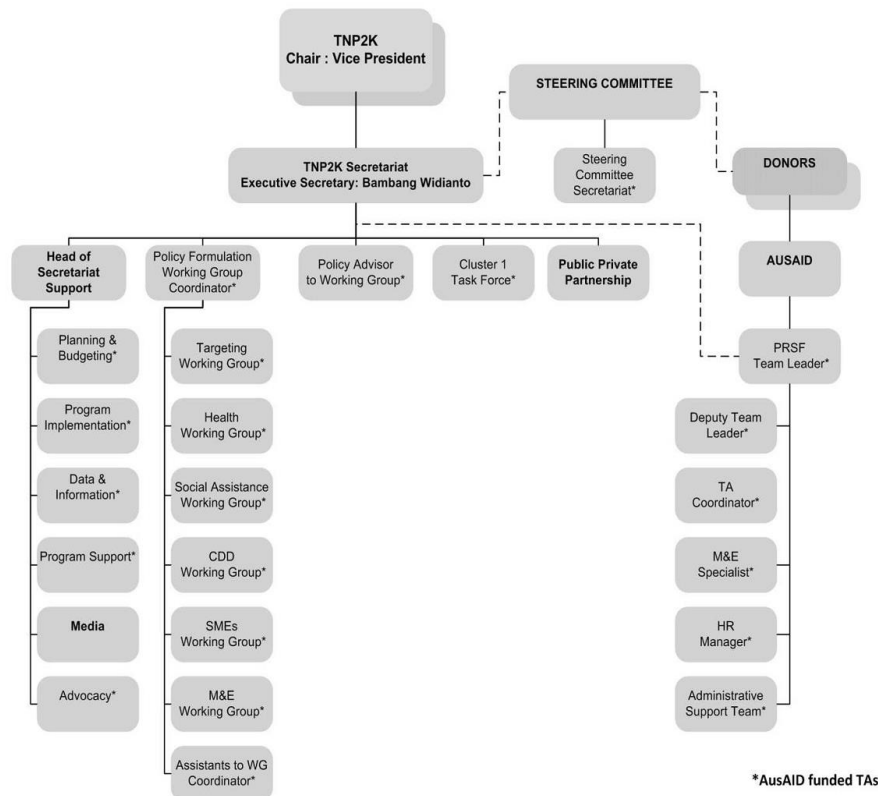
*For more information on these programmes see TNP2K 2015*

Under the GoI’s Medium Term Development Plan for 2010–2014, the programmes auspiced by TNP2K are targeted rather than general subsidies (Sumarto and Bazzi 2011). Programmes such as Raskin, BSM and PNPM pre-dated the establishment of TNP2K and were brought together under a common administrative umbrella. The Australian Government was already working with the World Bank on the PNPM. However, by establishing TNP2K, the GoI could improve its oversight and address operational and methodological constraints of the disparate programmes. To maximise its impact, TNP2K focused on four key programmes Raskin, BSM, PKH and Jamkesmas.

TNP2K is an internal think tank that includes high level advisors drawn from government, academia and consultancies both national and international (Brown et al. 2012). It is located in the Office of the Vice–President and is headed by the Deputy Vice–President for Social Welfare and Poverty Alleviation. It is important to note, however, that TNP2K is not part of the core government architecture and, as such, its funding is less certain than traditional government ministries (Ashcroft 2015). Each of

the four TNP2K clusters has an attached working group led by TPN2K (see Figure 2). The working groups include members from an inter-ministerial taskforce, development partners, business and civil society (Brown et al. 2012). Australia’s Department of Foreign Affairs and Trade (DFAT) and a managing contractor, GRM International, lead the working groups for Clusters I and III while the Cluster II working group is led by the World Bank (Brown et al. 2012). The majority of Australia’s involvement is through the PRSF (see Figure 2), which is described in the next section.

**Figure 2: The Complex Structure of TNP2K and the PRSF**



Source: AusAID (2011: 9)

## **PRSF**

The PRSF is a support facility that provides technical, managerial and financial support services to TNP2K (Ashcroft 2015). GRM International was the managing contractor appointed by DFAT through a competitive tender. The PRSF was designed to generate knowledge to inform social protection programmes and to provide high quality monitoring and evaluation services (Ashcroft 2015). In practice, it has mainly served as an administrative support system, having minimal involvement in the implementation of the social protection programmes (Ashley et al. 2014).

The decision of the Australian Government and the GoI to establish the PRSF to support TNP2K was consultative, innovative and rapid. After the Vice-President engaged AusAID, a series of meetings were held with the GoI to determine the scope of engagement. Supporting TNP2K was consistent with the strategic goals of Australia’s foreign aid policy in Indonesia. Since Indonesia’s transition to a Middle Income Country, Australia was focused on leveraging domestic resources rather than

the delivery of programmes (Ashley et al. 2014). However, AusAID was initially unsure whether to expand the work it was already doing with the World Bank through PNPM or to create something new (DFAT, personal communication, 10 November 2015). At the time, the PNPM was struggling to deliver on its programme goals, so it was decided that rather than trying to fix one or two programmes it would provide a new support structure for TNP2K (DFAT, personal communication, 10 November 2015). Beginning with a rapid start-up phase in June 2010, from March 2013 it progressed, with increased funding; into an implementation phase (Ashley et al. 2014).

The PRSF was originally designed as a multi-donor support facility. The original concept note mentions that the World Bank was approached to provide support to TNP2K, and it was envisaged that many other aid agencies would become involved in the TNP2K. The Vice-President asked AusAID and the World Bank to act as coordinators for these external donors. USAID contributed a small amount of money (around AUD 500 000) for financial inclusion work under Cluster III (DFAT, personal communication, 10 November 2015). However, donors were never actively sought, although according to a source at DFAT, donors would have been welcomed. As such, the PRSF became a partnership between AusAID and the GoI.

The organizational structure of the PRSF is complex (as can be seen in Figure 2). The TNP2K Secretariat is headed by the Deputy Minister who reports directly to the Vice-President, whereas, all other staff are contracted by PRSF. This means that the Australian Government employs all the staff and manages the facility (Ashcroft 2015). This is unusual in that the legal responsibility for the efficient and effective use of DFAT money is devolved to the managing contractor, GRM International, but decision-making power is retained by TNP2K under the direction of the Vice-President (Ashcroft 2015). As the PRSF is under Presidential Regulation, the effective use of DFAT funds requires a great degree of trust between the Australian and Indonesian governments.

### **Effectiveness**

Australia's strategy for engaging in social protection in middle income countries is to leverage the partner government's own investments (DFAT 2015c). Using this approach, the Australian government enhances its value for money by contributing relatively small amounts to larger pools of participant country funding. As such, it is difficult to separate an analysis of the effectiveness of Australia's ODA investment in the PRSF from the effectiveness of TNP2K more generally. The Australian government shares in TNP2K's broad achievements, but also in its failures.

The difficulty of separating the achievements of PRSF from those of TNP2K was noticeable during interviews. When asked about whether the Australian Government's support for Indonesia's social protection programmes had made a difference, the interviewees responded by citing broad improvements made by TNP2K rather than the PRSF:

*Australia's support has enabled TNP2K to make a significant difference to Indonesia's social protection programs. GoI national survey data and TNP2K evaluations show quantifiable improvement in the standard of living of the poor. Consumption (as a proxy for income) has improved, and specific programme evaluations have shown access to health and education services*

*has also improved for the poorest people.* (DFAT-Jakarta, personal communication, 15 June 2015).

Ashcroft (2015:8) made a similar observation stating:

*When looking at achievements the way PRSF is structured to support TNP2K and to help administer the activity budget of TNP2K, makes it difficult to talk about one without talking about the other. PRSF has played an indirect role in everything that TNP2K has done, and so success achieved by TNP2K at least prime facie reflects well on PRSF.*

Thus the effectiveness of the PRSF is discussed in relation to TNP2K and not discretely. The overarching objective of TNP2K was to reduce poverty and, in this regard, despite falling short of the 8-10 percent poverty target set by the GoI to be met by 2015,<sup>11</sup> the GoI national survey data and TNP2K evaluations show quantifiable improvements in the standard of living of the poor. Consumption (as a proxy for income) improved, and specific programme evaluations showed access to health and education services also improved for the poorest people (DFAT-Jakarta, personal communication, 15 June 2015). Vice-President Boediono noted that TNP2K had met all his expectations (Ashcroft 2015). The effectiveness of the work of TNP2K is owed in large part to the drive of Indonesia's Vice-President, the Indonesia leadership of TNP2K and the skills and dedication of its staff (Ashcroft 2015). However, it was Australia's support through the PRSF that enabled TNP2K to make such a difference to Indonesia's social protection programs.

Although there were challenges, overwhelmingly the interviewees were very positive about the programme and its value. The Australian Government and the GoI both regard the PRSF as a successful undertaking. By providing demand-driven and flexible support to Indonesia, the GoI's trust and confidence that Australia can provide flexible support has grown (Ashley et al. 2014). At the request of TNP2K, the PRSF has approved and commissioned more than 50 research studies and reform experiments, as well as two pilot projects and two technical assistance programmes initiated by DFAT (Ashcroft 2015). Support from the Australian Government through the PRSF was important in developing and implementing a unified database (BDT) for social protection programmes. This system collects and stores electronically the socio-economic information of 97 million Indonesians, which constitutes around 40 percent of the population. The database is 85 percent accurate in determining the poorest people in Indonesia based on the national households living standards survey (DFAT—Jakarta, personal communication, 15 June 2015). Using the BDT, the proportion of the poorest 10 percent of households receiving at least some social assistance programme (Raskin or Jamkesmas) has increased from 68 percent in 2005 to 85 percent in 2014. DFAT in Jakarta calls this an “extraordinary achievement” (DFAT—Jakarta, personal communication, 15 June 2015).

In supporting TNP2K, the PRSF contributed to the improvement of a number of Indonesia's social protection programs. The most effective of which is the BSM (scholarships for the poor) both in terms of financial commitment and coverage. Its budget extends across the 21 million poor students (around 25 percent of the poorest households),<sup>12</sup> which is a significant improvement upon its 2012 coverage of 6.3

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<sup>11</sup> More than 28 million Indonesians (11.4 percent) still lived in poverty in mid-2014 (Ashcroft 2015).

<sup>12</sup> Identified using the TNP2K Unified Database.

million (ILO 2013, Larasati and Howell 2014). This expansion is due to the efforts of TNP2K, which included using BSM as a compensation measure for the fuel subsidy reduction in 2013 (DFAT-Jakarta, personal communication, 15 June 2015). Moreover, despite challenges, such as the take-up of insurance coverage and the transition to JKN, the health insurance program, *Jamkesmas*, now covers 86.4 million of the poorest people in Indonesia (DFAT-Jakarta, personal communication, 15 June 2015), around 47 percent of poor or near-poor households (World Bank 2014).

The Australian Government through its support of TNP2K was also involved in the reduction of the fuel subsidy:

*The Australian Government was never telling the GoI what they should do but was very, very supportive of the plan to cut the fuel subsidy and was very supportive in helping them with the compensation measures to make it happen.* (DFAT-Canberra, personal communication, 10 November 2015).

Rather than imposing its own preferences for removing the fuel subsidy, DFAT helped devise the compensation mechanism to offset the burden of rising fuel prices. An unconditional cash transfer programme was established and the PRSF helped Indonesia to roll it out quickly (DFAT—Canberra, personal communication, 10 November 2015). TNP2K was also involved in piloting new and innovative approaches to social protection delivery. For example, one pilot programme allowed people to receive their government payments (conditional cash transfers) via their mobile phones. Traditionally, poor households access their payments at the post office. The aim of the programme is to improve coverage of the cash transfer programme and reduce opportunities for corruption. The programme is currently being reviewed and improved as the pilot revealed a number of problems, such as limited coverage of the mobile network in remote island areas and households without electricity.

The least effective social protection program, Raskin (the nationally subsidised rice program), is also its longest running (DFAT-Jakarta, personal communication, 15 June 2015). Although coverage is very high, it is poorly targeted with many non-poor households receiving the subsidy. In addition, widespread implementation challenges lower the potential quality of the programme (DFAT-Jakarta, personal communication, 15 June 2015). Issues with Raskin are widely publicised (see for example (Nazara 2013, Widiyanto 2013, Afkar and Matz 2015) and the GoI has signalled that it will target Raskin in 2016 to increase its benefit for the poor (DFAT-Jakarta, personal communication, 15 June 2015). Attempting to reform Raskin is a bold political move as it is one of Indonesia's most popular social protection programs.

### **Current status of the PRSF**

Australia will continue to support social protection in Indonesia in line with its focus on more inclusive growth and building economic partnerships in the region by leveraging domestic capacity and resources to improve development outcomes (DFAT, personal communication, 9 June 2015). However, it is not DFAT's top priority (DFAT 2016)<sup>13</sup> and its role is currently being scaled back. There are four reasons for this: (i) the implementation phase of the PRSF ended in 2015; (ii)

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<sup>13</sup> Australia's Aid Investment Plan 2015/16-2018/19 aligns with RPJMN priorities - good governance, improved productivity and competitiveness, human resource quality and self-sufficiency (DFAT 2016).

significant cuts to Australia's aid budget under the Coalition government; (iii) uncertainty about TNP2K under the new Indonesian President, Joko Widodo (Ashley et al. 2014); and (iv) the end of GRM International's contract as the manager of the PRSF and its transfer to Cardno<sup>14</sup> after competitive tender.

As such, the PRSF is transitioning to a new model under a new main contractor. The PRSF has been renamed MAHKOTA, (*Menuju Masyarakat Indonesia Yang Kokoh Sejahtera*), which will function on a far smaller budget - around AUD 44 million over four years. Other than a change in management, the implications of this smaller budget include reduced infrastructure and staffing. There will also be a shift in the way the facility works with plans for closer collaboration with other Australian development programs. For example, the education sector in Indonesia receives Australia's largest investment and the Education Partnership is the largest single Australian funded programme in Indonesia (Ashcroft 2015). TNP2K is also involved in education through PKH, BSM (scholarships for the poor) programme and a pilot program, *Kiat Guru*. However, there was little or no strategic discussion between the Australian team working on the Education Partnership, TNP2K or PRSF (Ashcroft 2015). Improving collaboration across Australian funded programmes is an improvement on the PRSF model that did not engage across portfolios.

## **The Political Nuances that Shape ODA Effectiveness in the Reform of Social Protection in Indonesia**

The effectiveness of aid has been at the forefront of the development literature for the last decade. Beginning with the Paris Declaration on Aid Effectiveness of 2005, which was born out of 20 years of critique of the poor outcomes of foreign aid, five principles of aid effectiveness were identified: ownership, alignment, harmonization, results and mutual accountability. These were strengthened and deepened in 2008 in the Accra Agenda for Action (AAA), and 2011 in the Busan Partnership for Effective Development Cooperation. The former emphasised improving the predictability of aid flows and reducing conditionalities and the latter recognised the new aid architecture that includes more diverse donors (Bigsten and Tengstam 2015). According to the OECD, Australia and Indonesia adhere to the Paris Declaration and AAA.

This section analyses the Australian Government's engagement with Indonesia's social protection programs. It demonstrates how the TNP2K and PRSF embody many of the principles of the Paris Declaration, in particular, ownership, alignment and harmonization. However, as this research was not designed to measure formal indicators of aid effectiveness, the observations are indicative rather than absolute. The OECD conducts periodic assessment against defined indicators (the latest assessment of Indonesia can be found at OECD (2012)). Next, it discusses other aspects of the TNP2K/PRSF relationship that are not easily captured by the Paris Declaration but were nonetheless important, in particular the importance of key personal relationships and a longstanding system of informal exchange between the members of Australia's ODA staff and Indonesian officials. This raises questions about whether this program's success can be replicated elsewhere and how to implement the Paris principles of results and mutual accountability when the

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<sup>14</sup> A representative of Cardno was contacted for interview, but was unwilling to comment as arrangements with DFAT were still being finalized.

boundaries between ODA staff and local officials—and between external and domestic sources of funding—become blurred.

### ***Ownership—Partnership and flexibility rather than imposition and rigidity***

Aid is considered to be most effective when it supports a country-owned approach to development and less so when driven by donors. According to the Paris Declaration, ownership concerns a country's ability to exercise effective leadership over its development policies and strategies and coordinate the efforts of donors working in country. This was elaborated under the Accra Agenda for Action, which declares that recipient countries should “have more say over their development processes through wider participation in development policy formulation, stronger leadership on aid coordination and more use of country systems for aid delivery” (OECD 2016a). The key indicator for assessing whether a recipient country is meeting this objective is whether it has a national development strategy and, in this case, a national approach to social protection.

Australia has mostly taken a non-interventionist approach to the management of its investment in Social Protection Programs, leaving the GoI to determine its effective use. This is reflective of the broad shift in the discourse of ODA provision from one of conditionality to one of ownership (Whitfield and Fraser 2009). And, although governance reform is a high ODA priority for the Australian Government, it did not push such reform on Indonesia. Instead, it facilitated the work of TNP2K by formulating the PRSF as a flexible supporting structure. The GoI could determine its reform agenda and then seek additional advice and funding through the PRSF to fast-track programs. This was an important change from historical approaches, such as those embedded in the IGGI and CGI, which imposed donors' priorities on the GoI. It is an example of donors and recipient countries working in tandem rather than the patrimonial practices that are so common.

According to the Paris Declaration, a key indicator of the ownership principle is the existence of a long-term national plan for development. In this regard, Indonesia has a mid-term and long-term National Development Plan for the period 2005–2025—*Rencana Pembangunan Jangka Panjang Nasional (RPJPN), 2005–2025*. The RPJPN's targets provide the basis for implementation targets in the annual action plans at all levels of government, and serve as guidance for policy makers in line ministries and local government to ensure that annual development plans and targets are consistent with national and regional development plans (OECD 2012). However, the implementation of this plan has been problematic with a lack of strong policy, coordination of the Ministries, the capacity of responsible bureaucrats and corruption (Nurmandi 2012).

The requirement that the TNP2K align with the National Development Plan produced complications for the TNP2K/PRSF relationship. This was particularly obvious in terms of accountability. Although the GoI had a great deal of autonomy in its expenditure of Australian Government money, DFAT still had to report back on its investment in Indonesia and ensure these expenditures aligned with departmental goals and processes. In this regard, DFAT sought clear statements from the PRSF, such as a Five Year Strategic Plan against which activities could be judged. As there is an enormous amount of political change influencing the GoI's commitment to



RPJPN, selecting goals against which PRSF activities could be measured proved difficult:

*So we would say that the guiding principle is the macro-economic planning document, but within that, there's an enormous amount of political change and you cannot predetermine what they're going to be* (GRM International-Jakarta, personal communication, 11 November 2015).

As Datta et al. (2011) observe, the decision of the GoI to invest in a particular line of policy making is motivated by a range of powerful interests that are often associated with a “monetary metric and calculations of power gained or lost, as well as the importance of informal and personalised networks which do not necessarily correspond with normative values and approaches prescribed by the good governance agenda” (Datta et al. 2011:69). This political reality created some tension for the PRSF that was positioned between DFAT and TNP2K. Put simply, DFAT’s requirement for forward planning did not align with the informal and fluid way in which TPN2K operated.

### ***Alignment—Working with the GoI systems and positioning***

The Paris Declaration defines alignment as when donor countries align behind recipient policy objectives and use local systems. The concept was borne out of the disastrous effects of structural–adjustment lending and investment in stand-alone projects dominant in the 1980s and 1990s (Booth 2012) and the recognition that aid has a more sustainable impact if it is integrated into existing systems of governance (Bigsten and Tengstam 2015). The Accra Agreement renames alignment as the principle of inclusive partnerships and states: “all partners—including donors in the OECD Development Assistance Committee and developing countries, as well as other donors, foundations and civil society—participate fully” (OECD 2016). To support the reform of social protection in Indonesia, Australia relied heavily on the principle of alignment, which was clearly observed through the TNP2K/PRSF program.

The Australian Government’s engagement in social protection is concentrated in two broad areas: 1) redefining and developing social protection systems, and 2) strengthening partner government and other stakeholders’ knowledge on social protection (DFAT 2015c). Engagement with the highest levels of government is essential when the aim is to improve social protection systems and governance practices more so than implementing programmes or projects on the ground. The PRSF helped the Australian Government achieve this by creating a direct link with TNP2K, one of the three major agencies responsible for social protection programmes in Indonesia.<sup>15</sup>

While there is power in aligning with the highest levels of government, there is also a high degree of risk. In its 2010 design document, AusAID determined that funding TNP2K and engaging through the PRSF was high risk because TNP2K was designed to “bring order across Indonesia’s powerful ministries, who can be expected to resist consolidation and extra oversight” (AusAID 2010:2). While at the time, the forecasted benefits of the PRSF were deemed to outweigh the risk, in practice, concerns were warranted. Tensions between TNP2K and the ministries did arise. Interviewees spoke

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<sup>15</sup> The others being the Ministry of Social Affairs and the National Development Planning Agency (Bappenas).

about resistance to the reform of particular programs, for example *Raskin*, by various ministries. The centralised targeting system of TNP2K does not suit Indonesia's governance structure, which is highly decentralised. However, resistance at lower levels of government was partially alleviated by the high quality, technical and timely advice provided by TNP2K. It is difficult for ministries to access external advice due to obstacles in commissioning outsiders, limited funding and inhibitive regulations (Datta et al. 2011). Even so, ministries noted that they would have preferred to receive assistance directly from the GoI rather than through TNP2K (Ashcroft 2015). This illustrates the flaw in SBY's plan to circumvent ministries by appending new agencies to the governance structure. According to DFAT, this tension remains in the programme and challenges the sustainability of Australia's investment in TNP2K. It may also explain why respondents at the April 2015 workshop noted that DFAT had begun to work directly with GoI ministries rather than solely through the TNP2K structures.

Alignment does not necessarily mean that the DFAT and GRM International worked in equal partnership with the GoI at all times. Although the Australian Government was working within the GoI system there were still competing interests. Our interviews highlighted some of the difficulties with the governance structure under which they operated. First, while the relationship between PRSF and TNP2K began as a partnership of equals, over time asymmetry crept in. Sometimes the PRSF was caught between the competing interests of DFAT and the GoI. TNP2K would propose initiatives and the PRSF's role was to ensure that these proposals were technically sound and that DFAT was getting value for money. However, the role of TNP2K was increasingly to take on work that was previously the jurisdiction of BAPPENAS, such as social welfare and planning. DFAT described how: "Sometimes PRSF was just a bit stuck in the middle of competing interests" (DFAT-Canberra, personal communication, 10 November 2015).

### ***Harmonization—Reducing the number of donor partners and working together***

Harmonization is the third principle of the Paris Declaration. It states, "donor countries coordinate, simplify procedures and share information to avoid duplication" (OECD 2016). The AAA talks about inclusive development partnerships that involve donors, foundations and civil society. According to this principle, aid should be provided through harmonised programmes co-ordinated among donors, and that donors should conduct field missions together with recipient countries. Moreover, research has found that having fewer partner countries and shifting to program-based approaches (as opposed to standalone projects) reduces aid fragmentation and improves effectiveness (Bigsten and Tengstam 2015). The principle of harmonization also informs the Australian Government's engagement in social protection reform in Indonesia and provides another explanation for the success of the PRSF.

Various stakeholders are involved with social protection policy in Indonesia. These groups pursue the reform of social protection in their specialist areas; for example, trade and labour unions push for minimum wage increases and improved worker protections. Other countries play an influential role in the design of certain social protection programmes in Indonesia, such as Mexico's involvement in Indonesia's Conditional Cash Transfer program. Development partners mostly focus on their own expert areas of support, for example, UNICEF on child protection or the ILO on worker protection and guaranteed labour programs. The World Bank, GIZ and the

ILO also have varying degrees of influence, with the World Bank being the most dominant of this group.

Australia, however, has a unique relationship with Indonesia with regard to its involvement in social protection. Although the PRSF was initially planned as a multi-donor facility, TNP2K only ever relied on Australia as the financier, which streamlined the process and enabled the facility to be responsive. A similar comment was made in the Ashcroft final review of the process “a recipient executed multi-donor trust fund, would quite simply have been too slow and unwieldy” (Ashcroft 2015: 9). This unique bilateral relationship has been an important factor in the success of the PRSF and TNP2K.

Australia’s involvement in TNP2K through the PRSF meant that approvals were streamlined and funds were more readily available than they would have been if accessed through the routine machinations of the GoI bureaucracy. TNP2K also agreed to follow the systems and procedures suggested by GRM International, this included administration, finance and human resources for its staff (Ashcroft 2015). If TNP2K had relied on the GoI’s restrictive funding and procurement processes or recruited staff using the bureaucratic government system and low pay scales it would have been unable to achieve so much so quickly (Ashcroft 2015). However, DFAT itself recognised this approach as a high risk one. To counter this, those who were contracted to GRM International or managed by them were employed under the same conditions and pay scales as those managed by TNP2K. The exception was the head of TNP2K who was a GoI employee. Harmonization with local structures and standards proved a success with good governance being a key feature of the TNP2K/PRSF relationship. As Ashcroft (2015) noted, most disputes were about policy issues or the services being provided by PRSF. Its investment in social protection was evaluated as an “unqualified success” and that it represented good value for money (Ashcroft 2015). Conservative economic analysis showed that “for every dollar DFAT spent, around AUD 28 to AUD 487 of benefits were generated that would not have occurred otherwise” (Ashcroft, 2015:33).

The downside of harmonization for the TNP2K is that it is reliant on one donor for most of its funding. The decision of the Australian Government to cut its aid programme and particularly its contribution to Indonesia has had significant impacts for its involvement in TNP2K. The total Australian Government expenditure over four years for the PRSF (July 2011–2015) was approximately AUD 114.7 million whereas for the next iteration, MAHKOTA, the proposed investment over four years is AUD 44 million. While DFAT still regards this as significant, this represents a significant cut to the program.

Despite cutting investment in social protection in Indonesia, interviewees at DFAT did not believe it would have a significant impact. Even at its height, Australia’s investment was a small component of the funding provided by the GoI for social protection. Although the broad impact of Australia’s funding cuts may be minimal across social protection in Indonesia, TNP2K’s dependence on Australia for almost all of its funding and technical support will impact its operations significantly. The cuts also have implications for the activities of the PRSF. According to the investment summary for MAHKOTA there will be less support for delivery systems (for

example, management information systems and complaint handling) and more support for policy, national think tanks and social security (DFAT 2015b).

### ***Is a more nuanced understanding of harmonization required?***

Although the principle of harmonization advocates for the donor and recipient to work together, this does not capture one of the key characteristics of the Australian Government’s investment in social protection reform in Indonesia—that is, the closeness and informality of the TNP2K/PRSF relationship. It relies on key personal relationships and for the Australian side to adapt to a longstanding informal system of government. It is a nuance not explicit in the Paris Declaration, but requires particular attention nonetheless to understand how it contributed to aid effectiveness.

TNP2K/PRSF worked together on almost all aspects of their activities. The positioning of the PRSF within the Indonesian bureaucracy and its physical location across the road from the Vice-President’s office enabled PRSF staff to establish important informal working relationships with those inside TNP2K. One DFAT staff member described the very close relationship between PRSF and TNP2K:

*We would meet, we met all the time, we had lunches all the time. There were formal processes of course, but we also knew what was going on because we lived in each other’s pockets.* (DFAT-Canberra, personal communication, 10 November 2015)

Interviewees described the design and function of the PRSF—there is no “us and them” when it comes to PRSF and TNP2K. Indeed, at times it was difficult to know when the interviewees were talking about PRSF and when they were talking about TNP2K. The close relationships between the PRSF and TNP2K are complementary to the way in which policy making occurs in Indonesia where informal or personal networks between policy-makers and knowledge producers are hugely dominant in the way policy-makers go about looking for information (Datta et al. 2011). The successful functioning of the PRSF is reliant on inclusive relationships. Given the importance of these relationships, the preservation and reestablishment of these connections is critical to the successful transition from PRSF to MAHKOTA.

### ***The challenge of mutual accountability***

The previous sections indicate that the TNP2K/PRSF programme was deemed a success by both the Indonesian and Australian governments. This success can be attributed in large part to the close, pre-existing ties between Indonesian and Australian government staff as well as program’s alignment with principles laid out in the Paris Declaration (ownership, alignment and harmonization). It should be noted, however, that other principles were more difficult to implement in practice, in particular the principle of mutual accountability, which states (among other things) that “Partner countries and donors commit to... jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness” (OECD 2016).

In line with the Paris Principles, one of the key aims of the PRSF was to provide high-quality monitoring and evaluation. However, when the PRSF suggested that an external assessment of TNP2K’s proposals should be undertaken, TNP2K staff was reluctant, feeling this would infringe on the GoI’s jurisdiction. This disagreement created tensions between TNP2K and PRSF staff. TNP2K participants at a workshop

in April 2015 elaborated on why it was resistant to external monitoring and evaluation. They felt it was more concerned with meeting the requirements of DFAT rather than those of the GoI (PRSF 2015). GRM International made a similar observation:

*These so called foreign experts from a distance come in with a piece of paper and their own processes and they [TNP2K] simply didn't like it. And because they didn't like it, it didn't work well, because they didn't accept it and it caused antagonism.*

To reduce the tension, the PRSF and TPN2K decided to embed a monitoring and evaluation function early in the project design phase:

*So now I think we now realise that getting ourselves involved earlier on will solve their problems later on. Then we're all aware of what the issues are early. Monitoring was fully embedded into the TNP2K working groups, which facilitated the communication between the two teams. (GRM International-Jakarta, personal communication, 11 November 2015)*

The benefits of this were twofold—improved collaboration and a diminished likelihood of proposals being declined by the PRSF at a later stage. While this was a positive move in many respects, it also changed the role of the PRSF. It increasingly took on a policy advocacy role and became involved in technical detail rather than just providing operational support (PRSF 2015).

Whether this resolves the issue of improving mutual accountability remains to be seen. These difficulties, however, may speak to a possible tension between the principle of mutual accountability and those of ownership, alignment and harmonization. As the staff of donor countries comes into closer orbit with the bureaucrats of recipient countries and the line between donations and domestic fiscal expenditures is blurred, it becomes increasingly difficult to assess programmes objectively. Put simply, the effects of externally funded activities are indistinguishable from the underlying social protection programmes of the recipient countries. This is not to argue that monitoring and accountability is futile, but rather to highlight the complexity of monitoring outcomes in an otherwise successful programme like PRSF.

### ***Is it a model that could be emulated in other countries?***

Drawing on the experiences of other countries is an important source of new ideas when devising new social protection programs. Cross-country comparisons can generate knowledge about the role of political institutions, democratization, left-right coalitions and donors in the process and outcomes of social protection (Barrientos and Pellissery 2012). The interviewees in this study noted that despite challenges, the TNP2K/PRSF model was incredibly successful. In addition to the measurable impacts on poverty and consumption described earlier, GRM International mentioned the enormous amount of social capital that the PRSF generated:

*And we did some value for money studies and the amount of social capital generated is just enormous and so despite the problems, we shouldn't be distracted from the fact that the model really was tremendously successful. (GRM International-Jakarta, personal communication, 11 November 2015)*

Whether this model could be copied or emulated elsewhere, however, is less obvious. Many of the factors that contributed to the success of this Australian–Indonesia partnership would be difficult to replicate. In this case, strong relationships between individuals and government agencies in Australia and Indonesia were essential. The Australian Government was keen to work in partnership with the GoI by contributing to ongoing social protection programs. PRSF employed highly capable technical staff to work inclusively with the GoI and reduced the “us and them” mentality that comes from an imposed structure. Another critical factor was good timing. The GoI had recently won an election on the back of its social protection promises and so high-level support was strong. Even the initial involvement of the Australian Government was happenstance. Good relationships, mutual respect and common strategic interests—key requisites for the success of a TNP2K/PRSF-type program—take years to establish. However, while these determinants of success are difficult to create from scratch, other factors might be fruitfully assessed prior to formally establishing new partnerships, such as national appetite for change and the willingness of the proposed donor to engage in a political and culturally appropriate manner.

Whether the TNP2K/PRSF model can be replicated in other countries was also a consideration of Ashcroft’s (2015) review. He says “on balance TNP2K/PRSF is not a model that can readily be copied, but the principles of the engagement are worth capturing and trying to graft on to future programs.” (Ashcroft 2015:4) According to Ashcroft’s interview (2015:16) with a former senior technical lead at TNP2K there are four key attributes of the program:

1. Leadership- political buy in from the highest levels;
2. Good bureaucrats- competent civil servants committed to the program;
3. High quality technical staff
4. Donor commitment- flexible, sufficient and predictable funding.

These four aspects—in combination with the principles outlined in the Paris Declaration—are general lessons that could be shared with other countries that may be grappling with the complexities of reforming social protection programs.

However, as Ashcroft recognises, the characterization of TNP2K/PRSF according to these four features is overly simplistic. Absent are the political nuances that were so important to the functioning of TNP2K/PRSF partnership. Some of these are structural factors that are out of the control of the stakeholders, such as the increasing strength of the Indonesian economy that enabled it to pick and choose its involvement with donors and the type of engagements it would accept. The GoI disbanded the restrictive frame of the IGGI and the CGI models long ago and was looking for support from its donors rather than direction. Other political factors included institutional variables such as the informal rules of Indonesian politics that drive change and more formal laws and regulations, for example, limiting ODA investment to 3 percent to reduce dependency. Finally, there are the key stakeholders in the TNP2K/PRSF partnership—the GoI, the powerful champions of reform, such as the Vice–President of Indonesia, and the Australian Government. The obligations and visions of these stakeholders, although at times competing, shaped the direction and process of social protection reform.

A key lesson the TNP2K/PRSF case study is that the various behavioural characteristics of politics at the macro and micro levels matter for improving social

protection through ODA. The PRSF was embedded in the Indonesian governance structures and operated in a manner that was culturally sensitive and politically aware to facilitate reform. Donors engaging with any country need to take on board the nuances of government, the appetite for change from the very top right through to the ministries tasked with its implementation—for it was here that resistance was encountered. The capacity for the government to support change beyond donor involvement also needs to be considered, particularly where the partnership is mostly bilateral. Finally, conditions that attract the employment of highly skilled and culturally astute technical advisors that work in partnership with the government are critical. The recipient country should consider how its own needs align with the donor and whether the structures of engagement and their motivations match the particular political and cultural nuances of the donor nation.

## **Conclusion and Wider Implications**

There is enormous value in understanding social protection reform through a political economy lens. International organizations that engage in this space often take a techno-managerial approach that ignores political influences on social protection institutions and embed counterproductive donor–recipient hierarchies into the governance structures of specific projects and programmes (Barrientos and Pellissery 2012). The TNP2K/PRSF partnership is an example of a development initiative that was compatible with the political economy of the recipient country, with Australia engaging as “constructive partner” rather than a “demanding donor”. This contributed to the GoI retaining ownership over its activities; one of the principles of aid effectiveness outlined in the Paris Declaration. Two other principles of aid effectiveness—harmonization and alignment—were also adhered to. The programme was embedded within the Indonesian governance structures and operated in a manner sensitive to the political culture of the Indonesian bureaucracy. But, as Barrientos and Pellissery (2012) point out, more research is needed on the intersection between politics, bureaucratic cultures and the implementation of ODA programmes (Barrientos and Pellissery 2012).

Finally, this case study suggests that two-way transformation can occur as a result of effective ODA investment in social protection reform. In the case of TNP2K/PRSF, such effects are seen within the donor organization and the GoI. Spin offs from the TNP2K/PRSF partnership are beginning to change the way Indonesia’s ministries work. A replica of TNP2K within the Ministry for Economic Affairs is currently under development to improve the alignment of social, fiscal and economic policy (Ashcroft 2015). The Australian Government has been asked to support this initiative, which is further testimony to the value the GoI sees in the PRSF. Feedback from TNP2K/PRSF also inspired DFAT to increasingly focus on South-South learning. After working with TNP2K/PRSF, key DFAT staff saw the value in sharing knowledge with countries facing similar problems. They conceived of the Social Protection Hub, based in Canberra and Jakarta, to facilitate regional dialogue and generate new knowledge about social protection in the Indo-Pacific. Funding for the hub was secured from the Indonesia program. The philosophy of the hub is to stand on the shoulders of other countries that have approached similar social protection issues such as targeting and grievance mechanisms. The TNP2K/PRSF partnership continues to serve as a model for Indonesia as it engages Australia in its social protection programmes and is transforming Australia’s approach to engaging with other countries it partners with through its ODA program.

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