



Technical Assistance Subproject Report

Project Number: 46380-029
Knowledge and Support Technical Assistance (C-KSTA)
August 2017

Republic of Indonesia: Sustainable Infrastructure Assistance Program (Financed by the Government of Australia)

Subproject Number 11: Subproject Facilitating Regional Cooperation and Integration between Indonesia and Timor-Leste through Enhanced Cross-border Cooperation

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Asian Development Bank

ABBREVIATIONS

ADB	—	Asian Development Bank
ASEAN	—	Association of Southeast Asian Nations
BPA	—	business process analysis
DFAT	—	(Australia) Department of Foreign Affairs and Trade
DFID	—	(United Kingdom) Department for International Development
DMC	—	developing member country
ERCD	—	Economic Research and Regional Cooperation Department
FDI	—	foreign direct investment
GDP	—	gross domestic product
KSTA	—	knowledge and support technical assistance
PARD	—	Pacific Department
RCI	—	regional cooperation and integration
RCI-OP	—	Operational Plan for Regional Cooperation and Integration, 2016-2020
RCI TG	—	Regional Cooperation and Integration Thematic Group
SERD	—	Southeast Asia Department
SME	—	small and medium enterprise
TA	—	technical assistance
TRS	—	time release study
USAID	—	United States Agency for International Development

NOTE

In this report, "\$" refers to US dollars.

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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 46380-029
Project Name	Facilitating Regional Cooperation and Integration between Indonesia and Timor-Leste through Enhanced Cross-border Cooperation	Department /Division ERCD/EROD
Nature of Activity	Research and Development	Executing Agency
Modality	Cluster	
Country	Indonesia	
2. Sector		Financing (\$ million)
<input checked="" type="checkbox"/>	Transport	Multimodal logistics 0.04
		Transport policies and institutional development 0.02
		Water transport (non-urban) 0.04
	Finance	Infrastructure finance and investment funds 0.05
		Small and medium enterprise finance and leasing 0.05
Total		0.20
3. Strategic Agenda		Climate Change Information
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project Low
Regional integration (RCI)	Pillar 1: Cross-border infrastructure Pillar 2: Trade and investment Pillar 3: Money and finance	
4. Drivers of Change		Gender Equity and Mainstreaming
Governance and capacity development (GCD)	Institutional development	No gender elements (NGE) <input checked="" type="checkbox"/>
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas	
Partnerships (PAR)	Bilateral institutions (not client government) Implementation International finance institutions (IFI) Official cofinancing	
Private sector development (PSD)	Promotion of private sector investment	
5. Poverty and SDG Targeting		Location Impact
Geographic Targeting	No	Not Applicable
Household Targeting	No	
SDG Targeting	Yes	
SDG Goals	SDG8, SDG9	
6. Risk Categorization Low		
7. Safeguard Categorization Safeguard Policy Statement does not apply		
8. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.00
None		0.00
Cofinancing		0.20
Government of Australia		0.20
Counterpart		0.00
None		0.00
Total		0.20

I. THE TECHNICAL ASSISTANCE SUBPROJECT

A. Overall Progress of the TA cluster

1. The Technical Assistance Cluster (C-TA) for Sustainable Infrastructure Assistance Program (SIAP) is financed by the Government of Australia through the Department of Foreign Affairs and Trade (DFAT) and administered by ADB¹. The SIAP was approved on 13 June 2013 and is due to close on 30 June 2019. As of 11 August 2017, total commitments are \$12,352 million (77%) of the approved amount, \$16,102,942, against an elapsed time of 67%. Disbursements are \$6,258,992 (51%) of commitments. Nine subprojects have been approved, three of which have been closed. An additional 4 subprojects are planned (\$3.25 million) and two ongoing TAs are earmarked for an increase in TA amount (\$1.435 million). This TA proposal is one of those endorsed by the Steering Committee. SIAP is on track to meet its outcome and outputs. To date, SIAP has supported the preparation of approved projects and programs valued at nearly \$3 billion (\$2,748 million in OCR and \$1,128 million in cofinancing).

B. Subproject Outcome

2. The TA subproject's outcome will be options for more innovative regional cooperation and integration (RCI) interventions on cross-border trade and investment for Indonesia. In December 2016, Indonesian President Joko Widodo reiterated the Government's plan to develop seven areas bordering parts of Malaysia, Timor-Leste and Papua New Guinea to promote commerce, reduce poverty, improve general living standards, and attract workers and their families to help reduce severe agglomeration in Java's major urban centers. One area highlighted is to promote cross-border trade and investment to encourage the economic and social development of areas along the border, as cross-border cooperation opens opportunities for Indonesia's inclusive economic growth objectives and facilitates regional cooperation.

3. The subproject is consistent with the Indonesia country partnership strategy 2016–2019 priorities of improved infrastructure services and better economic growth. It directly responds to the crosscutting theme of regional cooperation. The subproject is also consistent the C-TA focus on priority areas of private sector development and regional cooperation through focused policy dialogue.² The TA subproject fits the priorities of the C-TA, where ADB's Indonesia country partnership strategy, development partnerships, private sector development including PPPs, knowledge management, governance and capacity development, and regional cooperation are supported. It particularly fits the C-TA's identified priority of regional cooperation in Indonesia, given the government's priority of improving cross-border economic cooperation with Indonesia's neighboring countries, including Timor-Leste.

4. The TA subproject will provide critical inputs for a knowledge and support TA (KSTA) of the Asian Development Bank (ADB)'s Economic Research and Regional Cooperation Department (ERCD) on "Implementing the Regional Cooperation and Integration Operational Plan".³ The KSTA aims to support the implementation of the Operational Plan for Regional Cooperation and Integration, 2016–2020 (RCI-OP) of ADB approved in September 2016.⁴ The

¹ ADB. 2013. *Technical Assistance Cluster for Sustainable Infrastructure Assistance Program*. Manila. (C-TA 0013-INO). This technical assistance cluster, amounting to AU\$20 million is financed by the Government of Australia, through the Department of Foreign Affairs and Trade, and administered by ADB.

² ADB. 2013. *Technical Assistance Cluster for Sustainable Infrastructure Assistance Program*. Manila (paragraph 10).

³ TA 9350: "Implementing the Regional Cooperation and Integration Operational Plan", which was approved on 31 July 2017.

⁴ ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016-2020: Promoting Connectivity*,

TA subproject will provide Indonesia specific guidance and advice to inform the ERCD RCI operational plan output 2: “competitiveness through new opportunities supported” under which a thematic study on Timor-Leste—(Eastern) Indonesia regional cooperation is being conducted. The subproject will focus on activities in Indonesia, linking with other policy and analytical work financed through the C-TA.

C. Subproject Outputs, Methods, and Activities

5. **Output 1:** Report on cross-border services for small and medium enterprises (SMEs) (covering financial and business development services). The study will examine opportunities and priorities for improving financial and business development services in Eastern Indonesia for greater cross-border trade and investment with Timor-Leste. Emphasis will be given to measures that will (i) promote SMEs that have a strong potential for trade growth and product diversification; (ii) increase SME inclusive trade in agricultural products, agroprocessing, and tourism services; (iii) support cross-border trade and investment in a cross-border economic zone between East Indonesia and Timor-Leste; and (iv) prepare and/or strengthen SMEs in Eastern Indonesia for cross-border commerce. This work will include both quantitative analysis and qualitative survey/interview work and consultation with key development partners and local enterprises. A pilot project and or investment will be identified.

6. **Output 2:** Report on transport connectivity enhancement to support trade demand (covering roads and port gateways). The study will analyze infrastructure connectivity constraints by land (including last mile connectivity) and by sea/multi-modally. It will (i) focus on overland routes from Kupang to Dili over three identified overland crossing points and maritime connectivity between Kupang and Dili; and (ii) assess constraints in Kupang to act as a gateway port. The constraint analysis will take into consideration trade facilitation efficiency at cross-border points overland and ports, operations and maintenance constraints, and investment capacity constraints relative to trade volume forecasts.

D. Subproject Cost and Financing

7. The TA subproject is estimated to cost \$220,000, of which \$200,000 will be financed from the technical assistance cluster on a grant basis by DFAT, administered by ADB (footnote 1). The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of counterpart staff, office accommodation, and other in-kind contributions.

E. Subproject Implementation Arrangements

8. The TA subproject will be administered by Southeast Asia Department (SERD) with technical support from ERCD and in coordination with the Pacific Development. The executing agency of the subproject will be the Directorate of Financing and Risk Management, Ministry of Finance. Activities will be coordinated with relevant agencies such as the Ministry of Transport, Ministry of Trade, Ministry of Agriculture, Ministry of Tourism, Ministry of Cooperatives and Small and Medium Enterprises, and the National Planning Agency (BAPPENAS). The subproject will finance all activities in the DMF where these activities are conducted in Indonesia.

Table 1: Subproject Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	August 2017-December 2018		
Executing agency	Directorate General of Financing and Risk Management, Ministry of Finance		
Implementing agencies	Ministry of Transport, Ministry of Trade, Ministry of Agriculture, Ministry of Tourism, Ministry of Cooperatives and Small and Medium Enterprises, and the National Planning Agency (BAPPENAS).		
Consultants	To be selected and engaged by ADB		
	Individual consultant selection	8 person-months of international and 8 person-months of national consulting services	\$130,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

9. **Consulting services.** It is estimated that a total of 8 person-months of international consulting services (2 consultants) and 8 person-months of national consulting services (2 consultants) will be required to undertake the two studies. Consultants will be recruited through individual consultant selection in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).⁵ International consultants will work independently in close coordination with the project officer in ADB Headquarters. The national consultants will be based in Jakarta, Indonesia, providing administrative and research assistance to the international consultants. The study team will collaborate closely with other related programs of DFAT in Indonesia, particularly on transport infrastructure, agriculture, economic governance and transnational crime.

10. **Financier requirements.** Regular progress reports will be submitted to DFAT as per agreement for the umbrella C-TA SIAP (footnote 1).

⁵ Output-based/lump-sum contracts for consulting services under the TA will be considered in line with MTR Action Plan Nos. 2.9.2. and 2.10.2. Disbursements under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

SUBPROJECT DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with Indonesia's cross-border connectivity and competitiveness in connected markets strengthened^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Options for more innovative RCI intervention on cross-border trade and investment in Indonesia	a. By 2018, at least one potential pilot RCI project on cross-border trade and investment identified (2017 baseline: Not applicable) b. By 2019, RCI related action plans of Indonesia updated, reflecting the TA findings (2017 baseline: Not applicable)	a. Consolidated study and publication b. Government reports and press release	Drastic changes in economic and political environments at the global, regional, and country levels adversely affect priorities, policies, and the prospects for RCI.
Outputs 1. Report on cross-border services for small and medium enterprises 2. Report on transport connectivity enhancement to support trade demand	1a. By 2018, report on cross-border services for small and medium enterprises completed (2017 baseline: Not applicable) 2a. By 2018, report on transport connectivity enhancement to support trade demand completed (2017 baseline: Not applicable)	1a. TA project reports 2a. TA project reports	Changes in political leadership affect country economic strategies and priorities.
Key Activities with Milestones			
1. Report on cross-border services for small and medium enterprises 1.1 Engage individual consultants (August 2017) 1.2 Organize an inception meeting (August 2017) 1.3 Complete the draft report (November 2017) 1.4 Complete the final report (January-June 2018)			
2. Transport connectivity enhancement to support trade demand 2.1 Engage individual consultants (August 2017) 2.2 Organize an inception meeting (August 2017) 2.3 Complete the draft report (November 2017) 2.4 Complete the final report (January-June 2018)			
Inputs Government of Australia: \$200,000 Note: The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, and other in-kind contributions.			

RCI = regional cooperation and integration, TA = technical assistance.

^a Defined by the TA Subproject.

Source: Asian Development Bank.

SUBCOST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Government of Australia^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	85.00
ii. National consultants	30.00
b. International and local travel	15.00
2. Training, workshops and seminars ^{b, c}	30.00
3. Miscellaneous administration and support costs	10.00
4. Contingencies	30.00
Total	200.00

Note: The TA Subproject is estimated to cost \$220,000 of which contributions amounting to \$200,000 from the cluster technical assistance on sustainable infrastructure assistance program (C-TA 0013-INO) funded by the Government of Australia are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation and other miscellaneous support. The value of government's contribution is estimated to account for 9% of the total cost of the TA Subproject.

^a Administered by the Asian Development Bank.

^b Includes rent of venue and other facilities, food and beverages (excluding alcoholic beverages), promotion and training materials, and other related costs.

^c Covers travel costs related to the participation of ADB staff as resource persons at workshop and trainings.

Source: Asian Development Bank estimates

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=46380-029-TARreport>

1. Terms of Reference for Consultants