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SENADA

Indonesia Competitiveness Program

YEAR ONE ANNUAL REPORT

October 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

SENADA

Indonesia Competitiveness Program

YEAR ONE ANNUAL REPORT

For the Period

SEPTEMBER 1, 2005 THROUGH SEPTEMBER 30, 2006

USAID CONTRACT NUMBER 497-M-005-00043-00

Performance Period: September 1, 2005—August 31, 2009

Implemented by Development Alternatives, Inc.

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ABBREVIATIONS

CCN...Cooperating Country National

CIPS... Constraint Identification, Prioritization and Selection

COP...Chief of Party

CTO...Cognizant Technical Officer

DAI...Development Alternatives, Inc.

EBF...Enterprise Banking and Finance Group (of DAI)

EI...Enterprise Improvement

FSN...Foreign Service National

GoI...Government of Indonesia

IVC... Industry Value Chain

KMR...Key Monitoring Ratio

KADIN ... Indonesia Chambers of Commerce

LTTA...Long Term Technical Advisor

MOI ... Ministry of Industry

MOT ... Ministry of Trade

NGO ... Non Government Organization

OEG...Office of Economic Growth

ORM...Operational Review Meeting

PQM...Project Quality Manager

RCA...Regional Competitiveness Alliance

RCC...Regional Competitiveness Center

RM...Relationship Manager

SAP...Strategic Action Plan

STTA...Short Term Technical Advisor

SENADA ...Indonesia Competitiveness Program

SME ... Small and Medium Enterprises

SMART ... Specific, Measurable, Attainable, Realistic, Time-bound

TAMIS ... Technical, Management, and Administration Monitoring Information System

USAID...United States Agency for International Development

EXECUTIVE SUMMARY

DAI's implementation of the SENADA project during year one was adversely affected by a series of management delays and setbacks. Even though the difficulties were quickly confronted and resolved by DAI, overall results for the year have been less than anticipated. Nevertheless, the year was completed on a positive note, with most key personnel in place, a clear direction delineated and momentum built in implementing the project's two main components.

Mobilization of the original COP after two and a half months of project signing constituted the project's first delay. This was one of the major causes of the delay in developing and agreeing with USAID on a year one work plan, which eventually was completed more than six months into the project. Over the ensuing six months, all five expatriate advisors, including the COP, left the project. No institution or project, including SENADA, could undergo such massive changes without severe consequences on implementation.

While DAI accepts full responsibility for the management problems, the company's commitment in overseeing the project minimized these effects and facilitated an acceptable level of implementation. During year one, DAI Bethesda managers stepped in to carry out critical tasks, such as project start up for operations and technical planning as well as filling in as interim COP on two occasions. DAI's Vice President of the Enterprise, Banking and Finance Group personally came to Jakarta for two weeks to address and resolve the project's leadership problem.

Our highest level of progress was achieved in mobilizing and implementing our operational staff and systems. Nearly 50 staff was hired (not including those that departed) and five regional offices were opened throughout the country. Detailed manuals for operations, finance, and personnel were developed and installed during the period. Due to the high quality of operations staff and DAI's attention to this area, project administration has been fully under control. Financial and contracting regulations have been followed and reporting has been compliant.

Within the technical areas, progress has been mixed. The Country Competitiveness Assessment was completed as required. The assessment provides SENADA and Indonesian institutions with a useful understanding of the country's factors of competitiveness. The document succinctly describes Indonesia's policy and regulatory environment, export performance, investment potential, international best practices and patterns of comparative advantage. It also contains detailed case studies of Indonesia's industry value chains.

After a late start, we achieved solid progress in implementing the project's Enterprise Improvement (EI) component. Once SENADA consultants had been hired and trained in the EI methodology, they worked with small and medium size enterprises (SMEs) in developing firm level assessments and Strategic Action Plans (SAP). By the end of year one, we had provided this assistance to over 77 firms. In addition, 64 of these firms had received specialized technical assistance in the practice areas of finance, marketing, operations quality improvement and trade fair preparation. The program, whose objective is to improve industry competitiveness by enhancing a critical mass of high potential firms' ability to innovate and expand, has considerable momentum as we move into year two.

Progress under the Industry Value Chain Strengthening (IVCS) component was stalled due to management issues, including the lack of emphasis the original COP placed on this component. Fortunately, during the final months of year one DAI developed and began implementing a systematic approach to identifying and removing critical constraints to SENADA's chosen industries. Regional Competitiveness Alliances (RCAs), consisting of a wide spectrum of key stakeholders, were created and engaged. Industry information exchange began, and initial constraints were identified

and prioritized for three core industries in Jakarta, Surabaya and Bandung. A strong level of commitment was obtained from both private sector associations and from influential government institutions, including the Ministry of Industry, the Ministry of Trade and provincial investment promotion boards. This progress provides us with a strong base to proceed to constraint removal activities during the first half of year two.

Due mainly to management difficulties, there was minimal progress achieved in three areas. First, we did not develop and implement a comprehensive communication and public relations strategy as planned. We did, on the other hand, effectively promote and brand SENADA. A number of successful launches and public events were carried out. Second, we did not initiate the grants program during year one. Third, we did little in the way of exploring and developing opportunities to collaborate with private sector institutions in pursuing the objectives of SENADA. All three of these activities will be high priorities for development and implementation early in year two.

With the exception of the three activities mentioned in the previous paragraph, DAI has completed all of the project's major deliverables during year one. These are highlighted in the "Results" section of the annual plan. At this juncture, it is too early to report on and evaluate project indicator results. Baseline data will not be established until the end of 2006.

PROJECT START UP

The contract between USAID and DAI for the implementation of SENADA became effective September 1, 2005. The initial period of implementation and project start up faced a number of difficulties, largely due to the inability of DAI to field all of its long-term project personnel, including the Chief of Party (COP), within the originally intended timeframe. Due to these unforeseen circumstances during the first few months of project implementation, DAI marshaled various senior technical and management staff members from its headquarters to oversee project start up. The initial start up period of SENADA can be broken down into three phases with distinct individuals overseeing project start up, as follows:

Phase I

- Linda Nemec, Practice Manger (Interim COP, September 1- September 29)
- Doug McLean, Practice Manger (Interim COP, September – October 15)

Phase II

- James Grall, Principal Development Specialist and SENADA Project Quality Manager (Interim COP, October 12 – November 20, 2005)

Phase III

- Ron Ashkin, COP (mobilized November 14, 2005).

Each of the phases above was marked by a series of activities to position SENADA to begin a rapid implementation with the planned arrival of the Chief of Party, Mr. Ashkin, in November 2005. Highlights of Phase I included meetings with USAID around the development of the year one workplan, introductory meetings with key Government of Indonesia (GoI) counterparts, and the administrative tasks associated with searching for and securing office space for SENADA in Jakarta. DAI Project Associate Juliette Gelbard was instrumental in leading the administrative aspects of project start up. Under the guidance of Doug McLean, DAI submitted for review to USAID a draft annual workplan within 30 days of contract award, as required by the contract. While DAI met this deadline and developed a comprehensive workplan that was reflective of the proposal DAI submitted for USAID, during initial meetings with the Office of Economic Growth (OEG) it became clear that personnel in the office wished to wait for the mobilization of the COP to carry out substantive discussions on the workplan.

While awaiting the mobilization of the COP, James Grall oversaw the further start up of SENADA during Phase II. Several meetings were held with USAID OEG during this time regarding the substance of the proposed workplan, and DAI and USAID came to agreement on initial activities that the SENADA team could carry out short of having an approved workplan. The core of these technical activities focused on introducing the project and project personnel to public and private sector actors throughout Indonesia that were expected to benefit from or collaborate with SENADA. To that end, the core project team that was in place during Phase II spent considerable time traveling to the provinces where SENADA planned to open field offices, as well as in and around the greater Jakarta area, conducting introductory meetings and further research for input into a revised workplan. The number, location, and attendees of these meetings are documented in SENADA monthly and quarterly reports.

During Phase II, two Long Term Technical Advisors (LTTA) mobilized to Jakarta. SENADA's Senior Industry Advisor, Mr. Jerry Striplin, and SENADA's Commercial Law Advisor, Greg Beirne.

Both LLTA were immediately engaged with introductory meetings with counterparts and stakeholders in Industry Value Chains (IVC).

A second major focus during Phase II was on the first core project deliverable, the Indonesia Country Competitiveness Assessment. Within the first six months of the contract, DAI was required to conduct a thorough in-depth assessment of factors affecting Indonesia's competitiveness with special emphasis on the sectors and regions that were selected as targets in consultation with USAID. The assessment was completed in January 2006 and is further detailed in the Technical Implementation section that follows.

Phase III of project start up commenced with the arrival of COP Ron Ashkin on November 20, 2006. Concurrent with Mr. Ashkin's arrival was the mobilization of SENADA's Senior Public Communications/Organizational Development Advisor, Bill Canter. Within one week of the arrival of the COP, the Director of the Office of Economic Growth within USAID submitted his resignation and soon thereafter departed. In the absence of a Director, DAI/SENADA continued its close working relationship with the CTO, Mr. Firman Aji, in discussions on the substance of the proposed year one workplan. Mr. Ashkin and Mr. Aji, together with other staff and DAI home office staff, held a series of discussions regarding the workplan, and a revised draft that more appropriately reflected USAID priorities and objectives since contract signature was submitted at the end of January 2006. Subsequent meetings regarding the workplan and revisions to it took place, with a final workplan being approved by USAID on March 2, 2006, more than six months after contract signature.

In February 2006, the last remaining LTTA position, Senior Competitiveness Advisor, was filled by Mr. Marcus Sutton, who mobilized to Jakarta and assumed responsibilities for the development and roll out of the Competitiveness Practice, including the development of technical interventions aimed at advocacy and the removal of business constraints.

TRANSITIONS

In January 2006, DAI management responded to multiple requests from SENADA LTTA staff to examine the internal operations, communications, and management of the project. DAI Enterprise Development Practice Manager Linda Nemecek and Project Quality Manager James Grall visited Jakarta and held a series of meetings with both expatriate and CCN staff, as well as with USAID EG staff and the USAID Mission Director, Deputy Mission Director, and Program Director. It was determined at that time, based on some significant programmatic shifts in the developing year one workplan and the differences between that workplan and the original proposal, that certain expatriate staff were no longer an appropriate match to the technical direction of the program. In addition, DAI observed problematic interpersonal relationships between these expatriate staff and the COP that, in their opinion, were not resolvable and which, if left unaddressed, would significantly hamper the ability of DAI to implement SENADA. With the concurrence of USAID, DAI decided to relieve three expatriate LLTA of their duties, and effective January 19, 2006, Msrs. Striplin, Beirne, and Canter left the SENADA project.

What followed was a period of uncertainty in the eyes of both the project and USAID. While DAI responded quickly to problems that the project was facing, the project nonetheless was being managed and implemented by one expatriate advisor, the COP, and was still in negotiations with USAID regarding the final year one workplan. With the approval of the workplan, DAI began a concerted effort to replace key personnel that were relieved in January. To do so, a revised SOW was submitted to USAID reflecting the change in program objectives and methods of implementation, and the change in requirements and titles of three key personnel. The original program terms of reference and DAI's resulting proposal were largely developed around a top-down business environment improvement program, with significant importance placed on changing Indonesia's ranking on the

World Economic Forum's competitive index. The final year one workplan approved by USAID focused much more on generating improvements at the firm level in target industries, and addressing value chain constraints and opportunities at the firm or industry level, while at the same time extracting potential national level business environment issues that could be addressed in year two and onward of implementation. The positions of Industry Advisor, Commercial Law Advisor, and Public Communications Advisor were removed. In their place, Scopes of Work and requirements were written for a Senior Industry Advisor, a Client Services Advisor, and an Association Development/Advocacy Advisor. Upon ratification of the modification detailing these changes on June 6, 2006, DAI moved to rapidly fill these redefined LTTA positions.

The position of Senior Industry Advisor was filled by Mr. Jason Bohoney, who mobilized to Indonesia on April 3, 2006. Mr. Caesar Layton was approved to fill the position of Association Development Advisor and mobilized on July 5, followed on July 10 by Mr. Patrick Kadian, taking the position of Client Services Advisor.

SENADA appeared to have its full complement of LTТА positions on board, when the project was faced with two additional critical transitions. The core issue faced by DAI at this time was the almost unanimous issue expressed by CCN staff that personal management and overall program management by COP Ron Ashkin were having a negative effect on the program, its reputation in the business, government, and donor communities, and were extremely demoralizing to staff. In response to the concerns expressed by CCN staff to USAID and DAI management, Project Quality Manager James Grall returned to Jakarta on June 26, 2006. Vice President for the Enterprise, Banking and Finance (EBF) Group of DAI, Mr. Robert Dressen, joined Mr. Grall later the same week. After extensive consultations with SENADA staff and with USAID, including the EG office and the Office of the Mission Director, DAI took the decision to remove Mr. Ron Ashkin from his duties as Chief of Party effective June 30, 2006. This decision was made with the concurrence of USAID.

During the subsequent two months, Mr. Grall assumed the duties of Interim Chief of Party, moving the project forward technically, planning for the development of year two activities, and leading DAI's efforts to secure a new candidate for Chief of Party. During this critical time, Senior Competitiveness Advisor Mr. Marc Sutton resigned from the project citing personal health reasons. DAI has selected a candidate to fill this position and is preparing to submit paperwork to USAID for approval.

In July 2006, DAI received approval from USAID to name Mr. Steve Smith as Chief of Party. Mr. Smith arrived in Jakarta on August 21, 2006 and transitioned to his role together with Interim COP Mr. James Grall. Mr. Smith is now leading SENADA's team and the roll out of year two activities.

TIMELINE OF CRITICAL EVENTS ON SENADA

September 1, 2005	Contract Effective Date
September 1 - September 29, 2005	Interim COP, Linda Nemec
September 14, 2005	DAI Start up Team in Jakarta
September 14 - October 5, 2005	Juliette Gelbard STTA, Administration Specialist
September 14 - October 17, 2005	John Cann STTA, Cluster Assessment
September 26, 2005	LTTA Mobilized; Beirne, Striplin
September 29 - October 15, 2005	Interim COP, Doug McLean
September 30, 2005	Draft Year One Workplan Submitted
September 15 - October 10, 2005	Interim COP, Doug McLean
October 10, 2005	DAI Start up Team in Jakarta
October 12 - November 20, 2005	Interim COP, James Grall
October 15, 2005	LTTA Mobilized: Beirne, Striplin
November 14, 2005	LTTA Mobilized: Ashkin, Canter; COP Ashkin assumes duties
November 19, 2005	Modification #1 Fully Executed
January 6, 2006	Moved the project's head office to a permanent location at BRI II Building in Jakarta
January 19, 2006	LTTA Canter, Beirne, Striplin relieved of duties
January 31, 2006	Completion of Country Competitiveness Assessment
January 25, 2006	Revised Year One Workplan Submitted
March 1, 2006	LTTA Mobilized: Sutton
March 2, 2006	USAID Approval of year one workplan
March 29, 2006	Official Launch of SENADA Project, Opening of Jakarta RCC, and Launch of publication "Indonesia Competitiveness Assessment"
April 1, 2006	Opening of RCC Bandung
April 3, 2006	LTTA Mobilized: Bohoney
April 12, 2006	First training of Relationship Managers
April 16, 2006	Opening of RCC Surabaya
May 4, 2006	Official Launch of Surabaya RCC
May 10, 2006	Official Launch of Bandung RCC
May 17, 2006	First Jakarta RCA Meeting
June 6, 2005	Modification #2 Fully Executed
June 30, 2006	COP Ashkin relieved of duties
June 30 2006 - August 20 2006	Interim COP (Grall, Saad)
July 5, 2006	LTTA Mobilized: Layton
July 10, 2006	LTTA Mobilized: Kadian
July 24, 2006	Opening of RCC Medan
August 3, 2006	Modification #3 Fully Executed
August 7, 2006	Opening of RCC Semarang
August 21, 2006	COP Steve Smith Mobilized
August 31, 2006	End of Contract Year One

OPERATIONS, MANAGEMENT AND STAFFING

A critical area in which DAI/SENADA excelled in year one was operations and management of the project. Despite uncertainties on technical direction and late mobilization of LTTA, the operations team of SENADA tackled the complicated tasks of putting the systems and procedures in place in both the Jakarta headquarters office and multiple field offices that allowed for smooth operations. While most of these support functions are “behind the scenes,” they are nonetheless critical to the successful implementation of any project, and notable successes are worth highlighting here.

The Operations Department is headed by Mr. Eddy Bahfen in Jakarta, and includes the following functions: human resources, financial management, administration, information and communications technology, transportation and logistics, translation, and all other support functions. Mr. Bahfen was assisted in the early stages of start up by Interim COP and PQM for the project, Mr. James Grall, as well as STTA from DAI’s Enterprise Development Group Business Manager, Ms. Heather Robertson. At the end of year one, Mr. Bahfen's operations team was home to sixteen CCN staff.

During the course of final approval of the SENADA workplan, significant changes were made to the SOW and accompanying budget that had major implications for the Operations Department. The original SOW and budget called for a total of three SENADA offices and a total professional and administrative staff of approximately 35. Closing out year one, DAI has adjusted its SOW and budget to allow for a total of seven SENADA offices and nearly 60 professional and administrative staff, creating new requirements for the Operations Department. This increase in the footprint of SENADA and the number of staff was done with the concurrence of USAID and within the original operating budget, allowing for a greater presence by SENADA throughout Indonesia.

Within the parameters of DAI’s MOBIS contract and USAID FSN guidelines, DAI/SENADA finalized job descriptions for all professional and support staff, recruited and hired staff (a current staff listing is included in Annex 1 of this report), and opened SENADA field offices. The current and planned footprint of SENADA is as follows, although the year two work plan will explain why SENADA may require the postponement (and possibly elimination) of the Makassar and Jogjakarta offices:

Table 1

Existing Office	Planned (Year Two) Office Openings
Jakarta	Makassar
Surabaya	Jogjakarta
Semarang	
Medan	
Bandung	

TECHNICAL ORGANIZATIONAL STRUCTURE AND STRATEGY

The technical organizational structure put into place for SENADA in year one was designed to support the core technical areas of implementation, described in the next section. The first contract deliverable for SENADA, the Indonesia Country Competitive Assessment, detailed the state of competitiveness in Indonesia and opportunities and areas for improvement. Based in part on the results of the assessment, together with the original proposal for SENADA and input from USAID, SENADA management designed a technical structure that would best support the stated goals of increasing the competitiveness of core industries in which the project works. SENADA's technical organization is designed to support this behavior change through maximum client contact, increased public awareness of what it means for "Indonesia to compete," and changes in the business environment driven by the private sector.

REGIONAL COMPETITIVENESS CENTERS

SENADA implements its programs through field offices – known as Regional Competitiveness Centers (RCCs). Current RCCs exist in Jakarta, Semarang, Bandung, Surabaya, and Medan. Each RCC, with the exception of Semarang, is managed by an RCC manager, and supported technically by a number of Relationship Managers who assess and provide direct technical assistance to IVC clients. In addition, the Jakarta headquarters is home to Practice Specialists, technical specialists in the areas of Marketing, Quality Assurance, and Financial Services, which support all RCCs and their clients. Practice Specialists are the internal supplier of technical expertise and support (tools, models, training, and quality assurance) to the RCCs.

Each RCC has two core technical components it manages for the region and industry it serves: The Enterprise Improvement Program and the Industry Value Chain Strengthening Program.

The Enterprise Improvement Program

Regional Competitiveness Centers are managed and staffed by Indonesian national professionals and support staff. Within each RCC, Industry Practice staff provide direct consulting assistance to firms within chosen IVCs. This is the core of the Enterprise Improvement Program. The objective of this practice is to increase the competitiveness of individual firms within the industry value chain through hands-on implementation of international business best practices and differentiation strategies that lead to competitive advantage. Consulting services offered during year one included:

- Strategic Planning;
- Trade Promotion;
- Marketing Planning;
- Financial Management; and
- Operations Quality Improvement.

The overall objective of the Enterprise Improvement program is to strengthen the competitiveness of targeted Industry Value Chains (IVC) through direct assistance to small and medium enterprises. To achieve this, EI offers portfolio clients both holistic and business unit specific technical assistance. In the first step of the process, RCC Managers and Relationship Managers (RM) conduct assessments, develop Strategic Action Plans (SAP), review Key Monitoring Ratios (KMR) and monitor implementation via Operation Review Meetings (ORM). In addition, EI Practice Specialists provide clients with specific technical assistance in the areas of marketing, finance and operation quality improvement. The result of these efforts culminates in long-term, tangible improvements in sales, productivity and trade. During year one, the processes and systems to implement the EI program across multiple RCCs and within multiple

IVCs was developed and rolled out to all technical staff. Emphasis was placed on training technical staff in all aspects of the EI system and tools. Quality control was provided by LTTA staff that reviewed and corrected, if necessary, all outputs related to individual clients.

Industry Value Chain Strengthening Program

The second major component of SENADA has as its objective the removal of major constraints to the development of selected industries. Targeted industries are identical to the ones addressed in the EI component, which will facilitate a greater impact in each SENADA industry. As with the EI component, our strategy hinges on the RCCs, where the identification, analysis and constraint removal activities will most likely occur. The RCC Manager is responsible for coordinating and managing IVCS activities. They are supported by the IVC Relationship Managers, although these staff had not been hired during year one. We are in the process of recruiting and expect to hire these individuals during the first month of year two.

A team of IVCS advisors in Jakarta--comprised of Economist Ilyas Saad, Business Association Advisor Caesar Layton, Legal Advisor Wigatiningsih Partosedono, and the currently vacant position of Senior Competitiveness Advisor—support the RCC Managers. This team provides ongoing strategic and technical support for the regional activities. Finally, although constraint removal did not begin in year one, the SENADA project includes considerable short-term technical assistance and other resources available to implement constraint removal activities.

TECHNICAL IMPLEMENTATION

The year one workplan for SENADA approved in March 2006 contained five key technical areas for implementation:

- 1) **Country Competitiveness Assessment;**
- 2) **Industry Assistance;**
- 3) **Advocacy and Removing Constraints;**
- 4) **Communications; and**
- 5) **Cross Cutting Initiatives.**

The following pages describe SENADA's progress against deliverables in each of these core technical areas.

1) Country Competitiveness Assessment

Within the first six months of implementation, DAI was to conduct a thorough in-depth assessment of factors affecting Indonesia's competitiveness with special emphasis on targeted sectors and regions. The result of the assessment was intended to serve as a base-line to measure the effectiveness of appropriate national, local, and sectoral competitiveness strategies.

The assessment was conducted, completed, and submitted to USAID at the end of January 2006. DAI staff member Bryanna Millis, with contributions from all SENADA technical staff, led the assessment team and a number of short-term consultants brought in specifically for their expertise in specific areas of the assessment material. The final report was printed in both English and Bahasa Indonesia and first publicized at the national launch for SENADA in Jakarta in March 2006. The Assessment has been distributed widely to both the public and private sectors throughout Indonesia and to relevant donors and counterparts. Subsequent printings of the report have been completed due to high demand. The Assessment, available from SENADA and on the SENADA web site, detailed the following:

- **Asset Assessment:** The assessment provided an overview of Indonesia's policy, legal and regulatory environment, and identified relative strengths and weaknesses in these areas. The assessment also evaluated other factors that influence competitiveness, such as the stability of the financial system, the openness of labor markets, and the ability to source factor inputs cost-effectively and in a timely fashion.
- **Export Performance:** The assessment reviewed and determined which of Indonesia's industrial sectors are currently competitive and which may hold potential for growth. SENADA evaluated upstream and downstream linkages that could enhance the competitiveness of individual industry sectors or Industry Value Chains.
- **Investment Potential:** Investment is essential for the Indonesian economy to grow. SENADA assessed Indonesia's potential to compete for, attract, and mobilize investment. Intrinsic factors that could promote or discourage investment were examined and Indonesia was evaluated against its regional and global competitors.
- **International Best Competitive Practices:** SENADA identified and detailed the strategies, operational systems, and unique competitive assets of leading international competitors, and described the levels of productivity, efficiency, flexibility, or responsiveness that Indonesia will need to achieve in order to improve its competitiveness.

- **National Competitive Patterns:** The assessment attempted to discern and identify patterns of comparative advantage in Indonesia, and those instances where Indonesia may face, or may have overcome competitive challenges, using these models for other parts of the economy.
- **Detailed Case Studies of Indonesia Industry Value Chains:** The assessment examined six industry IVCs, based on consultation with USAID and research done prior to the start of the assessment. The assessment of these IVCs provided the basis around which the rest of the technical implementation was designed for year one, and in fact continues to impact the expansion of SENADA in year two as the program begins to provide assistance to new IVCs.

2) Industry Assistance

The provision of Industry Assistance, encapsulated in the Enterprise Improvement program component, began in earnest in June 2006. DAI's delay in beginning this work is the result of several factors: 1) late approval of the workplan (March 2006); 2) changes in LTTA staff (departure of three LTTA in January 2006 and the first replacement arriving in April 2006); 3) later than expected planned opening of RCCs in Surabaya and Bandung; and 4) the lengthy process required in recruiting CCN professional staff and their ability to start work with SENADA.

Despite the slow start, the EI program staff made good progress through August 31, 2006, led by LTTA Jason Bohoney and Patrick Kadian, together with support in the form of STTA from Mr. Kyle Gunther and Mr. Chad Clay, and RCC managers and staff.

The client portfolios developed in Jakarta, Bandung, and Surabaya and the client work that the portfolios represent, concretely represent SENADA's progress.

Client Portfolio Development

DAI's approach to EI Client Portfolio Development concentrated firm-level assistance on enterprises working along targeted Industry Value Chains most heavily represented in each Regional Competitiveness Center's operating area. To determine IVC representation by region, DAI staff engaged in dialogue with USAID, local government representatives, KADINs, NGOs, Business Associations, and prominent community and business leaders and analyzed statistics from the Central Board of Statistics. This process yielded an enormous amount of information that was distilled and used to guide client recruitment for the EI initiative.

After identification of targeted IVCs, DAI focused on gaining access to information about small and medium enterprises currently operating within our target industry value chains. This was accomplished in each of the RCCs through direct interaction with members of several key organizations, including KADINs and Business Associations, as well as by reviewing business directories and websites. Additionally, prospective clients were identified through participation in trade fairs and exhibitions and by conducting "open houses" which focused on outlining the benefits of working with SENADA. Once identified, all prospective clients were screened using the SENADA Expression of Interest form. Relationship Managers used this document to attain basic contact and company background information, as well as to verify eligibility via our project criteria (e.g., firm must be legally registered, record annual sales between \$50,000 and \$10,000,000, be willing to disclose financial information, etc.).

As a result of these efforts, we have begun providing services to 77 firms. As can be seen in Table 2 below, showing monthly client development, SENADA experienced a lull during the nearly two months without a permanent COP. Program productivity increased again in September, a trend we are confident will continue through year two. To date, a majority of clients have been in the footwear

industry (Figure 1). Work in the garments and furniture industries began only at the end of year one, reflected by the low numbers within these categories. The client balance across industries will need to be addressed in year two.

Table 2

Portfolio Growth by Month

Month	Clients Entering Portfolio
May-06	3
Jun-06	29
Jul-06	10
Aug-06	11
Sen-06	24

Figure 1

Total Client Portfolio Breakdown by IVC

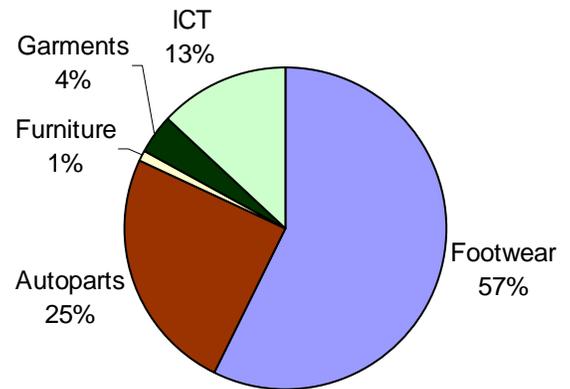


Table 3

Number of Clients Recruited and Served by RCC and IVC					
Regional Competitiveness Center	Industry Value Chain				
	Footwear	Autoparts	Furniture	Garments	ICT
Jakarta	17	4	0	3	1
Bandung	11	10	0	0	6
Surabaya	16	5	0	0	3
Semarang	0	0	1	0	0
Total (77)	44	19	1	3	10

Client Work

After initial screening, all of SENADA’s Enterprise Improvement clients underwent the same process of Assessment, Strategic Action Planning, Practice Specialty Referral, and monitoring through Operations Review Meetings.

Client Assessment

DAI Relationship Managers began work with each portfolio client by conducting an individual assessment of the client business. The assessment process gathered data diagnosing issues adversely affecting the client business on the micro (enterprise) and macro (industry) level. Analysis on the enterprise level focused on identifying issues affecting the business cash cycle, operational efficiency and overall sales. The objective was to bring specific information to the attention of the client during

the SAP process, as well as to formulate preliminary strategies that would be relevant to the challenges faced by the company.

Strategic Action Planning

Core to improving the capacity of clients working along targeted Industry Value Chains, a Strategic Action Plan (SAP) was developed with each client with the individual assistance of a Relationship Manager. The aim of each SAP was to provide a specific roadmap towards improving competitiveness at the firm level, thereby increasing the sales, employment and productivity of individual actors in the targeted Industry Value Chains.

During the Strategic Action Planning process, the SAP team, made up of the client management team and the Relationship Manager, formulated a vision articulating the client's position in the marketplace in five years if the company were successful. The SAP team then created S.M.A.R.T. (Specific, Measurable, Attainable, Realistic and Time-bound) objectives that would measure the client's successful progress towards realizing that vision over the next calendar year. Finally, the team identified the internal and external strategic issues that prevented the client from reaching its objectives.

After this collaborative process, the Relationship Manager returned to the Regional Competitiveness Center and developed strategies to address the internal strategic issues identified. Upon completion, the Relationship Manager reviewed the draft SAP with LTTA Jason Bohoney or Patrick Kadian.

Finally, the Relationship Manager presented the SAP to the client management team, integrated additional refinements based on client feedback and collaborated with the client to assign dates and responsible individuals to specific actions and tasks.

Practice Specialty Referral

Approximately 85% of clients assisted incorporated requests for further assistance from our Practice Specialists in the areas of Finance, Operations Quality Improvement, and Marketing and Trade Promotion within their Strategic Action Plan.

Each client engagement began with the Practice Specialist training a group of clients on fundamental concepts and tools associated with their area of specialty (e.g., process mapping, financial analysis,

Table 4

Example of Direct LOE Investment in Typical Client of 4 Months	
Activity	Man hours
Client Assessment	2
SAP Development	
Vision	1
Strategic Objectives	1.5
Strategic Issues	1.5
Strategy/Action Development	6
LTTA Review	3
SAP Revision I	2
Client Presentation	2.5
SAP Revision II	1.5
Marketing Workbook Development	
Marketing Workshop*	4
Client Visit for Marketing Workbook Completion	5
Marketing Workbook Client Presentation	3
Operational Review Meeting (ORM)	
Preparation	3
Client Visit - ORM	1
Updating Client Materials / Support Request	2
Total Man hours	39
* The Marketing Workshop is a training lasting 16 hours serving 4 - 5 clients	

product positioning, etc.). Once conducted, Practice Specialists provided one-on-one consultation with clients to complete their respective deliverables as listed below:

- Finance: development and analysis of Key Monitoring Ratios;
- Marketing: recommended implementation actions via completion of the marketing planning workbook;
- Operations Quality Improvement: development of an improved process map and recommended implementation actions; and
- Trade Fair Preparation: completion of the Trade Fair Preparation workbook prior to participation in a scheduled trade fair/exhibition.

As of October 1, 2006, Practice Specialist Technical Assistance was delivered or was in the process of being delivered to SENADA EI portfolio clients as detailed in Table 5 below.

Table 5

Practice Specialist Technical Assistance					
Technical Trainings					
Training	Jun-06	Jul-06	Aug-06	Sep-06	Total
Marketing Training	6	11	5	1	23
Trade Preparation	0	1	3	1	5
OQI Training	6	4	7	0	17
Finance Training	0	0	3	16	19
Total Number of Clients Trained	12	16	18	18	64
Practice Deliverables					
Practice Deliverable	Jun-06	Jul-06	Aug-06	Sep-06	Total
Marketing Planning Workbook	4	7	7	4	22
Trade Preparation Workbook	0	1	3	1	5
OQI Action Plan	0	0	3	11	14
KMR Extraction	0	0	0	3	3
Total Practice Deliverables	4	8	13	19	44

Operations Review Meeting

At least once a quarter after SAP development, the RM met with the client to monitor SAP implementation and further refine the SAP. At this time, the client could report any unexpected issues encountered while enacting the SAP and brainstorm with the RM to further refine the SAP to overcome unforeseen obstacles to implementation. The client could also request additional assistance from a SENADA Practice Specialist or receive referral to appropriate BDS providers in the region.

SENADA EI Staff Technical Capacity Building

An essential part of SENADA’s capacity building initiative during year one focused on professional staff development. DAI conducted regular internal staff cross-training in all RCC locations to inform all RCC staff on a wide variety of up-to-date business issues including competitiveness strategies and tactics, international business best practices, case studies, consulting methodologies, and management techniques. Materials were drawn from a library of materials specifically relevant to SME assistance in the developing world as well as original materials authored by DAI LTTA. Each LTTA acted as an internal staff trainer as a secondary role.

3) Advocacy and Removing Constraints

The Industry and Value Chain Strengthening component, expressed in the year one workplan as “Advocacy and Removing Constraints,” was implemented more slowly than originally planned, due in part to the late mobilization of the Senior Competitiveness Advisor and his subsequent early departure, as well as the lack of emphasis placed on this component by the original COP. However, inroads were made in this area beginning in June 2006 under the leadership of Dr. Ilyas Saad and LTTA Caesar Layton. Notable accomplishments during the final quarter include:

- RCAs formalized, members engaged, and industry working groups established in Jakarta, Surabaya and Bandung;
- RCA members report being "*excited*" or "*cautiously optimistic*" and are ready to move from the discussion stage to the "*implementation*" stage;
- Industry information exchange (especially concerning identifying industry wide constraints) within value chains begun (between firms and government);
- Strong "*initial*" buy-in from government for SENADA IVCS activities and the opening of a SENADA office in Ministry of Industry in Jakarta;
- Initial constraints identified and prioritized for three core industries in Jakarta, Surabaya, and Bandung; and
- First draft SAP developed in Surabaya for the improvement of the business licensing procedures for regional auto part and footwear industries.

During year one, DAI focused on phase one of the IVCS strategy, specifically working through each RCC (except Semarang) to identify, analyze, and prioritize core regional industry constraints for each IVC. To accomplish this, we engaged and worked through a network of individual client firms, business associations and newly established Regional Competitive Alliances (RCA) made up of industry, associations, chambers of commerce, government, NGOs, and other interested stakeholders. The

Table 6

Training Presentations
1. Relationship Manager Orientation Training
2. How to find clients and overcoming client objections
3. 7 Habits of a highly effective Relationship Manager
4. SENADA Ethics
5. The role of Marketing in an SME
6. How and why of Key Monitoring Ratios
7. Operations Quality Improvement overview
8. SAP Model Walk-Through
9. KMR Model Walk-Through
10. Competitive strategy
11. Sales Growth-Silent Killer
12. Common Operations Problems
13. Sales Management
14. Continuous Improvement
15. How to Hold a Meeting
16. Cost Accounting

following table describes the basic makeup of the RCAs established to date and each member's particular contribution.

Table 7

Participants	Contribution
Local Government: <ul style="list-style-type: none"> • MOI local office • MOT local office • Investment Promotion Board • SMEs office 	<ul style="list-style-type: none"> • Provide government background of local government regulations • Identify regulatory constraints pointed out by business groups • Conduct deregulation to improve business climate • Synchronize their industry / cluster development programs with SENADA program
Industry Associations	<ul style="list-style-type: none"> • Provide information about industrial structure, market structure, value chain development and constraints • Play active role in communicating business needs to local government • Provide services to members including trade facilitation and export promotion
National / Regional Chambers of Commerce	<ul style="list-style-type: none"> • Provide information about industrial structure, market structure, value chain development and constraints • Play active role in communicating business needs to local government
Key Business Players / Local Champions	<ul style="list-style-type: none"> • Play active role in organizing dialogue and meetings • Provide information about business constraints
SMEs	<ul style="list-style-type: none"> • Actively participate as clients in RCC performance improvement and trade programs • Provide information about business constraints
Large Scale Industries (partners)	<ul style="list-style-type: none"> • Participate in developing marketing networking • Provide information about market demand, price and quality
Local research institutes & NGOs	<ul style="list-style-type: none"> • Provide information on study results that outline business constraints and suggestions for solutions
Influential informal leaders	<ul style="list-style-type: none"> • Motivate all participants to overcome obstacles and help in doing competitiveness campaign
Local parliament	<ul style="list-style-type: none"> • Help in correcting regulatory constraints at the local level
Local universities / training centers	<ul style="list-style-type: none"> • Provide analysis and recommendations on how to develop local business, increase productivity and regional economy • Provide business consultations
Center of excellence of specific industries	<ul style="list-style-type: none"> • Provide updated information on technical aspects and provide technical assistance to local firms / industries
Business Service Providers (BSP)	<ul style="list-style-type: none"> • Become important partner of RRC / SENADA in the region. Share their experiences and build networking with SENADA in developing business consulting. Provide services to RCA members.
Financial institutions	<ul style="list-style-type: none"> • Provide suggestions to firms and industries on how to access debt and equity financing provided by banks and other financial institutions
RCC / SENADA	<ul style="list-style-type: none"> • Work closely with key players to moderate the discussion and dialogue within the RCA

In addition to the public and private sector representatives, the participation of civil society groups and NGOs has also been encouraged. We believe that the broader representation of interested parties in the RCAs will help to develop further public support for change through the networks that each member of the RCAs represents. Current membership in the RCAs is an impressive 178 different organizations, businesses, local champions, and individuals. The progress of the RCAs to date is important to year two IVCS activities because these forums will not only continue to identify constraints, serve as a litmus test for IVCs interests and support SENADA advocacy initiatives, but will serve as an important pool of key stakeholders DAI hopes to engage during stage two IVCS interventions.

During year one our priority goal was to identify, evaluate, and rank IVC constraints at the national, regional, and local levels. A “constraint” is defined as any identifiable barrier or unfulfilled opportunity that constrains industry value chains from achieving their competitiveness potential. Constraints identified to date fit into three categories:

- **Production and distribution systems.** These include constraints in processing, production and distribution that result in core industrial output of the IVC not meeting international or domestic standards. Constraints identified to date include:
 - Industry wide weaknesses in production, processing, packaging, certification and marketing that constrain industry competitiveness. Examples include: (a) industries not meeting international standards, such as ISO 9000 certification; (b) firms using out-of-date, unprofitable or environmentally damaging processing techniques; and (c) firms not accessing innovative state-of-the-art equipment or technical techniques.
 - Lack of access to core industry inputs, including raw materials, parts and machinery, BDS, financial services, legal protection (access to quality lawyers) and skilled labor.
 - Lack of access to representative industry associations that can represent SME interests, advocate for change, provide critical market or legislative information, and provide IVC strengthening business development services.
- **Trade and market expansion.** These include constraints related to domestic or export market expansion. Illustrative constraints identified to date include:
 - Lack of access to industrial information about domestic and export markets.
 - Lack of access to potential buyers or input providers or bullying by monopolistic middlemen or agents.
 - Inability to effectively participate in trade fairs or trade missions.
 - Weak branding/advertising campaigns to increase export/domestic market consumption.
 - Lack of access to special economic zones or preferential export and custom protection.
 - Burdensome or unclear international trade agreements.
- **Policies, regulations, and legislation.** This category consists of negative or burdensome legislative, regulatory and/or policy related constraints that reduce value chain competitiveness either by making the cost of business too high or reducing overall efficiency. Constraints identified to date include:
 - Burdensome licensing (and/or “fee” requirements).
 - Inadequate administration of policies and regulations (corruption) or abuse.
 - Unjustified, duplicative, and/or burdensome legislation, taxation, or customs policies.
 - Inadequate legislation supporting labor rights, contracting, legal protection, and property.

We initiated deeper analysis and evaluation of the constraints shortlists and began to rank and prioritize these constraints (using CIPS survey methodology). Based on discussions with key industry leaders, SENADA “rankings” take into account the relative ease with which constraints can be resolved, the relative costs of addressing the solutions, and the impact the constraints and their removal has on industries. Understanding these factors has enabled us to work with business leaders to develop IVCS Intervention SAPs for removal or alteration of the most critical constraints.

As challenges and IVCS-specific needs were identified, we continued to improve and expand the competitiveness improvement methodologies to meet those pressing needs. The most notable change was that DAI introduced a structured, staged methodology for each RCC to follow to (a) identify, through a comprehensive statistical analysis, constraints affecting the competitiveness of a RCA's geographic region and target industry and (b) strategically plan (through the SENADA SAP development process) for IVCS interventions to remove these key constraints. A series of interactive tools was developed to better support RCA dialogue, research, prioritization, and planning for removing constraints to competitiveness. Tools developed during the final quarter include:

- RCA Membership Matrix;
- EI / RCA Member Initial Constraint Questionnaire;
- Constraint Brainstorming Tool (CIPS Tool);
- Constraint Prioritization Survey (CIPS Tool);
- Asset Gap Analysis;
- Stake Holder Analysis;
- Value Chain / Constraint Mapping Tool;
- Strategic Action Plan (SAP) (IVCS Version);
- IVC Intervention Monitoring Tool; and
- IVCS Debrief Survey.

In addition to RCA member recruitment, we identified a pipeline of active core industry associations as potential SENADA stakeholders. To date we have identified and made initial contact with 22 business associations from the auto parts, footwear, ICT, and rattan/wood furniture sectors.

Finally, we started discussions with key USAID (and other donor) counterparts in order to leverage support and resources for future SENADA interventions. Specifically, we engaged Asia Foundation's IBESS (Improving Business Environment for SMEs in Sulawesi) Program (*Streamlining Business Licensing and Permits Component*) to support us on our Business License Intervention that will start in Surabaya in year two. We also engaged Rob Van Raaij of the FPESD project in Semarang. His organization has had a RCA-like forum for dialogue for several years now, and has identified a number of constraints and stakeholders in different industries, including textiles and furniture. Given the fact that SENADA does not have plans to mobilize the IVCS component in Semarang, we think there may be some very natural synergies between this project and ours. Specifically, SENADA has resources to address their identified constraints while FPESD's resources are very limited. In Jakarta, SENADA started discussions with Peter Rosner, Senior Investment Climate Investment Constant, for the World Bank to garner support and information on the Bank's work with national PT (business registration) issues.

4) Communications

The purpose of SENADA's communications component is to develop and promote a common message, foster heightened public and private perceptions of the benefits of improved competitiveness, stimulate demand for SENADA services, and build the credibility necessary for effective public-private partnerships. Largely due to direction provided by the original COP, DAI did not achieve its goal of developing and rolling out a comprehensive communication and public awareness strategy.

Nevertheless, considerable time and effort has been invested in developing and branding SENADA, evidenced by a strong brand in SENADA publications, national and regional public events, and the growing awareness among the public and private sectors of the program and its objectives.

Where SENADA did not meet its year one objectives was in the following key area: working in close coordination with USAID to develop a communications and outreach program designed to deliver a clear, concise, and consistent message to increase public and private sector awareness of the importance of improving Indonesia's competitiveness. DAI management has recognized the shortcomings of the program in achieving this goal and is stepping up efforts in the development and implementation of the year two workplan to ensure this critical project component is carried out to the maximum benefit of the project, USAID, and the public and private beneficiaries and collaborators of SENADA.

5) Cross Cutting Initiatives

Multiple cross cutting initiatives were detailed in the year one SENADA workplan and progress against all of these has been met. These include:

- **Review/Revise Budget and Determine LOE Available to Support Organizational Structure.** As DAI moved in the latter half of year one to focus more on implementation at the firm and industry level than was contemplated during the proposal stage, we adjusted the budget and LOE to ensure that sufficient financial and human resources were available to support the matrix structure of industries and locations expressed in the Regional Competitiveness Centers. This process resulted in planning for a total of seven RCCs and nearly 60 staff, compared to the original plan of three RCCs and approximately 35 staff.
- **Establish Operations Procedures for Regional Competitiveness Centers.** At the end of year one, SENADA was operating five RCCs and the SENADA headquarters/operations office (co-located with the Jakarta RCC.) A decentralized management approach for the RCCs has been established with each office being managed by a CCN manager, with operational and technical support from the Jakarta headquarters. Operations procedures were established so regional administration is congruent with overall project procedures in terms of accounting and finance, budgeting, document control, IT, contract compliance, etc.
- **Select Sites For and Open RCCs.** For each existing RCC location, appropriate office space was selected, leases negotiated, fit out completed, and IT and communications installed.
- **Write Scopes For, Select, Hire, and Train Technical and Administrative Support Staff For RCCs.** SENADA developed the appropriate job descriptions and levels, salary compensation, tasks, and objectives for RCC staff and recruited staff from both the national and local levels. At the end of year one, 24 of an approved ceiling of 38 CCN professional staff have been hired and trained.

Training has taken place at all levels within the RCC. Relationship Managers were trained in key service areas such as Strategic Planning, Value-Chain Analysis, Barrier and Constraint Removal, Economic Analysis, Key Measure Assessment, and Operational and Business Improvement and Financial Management.

- **Determine IT Needs and Database Requirements.** During the course of year one implementation, SENADA identified and refined its IT needs and has established a number of systems and tools that are in place and scalable to meet project needs as we expand over the coming three years. Internal CCN staff, together with DAI home office IT staff, have developed and implemented a project TAMIS (Technical Administrative Management and Information System) as well as a number of databases that allow SENADA staff to track progress of clients. The TAMIS system that is in place contains modules for use by the operations team as well as specific modules focused on technical implementation. It is

available to, and use of it is required by, all SENADA staff. It is also used by DAI home office staff and is available to USAID staff.

- **Install Support Infrastructure.** As each RCC was opened in year one, the requisite telecommunications and IT infrastructure was installed in each office. DAI experienced significant delays in this area due to multiple shipments of equipment being held up in GoI Customs office, in some cases for more than two months. Similarly, while the project budgeted and received approval for the purchase of seven project vehicles, to date only two are in operation (in Jakarta) due to delays in processing of necessary paperwork by the GoI. Five more project vehicles are due for delivery so that every RCC is equipped with a vehicle, but SENADA continues to experience extensive delays in getting these vehicles.
- **Write Procedures for, and Begin Operations of, Small Grants Program.** Up to \$1 million has been budgeted in SENADA for a small grants program over the life of the contract. The year one workplan indicated that the grants program would become operational in year two. Due to the management and other issues outlined above, progress was not achieved in year one in designing a grants program and mobilizing resources for its implementation. This will be a high priority for the first months of year two.
- **Compile and Submit Periodic Reports to USAID.** SENADA has met all of the requirements for reporting established by USAID and our contract during year one.
- **Deliver Internal Staff Training.** An essential part of SENADA's capacity building initiative during year one was focused on its own professional staff development. SENADA conducted regular internal staff cross-training in all RCC locations to inform all CCN staff on a wide variety of up-to-date business issues including competitiveness strategies and tactics, international business best practices, case studies, consulting methodologies, and management techniques. Materials were drawn from a library of materials specifically relevant to SME assistance in the developing world as well as original materials authored by SENADA LTTA. Each SENADA LTTA was assigned a secondary role as internal staff trainer.

RESULTS

The year one workplan approved in March 2006 contained a number of indicators. In addition, while not part of the approved workplan, the Scope of Work for the SENADA contract contained illustrative year one *deliverables*, derived from the original RFP/tender document for SENADA, and which were translated into the SOW unchanged. The *deliverables* are listed below.

Deliverables

Table 8

The following “illustrative year one deliverables” are taken from the SENADA Scope of Work.

COMPONENT	DUE DATE (from contract effective date of September 1, 2005)	STATUS
Country Assessment		
a) completion of all 6 assessments under the Country Assessment project component	6 months	COMPLETE
b) Convene the first competitiveness roundtables and/or conferences to review the findings and results of the Country Assessments ¹	6 months	COMPLETE
c) Formulate public-private alliances	6 months	COMPLETE
Industry Value Chain Development		
a) Develop criteria for industry value chain selection	1 month	COMPLETE
b) Assess and recommend 2 IVCs for first year development	2 months	COMPLETE
c) Two IVCs formed	6 months	COMPLETE
Regional Linkages Development		
a) Contacts made with regional trade and small and medium enterprise development organizations	6 months	COMPLETE
b) Strategy for regional linkages developed and implemented	9 months	COMPLETE
c) Information and data exchanges started	9 months	COMPLETE
Small and medium enterprise development		
a) Identify technical assistance for enterprises	3 months	COMPLETE
b) Training courses designed and provided	3 months	COMPLETE
c) Develop criteria for sub-contracts to support industry competitiveness	3 months	COMPLETE
National Level Support, Public Education and Coordination		
a) Priorities for coordination and national level support established	2 months	COMPLETE
b) Strategy for public education program developed	3 months	INCOMPLETE
c) Competitiveness public education campaign started	6 months	INCOMPLETE
d) Survey on public competitiveness awareness completed	6 months	INCOMPLETE

Results

SENADA's year one workplan grouped performance monitoring indicators into three levels:

1. Those upon which project performance will be judged (where there is a direct causal link between SENADA assistance and impact being measured);
2. External (third party) indicators of economic competitiveness; and
3. Those that will be used to monitor progress of, and guide assistance to, firm and industry clients.

Primary: Indicators upon which project performance will be judged

The following indicators were developed to monitor performance. Measurement for the industry practice:

- Sales (revenue) growth for clients assisted;
- Productivity growth (Productivity will be measured as sales revenue per employee, calculated as total revenues/total number of employees) for clients assisted;
- Dollar value of trade deals facilitated for clients; and
- Economic multiplier effect of revenue growth (in terms of GDP and jobs created).

Although the causal link is not as direct, at USAID's request SENADA measures three external indicators of the competitiveness of the industries and regions assisted:

Table 9

<i>Indicator</i>	<i>Definition of Indicator</i>	<i>Unit</i>	<i>Breakdown</i>	<i>Data Source</i>	<i>Method of Collection</i>
<i>Increased revenue</i>	GDP contribution by industrial origin at current market prices	Value	Industry/Region	Indonesia's Central Bureau of Statistics	Publication
<i>Increase in productivity</i>	Worker productivity by industry sector	Score	Industry/Region	National Labor Force Survey (BPS Statistics)	Publication
<i>Increase in exports</i>	Total exports	Percent	Industry/Region	Global Trade Atlas	Trade data analysis

DAI is in the process of collecting 2005 data. This will serve as reference data for the project. As soon as the industry data is available for 2006, the information will be tabulated and reported as baseline data for the project. Targets will be assigned for 2007, since this will be the first year that the impact of SENADA's program will be reflected in quantitative data. The year two work plan will provide tables with clear information about how data will be sourced, how indicators will be calculated and year by year targets for the project.

Secondary: External indicators used to monitor the nation's economic competitiveness

While it is expected that Indonesia's national competitiveness will improve as a consequence of the SENADA activity, the causal link between SENADA assistance and external indicators such as Indonesia's ranking on the World Economic Forum's Competitiveness Index is weak. Nevertheless, DAI has agreed to report on several of these indicators. The following tables provide reference data for the year 2005. At the end of each year, DAI will report this data, although targets for SENADA will not be developed.

I. Employment Creation

By considering the multiplier effect through backward and forward linkages created by each industry within the economy, employment creation by each industry can be categorized in two ways: direct creation and indirect creation. Direct creation is employment directly employed by the industry while indirect creation is employment employed by other activities that have backward and forward linkages with the targeted industry. The activities could absorb more labor because there is an increasing demand from the targeted industry.

Table 10 indicates the direct employment creation by the targeted industries and their share to total employment created by the entire manufacturing industries (exclude food and mining) in 2005.

Table 10: Number of employees directly created by the industries, 2005

Industries	Number of employees	Percentage share to total
I. Targeted Industries:		
1. Footwear	55,219	1.69
2. Auto-parts	55,234	1.69
3. Garment	430,518	13.17
4. Furniture	161,758	4.95
5. Ceramic	31,295	0.96
6. ICT		
Total targeted industries	734,024	22.45
II. Other Manufacturing (Excluded Food & Mining)	3,270,110	100.00

Source: Central Board of Statistics

Table 11 provides labor coefficients of the magnitude of additional indirect labor or employment that could be created by the targeted industries for each 1 million rupiah increase in value added to the industries. If, for example, the value added of footwear industry increase by Rp 1 billion, the industry has created additional indirect employment in other activities / industries through backward and forward linkages as much as $1,000 \times 0.0206 = 20$ employment.

With the total value added increase for each targeted industry, it is possible to calculate the actual number of indirect employment.

Table 11: Labor coefficient for indirect employment creation

Targeted Industries	Labor Coefficient
1. Footwear	0.0206
2. Auto-parts	0.0079
3. Garment	0.0206
4. Furniture	0.0426
5. Ceramic	0.0312
6.ICT	0.0167

Source: Central Board of Statistics

Table 12 provides export values of targeted industry products that shipped out through ports (seaport and airport) located in Surabaya, Semarang, Jakarta and Medan in year 2004 and 2005. Since Bandung does not have a seaport, its products are shipped via the Jakarta seaport, Tanjung Priok. This indicates that not all the exported products through the ports are also produced in the same region; some of the products are produced in other regions. The last column indicates percentage of export growth rates. Even if the exports grew in positive rates, but their US\$ value have been still low.

Table 12: Export of Targeted Industries Products by Port of Embarkation

Targeted Industries	Port of Embarkation	In US \$		Growth rate (%)
		2004	2005	
Footwear	Surabaya	12,034,042	62,962,019	423.20
	Semarang	8,697,673	11,162,644	28.34
	Medan	90,549	9,047	(90.01)
	Jakarta	261,990,990	316,053,829	20.64
Autoparts	Surabaya	386,498	899,796	132.81
	Semarang	718,213	166,777	(76.78)
	Medan	676,334	794,343	17.45
	Jakarta	236,128,216	398,402,225	68.72
Furniture	Surabaya	511,010,269	573,910,807	12.31
	Semarang	561,380,012	676,342,738	20.48
	Medan	53,843,687	49,970,628	(7.19)
	Jakarta	551,058,509	572,162,504	3.83
Garment	Semarang	192,781,804	256,294,688	32.95
	Surabaya	37,807,717	31,806,381	(15.87)
	Medan	890,422	180,515	(79.73)
	Jakarta	2,280,407,511	2,428,470,936	6.49
	Jabar	-	,249,243	
Ceramic	Semarang	631,061	367,060	(41.83)
	Surabaya	98,564	594,192	502.85
	Jakarta	7,371,942	2,334,684	(68.33)
	Medan	-	97,874	

Source: Central Board of Statistics

Investment (FDI and Domestic) activities in the specific targeted industries are not available. Published data from BKPM could only provide information about investment development in aggregated sectors in which targeted industries are included. This is shown in Table 13. Development of the two investment values in selected aggregated activities have fluctuated, but in total manufacturing has been still growing in a positive trend. Contribution of the five selected aggregated sectors has also fluctuated between 18-36% of total manufacturing.

Table 13: Realized Investment in Related Sectors, 2001 – 2005

Industry	2001	2002	2003	2004	2005
FDI in US\$ million:					
1. Textile	286.9	117.7	152.4	165.5	70.9
2. Leather Goods & Footwear	21.4	57.4	5.8	13.2	47.8
3. Wood & Furniture	45.9	19.3	157.8	4.1	91.0
4. Motor Vehicles & Other Transport Equip.	91.7	90.0	313.5	402.6	359.7
5. Non Metallic Mineral	13.2	54.1	42.9	107.1	66.2
Total (1 to 5)	459	339	672	693	636
% share to total manufacturing	20.9	21.8	35.8	24.7	18.1
Total manufacturing	2,199	1,552	1,880	2,803	3,502
Industry	2001	2002	2003	2004	2005
Domestic investment in Rp billion:					
1. Textile	407.3	1,858.3	249.1	70.0	1,640.7
2. Leather Goods & Footwear	16.8	117.6	1.0	24.5	14.6
3. Wood & Furniture	281.0	232.9	356.2	888.9	198.8
4. Motor Vehicles & Other Transport Equip.	1,365.4	5,676.7	-	524.5	774.6
5. Non Metallic Mineral	140.8	92.7	57.7	19.6	284.6
Total (1 to 5)	2,211.3	7,978.2	664.0	1,527.5	2,913.3
% share to total manufacturing	38.4	80.0	10.7	14.5	13.9
Total manufacturing	5,760.6	9,968.9	6,229.4	10,517.9	20,931.1
Source: BKPM (Investment Coordinating Board)					

Tertiary: Indicators used to monitor client progress

These indicators measure client progress and guide our technical assistance. These are firm-level indicators which indicate the overall trend of the client enterprise's financial well being (i.e., is it improving or worsening), which is how competitiveness is expressed on the enterprise level. The data will be collected and managed in a central database to monitor progress at the individual firm level. Sales, productivity and employment data will be aggregated and reported to USAID on an annual basis.

Unfortunately, systems had not been developed during year one to collect and consolidate information for sales, productivity and employment. Therefore, this information is not available to report at this time. Currently, RCCs are perfecting data collection information and a database is being developed. As the year two workplan explains, this information will be reported on a calendar year basis in order to compare results with industry-wide and nationwide indicators.

BUDGET AND EXPENDITURES

Total expenditures for year one were \$3,546,583 as shown in Table 14 below. This total was approximately \$555,000, equivalent to about 13.5 percent, below the planned budget. Given the difficulties and delays described above, this expenditure shortfall is reasonable. The line item expenditures for CCN Labor were significantly less than planned because of the delays in mobilizing our technical staff. Within the Other Direct Costs (ODC) category, expenditures for Allowances and Program Operations exceeded budgets by about \$117,000 and \$180,000, respectively. This was due to lump sum payments for ex patriot housing and for leasing and rental contracts for computers and office space. Finally, expenditures were far below budget for the Procurement line item, in part because the expected purchase of vehicles did not occur and, in part because this item was over budgeted. We anticipate expenditures to increase in year two to levels consistent with Life of Project planned budget.

Table 14

BUDGET VS EXPENDITURES 01/09/05 to 30/09/06

	BUDGET	EXPENDITURES
Schedule Labor - US Expatriates	1,559,419	1,529,378
Less Discounts	233,913	229,407
Net Labor	1,325,506	1,299,971
Schedule Labor - CCNs	2,858,151	1,936,819
Less Discounts	2,200,776	1,491,351
Net Labor	657,375	445,468
Sub Total Schedule Labor	1,982,881	1,745,439
Schedule ODC		
Travel, Transportation, and Per Diem	259,276	245,576
Total Allowance	342,240	459,314
Program Support Costs		
Program Support Staff	68,708	40,508
Local Staff Social Charges	109,212	68,806
Program Operations	377,032	557,732
Procurement (IT/Furnishing/Vehicles)	632,637	254,194
Training/Workshops	54,000	21,743
Public Awareness	54,850	3,038
Sub Total ODC	1,897,955	1,650,911
G&A (Applied to Schedule ODCs)	172,714	150,233
Grants and Grant Fees	47,940	-
TOTAL MOBIS SCHEDULE CONTRACT ITEMS	4,101,490	3,546,583

Note:

The Expenditures is based on actual figures up to 31 August 2006 plus estimated expenses for September 2006

MOVING FORWARD AND YEAR TWO DEVELOPMENT

As alluded to in the executive summary and elaborated on in the body of this annual report, the first year of implementation of the SENADA project was problematic. Whether the issues and difficulties faced were related to workplan development and USAID expectations, mobilization and retention of expatriate staff, delays caused by external actors in our ability to operationalize management and support functions, and others, DAI as the project implementer faced a year of challenges. SENADA is closing out year one, however, on a very positive note.

From April 2006 through the end of contract year one, activity and implementation occurred at an ever growing pace. Systems, operations, and procedures are in place that facilitate implementation, and more importantly, help generate results. Most importantly, with the exception of one LTTA position, SENADA now has a solid LTTA management team led by newly mobilized COP Steve Smith. This team that has the support and faith of DAI management, and USAID, to carry the program forward.

As of the writing of this annual report, SENADA is engaged in thoughtful and in-depth dialogue with USAID on the finalization of a year two workplan. This workplan will build off the strengths of year one while modifying some approaches and adding activities that we feel will best position SENADA and USAID for success, not only into year two, but for the duration of the program. Many lessons have been learned from implementation in year one and SENADA is committed to ensuring those lessons are translated into a better and more focused program moving forward.

At present, SENADA is operating five Regional Competitiveness Centers—Jakarta, Medan, Surabaya, Semarang, and Bandung. Each of these RCCs is operational and additional staff are being added to support their work. Each RCC is working with individual clients and developing a pipeline of new clients. With the exception of Semarang, each RCC is also home to an operational RCA, that under SENADA's leadership, is defining a plan of action to target constraints and opportunities in the business environment. More than ever during the first year of the program, SENADA is reaching out to and collaborating with other donor projects, government and public sector counterparts, and working to ensure that the range of "stakeholders" that have a vested interest in increasing the competitiveness of select IVCs—and Indonesia as a whole—is broad and deep. We are discussing with USAID our planned establishment of two additional RCCs—in Makassar and Jogjakarta.

The year two workplan under development will also elaborate on the SENADA Grants Program, scheduled to be implemented in the first quarter of year two. Making up for lost time in year one, our second year plan of action will also elaborate on the many public-private partnerships we are working to form to support the overall objectives of the project, deepen and broaden SENADA stakeholders, and leverage USAID funding to allow SENADA to "do more."

SENADA year one was the year of challenges. SENADA year two—and the remainder of the program—are the years of opportunities and action. SENADA will build on the solid foundations that are now in place, and grow the program to achieve the important results required of it.

ANNEX I:

**CURRENT EMPLOYEES
As of 30 September 2006**

No.	Name	Position	Location	Start Date
1	Ilyas Saad	Chief Economist	Jakarta	14-Sep-05
2	Novidya Pawestrini	Administrative Assistant	Jakarta	19-Sep-05
3	Nelly Triana Putri	Sr. Accountant	Jakarta	3-Oct-05
4	Indra Wardhana	IT Specialist	Jakarta	10-Oct-05
5	Eddy Bahfen	Director of Operations	Jakarta	1-Nov-05
6	Dini Rahim	RCC Manager Surabaya	RCC Surabaya	1-Nov-05
7	Ferry Dzul kifli	RCC Manager Bandung	RCC Bandung	14-Nov-05
8	Aris Darujo	Industry Expert	RCC Jakarta	14-Nov-05
9	Wigatiningsih Partosedono	Sr. Legal Advisor	Jakarta	5-Dec-05
10	Yahmin	Office Aide	Jakarta	3-Jan-06
11	Harun Aris Wiranto	Public Awareness and Communications Manager	Jakarta	20-Feb-06
12	Ahmad Lukman	Senior Translator	Jakarta	24-Mar-06
13	Amie Rumondang	Regional Finance and Administrative Manager	RCC Bandung	1-Apr-06
14	Jason Bohoney	Industry Advisor	Jakarta	2-Apr-06
15	Ratu Ayu Krisnasari	Receptionist	Jakarta	3-Apr-06
16	Kusnadi Subrata	Relationship Manager	RCC Bandung	5-Apr-06
17	Adhie Adriansyah	Relationship Manager	RCC Jakarta	5-Apr-06
18	Dede Supriatna	Office Aide	RCC Bandung	6-Apr-06
19	Rachmat Hidayat	Office Aide	RCC Surabaya	6-Apr-06
20	Teddy Asril	Relationship Manager	RCC Jakarta	11-Apr-06
21	Januar F. Rustandie	Relationship Manager	RCC Jakarta	11-Apr-06
22	Aris Martanto	Relationship Manager	RCC Surabaya	11-Apr-06
23	Sri Astutik	Relationship Manager	RCC Surabaya	11-Apr-06
24	Heri Santosa	Regional Finance and Administrative Manager	RCC Surabaya	11-Apr-06
25	N.G.P. Satia Pratiwi	Relationship Manager	RCC Bandung	20-Apr-06
26	Sinta Aryani	Relationship Manager	RCC Bandung	1-May-06
27	Sheliagus Suyadi	RCC Manager Medan	RCC Medan	19-Jun-06
28	Hernita Sitorus	Quality Practice Specialist	RCC Jakarta	26-Jun-06
29	Hendri	Regional Finance and Administrative Manager	RCC Medan	3-Jul-06
30	Caesar Layton	Association Development Advisor	Jakarta	3-Jul-06
31	Diah Safitri	Administrative Assistant	RCC Bandung	5-Jul-06
32	Patrick Kadian	Client Services Advisor	Jakarta	10-Jul-06
33	Rosanah	Accounting / HR Assistant	Jakarta	17-Jul-06
34	Wawan Ermawan Abidin	RCC Manager Jakarta	RCC Jakarta	18-Jul-06
35	Deborah Arby Rosy Baskoro	Relationship Manager	RCC Semarang	20-Jul-06
36	Suprihno	Regional Finance and Administrative Manager	RCC Semarang	26-Jul-06
37	Widodo Hardjono	Relationship Manager	RCC Surabaya	14-Aug-06
38	Stephen Smith	Chief of Party	Jakarta	18-Aug-06
39	Sutrisna	Finance Practice Specialist	RCC Jakarta	18-Aug-06

No.	Name	Position	Location	Start Date
40	Japaringatan Saragih	Relationship Manager	RCC Medan	22-Aug-06
41	Dwiana Kelanawati	Administrative Assistant	RCC Surabaya	24-Aug-06
42	Bharaty	Relationship Manager - IVCS	RCC Medan	1-Sep-06
43	Dyah Sulistyo Prabandari	Relationship Manager	RCC Semarang	1-Sep-06

ANNEX II:

SENADA Industry Value Chain Strengthening Component

IVCS Methodology

Introduction:

SENADA's Industry Value Chain Strengthening component consists of a two phase strategy. First — through our network of individual client firms, business associations and Regional Competitive Alliances (RCA) made up of industry, associations, chambers of commerce, government, NGOs, and other interested stakeholder members — SENADA will identify, analyze, and prioritize core regional industry constraints for each IVC. Second, SENADA will team with key stakeholders to implement value chain interventions to create positive competitiveness change at the industry level.

SENADA will provide the necessary technical support to (1) identify priority constraints that will have the greatest impact on competitiveness and (2) develop realistic interventions with necessary stakeholders to resolve these constraints. By bringing stakeholders to the table to both identify constraints and to offer possible solutions to removing these constraints, SENADA will foster inter-industry and public-private cooperation. This will result in industry-wide adoption of best practices and technologies and success strategies that can be replicated nationally. In addition, SENADA will support champion industry business associations throughout this process to ensure that business environment and value chain improvement is maximized through their active engagement in SENADA value chain strengthening activities.

IVC Constraint Identification / Prioritization and Intervention Methodology:

SENADA has developed state-of-the-art methodologies to effectively identify priority IVC constraints and strategically plan for interventions. *Constraint Identification, Prioritization and Selection (CIPS)* methodology is an innovative approach that combines quantitative and qualitative statistical analysis and cost-benefit filtration techniques. CIPS allows SENADA experts to survey industry stakeholders across a wide swath of the value chain to identify and prioritize key industry constraints by sixteen separate industry / cost-benefit variables. Secondly, Strategic Action Planning (SAP) methodology provides SENADA with a strategic tool for developing and managing SENADA's value chain intervention. SAP specifically ties interventions to the constraints with qualitative / quantitative measurables, clearly defined strategies, assigned roles and responsibilities and defined due dates. This paper will also serve as a guide for SENADA RCCMs to follow when managing / facilitating the IVCS process.

The three stages of the IVC process outlined here are:

Stage One: Constraint Identification, Prioritization and Selection (CIPS)

- Structure and Induction of RCA.
- RCA, BA and EI Constraint Identification.
- Initial Constraint Identification / Brainstorm
- Prioritizing Constraints — Constraint CIPS Analysis

Stage Two Constraint Analysis — Asset Gap and Stakeholder Analysis and Value Chain Mapping

Stage Three IVC Intervention Implementation

- Strategic Action Planning (SAP) Development
- IVC Intervention
- Intervention Debrief and Analysis

The following pages describe each of the IVCS methodology in detail.

STAGE ONE — CONSTRAINT IDENTIFICATION, PRIORITIZATION AND SELECTION

Objectives

- Identify core constraints hindering the competitiveness of SENADA's priority value chains.
- Analyze and prioritize constraints by priority IVC and select "constraint shortlist" that will serve as primary IVC intervention pipeline for RCC.

Process

- If no suitable mechanism exists, establish and recruit regional competitiveness forums — i.e. Regional Competitive Alliances (RCA) — make up of key industry players, including industry associations, that have relevancy to the industry priority to serve as a simple, workable mechanism to identify core IVC constraints, determine value chain priorities and brainstorm intervention action ideas.
- Engage key industry firms (EI clients), stakeholders and business associations and brainstorm / document core constraints affecting the priority IVCs.
- Conduct and complete *CIPS Constraint Identification / Brainstorm* and *CIPS Prioritization Survey* for priority IVC constraints. CIPS survey should be completed on a regular basis to continue ensure that SENADA interventions are supported and demanded by core industry players.
- Consolidate analyses, data results, etc. cross check if accurate.

Outputs

- CIPS Constraint Brainstorm completed.
- CIPS Constraint Prioritization Survey completed.
- Shortlist Constraint Pipeline (of at least 5 constraints) selected and approved by SENADA Jakarta.

Tool Available

- RCA Membership Matrix
- CIPS

STAGE TWO — CONSTRAINT STAKEHOLDER ANALYSIS AND VC MAPPING

Objective

- Through completion of IVC maps, SENADA has detailed understanding of the IVCs we are targeting, its key players, and their interrelationships.
- Key IVC constraints are mapped on priority IVC maps to show burdensome or constraining affect that they are having on each IVC and it key players.
- Key stakeholders (of the short listed constraints) are identified, analyzed and initially engaged.

Process

- Industry value chain maps are produced (in detail) for at least two (2) priority industries (per RCC). Maps should be updated or managed regularly so that SENADA always has an accurate understanding of the IVCs we are working in.
- Collated anecdotal constraint information gained from SENADA enterprise and business association clients (through RMs working directly with industry firms and data collected for initial client screening), RCA and CIPS process are "mapped" on IVC to show specific affect constraint is having on the competitiveness of the IVC. Again, process is not static and should be updated regularly.
- Shortlist Constraint Pipeline (of at least 5 constraints) is further analyzed through the completion of the "stake holder analysis". Key stakeholders vital to future SENADA interventions are identified, analyzed and at least initially engaged. Process should be regularly updated.

Outputs

- Detailed IVC Maps for at least two (2) priority regional IVCs are completed.
- Constraints, and subsequently their burdensome affect, are clearly mapped on IVC maps.
- Stakeholder Analyses are completed for at least five (5) short listed constraints (per RCC).

Tool Available

- IVC Maps
- Stake Holder Analysis
- CIPS

STAGE THREE - IVC INTERVENTIONS

Objective

- IVC Strengthening Interventions are successfully initiated and competitiveness of industries is increased.

Process

- Using SENADA's IVCS Strategic Action Planning (SAP) tool, develop a draft IVC intervention strategy (with achievable vision and objectives, necessary stakeholders and clearly defined strategies, actions and tasks, and due dates).
- Identify engage primary decision-makers for key interventions and individual contribution towards the implementation strategy discussed and agreed, with commitment to objectives, outputs, tasks and timelines.
- Intervention and budget approved and intervention launched, managed and completed.
- IVC debrief and analysis conducted on both economic environment improvement realized and efficiency and effectiveness of IVC Intervention process.
- Positive effect of removal of business / investment constraint communicated to primary and secondary clients, industry, government, key stakeholders, general public, etc.

Output

- IVC Intervention SAP completed and approved.
- IVC Interventions launched, successfully managed, completed and communicated.

Tool Available

- Strategic Action Plan (SAP)