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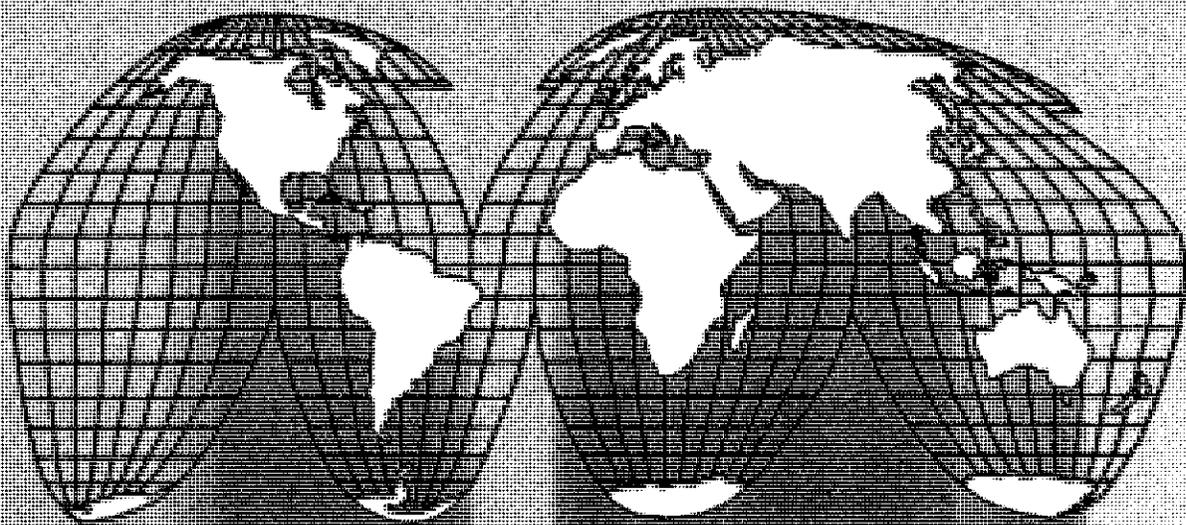
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Indonesia's Democracy and Governance Program

Audit Report No. 5-497-01-004-P

September 14, 2001



U.S. Agency for International Development
Office of Inspector General



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September 14, 2001

MEMORANDUM

TO: Distribution List

FROM: 
Acting RIG/Manila, Darren Roman

SUBJECT: Audit of USAID/Indonesia's Democracy and Governance
Program (Report No. 5-497-01-004-P)

Attached for your information is the subject audit report.

Attachment: As stated

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U.S. Agency for
INTERNATIONAL
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RIG /Manila

September 14, 2001

MEMORANDUM

FOR: Director, USAID/Indonesia, Desaix B. Myers III
DeSaix

FROM: Acting RIG/Manila, Darren Roman

SUBJECT: Audit of USAID/Indonesia's Democracy and Governance Program (Report No. 5-497-01-004-P)

This is our final report on the subject audit. We reviewed your comments to the draft report, made some revisions based on them, and included the comments in their entirety as Appendix II.

The report contains two recommendations addressed to USAID/Indonesia. Based on the Mission's comments, a management decision has been reached on all report recommendations—with Recommendation Nos. 1.3, 2.1 and 2.2 considered closed upon issuance of this report. Recommendation Nos. 1.1 and 1.2 may be closed when the Mission provides evidence to USAID's Office of Management Planning and Innovation that it has implemented the necessary actions.

We appreciate the cooperation and courtesy extended to the staff during the audit.

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Summary of Results

Three of USAID/Indonesia's seven strategic objectives concern its democracy and governance (DG) program. The audit found that USAID/Indonesia has generally expended funds on its DG program and monitored expenditures in accordance with U.S. Government, Agency and program objectives and guidelines. However, as discussed below, we found three areas needing Mission attention. (See pages 5 and 9.)

First, USAID/Indonesia needs to sign a new Special Objective Agreement (SOAG) with the Government of Indonesia (GOI) in order to help set and meet its DG program strategic objectives. The lack of a new agreement has in some cases contributed to operational problems—and to at least \$233,000 in additional costs to implement the program. Mission officials are aware of the need to enter into a new agreement with the GOI and stated that they have been exploring ways to do so. We recommend that the Mission develop a strategy, with target dates, for contacting the appropriate parties within the host government to help set and meet its DG strategic objectives under a new SOAG. The Mission should also attempt to recover tax and duties paid to the GOI. (See pages 6 to 9.)

Second, USAID/Indonesia does not include reference to Section 116(e) of the Foreign Assistance Act of 1961, as amended, in its DG agreements. Section 116(e) prohibits USAID funding from being used to influence the outcome of any election in any country. USAID/Indonesia has not widely disseminated information on this requirement because most Mission officials were not aware of it. We recommend that the Mission include this statutory requirement in applicable agreements. (See pages 10 to 11.)

And third, USAID/Indonesia has, as part of its DG program, attempted to help resolve conflicts and crises in high-risk areas (“hot spots”) because Indonesia's capacity in the area of conflict resolution is limited. However, during the audit we became aware of certain instances where security concerns have prevented responsible organizations from monitoring program activities in such areas. While we are not making a formal recommendation at this time, we suggest that the Mission and its partners develop contingency plans for monitoring in difficult situations. (See pages 11 to 13.)

Background

In May 1998, the resignation of Indonesian President Suharto dramatically changed the Indonesian political landscape. Indonesia held its first free and fair general parliamentary elections in June 1999. In October 1999 the Indonesian Parliament named Abdurrahman Wahid as President and Megawati Sukarnoputri as Vice President of Indonesia. The Government set as its priorities: rooting out corruption, encouraging the return of international investment, opening the economical and political environment, combating health problems and malnutrition, and conserving biodiversity.

Per USAID/Indonesia's Country Strategy Paper of May 30, 2000, Indonesia is now in the midst of multiple transitions, constructing new political and economic systems and reconstructing social relationships to ensure greater equity across regions and between classes. People are asserting their rights. For example, concerns over corruption and judicial acts are receiving heightened attention. Political and fiscal power is being dispersed to sub-national units of government, to districts and to cities. However, political turmoil persists as evidenced by the impeachment and removal of President Wahid in July 2001, and the installation of Megawati Sukarnoputri as the new President.

In this context, the U.S. Government has established two foreign policy goals: the institutionalization of democracy and the resumption of economic growth. The U.S. Government is also committed to the preservation of territorial integrity and the unity of Indonesia. The former U.S. Secretary of State, Madeline Albright, had identified Indonesia as one of four priority countries in light of its ongoing transition to democracy and the country's importance to the United States. In addition, U.S. President George W. Bush is expected to continue to support Indonesia in its efforts to build a strong democracy and market economy.

The current U.S. Government country strategy for Indonesia supports overall funding of \$130 million for fiscal years 2001 and 2002. As of February 15, 2001, USAID/Indonesia's DG program obligations and expenditures for fiscal years 1998 to 2001 totaled about \$87 million and \$54 million, respectively. USAID programming decisions will be affected by a changing political situation.

Audit Objectives As part of its fiscal year 2001 audit plan, the Office of the Regional Inspector General, Manila (RIG/Manila), audited USAID/Indonesia to answer the following audit objectives:

- **What is the current objective and status of USAID/Indonesia's democracy program?**
- **Has USAID/Indonesia expended funds on its democracy program and monitored those expenditures in accordance with U.S. Government, Agency and program objectives and guidelines?**

The audit's scope and methodology can be found in Appendix I.

Audit Findings

What is the current objective and status of USAID/Indonesia's democracy program?

Three of USAID/Indonesia's seven strategic objectives concern its democracy and governance (DG) program. These three strategic objectives are intended to help accomplish the following DG activities:

- First, the Mission uses DG funding, along with Office of Transition Initiatives (OTI) funding, under the Mission's Strategic Objective (SO) No. 1 – *“Democratic Reforms Sustained and Deepened”* – to help support democratic reforms that support democratic government and political processes. As of February 15, 2001, obligations and expenditures for this strategic objective for fiscal years 1998 to 2001 totaled about \$66 million and \$47.5 million, respectively.
- Second, the Mission uses DG funding, along with OTI funding, under the Mission's SO No. 2 – *“Decentralized and Participatory Local Government”* – to help the Government of Indonesia (GOI) establish a legal, regulatory and fiscal environment that enables local governments to be effective. Funding is intended to help local governments develop the capacities needed to manage resources and services effectively and to develop skills needed to engage citizen participation. As of February 15, 2001, obligations and expenditures for this strategic objective for fiscal years 1998 to 2001 totaled about \$9.7 million and \$0.2 million, respectively.
- Third, the Mission uses DG funding, along with OTI funding, under the Mission's SO No. 7 – *“Impact of Conflicts and Crisis Reduced”* – to ensure that critical humanitarian needs are met and to alleviate existing and emerging conflicts, particularly in Aceh and Papua. This funding is also to develop local capacity to advance preventive policies and practices that will mitigate the impact of future conflicts. As of February 15, 2001, obligations and expenditures for this strategic objective for fiscal years 1998 to 2001 totaled about \$11.3 million and \$6.6 million, respectively.

USAID/Indonesia is continuing to implement its DG program activities encompassed under these three strategic objectives. For example, the Mission is sponsoring DG activities in high-risk areas (“hot spots”) in Indonesia such as Aceh, Irian Jaya (Papua), Maluku and West Timor. However, there is some uncertainty as to whether the strategic objectives are the same goals as those of the Government of Indonesia. We believe that the Mission needs to enter into a new Special Objective Agreement (SOAG)¹ with the Government of Indonesia in order to help set and meet its DG program objectives. We estimate that, along

¹ Although the Mission defines a SOAG as a “Special Objective Agreement,” ADS Chapter 350.4 defines a SOAG as “Strategic Objective Grant Agreement.”

with the normal operational problems associated with implementing the DG program, the Mission and the other organizations it is sponsoring have incurred additional costs of at least \$233,000 because of the lack of a new SOAG.

Mission Needs to Sign New Special Objective Agreement with the Government of Indonesia

USAID/Indonesia needs to sign a new Special Objective Agreement (SOAG) with the Government of Indonesia (GOI) in order to help set and meet its DG program objectives. According to ADS Chapter 350.3, USAID operating units, within their delegated authorities, are responsible for preparing, negotiating, signing, and implementing bilateral grants to further their strategic plans and management contracts. The SOAG is the principal bilateral grant agreement used by USAID.

Existing SOAG is Outdated - The existing SOAG between USAID/Indonesia and the GOI's National Development Planning Agency was signed on May 12, 1999. This agreement was intended to assist mainly with voter education and election monitoring activities, for the then upcoming democratic elections. Under the existing SOAG, the Mission and the host government agreed that funding would be provided directly to governmental, non-governmental and private voluntary organizations, and other entities working pursuant to a United Nations Development Program-GOI Memorandum of Understanding (dated February 4, 1999). The SOAG made available funding of \$50 million to be provided until September 30, 2003, and an USAID Implementation Letter dated March 15, 2000, was used to add Chemonics, its subcontractors, and a list of technical advisors. (Appendices III and IV contain copies of the SOAG and the Implementation Letter, respectively.)

While the May 1999 SOAG specified the efforts for the 1999 elections in Indonesia, the agreement made reference to "Post-Election Support" in only one "illustrative" paragraph. Now that the elections are over and a new government is in place, the Mission does not have an active partner within the GOI to help implement DG activities. For example, a new SOAG could help the Mission reassess the support of the GOI and help identify which activities the GOI is currently interested in and thus willing to support.

Mission officials told us that they are aware of the need to enter into a new SOAG with the GOI and stated that they have been exploring ways to do so. However, they said that one problem they have is identifying the appropriate Ministry for them to work with. Mission officials stated that they have done extensive research on an appropriate host government partner and that research continues despite the fact that the GOI frequently replaces its ministers. For example, one Mission official said that the Ministry of Justice and Human Rights has been considered as a suitable technical partner, but frequent changes in its leadership have made it difficult to negotiate with this Ministry. In addition, Mission officials stated that some GOI officials were reluctant to openly work with U.S. Government officials at the present time. In spite of these difficulties,

Mission officials agreed that it might be helpful to develop a new SOAG. The officials stated that they would document their efforts to obtain a new agreement with the GOI.

Problems Resulting From an Outdated SOAG - Despite the existence of the current SOAG, both Mission officials and its partners have encountered problems obtaining appropriate Indonesian visas and the benefits of tax and duty-free status. For example, three of the Mission's U.S. Personal Service Contractors (PSCs) who worked with the DG program were provided a Type B (business visa) by the GOI. Type B visa is valid for only 60 days. As a result, these PSCs and their dependents had to leave Indonesia and travel to Singapore every 60 days to renew their visas. Also, most of the Mission's U.S. non-governmental (NGO) partners, such as International Foundation for Election Systems (IFES), Chemonics, National Democratic Institute (NDI), and International Republican Institute (IRI), were experiencing significant problems in obtaining appropriate Indonesian visas for their resident representatives in Indonesia.

For example, IRI's Director had to make 14 trips to Singapore (from October 1998 to September 2000) to renew her visa, and 7 other IRI expatriates had to make trips to Singapore for a total of 35 trips during the period. NDI indicated that 14 of its expatriate staff made a total of 34 trips to Singapore (from December 1998 to October 2000) for the same purpose. According to an NDI official, the visa problem has resulted in significant financial outlays to obtain short-term visas for its long-term staff while waiting for the GOI to issue appropriate visas. Based on the information provided by these four U.S. NGOs, a total of \$56,500 of USAID funds have been spent for travel to renew visas as of October 2000. This cost does not include the significant cost of the traveler's time or the time of office staff who make the travel arrangements.

In addition, Chemonics'² Vice President indicated in a May 31, 2000, letter to the Mission Director that, without a special longer term "Dinas" visa³, Chemonics expatriates could not obtain favorable hotel rates, buy tax-free vehicles, or provide to schools required visas for their children. In the same letter, the official expressed other concerns about the SOAG issue:

Perhaps even more important, the lack of a SOAG exposes this highly sensitive project politically. Without official GOI sanction ... those elements of Indonesian society with vested interests in maintaining the status quo and who object to the broadening of civic participation in democracy could easily challenge the right of the project to be operating in the country and threaten its closure.

² Chemonics is currently the sole major contractor of USAID/Indonesia under the democracy and governance program.

³ Indonesian "Dinas" visas are good for up to six months, can be extended, and are valid for multiple exit/re-entry.

This could prove embarrassing to USAID, and would deprive local civil society organizations of the worthwhile services the project is designed to provide.

It is notable that while the existing SOAG provides "tax and duty-free status" to USAID partner organizations, none of the four U.S. NGOs are acknowledged by the GOI as a tax-exempt organization. These NGOs are, therefore, required to pay duties and taxes for their rent, purchases, and importation of USAID-funded goods and materials. For example, the GOI has not reimbursed IFES for \$33,000 in Value Added Tax (VAT) on its purchases.

In addition, IFES has filed a claim for tax exemption for VAT amounting to \$143,000 on purchases for which IFES has not paid the Tax. The GOI tax office does not recognize the current SOAG, indicating that IFES is not a tax-exempt organization and must therefore pay VAT. According to an IFES official, the organization's staff spent a considerable amount of time dealing with tax issues. IRI, on the other hand, indicated that their only significant tax issue related to the rent for their office building. Because IRI could not present a tax exemption letter from the GOI Tax Department, the amount of tax charged on their rental agreement has accumulated together with the fines for the late payment.

The lack of a current SOAG has caused some USAID/Indonesia partner organizations not to be able to obtain longer term visas for their staff or to benefit from tax and duty-free status. These organizations must incur unnecessary travel costs to renew visas, and must pay duties and taxes that may not be refunded by the GOI. Once a new SOAG is signed, the Mission and the organizations funded under its DG program should have a partner within the GOI to provide assistance in obtaining all the benefits and privileges they are entitled to receive.

Currently, there are a large number of USAID/Indonesia-funded organizations implementing DG program activities. In the absence of a new SOAG, the Mission does not have a partner within the GOI in setting and carrying out DG program activities. A new SOAG could help the Mission re-assess the support of the GOI and help identify which activities the GOI is currently interested in and thus willing to support. Under the current circumstances, neither the Mission nor its partner organizations have any real assurance that the activities they are implementing have the support of the GOI.

To improve the implementation of the DG program, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Indonesia:

- 1.1 Provide a strategy, with target dates, for contacting appropriate parties within the Government of Indonesia to**

help set and meet its democracy and governance strategic objectives under a new Special Objective Agreement;

- 1.2 Assist USAID/Indonesia-funded organizations, which are eligible under the Mission democracy and governance program, in filing claims with the Government of Indonesia to recover taxes and duties paid from which they were exempt, including about \$176,000 identified in this audit report; and**
- 1.3 Ensure that taxes and duty-free recoveries received by USAID/Indonesia-funded organizations from the Government of Indonesia, under the democracy and governance program, are refunded to the Mission, as appropriate.**

Has USAID/Indonesia expended funds on its democracy program and monitored those expenditures in accordance with U.S. Government, Agency, program objectives and guidelines?

USAID/Indonesia has generally expended funds on its democracy and governance (DG) program and monitored those expenditures in accordance with U.S. Government, Agency and program objectives and guidelines. However, in reviewing awards made by the Mission to The Asia Foundation (TAF) and Chemonics, we determined that there were two areas needing Mission attention. These areas include: 1) the absence of a statutory clause in Mission DG agreements restricting the use of funds and 2) the Mission's ability to monitor DG activities in high-risk areas.

The Mission uses a main grantee, TAF, and a main contractor, Chemonics, to implement and manage many of its DG activities. TAF and Chemonics issue sub-grants and are responsible for the day-to-day monitoring of activities throughout Indonesia. The Mission, with its limited staff, provides general oversight to the DG program. We reviewed grant awards made to TAF valued at about \$24.6 million and a contract award to Chemonics valued at about \$27.4 million. We noted no material exceptions in our limited testing of these awards.

Based on documents reviewed and testing performed, the audit found that the Mission and its main implementing partners appear to be following USAID-issued guidance for carrying out their monitoring responsibilities. For example, based on review of trip reports, both TAF and Chemonics' officials routinely travel to project sites to monitor sub-grantees and their activities (except for high-risk areas as discussed below). Furthermore, the Mission, TAF and Chemonics regularly receive and review progress reports on DG activities.

The two areas needing management attention are discussed below. We are making a recommendation with regard to the first area, the inclusion of a statutory clause in mission DG agreements. However, we are not making a formal recommendation

regarding our concern over the Mission's ability to monitor in high-risk areas.

Statutory Clause Should Be Cited in Mission Agreements

USAID/Indonesia does not include reference to Section 116(e) of the Foreign Assistance Act (FAA) of 1961, as amended, in its DG agreements. Section 116(e) prohibits USAID funding from being used to influence the outcome of any election. Agency guidance (ADS Chapter 201.3.3.4) requires USAID to manage its programs and operations to comply with applicable legal restrictions. The guidance also states that the Regional Legal Advisor (RLA) should determine whether particular countries or activities are affected by legal restrictions and whether particular waiver authorities may be exercised. USAID/Indonesia has not widely disseminated information on this legal requirement because most Mission officials were not aware of it. As a result, there is a potential for recipients of USAID-funded DG activities to violate the law by using U.S. Government funds, directly or indirectly, to influence the outcome of an election.

The U.S. Congress has included specific language in the FAA of 1961, at Section 116(e), to address the special concerns of Congress regarding programs and activities that will encourage or promote increased adherence to civil and political rights. We obtained a copy of Section 116(e) of the FAA from the Mission's RLA. In part, Section 116(e) states that no U.S. Government funds "may be used, directly or indirectly, to influence the outcome of any election in any country." According to ADS Chapter 201.3.3.4, USAID is required to manage its programs and operations to comply with applicable legal restrictions. As well, Chapter 201.3.3.4 states that RLAs should determine whether particular countries or activities are affected by legal restrictions and whether particular waiver authorities may be exercised, based on facts provided by operating units.

We reviewed a sample of 20 Mission DG agreements, and the restrictions of Section 116(e) were not specifically mentioned in *any* of them. In 15 of the 20 agreements reviewed there was no reference about being impartial to all political parties during an election or otherwise. In the remaining five agreements reviewed, there was general language stating that funds should be provided to all political parties on an impartial basis. Although this narrative language is helpful to some extent, in our opinion, it falls short of the mark in providing specific reference to the statutory requirement. Such language does not put recipients on formal notice that it is not only desirable but also mandatory to comply with the requirement because it is the law.

Mission officials told us that the general language included in some agreements is sufficient because the agreements are legally binding documents and recipients must comply with all agreement provisions. However, to clearly communicate statutory restrictions on USAID funds, the Mission should include specific language regarding Section 116(e) requirements. Without such language, some

recipients might violate the law and later claim to be unaware of the legal requirements.

In response to our finding, a Mission official suggested that since we did not find any violations of the law, there must not be a problem with compliance. This view, in our opinion, is certainly not a proactive one. It is much better to make reasonable attempts to ensure compliance beforehand rather than trying to correct violations, inadvertent or otherwise, after the fact.

We are not advocating that Section 116(e) be inserted in all agreements, since some DG activities may have limited or no impact upon election activities. However, since many of the Mission's DG agreements are broadly worded in terms of the objectives to be accomplished, it would be prudent to formally advise recipients of USAID DG funds of the Section 116(e) legal requirement. Determining which agreements should include the requirements could be jointly decided by the Agreements Officer and the RLA.

The Mission has suggested that the additional workload would be too much for the RLA's office. One of the primary concerns raised by the Mission was that there could be a bottleneck in that office and agreements could be held there pending review. However, the RLA need not review all USAID agreements, only those which may be subject to Section 116(e) restrictions. Failure to include the 116(e) requirements in applicable agreements may lead to violations of U.S. law and, potentially, to charges of U.S. Government interference in Indonesia's internal political affairs.

Recommendation No. 2: We recommend that USAID/Indonesia:

- 2.1 Require the Regional Legal Advisor, in conjunction with the Agreements Officer, to determine, based on facts provided by operating units, whether particular Mission funded democracy and governance agreements could be affected by legal restrictions; and**
- 2.2 Once determined applicable by the Regional Legal Advisor, include the requirements of Section 116(e) of the Foreign Assistance Act in relevant democracy and governance agreements.**

Concerns Over the Ability to Monitor Democracy and Governance Activities in High-Risk Areas

USAID/Indonesia has, as part of its DG program, attempted to help resolve conflicts and crises in high-risk areas ("hot spots") because Indonesia's capacity in the area of conflict resolution is limited. Acquiring the proper tools and resources to successfully find and implement solutions for Indonesia's complex conflicts has proven a challenge for the Mission and its partners.

All recipients of USAID funds, whether they be non-profit organizations or commercial contractors, are required to properly account for costs. According to USAID's *Guidelines for Financial Audits Contracted by Foreign Recipients* ("Guidelines") and the Office of Management and Budget's (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, USAID funds expended by recipients should be properly accounted for by the recipients. Circular A-122 establishes principles for determining costs of grants, contracts, and other agreements with non-profit organizations. Part of the "General Principles" of the Circular includes a determination on costs concerning whether they are allowable, reasonable, and allocable. As well, *Federal Acquisition Regulation*, Part 31, on Contract Cost Principles and Procedures for contracts with commercial organizations includes a determination on costs concerning whether they are allowable, reasonable, and allocable.

USAID/Indonesia, through sub-grants awarded by TAF and Chemonics to other non-governmental organizations, is sponsoring DG activities in high-risk areas in Indonesia such as Aceh, Irian Jaya (Papua), Maluku and West Timor. However, in some high-risk areas, security concerns have prevented responsible organizations from monitoring USAID-funded DG activities.

Operating in High-Risk Areas Has Created Additional Challenges – TAF officials told us that they have DG activities going on in high-risk areas such as Aceh, Irian Jaya (Papua), and Maluku. The officials stated that they monitor DG activities in these areas through telephone communication, e-mails, and written reports. TAF does not have any contingency plans for monitoring DG activities in high-risk areas and generally follows the Embassy Regional Security Office (RSO) travel restrictions to high-risk areas. At the time of our visit in January 2001, the Mission's principal DG liaison with TAF told us she had not visited any of the TAF sub-grantees in high-risk areas. The official stated that she was supposed to attend training in Aceh from January 25 to 27, 2001, but the RSO would not grant clearance. Further, she noted that when TAF was informed that USAID/Indonesia staff was not allowed to travel to Aceh, TAF decided not to send any of its employees to the training.

Chemonics officials told us that they have focused their DG program in six high-risk areas; East Java, West Java, West Papua, Aceh, North Sulawesi, and East Kalimantan. These officials told us that their DG activities were focused on providing grants, technical assistance and hiring contacts for special activity funds. At the time of our meeting in October 2000, Chemonics officials said that there were two grantees in Aceh that they could not visit to monitor DG activities because of security concerns. On October 18, 2000, Chemonics asked the Mission to intercede on its behalf with the Embassy RSO to obtain "special consideration" in order for two of its staff to attend a workshop in Aceh. Chemonics' request was turned down by the RSO because the danger of travelling to Aceh was seen as outweighing the benefits of being able to monitor, through direct observation and assistance to the grantee, DG activities. Factored

into the decision was the matter of liability, should harm come to personnel who travel to areas designated as dangerous by the RSO.

Difficulty in Verifying Documentation - As well, certified public accounting (CPA) firm auditors, who were contracted to audit USAID funds expended by recipients, have not been able to determine on some occasions whether costs were allowable, reasonable and allocable to the contract in accordance with appropriate guidance.

For example, a USAID/Indonesia grantee, Private Agencies Collaborating Together, Inc. (PACT), asked the Mission's permission to waive questioned costs found by the CPA auditing firm reviewing one of its sub-grantees, Yayasan Putera Dewantara (YAPDA), located in North Aceh. In the letter to the USAID/Indonesia agreement officer, PACT noted that about \$32,000 of unsubstantiated receipts were submitted by the sub-grantee in 1999. YAPDA had received a grant, lasting from May 1 to June 30, 1999, to conduct short-term election-related activities such as election monitoring training and election monitoring. PACT's budget analysis and external audit findings raised questions about the validity of receipt signatures and the general pattern of disbursements during the period of YAPDA's grant. Because of the ongoing security concerns in Aceh, most particularly in the Lhokseumawe area where YAPDA was based, neither PACT nor its CPA firm were able to travel to the region to confirm or disprove the audit findings.

In addition, there was a similar situation with another USAID/Indonesia grantee, Yayasan Pengembangan Sumber Daya Manusia (YPSDM), that was implementing USAID sponsored DG activities in high-risk areas. During a recent audit of YPSDM, a CPA firm identified over \$93,000 in expenditures that were considered not allowable or allocable. In responding to the auditors, the management of YPSDM noted that, due to security conditions in the former East Timor province and Maluku province, they were not able to provide supporting documentation for funds of about \$44,000 disbursed to those provinces. YPSDM asked USAID/Indonesia to give these expenditures special consideration due to extenuating circumstances, and requested that the Mission not categorize the expenditures as "questioned costs."

The above instances raise concerns over the ability to monitor DG activities in certain high-risk areas. In our opinion, if the security conditions do not allow Mission/partner staff to make timely monitoring visits, USAID/Indonesia cannot adequately determine if DG programs are being properly implemented, or if USAID funds are being used as intended. While we are not making a formal recommendation at this time, we suggest that the Mission and its partners develop contingency plans for such instances. Such plans could include alternative monitoring arrangements or steps to temporarily suspend funding.

**Management
Comments and
Our
Evaluation**

In response to our draft report, USAID/Indonesia provided written comments that are included in their entirety as Appendix II. Based on the Mission's comments, a management decision has been reached on all report recommendations—with Recommendation Nos. 1.3, 2.1 and 2.2 considered closed upon issuance of this report. Recommendation Nos. 1.1 and 1.2 may be closed when the Mission provides evidence to USAID's Office of Management Planning and Innovation that it has implemented the necessary actions.

With respect to Recommendation No. 1.1, the Mission noted that it has been working diligently over the past year to negotiate a new strategic objective agreement (SOAG) with the Government of Indonesia. The Mission also noted that a new SOAG would not solve all the problems associated with taxes, visas and the like. The Mission agreed to develop a plan for contacting parties to set and meet the Mission's DG objectives via a new SOAG.

Regarding Recommendation Nos. 1.2 and 1.3, the Mission stated that it has assisted USAID-funded organizations with filing and retrieving taxes and duties paid on exempted items. However, the Mission noted that it has never reimbursed a USAID-funded partner for taxes and duties paid by the organization.

Based on the Mission's comments, Recommendation No. 1.3 is considered closed. Recommendation Nos. 1.1 and 1.2 may be closed when the Mission provides evidence to USAID's Office of Management Planning and Innovation that it has implemented the necessary actions.

In responding to Recommendation Nos. 2.1 and 2.2, the Mission noted that the Regional Legal Advisor and the Agreements Officer have examined all DG grants for Indonesia and East Timor and determined that while USAID is not required to quote Foreign Assistance Act Section 116(e) verbatim in grants, the Mission may do so. In addition, the Mission stated that it has included Section 116(e) in all new DG grants for Indonesia and East Timor. Based on the Mission's comments, Recommendation Nos. 2.1 and 2.2 are considered closed.

**Scope and
Methodology****Scope**

We audited USAID/Indonesia's democracy and governance (DG) program activities in accordance with generally accepted government auditing standards. We conducted the audit fieldwork in Jakarta, Indonesia from October 10 to November 3, 2000 and from January 21 to February 17, 2001. The audit focussed on contracts, grants and cooperative agreements made by USAID/Indonesia during the period of October 1, 1997 to September 30, 2000.

In particular, we reviewed several agreements between USAID/Indonesia and two of its principal awardees, The Asia Foundation (TAF) and Chemonics. For example, we reviewed four grant agreements with TAF and a Chemonics contract entered into by the Mission. As of February 14, 2001, the four TAF agreements were valued at about \$24.6 million with about \$8.4 million having been expended, and the contract with Chemonics was valued at about \$27.4 million with about \$3.5 million having been expended.

In addition, we reviewed four draft audit reports prepared for four of TAF's non-U.S. sub-grantees that expended \$300,000 or more per fiscal year in USAID-funded awards.

Methodology

To accomplish our audit objectives, we met with USAID/Indonesia, American Embassy, TAF, Chemonics, and sub-grantee officials. We also contacted, by telephone, an official at the United Nations Development Program and met with the audit manager of Paul Hadiwinata, Hidajat & Rekan (a local certified public accounting firm) to discuss the audit of four TAF sub-grantees. Because of security concerns throughout many parts of Indonesia, we performed audit activities only in Jakarta. Therefore, our review was limited to assessing only some of the operations of TAF and Chemonics in Jakarta, Indonesia. The audit did not cover other recipients who received funding under the Mission's DG program.

In addition, we also examined Federal laws and regulations, USAID regulations and pertinent USAID/Indonesia DG documents, along with other tasks such as:

- Reviewed the Foreign Assistance Act of 1961 (as amended), *Federal Acquisition Regulation*, Code of Federal Regulations, Office of Management Budget Circulars A-122 and A-133, USAID Automated Data System Chapters, USAID Contract Information Bulletins, and the Office of Inspector General *Guidelines for Financial Audits Contracted by Foreign Recipients*.

-
- Reviewed USAID/Indonesia planning and reporting documents, U.S. State Department cables, the Mission's Results Review and Resource Request documents, and Mission contracts, grants, cooperative agreements, and progress reports with its partners.
 - Examined USAID/Indonesia and recipient financial reports, including obligating documents, budget reports, and vouchers.
 - Examined related evaluation reports and audit reports.
 - Interviewed key USAID/Indonesia, American Embassy, recipient and sub-recipient officials.

**Management
Comments**

TO: Bruce N. Boyer, RIG/Manila

FROM: Desaix B. Myers III, Director, USAID/Indonesia

DATE: September 7, 2001

SUBJECT: Audit of USAID/Indonesia's Democracy and Governance Program
(Report No. 5-497-01-00X-P)

Thank you for the opportunity to comment on the subject report. This report is a vast improvement over the initial draft. In fact, we accept the recommendations. However, there are a few remaining inaccuracies in the text of the report that we have noted in the following comments.

Management Comments:

USAID/Indonesia accepts the recommendations set forth in this report. With the exception of Recommendation No. 1.1, we have satisfied all the recommendations and request that no. 1.2, 1.3, 2.1 and 2.2 be closed with the issuance of the final report.

Recommendation No. 1.1: It should be noted that we have been working diligently over the past year amidst grave political and economic instability to negotiate a new strategic objective agreement (SOAG) with the Government of Indonesia (GOI). The effort to negotiate a new SOAG began long before the auditors arrived. It is also important to note that a SOAG will not solve all the problems associated with taxes, visas and the like. Other SO teams in the mission and other USG agencies and departments with valid agreements have experienced similar problems with the GOI. Nevertheless, as Recommendation No. 1.1 requires, we will develop a plan for contacting parties to set and meet the mission's DG objectives via a new SOAG.

Recommendation No.1.2: We have assisted USAID-funded organizations with filing and retrieving taxes and duties paid on exempted items. We request that recommendation no. 1.2 be closed with the issuance of this report.

Recommendation No. 1.3: USAID/Indonesia has never reimbursed a USAID-funded partner for taxes and duties paid by the organization. If such an instance should ever arise, we would recover those duties and taxes paid. We, therefore, request that recommendation no. 1.3 be closed with the issuance of this report.

Recommendation No. 2.1: The RLA and the Agreement Officer have examined all DG grants for Indonesia and East Timor and determined that while USAID is not required to quote FAA Section 116(e) verbatim in grants, we may do so. It is worthy to note that (1) there are no approved mandatory or optional contract or grant clauses in the FAR, AIDAR or ADS pertaining to FAA Section 116(e), (2) our former RLA approved language that paraphrased Section 116(e), (3) such language was contained in all but one DG election related grant, (4) while DG partners and mission staff may not have been able to cite FAA Section 116(e) as a source or quote its text verbatim, those who work on elections and political party strengthening activities know and understand the principles contained in the law, and (5) we are proud to note that neither we nor the auditors have ever found an incidence where Section 116(e) was violated. We request that Recommendations No. 2.1 be closed with the issuance of the final report

Recommendation No. 2.2: We have included FAA Section 116(e) in all new DG grants for Indonesia and East Timor. We request that Recommendations No. 2.2 be closed with the issuance of the final report.

Other Concerns: Despite the fact that we accept the recommendations, we find that the report still contains errors, speculations and broad generalizations that are inappropriate for a professional audit report. We note, for the record, three major misstatements of fact.

1. Audit Objectives (page 4): The report contains the following inaccurate statement:

“Because of security concerns throughout many parts of Indonesia, our audit was limited to reviewing USAID/Indonesia’s democracy and governance program in Jakarta, Indonesia. Therefore, our review was limited to assessing only the operations of TAF and Chemonics in Jakarta, Indonesia.”

With the exception of the provinces of Aceh, the Maluku and West Papua, during the period in which the auditors were in Jakarta there were no restrictions on travel in the remaining twenty-five provinces of Indonesia. In fact, several members of the USAID staff traveled, without incidence, to various parts of this vast archipelago during the period the auditors were in Jakarta. The USAID/Indonesia Controller even offered to accompany the auditors on site visits to examine DG activities and meet partners outside of Jakarta, including Yogyakarta. For reasons unbeknownst to mission staff, the auditors declined all offers to travel outside of Jakarta. Even if travel were limited to Jakarta, there was no reason to limit the review to TAF and Chemonics. USAID/Indonesia has a myriad of local and international contractor and grantee partners working on the DG program with offices in Jakarta. The auditors could have examined the operations of numerous DG partners.

2. Audit Findings (page 5): The second bullet states that \$0 .2 million was obligated and expended in fiscal year 2001 for Strategic Objective no. 2 entitled Decentralized Local Government. The actual number is \$10.2 million.

3. Operating in High-Risk Areas Has Created Additional Challenges (page 12): While it is true that adequate on-site monitoring of activities in conflict-prone areas is challenging, USAID/Indonesia has performed this task extremely well. USAID/Indonesia and partner staff members travel to conflict-prone areas, as necessary, to conduct on-site activity monitoring visits. Permission is frequently granted by the Regional Security Officer (RSO) to travel to Aceh, Maluku and West Papua. Where it is impossible to travel to a particular area within a province (e.g. western sections of Aceh), due to short-term problems, USAID staff members have made arrangements to meet implementing

counterparts at neutral, safer sites. Where it has become apparent that violence is likely to be long-term and threatening to USAID staff and our implementing partners, we have reduced or curtailed activities in that area. To date, there has never been a travel restriction imposed by the RSO on East Java, West Java, North Sulawesi or East Kalimantan, where we have several on-going activities and routinely conduct site visits.

We, again, thank you for the opportunity to comment on this report.

Draft:scromer9/7/01

Clearances:

MCalavan, CPT (draft):9/7/01

KRomwall FIN (draft):9/7/01

Tstephens (draft):9/7/01

**Copy of Special
Objective
Agreement**

Copy of the Special Objective Agreement between USAID/Indonesia and the Government of Indonesia (dated May 12, 1999).

USAID GRANT AGREEMENT NO. SDI 497-0385

SPECIAL OBJECTIVE AGREEMENT

BETWEEN THE

REPUBLIC OF INDONESIA

AND THE

UNITED STATES OF AMERICA

TO

SUPPORT AND STRENGTHEN DEMOCRATIC INITIATIVES

AND ELECTORAL PROCESSES

IN INDONESIA

DATED: May 12, 1999

This **SPECIAL OBJECTIVE AGREEMENT**, is entered into between the **REPUBLIC OF INDONESIA** ("Grantee") and the **UNITED STATES OF AMERICA**, acting through the **U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT** ("USAID").

WHEREAS, the Grantee and USAID (the "Parties") hereby express their commitment to the goal of supporting and strengthening Democratic Initiatives and Electoral Processes in Indonesia as described herein;

WHEREAS, the Grantee and USAID hereby affirm their commitments and understandings made pursuant to the Memorandum of Understanding between the Grantee and the United Nations Development Programme (UNDP) on Technical Assistance for the Electoral Process in Indonesia, dated February 4, 1999 (the "UNDP-GOI Memorandum of Understanding");

WHEREAS, in order to focus and strengthen the efforts of the Parties in fulfilling these goals and commitments,

NOW, THEREFORE, the Parties hereby agree as follows:

Article 1: Purpose

The purpose of this Special Objective Agreement (the "Agreement"), is to set out the understandings of the Parties about the Strategic Objective described below.

Article 2: Special Objective

Section 2.1. The Special Objective sought by this Agreement is to support Government of Indonesia priorities to promote improved electoral systems, to strengthen civil society, and to support democratic and political reforms (the "Objective").

Section 2.2. Annex 1, Amplified Description. Annex 1, attached, amplifies the above Objective. Within the limits of the above definition of the Objective, Annex 1 may be changed by written agreement of the authorized representatives of the Parties without formal amendment of this Agreement.

Article 3: Contribution to the Agreement

To help achieve the Objective set forth in this Agreement, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, will make available an amount of approximately \$50,000,000, subject to the availability of funds to USAID for this purpose. This funding will be provided directly to governmental, non-governmental and private voluntary organizations and other entities working pursuant to the UNDP-GOI Memorandum of Understanding and/or this Agreement.

Article 4: Completion Date

The Completion Date, which is September 30, 2003, or such other date as the Parties may agree to in writing without formal amendment of the Agreement, is the date by which the Parties estimate that all the activities undertaken in furtherance of the Objective will be completed.

Article 5: Special Covenants

Section 5.1. Tax and Duty Free Status

The Grantee agrees to exempt the import, export, purchase, use or disposition of any equipment or property financed, leased or imported with USAID funding under this Agreement from taxes, including Value Added Taxes, departure taxes, duties, and fees of whatever nature charged in Indonesia.

Section 5.2. Tax Free Salaries

The Grantee agrees to exempt from income taxes and other national contributions levied pursuant to the laws of Indonesia all individuals, except citizens and permanent residents of Indonesia, who are employed (whether direct hire, contract, grant or other arrangement) by USAID or by any organization financed by USAID to perform work in connection with this Agreement.

Section 5.3. Official Status of International Partner Organizations

USAID will work with and finance a number of international partner organizations in furtherance of the Objective of this Agreement. An illustrative list of these partners is included in Annex 1.

Section 5.4. Visas and Assignment Approvals

The Grantee, in conjunction with the appropriate Government of Indonesia ministries and offices, will ensure the prompt and timely approval and issuance of visas and assignment approvals for individuals working for partner organizations receiving USAID financing in furtherance of this Objective.

Article 6: Miscellaneous

Section 6.1. Implementation Letters

Implementation letters will be issued under this Agreement from the date of this Agreement. The Parties may use these Implementation Letters to confirm and record additional understandings and commitments related to this Agreement. Implementation Letters may not be used to amend the text of this Agreement, but can be used to record revisions or exceptions

which are permitted by the Agreement, including the revision of elements of the Amplified Description set forth in Annex 1. Implementation Letters shall be binding on the Parties unless revoked, modified, or superseded by subsequent Implementation Letters or amendments to this Agreement.

Section 6.2. Inspections and Audits

The Grantee will afford authorized representatives of USAID the opportunity at all reasonable times to inspect the books, records, accounts and other documents maintained by the Grantee relating to this Agreement.

Section 6.3. Communications

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by fax, and will be deemed duly given or sent when delivered to such Party at the following address:

To USAID:

The USAID/Indonesia Mission Director

Mail Address:

Office of the Mission Director
USAID
Jl. Medan Merdeka Selatan No 3-5
Jakarta 10110, Indonesia

Fax:

Office of the Mission Director
021-380-6694

To the Grantee:

Deputy Chairman for Foreign Cooperation
Badan Perencanaan Pembangunan Nasional (BAPPENAS)

Mail Address:

BAPPENAS
Jl. Taman Suropati 2
Gedung Utama
Jakarta, Indonesia

Fax:

Office of the Deputy Chairman for Foreign Cooperation
021-334215

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

Section 6.4. Representatives

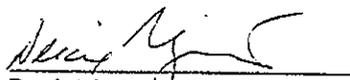
For all purposes relating to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Deputy Chairman for Foreign Cooperation of BAPPENAS. USAID will be represented by the individual holding or acting in the office of the Mission Director, USAID/Indonesia. Each of whom, by written notice, may designate additional representatives for all purposes other than signing formal amendments to the Agreement. The names of the representatives of the Grantee will be provided to USAID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 6.5. Standard Provisions Annex

A Standard Provisions Annex is attached to and forms part of this Agreement. The Standard Provisions are found in Annex 2.

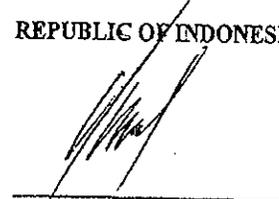
IN WITNESS WHEREOF, the Republic of Indonesia and the United States of America, each acting through its duly authorized representative, have caused this Strategic Objective Grant Agreement to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA



Desaix Myers
Mission Director
USAID/Indonesia

REPUBLIC OF INDONESIA



Djunaedi Hadisumarto
Vice Chairman/Chairman for
Inter-Ministerial Committee
BAPPENAS

ANNEX 1

AMPLIFIED SPECIAL OBJECTIVE DESCRIPTION

SUPPORT AND STRENGTHEN DEMOCRATIC INITIATIVES AND ELECTORAL PROCESSES IN INDONESIA

I. Objective

The objective of this Special Objective Agreement titled "To Support and Strengthen Democratic Initiatives and Electoral Processes in Indonesia" is to support Government of Indonesia priorities to promote improved electoral systems, to strengthen civil society, and to support democratic and political reforms (the "Objective"). This Annex provides an amplified description of the Objective and contains an illustrative list of activities that further this Objective. Nothing in this Annex shall be construed as amending any of the definitions or terms of the Agreement.

II. Summary

A free and fair election is vital to Indonesia's overall economic recovery, to the strengthening of a responsive and representative government, and to long term respect for the rule of law. The upcoming election is thus vital to Indonesia's future.

USAID's election support program meets critical election needs identified by the Government of Indonesia as being of highest priority. USAID's election support program is coordinated with the UNDP under the Memorandum of Understanding between the United Nations Development Programme and The Government of the Republic of Indonesia on Technical Assistance for the Electoral Process in Indonesia, dated February 4, 1999 (the "UNDP-GOI Memorandum of Understanding"). The USAID-supported activities outlined below, in conjunction with the activities of the UNDP, other international donors and the Government of Indonesia, are working to strengthen election reforms and solidify a politically competitive democracy in Indonesia.

Approximately \$50 million in USAID funding over the next four years is designated to support activities that further strengthen electoral processes and post-election democratic and political reform. This funding will be provided directly by USAID to governmental, non-governmental, private voluntary organizations, and other entities working in furtherance of this Objective. USAID supports activities based on the Government of Indonesia's consent, request, priorities and relevant laws. All activities are conducted in an impartial, nonpartisan and accountable manner that respect the sovereignty of Indonesia.

III. Activity Priority Areas

In direct response to the Government of Indonesia's request for assistance and as set forth in Article 2, Section 1, subsections a-e of the UNDP-GOI Memorandum of Understanding, and to further the Objective of this Agreement, USAID and its partners are providing support in the following areas:

1. Strengthening Electoral Management Bodies

(Article 2, Section 1b of the UNDP-GOI Memorandum of Understanding)

Election Administration: While respecting the independence and sovereignty of official election institutions, USAID is providing assistance to the enormous task of election administration. Technical specialists have been working directly with the General Elections Commission (KPU) and providing assistance which supports the strengthening of election administration and management necessary to successfully analyze and execute regulations and procedures related to the election process. Assistance has been provided in the establishment of a Joint Operations/Media Center to serve as a timely independent results verification mechanism and as a source of official voter education information, the preparation of a national voter registration campaign, and the training of KPU poll workers. Beneficiaries include the Government of Indonesia, the KPU and its associated entities, parliament, political parties, and civil society.

USAID partners supporting this include but are not limited to: the International Foundation for Electoral Systems (IFES), the National Democratic Institute (NDI), and the International Republican Institute (IRI).

Political Party Development: In accordance with the UNDP-GOI Memorandum of Understanding request for "support to political parties running in the elections" to be in the "form of education and training among others in increasing...the campaign process and instruction on principles of elections systems," USAID supports skills training programs that help strengthen and develop all political parties in Indonesia. All assistance is in the form of training that is technical, non-partisan and impartial. It is hoped that this will result in increased political competition and improved accountability and responsiveness of political parties. All training programs are offered uniformly to the 48 registered parties.

- Over 140 Indonesian party leaders in party development and campaign skills, particularly at the regional levels.
- Over 40 parties, particularly the national leadership, have worked with USAID partners in the areas of party development, membership recruitment, campaign skills, communications, and issues of governance. A Resource Center is also available to all parties and the media.

USAID partners supporting this include but are not limited to: the National Democratic Institute (NDI), and the International Republican Institute (IRI).

2. Building the Capacity for a National Programme for Voter Education Including the Promotion of Public Awareness of the New Political Laws (Article 2, Section 1c of the UNDP-GOI Memorandum of Understanding)

Voter Education/Election Information: USAID assistance supports voter education activities that increase awareness, knowledge and participation in the election process through two approaches, a people to people campaign through civil society groups and national television and radio campaigns. Institutional capacity building, training, curricula and information dissemination, and technical assistance are provided in order to increase voter awareness. Beneficiaries include public and private Indonesian election-related organizations, inter-ethnic and inter-religious groups, mass media organizations, and labor unions. Illustrative activities are summarized below.

- Support, technical assistance, and training is being provided to a number of Indonesian organizations around election activities including a mass based voter education network involving over 100 small NGOs and a university affiliated clearinghouse on voter education information and material. Voter education is also being provided to inter-ethnic and inter-religious groups. In addition, a national survey on voter education needs was widely distributed and well received.
- Support, technical assistance and training is being provided for voter registration and voter education in eighteen provinces. Those trained also instruct on democratic principles.
- Recognizing the reach of mass media, USAID is also funding the production and broadcast of election and democracy related Public Service Announcements (PSAs). A significant majority of eligible voters will receive essential information on how to register and cast ballots as a result of USAID supported efforts. In addition, partners have conducted two national surveys on public awareness of and attitudes toward the upcoming elections and democracy.

USAID partners supporting this include but are not limited to: the National Democratic Institute (NDI), and the International Republican Institute (IRI).

Election Information and Debate in the Press: USAID assistance supports the use of mass media as a forum for election information exchange, analysis, and debate for the general public. Public service programming, capacity building, technical assistance, journalist training, and equipment are provided. Beneficiaries include media organizations, journalists and civil society.

USAID partners supporting this include but are not limited to: the International Foundation for Electoral Systems (IFES), InterNews, the National Democratic Institute (NDI), and the International Republican Institute (IRI).

3. Supporting the Training of National Election Monitors and Their Deployment (Article 2, Section 1d of the UNDP-GOI Memorandum of Understanding)

Election Monitoring/Observation: Responding to the critical role of independent monitors, USAID is coordinating with the UNDP to support Indonesian civil society NGOs and new university related groups. USAID supports independent election monitoring activities necessary for creating an environment that enables the elections to be conducted with minimum disruption and maximum transparency. Assistance is provided in the form of institutional capacity building and training to Election Monitoring Organizations (EMOs) throughout the country. These EMOs will work with civil society groups country-wide to deploy an estimated 600,000 monitors on election day. Technical assistance to these groups is helping coordinate and train monitors and facilitate a parallel vote tabulation (PVT) effort. Training of political party poll monitors has also begun in over 20 provinces.

USAID partners supporting this include but are not limited to: the International Foundation for Electoral Systems (IFES), the National Democratic Institute (NDI), and the International Republican Institute (IRI).

4. Post-Election Support

Post-Election Illustrative Activities: USAID assistance will support follow-on activities in the post-election period which provide training to elected leaders and political parties, training to promote conflict resolution and reconciliation, as well as other support as appropriate to other Government of Indonesia and non-governmental entities. Illustrative topics for post-election civic education training and assistance may include understanding and accepting election results, strengthening democratic structures and improving civic education curricula. To support post-election conflict resolution and reconciliation, activities could include national dialogue and reconciliation training. Other illustrative training activities could support strengthened participation in local government and strengthened professional and responsible journalism, parliamentary support, legal and judicial reform efforts and support for accountable and transparent government.

5. Supporting and Providing Logistical Assistance
(Article 2, Section 1d of the UNDP-GOI Memorandum of Understanding)

Monitoring and Management Assistance Support: Support is provided for the monitoring and review of activities carried out under this Agreement to ensure their effectiveness in achieving the Objective.

USAID partners supporting this include but are not limited to: Management Systems International (MSI) and Development Alternatives Inc. (DAI),

USAID Partner Organizations

National Democratic Institute for International Affairs (NDI)

NDI is providing election related technical assistance to a) local election monitoring organizations (EMOs) and b) political parties as two components of a larger program. Assistance to the three largest domestic monitoring groups covers a number of technical areas, material development, and to the Rector's Forum, in particular, for Parallel Vote Tabulation (PVT). Training to all political parties aims to increase their campaign and governing capacities. NDI has also conducted a feasibility study of an international monitoring program.

International Republican Institute (IRI)

IRI is providing training to political parties in a) campaign and governing skills and b) in party pollwatching as part of a larger program. All political parties have been invited to attend these trainings. IRI is also preparing over one million party pollwatcher training manuals. In conjunction with IFES, IRI has recently completed a national poll on voter attitudes and awareness.

International Foundation for Election Systems (IFES)

IFES technical specialists have been working directly with the General Elections Commission (KPU) particularly in the preparation of election regulations; with the establishment of a Joint Operations/Media Center to serve as a timely independent results verification mechanism and as a source of official voter education information; in the preparation of a national voter registration campaign; with official KPU poll workers; and in the recent completion of a national poll on voter attitudes and awareness.

InterNews

InterNews technical specialists are providing training in strengthened radio journalism to 50 Indonesian radio stations. Training areas includes information gathering, analysis, and source verification as well as management and administration. Training is aimed at enhancing the quality and objectivity of information provided by radio.

United States Agency for International Development (USAID) Assistance
to
Election Activities in support of the
GOI/UNDP Memorandum of Understanding *

Targets in US \$ Million

	Component Targets
Electoral Management	2
Technical Assistance to Team-11, KPU	
Resource Support to KPU	
Pollworker Training	
Operations/Media Centre	
Independent Monitoring	7
Training of trainers	
PVT	
Technical Assistance to Monitoring Groups	
Materials and Manuals	
Election Day Subsistence for Monitors	
Voter Education	8.5
Technical Assistance to Civil Society	
Technical Assistance to KPU for Official Voter Information	
Materials and Manuals	
Political Parties (in accordance with Annex 2 of the GOI/UNDP Programme Support Document)	2.5
Training of Party Poll Watching Agents	
Training of Election Skills	
Training of Post Election Governance Skills	
Elections Information and Press Debate	3
Surveys	
Polls	
Election Update Newsletters	
Print and Broadcast Media	
Public Service Announcements	
TOTAL ASSISTANCE	\$23

- Activities listed here are illustrative examples.

Illustrative List of USAID Partner Organizations

International Republican Institute

SCHWARZ, Mary	Program Director
JOHNSON, Timothy	Consultant
ZARING, Noah	Consultant

National Democratic Institute

BJORNLUND, Eric	Program Director
GANEM, Jennifer	Program Deputy Director
LACHMANSINGH, Lawrence	Elections Monitoring Coordinator
BADEN, Robert	Finance Manager
O'DRISCOLL, Kevin	Consultant
KING, Blair	Consultant

International Foundation for Elections Systems

MITCHELL, Gerald	Program Director
VALENTINO, Hank	Consultant
NOEL, Theophane	Consultant
KAPLAN, Connie	Consultant
BIRSEL, Katharine	Consultant
CALERO, JayJay	Consultant
HUNTER, Jessica	Consultant

Internews

REEN, Kathleen	Program Director
ROMAN, Steve	Finance Manager

Management Systems International

TIMBERMAN, David	Consultant
DE LEUW, Petra	Consultant

Development Alternatives Inc.

BECKER, Gerald	Team Leader
SMITH, Steve	Procurement Specialist
MALLY, Baidyau Umesh	Logistics Specialist
PIERCE, Laurie	Regional Program Manager, Surabaya
GILLESPIE, Frank	Regional Program Manager, Medan

**SOAG
Implementation
Letter**

Copy of the Special Objective Agreement, Implementation Letter No. 1 (dated March 15, 2000), between USAID/Indonesia and the Government of Indonesia.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Letter No.: II/208
March 15, 2000

DR. Ir. Ceppie K. Sumadilaga
Head, Bureau of Bilateral Economic Cooperation
Badan Perencanaan Pembangunan Nasional (BAPPENAS)
Jalan Taman Suropati 2, 3rd Floor
Jakarta Pusat

Subject: USAID-GOI Special Objective Agreement
To Support and Strengthen Democratic Initiatives
And Electoral Processes in Indonesia (No. 497-0385)
Implementation Letter No. 1

Dear Bapak Ceppie:

In conformance with Section 6.1 of the Special Objective Agreement between the Republic of Indonesia and the United States of America to Support and Strengthen Democratic Initiatives and Electoral Processes in Indonesia, dated May 12, 1999, and following our meeting with you on January 19, 2000, I have the honor of presenting to you this Implementation Letter No. 1.

The purpose of this Letter is to revise the Amplified Description set forth in Annex F of the Agreement to include Chemonics International, Inc. and its subcontractors, the Cooperative for Assistance and Relief Everywhere (CARE) and the International Foundation for Election Systems (IFES), among the USAID Partner Organizations supporting the Agreement. Therefore, the Amplified Description is revised to include the names of Chemonics International, Inc., CARE, and IFES in all sections of the Amplified Description that refer to specific or illustrative partners. Chemonics International, Inc. and its subcontractors replace Management Systems International, whose support to the Agreement terminated December 14, 1999.

We have attached a list of technical advisors as of March 14, 2000 (Attachment No. 1). This list includes approved technical advisors and additional technical advisors who are still awaiting SETKAB's approval, as shown in Attachment No. 2.

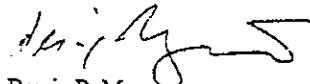
Accordingly, Chemonics International, Inc., CARE, IFES and the additional technical advisors listed in the attachment are covered by Article 5 (Special Covenants) and Standard Provision B.4 of the Agreement and are entitled to the privileges as described therein, pertaining to tax and duty-free status (Section 5.1), tax free salaries (Section 5.2), the accordence of official status to international partner organizations (Section 5.3), and visas and assignment approvals (Section 5.4).

As you requested, we have also attached a brief description of the 22 technical advisors approved by SETKAB per letter No. KL.02.03/ANBP/0096 dated May 28, 1999 and additional Technical Advisors (Attachment No. 2), a brief description on the role of CARE and IFES (Attachment No. 3), and a report on the Special Objective Agreement to Support and Strengthen Democratic Initiatives and Electoral Processes in Indonesia covering the period of May 1999 through end of December 1999 (Attachment No. 4). Our next report to BAPPENAS will cover the period of January 1, 2000 through June 30, 2000, since our partners/grantees usually provide us their reports on a semi-annual basis. We hope semi-annual reports are acceptable.

Your signature in the space below will formally record your acceptance of the contents of this Implementation Letter.

Thank you for your cooperation and your support to the Special Objective Agreement.

Sincerely,



Desaix B. Myers
Director

Agreed:

DR. Ir. Ceppie K. Sumadilaga
BAPPENAS

cc.: Bapak A. Husen Adiwisastro, LL.M., SETKAB

LIST OF D.G. CONTRACTORS/TECHNICAL ADVISORS AS OF MARCH 14, 2000

NO	NAME OF CONTRACTORS	NAME OF INSTITUTION	POSITION	SEBTKAB APPROVAL	LOCATION
1	SCHWARZ, Mary	International Republican Inst.	Program Director	Pending	Jakarta
2	FEENEY, Scott	International Republican Inst.	Consultant	Pending	Jakarta
3	BJORNLUND, Eric	National Democratic Inst.	Program Director	KL.02.03/ANBP/0096	Jakarta
4	FUYS, Andrew	National Democratic Inst.	Program Deputy Director	Pending	Jakarta
5	LACHMANSINGH, Stanley L.	National Democratic Inst.	Program Officer	KL.02.03/ANBP/0096	Jakarta
6	ARCHIBALD, Susan	National Democratic Inst.	Finance Manager	Pending	Jakarta
7	O'DRISCOLL, Kevin	National Democratic Inst.	Consultant	KL.02.03/ANBP/0096	Jakarta
8	KING, Blair	National Democratic Inst.	Consultant	KL.02.03/ANBP/0096	Jakarta
9	MORLEY, Kenneth V.	National Democratic Inst.	Program Officer	Pending	Jakarta
10	MAJORS, Allison E.	National Democratic Inst.	Finance Manager	Pending	Jakarta
11	ELLIS, Andrew	National Democratic Inst.	Consultant	Pending	Jakarta
12	WOLFF, Sherrie	National Democratic Inst.	Consultant	Pending	Jakarta
13	VIDOS, Tibor	National Democratic Inst.	Consultant	Pending	Jakarta
14	WALL, Alan	International Found. For Elect	Program Manager	Pending	Jakarta
15	VALENTINO, Henry	International Found. For Elect	Consultant	KL.02.03/ANBP/0096	Jakarta
16	BIRSEL, Katherine Suheyla	International Found. For Elect	Consultant	KL.02.03/ANBP/0096	Jakarta
17	REEN, Kathleen	Internews	Program Manager	KL.02.03/ANBP/0096	Jakarta
18	KUSUMAH, Bella	Internews	Consultant	Pending	Jakarta
19	REYNOLDS, Imelda	Internews	Consultant	Pending	Jakarta
20	ALLOWAY, Lance	Internews	Fin./Operation Manager	Pending	Jakarta
21	SALAJAN, Horea	Internews	Technical Director	Pending	Jakarta
22	BECKER, Gerald F.	Development Alternatives Inc.	Country Manager	KL.02.03/ANBP/0096	Jakarta
23	SMITH, Steven A.	Development Alternatives Inc.	Senior Program Manager	KL.02.03/ANBP/0096	Jakarta
24	PIERCE, Laurie	Development Alternatives Inc.	Regional Program Manager	KL.02.03/ANBP/0096	Surabaya
25	KIRWEN, Erika	Development Alternatives Inc.	Country Program Manager	Pending	Jakarta
26	DE LEUW, Petra	Robert F. Kennedy Mem. Cente	Consultant	KL.02.03/ANBP/0096	Jakarta
27	HARRIS, Peter	Chemonics International, Inc.	Chief of Party	Pending	Jakarta
28	SIMON, Jonathan	Chemonics International, Inc.	Deputy Chief of Party	Pending	Jakarta
29	HOLLOWAY, Richard	Chemonics International, Inc.	Grant Manager	Pending	Jakarta
30	ROSALIK, Linda	Chemonics International, Inc.	Monitoring and Eval. Spec.	Pending	Jakarta
31	GIBNEY, Glenn	Chemonics International, Inc.	Training and Facilitation Sp	Pending	Jakarta
32	FARLEY, Joanne	Trickle-Up Program	Team Leader	Pending	U.S.
33	McEWAN, Patricia	Trickle-Up Program	Consultant	Pending	Jayapura

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