



Australia's \$1 billion tsunami-related aid package to Indonesia: progress on the eve of the March ministerial meetings

This Research Note discusses the major aid commitment to Indonesia made by the Australian Government on 5 January 2005 and reviews some major issues arising from the commitment.

On 5 January 2005, Prime Minister Howard announced a \$1 billion contribution to a newly formed Australia-Indonesia Partnership for Reconstruction and Development (AIPRD). These funds would be in addition to Australia's existing development cooperation program and would 'bring Australia's commitment to Indonesia to a total of \$1.8 billion over five years'. The Prime Minister called it 'an historic step in Australia-Indonesia relations ... the single largest aid contribution ever made by Australia, focused on the long-term and founded in partnership'.¹ While there would be a focus on areas affected by the tsunami on 26 December 2004, all parts of Indonesia would be eligible for assistance. Of the \$1 billion contribution over five years, \$500 million would be grant assistance and the other \$500 million would be interest-free loans for 'the reconstruction and rehabilitation of major infrastructure in the first instance'.

For its part, the Indonesian Government agreed to the secondment of Australian officials to the Indonesian national development planning agency and coordinating agency for the disaster, BAPPENAS.

Coming a fortnight after the Indian Ocean tsunami, Australia's decision was widely applauded in both the national and international media. Nationally, the media portrayed the announcement as a foreign policy master stroke in developing close ties with Indonesia in keeping with Australia's status as a regional actor.

Prime Minister Howard's statement was well timed, as was the quantum of money involved and the way it was communicated. The world was still coming to terms with the extent of devastation and loss of lives. People were scrambling to donate money for relief efforts and donor countries were continually updating their contributions. With a single announcement, Australia came to be considered as the world's most generous post-tsunami donor at the time.

Composition of the aid contribution

The Prime Minister's statement calls it 'the single largest aid contribution ever made by Australia'. This is certainly true in the case of Australian aid to Indonesia (PNG being the largest recipient, with \$435.6 million provided in 2004–05). Nevertheless, it is relevant to consider also the following:

- Australia's aid program to Indonesia is its second largest after PNG. Total aid to Indonesia in 2004–05 (pre-tsunami) is estimated at \$160.8 million, an increase of 32 per cent over the preceding two years (i.e. from 2002–03)
- this annual amount multiplied by five equals \$800 million of the '\$1.8 billion over five years' mentioned in the media release cited above. This also assumes that the annual aid commitment to Indonesia would have remained static at about \$160 million had it not been for the extra (tsunami-related) commitment of \$500 million over five years (the loan component, also \$500 million, is addressed below). A static

base figure for aid to Indonesia is, however, unlikely to be realistic, considering the 32 per cent increase over the last two years. It can be argued that, based on past trends, the aid allocation to Indonesia was likely to increase anyway

- if the post-tsunami grant component (\$500 million) were to be distributed equally over the next five years, it would amount to an extra \$100 million per year. Based on 2004–05 figures, this would add up to a notional total aid commitment to Indonesia of \$260 million a year over the next five years, starting 2005–06, and
- the concessional loan component of \$500 million directed towards infrastructure projects over the next five years will be disbursed as and when such projects are finalised. It should also be noted that the \$500 million loan facility, while interest-free with an extended repayment period, will still be, in accounting terms, adding to Indonesia's sovereign debt.

Added up, these outlays make for a generous commitment of \$1.8 billion, albeit over five years.

Where will the aid money be spent?

Popular perception, based on reports in some sections of the media, is that most of the money (if not all) will be spent on reconstruction and infrastructure building projects in Aceh, one of the poorest and most conflict-ridden provinces in Indonesia.² This may not necessarily be the case. While the AIPRD package does focus on areas affected by the tsunami, its application is Indonesia-wide. As the Prime Minister's statement says: (emphases added)

While there will naturally be a clear focus on the areas devastated by the Tsunami, **all areas of Indonesia will be eligible for assistance under the partnership ...**

The grant aid will be directed at areas of priority need in Indonesia. It can be expected to encompass small-scale reconstruction to re-establish social and economic infrastructure in affected areas, human resource development and rehabilitation. It will also include a **large scholarship programme, providing support and training in areas such as engineering, health care, public administration and governance.**³

These areas of priority need are exactly those identified by the Minister for Foreign Affairs, Alexander Downer in May 2004 in his budget statement for 2004–05 as 'emerging areas of support'.⁴ It is quite possible that most of the grant aid and the loan component will be spent on projects outside Aceh as part of an expanded assistance program to Indonesia: the details of this were already being worked out by AusAID. Thus it would appear that the tsunami disaster provided the political will and opportunity to provide extra funding for programs which, to a degree, were already under consideration.

Details yet to be decided

According to a report in the *Australian Financial Review* (14 January 2005), the announcement was based on a Heads of Government agreement and that 'the timetable for signing off on

all its details will be the regular annual meeting between Australian and Indonesian ministers and officials in mid-March'.⁵ The same report went on to add that:

- it was unlikely that the reconstruction contracts would be awarded by the proposed joint commission or by BAPPENAS which would only be responsible for deciding priority areas and ensuring accountability, and
- once priority areas were decided, the tender process and project management would be handled by Australia.

Indonesia's Minister for National Planning, Sri Mulyani Indrawati, has subsequently confirmed that an agreed approach to spending the aid package would be decided at the ministerial meeting in March 2005.⁶

Administration of the 'package'

An official from the Department of Foreign Affairs and Trade (DFAT) has outlined the structure of the Joint Commission which will be headed by Prime Minister Howard and Indonesian President Yudhoyono. The foreign ministers and an economic minister from both countries will be members of the commission. On the Australian side, a Secretaries' Committee will advise the commission. Chaired by the Secretary of DFAT, it will include secretaries from the Departments of Prime Minister and Cabinet, Treasury, Finance and Public Administration and the Director-General of AusAID. A secretariat established within DFAT will provide advice both to the secretaries and ministers.⁷

Who will get the contracts?

It was reported on 17 January 2005 that 'officials' have

...confirmed that all contracts associated with the five-year program to help rebuild Aceh province will be awarded **exclusively** to Australian and New Zealand companies, though some companies will then subcontract to local or Indonesian companies.

This would be done by applying the standard Australian Government tendering guidelines ensuring Australian companies 'win **all** of the management contracts' (emphases added).⁸ However, a senior DFAT official stated to a Senate Estimates Committee hearing on 17 February that 'procurement guidelines are still being worked through ... (and) ... Australian and Indonesian companies will be eligible to tender'.⁹

Major Australian companies expected to be involved in the bidding process include Boral, BlueScope Steel, OneSteel, Leighton Holdings, Thiess and Linfox as well as numerous medium-sized and smaller firms. Contracts are likely to start to be awarded in the second half of the year.

Seminars to 'explain Australia's \$1 billion tsunami aid package' will be held in all major Australian cities in the first week of April. They will be conducted by Austrade, AusAID and DFAT.¹⁰

The Indonesian aid package in perspective

As mentioned earlier, it was a well-timed and a humanitarian decision to increase aid to Indonesia. The country was already the second largest recipient of Australian aid (after PNG) and the quantum of assistance has risen substantially over the last two years. Based on this trend, it would be reasonable to assume that, in coming years, overall assistance would have increased as a number of projects reached the implementation stage. New areas of assistance already under consideration included 'support for a major restructuring of the Ministry of Finance, advice to the newly established Anti-Corruption Commission and expanded training for public prosecutors'.¹¹

The increased funding will speed up the implementation of projects which may otherwise have been delayed due to lack of funds. While money will be spent on rehabilitation and reconstruction projects in Aceh, it seems likely that a substantial

amount of the money will be spent on projects outside the tsunami-affected areas, although nonetheless in deserving parts of Indonesia.

The issue of how management contracts are awarded is likely to be observed closely. In the past, organisations such as AID/WATCH have been critical of Australia providing 'boomerang' aid where much of the money provided as aid goes to Australian contractors and consultants.¹² It may be noted that Mr Downer on 15 December 2004 stated that Australia had 'revised its eligibility criteria to allow recipient country firms to tender for work under our bilateral aid program in that recipient country'.¹³

The aid package will also have a major impact on the overall aid budget. In order to address development challenges in the Asia-Pacific region and fulfil the government's ambitious agenda, including the 5 January commitments to Indonesia, it seems inevitable that the AusAID budget will have to increase substantially over the next few years, starting in the coming financial year, 2005-06.

1. Prime Minister, *Media Release*, 5 January 2005.
2. See, for example, 'Leaders hail our \$1b pledge', *Canberra Times*, 7 January 2005.
3. *ibid.*
4. The Honourable Alexander Downer MP, Minister for Foreign Affairs, 'Australia's International Development Cooperation 200-05', Statement, 11 May 2004, p. 33.
5. Laura Tingle, 'Government to retain grip on tsunami contracts', *Australian Financial Review*, 14 January 2005.
6. Mark Forbes, 'Price rises mar the healing of Aceh', *Sunday Age*, 13 February 2005.
7. Foreign Affairs, Defence and Trade Legislation Committee, Estimates hearing, Senate, 17 February 2005, p. 41.
8. Laura Tingle and Andrew Burrell, 'PM retains tight grip on \$1 billion tsunami aid', *Australian Financial Review*, 17 January 2005.
9. Foreign Affairs, Defence and Trade Legislation Committee, Estimates hearing, Senate, 17 February 2005, p. 42.
10. Andrew Burrell, 'Seminars for Aceh bidders', *Australian Financial Review*, 25 February 2005.
11. *Australia's International Development Cooperation 2004-05*, p. 31.
12. Ewin Hannan and Roslyn Guy, 'Bidders line up for slice of \$1 bn aid', *The Age*, 12 February 2005.
13. Minister for Foreign Affairs, Alexander Downer, *Media Release*, 15 December 2004.

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