



## **FINAL REPORT**

### **Evaluation of Partnership for Economic Growth (PEG) Contract**

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Everyone we met was more than willing to share time and views with us, and we greatly appreciate their cooperation and accommodation. We are particularly grateful as our visits occurred during the holy month of Ramadan and during the worst flooding in Indonesia over the past five years.

Harry H. Wheeler, Team Leader  
Felix H. Parlindungan

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## List of Acronyms

ADB	Asian Development Bank
AMCHAM	American Chamber of Commerce Indonesia
ANE	Asia and Near East
APEC	Asian Pacific Economic Cooperation
BAPPENAS	National Development Planning Agency
BI	Bank Indonesia
CGI	Consultative Group on Indonesia
CIDA	Canadian International Development Agency
DEC	Development Experience Clearinghouse
DPR	Dewan Perwakilan Rakyat (National Assembly)
ECG	Office of Economic Growth
EKUIIN	Office of the Coordinating Minister for Economic Affairs
FSVC	Financial Services Volunteer Corps
GOI	Government of Indonesia
GTZ	<i>Deutsche Gesellschaft Fuer Technische Zusammenarbeit</i>
IBRA	Indonesian Bank Restructuring Agency
ICT	Information and Communication Technology
IMF	International Monetary Fund
IR	Intermediate Result
IRIS	Institutional Reform and the Informal Sector
JICA	Japan International Cooperation Agency
LBII	Louis Berger International Inc.
LOI	Letter of Intent
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
NGO	Non-Governmental Organization
PEG	Partnership for Economic Growth
POSTEL	Ministry of Posts and Telecommunications
SIAGA	Sustainable Indonesian Growth Alliance
SME	Small Medium Enterprise
SMECDA	Small Medium Enterprise and Cooperative Development Agency
SO	Strategic Objective
UI	University of Indonesia
USAID	United States Agency for International Development
USF	University of San Francisco
WB	World Bank

## Executive Summary

This document summarizes an evaluation of the Partnership for Economic Growth (PEG) project. PEG is one activity under the U.S. Agency for International Development's Office of Economic Growth in support of its Strategic Objective (SO) 1: *Foundations Set for Rapid, Sustainable and Equitable Economic Growth*. Designed to assist the Government of Indonesia efforts at meaningful and comprehensive economic reform, PEG provides technical assistance to various Indonesian ministries and agencies, namely, National Development Planning Agency (BAPPENAS); the Office of the Coordinating Minister for Economic Affairs (EKUIN); the Ministry of Finance (MOF); the Ministry of Industry and Trade (MOIT), and Bank of Indonesia (BI). In addition, PEG implements a partnership grant program that encourages the development of long-term linkages between U.S. institutions and counterpart groups within Indonesia.

Part one of the document defines the context of the evaluation. The PEG project began October 1998 and is currently scheduled to end October 2002. Recently, USAID announced that it intends to extend the program to June 2003. As a result of the proposed contract extension as well as USAID's desire to provide future upgrades to Indonesia's growth through strengthened economic policies and practices, a broad-based assessment of PEG's activities was required.

Part two of the document presents the findings of the evaluation team. Consistent with the scope of work, the team performed a broad-based assessment by examining relevance, effectiveness, efficiency, impact and sustainability, among others. By agreement with USAID, the weight of the evaluation concentrated on the technical assistance component since that component had not been previously reviewed.

The final part of the document presents recommendations. Recommendations are presented in two sets. The first set concerns the on-going project including the proposed extension to June 2003. The second set reflects recommendations for a potential follow on activity. Inherent in both sets of recommendations, USAID should continuously sort out the niches in which they intend to specialize. Some of the recommendations include:

On contract management issues,

- , The contractor should improve the timelines and quality of workplans and annual reports by including analysis, recommendations, and cohesion against the project objectives and resource allocations.
- , USAID should improve its oversight of the contractor's workplans and annual reports.

On program activity at least through the June 2003 date, it is recommended that AID

- , Continue support on trade issues superintended by the Ministry of Industry and Trade. Emphasis should be on internal and regional trade barriers issues as well as the issues relating to the WTO. Peg's current work on the

educational services sector should serve as a good example for other service sectors;

- , Continue support on labor issues and unemployment, either in BAPPENAS or, if practical, at another ministry such as the Ministry of Labor;
- , Continue support to the telecommunications sector;
- , Continue support to Office of the Coordinating Minister for Economic Affairs;
- , Reduce support to BAPPENAS;
- , Enhance support to the Bank of Indonesia and the Ministry of Finance. Within BI the advisors roles should be tightened;
- , Strengthen support to Dewan Perwakilan Rakyat [National Assembly] (DPR); and
- , Consider technical advisor support to the Ministry of State Enterprise since this ministry supervises all private as well as state banks, is in charge of all state enterprises, and oversees Indonesian Bank Restructuring Agency (IBRA).

### ***Principal Findings***

In spite of the trying conditions in Indonesia over the past few years, the Partnership for Economic Growth project has admirably achieved its objectives. The PEG team, which includes technical assistance advisors, Government of Indonesia counterparts, and USAID personnel, should be commended for its professionalism and dedication. Undeniably, PEG's support of five GOI ministries has contributed appreciably to the GOI embarking upon stronger economic policies and willingness to implement practices associated with increased openness. Indeed, PEG's collaboration with BAPPENAS on fiscal sustainability, investment, and labor issues has contributed to a more refined macro-economic framework, a better investment climate, and an acute awareness of the need to balance employment growth with other pressing social demands. Similarly, PEG's recent assistance to the Office of the Coordinating Minister for Economic Affairs and the Ministry of Finance was instrumental in conveying to the GOI the importance of freezing terrorist assets and adopting tough money laundering legislation. By the same token, PEG's cooperation with the Ministry of Industry and Trade promotes Indonesia's competitiveness by building their capacity to advance market access, foster regional trade arrangements, and reduce internal and external trade barriers. Finally, PEG's help on small business development for the Bank of Indonesia through assistance in regulatory and financial services as well as earlier project support to improve analytical proficiency in macroeconomic modeling, inflation analysis and forecasting, and exchange rate analysis resulted in more effective institutional capacity.

On the downside is the deficient quality of the contractor's required annual reports and annual workplans. In some cases annual reports and annual workplans were not prepared. No workplan

has been produced to cover project activities from January 2001 forward, nor has an annual report been completed for this past year. In other cases, the reports lacked analysis, recommendations, and cohesion against the project objectives and resource allocation. Moreover, with the exception of the 1999 annual report, annual reports were predominantly compiled from individual team member reports and did not include a comprehensive review of the overall PEG project, indicate whether the project was collectively meeting its objectives, or provide historic and prospective financial appraisal of the use of available project resources. The absence of quality annual reports does a disservice to the PEG team since these reports are the ones that external reviewers and the public at large first consult to determine whether a project has met the wide-ranging and complex objectives mandated under the terms of its contract.





## **I. Context of Evaluation**

PEG is one activity under the U.S. Agency for International Development Office of Economic Growth to support its Strategic Objective 1: *Foundations Set for Rapid, Sustainable and Equitable Economic Growth*. Designed to help the Government of Indonesia (GOI) to implement meaningful and comprehensive economic reform, PEG provides technical assistance to various Indonesian ministries and agencies, namely, BAPPENAS; the Office of the Coordinating Minister for Economic Affairs; the Ministry of Finance; the Ministry of Industry and Trade, and the Bank of Indonesia. In addition, PEG manages a partnership grant program that encourages the development of long-term linkages between U.S. public and private institutions and counterpart groups within Indonesia. Activities under these partnerships disseminate and promote policy reform measures to build stronger civil society institutions.

The PEG program operates through a \$22.4 million contract with Nathan/Checchi joint venture that began in October 1998. The contract was originally designed to serve as an encompassing mechanism for USAID's technical assistance support to the GOI following USAID's decision to scale back Indonesian programs (see Annex A). The contract had an initial two-year level of effort with options for additional years of support. USAID exercised these options as a result of the Asian economic crisis and the rapidly changing political environment in Indonesia (see Annex B). The contract was to be completed in October 2002 but USAID recently announced its intention to extend the contract through June 2003. Throughout the period of the contract only one evaluation, focused on the grants management program, has occurred. That evaluation was conducted and completed in October 2000.

A broad-based assessment of PEG activities was required by the proposed contract extension and USAID's desire to upgrade Indonesia's future growth through strengthened economic policies and practices. The evaluation as presented in this document addresses this need.

The evaluation determines the extent to which PEG activity is achieving its purposes, identifies successes stories and lessons learned, and makes recommendations for continuing and future PEG activity. The evaluation, undertaken by two team members, was conducted under the auspices of the Indefinite Quantity Contract AEP-I-800-00-00025-00 Task Order 800. In conducting this assignment, the evaluation team followed conventional methods of project evaluation, systematically reviewing relevant documents, and holding structured interviews with a wide range of stakeholders. As a result of security issues in Indonesia and respect for Christmas and the holy month of Ramadan, the evaluation took place in two stages.

The first stage was implemented in Indonesia from December 4-19, 2001 when initial interviews with USAID, PEG, and GOI personnel were conducted. The second stage, also implemented in Indonesia, took place from January 27 to February 19, 2002 when a second round of interviews with the aforementioned personnel was held.

The first field visit took place during the month of December 2001 after receiving security and travel clearance. During this first field visit initial contact was made with USAID representatives, PEG personnel, and most of the GOI counterparts. Interviews were conducted with all of the PEG advisors, jointly and individually. Interviews were also conducted with GOI representatives from the Ministry of Industry and Trade, BAPPENAS, Bank Indonesia, the Coordinating Minister for Economic Affairs, and the Ministry of Posts and Telecommunications. In addition, other project stakeholders from the private sector were interviewed. Unfortunately, this field visit was concurrent with the holy month of Ramadan and just before the Christmas holidays thus precluding in-depth interviews with the PEG advisors and meeting with all of the stakeholders. With concurrence of USAID, a second field visit was scheduled.

The second field visit began in late January 2002 and was completed in mid-February. During this second field visit intensive in-depth rounds of discussions were held with the PEG advisors and representatives from the multi-lateral banks, other bilateral donors, the private sector and the few GOI counterparts that were previously unavailable. Over 60 individuals were contacted during these two field visits. A list of all of the individuals contacted is found in Annex C. In brief, all interviewees gave high marks to the accomplishments of the PEG team. There were no negative comments on the quality of work.

#### **SAMPLE STAKEHOLDER COMMENTS:**

- *[the PEG project] "is the single most important AID project to the business community"*
- *"the advisors work goes beyond the limited brief that they are given"*
- *"AID should double or triple their budget for what they are doing"*
- *[the PEG project] "serves as a good case study on how AID and the multi-laterals can work together"*

## **II. Evaluation Findings**

By agreement with USAID, the weight of the broad-based evaluation focused primarily on the technical assistance component which constitutes the largest part of project resources, had not been previously reviewed, and would be the critical foundation for future projects. The PEG grant activity and the training activity received less attention. Evaluation findings are presented below. The findings adhere to the key task elements delineated in the evaluation's scope of work. A copy of the scope of work is found in Annex D.

### Efficiency

The contract is proving to be a cost-effective means of addressing the desired project objectives. It should be noted that the PEG project was conceived in one era, implemented in another era, and evaluated in yet another era. The initial concept of the PEG project was to serve as an umbrella for various support programs following USAID's decision to wind down its development assistance portfolio in Indonesia. Shortly after the PEG project was conceived, economic and political events in Indonesia forced a different mandate on USAID and PEG leading to a reformulation of resource support and implementation activity. Soon thereafter other political events, namely the election of a new president and the emergence of a more

proactive political system, yet again influenced the implementation of PEG as counterpart personnel changed and political power bases shifted. More changes in Indonesia's economic and political events occurred in the summer of 2001 and continue today. These events coupled with other recent world events and new security concerns placed more barriers on the PEG team to meet project objectives.

Yet the PEG team, and the individual advisors in particular, have overcome these challenges and met the objectives of the project. For example, throughout the changing political and economic dynamics, technical assistance continued to complement Indonesia's active participation in multi-lateral trade negotiations. PEG advisors, principally those within the MOIT, helped the GOI carry on formulation of Asian Pacific Economic Cooperation (APEC) action plans including tariff and other trade policy reforms. Likewise, PEG advisors continuously responded to GOI requests to meet WTO negotiation requirements and principles. Additionally, the economic value of trade services reforms appears to be better understood by GOI personnel as result of PEG's work with a GOI interagency task force. Restrictions affecting approximately 200 service categories were identified. A general methodology to examine these restrictions has been developed and refined, wherein today, the education and business services sectors have been selected as sample sectors for a more thorough examination. A review of the education services sector may prove critical since a strong national commitment to invest in education is one of the attributes of the recently announced Millennium Challenge Account.

A hallmark of the project, and therein the efficiency, has been its flexibility in adjusting to constantly changing conditions. Many of the changes experienced during PEG implementation were well beyond anyone's expectations. As previously stated, the PEG program was designed to serve as an encompassing mechanism for USAID's technical assistance programs during a period of retrenchment. It was noted at that time that USAID/Indonesia's framework, like Indonesia itself, had been affected by the economic crisis and, once the full impact of the economic crisis became clear, adjustments would be necessary. It was recognized that PEG's initial elements would, over time, no longer be warranted or would expand and that new program elements might be added.

Thus, the initial activities identified were reasonable. As the economic impact of the crisis became clear, adjustments to PEG activity followed. Efforts supporting commercial law reform were expanded and moved from the PEG umbrella to a separate contract. Similarly, support to the Indonesian Central Bureau of Statistics was also transferred to a more appropriate contract. Moreover, support to the U.S.-Indonesia Leadership Council was discontinued.

In addition to adjusting initial activities through elimination or separation, PEG added critical new activities as well. The inclusion of technical assistance for the telecommunications sector is a good example of these adjustments. During the implementation of PEG, it was recognized that information-based technologies are fundamental to basic development objectives and that Information and Communication Technology (ICT) could offer enormous opportunities to promote economic growth. Accordingly, PEG shifted resources and allocated these to support ICT.

While we commend the PEG team for its ability to provide quality technical assistance under difficult circumstances, they have done themselves and the PEG project a disservice by failing to provide a contextual framework of the economic and political events within their annual reports or workplans. Thus outside observers, who naturally go to these documents for a first review of the project, cannot grasp the magnitude of the conditions under which PEG operated. Moreover, there are no clear written linkages between the external events and the annual adjustments that the team made throughout the implementation of the project. A transparent written record via the annual reports or the workplan would give an unambiguous view of the conditions at the time choices were made.

Further, annual reports and workplans are geared to the individual advisor rather than the GOI ministries. While this is a useful tool, we would suggest strongly that results should be reported by individual ministry. This would allow one to see project resource allocations differently and provide another management tool.

The PEG team recognizes this shortfall and has already implemented steps to improve the quality of annual reports and workplans.

### Effectiveness

With the exception of the annual reports and workplans discussed above, the project achieved quality outputs and results and concrete accomplishments that can be directly traced to the contract. Approximately 70 publications have been produced. These publications cover many facets of the PEG program and can be found on both the project's web page and at USAID's Development Experience Clearinghouse (DEC). A brief listing of these publications are presented in Annex E.

However, publications only illustrate part of the quality of output and results. Hand in hand with the technical assistance effort are the actions that follow. Efforts by PEG resulted in effective action by the GOI. Some recent ones are highlighted below. Others are presented in Annex F.

- , A key accomplishment of the work at BAPPENAS has been the mid-term macroeconomic frameworks and policy agendas. The most recent framework was explicitly included in the GOI Letter of Intent (LOI) to the International Monetary Fund (IMF).
- , PEG worked extensively to help the GOI to establish the legal basis for identifying and then freezing terrorist assets in the Indonesian banking system. Because of these efforts two separate orders requiring the freezing of terrorist assets were issued in late 2001.

- , PEG has been working with the EKUIN on a participatory process for developing a poverty reduction and alleviation program. The GOI's approach in this area was well received in a presentation at the Consultative Group on Indonesia (CGI) in November (2001).
- , Despite political pressures to reverse the process, the PEG project has been instrumental in maintaining trade policy reform momentum. Tariffs have been reduced by nearly 50 percent over the past six years and most non-tariff import barriers have been eliminated.
- , The PEG project analyzed the tremendous benefits to Indonesia from port and shipping reform and raised awareness of the need for continued deregulation and increased private sector participation in reforms.
- , PEG has been instrumental in getting Indonesia to adopt a pro-competition regulatory framework for telecommunications based on international best practices. Regulatory reform is still in process, but one result is that the GOI has decided not to create a monopoly by merging two state-owned telecommunication companies.
- , In collaboration with USAID's Asia and Near East Bureau, the World Bank and the Japan International Cooperation Agency (JICA), PEG facilitated the development of ICT National Guidelines and a five-year ICT Action Plan. Both documents were adopted by the GOI as part of a Presidential Executive Order No.6/2001.
- , PEG made significant contributions to Bank of Indonesia's adoption of a new market friendly small credit promotion policy and its abandonment of lending quotas (as required by the IMF LOI). Implementation is underway

In addition to the above, matrices outlining the depth of accomplishments in each year of PEG can be found in the annual reports. These matrices serve as a common reference point for USAID's strategic objective framework. In the case of PEG, the strategic objective is: Strategic Objective 1: Foundations Set for Rapid, Sustainable and Equitable Economic Growth. Within this strategic objective are four intermediate results (IR): 1) sound economic policy and institutions; 2) a conducive legal and regulatory framework; 3) open access to economic opportunity; and 4) knowledgeable public participation in economic decision-making.

A current overview demonstrating PEG's contributions to IR-1 during the past year is best provided by the draft report prepared by an independent consultant. The draft report was being compiled during the time of the evaluation and can be found in Annex G. The evaluators concur with these findings and note that the IR-1 findings also interrelate to the three other intermediate results of the ECG.

### SELECTED ACCOMPLISHMENTS IN 2001:

- Support to Indonesia's active participation in multi-lateral trade institutions has produced openings in key sectors, including services, telcom, and agriculture which are of interest to U.S. business community.
- Policy reforms on growth-critical infrastructure sectors such as ports and telecommunications have been advanced, and anti-competitive initiatives successfully thwarted.
- A national action plan for Information & Communication Technology has launched a coordinated national effort to support economic growth and democratic policy-making through expansion of ICT.

Moreover, it must be recognized that many results and accomplishments cannot be placed in the public domain since providing private advice to their GOI counterparts is one part of the technical advisor's role. By the nature of the activity, this advice should be considered confidential and unfortunately, the PEG team cannot receive proper recognition of their service. However, the inference can be drawn that the PEG team did facilitate output production. Cases in point are the "white papers" issued by BAPPENAS over the past several years. Three "white papers" have been produced, beginning with *Looking to the Future of the Indonesian Economy* (1999), followed by *The Indonesian Economy in the Year 2001: Prospects and Policies* (2000); and most recently *The Indonesian Economy in the Year 2002: Prospects and Policies*. (2001). Several other "white papers" are currently underway including one focusing on the critical issue of labor policy.

Other examples include input into the drafting of potential laws recommended to the National Assembly. For example, within the MOIT and other ministries, the issue of free movement of goods and

services within the domestic market has taken on more significance since local governments began imposing additional trade constraints in the form of taxes, levies and licensing requirements. Here PEG advisors serve as champions by initiating studies of the problem, implementing a socialization and awareness campaign through seminars, assisting in the "academic review" and preparing internal drafts, and facilitating the final draft that will be presented for legislative consideration.

As to dissemination of PEG findings, particularly to outside participants, the evaluation yielded clear evidence that findings are being widely circulated. This circulation is in addition to access through the PEG web page and USAID's DEC. Representatives from the business community within Indonesia, the World Bank, the Japanese International Cooperation Agency, and the Canadian International Development Agency (CIDA) worked with and benefited from the PEG program. The one exception was the Asian Development Bank (ADB) resident mission in Jakarta where a key individual, who previously worked with the PEG advisors, is no longer at the bank. On the other hand, an ADB representative from the Manila headquarters gave strong comments on the PEG micro-finance advisor working on small enterprises and small scale financing.

A few inexpensive steps, nevertheless, can be implemented that would further improve the diffusion of findings. First, the business community in Indonesia desires more interaction with PEG advisors through a series of luncheons or presentations at community meetings. These meetings should be considered. Second, there is an absence of links between the USAID/Indonesia web page and the project's web page. Adding these links to the USAID/Indonesia web page would point an outsider to the reference documents highlighted on the project's website. Third, PEG should consider including a reference to its website on its letterhead and, more importantly, reference the website on each report prepared by the project. Moreover, each project report should reference the other project reports that are available either at the website or on DEC.

While the above discussion highlights the effectiveness of PEG's technical assistance activities, achievements have also been produced through the PEG grants program. In brief, the grants program complements the technical assistance endeavors by stimulating and supporting domestic parties interested in economic reform. Grant funding helps both public and non-governmental Indonesian organizations to form and strengthen partnerships with U.S. organizations for cooperative work on key economic issues and problems.

Like their technical compatriots, several of the grantees have compiled a notable record of achievements. A few highlights are:

- , University of San Francisco (USF) - UDAYANA University's program focusing on skills training for the legal profession (law faculty, lawyers, and notaries) in Eastern Indonesia. Sub-activities included research grants and short courses for law faculties, legal education and reform seminars, short courses for legal professionals and provisions for technical support to public officials and Non-Governmental Organization (NGO) representatives at both the provincial and regional levels.
- , Institutional Reform and the Informal Sector (IRIS) – University of Indonesia (UI) was able, on short notice, to organize 12 major public conferences and 37 seminars, workshops, and other events across Indonesia, prior to the national elections.
- , The Asia Foundation has devoted its assistance to strengthening small- and medium- sized enterprises (SME) associations, organizational capacity and influence on policy-making. They also supported a number of studies and analyses of critical importance for SMEs, some of which formed the basis of conditionality for international financial institutions.
- , Sustainable Indonesian Growth Alliance (SIAGA) conducted a “road show” of regional seminars in five selected cities during the period leading up to national elections. Their program is organized along topical lines, specifically, taxation, financial disclosure, competitiveness, and sound environmental business practices.

A smaller grants program has recently been added to the larger grants program managed by PEG. The smaller grants program seldom run more than \$10,000 for each applicant, are competitively awarded to local NGOs, think tanks, and business associations and, address specific social issues. To date, approximately 38 such grants have been given. Since many of these organizations are unfamiliar with the use of U.S. funds, PEG provides financial stewardship as well as technical oversight. Initial results indicate that this program is effective.

In addition to the technical assistance and the grants program, the PEG project also undertakes training activities whose results contribute directly to the SO1 objective and intermediate results. It also appears that training too has been effective. Past training has focused on competition policy, small and medium enterprise development, managing capital flow, competition policy services negotiations, monetary policy modeling, and understanding the Asian financial crises. Based on data in the 2000 annual report, 2123 individuals had received training through the PEG technical assistance team and 15,989 individuals had received training through the PEG grantees. This data reflects a reasonable inclusion of women. It does not reflect geographic distribution within Indonesia. Since an annual report has not been prepared for 2001, no data was available in the public domain for review.

### Relevance

The PEG contract supports USAID's economic growth strategy. While the underlying principles of the strategy have not materially changed throughout the implementation of the project, the mechanisms and resource allocations have. These shifts require flexibility, which the PEG team has met which is a strong point of the project. An example is the reallocation of resources to meet the needs of the telecommunications sector. Support for the telecommunications sector was not originally envisioned in the design of PEG, but as the political and economic environment changed, support of the telecommunications sector became a new avenue to achieve potential economic growth. The PEG team was able to adjust and provide support to this new approach.

Moreover, the PEG team has contributed to the economic growth strategy by addressing stakeholders' high priority problems. Some of these priorities were presented in the discussion on the project's effectiveness. Others include the PEG teams interaction with complementary participants in USAID's project portfolio, multi-lateral donor organizations, and their counterparts within the various ministries. For example, PEG advisors worked with the MOF to promote the work of the KPMG/Barents on tax reform. In conjunction with the IMF, the Ministry of Finance is now moving on a number of fronts to improve tax administration and key goals for tax administration reform were included in the latest LOI.

Another illustration of PEG's collaboration with complementary USAID projects is its backing of the IRIS advisor assigned to the DPR. DPR, among other things, appears to have a more influential role in formulating the state budget, previously the province of BAPPENAS. Within DPR, Commission 9 plays a key role in budget deliberations. The IRIS advisor works with the chairperson of Commission 9 on the budget review and has been closely assisted in the



preparation and writing of position papers on a variety of topics by the PEG advisors from EKUIN and BAPPENAS.

In cooperation with Deutsche Gesellschaft Fuer Technische Zusammenarbeit (GTZ), PEG contributed to reforms in rural banks and non-bank micro-finance regulations. This process is advanced but not complete. New rules are in place, though the licensing rules will be issued in the next several months. The draft micro-finance institution law is currently under review by the Ministry of Finance before presentation to the DPR.

As an illustration of efforts in the ministries, the PEG team within MOIT played a leading role in improving awareness of the potential dangers of decentralization for Indonesia's business climate, and in particular the freedom to trade across sub-national boundaries. Here they sponsored a number of regional seminars and conferences, including a major national conference, and a series of regional studies and policy papers. As a result, the MOIT is now working on a new law to ban all forms of tariff and non-tariff barriers in domestic trade.

From an institutional and intellectual capacity building perspective, the PEG program has successfully trained the first generation of BAPPENAS directors who, in the opinion of the counterparts, are further ahead in knowledge. Counterparts further opined that advisors provide excellent networking within the donor community, something which they themselves lack. PEG advisors work extremely well with staff, counterparts, ministers, and provide valuable and useful input and recommendations. The evaluation team also found similar strong intellectual capacity building at other ministries supported by PEG.

Attention to institutional and intellectual capacity building influences other elements of the project producing a symbiotic relationship. From the 1970s to the 1990s, GOI policy-making was a "top-down" process where a few influential persons made decisions. Today, the GOI policy-making is shifting to a "bottom-up" process. As a result, the present role of technical advisors is to know the state of the art, have different ideas, and be capable of transferring skills and technology in a mentor-student arrangement. The PEG advisors have these capabilities and have succeeded in contributing to intellectual capacity building through the close collaboration of PEG advisors and their counterparts. Historically, the presence of technical advisors was restricted to a few ministries, namely, BAPPENAS, Ministry of Finance, and Bank of Indonesia. Today, PEG advisors are found in more ministries and institutions spreading their knowledge, through training sessions and seminars or through informal conversations between PEG advisors and counterparts in other ministries or institutions fostering vigorous interaction and dialogue. In the long run, the presence of advisors does not benefit one unit of the government alone, but the national assembly, regional governments, non-governmental organizations, universities, and other institutions. As a consequence, there is a wide-ranging ownership in the policy-making process and a broadening of participation. Broader participation results in a healthier decision making system that in turn leads to consensus building and sensible courses of action. PEG efforts in this direction embodies the four intermediate results of USAID's strategic objective one, sound economic policy and institutions; a conducive legal and regulatory framework; open

access to economic opportunity; and knowledgeable public participation in economic decision-making.

### Allocation of Resources

It appears that PEG has been able to allocate and reallocate resources to meet the demands of the project. The technical assistance advisors and their GOI counterparts felt that they had received adequate resources. All individuals of course wanted more, but they felt that they had received a fair share of the resources available to meet their objectives.

Unfortunately there was an absence of consolidated information that could provide a cumulative breakdown of resources either by the 10 contract objectives, by GOI ministry or agency assisted, or by the three components of the PEG contract. It was not available in the workplans or the annual reports. Thus, we can only infer from comments by the counterparts and the technical advisors as to the distribution equity of resources from the total resources available.

With respect to technical assistance, it could not be determined how the short-term technical assistance level of effort was distributed by ministry. The data that was provided only reflected distribution either by service requests of the long-term technical advisor or by distribution of level of effort amongst the joint venture partners of the contract. Future reporting should also reflect distribution by ministry.

As to resources made available to the training component of the project, no cumulative cost data was available, and as was stated earlier, no data was available in the public domain on the number of individuals trained this past year. Unfortunately, the severe flooding in Jakarta during the evaluation prevented the evaluation team from a follow up meeting with PEG staff on this issue. Thus, it could not be determined if resource allocation was consistent with terms of the activity design. However, based on reviews of available annual reports, records concerning the training component should be strengthened to allow a review of resource allocation, programmatically as well as financially.

On the other hand, resource allocation data supporting the grants component was comprehensive particularly the data supporting the recently launched innovative “small grants” program.

### Management of the Contract

The PEG program was designed to serve as an encompassing mechanism for USAID’s technical assistance programs during a period of retrenchment. The contract had an initial two-year level of effort as well as options for additional years of support. At the time of award, it was openly understood that the initial project activities and objectives were reasonable and as the economic conditions became clearer, adjustments to the PEG program and the contract would follow.

The changes experienced during project implementation went far beyond anyone’s expectations. These included program changes, security concerns, realignment of AID personnel, realignment of counterpart personnel, and resource constraints. Coupled with these changing circumstances

were the dynamics of Indonesian political events, namely the election of a new president, a more proactive political system and shifts in the political power base. Throughout this unpredictable state of affairs PEG had the foresight to choose the right mix of technical advisors and place them in institutions where their talents were well utilized. The contractor has managed these changes and the attendant resources well. Further, the contractor has demonstrated that it can manage and oversee the implementation of grants under the grants program of the PEG project.

Thus, it is ironic that the most negative finding of the evaluation is the deficiency in the timely submission and quality of the annual workplans and annual reports by the contractor as required by the standard provisions of the contract.

In some cases annual reports and annual workplans were not prepared. No workplan has been produced for project activities from January 2001 forward. Under the terms of the contract, annual workplans are due 30 days prior to the anniversary date of the contract. The anniversary date in this case is October 15. Hence, no workplan has been produced to cover the past 13 months of project activity. Additionally, no annual report been completed for this past year.

In other cases, the workplans were wanting in analysis, recommendations, and cohesion against the project objectives and resource allocation. There was an absence of discussion of the deployment of long-term and short-term technical assistance level of effort by GOI ministry or institution. There was little, if any, discussion of the distribution and use of resources by project objective.

With exception of the 1999 annual report, annual reports were predominantly compiled from individual team member reports and did not give a comprehensive review or analysis of the overall PEG project, give insight as to whether the project was collectively meeting its objectives, whether objectives had changed and what impact these changes might have, or provide an historic or prospective financial appraisal of the use of the available project resources. Moreover, there was limited discussion in the annual reports on the training linkages and the grants component of the project as to whether these two components support the project's objectives. The evaluators believe there is a strong link, but it is not evident in the public record.

The absence of quality workplans and annual reports is a disservice to the PEG team since these reports are the ones that external reviewers, and the public at large, first turn to when scrutinizing the project and determining whether a project has met its wide-ranging and complex contractually mandated objectives.

### Substantial Involvement of USAID

It is clear that USAID personnel have had substantial involvement with the implementation of the PEG project. USAID personnel are noticeably a part of the PEG team and are well respected by the technical advisors and the GOI counterparts. Similar positive comments were heard from the private sector and representatives of the multi-lateral and bilateral donors. None of the technical advisors or the GOI counterparts felt that USAID was micro-managing the project.

The only negative comment heard was the requirement for weekly reports, which we understand is not a necessarily an USAID directive.

### Personnel

The PEG team is fortunate to have an excellent cadre of professionals, from both the technical advisors and the GOI. The technical advisors worked under extremely difficult circumstances as highlighted earlier. All of the advisors are committed to and appropriate for the work at hand. We do not believe that the advisors are stale in their professional attitude or demeanor. In fact, GOI counterparts are quite comfortable with the quality and timeliness of their advice and input. Indeed, immediate demands by the GOI on the technical advisors have increased as the need to address pressing economic issues grows. The advisors have graciously accommodated these requests. In short, PEG has an excellent team.

The long-term technical advisors have a decidedly strong impact due to PEG project's cooperation with strategic institutions such as the Bank of Indonesia, EKUIN, BAPPENAS, the Ministry of Finance, and the Ministry of Industry and Trade.

Advisors are able to interact with all levels of personnel, and act as trouble-shooters, and solution providers for the ministries they serve.

Advisors provided by PEG have demonstrated time and again that they are capable of multi-level interaction within their counterpart ministry and have provided much needed knowledge and skills to the ministries in capacity building.

There is an intense collaboration between counterparts, staff, and advisors so that, knowledge flows to and from all sides, fostering dialogue, collaboration,

#### **SAMPLE STAKEHOLDER COMMENTS ON PEG'S TECHNICAL ADVISORS:**

- *The Advisors supplied by USAID's PEG program have superior intellectual capacity compared to advisors supplied by other countries. The U.S. Advisors are by tradition more technical, more results-oriented, aiming to get things accomplished in an expedient manner, with almost no embellishment in their reports, findings, and recommendations. These Advisors have demonstrated ability to interact effectively with their counterparts, and successfully performed transfers of technologies.*
- *The advisors have greatly contributed to the ministry, by being able to interact well with all levels of personnel, from the staff level up to the minister. They have contributed enormously to decision-making within the ministry, and succeeded in the transfer of knowledge and technology to their counterparts.*
- *The PEG program produces recommendations that affect monetary policy. This in turn would affect the nation's social well being. With the aid of advisors, the policies that the BI Board ultimately issues have been greatly improved, which in turn should improve economic activity.*
- *The PEG program's advisors made it possible for Indonesia to fully participate in trade-related discussions and negotiations. Indonesia's stance and position in the WTO in due course affects the lives of millions of Indonesians, preferably for the better.*
- *The PEG program has successfully produced the first generation of BAPPENAS directors, trained by the advisors, who in the opinion of the counterparts are still much ahead in knowledge. Advisors thus far provided excellent networking. Advisors work extremely well with staff counterparts, ministers, providing valuable and useful input and recommendations, which were ultimately legislated into law.*

and consensus. It was observed that in many instances, problems were often resolved quickly because of the advisors generous assistance. The optimal choice and effective combination of advisors placed in strategic institutions is a PEG strength that other programs may not be able to match.

While the above comments referred to the long-term advisors, similar comments were made about the short-term advisors as well. In many instances, short-term advisors have very specific skills that support a broader project objective. A case in point is the recent request for a short-term advisor to participate in a public hearing on interconnection. Interconnection deals with the complex rules and regulations associated with connecting other telephone service providers to the existing Telkom telecommunications network. This entails fees, rents, tolls and other payments a telephone service provider has to pay in order to be able to use existing land based and base receiver stationed Telkom lines. Currently there are no uniform rules and regulations equally applicable to all telephone service providers and operators. The interconnection hearings are working to formulate an equitable and uniform set of rules, regulations, and fees payable for all of Telkom's partners. PEG advisors know their technical limitation and have augmented their program objective by supplementing it with appropriate short-term technical assistance.

### Counterpart Support

Within the context of what could be provided by the GOI, all technical advisors felt that counterpart support was adequate. GOI representatives felt that their counterpart support was sufficient and that PEG had not placed undue hardship on them. GOI representatives also stated their appreciation for support received from USAID, but some did state that if their agency did not receive funds from USAID, then other donors would likely fill the void.

### Sustainability

Positive changes initiated and supported by PEG would be maintained should USAID funding end. Partly, this results from the intellectual capacity engendered by the technical advisors. It is also a result of the ongoing relationships that the advisors have developed with their counterparts over time.

Sustainability can also be seen in the continued production of "white papers" that will be issued after project termination. Similarly, PEG's involvement in facilitating new laws and regulations will remain.

Finally, sustainability is evidenced by the independent support that the GOI will give to the activity should USAID end its support. One counterpart stated to the evaluation team that if USAID did not provide funds for the technical advisor, then he wanted to know as early as possible so that he could request funds from the GOI budget to maintain this advisory position.

### **III. Recommendations**

Some of the key issues and problems facing Indonesia when the PEG project began are still with Indonesia today. For example, World Trade Organization surveys indicate that Indonesia is consistently at the bottom of numerous performance lists, and typically ranks number 49 out of 49 nations surveyed. Indonesia still has a long way to go. The recent monetary crisis resulted in the closing of numerous companies, causing massive unemployment. Consequently, Indonesia's domestic and international trade positions dropped significantly.

Moreover, regional autonomy within Indonesia has led to a myriad of local laws inhibiting internal free trade and the free flow of goods. These regional laws distort the flow of goods from one region to another, from one province to another, from one island to another, and even disrupt the flow of goods within the same district. In the short-term various regions feel free to collect regional taxes and impose regional tariffs in addition to existing national taxes and tariffs. The long-term impact is the reluctance of investors to invest in those regions, and ultimately Indonesia as a whole.

Also, a modern telecommunications infrastructure is critically important to Indonesia's national competitiveness. In addition to providing basic telephone services, efficient information flows play a vital role in linking Indonesia to international financial markets and will play an every more important role in linking manufacturing enterprises, including the light industries that Indonesia now specializes in. This could be particularly important in a country like Indonesia where geographical barriers to trade create higher costs than in other countries. Efficient information technology has the potential to reduce these costs.

Finally, the recent political changes have significantly impacted agencies and institutions benefiting from PEG's support. One obvious occurrence is the uncertain role of BAPPENAS, which previously enjoyed wide-ranging influence as the central planning agency of the nation. The past administration decided to reduce the role of BAPPENAS, and placed more emphasis on the Ministry of Finance. The present administration at the time of the evaluation was still undecided on the role of BAPPENAS. This development is coupled several bills within the parliament designed to change the role of budgeting.

In light of the above considerations, as well as other world developments, USAID should critically examine the future deployment of its scarce resources into areas where they will have greater impact. One requirement of this evaluation is to provide input to that decision.

Recommendations are presented in two groups. The first group concerns the on-going project, including the proposed extension to June 2003. The second group gives recommendations for a follow on activities. Both sets of recommendations advise USAID to sort out the niches in which they intend to specialize and where they can have greatest impact. Efforts should also be taken to determine the existing niches among and within the various institutions. One obvious

existing niche is support for institutional capacity building. Moreover, it is suggested that flexibility, similar to that experienced in PEG, be maintained.

### On-going Project

With respect to the ongoing project, two sets of recommendations are suggested. The first set concerns management issues. The second concerns adjustments in program activity.

On contract management issues, it is recommended that the:

- , Contractor improves the timelines and quality of workplans and annual reports by including analysis, recommendations, and cohesion against the project objectives and resource allocations.
- , USAID improve its oversight of the contractor's workplans and annual reports.

On program activity at least through the June 2003 date, it is recommended that USAID:

- , Continue support on trade issues superintended by the Ministry of Industry and Trade. Emphasis should be on internal and regional trade barriers issues as well as the issues relating to the WTO. Peg's current work on the educational services sector should serve as a good example for other service sectors;
- , Continue support on labor issues and unemployment, either in BAPPENAS or, if practical, at another ministry such as the Ministry of Labor;
- , Continue support to the telecommunications sector;
- , Continue support to EKUIN;
- , Reduce support to BAPPENAS;
- , Enhance support to the Bank of Indonesia and to the Ministry of Finance. Within BI the advisors roles should be tightened;
- , Strengthen support to DPR; and
- , Consider advisor support to the Ministry of State Enterprise since this ministry supervises all private as well as state banks, is in charge of all state enterprises, and oversees IBRA.

While we understand that a project extension through June 2003 has been announced, we are not aware of the allocated resources or the planned level of effort. We assume it is the same level of effort that is currently allocated. If this is the case, then the recommendations above would entail a decrease in the number of advisors or level of effort allocated to BAPPENAS; implementation of the currently planned reallocation within the Ministry of Industry and Trade; and perhaps reallocating the advisor in charge of small credit financing at Bank Indonesia to a more important and wider role, with increased responsibilities, at the Ministry of Finance.

#### Future Project

The issues identified earlier will not have been resolved by the close of the current project in June 2003. Constraints to regional trade will still exist, WTO issues will remain prominent, money laundering will continue to be on the horizon, and it is projected that unemployment will rise by 10 percent with the most serious jump among educated people. This implies that support to the GOI continue along current lines, namely, support to MOIT, BI, and MOF. Less certain is future support to BAPPENAS given its unclear role. Perhaps more importantly, issues involving labor policy may need to move to the forefront. Consideration should also be given to support the Ministry of State Enterprise.



## Annex A

### PEG SOW Original

#### SECTION C - DESCRIPTION/SPECIFICATIONS/WORK STATEMENT

##### C.I. CONTEXT

###### a. Overview of the Indonesian Economy

Indonesia has been hugely successful in promoting economic growth over the last 25 years. As a result of sound macro and sectoral growth policies--with key assistance from USAID--the ruined economy of Indonesia in the mid-sixties has been transformed into one of the success stories of East Asia. These achievements include: self-sufficiency in rice; sustained growth of jobs; increased economic participation of women; economic growth over 25 years averaging 6.9% per annum; universal primary education; deregulation and transformation of the economy from near-total dependency on oil and gas; liberalization of banking and the development of financial markets; growth of decentralized municipal finance; the development of Indonesia as a major and reliable trading partner for the United States; and Indonesia's emergence as a significant leader in global trade deregulation through GATT and APEC. The Indonesian economic miracle of the last 25 years is a textbook example of the importance of economic policy at both the macro-and micro-level. It is also testimony to past US influence in support of sound economic policy.

Indonesia now has the potential to complete its economic transition to reach long term sustainable growth, although it still has a long way to go. Indonesia currently has an annual per capita income of approximately \$1,150. Continued uninterrupted growth over the next quarter century could put Indonesia on the verge of Newly Industrialization Economy (NIE) status by the year 2020--with a per capita income slightly higher than that of Thailand today. By then, Indonesia could be the world's fourth or fifth largest economy and a major US trading partner.

But, as the Mexican experience earlier in the decade has shown, and the recent Thai problems suggest, economic success is never assured. Moreover, the sheer size of the Indonesian economy--already larger than Canada, South Korea or any economy in ASEAN in purchasing power parity terms--creates enormous complexities and difficulties for the future management of an ever deepening and ever more complex economy. Indonesia's human capital and institutional base for economic policy analysis, design and implementation is still *very* slender. Further, there remain strong elements in the economy who still favor protectionist policies, and others who seek to retain or expand their existing benefits from monopolies and other aspects of Indonesia's high cost economy. These forces threaten the long-term sustainability of Indonesian economic growth. Customers and partners point out that there are also a series of new policy issues that are not only central to the sustaining of Indonesian growth but also of major importance to the United States. These include trade liberalization, intellectual property rights, policy for the development of the rapidly expanding service sector, increased competition and the reduction of corruption. Consequently there are a large number of public policy issues important for sustaining economic growth in Indonesia which are also of concern to the United States.

However, although problems lie ahead for Indonesian economic growth, it also has to be recognized that there have been major improvements in Indonesia's own capacity to manage and finance economic growth. Economic managers are more sophisticated, the weight of the economy is now in private hands and there is a stronger institutional base in Indonesia for economic policy analysis.

Nonetheless, there is sufficient continuity so that the opportunity continues to be present to deliver development assistance in traditional and highly successful ways that Indonesian public officials and private actors both know well and respond to favorably. In particular, these conditions create an environment favorable to a continuation of technical assistance activities that will maintain the engagement of the United States in central Indonesian economic growth issues until after the turn of the century. As always, such technical assistance will facilitate sound economic policies with relatively modest resources. As USAID moves into a transition from development assistance to development cooperation, it will nonetheless build on the numerous linkages which already exist, or are coming into being, between policy-based institutions in the United States and Indonesia--both public and private. As new ideas and approaches arise from the various US-Indonesian linkages, long-term technical assistance will help the GOI devise and carry out necessary economic policy changes.

#### **b. USAID's Economic Growth Strategy.**

With limited USAID resources in a vast \$200 billion Indonesian economy, it is evident that policy-based assistance is the only way to exercise significant influence on national economic growth. USAID experience of the last decade has demonstrated time and again just how effective policy-based assistance is in promoting growth and in supporting US interests. Promoting sustained economic growth, therefore, requires a continued engagement with Indonesia in policy development and implementation that is focused on central issues of economic growth and on building alliances which enhance the long term opportunities for sustaining US engagement on economic growth issues into the 21st century.

USAID's economic growth strategic objective for the period from 1997 to 2001 is to promote **sustained liberalization of international trade and domestic competition for the mutual benefit of Indonesia and the United States.**

**Indicators:** Achievement of this strategic objective will be shown by:

1. Increased value of Indonesia - U.S. non-oil trade.
2. Increased value of US Foreign direct investment to Indonesia.
3. Increased share of small and medium manufacturing industries in total manufacturing output.
4. Financial sustainability of the U.S. - Indonesian Partnerships for Economic Growth.

In order to achieve this, USAID has identified two Intermediate Results:

*First,*     **Improved Policies and Practices to Promote Increased Openness to International Trade and Investment.**

**Indicators:**

1. Lower average (unweighted) import tariff rates.
2. Reduction in number of non-tariff barriers.
3. Reduction in Number of Export Restrictions.
4. Adoption of key government enactments which facilitate foreign trade and investment.

*Second,*   **Improved Policies and Practices to Promote Strengthened Domestic Economic Competition.**

**Indicators:**

1. Reduced concentration within major sectors of the Indonesian economy.
2. Reduced distribution costs.
3. Reduced government approval process to start up a new business.
4. Improved transparency of Indonesia's economic law and regulatory environment.
5. Increased bank lending to small and micro firms.

These Intermediate Results are the key requirements of a sustainable Indonesian growth strategy. There are many obstacles to implementing Indonesia's stated commitment to full participation in GATT/WTO and even more significant hurdles to the deregulation of the domestic economy. The USAID strategy will focus on the incremental policy developments that are needed to sustain Indonesia's deregulation drive to a fully open and competitive economy and NIE status.

## **C.2. SUMMARY OF THE PARTNERSHIP FOR ECONOMIC GROWTH (PEG)**

### **a. Project Summary**

The overall goal of the Partnership for Economic Growth (PEG) is to sustain Indonesia's economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment; and strengthened domestic economic competition. PEG's purpose is to establish long-lasting relationships between America's premier public and private institutions with counterpart groups in Indonesia to assist in formulating and implementing these economic policies and practices. It will do this through Linkage Grants that will be solicited from a wide range of Indonesian-American collaborators who submit proposals for forming long-lasting partnerships to address key policy constraints relevant to meeting USAID's Economic Growth Strategy. The

proposals, each expected to be in the range of \$250,000-\$1,500,000, will be solicited and evaluated by a contractor which will submit recommendations to a

*USAID - Government of Indonesia Technical Committee* for review and final approval. Once obtained, the contractor will make the awards, monitor progress, ensure quality, and disseminate results.

PEG will benefit from high-level advice from an *Indonesian-American Economic Leadership Council*, to be established jointly by USAID and the Government of Indonesia, composed of distinguished experts who have a long-range vision of economic growth in Indonesia, and American interests in such growth. This group will meet annually to provide technical direction and lend their support to the Partnership's objectives. Their meeting will coincide with an annual *Economic Forum* which will provide an opportunity for a wide range of government officials, business persons, economists and other professionals to debate issues associated with Indonesia strengthening its trade/investment regime and domestic competition. Each year a different topic will be selected from key economic growth issues.

PEG will compliment the companion *Long Term Technical Assistance Activity (LTTA)*, the other major activity planned by USAID/Indonesia's Economic Growth Team. The LTTA will provide direct technical assistance within the GOI and therefore a vehicle through which policy advice generated by PEG Partnerships can be brought to the attention of key GOI officials.

The overall Partnership will last 5 years and USAID will contribute \$16.7 million. The Government of Indonesia and private partners will provide matching funds to this \$38.7 million total program. When concluded, PEG will have left behind important contributions to Indonesian economic reforms, long-lasting linkages between Indonesian and American institutions focussed on economic policy issues, and a framework which can be used by the partners to continue to support reform efforts.

## **b. Illustrative Institutional Partnerships Supported by PEG**

The following are illustrative examples of the kind of institutional partnerships to be supported under PEG. Partnerships are not limited to these examples nor do they represent a prior commitment to work with the institutions named.

1. Government-to-Government: Connections could be strengthened between Indonesia's government and U.S agencies to work on customs administration, improve the transparency and administration of corporate income tax collection, and otherwise to strengthen Indonesia's policies for greater industrial productivity and domestic competitiveness.

2. University-to-University and Other Economic Research Institutions: The University of Indonesia could undertake a joint economic research program with an American university on various impediments to expanded trade and investment and strengthened domestic competitiveness. The Agricultural Institute of Bogor (or IPB), working with a counterpart institute of higher learning in the United States, could work to reduce excessive tariffs on agricultural imports (e.g. off-season fruit and live cattle) which diminish trade opportunities and the ability of Indonesian agricultural producers to benefit from external inputs. Universities could also be enlisted to address policies to enhance human capital necessary to increase Indonesia's domestic competitiveness, a concern of Indonesian policy-makers today.

3. Professional Association Linkages: The American Bar Association and the Indonesian legal profession could join for the further development of commercial law to protect Indonesian entrepreneurs and American investors. Likewise, the Indonesian Economists Association and the American Economics Association, or other allied social science organizations, could agree on a program of exchanges to strengthen economic policies associated with intellectual property protection. The Indonesian Institute of Accountants could work with a professional accountancy standards body in the United States to help determine, set and enforce generally accepted accounting principles, audit standards or a code of professional conduct - without which the reliability of financial information is questionable and the ability to attract and make sound investment decisions is greatly diminished.

4. Trade Association Linkages: Indonesian and American agribusiness trade associations could form partnerships to remove barriers to greater agricultural trade and investment, such as the development of government standards, inspection and guarantees of pest-free status of exports. Auto parts industrial associations in both Indonesia and the United States could form a partnership to examine tariff and non-tariff barriers to greater trade and investment in the auto component industry. Small-business associations could tackle policies hampering the growth of the small-business sector, thereby affecting domestic competition.

5. Business-to-Business Relationships: While normal business transactions rightly belong with the private sector, pioneer activities which help to open markets and increase domestic competitiveness can be supported by the Partnership. For example, new business partnerships which further strengthen Indonesian financial markets (such as establishing a strictly private bond rating company to encourage greater foreign investment in physical infrastructure) or which demonstrate viable means for private sector investment in, say, port development and management, could benefit from PEG linkage grants.

**c. PEG Grant Subject Matter**

Below are five illustrative PEG Linkage Grants, which demonstrate the subject matter that would bind typical Partnerships to improve critical economic policies.

PEG Grants are not limited to these examples nor do they represent a commitment to fund PEG Grants in these areas.

1. Continued Trade Liberalization. Partnerships can be formed around this objective with a wide array of institutions in Indonesia and the United States. For example, there are a number of independent economic policy think tanks and business research services in Indonesia which would be ideal participants in PEG. They have, in the past, been champions of Indonesia's move towards global integration, and based on several customer surveys, indicated a strong interest in joining with American institutions to address the remaining barriers. As economic policy making continues to become more broadly shared outside of government channels, PEG offers a unique opportunity to support both continued economic reforms and the emergence of a more pluralistic policy-making process, based on informed debate.

These partnerships can, and indeed, should broaden beyond the economic research communities in Indonesia and the United States. Business associations, such as the American Chamber of Commerce in Jakarta and Indonesia's KADIN, are also eager to support a freer trade regime. And as non-traditional nontariff barriers, ranging from environmental conditions to labor union/worker rights and safety and health conditions become more dominant in international trade disputes in a globalized economy, non traditional partnerships in these areas should be encouraged to find solutions to both legitimate concerns and freer trade. Industrial standards setting, inspections and certification organizations, are also important players in implementing a freer trade regime and they will also be encouraged to join the Partnership for Economic Growth.

2. Small Business Policy Reforms. There are a number of Indonesian and American institutions, both public and private, which are interested in supporting the growth of small businesses by removing policy constraints and strengthening key practices and organizations. A number of Indonesian non- government organizations expressed such an interest in working with PEG. Likewise, the United States has an array of institutions which represent small businesses and help lobby for economic policies beneficial to their membership. Establishing self-sustaining linkages between these Indonesian and American groups to strengthen the small business policies, practices and institutions which boost domestic competitiveness and broaden trading possibilities would be an ideal PEG partnership program.

A PEG Linkage Grant would preferably be between non-government organizations in Indonesia and the United States, as opposed to a government-to-government linkage. Such a partnership could conduct a series of studies identifying policy, practice and institutional constraints to small businesses in Indonesia and recommend solutions.

Workshops and seminars could be held in Indonesia to build up constituencies for reforms and follow-up would be necessary to see that timely actions are taken. The American counterpart institution could also be helpful in guiding its Indonesian partner in how to effectively build up membership and how to lobby for change. Professional exchanges between leadership and staff of these partners could be one means of building up local capabilities in these important functions.

3. Agribusiness Competitiveness and Trade Liberalization. Opportunities for partnerships in agriculture and agribusiness abound. Examples include linking Indonesia's Plant Propagators Association to lobby for a new seed law. If successful, both Indonesian and American plant breeders and seed companies would benefit through increased sales of planting materials and Indonesian farmers and processors would benefit from improved quality and production. Another example would be to work with relevant agencies and trade associations concerned with appropriate norms and standards for the quality, safety and appropriate labeling of foods. PEG could also work with the Indonesian Agribusiness Management Association and America's International Food and Agribusiness Management Association to liberalize broader economic policies affecting international agricultural trade. Much of this work could be associated with the new US-Indonesian Food and Agriculture Forum in its formative years.

#### 4. Commercial Law.

PEG Linkage Grants could support the strengthening of associations of Indonesian lawyers through collaborative efforts with the American Bar Association and other professional associations in the United States. University-to-university collaborations among legal departments could also be launched. Linkages to U.S. publishers could help develop the dissemination of Indonesian laws throughout Indonesia and also make English versions of relevant laws available to international investors. We would ask that these partnerships be targeted on establishing and improving specific commercial laws and their implementation. Joint drafting of new or modified laws, holding workshops and seminars, and professional exchanges would contribute to achieving such objectives.

#### **c. Grant Selection Criteria**

Proposals for PEG Linkage Grants will be reviewed against the following criteria, in order of priority:

- a. *Importance* in terms of addressing significant policies and practices affecting Indonesia's economic growth, Indonesian-American economic ties and relevance to meeting USAID/Indonesia's Economic Growth Team's Strategic Objective and associated Intermediate results and Indicators;

- b. *Mutual interest* to both Indonesia and the United States, as demonstrated by the commitment and engagement of the Indonesian and American partners who submit the proposal;
- c. *Results-oriented* with the PEG linkage grants clearly targeted on formulating and implementing policy reforms and practices which are measurable and time-bound;
- d. *Self-managed*, in the sense of mature, capable organizations carrying out tasks which they are professionally and administratively capable of implementing;
- e. *Sustainable* linkage, leading to a durable partnership between Indonesian and American institutions with common agendas; and
- f. *Costs shared*, with the individual partnerships covering overhead and indirect costs, and PEG supporting with the provision of direct costs.

### **C.3. PEG MANAGEMENT**

PEG is under the overall management of the GOI's Director General in BAPPENAS, the National Development Planning Agency. The USAID/Indonesia Strategic Objective Team No. 1 (SO1) has appointed a full-time Project Manager to monitor the quality and effectiveness of PEG activities and track the results.

The GOI Project Director and USAID/SO1 have collaboratively developed a five year PEG Workplan which covers the entire \$38.7 million PEG budget. These partners collaboratively plan, review and approve project activities as set forth in each PEG annual workplan and the Project Implementation Letter (PIL) annual workplans. The partners carry out project reviews every six months. This enables all participants to jointly agree and approve all PEG activities. Under this contract, there will be annual reviews of PEG implementation activities. These reviews are necessary to ascertain that funds are being expended by the most expeditious mechanism.

In an effort to preserve flexibility and responsiveness to local conditions, changes in the annual PEG Workplan will be possible, with the approval of the GOI Project Director and the Contracting Officer's Technical Representative (COTR).

The Project Agreement Completion Date (PACD) of PEG is \_\_\_\_\_.

### **C.4. KEY ASSUMPTIONS**



USAID/Indonesia acknowledges that there are factors, which are totally outside the Contractor's control, that may impact on the Contractor's success under this contract. These factors include, but are not limited to, the following:

- \* The involvement of the Government of Indonesia in the approval of (1) PEG Grants; (2) the selection and use of U.S. and indigenous non-government organizations as PEG Grant Partners; and (3) Contractor personnel. It is assumed that, with proper coordination, the Contractor will obtain the necessary GOI approvals. However, failure to obtain such approvals will, undoubtedly, hinder Contractor performance.

- \* The results achieved by PEG Grants are dependent upon the performance of specific Partnerships, which are outside the Contractor's direct control. Failure on the part of these Partnerships, will obviously hinder Contractor performance. It is assumed that there is a sufficient pool of U.S. and Indonesian organizations with common interests willing and able to form effective partnerships. In addition, it is assumed that with screening and review of PEG Grant applicants, selected partners will have sufficient technical capacity and motivation to achieve desired results.

- \* Vested GOI and other interests may be resistant to the economic and policy changes advocated in PEG Grants. There are many Indonesian parties that reap great benefit from rent-seeking economic behavior and will be resistant to much economic change that could threaten them in the short run. It is assumed that with GOI involvement in PEG planning and decision making and with evidence of the success of past economic reforms, vested interests can be overcome, at least to a limited degree, to make progress toward achieving reforms in economic policy and practice.

- \* The sustainability of PEG Partnerships, after the end of USAID support, is dependent upon the willingness of the participants. It is assumed that there are many U.S. and Indonesian organizations with sufficient commonality of interest to form and sustain such partnerships to achieve common ends after direct USAID support has ended.

- \* It is assumed that the overall political and economic situation in Indonesia will remain stable.

Based on the fact that there are significant assumptions which, if not realized, could adversely affect contract performance, a fixed base fee is provided in section B.4.(b). of this contract to the Contractor for using its best efforts to achieve the stated contract performance objectives. Thus, the Contractor will not be penalized if any of the above assumptions are erroneous or other factors, outside of the Contractor's control, should arise and adversely affect the Contractor's ability to achieve the performance objectives. On the other hand, the award fee shall only be provided to the Contractor when, and if, the contract

performance objectives are achieved.

[End Clause]

#### **NOTE TO OFFERORS**

*\* Manageable Interest: USAID seeks to contract for meaningful developmental changes rather than traditional project inputs. Therefore, the contract performance objectives are stated in terms of the development change or results we seek to achieve under this contract. However, it is recognized that the performance objectives, as currently stated in this RFP are not within the control of the contractor to achieve solely on its own. For example, the Contractor is dependent upon the activities of the PEG Partnerships to achieve stated contract objectives. Recognizing the performance objectives may be beyond the Contractor's manageable interest, a fixed base fee may be proposed by Offerors. This base fee will be provided to the Contractor, as a percentage of its monthly cost reimbursable payment, based on the Contractor's best efforts to achieve the contract performance objectives as measured by the provision of inputs and the obtainment of sub-results, short term targets and performance benchmarks. Thus, offerors are encouraged to propose sub-results, targets, and benchmarks that are within the Contractors manageable interest and will clearly lead to achievement of the desired performance objectives. Offerors should be innovative, yet practical and logical, in demonstrating how their proposed sub-results, targets, benchmarks, and performance monitoring plan will lead to achievement of stated performance objectives. Offerors shall also propose the Maximum Award Fee Amounts to be included under Contract performance Objectives numbers 1 through 3. Please note that the total of all fees (Base and Award Fees) shall not exceed the ten percent (10%) of the total estimated cost, less fee. The final contract award will consist of the performance objectives, sub-results, benchmarks, award fee structure, and performance monitoring plan. Except for the award fee structure and budget, all of the above should be set forth in the offeror's Completion Plan and submitted as part of the technical proposal.*

[End Note]

#### **C.5. INFORMATION OF GENERAL APPLICATION ABOUT THE PERFORMANCE OBJECTIVES**

Unless otherwise specified, the following shall apply to all performance objectives set forth in paragraph C.6. of this section.

(a) Each contract performance objective has a corresponding Strategic Objective or

Results Package Indicator. The contractor is only responsible for tracking and achieving the performance objectives, sub-results, and benchmarks of this contract and not the entire SO1 Strategic Framework. The Strategic Objective and results Package may change. However, such changes will not alter the performance objectives of this contract unless specifically stated, in writing, by the Contracting officer.

(b) The base period for completion of the performance objectives is stated in Section H of this contract. The contractor is only responsible for achieving the objectives stated in the base period.

(c) The terms Performance Objective, Performance Standards, Maximum Award Fee and Award fee Statement are defined, for purposes of this contract, as follows:

(1) The Performance Objective is the result which the contractor is required to achieve by the completion date of this contract.

(2) The Performance Standard is a measurable, quantifiable, rate or number under a performance objective which, if achieved, the contractor's performance shall be deemed satisfactory.

(3) The Maximum Award Fee Amount is a ceiling dollar figure that the Contractor shall receive if, and when, the performance objective is achieved in accordance with the Award Fee Statement, set forth in Section C, and the evaluation process described in Section E.

(4) An Award Fee Statement is provided under each performance objective which describes the allocation of the Maximum Award Fee Amount. Under most performance objectives, the Contractor may obtain a bonus fee, which is stated as a percentage of the maximum award fee amount, for any year in which performance is better, by a given percentage, than the satisfactory standard. If the Contractor fails to achieve a satisfactory standard level for any given year but achieves the final target as stated in the performance objective, the contractor may receive all (i.e., the balance) of the maximum award fee amount.

## **C.6. PERFORMANCE OBJECTIVES, STANDARDS, SUB-RESULTS AND INCENTIVES**

(a) Results Package Indicator No. 1: Establishment of PEG Partnerships

(1) Contract Performance Objective No. 1: Increase in number of PEG Linkage Grants negotiated and executed within three months after review and approval by Technical Committee.

Performance Standards (Annual Satisfactory Levels):

1998: 3\* (Baseline)

1999: 6

2000: 9

2001: 12

2002: 15

Maximum Award Fee Amount:

**\$ ( To be proposed by offeror: Base period Only)**

Award Fee Statement:

Every grant negotiated and executed above the satisfactory performance standard level, the Contractor will receive a bonus of 10% of the maximum award fee amount. The Contractor shall receive the balance of the maximum award fee amount at the end of the base period of the contract if the performance standard of 19 is achieved within ninety (90) days prior to the contract base period completion date.

(i) Sub-result. 1.a. 25 U.S. and 25 Indonesian (total 50) organizations contacted formally annually regarding submission of proposals for PEG Linkage Grants

Benchmarks:

1998: 50 (Baseline)

1999: 100

2000: 150

2001: 200

(ii) Sub-result 2.a. Prepares three annual PEG Grant submissions to Technical Committee, evaluating each grant application on technical, administrative, and financial merits.

Benchmarks:

1998: 10 grant proposals submitted for review (Baseline)

1999: 20 grant proposals submitted for review

2000: 30 grant proposals submitted for review

2001: 40 grant proposals submitted for review

(b) Results Package Indicator No. 2: Successful Management of PEG Linkage Grants

(2) Contract Performance Objective No. 2: Increase in the number of PEG

Partnerships in which partners contribute 50% or more of total grant cost.

Performance Standards (Annual Satisfactory Levels):

1998: 3 (Baseline)

1999: 7

2000: 11

2001: 14

Maximum Award Fee Amount:

**\$ ( To be proposed by offeror: Base period Only)**

Award Fee Statement:

When total number of grants in which partners contribute at least 50% of total grants costs reaches or exceeds baseline, the Contractor will receive a bonus of 10% of the maximum award fee amount. The Contractor shall receive the balance of the maximum award fee amount at the end of the base period of the contract if the performance standard of 14 is achieved within ninety (90) days prior to the contract base period completion date.

(c) Results Package Indicator No. 3: Effectiveness of PEG Partnerships in changing Indonesian economic policies and practices.

(3) Contract Performance Objective No. 3: An increase in the percentage of PEG Linkage Grant objectives achieved by PEG Grant Partnerships.

*NOTE TO OFFERORS: It is not possible to specify the specific objectives of PEG Linkage Grants until grants are reviewed and approved. However, as noted in section 2.c.1., PEG Grants must be measurable, time-bound and clearly targeted toward reform of specific policies and practices that are relevant in meeting SO1's Strategic Objective. The Contractor can be supportive of these objectives being met. While not within the full control of the Contractor, the Contractor can "make best efforts" and encourage the PEG Partnerships to work toward achieving Grant objectives.*

Performance Standards (Annual Satisfactory Levels):

1998: 30%\* (Baseline)

1999: 30%

2000: 30%

2001: 30%

2002: 30%

Maximum Award Fee Amount:

**\$ ( To be proposed by offeror: Base period Only)**

Award Fee Statement:

For achieving grant objectives above the satisfactory performance standard level, the Contractor will receive a bonus of 5% of the maximum award fee amount. Should 50% or more of grant objectives be achieved, the Contractor shall receive a bonus of 7% of maximum award amount. Should 75% or more of grant objectives be achieved, the Contractor shall receive a bonus of 10% of maximum award amount. The Contractor shall receive the balance of the maximum award fee amount at the end of the base period of the contract if the performance standard of 75% is achieved within ninety (90) days prior to the contract base period completion date.

(d) Strategic Objective Indicator: Financial Sustainability of PEG Partnerships

(4) Contract Performance Objective No. 4: Increase in the number of PEG Partnerships in operation one year after cessation of USAID/Indonesia funding.

Performance Standards (Annual Satisfactory Levels):

1999: 1\* (Baseline)

2000: 3

2001: 5

2002: 7

Maximum Award Fee Amount:

**\$ ( To be proposed by offeror: Base period Only)**

Award Fee Statement:

Every grant negotiated and executed above the satisfactory performance standard level, the Contractor will receive a bonus of 10% of the maximum award fee amount. The Contractor shall receive the balance of the maximum award fee amount at the end of the base period of the contract if the performance standard of 9 is achieved within ninety (90) days prior to the contract base period completion date.

## **C.7. OTHER DELIVERABLES**

The following deliverables must be provided by the Contractor. Deliverables (a) and (b) together, are shown as a CLIN for Program Support (CLIN 0005). Because they do

not directly support a contract performance objective in Section C.6, no award fee is attached to these deliverables under CLIN 0006. However, deliverables (c), (d), and (e) will contribute to the contract performance objectives set forth in Section C.6 above. The costs associated with deliverables (c), (d), and (e) shall be allocated by the Contractor under the appropriate CLINS 0001 through 0004.

#### **(a) NATIONAL CONFERENCES**

The Contractor shall organize four annual conferences titled the Indonesian-American Economic Forum which will provide an opportunity for a wide range of government, business, finance, economic and other professional representatives to debate important issues associated with Indonesia strengthening its trade and investment regime and domestic competition. This entails creation of agenda, dissemination and confirmation of invitations, arranging meeting logistics, arranging speakers, attending proceedings, and recording and dissemination of proceedings. The timing of the Forum will coincide with the annual meeting of the Indonesian - American Economic Leadership Council (see below). The COTR will provide technical directions no later than one hundred and twenty (120) days prior to each scheduled conference to further clarify these deliverables.

#### **(b) ANNUAL MEETINGS**

The Contractor shall arrange logistics for and participate in four annual meetings of the Indonesian - American Economic Leadership Council. The Council is a group of Indonesian and American experts concerned with economic policy in Indonesia. The group will meet annually to provide policy and technical direction and lend their support to PEG's objectives. The Contractor will be responsible for dissemination and confirmation of invitations, preparing agenda, and briefing Council members on problems and progress of PEG and recommending solutions to PEG implementation. The COTR will provide technical directions no later than one hundred and twenty (120) days prior to each scheduled meeting to further clarify these deliverables.

#### **(c) PUBLICIZE AND SOLICIT PEG GRANT PROPOSALS**

The Contractor shall widely publicize the availability of PEG Grants through appropriate media in both the United States and Indonesia. The Contractor will also actively solicit PEG Grant proposals from a wide range of appropriate organizations in both the United States and Indonesia.

#### **(d) TECHNICAL ASSISTANCE**

The contractor shall arrange, as necessary, short-term technical assistance, to assist recipients of PEG Linkage Grants meet grant objectives. COTR approval will be required for each request for technical assistance.

#### **(e) EFFORTS TO SUSTAIN PEG PARTNERSHIPS**

The Contractor will undertake efforts to secure private financing and other means of support to sustain PEG Partnerships after direct USAID support to these partnerships has ended.

### **C.8. COORDINATION WITH PEG PARTNERS**

(a) In order to fully implement the range of activities encompassed by PEG, SO1 partners (including GOI agencies, PEG Grant recipients, other NGOs, universities, community and private sector organizations, and other donor agencies) will collaborate to mobilize resources and secure community participation in PEG activities. The Contractor must share information and closely coordinate with all partners in order to achieve the contract performance objectives. The following paragraphs describe the relationship between the Contractor and other agencies to achieve the performance objectives.

(b) *The Government of Indonesia's Bappenas (National Development Planning Agency* has primary responsibility for implementing PEG activities and administering the GOI portion of the PEG budget. The project is under the overall direction of the Director General at BAPPENAS as the GOI Project Director. The Contractor will work directly with the GOI Project Director.

(c) *The Indonesian - American Economic Leadership Council.* USAID/Indonesia, the GOI Project Director, and later the Contractor, will nominate and approve members of the Indonesian - American Economic Leadership Council. Final approval will be mutually decided by USAID/Indonesia and the GOI Project Director. The primary role of the Council will be similar to that of an advisory board or board of trustees. The Council will have no role in day-to-day PEG decision making or administration. It will identify the broad economic themes and economic policies that need strengthening and provide general guidance to USAID, the GOI, and the Contractor as to the direction of PEG partnerships.

This group will meet annually to provide policy and technical direction and lend their support to the Partnership's objectives. Specifically, their responsibilities will include:

(a) identifying economic policies associated with trade/investment and domestic competitiveness which require strengthening; (b) suggesting potential relationships



between American and Indonesian institutions which would be capable of addressing these policy concerns; (c) advising on annual workplans based on these policy and linkage directions; (d) reviewing and suggesting relative balances between public, non-profit and private sector institutions engaged with the Partnership; and (e) putting in place a longer-term framework to sustain PEG should it demonstrate its worth and value.

Their meeting will coincide with an annual Indonesian-American Economic Forum which will provide an opportunity for a wide range of government, business, finance, economic and other professional representatives to debate important issues associated with Indonesia strengthening its trade/investment regime and domestic competition. Each year a different topic will be selected from key policy issues under review.

(c) *The Technical Committee* will be composed of representatives from USAID/Indonesia, Bappenas and the Contractor. The Committee will be primarily responsible for the review and approval of grant proposals solicited and critiqued by the Managing Organization. All PEG Grants will be subject to mutual agreement between USAID and the GOI.

The Technical Committee will also serve as a vehicle for addressing coordination among Government of Indonesia agencies. Because PEG will strengthen economic growth policies, practices and institutions which cross bureaucratic lines, a means for addressing issues of GOI institutional coordination is necessary. Therefore with the advice of Bappenas, GOI departments may be invited to those Technical Committee meetings which plan and review particular PEG Linkage Grants which require such collaboration and coordination.

(d) *USAID/Indonesia's Strategic Objective Team No. 1 (SO1)* has established a results package (RP) teams under which PEG activities operate. The RP team has appointed a full-time Project Officer/Manager under supervision of the RP team leader. The Project Officer/Manager monitors the quality and effectiveness of the Contractor's performance by maintaining close contact with the Contractor's advisors, their GOI counterparts and by reviewing their accomplishments against annual workplans. The Project Officer/Manager shall participate in progress meetings with the Contractor's team. At frequent intervals, the Contractor will be requested by the COTR or the Contracting Officer to coordinate with and brief USAID on contract activities and progress toward achieving performance objectives.

### **C.9. CONTRACTOR'S DETAILED DESCRIPTION OF THE CONTRACT IMPLEMENTATION STRATEGY AND COMPLETION PLAN**

The Contractor's strategy for achieving the contract performance objectives is provided in its Completion Plan shown below:

*NOTE TO OFFERORS: The offeror shall provide a detailed description of its strategy for achieving the performance objectives and any proposed subresults as well as benchmarks or targets which will be tracked throughout the performance of this contract. The subresults, targets, and benchmarks must be clearly linked to achievement of the contract performance objective. The offeror's strategy must take into consideration all of the information provided in this Section C, including the assumptions, contract performance objectives, and deliverables. Offerors should be innovative, yet precise and practical, in demonstrating in its Completion Plan how the proposed subresults, targets, benchmarks and performance monitoring plan will lead to achievement of the stated performance objective. The final contract award will include the successful Offeror's completion plan and initial performance monitoring plan. Note that the technical merit of the approach proposed in this paragraph will be used as a significant contractor selection criterion.*

#### **C.10. CONTRACTOR PERSONNEL**

Due to agreements reached with the Government of Indonesia under the Strategic Agreement, the following are the minimum personnel requirements under this contract:

- (a) An expatriate shall be named as Chief of Party
- (b) The Contractor shall identify and commit to other key personnel whose qualifications have been discussed in response to the requirements of section C9 above; and
- (c) The Contractor shall identify and commit to positions expected to be filled for other necessary personnel, such as secretaries who are expected to participate in the contract.

**NOTE TO OFFERORS: Offerors are expected to propose a staffing pattern and estimates for long and short-term level of effort in accordance with Offeror's strategy outlined in Section C.9. above. Exact titles, qualifications, and areas of responsibilities of long-term technical assistants and office support staff should be indicated by the Offeror in the technical proposal. proposed Key Personnel must be identified pursuant to Section F.5. The required language capability levels, stated in Section H.6. should be noted for each Key Personnel position.**

**END OF SECTION C**

## **SECTION E - INSPECTION AND ACCEPTANCE**

### **E.3. PERFORMANCE STANDARDS**

The performance standards set forth in Section C are the levels at which the Contractor's performance will be deemed satisfactory at annual intervals and at the completion date of the base period and options, if exercised, of the contract. Pursuant to Section E.4, the Contractor's performance will be monitored and evaluated on a regular basis to determine whether the Contractor has met the performance standards

at any given time.

[End of Clause]

#### **E.4. AWARD MONITORING AND EVALUATION PLAN**

##### **(a) Award Fee Evaluation Plan**

Evaluations of the Contractor's achievement of performance objectives will be measured on an annual basis between November and December of each calendar year. Achievement of a performance objective will be measured against the annual satisfactory level of the performance standard of the year in question.

Accomplishments against standards shall be measured by the Contractor and submitted to the COTR no later than November 15th of each calendar year of the contract period. Provision of Award Fees, where indicated in Section C, will be made no later than April 30th of each calendar year of the contract period.

##### **(b) Award Fee Evaluation Procedures**

All award fees are applied on an annual basis as a percentage (%) of the maximum award amount allocated to the specific performance objective for above and below the standard satisfactory level indicated under each objective. At the end of the base period of the contract, the Contractor may receive the balance of the Maximum Award Fee amount of a given objective if the performance standard is achieved. The specific Award Fee statements applicable to each Contract performance Objective is stated in Section C.

Award fee Evaluations will be conducted annually by a technical panel consisting of GOI counterparts, USAID personnel (including the COTR) and, possibly, consultant(s) hired by USAID under separate direct contracts. This panel will be appointed by the Contracting Officer. The panel will examine all evidence, including the Contractor's measurements stated in paragraph (a) above, of the achievement of the annual performance standard for all performance objectives. At the conclusion of their deliberations and evaluation, the panel will make recommendations to the Contracting Officer regarding the Contractor's achievement of the performance objective. Only the Contracting Officer can authorize the payment of Award Fee amounts to the Contractor. The Contracting Officer's decision will be final and will not be subject to the Dispute clause of this contract. The Contracting Officer will provide the Contractor with detailed information explaining the rationale for all Award Fee decisions so that the Contractor fully understands what aspects of performance or accomplishments may have been viewed less than desirable, what aspects are going well, and what areas of performance or accomplishments might be given greater focus in subsequent periods.

(c) Performance Monitoring Evaluation Plans

(1) Monitoring

Within ninety (90) days after the contract award date, the Contractor shall finalize and submit the contract performance monitoring system to the COTR. This system shall effectively track inputs and outputs of activities and achievement of performance objectives, sub-results, benchmarks and standards over the life of the contract. It will also monitor progress of PEG Grant Partnerships in achieving grant objectives. This system shall also facilitate the flow of information within the contractor's organizational structure, enabling all parties to more efficiently monitor and manage activities required. The automated system shall be designed to collect, store, and report administrative, financial and programmatic data on the contract inputs and outputs as well as actual progress toward achieving the performance objectives and sub-results. The Contractor's final monitoring system shall be approved by the COTR within thirty (30) days of submission of the final system. The Contractor shall implement the system within fourteen (14) days of receipt of the COTR's approval of the system.

A variety of mechanisms, including the Completion Plan and Performance Monitoring report, will be used to monitor the Contractor's performance. These include, but are not limited, to the following:

- (i). Meetings between Contractor team and USAID/Indonesia staff.
- (ii). Feedback from GOI, PEG Partners, and other entities involved in, or impacted by PEG implementation.
- (iii). Progress monitoring reports prepared by PEG Partnerships.
- (iv). Site visits by USAID personnel or outside experts to observe PEG implementation in the field.
- (v). Review of contractor's written reports and other products.
- (vi). Periodic evaluations by in-house USAID or outside experts.

**F.4. REPORTS AND PLANS**

In addition to the requirements set forth for submission of reports in Sections I, AIDAR clause 752.7026, entitled "Reports", the Contractor shall submit the following items to the COTR specified in Section G:

(a) DATA COLLECTION REPORT

The Contractor shall conduct data collection on a yearly basis on each data related to the performance objectives and standards of this contract. This will also include data

related to performance objectives and standards of PEG Partnerships.

(b) PROCUREMENT PLAN

The Contractor shall submit a Procurement Plan to the COTR for approval no later than ninety (90) days after the contract start date. The procurement Plan shall contain the following:

- (1) Specifications and the estimated costs of all non-expendable supplies and equipment to be purchased under this contract;
- (2) An explanation of the intended use of each item;
- (3) The source and origin of each item;
- (4) A description of how the Contractor will monitor and control the use on non-expendable resources.

The Contractor shall abide by all source and origin requirements when procuring non-expendable commodities, particularly vehicles, under this contract.

(c) ANNUAL WORKPLANS

(1) PEG Annual Workplan

Within ninety (90) days of the contract start date, the Contractor, the GOI Project Director, the PEG Technical Committee, and USAID/SO1 team members will collaboratively develop a detailed PEG Annual Workplan to cover the period \_\_\_\_\_ through \_\_\_\_\_. The Plan will be based on guidance provided by the Indonesian - American Economic Leadership Council and the annual Economic Forum. Subsequent annual workplans shall be developed and approved by this same group prior to the start of each calendar year. The Contractor is responsible for drafting the annual PEG workplan and its yearly updates. The Contractor shall submit the PEG Annual Workplan and updates to the COTR, PEG Technical Committee, and other partners, as directed by the COTR for approval.

The Annual Workplans will be developed to ensure that project objectives are achieved by the end of the PACD of the PEG Project. The annual workplans will incorporate data from customer surveys conducted by USAID/Indonesia and will draw clear connections between results expected and activities planned. In addition, attention will also be given to coordinating PEG activities between the various PEG Grant recipients. In an effort to preserve flexibility and responsiveness to local conditions, changes to the PEG Annual Workplan will be possible, with the approval of the GOI Project Director, PEG Technical Committee, and USAID/SO1.

2. Annual Contract Performance Plan

The Contractor shall develop an annual Contract Performance Plan which updates the Completion Plan provided in Section C and shows how the performance objectives and subresults of this contract will be achieved through specific inputs and activities on an annual basis. This plan shall be incorporated into the PEG Annual Workplan, discussed in paragraph 1 above, as agreed to by the COTR.

(c) PERFORMANCE REPORTS

AIDAR Clause 752.7026, entitled "REPORTS" (October 1, 1996), is hereby provided in full text:

(1). Performance monitoring reports (PMRs): The Contractor shall submit performance monitoring reports summarizing progress of the major activities in process in relation to the requirements of the contract, indicating any problems encountered, and proposing remedial actions as appropriate. **(Note to Offeror: This will include information on how well the PEG Grant recipients are meeting their objectives. The reports will present for each PEG Grant recipient information on overall progress, problems, issues, and will recommend remedial actions as appropriate).**

(i). Performance reports shall be submitted within 30 days of the three-month periods (calendar quarters) ending on March 31, June 30, September 30, and December 31.

(ii). The Contractor shall submit the reports to the cognizant Contracting Officer's Technical Representative (COTR) identified in Section G of the Schedule, who will forward the reports to the responsible Contracting officer.

(2). Performance evaluation reports (PERs): The Contracting Officer shall use information contained in the periodic PMRs, discussed in paragraph 1, and input from the COTR, to evaluate Contractor performance on completion of activities and, for multi-year contracts, on an interim basis.

(i). The Contractor performance Report (AID form 1420-66) which will be used to evaluate performance is attached to the Schedule.

(ii). Contractors shall have 30 days to comment on or rebut the assessment, or may simply concur with the assessments by signing and returning the CPR form to the CO.

(3). No other performance reports shall be required. The Contractor, however, shall promptly notify the CO and COTR of any problems, delays, or

adverse conditions which materially impair the Contractor's ability to meet the requirements of the contract.

(End Clause)

(d) COMPLETION REPORT

In accordance with Section I, AIDAR clause 752.7026, entitled "Reports", the Contractor shall submit a Completion Reports to the COTR ninety (90) days prior to the contract completion date. The reports shall discuss all activities and achievement of the contract performance objectives, subresults and other deliverables from the contract start date through its completion. The reports shall follow the format of the performance Reports but shall also include a major section for performance objectives for the option period, if exercised. The completion report shall be submitted in draft form to the GOI Project Director and to the COTR for review. Any comments on the draft report are to be made by the COTR and provided to the Contractor within thirty (30) days. The completion report shall then be resubmitted in final form, no later than thirty (30) days prior to the completion date of the contract.

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## **Annex B**

### **PEG SOW 2002**

## ***SOW for the Nathan-Checchi Consortium***

For the period July 1, 2002- June 30, 2003

(19 April 2002 Draft)

This SOW addresses the activities and deliverables for the various long-term advisors provided to the GOI under the Nathan-Checchi consortium. SOW revisions are provided for 11 full time and one part time advisor.

I. The Coordinating Ministry for the Economy, the Ministry of Finance, and Bappenas

### **Macro/Policy Advisor at Coordinating Ministry/Finance/ Bappenas**

The main functions of the combined macroeconomic advisor position will be:

- macroeconomic and analysis support to:
  - The Coordinating Minister for the Economy and
  - The Minister of Finance
- Organization of trade support as requested by the Minister of Finance
- Agenda setting at Bappenas (integrated with staff work plans)
  - Assistance for Annual Action Plan Repeta 2003 (II quarter 2002)
  - Assistance for the next year's White Paper (IV quarter 2002)
  - The annual action plan – Repeta 2004 (I and II quarter 2003)
  - Assistance for Long –Term Issues
    - Background studies (Q III and IV 2002)
    - Continued (Q I and Q II 2003)

The consultant's key policy effort will focus on coordinating and raising the awareness in policy circles of the increasing importance of the poverty/ trade/investment/ labor/banking issues being worked on by consultants elsewhere. To the extent possible, this effort will be integrated with institutional development goals that include assisting the Planning Ministry to improve their analysis, agenda setting and coordination role in these areas. In addition, consultant will help improve the understanding, communication, and reporting of the staff and Minister of the Coordinating Ministry for the Economy on macroeconomic policy issues. In addition consultant will help improve the implementation and understanding of trade policies especially as they impact on elements of the Ministry of Finance. Coordination on trade matters is required with other USAID consultants, both within and without the Nathan-Checchi consortium, as well as with other donors.

The consultant's activities at the planning ministry will support the planning staff with strategy, guidance and support. At the Finance Ministry, the largest part of the advisor's time is expected to continue the concentration on trade issues. Remaining tasks in the current workload include those identifying and providing policy recommendations and responses regarding the likely magnitude of smuggling, and the role of bonded zones, especially their foregone tax consequences. At the Coordinating Ministry the consultant will assist the Finance/Banking System consultant on more specifically macroeconomic tasks, including memos, speeches, etc. (In these tasks the Advisor will call on assistance from advisors at Bappenas, the Ministry of Industry and Trade, and Bank Indonesia).

*Deliverables:*

- *A study on budget issues on the overlap between regional and central government budgets in major sectors or an equivalent study, with recommendations on how to improve this problem in time for the budget in FY 2004 (i.e. the Repeta next year).*
- *Assist Bappenas to complete another White Paper at the end of 2002, and continue assistance to the Repeta process (the near-term focus will be on Repeta 2003, with a later change to background and issues for Repeta 2004) to tighten national priorities and action plans to achieve them,*
- *Under the guidance of the COP, consultant will provide leadership to the organization of the PEG team response on trade issues for the Minister of Finance.*

## **Finance/Banking Advisor at the Coordinating Ministry for the Economy**

The Nathan-Cecchi consultant at the Coordinating Ministry for the Economy has as his direct counterpart the Deputy for Macroeconomics, Finance and Bank Restructuring. Requests for assistance are also received from the Deputy for International Economic Cooperation. In addition over the last year the current Nathan-Cecchi consultant has also worked closely with an expert staff for the Minister of Finance on assorted economic issues including money-laundering, debt-for-nature swaps, Paris Club, etc.

The consultant at the Coordinating Ministry for the Economy will focus on three areas:

- Finance and Bank Restructuring. This will involve reviewing the progress in this area reviewing (Two or more of the following)
  - Once more explain the strategy behind recapitalization, to add to the arsenal of intellectual capital of the Coordinating Ministry.
    - The regulatory environment – including the new multi-agency supervisory agency. If this activity is chosen, there should be careful coordination with the ongoing work

- The evolution of financial markets (including the exit from the blanket guarantee)
- Micro level issues (especially state banks)
- Donor support
  - Consultant will assist the GOI to understand and prepare for meetings with the donor community. The goal is to achieve a better GOI outcome and greater GOI ownership of donor community conclusions and recommendations.
- Private sector capital flows
  - Consultant will assess and evaluate simple, limited effort strategies to help Indonesians devise ways to improve macroeconomic stability by improving private sector capital flows and a strengthening rupiah or an equivalent analytic effort. To accomplish this, the GOI will need to devise improved strategies that encourage these capital flows as public sector flows dwindle.

The policy agenda includes improved understanding and policy in the banking and broader financial sector. This work needs careful coordination with other USAID and World Bank funded activities. The institution building is related to this, but more directly focused around an initial assessment of the possibility of improving the Indonesian government understanding of private sector capital flows and the policies and information required to maintain stability in such flow and to increase them.

*Deliverables:*

- *An initial study (or more) of the banking system or an equivalent activity as judged by the CTO designed to improve GOI policy including communication in this area.*
- *An assessment of how to organize better information between the Indonesian government and the foreign private sector or an equivalent activity as judged by the CTO. Consultant will prepare a report, make recommendations, and follow up.*
- *An coherent assessment of a Paris Club exit strategy that addresses Indonesia's perceived needs in the context of the international financial community's views or an equivalent activity as judged by the CTO.*
- *Other policy issues and support as they arise through requests from the GOI and as evaluated by the advisor.*

## Macroeconomic Advisor

The Macroeconomic consultant for PEG at Bappenas will provide support for Bappenas efforts to improve macroeconomic analysis, projections and reporting especially around the Repeta/Budget process. The Planning Ministry and the Deputy for Economic Affairs is a key location in the Indonesian government where macroeconomic projections and analysis are carried out. In fact the Planning Ministry is responsible for providing input and direction to the Macro framework in May that forms the umbrella for the budget later in the year. With the focus on fiscal sustainability and its interplay with monetary policy the consultant will be responsible for continuing improvements in understanding and projections in these areas.

In addition the Director for Monetary and Fiscal Affairs is to be held responsible for broader financial market development under the Bappenas reorganization including issues around banking, capital markets and the investment framework. Thus the advisor, working with the Nathan-Checchi advisor to the Coordinating Ministry for the Economy and other USAID advisors as appropriate, will review issues in the banking sector, capital markets and investment as requested by the Minister, and as needed to improve Indonesian understanding of the recovery path for the economy.

A number of real sector issues have become increasingly important for effective macro-economic management:

- The macroeconomic advisor will continue to carry out analysis, draft suggestions for improvements, and work closely with counterparts, the expatriate investor community, and other donors to improve the Investment Law and clarify and make its implication benign as this law moves forward.
- He will assist the labor advisor to complete a coherent detailed Labor White-Paper, addressing economic and labor relations issues
- He will take the lead on preparing a coherent report addressing analytic issues, recommendations, and potential outcomes regarding that links the previous minimum wage work to poverty outcomes,
- Integrate the work on labor policy with the macro-economic framework, for example, the link between minimum wage policy, inflation and monetary policy, and
- Continue to assist staff with their macro monthly reporting/surveys.

The policy focus of this work will be the support for the investment law and the integration of minimum wage and other policies with macro-economic policy. The institutional development will be focused around developing Bappenas capability in macroeconomic modeling, especially monetary and budgetary.

*Deliverables:*

- *Work with Bappenas (memos, training, estimation, model building) to improve monetary, macro and budgetary projections for Repeta 2004, including improved staff capability, (this has an externality for the Ministry of Finance and Bank Indonesia as these three institutions share their forecasts)*
- *Memos and briefings on developments in the investment law,*
- *Assistance to the white paper on Labor,*
- *A study on the relation of minimum wage increases and poverty or an equivalent study as judged by the CTO.*

## **Real Sector Advisor**

With the reorganization at Bappenas the bureau for industry has been moved under the renamed Deputy for the Economy. This provides an opportunity to advance a broader agenda on the real sector, building on the labor and investment work already under way and pushing this agenda to the fore as macro stability and budget sustainability concerns fade somewhat. Thus a full time USAID advisor is appropriate in the increasingly important area of trade and industrial policy. Two main tasks are envisaged for this position in the year ahead:

- The first task is to provide substantial analysis, input, and policy recommendations to a white paper on trade and industry policy issues facing Indonesia. This white paper will be input to the Repeta 2004, and as a background study for the long-term planning effort (in 2002/2003), and the Propenas (five year plan). Bappenas is planning to start this effort with an early seminar to follow up on the industry policy issues raised in the *East-Asian Miracle Revisited*. However, it is also a major element of the requests received by the team from the Ministry of Finance on trade. The goal of the advisor's efforts is to help the GOI provide itself with a clear coherent position on trade and industrial policy that would help clarify, possibly reduce, or assist the government in refusing continuing demands for protection across many sectors.
- The second area of assistance from the Real Sector advisor is to assist the Macroeconomic advisor and Bappenas staff on upgrading macroeconomic projections models. This effort is to involve analytical work on at least three key structural issues affecting the model, providing diagnoses of problems, and recommendations for possible solutions.

This advisor is to have a policy focus on synthesizing work within the government and elsewhere on trade and industrial policy issues for input to long, medium and short-run government policy making and decision making agendas. Institution building will occur as part of the work with the staff on these issues but more directly through assistance to the macroeconomic modeling work.

### *Deliverables*

- *The highest priority for consultant work is support for improved trade/industrial analysis including memos and up to a Bappenas white paper on trade/industry policy for use on upcoming Indonesian government planning documents; or an equivalent activity as judged by the CTO,*
- *Revisions and possible extensions are to be made for three major changes to the existing macroeconomic model.*

## **Labor Advisor at Bappenas**

This position is programmed for about one half a year. There are two areas of broad policy support: national labor policy and regional government public sector employment and wage policy. On **national labor policy**, the advisor will be asked to encourage concrete government policies on minimum wages, improved regulation (possibly laws) regarding the labor market and industrial relations, building on in-depth research and intensive technical support and consultations conducted during 2001-2002. There are two priorities.

- Consultant will provide a framework for substantive central government input, which takes into account the threat to employment from the anticipated minimum wage increases. The policy process on this issue, initiated at the regional level, begins in the lead up to regional decisions about these key matters that will occur before 2003.
- Consultant will provide a focus for policy reform in the area of labor more generally, taking into account important developments in labor regulation, legislation and industrial relations, over the past three years. This work is to be designed to help provide direction, a set of priorities and an agenda for action in government reform and policy over the next three to five years. These activities will be organized around a forthcoming Bappenas white paper on labor issues (consultant will make major inputs) that will be discussed at a major workshop to be held in at about the mid-point of the additional work being carried out by the consultant. Consideration will be given to improved system of tripartite regulation of the Indonesian labor market by workers, employers, and government.

Consultant will also address the analysis of regional issues in the public sector labor market. Public sector employment dominates the urban economies in many Outer Island provinces. One pressing need is a more clearly defined set of regional government policies on the recruitment, deployment and wage policy in the civil service, which accounts for a overwhelming share of total regional budget expenditure. One approach is to explore the issues and implications of allowing the local governments to set their own salaries and working conditions. Decentralization has contributed to over-manning, and flexibility on compensation would allow the regions (with lower than average costs of living) more possibilities to smooth adjustments and free up funds for pressing social and economic expenditure needs. It would also align incentives and potentially raise awareness on the potentially damaging impact of minimum wages on private sector

employment. It will require quantitative analysis of civil service wages (building on previous World Bank work here), and qualitative work on the issues and strategy needed to change policy. Consultant will carry out at least three analyses and prepare inputs and at least two relevant reports, as appropriate.

Another, related, set of issues have to do with discrimination in employment against outsiders from other regions and employment of less qualified locals in key positions of government. Consultant will investigate to gain understanding of the importance of these issues for efficiency and equity at provincial and district level, and its potential impact on social cohesion.

Consultant will actively seek to coordinate his activities as appropriate with other US government-funded activities directed to serving the Indonesian labor market.

### ***Deliverables***

*Complete a major policy paper that will be a key input into the Bappenas White Paper on labor policy. Hold a workshop on labor policy inviting major stakeholders, policy makers, the press and politicians, and disseminate the discussions of workshop widely. Carry out and report upon as relevant an exploratory initial examination of issues on regional recruitment and deployment of labor, and civil service wages or two similar activities as judged by the CTO.*

II. The next set of Nathan-Checchi consortium activities is carried out in the Ministry of Industry and Trade and in Bank Indonesia.

## **International Trade Specialist, Ministry of Industry and Trade**

### ***International Economic Integration and International Trade Negotiations***

**Trade Policy Reform.** The Government of Indonesia has made great strides at integrating the Indonesian economy into the world economy. Since May 1995, tariffs have been reduced by over 50 percent and many non-tariff import barriers have been eliminated. Nevertheless, there continue to be requests for increased protection. In addition, the Government often needs to analyze its trade policy structure for international negotiations and for specific policy issues. The focus of this work is to be in the Ministry of Industry and Trade and in Team Tariff in the Ministry of Finance. Coordination on these is required with the Nathan-Checchi consortium and with other donors in support of GOI activities.

*Deliverables: Update the project's trade policy database and provide policy memoranda on trade policy issues as requested.*

**Support for Indonesia's Participation in Multilateral Trade Agreements.** The implementation and enforcement of international trade agreements and the negotiation of new agreements will continue to be major issues faced by the Government in the coming years. As part of the built-in agenda from the Uruguay Round, negotiations on services and

agriculture are now on-going in the WTO. At the Doha trade ministerial in 2001, the worlds' trade ministers agreed to broaden the negotiations to include other issues as well. Responsible institutions would be in the Ministry of Industry and Trade, plus other institutions where relevant (e.g., the Ministry of Agriculture in the case of agricultural negotiations, and the Ministry of Finance in the case of service negotiations, etc.)

*Deliverables: Provide technical assistance and training on multilateral trade agreements, including the WTO built-in agenda on agriculture and services.*

**APEC Action Plans.** APEC continues to play a major role in facilitating transparency in international trade policy and in setting the agenda for trade negotiations in other forums. APEC economies must submit annual action plans on their trade policy measures. In addition, Indonesia is an active participant in other APEC activities, including the APEC capacity building-program. The lead agency supported is the Ministry of Industry and Trade.

*Deliverables: Provide input on Indonesia's APEC action plan. Support the Government's participation in other APEC activities as requested.*

**Anti-Dumping and Safeguards.** Indonesia has introduced its own regulations on the use of antidumping actions against other countries. Regulations on the use of safeguards are also now being developed. These regulations are in conformance with WTO rules, but do not always reflect international best practices. For example, the regulations tend to favor the parochial interests of industries seeking protection and do not take into account the wider interests of society. The lead agency supported is the Ministry of Industry and Trade.

*Deliverables: Develop recommendations for administrative procedures reflecting international best practices in the use of anti-dumping and safeguard measures or two similar activities as judged by the CTO.*

### ***Foundations for Competitive Markets and Competitive Industries***

**Telecommunications Regulatory Reform.** Because of the rapid advancement in information technologies, Indonesia has passed a new telecommunication Law and is undertaking steps to reform its telecommunications sector. Major goals are the development of new telecommunications infrastructure, the development of competitive markets for enhanced and basic telecom services, and the development of new business opportunities for small and medium size enterprises. The Government is now in the process of developing decrees to implement the Law, including decrees on licensing, the number of telecommunications providers, interconnection, pricing, universal service, and other issues as required by the Law. The lead responsible institution is the Ministry of Communications.

*Deliverables: Provide assistance on international best practices for the implementation of Indonesia's new telecommunications Law, the development of a modern regulatory system for telecommunications, and the establishment of an independent regulatory authority.*



## ***Trade and Industrial Development***

**Export Performance and Related Policies.** The Indonesian export sector has had to make major adjustments as a result of the economic crisis, and there are concerns about Indonesia's anemic economic performance and whether it can lead the economic recovery. For informed policy making, Government officials need current information on the export sector and factors influencing exports. The lead counterpart agency is the Ministry of Industry and Trade.

*Deliverables: Provide an in-depth analysis of the factors impacting Indonesia's trade performance.*

**Respond to short-run staff requests and prepare speech materials, as requested.**

## **MOIT Domestic Trade Advisor**

***Competition Policy and Deregulation-* Assist with the development of legislation and supporting institutions at the national level that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment.**

The development of a competitive and fair trading environment represents an important foundation for future social and economic development in Indonesia. The Domestic Trade Advisor will provide economic analysis and reports, short-term technical assistance and training to support the development of policies that promote economic growth through deregulation, competition and greater private sector participation.

*Deliverables: 1. Policy memoranda, papers as requested  
2. Training seminars/workshops*

***Decentralization and Domestic Trade – Monitoring the impact of regional autonomy upon domestic trade and the business climate at the local level. At the national level, development of appropriate legislation and institutions to ensure free internal trade in the decentralizing era.***

By bringing government 'closer to the people' decentralization brings with it the opportunity for more efficient and accountable government. However, decentralization also brings with it the threat of uncoordinated setting of taxes, and the use of discriminatory measures such non-tariff barriers to favor locals over outsiders. In the current fiscal climate, taxes on trade are particularly worrisome as they work to undermine national economic integrity and typically drive a wedge between farm gate and wholesales prices thereby depressing agricultural incomes.

Effort is required to monitor how decentralization is impacting upon business and trade. Local legislation needs to be reviewed and rescinded if necessary. National laws and institutions need to be further developed to ensure free, open and competitive internal markets in the decentralizing era.

*Deliverables:*

- 1. One or more regional studies on the impact of decentralization upon the business climate.*
- 2. Frequent updates on problem local regulations (perda bermasalah)*
- 3. Assistance for MOIT in developing a new national law on free internal trade*

**Conducive Local Regulations – Assistance directed at the local level to socialize policies that promote trade and other economic activities; and to institutionalize more effective regulatory review mechanisms as a means to prevent unnecessary and trade distorting local regulations.**

An important means to prevent or minimize barriers in domestic trade is to socialize how both good and bad regulations respectively impact upon the business environment at the local level. An important missing ingredient in the process of developing regulations at the local level is the institutionalization of an effective regulatory review system. Such a process requires the completion of regulatory impact assessments to ensure that costs of regulation do not exceed the benefits and that the problem to be solved actually requires explicit regulation.

*Deliverables: Work with local universities, on such factors as various socialization and training workshops*

**Distribution Systems - Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities**

A well functioning distribution system improves the competitiveness of Indonesian producers by allowing products to reach the market quickly at low delivery cost. An efficient distribution system is also important in that it serves consumers by expanding their choices and by providing better services and products at ever-lower prices. There has been much progress in recent years in improving the Indonesian distribution system. However many problems still remain (such as infrastructure bottlenecks, information asymmetries and locally imposed trade barriers). An important recent focus for the Domestic Trade Directorate General has been to use domestic commodity price data to measure distribution efficiency. MOIT has also requested assistance in monitoring the impact of certain events (such fuel price rises, Lebaran) upon domestic food (and other) prices.

*Deliverables:*

- 1. One policy study or equivalent, policy memos and training to assist in the analysis of domestic price data.*
- 2. Analysis and short memos on the impact of key events upon food prices*

***Port Sector Reform - Analysis and policy assistance with regards to improving the performance of Indonesian ports through greater private sector participation and also in developing appropriate legislation and institutions governing port sector affairs in the decentralizing era or an equivalent activity as judged by the CTO.***

In an archipelago and essentially agrarian nation such as Indonesia the development of efficient distribution and trade systems (both domestic and external) is very dependent upon the transport infrastructure, in particular the port sector. The Indonesian port sector lacks modernization and remains largely inefficient. This is due to a general lack of competition and private sector participation in the sector. The Ministry of Communication has requested assistance in developing strategies for promoting private sector investment in the sector and in developing a new decentralization consistent national law on ports.

*Deliverables for the port activity (comparable deliverables as judged by the CTO if the study area is changed):*

- 1. One policy study on improving private sector participation in the port sector*
- 2. One policy study on laws and institutions governing ports in the decentralizing era*
- 3. National workshop on port sector development*

***Industrial Competitiveness - Research and analysis of key issues affecting Indonesia's industrial competitiveness.***

The MOIT is currently in the process of defining a new approach to industry policy as a means to enhance Indonesia's long run competitiveness. For this work activity the Domestic Trade Advisor will give particular attention to the efficiency of domestic markets as a key input to the competitiveness process. Attention may also be given to key sectors such as Textiles and Clothing, Footwear, Plastics and Petrochemicals, amongst others. Important issues that may be considered include business development services, taxation policy (in particular value added taxes) human resource development, domestic competition, access to information and technology, innovation, and the supply side benefits of clusters.

*Deliverables: 1) Provide input, in the form of papers and memos, to the development of a new industry policy vision at the MOIT*  
*2) At least two sectoral studies.*

***Ad hoc requests – Respond to short run MOIT and USAID/PEG requests and prepare speech materials as requested***

This includes speeches for the Minister and senior MOIT officials, attendance at various meetings, responding to training requests as well as a range of other activities not captured by workplan activities 1- 4.

*Deliverables: 1) Memos, papers and speeches as requested  
2) Attendance and participation at meetings/committees as requested*

## **Bank Indonesia: Resident Advisor on Monetary and Exchange Rate Policy and Research**

*July 2002-June 2003*

**Research and Analysis and Education on Inflation and Monetary Policy.** The resident advisor will work closely with BI staff in the Directorate for Research on Economics and Monetary Policy to develop a research, analysis, and education program aimed at enhanced understanding of the process of inflation and methods for helping Bank Indonesia to bring the inflation rate, as measured by the Consumer Price Index (CPI) down to medium term target levels of 6-7%. This research analysis and education will involve monitoring of monetary aggregates (currency, base money, demand deposits, time deposits, M1, M2, etc.) and movement of interest rates on loans and various savings instruments. Research analysis, and education will seek to illuminate the processes through monetary policy and exchange rate policy are transmitted and the effects these processes have on the level and rate of change of prices.

**Research, Analysis and Education on Productivity in the Real Economy, Capital Formation and Inflation.** The resident advisor will work closely with BI counterparts to establish a working group on productivity and will seek to enhance measurement of productivity and productivity growth in the Indonesian economy. Bank Indonesia presently monitors and estimates the capital stock in the Indonesian economy but has not looked carefully at levels and trends in productivity of capital and labor in the real economy. Enhanced awareness of the relationship between productivity, productivity growth and remuneration is essential for achieving price stability in Indonesia. This activity will seek to adopt research methodologies presently used by other Central Banks in monitoring productivity and productivity change, including the Federal Reserve.

**Coordination of Short-term Technical Assistance and Development of a Regular Research Seminar Program.** The resident advisor will work closely with other donors, the academic and business community to bring a variety of high-quality economic research to the attention of counterparts in Bank Indonesia and, collaboratively, to help improve the research environment in Bank Indonesia. The objective will be to establish a regular, on-going research seminar program with voluntary attendance and participation by BI researchers.

**Assist Bank Indonesia Publications Programs.** The Resident Advisor will assist counter parts in Bank Indonesia in improving their English Publications on economic and monetary policy affairs. He will assist in editing work on BI's annual report and related publications as requested.

*Deliverables*

*Recurring regular analyses and training provided informally to Bank Indonesia staff. Three technical reports will be prepared in relationship to Activities One and Two above. Seminar notes will be collected for dissemination as part of Activity Three above.*

## **Small Scale Adviser, Bank Indonesia and Other Institutions**

### **Bank Indonesia**

Both Micro and Small and Medium Enterprises (SMME) are critical in Indonesian development. Both in Indonesia, and the world as a whole, a new paradigm has emerged for SME promotion. This paradigm is based on the realization that efficient SMME will do well in competitive markets and that their primary need is access to those markets. In SMME finance the paradigm involves the development of financial markets and institutions not targeted, subsidized credit. The work program of the Adviser is directed to three government clients who determine much of the framework for SMME in Indonesia: Credit Bureau (BKr) and Rural Banking Directorate (DBPR) of Bank Indonesia (BI) and the State Ministry for Cooperatives and Small Enterprise (MennekKop).

- A. In the case of BKr training and research are designed to assist the transition to the new paradigm as follows:
  - 1. In House Courses on SME Finance Research Methodology, Rural Finance, and SME Policy.
  - 2. Socialization Seminars with regional banks and publics to promote SMME lending.
  - 3. Research on the factors influencing Commercial Bank Lending.
- B. In the case of DBPR, ongoing and new activities include:
  - 1. Research on Best Practices for Bank Perkreditan Rakyat (BPR), rural banks.
  - 2. Research, advice, and support for dialogue on regulation of nonblank microfinance institutions, the licensing and promotion of new BPR, improved BPR information systems, improved external audit of BPR, and linkage of BPR with more general financial markets (especially through the creation of a rating bureau).
  - 3. Research on regional patterns in SMME finance, which should serve as raw material for regional approaches to SMME finance.
  - 4. Joint work with USAID funded entities such as Asia Foundation on specific regional microfinance initiatives.
- C. Other work will be with other sections of BI as follows:
  - 1. Coordination of the Short Term Advisory work on HRD/Training for bank supervision.
  - 2. Assistance to the Directorate for Licensing and Information on the proposed credit bureau and other issues.
  - 3. Assistance to the Transition Team on the development of BI's regional offices.
  - 4. Assistance to the Shariah Banking Bureau.

- D. The activities with MenegKop are more tentative because they depend on several decisions by USAID/Jakarta but include as follows:
1. Research on the regulation and promotion of savings and loan cooperatives and the impact on them of regional autonomy.
  2. Research on subcontracting/partnership between SMME and large industry as a means for their promotion.
  3. Other potential work includes that on small debt resolution, revision of SMME legislation, and the impact of government activity on SMME.

*Deliverables: Incumbent will provide a final report addressing the research results, the analysis underlying the research, the recommendations that result and the rationale for those recommendations. The research, analysis, and assistance activities will also be reported to government officials through a national seminar that the incumbent will organize to consider findings and generate support for policy follow through. Policy advice is typically documented in policy memoranda to decision makers, as well frequently by participation and presentations to national or regional seminars for which there is always final documentation. Incumbent is committed to completing three policy memoranda and five presentations to national or regional seminars. Finally, much of the collaborative work is culminated in seminars/workshops/meeting and which participants resolve next steps and again are documented both in published proceedings (though these are occasionally not available to the general public if the authorities restrict their dissemination) and in a written Notulen (or summary report). Incumbent will draft or assist in the drafting of at least five Notulen. Incumbent is to persist to seek enactment or promulgation of three pieces of legislation or (more typically) regulation on the administrative or provincial level) or formal institutional initiatives (documented in the government case by administrative legislation, and in private cases by contracts, memoranda of understanding, or similar documents.)*

### III. Management, ICT, and Grants Management

#### **Expert on Assistance to Information, Communications and Technology Activities (ICT) including the Ministry of Communications and Information, a short-term position financed by converting short-term TA.**

##### **Small Medium Enterprise (SMEs) Development**

Assist Comm-Info and USAID SME development efforts with policy formulation and coordination on the use of ICTs by SMEs to improve efficiency, productivity, access to market, technology, capital and business services assistance in Indonesia by the development of applications and linkages with local and foreign partners and in coordination with the government and private sector associations, including a) consensus-building on priorities and strategy on use of ICTs by SMEs with other USAID partners;

b) identification of specific technical assistance to national and regional industry associations, for example within West Java/Bandung region.

### **Private Sector Opportunities in ICT Activities**

Assist the newly established the State Ministry of Communications and Information in facilitating the implementation of the ICT Action Plan, with particular emphasis on those activities that provide increased private sector participation in ICT activities. Conduct two studies of on the best techniques for carrying out improved strategies for private sector leadership in ICT Action Plan implementation..

### **Ad-Hoc Coordination and Policy Work**

- (1) Take a leadership role as appropriate in efforts to encourage private sector leadership of ICT activities in Indonesia.
- (2) Coordinate, organize and arrange workshops, conferences or other special events on behalf of the State Ministry and USAID as requested; help coordinate the Donor to Indonesia Group on ICT, ICT Mission Team and ICT Working Group,
- (3) Respond to ad hoc ICT-related requests from the Ministry as requested in fulfilling its responsibilities as the GOI's executive body for the development and implementation of ICT in Indonesia,
- (4) Respond to ad hoc ICT-related requests from the Indonesian Telematics (ICT) Coordinating Team (*Team Koordinasi Telematika Indonesia*) as requested in fulfilling its responsibilities as the GOI's advisory (and monitoring) body for the development and implementation of the ICT Action Plan,
- (5) Assist with the development of surveys/studies supporting policy analysis leading to recommendations and institution-building for the State Ministry as required.

#### *Deliverables:*

*Participate on the USAID ICT Mission team and ICT Working group.*

*Design and prepare a strategy for follow up for the ICT action plan in accordance with USAID ICT Mission team priorities, and seek opportunities to encourage the GOI to implement that strategy.*

*Design and prepare a consensus strategy for USAID ICT usage by SMEs. Seek acceptance in implementing this strategy from the GOI in collaboration with other USAID SME activities, both inside and outside the Nathan Checchi consortium.*

*Design and prepare a consensus strategy for ICT development in West Java consistent with the USAID West Java working group.*

### **Grants Advisor/Project Administrator**

The Nathan-Checchi consortium grants activity is designed to contribute to Indonesia's economic growth by strengthening economic policies and practices associated with

increased openness to international trade and investment and strengthened domestic economic competition. The grants promote sustainable linkages between U.S. and Indonesian institutions whose work is focused on economic policy issues. The principal tasks of the Grants Advisor/Project Administrator are as follows:

**Solicit New Grants/ Process Grant Applications/ Negotiate and Execute New Approved Grants:** Subject to availability of funding and a clear decision to proceed from the CTO, the Contractor shall undertake the solicitation of new grants in the extension year (FY 02 through 03). In the wake of the decision, the Contractor will compile information on suitable research organizations, universities, government departments, public and private think tanks, both Indonesian and American, that may be interested in the PEG program. The Contractor will inform such organizations about the PEG program. The Contractor shall prepare a formal solicitation document and conduct a solicitation process for the selection of new grantees under the PEG program. The Contractor will receive guidance each year on areas of programmatic emphasis from the CTO, the Steering and Technical Committees and the Economic Leadership Council.

The Contractor will accept and perform an initial technical and financial evaluation and rank order all proposals received in response to each grant solicitation in accordance with criteria established by USAID and the Government of Indonesia. The Contractor will submit recommended successful applications for review and approval by a technical committee formed under USAID procurement procedures that may be the joint USAID/GOI Technical Committee responsible for the economic growth program. The CTO shall notify the Contractor, in writing, of the approved applications.

Based on the recommendations of the Technical Committee, as confirmed in writing by the CTO, the Contractor will negotiate and execute grants with the selected applicants. The Contractor will assure that these grants are in full agreement with all relevant USAID rules and regulations. USAID will retain the right of review of these grants to determine if they are in compliance with USAID policies and to reject any such grants that are not in conformity with USAID regulations.

**Manage Partnership Grants:** The Contractor shall review work plans, monitor progress toward results, and administer all grants it has awarded or made recommendations for award to USAID. The Contractor shall determine if all such grants it has awarded are performing and meeting goals and benchmarks as agreed. Contractor shall actively assist USAID regarding grants USAID ECG has awarded. All performance problems Contractor identifies regarding all such grants (awarded and recommended) must be addressed and the Contractor must ensure that there is complete and timely communication with the PEG CTO on all major issues. The Contractor is responsible for ensuring that all performance reports, as agreed to under each grant it has awarded, are received in a timely fashion. For grants on which contractor has made recommendations, Contractor shall assist USAID in obtaining these reports. The Contractor shall review on a timely basis the progress reports of these grantees in order to have an overall understanding of the entire range of PEG grants and the goals and objectives that they are



seeking to achieve. Problems and opportunities arising during these reviews shall be brought directly to the appropriate grantee and the appropriate grant CTO.

**Audits:** In addition to the audit requirements incorporated in the contract clause FAR 52.215-2, the contractor shall implement the audit requirement for the grants awarded under this contract. The contractor will incorporate the requirement for performance of the audit in grant agreements. The statements of work for all planned audits of grants shall be coordinated with USAID, including the CTO. If the grants are awarded to U.S. for-profit grantees, the audit of those grants will be performed by their cognizant audit agencies. If the grantees are U.S. non-profit organizations, their audits will be covered by the provisions of OMB Circular A-133. If the grantees are non-U.S. not-for-profit organizations, those audits will be conducted preferably by auditing firms approved under the Recipient Contracted Audit (RCA) program of the Mission.

**Small Grants:** Provide small grants to Indonesian NGO's, civil society groups and research institutions to help them conduct activities and programs to advance Indonesia's financial recovery, sustainable and equitable economic development and economic issues that arise during the course of Indonesia's efforts to carry out decentralization. Activities funded by the small grants should promote sound economic policies and institutions, especially at the local level, help construct a legal and regulatory framework that is conducive to economic growth particularly by small and medium businesses, help provide open access to economic opportunity for all Indonesians, and support knowledgeable public participation in economic policy decision making.

Under the supervision of the COP, small Grant awards will be administered by the PEG Grants Manager and support staff. Management includes the direct purchase of goods, services or intellectual products from individuals or companies on behalf of the award recipient. The strategy is to relieve the award recipient of the burden of managing funds and completing stringent procurement procedures required by USAID, even under the USAID simplified grant award format. The small grants activities will be concentrated on major regional issues, including 1) investment opportunities, 2) employment opportunities and 3) interregional trade

**Other Administrative Tasks.** The grants advisor/project administrator is to carry out other supportive/administrative tasks as assigned by the COP.

*Deliverables:*

*At least 20 small grants awarded. All existing grants, both as issued by the Nathan Checchi consortium and by the USAID ECG team administered consistently with USAID standards.*

## **Chief of Party**

This position provides leadership, direction, and coordination of Nathan-Checchi consortium activities, principal liaison with USAID, and reporting and technical work as

required. The nature and duties for this position are substantially the same as in past SOWs for this activity.

## ***Budget for July 1, 2002 to June 30, 2003***

11.5 full time expatriate advisors@ \$300,000 per person per year \$3,450,000

18 person months of short-term TA at \$30,000 per month \$450,000

Office space and related administrative costs. \$130,000

20 small grants at \$20,000 per grant \$400,000

Training activities \$250,000

Long term grant spending, \$350,000

**Annex C**  
**List of Individuals Contacted and Interviewed**

NO	NAME	OFFICE	
		ADDRESS	PHONE/FAX/MAIL
1.	<b>MEYERS, Terry</b> <i>Mission Director</i>	<b>USAID</b> American Embassy Jl. Medan Merdeka Selatan 3-5, Jakarta 10110	<b>P: 344-22111 F: 380-6694</b> E-mail: <a href="mailto:tmeyers@usaid.gov">tmeyers@usaid.gov</a>
2.	<b>DEUSTER, Paul</b> <i>Economic Growth Team Leader</i>	<b>USAID</b> American Embassy Jl. Medan Merdeka Selatan 3-5, Jakarta 10110	<b>P: 343-59418 F: 380-6694</b> E-mail: <a href="mailto:pdeuster@usaid.gov">pdeuster@usaid.gov</a> HP: 0812-930-6948
3.	<b>ATEN, Robert H</b> <i>Senior Public Finance Advisor</i>	<b>USAID</b> American Embassy Jl. Medan Merdeka Selatan 3-5, Jakarta 10110	<b>P: 343-59000 Ext. 9230 F: 380-6694</b> Email: <a href="mailto:bobaten111@aol.com">bobaten111@aol.com</a> or <a href="mailto:raten@usaid.gov">raten@usaid.gov</a> HP: 0816-129-0666
4.	<b>DINH, Quan X</b> <i>Senior Economic Advisor</i>	<b>USAID</b> American Embassy Jl. Medan Merdeka Selatan 3-5, Jakarta 10110	<b>P: 343-59000 F: 380-6694</b> E-mail: <a href="mailto:qdinhh@usaid.gov">qdinhh@usaid.gov</a> HP: 0811-925-291
5.	<b>AJI, Firman B</b> <i>Team Leader</i>	<b>USAID</b> American Embassy Jl. Medan Merdeka Selatan 3-5, Jakarta 10110	<b>P: 343-59000 F: 380-6694</b> E-mail: <a href="mailto:faji@usaid.gov">faji@usaid.gov</a> or <a href="mailto:fbaji@hotmail.com">fbaji@hotmail.com</a> HP: 0811-999-885
6.	<b>O'CONNOR, Tim</b> <i>Deputy Director Economic Growth Team</i>	<b>USAID</b> American Embassy Jl. Medan Merdeka Selatan 3-5, Jakarta 10110	<b>P: 343-59483 F: 380-6694</b> E-mail: <a href="mailto:toconnor@usaid.gov">toconnor@usaid.gov</a> HP: 0812-921-1512
7.	<b>SOENDJOTO, Raya R</b> <i>Office of Economic Growth</i>	<b>USAID</b> Jl. Merdeka Selatan No. 3, Jakarta 10110	<b>P: 343-59000 F: 380-6694</b> E-mail: <a href="mailto:rsoendjoto@usaid.gov">rsoendjoto@usaid.gov</a>
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## Annex D Evaluation Scope of Work

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AID 1420-61 (Rev'd)

1.1. **TITLE:**  
EVALUATION OF PARTNERSHIP FOR ECONOMIC GROWTH (PEG)

1.2. **STATEMENT OF WORK**

### SUMMARY/BACKGROUND / OBJECTIVES

#### I. SUMMARY:

An evaluation is required for Partnership for Economic Growth (PEG) contract, which consist of three components. The components are:

- Technical Assistance for Economic Growth (TA-EG)
- Grants for Partnership for Economic Growth (Grants between U.S. and Indonesian institutions)
- Training (short-term seminars and conferences)

Purpose: This evaluation is to determine to the extent to which the activity is achieving its purposes; to compile success stories and lessons learned and to make recommendations for the improving the last year of PEG and for a follow on activity.

Contract Mechanism: The evaluation will be performed under the Development Information Evaluation Services IQC. The intention is that the chosen contractor will field a three-person team – two expatriate experts supported by an Indonesian expert. They will undertake the evaluation and submit their findings within 40 days of receipt of the task order.

#### II. BACKGROUND:

The “Asian Economic Crisis” and the associated political events highlighted and exposed serious structural flaws in Indonesian economic governance. Meaningful and comprehensive economic reform is essential to move the economy in the direction of efficient market-based decision-making. This is the key to economic progress and political stability. Many officials and parliamentarians lack understanding of the needs of free-market based economy. Even more damaging: opaque, corrupt processes, over centralization, excessive regulation, lack of acceptable standards of corporate governance, and a dysfunctional banking system have discouraged investment and all but arrested economic recovery and long term progress.

To assist Indonesia to overcome these problems the Partnership for Economic Growth provides long- and short-term technical advisors to a series of institutions; and grant assistance for partnership arrangements between US and Indonesian institutions and scholars. These activities seek to upgrade the extent and quality of national economic policy debate, improve the context in which economic policy decisions are made, and spark meaningful market-oriented reform.



The activity vehicles to accomplish this are exchange of information, intellectual capital, and analytical support to key policy-making officials in support of the economic growth, studies, analyses, seminars, training, public fora, and the creation of durable partnerships between US and Indonesian technical institutions and experts.

The activities under this contract are:

1. Technical Assistance

TA-EG activities are located in 5 ministries and agencies of the Government of Indonesia (BAPPENAS, Ministry of Industry and Trade, Ministry of Cooperatives, Ministry of Justice, and Bank Indonesia) which play critical roles in policy formulation in international trade, domestic economic competition, or other issues which are the focus of the IMF-backed reform effort linked to the current crisis.

2. Partnership Grants

The partnership grants are to establish long-lasting relationships between America's public and private institutions with counterpart groups in Indonesia to assist in formulating and implementing the economic policies and practices. The activity is run through the linkage grants that were solicited from a wide range of Indonesian-American partners who submitted proposals for forming long-lasting partnerships to address key policy constraints relevant to meeting USAID Economic Growth strategy.

3. Training

In addition to the long-term advisory services as mentioned above, the transfer of intellectual capital is key to successful policy development and reform. Short-term training and seminars, primarily in Indonesia and the United States are encouraged in order to make the overall program a success.

III. EVALUATION REQUIREMENTS

**General Requirements:**

The contractor should undertake a broad-based assessment of to what extent the PEG activity is achieving its purposes, including examining relevance, effectiveness, efficiency, impact, and sustainability. This includes looking at the activity concept, implementation, management, and overall effectiveness. Among other tasks the contractor should compile success stories and lesson learns. The contractor should recommend improvements for the last year of the present PEG activities and considerations for a follow on activity.

**Specific Task Elements.** The following points, *inter alia*, should be addressed, though not necessarily in the order or structure below.

Efficiency. Is the contract proving to be a cost-effective means of addressing the desired objectives? In the opinion of the evaluators, could the progress in evidence have been achieved more efficiently with a different choice of activities? Could the administration of the contract be reconfigured to accomplish the same progress more efficiently?

Effectiveness. Assess the extent to which the nature and quality of the output and results have been or being produced and achieved by the contract. Has progress been made? What concrete accomplishments can be traced to the contract? Are the activities on target to achieve the design results? And if not what changes are require for that end.

In addition to the above questions, the evaluator is expected to specifically look at the dissemination of findings from the PEG activity. Have best practices and lessons been effectively spread outside the project participants? What techniques worked best and why? What is recommended for future programs?

Relevance. Assess the concept and fit of the contract to the meet USAID Economic Growth strategic objectives and operating style. Is there consistency with the underlying project and/or symbiotic support to other project elements? Are the activities relevant to the purposes of the contract and of the underlying project? To what extent the project is addressing or has addressed problems of high priority, as viewed by its stakeholders?

Practicality/Adequacy of Funding. Assess the attainability of goals and objectives under the contract. That is, are the goals reasonable in terms of the level of resources and the activity design? Were there good prospects for success? Are the resources allocated to the contract consistent with the requirements for success at the levels foreseen in the design process?

Management of the contract. Has the contractor effectively structured and exercised management control over the activity and the commitment and disbursement of resources?

Substantial involvement of USAID. Has USAID provided appropriate and timely input in to project strategy and decisions?

Personnel: Have the individuals, both Indonesian and expatriate, funded under the contract been appropriate to the tasks at hand?

Annual Review: Has the required joint annual GOI-USAID/I review been conducted as envisioned? What has been the opinion of GOI counterparts as to the value of the contract activities? What suggestions do they have? How should these be accommodated?

Counterpart: has the contractor in accordance with contract terms made appropriate and meaningful counterpart funding (in kind) available?

Sustainability: Are the specific activities (which are open-ended by nature) and The

underlying partnership likely to be sustained in the absence of further USAID funding? Have enduring institutional and personal bonds been formed between technical experts and US institutions with Indonesian counterparts. Will the positive changes induced by this project be maintained/sustained after termination of this project?

Impact. Has the project had substantial beneficial impacts on the Indonesian policy decision-making process? Success stories should be compiled.

Recommendations. The evaluation will explicitly address the need for mid-term design or operations changes could be made to strengthen PEG for its last year, including addressing any questions related to the substantial involvement of USAID. It should also present lessons learned and recommendations for a follow on activity.

#### IV. TEAM COMPOSITION AND METHODOLOGY

The evaluation will be performed under the Development Information Evaluation Services IQC. The intention is that the chosen contractor will field a three-person team consisting of two expatriates and one Indonesian. The team leader should have an advanced degree in economics and substantial relevant field experience with economic policy support projects (Phd). Country and/or region-specific knowledge and experience with economic policy support is desirable.

The second and third member, have the option of a legal, economic, or business professional background with thorough knowledge and understanding of current Indonesian legal, commercial and economic policy context (Phd/MBA). They should have advanced technical training and practical experience in the relevant fields (i.e., economics, business and legal, commercial, trade, public administration, economic governance, etc.) Ideally, technical skills should be complementary to those of the team leader.

The team will carry out the evaluation through:

- Review of project documentation (the contract agreement, the Annual Work Plan, the Project Monitoring Plan, Annual Report, Quarterly report, etc.);
- interviews with USAID staff and Indonesian counterpart personnel; with beneficiaries (both direct and indirect); and with knowledgeable individuals in the private sector, academia and other donor staff; and
- review and assessment of a sampling of studies, reports, and analyses funded under the contract.

#### 1.3. **RELATIONSHIP AND RESPONSIBILITIES**

The Contractor will report to and be under the technical direction of USAID/Indonesia. The Contractor will work closely with Ms. Raya Soendjoto, Mr. Robert Aten, Mr. Firman Aji, and other staff of the Office of Economic Growth (ECG).

#### 1.4. **REPORTS AND DELIVERABLES**

The evaluation team shall be expected to:

- ◆ Present an initial evaluation plan to USAID. Specifically, upon arrival, the evaluation team will meet with USAID Economic Growth Team Leader or his designee and the USAID/CTO and provide its proposed **evaluation plan** and methodology.
- ◆ **Prior to departure**, the evaluation team will brief the Economic Growth Team Leader and/or his designees and the USAID/CTO to present the team's major findings, conclusions, and recommendation. **A draft Executive Summary (including key findings and recommendations), an Outline of their report**, the lessons learned and success story, if any, will be provided.
- ◆ **A final written report**, which details the team's findings, should be provided to USAID/Jakarta within 10 working days following completion of the in-country work. Ten hard copies should be sent to the USAID Cognizant Technical Officer, Mr. Robert Aten, USAID/ECG, and Jakarta, Indonesia. At the same time an electronic copy in Microsoft Words format shall be emailed to rsoendjoto@usaid.gov. The report will include all the specified requirements of the SOW, including success stories, lessons learned and recommendations for the present and future activities.
- ◆ A copy of the final written report should also be sent to PPC/CDIE/DI, USAID/Washington to be put in the USAID library and database.
- ◆ Report studies/proceedings of this evaluation should be properly marked in accordance with AIDAR, Contract Clause 752.7034, Acknowledgement, and Disclaimer.

#### 1.5. **REPORTING AND TECHNICAL DIRECTIONS**

Technical Directions during the performance of this task order shall be provided by the Cognizant Technical Officer (CTO) for this task order who is **Ms. Raya Soendjoto** from ECG - SO 497-011 USAID/Indonesia or her designee, as stated in Block 5 of the cover page pursuant to Section G.1.b. of the contract.

Further,

- The team will meet with its USAID liaison officer once per week (or as otherwise agreed to by that officer) and provide a brief report of activities and progress.

- In-country travel plans must be approved by USAID, in advance. Travel to insecure areas is discouraged and unlikely to be approved.
- The team will be responsive to USAID suggestions, and will observe any guidance given as to political sensitivities, progress reporting, and in-country travel restrictions.

1.6. **TERM OF PERFORMANCE**

- a. Work shall commence on the date noted in Block 7 of the cover page. The estimated completion date is reflected in Block 8 of the cover page.
- b. Subject to the ceiling price of this task order and the prior written approval of the CTO (see Block No. 5 on the Cover Page), the contractor may extend the estimated completion date, provided that the extension does not cause the elapsed time for completion of the work, including the furnishing of all deliverables, to extend beyond **30 calendar days** from the original estimated completion date. Prior to the original estimated completion date, the contractor shall provide a copy of the CTO's written approval for any extension of the term of this task order to the Contracting Officer; in addition, the contractor shall attach a copy of the CTO's approval to the final voucher submitted for payment.
- c. It is the contractor's responsibility to ensure that the CTO- approved adjustments to the original estimated completion date do not result in costs incurred that exceed the ceiling price of this task order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the task order.
- d. Adjustments that will cause the elapsed time for completion of the work to exceed the original estimated completion date by more than 30 calendar days must be approved in advance by the Contracting Officer.

**B. KEY PERSONNEL.**

The key personnel identified below are considered essential to the work being performed. Unless otherwise agreed to in writing by the Contracting Officer, the Contractor shall be responsible for providing such personnel for performance at the level-of-effort and for the term required. Failure to provide key personnel designated below may be considered nonperformance by the Contractor unless such failure is beyond the control, and through no fault or negligence of the Contractor. The Contractor shall immediately notify the Contracting Officer and the CTO of any Key Personnel's departure and the reasons therefore. The Contractor shall take steps to immediately rectify this situation and shall propose a substitute candidate for each vacated position along with a budget impact statement in sufficient detail to permit evaluation of the impact on the program. The Contractor without the written consent of the Contracting Officer shall make no replacement of personnel whether provided in advance or by ratification.

The Key Personnel for this task order are as follows:

<u>Name</u>	<u>Position Title</u>
1. Mr. H. Wheeler	Chief-of-Party
2. Mr. F. Parlindungan	Financial Specialist

C. Subject to the ceiling price established in this delivery order and the prior written approval of the CTO, the contractor may adjust the number of workdays actually employed in the performance of the work by each position specified in this order. The contractor shall attach a copy of the CTO's approval to the final voucher submitted for payment.

D. It is the contractor's responsibility to ensure that the CTO-approved adjustments to the workdays ordered for each functional labor specialist do not result in costs incurred which exceed the ceiling price of this delivery order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the ceiling price.

**NOTE: *The Contractor will not be paid any sum in excess of the ceiling price or obligated amount, whichever is less, without the written approval of the Contracting Officer.***

**1.9. USE OF GOVERNMENT FACILITIES AND PERSONNEL**

(a) The contractor and any employee or consultant of the contractor is prohibited from using U.S. Government facilities (such as office space or equipment), or U.S. Government clerical or technical personnel in the performance of the services specified in the delivery order, unless the use of Government facilities or personnel is authorized in advance, in writing, by the Contracting Officer.

(b) If at any time it is determined that the contractor, or any of its employees or consultants, have used U.S. Government facilities or personnel either in performance of the contract itself, or in advance, without authorization in, in writing, by the

Contracting Officer, then the amount payable under the contract shall be reduced by an amount equal to the value of the U.S. Government facilities or personnel used by the contractor, as determined by the contracting officer.

- (c) If the parties fail to agree on an adjustment made pursuant to this clause it shall be considered a "dispute" and shall be dealt with under the terms of the "Disputes" clauses of the contract.

1.10. **DUTY POST**

The Duty Post for this task order is Indonesia.

1.11. **ACCESS TO CLASSIFIED INFORMATION**

The contractor will not have access to classified information.

1.12. **LOGISTIC SUPPORT**

The contractor shall be responsible for all logistical support needed to successfully complete the Task Order.

1.13. **WORKWEEK**

The Contractor is authorized a 6 day workweek, **while in Indonesia**, with no overtime or premium pay.

1.14. **AUTHORIZED GEOGRAPHIC CODE**

The authorized geographic code for procurement of goods and services under this order is 000 (United States) and Cooperating Country.

1.15. **ORGANIZATIONAL CONFLICT OF INTEREST: PRECLUSION FROM IMPLEMENTATION CONTRACT.**

In reference with Section H.5. of the basic contract No AEP-I-00-00-00025-00 and Contract Information Bulletin No 99 - 17 of August 17, 1999 the following clause is made applicable to this task order:

This task order calls for the Contractor to furnish important services in support of evaluation of the Partnership for Economic Growth Program. In accordance with the principles of FAR Subpart 9.5 and USAID policy, **THE CONTRACTOR SHALL BE INELIGIBLE TO FURNISH, AS A PRIME OR SUBCONTRACTOR OR**

OTHERWISE, IMPLEMENTATION SERVICES UNDER ANY CONTRACT OR TASK ORDER THAT RESULTS IN RESPONSE TO FINDINGS, PROPOSALS, OR RECOMMENDATIONS IN AN EVALUATION REPORT WRITTEN BY THE CONTRACTOR. THIS PRECLUSION WILL APPLY TO ANY SUCH AWARDS MADE WITHIN 18 MONTHS OF USAID ACCEPTING THE REPORT, unless the Head of the Contracting Activity, in consultation with USAID's Competition Advocate, authorizes a waiver (in accordance FAR 9.503) determining that preclusion of the Contractor from the implementation work would not be in the Government's interest.



**Annex E**  
**List of Publications Generated**

Information obtained from [www.pegagus.or.id/public.html](http://www.pegagus.or.id/public.html)

No.	Title of Publication
1.	What We Know About Small and Medium Enterprise (SME) Finance in Indonesia, By Thomas A. Timberg, Partnership for Economic Growth, Small Scale Credit Advisor
2.	Islamic Banking in Indonesia, By Thomas A. Timberg, Partnership for Economic Growth, Small Scale Credit Advisor, Bank Indonesia.
3.	The Supply of Credit to Small and Medium Enterprise (SME) – Without the Kredit Usaha Kecil (KUK) Loan Program (Includes 4 Excel spreadsheets), By Thomas A. Timberg, Partnership for Economic Growth, Small Scale Credit Advisor, Bank Indonesia.
4.	Indonesia's Trade Performance During the Economic Crisis (Includes 1 Excel Spreadsheet), By Stephen L. Magiera, Partnership for Economic Growth, International Trade Specialist, Ministry of Industry and Trade.
5.	Pengalaman Amerika Di Bidang Merger: Apakah Ada Relevansinya Dengan Undang-Persaingan Usaha Indonesia Yang Baru? (in Bahasa Indonesia only," The U.S. Experience in Corporate Mergers: Is There Any Relevance to the New Indonesian Business Competition Law?"), By Paul H. Brietzke, Partnership for Economic Growth, Legal Advisor, Ministry of Law and Legislation.
6.	Economic Priorities after the Indonesian Elections and Their Implications for the Australasian Region, By Robert c. Rice, Partnership for Economic Growth, Small and Medium Enterprise Advisor, State Ministry of Cooperatives and Small and Medium Enterprises.
7.	Product Reservation and Other Policies To Increase Demand For the Products Of Small Enterprises Compared With Some Alternative Policies, By Robert C. Rice, Partnership for Economic Growth, Small and Medium Enterprise Advisor, State Ministry of Cooperatives and Small and Medium Enterprises, 20pp.
8.	Securitisation and Bankruptcy in Indonesia: Theme and Variations, By Paul H. Brietzke, Partnership for Economic Growth, Legal Advisor, Ministry of Law and Legislation, 11 pp.
9.	Indonesian Law Reform, By Paul H. Brietzke, Partnership for Economic Growth, Legal Advisor, Ministry of Law and Legislation, 12 pp.
10.	Laporan Kebijakan Persaingan Indonesia (in Bahasa Indonesia only, "Report on Competition Policy in Indonesia"), a study funded by the Economic Law and Improved Procurement Systems, ELIPS, Project, USAID No. 04970372, By Colleen Loughlin, Lexicon; Steven Marks, Pomona College; Achmad Shauki, U. of Indonesia Dept. of Economics; Ningrum Sirait, U. of N. Sumatra Faculty of Law, 63 pp.
11.	Decentralization, Internal Barriers to Trade, and Local Discriminatory Action, By Gary Goodpaster, Partnership for Economic Growth, Chief of Party, 12 pp.
12.	Decentralization in Indonesia: Prospects and Problems, By James Alm and Roy Bahl, Department of Economics, The School of Policy Studies, Georgia State University (Work funded by the United States Agency for International Development), 58 pp.
13.	Bank Restructuring in Indonesia, By Susan L. Baker, Consultant for the Partnership for Economic Growth, 32 pp.

No.	Title of Publication
14.	Report on Competition Policy in Indonesia, a study funded by the Economic Law and Improved Procurement Systems, ELIPS, Project, USAID No. 04970372, By Colleen Loughlin, Lexicon; Steven Marks, Pomona College; Achmad Shauki, U. of Indonesia Dept. of Economics; Ningrum Sirait, U. of N. Sumatra Faculty of Law, 73 pp. (English version on No. 10).
15.	The U. S. Experience in Corporate Merges: Is There Any Relevance to the New Indonesian Business Competition Law?, By Paul H. Brietzke, Partnership for Economic Growth, Legal Advisor, Ministry of Law and Legislation, 6 pp. (English version of No. 5).
16.	Grain Quality as a Determinant of Wheat Import Demand: The Case of Indonesia, By Stephen L. Magiera, Partnership for Economic Growth, International Trade Specialist, Ministry of Industry and Trade, 20 pp.
17.	Deregulation of the Indonesian Wheat and Flour Markets, By Stephen L. Magiera, Partnership for Economic Growth, International Trade Specialist, Ministry of Industry and Trade, 20 pp.
18.	Small Enterprises As An Essential Part Of the Indonesian Development Strategy, By Robert C. Rice, Partnership for Economic Growth, Small and Medium Enterprise Advisor, State Ministry of Cooperatives and Small and Medium Enterprises, 25 pp.
19.	Factors Affecting The Competitiveness Of Small and Medium Enterprises, By Robert C. Rice, Partnership for Economic Growth, Small and Medium Enterprise Advisor, State Ministry of Cooperatives and Small and Medium Enterprises, 12 pp.
20.	Prospects for Indonesia's Exports of Agro-industrial Products During Repelita VI, By Stephen L. Magiera, Partnership for Economic Growth, International Trade Specialist, Ministry of Industry and Trade, 33 pp.
21.	Policy Note: Indonesian Sugar Policies and Contrasts with Other Asian Countries, By Stephen L. Magiera, Partnership for Economic Growth, International Trade Specialist, Ministry of Industry and Trade, 12 pp.
22.	The Uruguay Round, Implications for the Indonesia Textiles and Apparels Sector, By Stephen L. Magiera, Partnership of Economic Growth, International Trade Specialist, Ministry of Industry and Trade, 17 pp.
23.	A Comparison of the Development of Small and Medium/Large Indonesian Manufacturing Enterprises from 1986 to 1996 by Sector, by Robert C. Rice, Partnership for Economic Growth, Small and Medium Enterprise Advisor, State Ministry of Cooperatives and Small and Medium Enterprises, 10 pp.
24.	Faktor-faktor yang Mempengaruhi Daya Saing Usaha Kecil dan Menengah oleh Robert C. Rice, Kantor Menteri Negara Koperasi, Pengembangan Usaha Kecil dan Menengah dan Proyek Partnership for Economic Growth, 16 pp.
25.	Strategy of Financing Small and Medium Enterprises in a New Economic Environment, by Thomas Timberg, PEG-USAID Small Scale Credit Adviser for Bank Indonesia. I gratefully acknowledge the many inputs and insights for this paper provided by Mr. Abdul Azis and Mrs. Yunita R. Sari of Biro Kredit, Bank Indonesia, 30 pp.
26.	Why Isn't There More Small and Medium enterprise (SME) Credit from Commercial Banks I Indonesia? By Thomas Timberg, PEG-USAID Small Scale Credit Adviser for Bank Indonesia, delivered at the USAID Retreat, November, 2000, 3 pp.
27.	The Political Economy of SME Development Policy in Indonesia – the Policy Process, the Facts, and future Possibilities. By Thomas Timberg, PEG-USAID Small Scale Credit Adviser for Bank Indonesia, delivered at the USAID Retreat, November, 2000, 8 pp.

No.	Title of Publication
28.	Lending Models – How to Determine Why SME Loans are Made in Indonesia – Moving Forward to a Research Agenda. By Thomas Timberg, PEG-USAID Small Scale Credit Adviser for Bank Indonesia, delivered at the USAID Retreat, November, 2000, 5 pp.
29.	Reflections on Corruption in Indonesia. By Gary Goodpaster, Professor of Law Emeritus, University of California School of Law, Davis; former Chief of Party, Partnership for Economic Growth, February 2001, 21 pp.
30.	Refleksi Tentang Korupsi oleh Gary Goodpaster, Bahasa Indonesia version of paper no. 29.
31.	Status of the WTO Services and Agriculture Negotiations: Implications for Indonesia D Summary of Findings and Final Report by Ashok Menon, Nathan Associates, January, 20001, 68 pp.
32.	The Gains from Open International Trade and Investment in the Deregulation Era: Implications for Indonesia International Economic Policy in the 21 <sup>st</sup> Century by William E. James, March 2001, 62 pp.
33.	Technical Report Indonesia Information and Communications Technologies (ICT) Assessment by D. Owen, I. Sulaiman, S. Baldia and S. Mintz, March 2001, 135 pp.
34.	Trade Finance in Indonesia: Structural Issues and Impact of the Financial Crisis by Melville Brown and Stephen L. Magiera, Nathan Associates, 25 pp.
35.	Perizinan Dalam Era Desentralisasi (in Indonesian) (Licensing in the Decentralizing Era) Frida Rustiani, PEG/MOIT, 31 pp.
36.	Business Development Services for Small and Medium Enterprises and Cooperatives in Indonesia: Some Key Guidelines and Needs by Eduardo Canela, April 2001, 69 pp.
37.	Inflation Targeting in a Dynamic General Equilibrium Model: The Case of Indonesia by P.D. McNelis, C.P. Joseph, J. Dewandaru, and H.D. Ari, January 2001, 25 pp.
38.	Fiscal Policies for Economic Recovery by William Wallace, August 1999, 24 pp.
39.	Policies and Institutions to Ensure Free Internal Trade under Decentralization by D. Ray and G. Goodpaster, April 2001, 20 pp.
40.	Trade and Citizenship Barriers and Decentralization by D. Ray and G. Goodpaster, September 2000, 20 pp.
41.	National Economic Integrity and the Decentralisation Process: Guidelines for Competition and Domestic Trade Policies by D. Ray, October 2000, 19 pp.
42.	Are Industrial Concentration and Market Shares Reliable Indicators of Competition? By Kelly Bird, August 1999, 28 pp.
43.	How Reliable Are Agricultural and Industrial Wage and price Data? By Gustav F. Papanek and Budiono Sri Handoko, August 1999, 13 pp.
44.	The Impact of Crises and Policies on the Poor: An Early Warning System Based on Wages by Gustav F. Papanek, November 1999. 11 pp.
45.	Indonesian Non-Oil/Gas Export Performance in 1998 by James Mudge, August 1999, 24 pp.
*	Annual Report 2000 – Partnership for Economic Growth (PEG) Project, March 2001, 57 pp.
46.	An Economic Reform Agenda for Indonesia? By Paul Brietzke and Thomas A. Timberg, August 1999, 97 pp.
47.	Economic Issues and the Constitution by William Wallace, March 2000, 10 pp.
48.	Economic Development and Development Planning: A Short Note by William Wallace, August 2001, 9 pp.
49.	The Pursuit of Monetary Policies under the Transition from High Inflation to Stabilization: The Experience of Bazil by William G. Tyler, August 1999, 25 pp.

No.	Title of Publication
50.	Moving Towards Inflation Targeting in the Pursuit of Monetary Policy: Some Thoughts on Defining a Work Program by Reza Anglingkusumo and William G. Tyler, June 1999, 22 pp.
51.	Companies Law in Indonesia by Paul H. Brietzke March 2000, 26 pp.
52.	Homo Oeconomicus as Menschenbild: Reforms in Indonesia by Paul H. Brietzke November 1999, 10 pp.
53.	Survey on Uses of Information & Communications Technology by Indonesian SME Exporters by Yadi S.A. Suriadianata, September 2001, 76 pp.
54.	Penelitian Penggunaan Teknologi Informasi dan Komunikasi Oleh UKM Ekspertir di Indonesia (in Indonesian) (Survey on Uses of Information & Communications Technology by Indonesian SME Expeorters) by Yadi S.A. Suriadianata, September 2001, 93 pp.
55.	Pembaharuan Peraturan Perundang-Undangan Mengenai Usaha Kecil dan Menengah di Indonesia (Review of Regulations & Laws about SME in Indonesia) (in Indonesian) by Paramita Pranamingtyas, July 2001, 44 pp.
56.	Otonomi Daerah dan Iklim Usaha: Temuan dari SMERU ( in Indonesian with and English summary) (Regional Autonomy and the Business Climate: Findings by SMERU) by The Social Monitoring and Early Response Unit (SMERU), April 2001, 58 pp.
57.	The Benefits from Free Internal Market Trade: Some Lessons for Indonesia from the European Union Single Market Programme by Douglas Todd, April 2001, 13 pp., and the translation in Indonesian, "Manfaat dari Program Pasar Tunggal Uni Eropa," April 2001, 15 pp.
58.	Globalization and Decentralization: The Gains from Open Domestic and International Trade by William E. James, April 2001, 9 pp., and the translation in Indonesian, "Globalisasi dan Desentralisasi: Keuntungan dari Perdagangan Domestik dan Perdagangan Internasional yang Terbuka," April 2001, 11 pp.
59.	Policies and Institutions to Ensure Free Internal Trade under Decentralization by David Ray and Gary Goodpaster, April 2001, 19 pp., and its translation, "Kebijaksanaan dan Lembaga untuk Memastikan Perdagangan Internal Bebas Dalam Era Desntralisasi," April 2001, 22 pp.
60.	Local Government Taxation: Standard International Practices by Arthur J. Mann, April 2001, 24 pp., and its Indonesian translation, "Perpajakan Pemerintah Daerah: Praktek-Praktek Internasional Yang Standar," April 2001, 26 pp.
61.	Prospek Perdagangan dalam Negeri dalam Era Desntralisasi dan Dampaknya Atas Pembangunan Ekonomi Derah (The Prospect of Domestic Trade in the Era of Decentralization and its Impact of Regional Economic Growth) (in Indonesian) by Ubaidillah, Brahmantion Idsijoso and Mangara Tambunan, April 2001, 22 pp.
62.	Deregulasi Ekonomi, Kemiskinan dan Distribusi Pendapatan (Economic Deregulation, Poverty and Income Distribution) (in Indonesian) by Mohamad Ikhsan, April 2001, 22 pp.
63.	Kebijakan Persaingan di Era Otonomi: Peranan KPP [Competition Policy in an Era of Regional Autonomy (Decentralization): The Role of KPPU ( the Business Competition Supervisory Commission)] (in Indonesian) by Faisal H. Basri and Dendi Ramdani, April 2001, 11 pp.
64.	Kebijakan Pungutan Daerah di Era Otonomi [The Policy on Regional Levies in the Era of Regional Autonomy (Decentralization)] (in Indonesian) by Robert A. Simanjuntak, April 2001, 22 pp.
65.	Wage and Employment Effects of Minimum Wage Policy in the Indonesian Urban Labor Market by the Social Monitoring and Early Response Unit (SMERU) Research Institute, October 2001, 85 pp.
66.	The New Regionalism in East Asia: Implications for Indonesia by William E. James, October 2001, 11 pp.
67.	Regional Autonomy and the Business Climate: Three Kabupaten Case Studies from North Sumatra by the Social Monitoring and Early Response Unit (SMERU) Research Institute, May 2001, 47 pp.

No.	Title of Publication
68.	Regional Autonomy and the Business Climate: North Sulawesi and Gorontalo by the Social Monitoring and Early Response Unit (SMERU) Research Institute, September 2001, 63 pp., and the Indonesian translation, "Otonomi Daerah dan Iklim Usaha: Kasus Sulawesi Utara dan Gorontalo," September 2001, 57 pp.
69.	Establishing an Independent Regulatory Body for Telecommunications (remarks at a Workshop Sponsored by the USAID PEG Project and the Ministry of Communications, Republic of Indonesia, May 9, 2001), by Larry F. Darby, May 2001, 11 pp.
70.	An Independent Regulatory Body for Telecommunications by Stephen L. Magiera, September 2001, 3 pp.
71.	An Overview of Indonesia Trade Policy During the 1990's by Stephen L. Magiera, May 2001, 6 pp.
72.	The Indonesian Economic Recovery from the Crisis in 1997-98, Anwar Nasution, January 2001, 24 pp.

**Annex F**  
**List of PEG Accomplishments in 2001**

For annual USAID Financial Report

1. A key accomplishment of the work at BAPPENAS has been the mid-term macroeconomic frameworks and policy agendas (the umbrella for the annual budget). In July the most recent framework was explicitly included in the GOI Letter of Intent (LOI) to the IMF. These exercises highlight the policy agenda required to accelerate recovery and maintain fiscal sustainability. They are the key Indonesian government agenda setting document and promote ownership of economic reform.
2. The PEG team has also assisted BAPPENAS develop its own monthly and quarterly economic reports for the cabinet, replacing similar reports to GOI that had been prepared by PEG. These reports highlight emerging issues and focus the cabinet's scarce policy resources on critical economic problems as they emerge.
3. PEG provided both BAPPENAS and the Investment Coordinating Board materials to strengthen key provisions of the proposed investment law to improve investor confidence. The final draft was circulated in early November 2001. A key success was the insertion of national treatment for foreign investors. Other key provisions include guarantees against nationalization, fair and prompt compensation, guarantees of free access to foreign exchange, and repatriation of capital and profits.
4. BAPPENAS is now directly under the President's office and is responsible for developing policy white papers. The PEG team is working with BAPPENAS on two white papers: (1) support for investment policy analysis and (2) work programs in the Manpower directorate including review of labor policies and the industrial relations system. PEG has obtained high-level support for the examination of labor policy issues and the development of a comprehensive employment strategy.
5. PEG worked extensively to help the Government of Indonesia to establish the legal basis for identifying and then freezing terrorist assets in the Indonesian banking system. Because of these efforts two separate orders requiring the freezing of terrorist assets were issued in late 2001.
6. PEG worked with the Ministry of Finance to promote the work of the KPMG/Barrents on tax reform. In conjunction with the IMF, the Ministry of Finance is now moving forward on a number of fronts to improve tax administration and key goals on tax administration reform were included in the latest LoI.
7. PEG has been working for most of 2001 with the Office of the Coordinating Minister for Economic Affairs on developing a participatory process for the development of a poverty reduction and alleviation program. The government's approach in this area, as well as its initial views on what a poverty strategy should include, were presented at the CGI in November and were well received by the international community.
8. The team worked with the Embassy, the U.S. Treasury representative, and the GOI on efforts to develop a strong money-laundering bill.

9. The PEG project has been instrumental in maintaining the momentum of trade policy reforms, despite political pressures to reverse the process. Tariffs have been reduced by nearly 50 percent over the past six years and most non-tariff import barriers have been eliminated.
10. PEG analyzed the underlying causes of the weak trade performance and provided recommendations to improve the economic foundations of Indonesia's trading system (e.g. improved legal structure, broader financial markets for trade finance, etc). These recommendations have helped diffuse pressures for the Government to intervene directly in the market through the provision of subsidized export credits.
11. PEG successfully raised awareness of the possible negative effects on Indonesia of new regional trade arrangements such as the Singapore-Japan Agreement through a technical report provided to MOIT. The findings from this work will enable MOIT to better identify and deal with problems inhibiting competitiveness of Indonesian products and lead to heightened awareness of the necessity of improving institutional capacities in support of open and competitive markets.
12. Another success has been the positive response of the Minister of Industry and Trade to a PEG technical report on the impact on Indonesian trade of the global slowdown and the 9-11 attacks. This has led to the initiation of a study of the relative competitiveness of Indonesian products in the two largest markets as requested by the Minister.
13. Indonesia continues to be an active participant in multilateral trade institutions, including APEC, AFTA, and implementation, notification, and the built-in agenda of the Uruguay Round, and PEG has encouraged that participation through TA on the services and agricultural negotiations, such as training in the construction of service schedules, and other technical advice to ensure conformance with WTO rules and international best practices.
14. PEG-MOIT played a leading role in improving GOI awareness of the potential dangers of decentralization upon the business climate, in particular the freedom to trade across sub-national boundaries, sponsoring a number of regional seminars and conferences (including a major national conference) and a series of regional studies and policy papers. As a result, the MOIT is now working on a new domestic trade law that seeks to ban all forms of tariff and non-tariff barriers in domestic trade.
15. Policy reforms on domestic infrastructure are critical to Indonesia's future competitiveness. The PEG project has analyzed the tremendous benefits from port and shipping reform in Indonesia and raised awareness of the need for reform through deregulation and increased private sector participation. Maritime port development is potentially a key sector for U.S. companies in Indonesia and for Indonesia's future development.
16. In telecommunications, PEG has been instrumental in getting Indonesia to adopt a pro-competition regulatory framework that is based on international best practices. Regulatory reform is still in process, but one result is that the Government has decided not to merge two state-owned telecommunication companies into a monopoly. Telecommunications is also

potentially a key sector for U.S. companies in Indonesia and for Indonesia's future development.

17. In collaboration with USAID ANE Bureau, World Bank and JICA, PEG facilitated in the development of ICT National Guidelines and an ICT Action Plan. Both documents were eventually adopted by the Government as part of a Presidential Executive Order. Through socialization, PEG was instrumental in persuading the government to cancel a new regulation that would have restricted foreign investment in multimedia in Indonesia by imposing a luxury goods tax on ICT products.
18. As part of the efforts to implement the ICT Action Plan, PEG facilitated seminars on better use of existing ICT infrastructure and conferences on trade facilitation and e-business and on the Internet and small business development, coordinated a Washington-Jakarta video-conference on telecenter development, and organized the first donor meeting on ICT involving 6 donor organizations (USAID, World Bank, JICA, AusAid, CIDA and GTZ).
19. PEG has analyzed the impact of agricultural import barriers and played a pioneering role in examining the interface between decentralization and competition. This has led to fewer protectionist food policies, both domestic and international, and ensured that the Ministry focuses on the national interest when approving policies, some for incorporation in the new domestic trade law.
20. PEG made significant inputs into Bank Indonesia's adoption of a new market friendly small credit promotion policy and abandonment of lending quotas as required by the IMF LOI. Implementation is underway.
21. To help maintain macroeconomic stability, PEG advisors supported Bank Indonesia's anti-inflation policy with analysis and advice, assisting the central bank resist pressure to prematurely lower interest rates.
22. PEG promoted increased financial market flexibility. Caps on bank savings deposit interest rates were raised several times, allowing banks greater freedom in setting their deposit rates and increasing the effectiveness of the central banks monetary policy. Higher deposit rates contributed to exchange rate stability.
23. In cooperation with GTZ, PEG supported reforms in Rural Banks (BPR) and non-bank Microfinance regulations. This process is advanced but not complete. The new BPR rules are mostly in place, though the licensing rules will come in the next several months and implementation has just started. The Draft Microfinance Institution Law is still being reviewed by the Ministry of Finance before going to Parliament.
24. In cooperation with the IMF a report was completed on the Human Resource and Training Needs for Bank Supervision. It is now under consideration by the BI Board of Governors.
25. PEG spearheaded the development of an internationally accepted monetary policy model, the General Equilibrium Model for Bank Indonesia (GEMBI), which represents the state of the



art method for doing policy evaluation assessment in a dynamic open economy. This effort is now moving into “on-line” economic policy design and evaluation.

26. PEG provided technical advice in support of Bank Indonesia’s Transformation Project, to adjust it to its new more limited roles.
27. PEG promoted the issuance of a Ministerial Decree by the State Ministry for Cooperatives and Small Enterprise that sets up (on a consensus basis with the other parties) an inter-ministerial working group with a clear mandate to design a credit reference bureau like Dun and Bradstreet and resolve the outstanding issues connected with that bureau.
28. PEG has promoted progress in the external auditing of micro-finance institutions, marked by the launching of a contest for collecting audit experience and the launching of a program (by Asia Foundation) to restructure West Java micro-finance institutions.
29. PEG has administered 6 grants made under its contract, worth approximately \$4.65 million. Five (5) were extended into 2002 for additional activities. PEG also supervised the award and approval of, and subsequently administered, four direct USAID grants worth approximately \$3.4 million, of which \$1.4 million was for micro-enterprise development. Two Ph.D. research grants were awarded and completed.
30. PEG-administered grants have resulted in strong partnerships between U.S. and Indonesian institutions and organizations. Important relationships have been established with the Indonesian Competition Commission, the Jakarta Stock Exchange, legislative committees that oversee national economic policy, and selected local government administrations.
31. As a result of the USAID/PEG grants programs, Indonesian national and regional universities, think tanks, NGOs and research groups have a much increased capacity to advise government on decentralization issues, barriers to trade and investment opportunities, promoting healthy competition, liberalizing Indonesia's trade regime and financial and corporate restructuring.

PEG, CSCallison with PEG staff, 1/22/02

Annex G  
USAID-Indonesia Economic Growth Strategy  
**Transition to a Prospering and Democratic Indonesia**  
*Strategic Objective (SO-1):* Foundations Set for Rapid, Sustainable, and  
Equitable Economic Growth  
*Intermediate Result (IR-1):* Sound Economic Policy & Institutions

The current portfolio of technical assistance activities supporting USAID's Economic Growth initiatives in **sound economic policy and institutions** includes ongoing policy reform work with key institutions as well as mechanisms for flexible response to emerging policy issues and to challenges in managing Indonesia's recovery from the Asian financial crisis. During the period from 1999-2001, these technical assistance resources proved invaluable, not only in contributing to the Government of Indonesia's crisis response program but also in providing an entry point into policy and institutional reform processes that can truly set the **foundations for rapid, sustainable, and equitable economic growth**.

### **Transition from Response to Recovery**

As the Indonesian situation transitions out of crisis response and into recovery and restructuring, USAID-ECG resources are engaged in addressing the challenges posed by a formidable range of economic problems that are both crisis-driven and structural: budget deficit and uncoordinated fiscal policy, inflation, decline in new investment, economic slowdown, budget and policy confusion driven by decentralization, continuing structural problems in financial and banking sector, labor unrest, and increasing poverty. Making cost-effective use of the USAID-funded resources requires not only identifying and attacking the right problems, but also assembling an effective range of technical assistance inputs and deploying them across key policy-making institutions where reform is underway and impact can be maximized.

### **Guiding Principles**

- **Leveraged entry into policy debate:** Provide resident advisors with expertise in priority policy areas to support key economic ministries in institutional restructuring and policy reform.
- **Timely technical inputs:** Expand and deepen impact of technical assistance by mobilizing focused short-term technical expertise to provide additional technical inputs and accomplish specific time-bound tasks.
- **Range and synergy:** Position resident advisors across appropriate range of economic policy-making institutions to cover entry points into policy debate and to reinforce policy reform from multiple angles.
- **Flexibility and creativity:** Seize openings for constructive policy debate on emerging issues and provide inputs to support more equitable growth-oriented policies to strengthen Indonesia's economy and its links with American businesses and institutions.

Annex G  
USAID-Indonesia Economic Growth Strategy  
**Transition to a Prospering and Democratic Indonesia**

POLICY AGENDA

<b>Key Policy Goals</b>	Improved Policies in Trade, Investment, Labor, and Industry	Strengthened Policies and Institutions for Fiscal Sustainability	Restructured Financial Sector and Credible Banking Institutions
<b>Rationale</b>	Trade-Investment-Labor-Industrial is a nexus of real sector policy areas where better policy delivers better growth, employment generation, and poverty reduction.	Fiscal and monetary policy is the nexus where government's macro tools and institutions help maintain stability, and increase and sustain the economic growth rate.	Financial sector reform targets the policy challenges of resolving crisis damage and creating efficient financial intermediation in the real sector.
	Each of these is a "policy nexus" that is central to Indonesia's development strategy, and policymaking cuts cross all ministries where ECG technical assistance is focused. Some of the priority policy issues are also critical to short-term crisis response and recovery – and the lessons of the crisis illustrate the problems that occur when good macro policy is not supported by the necessary real sector policies.		
<b>Objectives</b>	<ul style="list-style-type: none"> <li>Focus on interaction between investment, trade, industrial, and competition policies to support sustainable real sector recovery</li> <li>Competitive, open markets for both international and domestic trade</li> <li>Increased domestic and foreign investment in competitive, job-creating sectors</li> <li>Labor and industrial policies that support expanded employment as a key element in poverty alleviation strategy</li> <li>Regulatory/policy framework to encourage investment in competitive infrastructure supporting expanded trade and growth – telecommunications, ports</li> </ul>	<ul style="list-style-type: none"> <li>Medium-term macro-fiscal framework for setting expenditure priorities; coordinated approach to expenditure control and appraisal, financing, and debt management <ul style="list-style-type: none"> <li>Reduced fiscal deficit – increased tax revenues, more efficient tax admin</li> <li>Reduced ratio of public debt to GDP</li> </ul> </li> <li>Substantive policy debate on appropriate legal and regulatory framework for decentralization as it affects tax and budget</li> <li>Support sound public debt management <ul style="list-style-type: none"> <li>Effective program of debt recovery and assets sales from BUMN</li> <li>Resolution of debt overhang through continued corporate debt restructuring</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Policies and actions to create a viable and restructured banking sector, to contribute to: <ul style="list-style-type: none"> <li>Price stability and low inflation</li> <li>Stable and competitive real exchange rate</li> <li>Liquidity adequate to support growth</li> </ul> </li> <li>Policy environment to provide a level playing field for SME growth <ul style="list-style-type: none"> <li>Rational regulatory environment</li> <li>Adequate and flexible financing</li> <li>Access to business development services</li> </ul> </li> </ul>
<i>Cross-Cutting</i>	<ul style="list-style-type: none"> <li>Improved capacity within legislative branch to engage in substantive and productive dialog on budget and key policy issues -- less obstruction on key implementation challenges such as asset sales and bank restructuring</li> <li>Increased capacity for policy analysis among academia and civil society, and public participation in policy dialog on key economic topics – Indonesian partners benefiting from three years of PEG Linkage grants, now stronger in independent policy work.</li> </ul>		
<b>ECG Resources &amp; Technical Assistance</b>	<ul style="list-style-type: none"> <li>❖ PEG-MOIT</li> <li>❖ PEG-Telecommunications</li> <li>❖ PEG-BAPPENAS</li> <li>❖ PEG-Coordinating Ministry</li> <li>❖ IRIS-DPR</li> <li>❖ PEG-Grants</li> </ul>	<ul style="list-style-type: none"> <li>❖ PEG-BAPPENAS</li> <li>❖ PEG-Coordinating Ministry</li> <li>❖ KPMG – BAF and DG-Tax</li> <li>❖ IRIS – DPR</li> <li>❖ Barents – JITF</li> <li>❖ PEG-Grants</li> </ul>	<ul style="list-style-type: none"> <li>❖ PEG-BI</li> <li>❖ PEG Coordinating Ministry</li> <li>❖ IRIS-DPR</li> <li>❖ Barents – IBRA</li> <li>❖ PEG-Grants</li> </ul>

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Policy Area	Accomplishments in 2001	Priority Issues for 2002 and Beyond
<p>Improved Policies in Trade, Investment, Labor, and Industry</p>	<ul style="list-style-type: none"> <li>• Instrumental support for maintaining the momentum of trade policy reforms despite intense political pressures to reverse; tariffs have been reduced by almost 50% over the past six years, and most non-tariff barriers are eliminated.</li> <li>• Support to Indonesia's active participation in multi-lateral trade institutions has produced openings in key sectors, including services, telcom, and agriculture which are of interest to US business community.</li> <li>• Revisions to proposed investment law to provide national treatment to all investors.</li> <li>• Policy reforms on growth-critical infrastructure sectors such as ports and telecommunications have been advanced, and anti-competitive initiatives successfully thwarted.</li> <li>• A national action plan for Information &amp; Communication Technology (ICT) has launched a coordinated national effort to support economic growth and democratic policy-making through expansion of ICT.</li> <li>• Analysis on impact of agricultural import barriers and the interface between decentralization &amp; competition has led to less protectionist food policies and a wider assessment of the benefits and costs of food price policy.</li> <li>• High-level support for examination of labor policy and development of comprehensive employment strategy to feed into poverty alleviation.</li> <li>• Inputs for the preparation of the GOI poverty alleviation strategy agenda.</li> <li>• Coordination and synergy between USAID-funded advisors in Finance, BAPPENAS, EKUIN, and MOIT has resulted in better policy coordination – and better policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on interaction between investment, trade, industrial, and competition policies to support <b>sustainable real sector recovery</b></li> <li>• Support to developing policy framework in key cross-cutting areas like <b>telecommunications</b> to enhance competitiveness, expand investment, and support broad participation in both economic activity and democratic decision-making</li> <li>• Priority issues in <b>international trade policies</b> <ul style="list-style-type: none"> <li>• how development of new regional trading agreements may divert trade from Indonesia</li> <li>• how global slowdown will affect Indonesian trade</li> <li>• how key manufacturing industries will be affected by changes in trade policy under international &amp; regional agreements</li> <li>• using Team Tariff (or other inter-ministerial mechanism) to advance a non-protectionist trade policy agenda to promote exports and growth</li> <li>• reducing average tariff rates and tariff dispersion</li> <li>• compliance with commitments under WTO – legal review and drafting, creating approving regulatory frameworks</li> <li>• national treatment &amp; market access for services</li> </ul> </li> <li>• Priority issues in <b>domestic and sub-national trade policies</b> <ul style="list-style-type: none"> <li>• inter-island trade impediments</li> <li>• sub-national barriers to trade and policy impacts of decentralization</li> <li>• competition along and competitiveness of supply and distribution chain</li> </ul> </li> <li>• Improving investment policies, especially in key sectors <ul style="list-style-type: none"> <li>• assessment of sectoral constraints including restrictions on private and foreign investment</li> <li>• privatization of state-owned enterprises</li> <li>• telecom regulations not conducive to private investment</li> <li>• transportation policies biased against private sector participation</li> </ul> </li> <li>• Linkages between <b>industrial and labor policies</b>, and unemployment and poverty <ul style="list-style-type: none"> <li>• research on impact of minimum wage laws, severance policies, social security contributions</li> <li>• policy bias against employment generation</li> </ul> </li> <li>• Impact of <b>food price policies</b> on urban and rural poor, consumers, producers</li> </ul>

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Policy Area	Accomplishments in 2001	Priority Issues for 2002 and Beyond
<p>Strengthened Policies and Institutions for Fiscal Sustainability</p>	<ul style="list-style-type: none"> <li>• Support to creation of the mid-term macroeconomic framework and policy agenda incorporated into GOI Letter of Intent w/ IMF.</li> <li>• Blueprint for tax reform developed; four Large Taxpayer Compliance Units planned and included in GOI-IMF LOI.</li> <li>• Supportive analysis for BI's anti-inflation policy allowed them to resist pressure to prematurely lower interest rates.</li> <li>• Increased financial market flexibility from raising caps on deposit rates to contribute to exchange rate stability.</li> <li>• Development of a state-of-the-art internationally-accepted monetary policy model – General Equilibrium Model for Bank Indonesia – now in use.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on interaction of the budget with the rest of the economy</li> <li>• Improved <b>tax administration and enhanced revenues</b> <ul style="list-style-type: none"> <li>• increase collections of corporate and personal income taxes, VAT, and property taxes</li> <li>• increase non-tax revenues</li> <li>• improve tax audit, widen coverage</li> <li>• design and implement unified tax database</li> </ul> </li> <li>• Improved <b>public expenditure management</b> <ul style="list-style-type: none"> <li>• Control of subsidy programs</li> <li>• Establishment of expenditure priorities and mechanisms for prioritizing the efficient use of resources --using a <b>medium-term macro/fiscal framework</b> to balance resources and development goals</li> </ul> </li> <li>• Enhanced capacity to manage <b>financing of government expenditures</b> <ul style="list-style-type: none"> <li>• Asset sales and privatization – expanding the policy debate beyond the asset sale figure to technical and allocative efficiency</li> <li>• Debt management – to include both               <ul style="list-style-type: none"> <li>•Developing/improving the domestic bond market</li> <li>•Foreign donor/creditor relations and coordination</li> </ul> </li> </ul> </li> <li>• Support for improved and proactive <b>policy design on emerging public expenditure issues</b> such as “social protection” programs (pensions, unemployment insurance) <u>as distinct from</u> crisis response social safety net programs (subsidies, job creation)</li> </ul>

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Policy Area	Accomplishments in 2001	Priority Issues for 2002 and Beyond
Restructured Financial Sector and Credible Banking Institutions	<ul style="list-style-type: none"> <li>• JITF case management of corporate debt restructuring efforts allowed Indonesia to meet the GOI-IMF LOI targets three years in a row.</li> <li>• Adoption of a new market-friendly small credit promotion policy and abandonment of lending quotas.</li> <li>• In cooperation with GTZ, support to ongoing reform of rural banks (BPR)</li> <li>• Draft of non-bank micro-finance regulation under discussion.</li> <li>• Promotion of issuance of a decree to set up an inter-ministerial working group with a clear mandate to set up a credit reference bureau like Dun &amp; Bradstreet.</li> <li>• Promotion of progress in the external auditing of micro-finance institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved <b>climate for investment</b> <ul style="list-style-type: none"> <li>• maintain market orientation and free convertibility</li> <li>• more clear and certain investment and industrial policies</li> <li>• regime that provides equal treatment between investors</li> </ul> </li> <li>• Accelerated <b>corporate debt restructuring and bank restructuring</b> <ul style="list-style-type: none"> <li>• Maintain momentum of JITF case mediation to meet short-term time-bound goals</li> <li>• Support second-round restructurings</li> <li>• Enhance effectiveness of both tax incentives and FSPC sanctions</li> <li>• Support restructuring of banking sector including transfer and liquidation</li> <li>• Strengthen BI's supervision and enforcement of prudential regulations</li> <li>• Transition from the blanket Government Guarantee Scheme</li> </ul> </li> <li>• <b>Enabling environment for SME growth and creation of jobs</b> <ul style="list-style-type: none"> <li>• Regulatory – limit the burdens imposed on small businesses by local governments and by <i>preman</i> mafia</li> <li>• Finance – expanded but prudent support for a range of BPR, commercial banks, and microfinance mechanisms who want to serve SMEs; encouragement of new institutions such as credit bureaus, rating services, and new lending methodologies</li> <li>• Business Development Services – available and driven by market demands from SMEs themselves</li> </ul> </li> </ul>

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