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ACEH TECHNICAL ASSISTANCE RECOVERY PROJECT (A-TARP)

QUARTERLY REPORT #5: JULY 1 – SEPTEMBER 30, 2006

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Jonathan Simon, Chief of Party, jSimon@chemonics.com

Ernest Leonardo, Deputy Chief of Party & Aceh Team Leader,

eleonardo@verizon.net

Josh Moga, Director, jmoga@chemonics.com

Partners:

Center for Good Governance (CGG), David Mammen, Director,

david.mammen@thecgg.org

Institute for Public-Private Partnerships (IP3), Matt Hensley

**International Intellectual Property Institute (IIPI), David Haffty, Director of
Contracts & Administration**

PT Osana Lestari Konsultan, Melva Nababan, Director, osana@indo.net.id

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EXECUTIVE SUMMARY

The Aceh Technical Assistance and Recovery Project (A-TARP) focuses on issues related to the reconstruction of Aceh and Nias and on the creation and implementation of growth-oriented policies by Jakarta ministries.

In the third quarter of 2006, A-TARP made considerable progress in both the tsunami region and in Jakarta. We continued our work assisting our counterpart agencies to build back better in Aceh and Nias and encouraging transparency, accountability, and efficiency among national government agencies.

A-TARP assists the Aceh Nias Rehabilitation and Reconstruction Agency (BRR) in almost all aspects encouraging the effective and efficient implementation of “build back better.” In the third quarter of 2006, A-TARP provided advice and assistance on the creation of a cooperative housing scheme, an economic growth strategy for a new Aceh economy that will be a sustainable, private-sector-driven, and export-oriented, and advised on the roll-out of BRR activities to the regions and the devolution of authorities from Banda Aceh to the kabupaten level. As a part of the economic growth strategy, A-TARP brought in short term assistance to assess the feasibility of a tourism industry in Aceh and long term assistance to create a strategy for fostering growth in promising business sectors. A-TARP also continued the anti-corruption work from previous quarters, bringing world-renowned specialist Bertrand de Speville to help develop operational plans and train personnel for the BRR’s Anti-Corruption Unit.

Other activities carried out in Aceh by A-TARP team members have assisted both the Governors office and the efforts of the USAID-funded road project. A-TARP has been integral in facilitation the land acquisition for the Banda Aceh to Meulaboh road, enabling construction to begin. A-TARP advisors have also made significant progress on strengthening the collaborative relationship between the Governor’s office and BRR at the provincial level by encouraging more frequent and direct exchanges between staff at these two key provincial institutions.

A-TARP activities in Jakarta from July to September 2006 have built on previous quarters, providing assistance to the Ministry of Finance and the Coordinating Ministry for People’s Welfare (Menko Kesra). Assistance to the Ministry of Finance has focused on disposing of state owned assets to raise national revenue and the creation of an internal audit unit at the Directorate General for Tax. The SOAG Secretariat at Menko Kesra continues to support the USAID-funded education and basic human service projects in their efforts to navigate Indonesian government regulations. They Secretariat was also responsible this quarter for ensuring the Strategic Objective Agreement between the U.S. and Indonesian governments was signed and processed in one day.

II. A-TARP ADVISORS AND STAFF

The composition of A-TARP's team of advisors and staff has adapted to the evolving needs of the project. The table below outlines current A-TARP staff, including short-term consultants providing assistance in the fifth quarter.

Jakarta-based Personnel	Aceh-based personnel
Project Management Office, Menara Kadin <ul style="list-style-type: none"> ▪ Chief of Party Jonathan Simon ▪ Operations Manager Amanda Righi ▪ Program Manager Nyanita Noviantina ▪ Finance Manager Vita Siregar ▪ Communications & M&E Manager Adji Dharmoyo ▪ Program & IT Assistant Rio Harie ▪ Administrative Assistant Mayolisia Ekayanti ▪ Drivers Machmud & Ucu Juhana 	Project Management Office, Banda Aceh <ul style="list-style-type: none"> ▪ Deputy Chief of Party Ernie Leonardo ▪ Program Manager Safrul Muluk ▪ Accountant Cut Yashmin ▪ Program Assistant/Cashier Rizki Baihaqi Halim ▪ Interpreter & Program Assistant Firmansyah ▪ Drivers Iin, Usman, Jaya, TBD ▪ Guards Fauzi, M. Amin, Muliadi
Directorate General Tax Advisory Team <ul style="list-style-type: none"> ▪ Senior Advisor Luke Tatnell ▪ Program Administrator Ahmad Fajarprana ▪ Office Assistant Hartono ▪ Driver Suminto 	BRR Advisory Team <ul style="list-style-type: none"> ▪ Deputy Chief of Party Ernie Leonardo, part-time as appropriate ▪ Chief of Party Jonathan Simon, part-time as appropriate ▪ Executive Assistant & Institutional Advisor Maggy Horhoruw ▪ Senior Logistics Advisor John Brady ▪ Business Development Advisor Gordon Studebaker ▪ Senior Planning Advisor Owen Podger ▪ Senior Communications Advisor Horace Crowe ▪ ST Anti-Corruption Advisor Bertrand de Speville ▪ ST Nias Communications Advisor Rosie Ollier ▪ ST Tourism Advisor Stan McGahey
Ministry of Finance <ul style="list-style-type: none"> ▪ Senior Advisor Ed Gustely ▪ Driver Tata Sunarwan 	Aceh Governor's Office <ul style="list-style-type: none"> ▪ Senior Advisor LeRoy Hollenbeck ▪ LT Forbes Damai Advisor William Ozkaptan ▪ LT Forbes Damai Secretariat Coordinator Yarmen Dinamika
Menko Kesra <ul style="list-style-type: none"> ▪ Senior Advisor Maurice Knight ▪ SOAG Secretariat Technical Advisor, BHS Artha Camelia ▪ SOAG Secretariat Technical Advisor, EDU Bachruddin Musthafa ▪ SOAG Secretariat Assistant, BHS, Mauliyati Slamet ▪ SOAG Secretariat Assistant, EDU, Erline Tasmania ▪ SOAG Secretariat Office Manager Umi Sugiharti ▪ SOAG Secretariat Admin. Assistant Rosmi Agustinah ▪ Driver Iding Sudrajat 	Aceh Public Works Department <ul style="list-style-type: none"> ▪ Roads Advisor Rusdi

III. ACTIVITIES AND KEY ACCOMPLISHMENTS

IIIA. ACEH AND NIAS REHABILITATION AND RECONSTRUCTION AGENCY (BRR)

BRR was created in April 2005 to facilitate the implementation of the \$7 billion Aceh and Nias Reconstruction Program. BRR's mandate is to oversee, manage, coordinate, integrate, monitor, approve, and ensure the accountability of all rehabilitation and reconstruction activities in Aceh and Nias. A-TARP's assistance to this agency focuses on enabling and strengthening core BRR roles and functions with an emphasis on building BRR's capacity to undertake its challenging program. A-TARP helps BRR fulfill its mandate by providing targeted technical assistance to priority initiatives — activities that must happen first in a strategic sequence of rehabilitation and reconstruction for the disaster-affected region and its people.

USAID SO 5: REHABILITATION AND RECONSTRUCTION OF ACEH AND NIAS

A-TARP's 2006 third quarter activities continued to be focused on providing a range of technical assistance to the Aceh and Nias Rehabilitation and Reconstruction Agency (BRR). BRR was established in April 2005 to facilitate the implementation of the \$7 billion international tsunami and earthquake reconstruction program.

BRR's mandate is to scope out, approve, manage, coordinate, monitor and ensure the overall effectiveness and accountability of activities related to the rehabilitation and reconstruction of Aceh and Nias. A-TARP's assistance to BRR includes enabling and strengthening core BRR functions of project management and oversight. In addition, A-TARP helps BRR by providing strategic technical assistance for specific priority reconstruction initiatives required to rebuild the communities of the disaster-affected region.

In addition to directly supporting the activities of the BRR, A-TARP fielded a full-time Senior Governance Advisor to the Governor of Aceh to help integrate BRR recovery activities with those of local government. Also in the area of governance, A-TARP has subcontracted to Yayasan Inovasi Pemerintahan Daerah (YIPD) to carry out the Aceh-Nias Governance Enhancement Program (ANGEP). The planned activities of YIPD and our Senior Governance Advisor are described also under SO 3. In support of IR 5.2, A-TARP provides an Indonesian roads engineer to advise the Aceh Provincial Department of Public Works to liaise with BRR and USAID on the Banda Aceh-Meulaboh Road project.

Below, we present third quarter project activities broken down by Key Result Areas (KRAs) under this strategic objective (SO).

USAID IR 1: TRANSITION FROM CAMPS TO COMMUNITIES

KRA 1: BRR EFFECTIVELY COORDINATING RECONSTRUCTION PROGRAMS

During Year 2, A-TARP will continue working with BRR in two broad areas:

1. BRR core functions, such as planning and policy, executive direction, communications and outreach, and good governance.
2. Reconstruction service delivery for housing and settlements, economic and business development, and logistics.

Planned project activities in these areas are described below.

CORE FUNCTIONS ACTIVITY 1: BRR PLANNING AND POLICY

Housing Programs. A-TARP has funded a short term advisor to work with BRR's Division of Housing and Human Settlements (DHS) on a cooperative housing program that would address issues related to the Internally Displaced Persons of Aceh and Nias, particularly renters and squatters affected by the tsunami. The development of a Cooperative Housing Program could supply former renters, squatters, and other at-risk populations (elderly, women with children) with affordable self-built and/or self-managed housing. Funding would be provided through BRR grants valued supplemented where needed with long-term housing trust fund and/or private sector or NGO provided mortgages. In the long-term, the Cooperative Housing Program could/would help residents transition to full homeowners status. As well, this program could become a critical element in BRR's overall poverty-reduction efforts and a model for an improved public housing programs throughout Indonesia.

Support for housing finance fund. BRR has also requested assistance to assess the potential benefits and usage of long-term mortgage financing for a variety of possible scenarios, for example:

- Households who will receive partial compensation for housing rehabilitation but wish to do more than a basic fix-up.
- Homeowners who are receiving a new, small house but wish to expand and make rooms available for renters, thus increasing rental housing supply and reducing prices.
- Cooperative housing for low-income and vulnerable groups including squatters affected by the tsunami who get one-half of the cost of a new house as a subsidy that could be used as a down payment to build a new house or buy land.

A-TARP DCOP has convened a working group within BRR to discuss this initiative with USAID's DCA program, and has provided DCA with data and information to help craft the outlines of a pilot program.

BRR Economic Growth Strategy (EDS). A-TARP DCOP Ernie Leonardo is working with BRR Deputy for Economic Development Pak Said Faisal and an Economic Growth Task Force comprising representatives of the World Bank, UNDP, IFC, the Multi Donors Fund (MDF) and the Aceh Planning Department (Bappeda) to develop an Economic Growth Strategy to guide efforts and direct resources to begin to build a foundation for a new Aceh economy that will be a sustainable, private-sector-driven, export-oriented economy whose products are moving up the value chain. The DCOP has conducted a "stocktaking" of all current efforts and initiatives by the GOI, BRR, Aceh local government, and the various donors and NGOs relating to the restoration of the economic capacity lost by both the

tsunami and the thirty years of isolation and conflict. As well, the DCOP has drafted an approach to the creation and implementation of an EDS. The approach was recently presented to and accepted by the MDF which has been approached to provide resources to support the technical assistance needed to complete the economic development planning activities for Aceh for the next ten years.

CORE FUNCTIONS ACTIVITY 2: BRR EXECUTIVE DIRECTION

Assistance to Director's Office and Chief Operating Officer's Office. A-TARP continues to assist the executive management of BRR through three key channels.

First, Institutional Advisor and Executive Assistant Maggy Horhoruw works directly with BRR Director Kuntoro Mangkusubroto and his other direct advisors to help ensure the smooth operations of the Agency as well as to recommend steps to improve human resources development and organizational structure.

Second, the A-TARP Chief of Party and Deputy Chief of Party continue to advise Kuntoro and his senior staff on technical and operational approaches on an ad hoc basis, drawing on their bird's-eye view of reconstruction efforts and on knowledge of what is being done or planned by other organizations (donors, NGOs, local governments, etc.).

Anti-corruption program. A-TARP brought Bertrand de Speville, a world-renowned anti-corruption expert, to Aceh for one of his periodic "refresher" missions to help develop operational plans and train personnel for the BRR's Anti-Corruption Unit (Satuan Anti-Korupsi, or SAK). This mission specifically addressed issues relating to anti-corruption prevention, enforcement, public information and collaboration with external institutions.

CORE FUNCTIONS ACTIVITY 3: BRR COMMUNICATIONS AND OUTREACH

A-TARP Communications Adviser Horace Crowe completed a thirty page operations manual addressing key concerns of the BRR and the BRR begins to prepare for the second anniversary of the tsunami. A-TARP Regional Communications and Outreach Adviser Rosie Ollier completed and is in the process of implementing an outreach program for BRR's regional offices. Her accomplishments in this third quarter include:

- Ongoing advising on management of the BRR Nias Complaints Handling Unit and Nias Village Meetings as well as Fatuhe, the (Nias BRR publication and media relations.
- Supporting new Nias BRR Community Relations Manager in devising and implementing community outreach program utilizing existing village meetings.
- Compiling Nias Regional Office Communications Manual, a product for both the Nias Communications Department and other BRR Regional Offices.
- Compiling and writing the Nias Progress Report. This report draws on key stakeholders working in Nias, such as UNORC and UNICEF, covering broad recovery progress as well as specific BRR Nias progress, challenges and future targets.
- Writing the Nias chapter of the BRR Second Commemoration and 18 Month Report. This 2000 word section will represent BRR Nias progress, challenges and planning

for the BRR report to the President and stakeholders for the December 2006 tsunami commemoration.

CORE FUNCTIONS ACTIVITY 4: BRR GOOD GOVERNANCE

Assistance to BRR regional offices. The regionalization of BRR operations is among the agency's top priorities for its second year of reconstruction work. To assist this process, a number of A-TARP team members are advising the roll-out of BRR activities to the regions and the devolution of authorities from Banda Aceh to the kabupaten level. Concurrently, our subcontractor YIPD is carrying out the Aceh-Nias Governance Enhancement Program, described more fully under USAID SO 3. Per their Scope of Work, YIPD has selected its 13 initial target kecamatans in conjunction with BRR regional office deputies and staff, and capacity building for these local governments will take place in parallel with reconstruction programs being designed and implemented by BRR regional offices. In this way A-TARP will focus governance enhancement efforts where they can have the most impact as measured through more effective execution of reconstruction programs. At the same time, as noted under SO 3, YIPD will also coordinate its capacity building with USAID's Local Governance Support Program, which is working in most if not all of the kabupatens where the Yayasan plans to work.

SERVICE DELIVERY ACTIVITY 1: HOUSING AND SETTLEMENTS

In addition to regionalization, the other stated priority for BRR's second year of operations is to accelerate the provision of housing and settlements to affected communities. Toward this end, the agency has established, staffed and is now giving considerable resources to its Division of Housing and Settlements. As in-house advisors to BRR, A-TARP is working closely with this Division, led by our Deputy COP. Specific areas of assistance are described below.

Reconstruction concept plans for Nias and Sabang. Through an ongoing subcontract, A-TARP has funded PT Wastuwidyawan to complete reconstruction concept plans for Gunung Sitoli, the capital of Kabupaten Nias, and Sabang, the port city on Pulau Weh, the island just across the strait from Banda Aceh. BRR has identified Sabang as a potential new economic development zone and possible free-port. Deputy COP Ernest Leonardo continues to work with BRR and local government authorities to assist the implementation of these plans, with additional support of PT Wastuwidyawan and the project's other long- and short-term experts as needed.

Detailed engineering designs for community infrastructure. As noted earlier, PT Wastuwidyawan has designed detailed community infrastructure designs for Lamjabat village in the Meuraxa subdistrict of Banda Aceh. Detailed engineering designs (DED) for houses and community infrastructure (e.g., roads, schools, drainage pipes, utility connections, etc.) are the step after spatial planning that lead to the actual reconstruction of better planned, better built communities. The detailed design for Lamjabat serves as a prototype, and the standards incorporated into this design are now being used in the infrastructure designs for other community plans throughout Aceh and Nias. These standards are being introduced to local government officials through BRR's new regional offices via a new operations manual developed by BRR's DHS.

SERVICE DELIVERY ACTIVITY 2: ECONOMIC AND BUSINESS DEVELOPMENT

Aceh-Nias business and investment development. A-TARP fielded a STTA Business Development Advisor to BRR in June to help devise and begin to carry out practical approaches to business development in the Aceh-Nias region. This advisor, Gordon Studebaker, is planned for a one-year assignment but has begun with a two month assignment pending final budget approval from USAID. His role is to help BRR determine an effective, workable approach to fostering growth in promising business sectors within the context of a practical market-driven economic growth plan. The Advisor works out of BRR's offices in Banda Aceh and has begun the following key tasks: held discussions with BRR officials, private businesses and community stakeholders to identify and prioritize factors that promote increased economic competitiveness; begun to identify the potential to introduce specific macro- and micro-level interventions and entrepreneurial incentives to foster economic growth; and, and has briefed decision makers on the relative advantages and disadvantages of alternative approaches to economic development in terms of costs, transparency, effectiveness and ease of making programs operational.

Several sectors have already been identified as having significant potential to drive economic growth in Aceh and Nias. One of these is tourism, for which A-TARP has fielded a dedicated specialist (see below).

Tourism development strategy and initial steps. One key aspect of the business development assistance noted above is to help jump-start the regional economy and help rebuild economic activities so they are better than they were before the tsunami – i.e., more competitive, more high-value, and more focused on jobs and growth. More specifically, BRR wishes to exploit sectors of the economy that offer long-term promise for growth and profitability. Such sectors could be targeted for improved competitiveness. The Tourism and Hospitality sector has been identified as one such targeted sector.

In response, A-TARP provided Tourism Development Advisor Stan McGahey to help ensure that Aceh and Nias develop internationally competitive tourism industries that can generate economic and social benefits for local populations through the provision of tourism products and services that reflect and protect their heritage, cultures and lifestyles. Mr. McGahey has helped train local government tourism officials on how to better promote tourism, better network with tourism providers, and completed a draft of a longer term public-private tourism strategy which will be incorporated in BRR's overall Economic Growth Strategy.

SERVICE DELIVERY ACTIVITY 3: LOGISTICS SUPPORT

Nias Logistics SWAT team. Nias is a stand-alone entity within the BRR and does not receive all of the attention, particularly for housing, that mainland Aceh does. In June, during a routine evaluation of the logistics situation there, it became apparent that there were a number of problems that needed attention. To address these concerns, Senior Logistics Advisor John Brady formed a sort of "logistics SWAT team" to go to Nias to identify problems and solutions. These activities included:

- surveying all potential ports and beach landing sites to identify where cargo could be landed from ships and determine feasibility and limitations, surveying all roads in Nias and identified damaged portions and bridges and reporting those need of repair have been reported.
- reviewing the planning and executing capability of NGOs to accomplish the housing projects to which they had committed.
- developing a logistics and transportation plan, drawing on the work of the other team members. Based on these findings, more sea transport has been added between Sibolga and Gunung Sitoli.
- bringing in other BRR staff from both Housing and Infrastructure and sending them to Nias to work with local BRR Nias staff to implement to logistics plans specifically focusing on establishing construction material depots to include sites and buildings.

Timber supply and documentation. Mr. Brady has done significant work concerning timber supply and documentation procedures. It is now possible to buy timber legally and all entities related to the process have correct information related to their responsibilities. These activities have included:

- attendance at the World Wildlife Fund’s “International Timber Marketplace” in Medan in July, also attended by a number of international timber suppliers who have the capacity to furnish significant quantities of sustainable timber to NGOs and UN agencies. BRR now has the procedures in place to import this material into Aceh and Nias.
- coordinating a study between WFPSS and BRR’s Tim Terpadu (One Stop Shop) to ensure that all shipments in the transportation pipeline are legal so as to preclude future problems insofar as possible.
- implemented an extensive NGO survey in May to determine what material requirements would be with an emphasis on timber.
- worked with the Ministry of Forestry to develop accurate approved timber supplier lists for use by NGOs, UN agencies, and contractors. This is the first time a list of this nature has been available.

UNHAS flights. Mr. Brady worked with the UNHAS Steering Committee to implement changes to the composition of the aircraft fleet and schedule. The new aircraft reduce costs and will provide adequate service including medevac to the humanitarian community. The reduced costs should give UNHAS sufficient funds to operate through December 2006 though the goal is to find a suitably qualified Indonesian carrier by that date or sooner that can provide service. This is necessary to ensure continued passenger air service from Banda Aceh – Calang – Meulaboh and from Meulaboh to Nias and Simeulue.

Housing material requirements. Mr. Brady worked with BRR Housing staff to quantify requirements and make revisions as necessary to determine what material was actually required for housing construction. This, in turn, has necessitated addressing these matters with WFP Shipping Service staff so that their ships on charter can be adjusted.

Roads and Bridges. Mr. Brady arranged for and coordinated a survey of roads and bridges in those areas of mainland Aceh that will receive significant amounts of reconstruction supplies.

Those roads and bridges requiring repairs were prioritized and reported to BRR Infrastructure for action as appropriate.

World Food Program Shipping Service. Mr. Brady worked with an external reviewer who did a complete evaluation of the WFP Shipping Service which he helped establish in October and November of 2005. The evaluation was very favorable and reflected the very valuable work this agency does in supporting shipping requirements for all of Aceh and Nias. Mr. Brady also participated in a joint effort with WFP Shipping Service to persuade area ship owners to consider a transition from WFPSS to commercial service at some point in the future.

USAID IR 2: REBUILDING INFRASTRUCTURE

KRA 2: ACEH COASTAL HIGHWAY CONSTRUCTION PROCEEDING WITH COORDINATION BETWEEN BRR AND LOCAL GOVERNMENT

In support of IR 5.2, A-TARP provides an Indonesian roads engineer to advise the Aceh Provincial Department of Public Works to liaise with BRR and USAID on the Banda Aceh-Meulaboh Road project.

A-TARP's Senior Roads Advisor Rusdi, through his pre-construction work with local communities, enables the Public Works Department to complete the Banda Aceh to Meulaboh road. He completed the activities discussed below in road-building during this quarter:

Mr. Rusdi worked with Senior Governance Advisor LeRoy Hollenbeck, USAID Aceh-based staff, provincial and district government officials, and personnel from the Parsons – IRG Road Consultant Team on strategies; procedures and mechanisms for acquiring land along the Banda Aceh – Meulaboh road right-of-way; these included:

- organizing two critical meetings, which initiated the land acquisition process – the first at the Parsons office on 3 July attended by reps from USAID, Parsons, IRG, the provincial Government and officials from the land teams in Aceh Besar, and the second in Calang, Aceh Jaya, on 6 July with similar representation from the various stakeholders, which resulted in ambitious timetables for the release of land along the road's right of way.
- organizing and attending a series of meetings at BRR to discuss the land acquisition process with all relevant stakeholders;
- exploring solutions to the problem raised by BRR that government-negotiated land prices were too high and whether options existed for reducing the cost of land acquisition;
- organized a series of land acquisition mini-team meetings to better monitor the progress with land release in the field and to more effectively coordinate all parties working on this critical issue; and
- attended the first land acquisition payment in Kecamatan Lhoong releasing the first parcels of land for road construction; assisted in getting another 88 parcels released within the WIKA subcontract area.

IIIB. GOVERNOR'S OFFICE, ACEH

SO 3: EFFECTIVE DEMOCRATIC AND DECENTRALIZED GOVERNANCE

The governor of Aceh is officially the vice chairman of BRR and is involved in planning, economic development, and governance issues related to reconstruction and to the province's overall growth. A-TARP's role, executed primarily by the long-term governance advisor to the Aceh governor's office, is to advise the provincial — and by extension, local — government on reconstruction issues and obstacles to clarifying roles and responsibilities of provincial and local governments in relation to BRR, central ministries, NGOs, and other agencies.

USAID IR 2: EXPANDING PARTICIPATORY EFFECTIVE AND ACCOUNTABLE LOCAL GOVERNANCE

KRA 1: IMPROVED COORDINATION OF BRR AND LOCAL GOVERNMENT FOR RECONSTRUCTION PROGRAMS

Regional coordination. A-TARP's Senior Governance Advisor Leroy Hollenbeck continued efforts to clarify continued efforts to clarify roles and responsibilities of provincial and local governments vis-à-vis BRR. Of particular importance was progress on strengthening the collaborative relationship between the Governor's office and BRR at the provincial level by encouraging more frequent and direct exchanges between staff at these two key provincial institutions. In addition, BRR recently decided that its effort at strengthening and sustaining its capacity building will be enhanced with the movement of a key Deputy (Institutional Capacity Building) and a few of his staff to the provincial Bappeda (Planning) Office and / or the Governor's Office;

Development of media center. Mr. Hollenbeck worked with Indo Pacific staff on finalizing the proposal for initiating a program addressing the Governor's request for a provincial communication strategy / media center in Aceh. Because of tendering issues and the need for transparency and public accountability, the provincial Government decided it would contract directly two or three national professionals to undertake this assignment. Two consultants have been identified and it is expected, once BRR approves funding, they will commence their 8-week assignment early October;

Capacity building. Mr. Hollenbeck supervised implementation of selected YIPD activities financed through the USAID Aceh Nias Governance Enhancement Project (ANGEP). Mr. Hollenbeck also assisted YIPD in the recruitment of an organizational development specialist, Mr. Kusubandio, to be assigned to BRR with the objective of strengthening the capacity of one of BRR's regional offices (Calang in Aceh Jaya will be the pilot). Worked with Mr. Kusubandio in Banda Aceh, set up meetings with him and key BRR staff, and arranged for his departure to Calang where he will initiate his assignment working with BRR's regional staff in strengthening the functions of the BRR-PemKab Joint Secretariat;

Governance working group. Mr. Hollenbeck continued spearheading initiatives to strengthen the role of the Good Governance Advisory Team and called a series of meetings with both the Advisory Team's larger membership and a smaller Core Team. The latter finalized a new terms of reference for pushing ahead the agenda of the Governance Working Group. The

new structure is composed of a Governance Forum (with membership consisting of key provincial government civil servants) and a Donor Working Group on Local Governance (with agency Heads from ten donor agencies – USAID, World Bank, Asia Development Bank, CIDA, EU, gtz, JICA, AusAID, UNDP and UNORC). After meeting with representatives from Catholic Relief Services (CRS), Mr. Hollenbeck encouraged their organization to become involved in the Donor Working Group since they had just embarked on a governance capacity building program, one of the first NGOs to do so;

KRA 2: IMPROVED DELIVERY OF PUBLIC SERVICES BY LOCAL GOVERNMENT IN TSUNAMI-EARTHQUAKE REGION

Identification of polytechnic's institute's site. Mr. Hollenbeck worked with USAID and Chevron team members in setting up meetings and presentations with the provincial and selected municipal / district governments (Banda Aceh; Aceh Besar; Pidie) for identifying a suitable site for the construction of a polytechnic institute in the province of Aceh. The USAID-Chevron partnership has committed nearly US\$ 10.0 million to the institute's establishment with the local authorities responsible for supplying and securing approximately 10 hectares of land. Numerous site inspections were carried out with the location at Pango Raya, Kecamatan Ulee Kareng, within the municipality of Banda Aceh deemed to meet the most criteria for a successful school;

Forrest rehabilitation. Mr. Hollenbeck met with senior representatives from the Asia Carbon Group based in Singapore to discuss the possibility of submitting the 900,000 hectare Leuser National Park and its surrounding 2.5 million hectare ecosystem for consideration of carbon finance on the carbon exchange. The focus will be on justifying that conservation of forests be provided the same treatment for receiving carbon credits as forest rehabilitation and afforestation schemes. Based on a recommendation from the Aceh Senior Governance Advisor, the Governors of Aceh and Papua agreed to pool together their forest resources and submit a joint request for assessment and submission for carbon financing.

Investment possibilities. Mr. Hollenbeck met with the Mohd Azmi Muslimin, Temasek Associate Director for Valuation Management, to discuss investment possibilities in Aceh, including oil palm plantations and power generation. Along with the Head of the Aceh Investment Coordinating Board, the Aceh Senior Governance Advisor was designated by the Governor as liaison officer to work with Temasek personnel in facilitating their investments in the province.

USAID IR 3: ADDRESSING CONFLICT AND ENCOURAGING PLURALISM

KRA 3: ACEH PEACE FORUM/BRA OPERATING EFFECTIVELY

FORBES Damai Advisor. Mr. Hollenbeck continued his collaboration with *FORBES Damai* (Joint Forum for Peace) stakeholders on recruiting its long-term expatriate advisor. After the short-list of 5 potential candidates was prepared, the selection committee conducted a series of interviews culminating in the selection of Mr. William Ozkaptan. Mr. Ozkaptan has begun his work with the Forum and has completed the following activities:

- established working relationships with the parties to the MOU in a series of meetings with the Aceh based representatives of the Government of Indonesia and the Aceh and Sweden based representatives of GAM.
- met with representatives of various stake holders in the Aceh peace process for discussions on the role of Forbes and other related peace process issues.
- begun to formulate and articulate a strategic vision for the future of Forbes in the post AMM period.
- begun to position Forbes as a key forum for the GOI and GAM to bring MOU implementation issues to the table for discussion, documented agreement and follow up.
- addressed the need for the GAM and GOI to have equivalent representational resources during the implementation period of the MOU.
- established a working relationship with Bapel-BRA in order to help provide advice on the implementation of reintegration programs.
- worked closely with USAID colleagues in order to ensure close coordination in achieving key objects with Forbes and other peace building measures.
- worked closely with the Coordinator of the Forbes Secretariat in the recruitment of Secretariat staff. An Office Manager, Interpreter and Communication Officer have either been recruited or are in the final stages of recruitment.
- helped facilitate arrangements for the Forbes Secretariat building to better serve as a peace process related conference center where all stakeholders and public can gather to discuss various issues. Exhibition space is being established for the presentation of International Community programs and other peace process related exhibits.

FORBES Strategic planning. Mr. Hollenbeck, along with USAID advisors, attended the *FORBES Damai* Strategic Planning Workshop in Jakarta, where all Forbes participants gathered to discuss the goals and work plan for the Forum.

Income generation. With the objective of creating more income-generating initiatives for ex-GAM, Mr. Hollenbeck worked with Coffee Forum members in discussing ways to accelerate coffee activities in the highland areas of Aceh Tengah and Bener Meriah and identifying a more suitable role for the local government representation within the Coffee Forum. Mr. Hollenbeck was also instrumental in setting up a meeting between *Bapel BRA*, the ILO and FAO to kick start programs in employment generation – ILO in small and medium industry and FAO in the agriculture sector.

Mr. Hollenbeck initiated discussions with the ConocoPhillips General Manager, who is interested in re-starting the Blok A gas project the Lhokseumawe / Langsa area of Aceh with a major investment of capital. ConocoPhillips is back in the market because of the success of the peace process and the growing sense of security in Aceh. If agreement can be reached with market terms and conditions, the company may invest hundreds of millions of dollars in re-starting this facility generating significant economic benefit for the province through increased revenues and employment; and

IIIC. MINISTRY OF FINANCE, JAKARTA

SO 4: ECONOMIC GROWTH STRENGTHENED AND EMPLOYMENT CREATED

USAID IR 1: INCREASED CERTAINTY IN THE BUSINESS OPERATING ENVIRONMENT LOWERS TRADE AND INVESTMENT RISK

USAID IR 2: IMPROVEMENTS IN CRITICAL PUBLIC SERVICES INCREASE INVESTMENT AND TRADE EFFICIENCY

KRA 1: IMPROVED FISCAL POLICIES IMPLEMENTED BY THE MINISTRY OF FINANCE

Financial sector policy reform. Together with the office of the Economic Coordinating Minister, Senior Advisor Ed Gustely has reviewed key regulatory and implementation issues involving the Government's newly launched policy package aimed at a) improving coordination between fiscal and monetary authorities and b) accelerating reforms in the banking sector, non-bank financial institutions (NBFI), and capital markets. Mr. Gustely has assessed strategies for overcoming impediments to improve performance of state-owned banks through regulatory changes on non-performing loans and SOE privatization policy.

Conferences and meetings. Mr. Gustely assists the minister of finance in drafting speeches and policy papers for meetings with international multilateral organizations. In the third quarter of 2006, these meetings have included:

- APEC Finance Ministers Meeting, 7 - 8 September, Hanoi, Viet Nam. Drafted Minister's opening statement and address; provided confidential advice and counsel to Minister and Deputy Heads in select bilateral discussions involving the U.S. Treasury, China, Korea, Australia, and Singapore; coordinated interviews with the international media and press.
- ASEAN Finance Ministers Roadshow, 13 – 14 September, Hong Kong. International event for promoting ASEAN regional investment. Drafted the Minister's panel discussion remarks, prepared country presentations and conducted briefings with private equity investors and hedge fund managers. Participated in key discussions involving the MoF, BI and invited financial institutions.
- IMF & World Bank Annual Meeting, 15 - 20 September, Singapore. Drafted Minister's opening statement and address, providing confidential advice and counsel in select bilateral discussions, and the drafting of several key-note addresses at IFI and investor sponsored forums.
- Coordinated interviews with the international press and media (CNBC, Bloomberg, BBC), including the Minister's nomination and recipient award as "Finance Minister of the Year 2006" by Euromoney Magazine.

KRA 2: GOVERNMENT RESTRUCTURES AND DISPOSES STATE-OWNED ASSETS

Ministry of Finance Reorganization & Modernization. Senior Finance Advisor Ed Gustely has advised the Ministry on institutional project structure and donor support for driving reorganization and modernization process involving Tax, Customs, Budget, and Treasury divisions. Working with the Head of Bapekki in the creation of the Ministry's new Fiscal Policy Office, Mr. Gustely has assessed the organizational capacity and scope of policy-making responsibilities that the new FPO will take-over from other divisions, including the establishment of its proposed Risk Management Unit tasked with mitigating the Government's exposure to contingent liability risks arising from SOE and PPP projects.

Accordingly, and with the secretary general, Mr. Gustely conducted evaluations and interviews of 56 eligible candidates for promotion to echelon I, II, and III grade levels within the ministry's tax, customs, budget, and treasury divisions. Of the candidates eligible for promotion, about 80 percent received their master's and doctorate degrees under USAID's grant study program.

US\$ 337 million Semen Gresik- Cemex Divestment. Mr. Gustely provided risk assessment and transactional advice involving the proposed US\$ 337 million sale of Cemex's minority interest in state-owned Semen Gresik to the Rajawali Group and updated the Ministers at Limited Cabinet Briefings on market developments, options and recommended strategies for mitigating the Government's exposure to shareholder and liability risks. After nearly 8 years of protracted negotiations and international lawsuits, this transaction received full GOI backing and approval. In return, Cemex dropped its \$500 million international arbitration suit against the GOI.

Garuda. Assigned by the Minister to provide counsel and advice on the airline's \$864 million debt restructuring involving foreign and domestic creditors Mr. Gustely worked with Garuda's Board of Directors in developing restructuring options and updated the Ministers at Limited Cabinet Briefings on market developments and recommended strategies for mitigating the Government's exposure to budgetary and contingency risks arising from debt negotiations. As a result, the GOI recently approved approx. US\$ 110 million in liquidity funds (from the 06-07 budget) to support Garuda's restructuring plan.

Merpati. Mr. Gustely provided confidential advice and counsel on Merpati's debt restructuring with its creditors and reviewed bridging loan terms and conditions with interested banks and strategic partners for joint operations; updating the Ministers at Limited Cabinet Briefings on market developments and recommended strategies for mitigating the Government's exposure to budgetary and contingency risks arising from debt negotiations. As a result, the GOI recently approved approx. US\$ 50 million in liquidity funds (from the 06-07 budget) to support Merpati's restructuring plan.

US\$ 195 Million Bank Permata Divestment. Mr. Gustely advised and prepared strategy recommendations to PPA's Board on the timing of the government's 25.9% stake in Bank Permata. Net sale proceeds amounted to US\$ 195 million resulting in a 4 percent premium over the shares' closing price.

IIID. DIRECTORATE GENERAL TAXATION, JAKARTA

SO 4: ECONOMIC GROWTH STRENGTHENED AND EMPLOYMENT CREATED

USAID IR 1: INCREASED CERTAINTY IN THE BUSINESS OPERATING ENVIRONMENT LOWERS TRADE AND INVESTMENT RISK

USAID IR 2: IMPROVEMENTS IN CRITICAL PUBLIC SERVICES INCREASE INVESTMENT AND TRADE EFFICIENCY

KRA 3: DIRECTORATE GENERAL TAX POLICIES MODERNIZED AND REFORMED

KRA 4: DIRECTORATE GENERAL TAXATION BUSINESS PROCESS REVIEW UNIT ESTABLISHED

This quarter, as a result of a request from the Indonesian minister of finance, support to the Directorate General Taxation (DGT) under the A-TARP project became fully operational. Office accommodation was allocated and counterparts assigned to the project team. Following consultation with DGT Executive a series of development activities were agreed and undertaken. USAID's support to DGT consists of technical assistance in creating an internal control unit, tentatively named the Business Process Review Unit.

During this quarter, Senior Tax Advisor Luke Tatnell and the team have done several project activities as described below:

- Conducted meetings with DGT executive management regarding their internal control analysis needs and the roles and responsibilities they perceive the BPRU may be tasked with.
- Researched similar units in other countries (IRS/ATO) including charters/work programs/organizational structures/position descriptions/training programs.
- Reviewed the existing DGT Organizational Chart for units that may have current responsibility for functions identified as relevant to BPRU operations.
- Drafted roles and responsibilities for the BPRU into a charter.
- Conducted meetings with the Modernization Team members to determine their position on the draft roles and responsibilities.
- Conducted meetings with heads of section/divisions that may be affected by the creation/operations of the BPRU.
- Obtained financial statements and audit reports for 2004/5 and review for areas of risk according to materiality and audit findings relevant to BPRU charter.

The outcomes of these activities were consolidated into a BPRU brief which was submitted to DGT executive management on 8th September 2006. The BPRU brief proposed both standards and a charter for the new unit. In addition, the organizational structure for the BPRU was submitted to MENPAN for approval as a component of the overall DGT

organizational restructure and a decision on that critical aspect of the DGT reforms is now pending.

IIIE. COORDINATING MINISTRY FOR PEOPLE'S WELFARE (MENKO KESRA), JAKARTA

SO 1: IMPROVED QUALITY OF DECENTRALIZED BASIC EDUCATION

USAID IR 1: MORE EFFECTIVE DECENTRALIZED MANAGEMENT AND GOVERNANCE OF SCHOOLS

PROJECT IR 1: IMPROVED COORDINATION AND EXECUTION OF USAID- FUNDED PROJECTS IN THE EDUCATION SECTOR

SO 2: HIGHER QUALITY BASIC HUMAN SERVICES

USAID IR 1: GOVERNMENTS, COMMUNITY ORGANIZATIONS, AND THE PRIVATE SECTOR MOBILIZED TO ADVOCATE FOR HIGHER QUALITY BASIC HEALTH SERVICES

PROJECT IR 1: IMPROVED COORDINATION AND EXECUTION OF USAID- FUNDED PROJECTS IN BASIC HUMAN SERVICES SECTORS

KRA 1: STANDARD OPERATING PROCEDURES UNDER THE STRATEGIC OBJECTIVE AGREEMENT DESIGNED AND ADOPTED

Under the guidance of Senior Advisor Maurice Knight, the SoAg Secretariat continues to support the USAID-funded education and basic human services projects as well as providing a bridge between USAID and the Coordinating Ministry for People's Welfare (Menko Kesra).

Standard operation procedures. In September, the Secretariat received the final comments on the Standard Operating Procedures for administrative processing of all SOAG related business. The Secretariat will incorporate these SOPs in October and issued to all projects and GOI partners to continue to increase processing efficiency.

Secretariat staff completed re-listing of USAID projects implemented by Catholic Relief Services, Save The Children, and to the State Secretariat, Division for Bi-lateral Cooperation. These projects previously were incorrectly listed with the Department of Social Affairs. In accordance with the SOAGs and GOI requirements, all projects funded with Indonesia Mission funds must be listed with the State Secretariat, Division for Bi-lateral Cooperation.

Web site development. Secretariat staff completed design of the USAID-Menko Kesra Joint Secretariat Website. This website will provide a centralized location through which USAID, Menko Kesra and project staff can access information on the status of Secretariat related tasks (e.g., visa processing and extension, work permits, duty free car and equipment purchasing, and laws and regulations) related to all aspects of USAID project-related work in

Indonesia. The Secretariat is currently populating the website with information and will have on-line and publicly accessible by the end of October.

USAID BHS and EDU Project Support. The Secretariat initiated discussions with the State Secretariat and the Coordinating Ministry for People's Welfare about resolving the ongoing issue of not being able to take advantage of the Indonesia tax free facility for vehicles to be used in Aceh as agreed in the SOAGs. The Secretariat proposed to GOI partners to cancel requests through BRR and reissue requests through the Coordinating Ministry and the State Secretariat. Both agreed and this action is in process. The Secretariat also continued to facilitate and reduce time required for processing visas, work permits, vehicle purchases under tax free facility, and other administrative matters. The Secretariat conducted facilitated joint USAID-Menko Kesra meetings on a range of issues requiring coordination including addition of 25 sites for USAID's Education Programs and coordination meetings with various Education and Basic Human Services projects.

KRA 2: PROVIDE SUPPORT FOR MENKO KESRA SOAG STEERING TEAM AND WORKING GROUPS

Support to Menko Kesra. The Secretariat obtained signing of the Avian Influenza Implementation Letter within one (1.5) weeks of receipt and continues to provide communication with the Coordinating Minister on Avian Influenza in Indonesia and global efforts to combat this disease. Secretariat staff provided detailed support to Menko Kesra in the regional rollout of the national call to action to improve the health status of Indonesians. This program is implemented as a directly result of the USAID supported National Health Summit jointly convened by the Ministry of Health and the Coordinating Ministry for People's Welfare in November, 2005. Secretariat staff provided limited support to the deputy coordinating minister for poverty alleviation in the development of a umbrella initiative tying together health, environment, education, and women empowerment and child welfare (among others) into a national program for poverty alleviation. Secretariat staff completed collection of 'in-kind contribution' information from Government of Indonesia counterpart organizations and provided this information to the Coordinating Ministry for People's Welfare for reporting to USAID.

KRA 3: TIMELY SIGNING OF ANNUAL SOAG AMENDMENT

SOAG amendment. The Secretariat obtained signing of the Strategic Objective Amendment for Education and Basic Human Services SOAGs within one (1) day of receipt.

IV. PLANS FOR MOVING FORWARD

IVA. ACEH AND NIAS

Continued advisory and material assistance to A-TARP's three primary counterparts (BRR, Aceh Governor's Office, and Aceh Public Works Dept) over the next quarter are likely to include:

- Further development and operations of BRR's Anti-Corruption Unit, including how it will interact with BPK, Corruption Eradication Commission, and Anti-Corruption Court
- Provide advice and support on business development in Aceh and Nias
- Through BRR, advise all aspects of the logistics of reconstruction: amassing needed materials; moving materials from port to location; improving transportation infrastructure and processes for materials, personnel, and equipment; and ensuring the availability of funds from donors or the Government of Indonesia's budget resources to cover these efforts
- Provide support to the BRR regionalization effort through technical assistance in communications in Nias and other regional offices
- Advise and support the implementation of the peace agreement between the Government of Indonesia and the GAM. The Aceh Governor's Office is providing this assistance, and it will include planning and support of a multi-stakeholder institution that will serve as a safe, neutral forum to address issues of concern to the government, GAM, and Aceh communities and their civil society representatives. Reintegration of former combatants will continue to be a priority issue addressed by project advisors.
- Advise the Aceh governor and his staff on how to rebuild and greatly improve local governance in Aceh, both in response to the tsunami and to the peace agreement, which includes extensive provisions for provincial autonomy and self-determination
- Through a subcontract to Yayasan Inovasi Pemerintahan Daerah, carry out community-based mapping and kecamatan-level governance enhancement throughout Aceh and Nias, working closely with local governments and new regional offices of BRR

IVB. JAKARTA

Assistance to the Ministry of Finance and Menko Kesra is likely to include:

- Continue to advise and help oversee disposal of the Government of Indonesia's assets through the Ministry of Finance's asset management company

- Advise and help implement Menko Kesra initiatives, such as the national response to the avian influenza threat, regional malnutrition, disaster relief, and immunization campaigns
- Establish and operate a full-service SOAG secretariat based in Menko Kesra and serving the USAID strategic objective teams and partners for basic human services and education
- Establish the systems and administrative procedures for a fully functioning internal audit unit at DGT