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BUILDING BACK BETTER

Aceh Technical Assistance Recovery Project Final Report



MAY 11, 2008

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BUILDING BACK BETTER

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The tsunami caused an estimated \$1.2 billion in damage to Aceh's productive sectors. A-TARP worked with reconstruction partners to develop a comprehensive economic development strategy for Aceh and linked producers, farmers, and fishermen to new markets to create a vital, sustainable economy.

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FRONT COVER: A resident of Blang Pidie in the Aceh Barat Daya district enjoys her new home built by the reconstruction program. Some 120,000 houses needed to be rebuilt after the tsunami devastated the Indonesian province of Aceh. A-TARP helped rebuild communities throughout the province by developing a participatory village mapping and planning process, producing housing guidelines, and establishing logistics systems to transport reconstruction materials.

BRR / ARIF ARIADI

INSIDE FRONT COVER: A religious leader from Lampuuk, a village on the west coast of Aceh, blesses a boat, praying for safe journeys and full nets. A-TARP linked the fishing cooperative in Lampuuk to new markets, bringing additional revenue and a new hope for the future.

A-TARP / ALEJANDRO PLESCH

BACK COVER: Fishing boats are anchored at sunset in a village on Aceh's west coast. A-TARP's contributions to the reconstruction program, economic growth, and improved governance leave a legacy that can be seen throughout communities in Aceh and Nias and across Indonesia.

A-TARP / ALEJANDRO PLESCH



A-TARP worked with residents from Lamjabat to plan and design their village that had been destroyed by the tsunami. The village mapping and planning process, designed and implemented by local partners, was the first of its kind in Indonesia. The guidelines set new standards in village planning, including wider roads, creating an escape route in case of a future tsunami.

EXECUTIVE SUMMARY

December 26, 2004, was a dark day in the history of Southeast Asia. A powerful earthquake struck in the Indian Ocean just off the west coast of the Indonesian island of Sumatra causing a massive tsunami whose effects were felt as far away as Africa. Indonesia's Aceh province, an area slightly smaller than the state of West Virginia, was the hardest hit. Entire communities were wiped off the map, and nearly 130,000 people lost their lives.

Just three months later, another earthquake struck the west coast of Sumatra near the island of Nias, leaving behind tremendous physical destruction and killing nearly 900 people.

USAID, like other governmental aid agencies around the world, stepped in to help rebuild the disaster-affected region. The Aceh Technical Assistance Recovery Project (A-TARP) became a vital

component of this support. Operating from May 2005 to May 2008, this \$17 million project was designed to provide technical assistance to help rebuild the communities of Aceh and Nias.

The project's scope included much more than the reconstruction program in Aceh and Nias. Responding to the needs of the Government of Indonesia, the project provided assistance to strengthen democratization and support the peace process in Aceh and worked to bolster economic growth and counter corruption in Jakarta-based government institutions.

SUPPORTING REHABILITATION AND RECONSTRUCTION IN ACEH AND NIAS

Just months after the tsunami, the Indonesian government formulated a plan for the rehabilitation and reconstruction of Aceh

and Nias, which established the *Badan Rehabilitasi dan Rekonstruksi* (Agency for the Rehabilitation and Reconstruction or BRR). The BRR was designated as the government agency that would manage the disaster recovery program, which included coordinating more than \$7 billion in pledged aid from the Indonesian government, international donors, and local, national, and international NGOs.

Even with a plan for recovery, anticipating the precise needs of the reconstruction effort was impossible. Listening to the Government of Indonesia as its recovery plan unfolded, A-TARP responded to those unpredictable needs. Through the first three years of the BRR's four-year mandate, A-TARP supported priority reconstruction initiatives, providing technical assistance to help rebuild the disaster-affected region. The project's assistance included:

- *Village mapping and planning.* The project developed and implemented a community-driven village mapping and planning process that involved residents in designing their villages destroyed by the tsunami. The project created guidelines that represented the first formally approved community-driven approach to planning in Indonesia and provided a structured framework for NGOs and donors that were building houses and infrastructure in Aceh and Nias.

- *Logistics.* The reconstruction program lacked expertise in logistics planning, supply-chain management, and material procurement — know-how critical to ensuring that materials were where they needed to be, when they needed to be there, to rebuild Aceh and Nias. With nearly 2,000 miles of Aceh's roads impassable, major ports and bridges destroyed, and no viable shipping service to transport these materials, the reconstruction program was in jeopardy. A-TARP provided technical assistance in five major areas related to logistics, helping to ensure that the reconstruction program could build houses, community facilities, and infrastructure.

- *Economic development.* A-TARP worked with the BRR, recovery program partners, the Government of Aceh, and businesses to help build a prosperous, vital economic future for the region. On the strategic level, it helped create an economic development strategy that laid the foundation for donors to create a \$50 million facility to fund economic development projects. The project also linked Acehnese farmers and fishermen to new markets, resulting in better prices for their products.

- *Anti-corruption.* With billions of dollars of aid, the reconstruction program had to be fully accountable for the use of those funds, which was critical

to ensure funding in future years of reconstruction. The project worked with the BRR's *Satuan Anti Korupsi* (Anti-Corruption Unit or SAK) to build a robust mechanism to counter corruption. From September 2005 to December 2007, the unit received 1,372 complaints, investigated and resolved 1,348 of them, and earned a reputation for countering and deterring corruption.

- *Communications and outreach.* A-TARP, working with a local communications firm and reconstruction program partners, developed and executed a full-fledged communications strategy to commemorate the one-year anniversary of the tsunami. This strategy included establishing a media center and organizing a series of community and stakeholder events, successfully updating local, national, and international audiences on the progress of the reconstruction program. In addition, the project helped the BRR construct a longer-term strategy to strengthen the agency's overall communications efforts. Today, the BRR is delivering more unified messages to key audiences and has improved its relationships with national and international media.
- *BRR's regionalization program.* In early 2006, the BRR introduced a strategy to decentralize its operations. The regionalization program recognized that if reconstruc-

tion was to address community needs and involve local government, then operations needed to be expanded to the regions. A-TARP worked with the regional office in Nias to build a model for the BRR's regionalization program. Since early 2008, the Government of Aceh has been using lessons learned from Nias as it prepares to take over the reconstruction program from the BRR.

- *Land acquisition on USAID's signature project, the West Coast Highway.* The tsunami destroyed or damaged significant portions of a vital highway that ran down Aceh's west coast. Project-supplied technical assistance removed roadblocks to acquiring land for the road, facilitating the purchase of more than 98 percent of the land along its right of way.

SUPPORTING THE GOVERNMENT OF ACEH

In August 2005, the Government of Indonesia and Aceh separatists signed a historic peace agreement ending nearly three decades of low-intensity conflict. The conflict had thwarted economic and social progress and stymied the development and delivery of government services. As the province emerges from this conflict, the government has been rebuilding the trust of its citizens, working to ensure the peace holds, and initiating a process to take over the management of the recovery program when the BRR exits in 2009.



In Cadek, a village in Aceh Besar, a construction worker builds the foundation for new homes. A-TARP provided technical assistance in logistics planning, supply-chain management, and procurement to help the reconstruction program get materials to the right place at the right time to rebuild the disaster-affected region.

A-TARP made significant contributions in supporting the Government of Aceh, including:

- *Supporting the governor's office.* During the life of the project, the Government of Aceh had three governors and conducted its first democratic elections. Throughout these political changes, and while dealing with a highly charged political environment, A-TARP effectively advanced each governor's agenda, strengthening the government's efficacy and relationships with key partners.
- *Building the capacity of local government.* Working with a local partner, A-TARP conducted a capacity building program to enhance the delivery of public services for 15 *kecamatan* (sub-districts) in Aceh and Nias. The program strengthened their ability to

plan and budget, focusing on improving their involvement in the reconstruction program and in post-conflict activities.

- *Dedicating efforts to support key peace-building initiatives.* The Government of Aceh had the awesome responsibility of implementing the peace agreement and securing the peace for its citizens. A-TARP's assistance was crucial in building the capacity of the government to play a more active role in realizing and sustaining the peace.

SUPPORTING JAKARTA MINISTRIES

Indonesia was the country hardest hit by the East Asian financial crisis in 1997-1998. This crisis set in motion significant political and economic reforms within the government to stabilize and strengthen the economy.

To support the Indonesian government in these efforts, A-TARP provided critical technical advice to the Ministry of Finance to promote economic growth and prosperity. A project advisor worked directly with ministry leadership to create sound policies and initiate programs to produce a favorable climate for business and investment and collect and generate revenue for the government. Today, increases in economic indicators — from direct investment to gross domestic product — signify Indonesia's economic policies are on track.

In Indonesia, significant government revenue is lost due to tax fraud. To counter criminal tax fraud and increase taxpayer compliance, the project established the first directorate in Indonesia devoted solely to criminal tax investigation. This new directorate is identifying and investigating high-impact criminal tax offenders, increasing tax revenues, and initiating a change in the public's mindset regarding tax compliance.

LESSONS LEARNED

Many lessons were collected from each technical component of this multifaceted project, and they are

documented in each chapter in this report. In addition, several of the lessons learned are simple reminders of the fundamentals of effective technical assistance: take the time to understand the local context, build relationships with counterparts, and ensure commitment from leadership. From a disaster recovery perspective, aid agencies that have flexible mechanisms — like A-TARP — can be extremely effective in responding to the emerging needs of host countries in situations with unpredictable variables and requirements.

A-TARP'S APPROACH AND LEGACY

A-TARP garnered a reputation for having a flexible, demand-driven approach, responding to the needs of the Governments of Aceh and Indonesia throughout the reconstruction program, supporting the democratization of Aceh and the peace process, and crafting and executing economic growth-oriented policies. The project made significant contributions to these government institutions, and its legacy can be felt in communities throughout Aceh and Nias and in the lives of Indonesians across the country.



The tsunami killed 85 percent of the residents in the village of Lampuuk and destroyed the village. The only surviving building was the black domed, whitewashed mosque. Renovated with new minarets, windows, and a fresh coat of paint, it stands as a beacon of hope for village residents.

CHAPTER ONE

BACKGROUND AND PROJECT OVERVIEW

DISASTER HITS INDONESIA

On December 26, 2004, an earthquake with a magnitude of 9.0 struck in the Indian Ocean just 100 miles off the coast of the Indonesian province of Aceh. Some 45 minutes after the earthquake, a series of three tsunami waves, in some places as high as 100 feet, struck with vengeance.

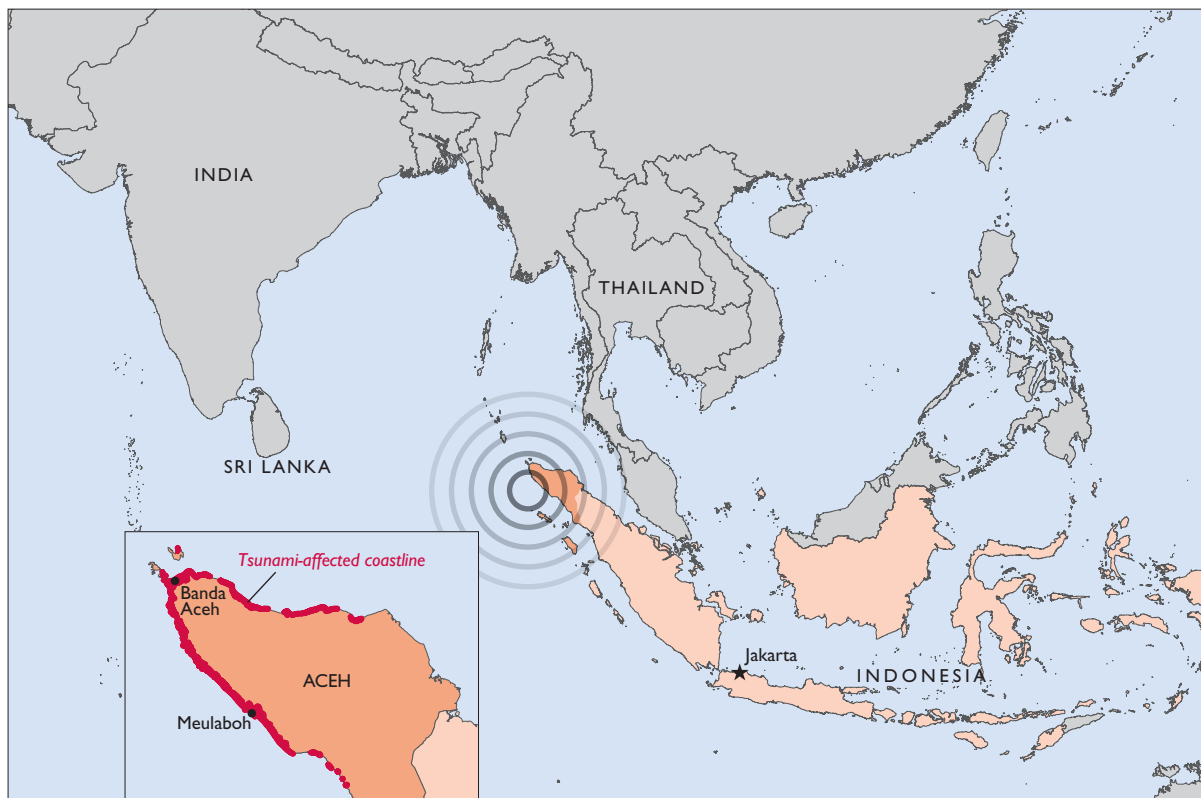
Within minutes, the waves swept away everything, and everybody, in their path and flattened a 500-mile stretch along Aceh's coast. Of the 12 nations hit by the tsunami, Indonesia suffered the most. The numbers reveal an unimaginable picture of destruction. Some 130,000 people were confirmed dead; 37,000 were deemed missing; and 500,000 were displaced. The tsunami destroyed land titles and other government records and took the lives of nearly 10 percent of government staff. The physical

damage that accompanied the loss of life was just as inconceivable: homes, schools, hospitals, businesses, roads, bridges, airports, and entire communities were wiped out. It was one of the deadliest natural disasters in modern history.

RELIEF, REHABILITATION, AND RECONSTRUCTION

Riveted to television news programs, the world watched in disbelief. The horrifying images were countered by acts of equivalent generosity. People sent money to their favorite charities. Local, national, and international organizations stepped in. Thousands of aid workers administered first aid and worked tirelessly to get relief supplies to the people. Thanks to the support from around the globe, the relief phase was overwhelmingly successful at addressing the most pressing needs of the Acehnese people, and there were

2004 INDIAN OCEAN EARTHQUAKE



COUNTRIES SUFFERING MAJOR CASUALTIES

Indonesia	128,645 dead	37,063 missing	532,898 displaced
Sri Lanka	31,147 dead	4,115 missing	519,063 displaced
India	10,749 dead	5,640 missing	647,599 displaced
Thailand	5,395 dead	2,845 missing	N/A

Source: USAID/OFDA Fact Sheet #39, Fiscal Year 2005

no reported deaths resulting from starvation or lack of medical care.

When the immediate crisis was under control, the next phase of disaster recovery kicked into action in April 2005: rehabilitation and reconstruction. Rehabilitation included securing basic services for those in temporary shelters, preventing the spread of communicable diseases, removing tons of debris, restoring water and electricity, and helping reestablish businesses. The

reconstruction phase began along a parallel course to repair the billions of dollars worth of damage to communities throughout the province.

ANOTHER EARTHQUAKE HITS NEAR SUMATRA

While Aceh was closing out the relief efforts and initiating the rehabilitation work, another tragedy struck Indonesia on March 28, 2005. An earthquake with a magnitude of 8.7 hit off the west coast of Sumatra near the

island of Nias. The sheer force of the earthquake caused the land to rise nearly six feet on parts the island. It left behind massive physical destruction, killed nearly 900 people, and left some 13,500 families displaced.

INITIATING THE RECOVERY PROGRAM

Immediately following the tsunami, the Government of Indonesia began developing a comprehensive plan, known as the “blueprint,” that outlined the reconstruction needs of the province. It called for the creation of the *Badan Rehabilitasi dan Rekonstruksi* (Agency for the Rehabilitation and Reconstruc-

tion or BRR) — the government agency tasked with coordinating the largest disaster recovery program in modern times.

The BRR was given just a four-year mandate from April 2005 to April 2009. Starting from a concept in a government document, it had to build itself from scratch. It had to establish systems to manage more than \$7 billion of pledged aid; coordinate the work of hundreds of organizations; and plan its transition to local government while it was establishing itself and implementing the program. And it had to get life in Aceh and Nias back to normal as soon as possible.

DAMAGE AND LOSSES CAUSED BY ACEH TSUNAMI AND NIAS EARTHQUAKE*†

People	<p>Aceh Tsunami 167,000 missing or dead 500,000 displaced</p> <p>Nias Earthquake 900 dead 13,500 displaced</p>
Houses	80,000-110,000 needed in Aceh 13,500 needed in Nias
Infrastructure	1,900 miles of roads impassable 14 of 19 ports badly damaged 8 of 10 airports damaged 120 arterial bridges destroyed 1,500 minor bridges destroyed
Education	More than 2,000 school buildings damaged About 2,500 teachers killed
Health	More than 8 hospitals damaged or destroyed 114 health centers and sub-centers damaged or destroyed
Economy	\$1.2 billion to productive sectors
Fisheries	4,700 coastal fishing boats lost 50,000 acres of fish ponds destroyed or unusable
Agriculture	60,000 farmers displaced 173,000 acres of agricultural land damaged
Enterprise	100,000 small business people lost their livelihoods

* Source: Reconstruction Program Progress Reports, 2005 and 2006, BRR and partners

† The numbers listed are approximate.

The BRR's leadership recognized that reconstruction needed more than grand project management; it required a whole new paradigm. The government's initial directive established the agency in Jakarta, but the BRR leadership immediately realized that the agency needed offices in Banda Aceh, the provincial capital of Aceh, to drive recovery efforts at the source.

HOPE FOR PEACE ARRIVES IN ACEH

Before the tsunami, life in Aceh was far from idyllic. Because of the conflict between the central government and the *Gerakan Aceh Merdeka* (Free Aceh Movement or GAM), the province had been unstable since the 1970s. The Acehnese people were disgruntled, claiming the government was taking a disproportionate amount of profit from the province's rich oil and gas reserves. The nearly 30-year conflict left some 15,000 people dead, triggered large-scale population displacement, and created a widespread state of insecurity that disturbed the political, social, and economic fabric of Acehnese society.

The 2004 tsunami convinced the Government of Indonesia and GAM to seriously push for an accord by continuing dialogue started before the disaster. In August 2005, the government and GAM signed a historic peace agreement known as the Helsinki Memorandum of Understanding, which became the best hope for peace since the conflict began. This agreement laid the groundwork for many of the social, po-

litical, and economic factors that would help bring lasting peace to the province.

Conventional wisdom in Aceh acknowledged there could be no sustainable rehabilitation and reconstruction without peace, and no sustainable peace without a solid rehabilitation and reconstruction program. Rebuilding Aceh and sustaining the peace are inextricably linked, commanding enormous effort and resources to realize.

CENTRAL GOVERNMENT'S REFORM PROGRAM

The Indonesian government was tackling other issues in Jakarta. In 1997-1998, Indonesia was the country hardest hit by the crippling East Asian financial crisis, which sparked significant reform across Indonesian political and governmental institutions. The Ministry of Finance was particularly aggressive in initiating sweeping changes, including completely overhauling its tax and customs regimes. The government's reform plans also aimed to curb widespread corruption throughout all levels of government.

USAID DESIGNS TECHNICAL ASSISTANCE PROJECT

As the Indonesian government was formulating its plan to rebuild Aceh and Nias, USAID was developing its plan to provide assistance. The Aceh Technical Assistance Recovery Project (A-TARP) was one component of this support. As it was initially conceived in March 2005, the project would provide techni-



Staff from the Aceh Monitoring Mission decommission weapons turned over by the GAM. A-TARP's assistance was critical to the government institutions responsible for implementing the peace process.

cal advice, training, and support to assist national ministries in responding to the needs of those affected by the disasters. The project was also designed as a vehicle to host existing USAID technical support to create and implement economic growth and counter-corruption polices in Jakarta-based ministries.

By the time A-TARP began in May 2005, the Indonesian government's needs had changed. It was clear the BRR would require massive assistance, so A-TARP shifted its focus from the capital to Banda Aceh to support the recovery efforts. Months later, as the peace process in Aceh took

shape and it became apparent the provincial government and peace process would require support, A-TARP's role expanded to meet these needs as well.

A-TARP accompanied the BRR through its first three critical years, responding to needs that were impossible to anticipate. Because the project's advisors and consultants were involved in key initiatives throughout Aceh and Nias — the BRR, the governor's office, and the peace efforts — it was able to link them, magnifying the results of its achievements.

The project began during a time of great flux, changing priori-



A-TARP / ALEJANDRO PLESCH

Fauzon, a university student, survived the tsunami by finding refuge on top of this mosque, watching in disbelief as the tsunami pushed debris, cars, and bodies below him. A translator for A-TARP, he was inspired by the project to pursue graduate studies in communications to help his community.

A-TARP Inspires Staffer to Help Community

It was Sunday morning — the day university students dream of lingering in bed after a long week of classes and studying. Fauzon, a student from a village in the highlands of Aceh, was awoken early by a violent shaking. He and others in his dormitory ran into the hallway. “It was shaking so hard you couldn’t even stand up — you had to lie down on the ground!”

Stunned, they inspected the damage to the dormitory, which was minimal. Around them, however, other buildings had collapsed. With no hope of sleep, Fauzon went to get breakfast at a nearby coffee shop. As he walked back to the dorm 20 minutes later, two policemen on motor-cycles drove by yelling, “Everybody run! The water is coming!”

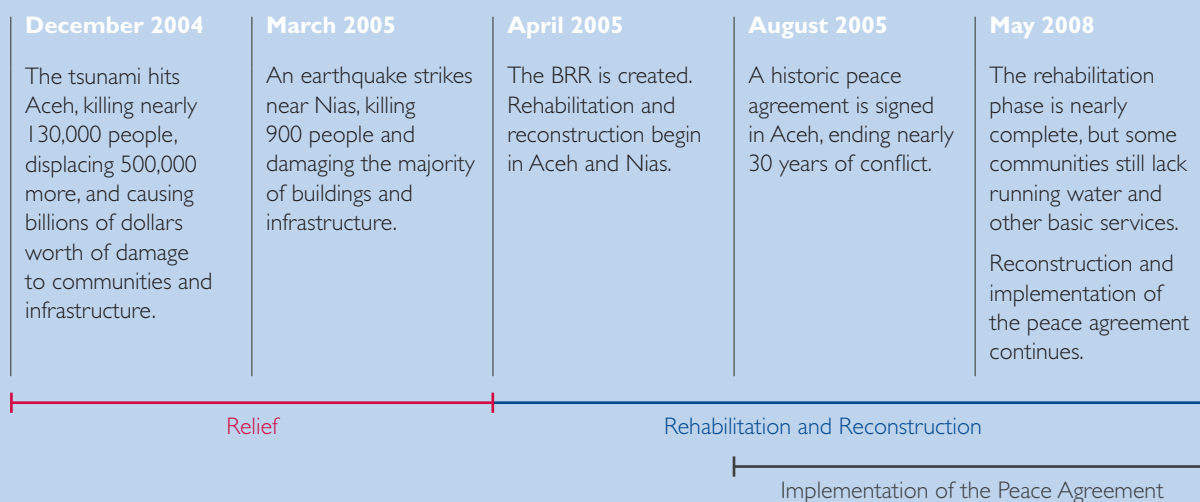
Although no one knew what was about to happen, Fauzon’s instinct told him to get out — fast. He hopped on one minibus, then another, to get away from the coast. Then, he saw the water coming toward him. “I knew I had to find a safe place.”

He climbed high atop the dome of a mosque with a handful of other people and saw the tsunami surge below him with full force, filling the streets with water and debris.

He spent the next 10 hours huddled on top of the mosque, waiting for the water to recede. Finally, he waded through chest-high water and hitchhiked on four motorcycles to his village. Once safely home, he was reluctant to leave, but eventually he returned to Banda Aceh.

He initially found work translating for organizations that had landed in the province during the relief efforts. Later, he joined A-TARP as a translator for business development and communications advisors. He says he learned a lot while working with the project, including how to work with communities and how to investigate business-related issues. He also witnessed the importance of communication between aid organizations and communities, and through this experience he found insight into his future: “It inspired me to get my master’s degree in communications.”

RELIEF, REHABILITATION, AND RECONSTRUCTION IN ACEH AND NIAS



ties, and unpredictable needs. Its agility from the onset established the tone for an approach that continued over its lifespan and was a major factor in its success. A-TARP became a flexible, demand-driven mechanism that responded to the shifting needs of an unprecedented disaster with a diverse range of technical assistance.

During the three years of the project from May 2005 to May 2008, A-TARP's programming spanned five USAID strategic objectives:

- Aceh-Nias rehabilitation and reconstruction
- Democratic and decentralized governance
- Economic growth
- Decentralized basic education
- Basic human services

This report describes the assistance that A-TARP provided to the BRR, the Government of Aceh, and Jakarta-based ministries. It covers the main accomplishments of the project's work for these key government agencies and for the people of Aceh, Nias, and Indonesia.



In Kaiju, a village in Aceh Besar, a family relaxes on the front porch of their new house. The reconstruction program was charged with rebuilding the communities of Aceh and Nias. Rebuilding houses was the first priority. With roughly 120,000 homes to build, this effort is still ongoing.

CHAPTER TWO

HELPING ACEH AND NIAS BUILD BACK BETTER

The BRR was tasked with oversight of the largest natural disaster recovery program in modern times — \$7 billion in pledged aid from the Indonesian government, international donors, and NGOs. Its mandate called for the agency to:

- Coordinate reconstruction projects to ensure the efficient allocation of resources and to minimize gaps and duplication
- Ensure that pledges were realized and that funds were sufficient to meet the needs of the people of Aceh and Nias
- Empower and strengthen local government through its engagement with reconstruction
- Restore livelihoods
- Strengthen communities
- Minimize corruption

This immense undertaking required nothing less than the restoration and rehabilitation of most of Aceh's infrastructure, institutions, and economy. The BRR had to set policy to build infrastructure, houses, schools, hospitals and clinics, and religious facilities while integrating disaster risk management and environmental protection into the process. With so many teachers, health care workers, and government employees killed by the tsunami, reconstruction also entailed deploying training and capacity building programs. Finally, the BRR had to make sure the needs of local communities were being met, and it had to prepare local governments to assume its role when its mandate ends in April 2009.

The expectations placed on the BRR, and the entire recovery program, were high: deliver quickly in a difficult environ-

“ We are very appreciative of USAID’s support through A-TARP. A-TARP was instrumental in supporting key functions within BRR senior management from the very beginning of the agency and helped move the reconstruction program forward. Its assistance was crucial in facilitating the work of two major reconstruction efforts: the implementation of community-based village planning and the acceleration of land acquisition of the Banda Aceh-Calang road. ”

**DR. KUNTORO MANGKUSUBROTO
DIRECTOR, BRR**

ment, without corruption. The political, social, and economic realities had a considerable impact on executing this directive. Decades of conflict and corruption created a lack of trust between citizens and government, and the government provided little service to the people of Aceh. The province’s economy was depressed and undeveloped, relying on small-scale agriculture and fisheries.

In the spirit of a call for a “New Aceh,” the reconstruction partners were challenged to “build back better.” This became the mantra of the reconstruction program — to do more than just restore Aceh and Nias to their previous conditions. It called for a pledge to re-imagine rural and urban life in Aceh and Nias with stronger economies, improved governance, and a better quality of life.

The recovery program was not at a loss for support — technical advisors, consultants, and staff roamed the BRR and worked within many NGOs and donor agencies. USAID, through A-TARP, was with the BRR from day one, responding to its needs and priorities.

This chapter describes specific project interventions and their impact on the reconstruction program, but the project’s work extended much further. In the BRR’s early days, A-TARP helped institute systems and procedures to get the agency up and running. The project helped the BRR establish its personnel system, create procedures to manage

the myriad offers of technical assistance from international donors, design a procurement and quality assurance monitoring program, and strengthen its disaster risk management program. The partnership that developed between A-TARP and the BRR set the stage for three years of collaboration.

During its three years of operation, A-TARP provided nearly two dozen long-term advisors and short-term consultants, both expatriate and senior Indonesian technical specialists, as well as support from specialized Indonesian organizations, to work with the BRR. A-TARP’s technical assistance supported the BRR’s core functions and helped with priority reconstruction initiatives that played a crucial role in rebuilding the communities of the disaster-affected region, such as village mapping and planning and housing policy; logistics; economic development; anti-corruption; communications and outreach; regional office development; and land acquisition for Aceh’s West Coast Highway.

VILLAGE MAPPING AND PLANNING

Like most villages in Indonesia, Aceh’s grew organically. Roads were traditionally narrow, limiting two-way access. Residential and business areas, schools, mosques, and clinics were built based on momentary needs and the availability of land, rather than long-range, systematic planning.

The tsunami damaged or destroyed more than 1,000 villages

and parishes in the province, and, in many places, washed away the land itself.

Before housing and infrastructure could be built, village and parcel boundaries needed to be determined. Relying on government records was nearly impossible because the documents kept in the villages were destroyed by the tsunami. In many instances, few landmarks or buildings survived, making it difficult for residents to identify their property. New methods to document property were needed if the housing reconstruction program was to move forward.

The pressure to deliver housing quickly was intense. Indonesia's bureaucratic, top-down regulatory regime for planning not only impeded the ability to respond swiftly, but also failed to allow for the community-driven approach to reconstruction required by the BRR's mandate.

Assistance Provided

Building on the community-based village mapping process initiated by *Yayasan Inovasi Pemerintahan Daerah* (Center for Local Government Innovation or YIPD), a local partner, PT Wastuwidyawan (PT Was), linked community mapping with

VILLAGE MAPPING AND PLANNING PROCESS

1. Educate the community about the process.
2. Work with residents to identify land boundaries and ownership.
3. Assess and map physical, economic, social, and cultural features.
4. Design housing patterns with community participation.
5. Determine disaster escape routes and environmental buffer zones.
6. Plan for road access, drainage, sanitation, water, electricity, and communications needs.
7. Discuss consolidation of surviving community members within the village. Consider sharing community facilities with adjoining villages.
8. Sketch out an initial scenario. Lead community discussion.
9. Develop a detailed plan.
10. Ask community members to sign the agreed-upon plan and hand it over to engineers for detailed construction and infrastructure design.



A-TARP / ALEJANDRO FLESCHE

As a community leader in Lamjabat, Hilman Ilyas worked with A-TARP to implement the village mapping and planning process. The new plan calls for the reconstruction of tsunami-destroyed aquaculture, including crab ponds, to bring economic opportunities to the village.

SUCCESS STORY

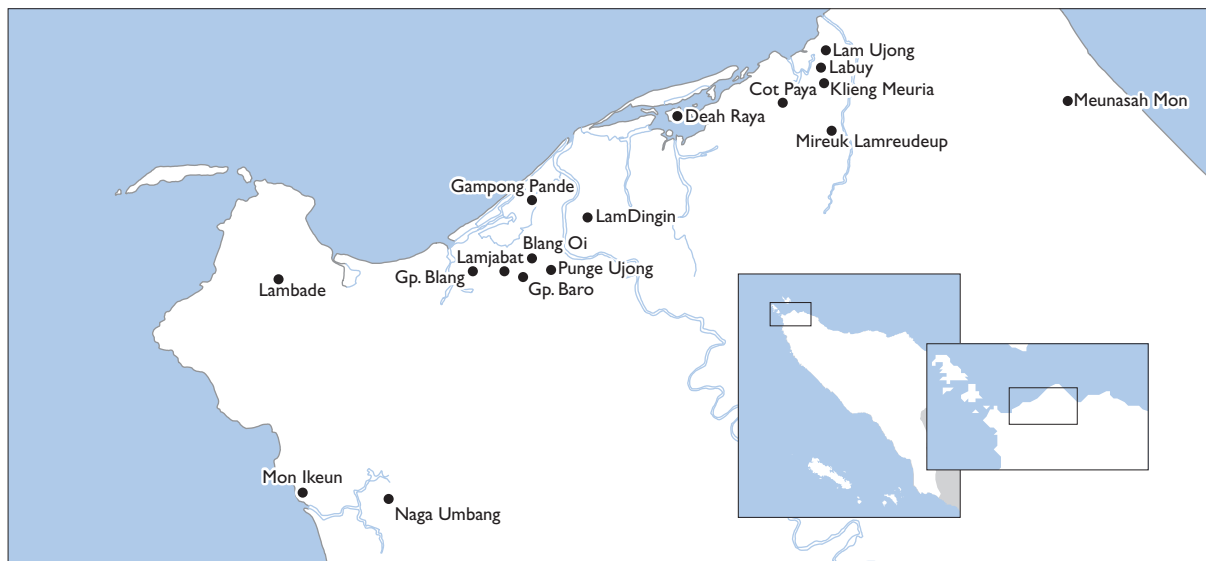
Building a Better Village Through Community Participation

Lamjabat, the densely populated waterfront section of Banda Aceh, sits about half a mile from the white sand and palm trees of the coastline. It was ground zero for the tsunami. After December 26, 2004, only the ceramic floors of the houses remained. The tsunami took the lives of 85 percent of the 1,700 residents — including the village head and many of the village elders. Hilman Ilyas was one of the few elders who survived. Unfortunately, his entire family — his wife, children, mother, and brother — did not.

Many NGOs rushed to help Lamjabat rebuild the village, including A-TARP's village mapping and planning partner PT Wastuwidyawan (PT Was). Most residents were hesitant to work with PT Was because they did not understand the value of going through this time-consuming process. Hilman convinced them that it would benefit the village in the long term. Working with other village elders, he encouraged residents to participate in the mapping and planning process, facilitated community meetings, and helped answer questions while they developed a new plan.

Today, Lamjabat has wider streets, a new standard for a tsunami escape route, and improved drainage. More than 250 houses have been rebuilt, along with a community center and elementary, junior, and senior high schools. Sitting on the porch of his house, Hilman says he is now at peace. Reconstruction is never going to bring back his family or friends, he says, but *inshallah* (God willing), he has hope for his life and is happy to have a house in a well-planned village.

VILLAGES PARTICIPATING IN PT WAS' MAPPING AND PLANNING PROCESS



a rigorous planning process. PT Was' team of urban planners, designers, engineers, and community participation experts refined the interactive process, guiding residents to ensure they were actively involved in the design of their future communities.

The guidelines incorporate innovative approaches to planning. Because some communities lost 80 percent or more of their families, consolidation within villages and between villages was necessary. Within villages, rather than rebuilding on the remaining scattered parcels, residents and community facilities were centralized around a community hub with a school, market, and mosque within walking distance of residents' homes. Where the population decreased significantly, adjoining villages shared public facilities, such as schools and clinics. Other innovations included integrating escape routes and environmental buffer zones into the planning

process, as well as creating a land exchange program that provides compensation for residents who offer private land for community purposes.

The project completed the mapping and planning exercise in 17 villages. It trained the BRR and other partners on the guidelines so that a consistent approach to mapping and planning could be implemented across the reconstruction program.

Results and Impact

The guidelines represent the first formally approved community-driven approach to planning in Indonesia and provide a structured framework for the NGOs and donors building houses and infrastructure in Aceh and Nias.

Without village maps, the reconstruction program would have been delayed — possibly for years. Typically, the government requires formal land titles to be issued before building on a given



BRR / ARI FARIADI

A-TARP helped the BRR develop guidelines to rebuild homes like these in Suak Ribee in West Aceh.

Housing Policy Helps Ensure Equity across Reconstruction Program

After the disasters, it was estimated that 120,000 homes needed to be rebuilt, and the recovery program was committed to ensuring that everyone who lost a house received a new one. But what if the home only required repair? What if an entire village was destroyed and needed to be resettled in a different location? What were renters and squatters entitled to? What were the standards for size, materials, and amenities such as sanitation and electricity? How would the recovery program ensure newly built homes would withstand future disasters? The reconstruction program needed clear guidelines to ensure fairness, quality, and transparency in the rebuilding process.

A-TARP advisors consulted with the BRR on the complex task of developing housing guidelines for the recovery partners. These guidelines represented a legal framework for the reconstruction program to determine what kind of housing people would receive. A-TARP advisors drafted five regulatory laws, which were adopted by the BRR, covering policies on new construction for houses that were destroyed, resettling landless villages, rehabilitation grants for homeowners whose houses were damaged, renter subsidies to provide midterm affordable housing, and minimum construction standards. These policies helped ensure that housing reconstruction was provided fairly and built to minimum quality standards.

During the course of reconstruction, the guidelines' application and specific requirements have changed to adapt to the needs that surfaced as the program expanded. A-TARP's work set the foundation to ensure equity at the beginning of the process.



With A-TARP's local partner, residents from Lamjabat participated in the village mapping and planning process. Community members and partners signed the final plan, sealing the commitment to realize a new vision for the village.

site, but reconstruction could not wait. The government land agency agreed to consider the village maps as official documents until a formal land titling process could be implemented, allowing reconstruction to begin much sooner.

The village mapping and planning process also created a new way to look at village planning by including the affected communities in the process. When residents are involved in designing their own communities, they are more satisfied with the final result. And they are more cooperative. Many individuals offered land to widen roads to provide easier escape routes in case of

a future tsunami. Most importantly, the guidelines provided the people of Aceh and Nias a say in how their communities were rebuilt.

Lessons Learned

Innovation should be part of the planning process. The “build back better” mantra of the reconstruction program meant that implementing modern guidelines for public participation and higher quality design standards for housing, infrastructure, and community facilities — and creating environmental buffer zones and escape routes in case of future disasters — must be factored into the planning process.



On the beach near Lampuuk, a village resident fills a wheelbarrow with fish caught off the west coast of Aceh. A-TARP visited nearly two dozen fishing ports and helped link Acehnese fishermen to new markets.



INFRASTRUCTURE DAMAGE

- 1,900 miles of roads impassable
- 14 out of 19 seaports badly damaged
- 8 of 10 airports damaged
- 120 arterial bridges destroyed
- 1,500 minor bridges destroyed

Community participation means community satisfaction. People are more satisfied with their communities when they are involved in the decision-making process of rebuilding. The approach is simple and successful: help people help themselves plan and build the future they want.

Rigid, bureaucratic planning processes do not work in a post-disaster situation; new approaches need to be institutionalized. Indonesia's cumbersome rules and regulations did not lend themselves to community-based planning and rapid execution, which are necessary in a post-disaster situation. Dynamic, innovative processes should be incorporated into formal government policies to ensure they can be used in the future.

LOGISTICS

The tsunami and earthquake exacerbated an already neglected infrastructure. The damage crippled the ability to transport materials — bridges were out, roads were impassable, and ports were unusable. To compound matters, the disasters destroyed trucks, barges, and small ships. Challenges in procuring, transporting, and storing reconstruction materials threatened the progress of the reconstruction program, and the BRR lacked the expertise to put these systems in place.

A-TARP provided guidance to the recovery program to ensure that NGOs and others working on the reconstruction program would have the building materials where they needed them,

when they needed them, to rebuild Aceh and Nias. A-TARP provided technical assistance in five major areas related to logistics: repairing ports, roads, and bridges; transporting reconstruction materials; logistics planning; procuring and storing building materials; and sourcing legal timber.

The following section describes the challenge, technical interventions, and results and impact for each activity.

Project Assistance

Repairing Ports, Roads, and Bridges

Simply getting building materials into the province posed an enormous logistical challenge because almost every port in Aceh and Nias needed to be rebuilt or repaired. Once supplies arrived at the ports, the next hurdle was transporting them overland to the communities where houses, community facilities, government offices, and infrastructure were being built. Even if the roads and bridges were usable, they were often not suitable for large trucks weighed down by reconstruction materials.

Establishing priorities for port reconstruction was one of the first tasks at hand. Interfacing almost daily with BRR and United Nations Development Programme staff, A-TARP assisted and advised on port design and prioritization of port reconstruction projects.

Priority ports were identified, repaired, and rebuilt first, but not only with short-term needs

“ If you’re going to build more than 100,000 houses, how many bags of cement do you need? How many board feet of lumber? What about rebar? How are you going to transport these supplies when the roads are unusable, the bridges are out, and the ports were destroyed? No one was asking those questions. ”

JOHN BRADY, A-TARP SENIOR LOGISTICS ADVISOR

in mind. The reconstruction plans incorporated future commercial needs and contemporary technology into the designs and construction. Aceh’s ports are not only handling the current reconstruction needs, but they are also better positioned with modern technology and design to meet future exporting and importing demands.

The project also worked with BRR staff to create maps showing where NGOs were working. With this information mapped out, the team was able to identify which roads and bridges were a priority. A-TARP was integral in influencing decision makers to fix significant sections of important roads to make them accessible to large trucks carrying reconstruction materials.

In one instance, A-TARP worked closely with Catholic Relief Services to develop an emergency road repair program for the segment of road between Lamno and Calang, including repairs to four critical sections and to the bridges immediately south of Calang. Swamps created by the tsunami have been replaced by a usable road and working bridges that are helping deliver reconstruction supplies.

With working ports, roads, and bridges, the reconstruction program can transport the construction materials needed to build houses and infrastructure, moving construction ahead and paving the way for Indonesia’s economic growth.

Transporting Reconstruction Materials

Functioning ports, bridges, and roads were a good start, but there was no viable shipping service to transport the materials for the reconstruction program.

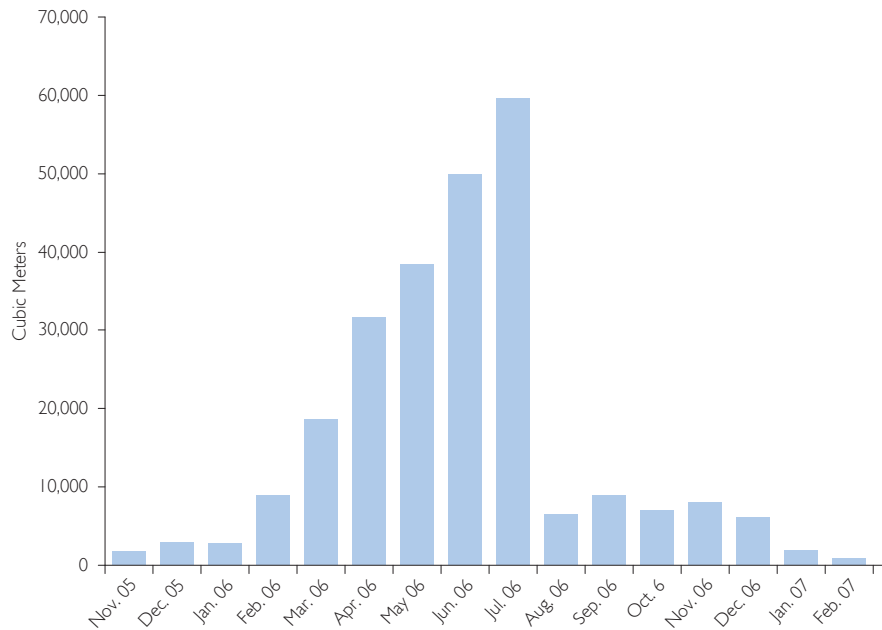
A-TARP worked closely with the United Nations World Food Programme (WFP) to design and implement procedures for a shipping service to transport reconstruction materials. The project helped develop a special operations unit that created a shipping methodology to move cargo into Aceh and Nias. A-TARP then helped secure approval and funding and worked closely with the WFP to establish operating procedures for the service.

The WFP shipping service made its first deliveries in November 2005, providing organizations a reliable method of obtaining materials. The service was designed as a stop-gap measure, and in August 2006, it started charging a market rate for shipments. By late 2006, a sufficient number of commercial operators had entered the market and the shipping service slowly phased out of operation.

Logistics Planning

Nearly 80 NGOs were engaged in some type of housing construction during the recovery program, but virtually none had experience in construction or were prepared to manage complex logistics programs. The systems needed to orchestrate construction were sometimes forgotten with the pressure of delivering houses to communities.

WFP COMPLETED SHIPMENTS



BRR / ARIF AR/ADI

Supported by the BRR, A-TARP's logistics advisor initiated a plan to help NGOs develop logistics plans for their construction programs, asking them questions such as:

- Where are the houses going to be built?
- What materials do you need?
- How will they be transported?
- How will your organization ensure that the materials will get to the building site safely?

In its advisory capacity, the project was limited to making recommendations, rather than requiring compliance from the NGOs. Despite repeated appeals from A-TARP and BRR leadership on

the merits of developing such plans, only a handful of NGOs followed through. Most NGOs contracted logistics services to contractors who were building on their behalf and who were often reluctant to share information with the project.

Procuring and Storing Building Materials

After the tsunami, inflation was well above the national average, hitting an all-time high of 41 percent in December 2005, severely affecting the reconstruction program. NGOs and other organizations found it difficult to buy reconstruction materials at reasonable prices. Skyrocketing prices were not the only concern. With reconstruction taking place over a wide geographic area and in hundreds of communities, it



The reconstruction program required a massive amount of lumber to build homes and buildings. Despite the fact that Indonesia has a wealth of timber resources, locally and legally procured lumber was hard to come by. A-TARP sifted through the government’s complex regulations to create comprehensive guidelines on procuring timber from legitimate Indonesian sources for the recovery effort.

was a challenge to find space to store construction supplies. With project technical advice, the BRR established a plan to procure and store building materials in depots around the province, providing more reliable access to reconstruction materials. In addition, the BRR negotiated bulk prices from suppliers around the country and is able to provide up to 14 commodities, including rebar, cement, and paint, tax free and at prices lower than those in the inflated market. Concerned about local livelihoods and economic development, the BRR did not include supplies that can be procured locally for the depots.

Sourcing Legal Timber
With the prevalence of illegal timber in Indonesia and unclear, as well as complex, government regulations on how to ensure its authenticity, NGOs found it nearly impossible to purchase wood from legitimate sources. To solve this problem, wood was often procured from international companies that could provide large amounts of legal wood quickly. But purchasing timber from international sources contradicted the recovery program’s mission to support the national economy, which has a wealth of timber resources.

Working with two internationally renowned timber experts from New Zealand and Indonesia, A-TARP helped decipher the complex government requirements to produce comprehensive guidelines on procuring timber from legitimate Indonesian sources. They established clear procedures on how to meet government requirements to prove the timber was purchased legally, developed an approved list of Indonesian timber providers, and offered other assistance to help NGOs secure legal, locally sourced timber for the reconstruction program.

The information, published in both English and Indonesian, is provided at the BRR's Timber Help Desk, which is staffed by the government's forestry department. NGOs can call or visit the help desk for assistance on how to navigate through these complex procedures to ensure they purchase legal Indonesian timber.

Results and Impact

The project's dedicated assistance across logistics planning, supply-chain management, and procurement helped the reconstruction program get to the immediate business of rebuilding Aceh and Nias.

A-TARP's assistance also helped set up Aceh and Nias for the future. Bringing in commercial suppliers for the depots and contributing to the repair of ports, roads, and bridges creates a friendlier environment for business and private sector investment. The project's work

helped pave the way for a smooth transition from the reconstruction phase to a functioning market economy.

Lessons Learned

Do not underestimate the importance of logistics. In a post-disaster situation, logistics can be overlooked because of higher profile issues, like building houses. Reconstruction is impossible without efficient systems to transport and store supplies and experienced personnel to plan and manage these systems.

Sourcing locally supports the local economy. The recovery program was charged with building the local economy while rebuilding Aceh and Nias. Even though many supplies were available immediately from sources outside the province, sometimes at lower prices, the reconstruction program was committed to supporting the local economy. Speed of response, costs, and supporting the local economy must be balanced.

ECONOMIC DEVELOPMENT

Despite rich oil and natural gas resources, Aceh ranks as one of the poorest provinces in Indonesia. In December 2004, the tsunami devastated its economy, causing an estimated loss of \$1.2 billion to its productive sectors. Immediately following the disaster, the BRR, donors, and NGOs began restoring basic livelihoods — repairing fishing boats, rehabilitating rice paddies and fish ponds, and helping small and medium entrepreneurs



This cocoa farm in Pidie grows many varieties of cocoa. Thanks to A-TARP's assistance, farmers like Samsidar at the association are connected to new buyers and receive 50 percent more per kilogram for their cocoa.



A-TARP / ALEJANDRO FLESCCH

Juneidi runs the fishing cooperative in the village of Lampuuk. A-TARP's assistance did more than help him find new markets for the fishermen's catch: It helped him gain the confidence and know-how to make business connections on his own in the future.

SUCCESS STORY

Aceh Fishermen Expand Market and Increase Revenue

On a tropical Monday morning, Juneidi stands on the warm sand of Lampuuk beach. Fishing boats from his village line the shore. Two boats, the last of the group, arrive from their overnight trip. These two boats are always the last to come back, he explains. Reef fish, shark, and grouper are heaved from the boat by hand, pulled through the water, and deposited on shore in a faded red wheelbarrow. Later, he will haul them to Banda Aceh's fish market.

Juneidi works with more than two dozen fishermen and runs the fishing operation on behalf of his village, Lampuuk, just south of the province's capital of Banda Aceh. Lampuuk was obliterated by the tsunami; only the black domed, white mosque was left standing. Of the village's 6,000 people, fewer than 1,000 survived. Juneidi's father and brother were two of nearly 50 fishermen who lost their lives.

Despite the trauma of the tsunami and the hardship that followed, Juneidi and the fishermen of Lampuuk have reason for hope, thanks to business linkages created by A-TARP.

Before working with the project, Juneidi knew there were opportunities to sell their fish to buyers outside Banda Aceh and Medan, but did not know how to make the connections. The project linked Juneidi with an international fish buyer-processor-marketer based in Jakarta. Since then, other buyers have learned about Aceh's tuna, and Juneidi has been able to bypass the agent in Medan who controlled the prices. Today, the price for tuna has almost doubled compared with the price before the project's introduction. With the extra money, Juneidi explains, the fishermen will be able to buy new boats, more powerful engines, and maybe even motorcycles.

Juneidi has dreams of his own. He hopes that in three or four years he will be able to buy a large boat so he can troll the waters himself, collecting not just from Lampuuk fishermen, but from boats up and down the coast. Now, thanks to A-TARP, he has the knowledge and confidence to realize his dream.

get back on their feet. Beyond the rehabilitation phase, these organizations initiated a variety of programs to get people back to work and stimulate the economy by providing training, developing a microfinance industry, and promoting market linkages.

However, the lack of a comprehensive economic development strategy, business development expertise, and market linkages posed a significant challenge to the creation of a dynamic economy. A-TARP intervened on both fronts to work with the BRR, local government, the private sector, and Acehnese farmers, producers, and fishermen to help build a better economic future for Aceh.

Project Assistance

Strategy Development

While the BRR, local government, and donors struggled to address the immediate livelihood needs, there was an opportunity to take a broader approach to building a new economy — one that was not only sustainable, but also more equitable, more productive, and more competitive. Building a modern economy during the BRR’s four year mandate was unrealistic, but it was possible to formulate a broad strategic framework for the economic future and vitality of the region. This was an opportunity to “build back better.”

A-TARP advisors worked closely with the BRR and the local government to create an economic development strategy for Aceh. This strategy helped identify and articulate BRR and govern-

ment priorities for programs and projects that could build local capacity to market and promote the region, match outside investors and markets with local business opportunities, build the infrastructure needed for economic growth, and streamline the business regulatory environment that was limiting business development. The strategy outlined the steps Aceh needed to take to transform its economy and direct resources to advance its economic growth.

The economic development strategy also laid the foundation for the reconstruction program to dedicate \$50 million for an economic development financing facility to be managed by the World Bank. The facility will fund tens of millions of dollars worth of projects that foster job creation and sustainable economic recovery and growth in Aceh. As of the writing of this report, the facility is poised for approval.

Developing Business

Opportunities

Aceh’s economy consists of small-plot, largely non-mechanized agriculture, coastal reef fisheries, widespread manual production, few value-added products, and little investment beyond oil, gas, and coal extraction. Few products are exported directly from Aceh, and what is exported is channeled through Medan, the capital of the province of North Sumatra. Medan, with its port and connections to national and international markets, controls the sale and distribution of Aceh’s products, which has restricted the province’s ability to grow



A-TARP / WILLIAM OZKAPTAN

A-TARP's tourism strategy for Aceh identified priority sectors for development, including marine tourism. The province offers stunning scenery and world-class destinations for surfing, diving, and snorkeling.

Tourism Offers Potential for Economic Growth in Aceh

Aceh offers a variety of natural and cultural attractions, but its tourism sector was severely underdeveloped due to the 29-year conflict and was set back even further by the tsunami. Recognizing the potential of tourism to contribute to Aceh's economic growth, A-TARP analyzed this sector and developed the first comprehensive strategy to build the province's tourism industry.

The strategy identified the economic benefits of developing Aceh's tourism sector, as well as the potential sociocultural and environmental impact. It outlined sector priorities, including marine tourism, adventure travel, religious tourism, tsunami tourism, general sightseeing, and business travel.

The idyllic setting of *Pulau Weh* (Weh Island), which sits just off the northernmost tip of the province, was identified as a priority destination for development. Serious divers, who favor rustic destinations over luxury resorts, had already discovered *Pulau Weh* to a modest extent. However, the island's tourism industry had been low-impact, low-income, and relatively unorganized.

A-TARP's assistance ended with an initial strategy and strong recommendations to move the initiative forward. The International Labor Organization has since continued the work on *Pulau Weh*. To date, great inroads have been made with the development of a strategic plan for the island and a newly created private sector-led tourism association, as well as marketing materials. With additional training, product development, and marketing, *Pulau Weh* is on its way to strengthening its tourism industry and bringing economic opportunities to the community.



A woman dries octopi in Lhok Sedu in the Aceh Besar district.

its trade economy. Even before the tsunami, Aceh had limited capacity to foster broad-based private sector business development, with few networks linking businesses to potential investors or new markets.

A-TARP staff traveled extensively around Aceh, visiting and profiling more than two dozen fishing ports; prospective tourism opportunities; coffee, cocoa, patchouli, cinnamon, and other estate crop projects; and a variety of small-scale producers of agricultural products. After gaining an understanding of what Aceh grew, caught, and produced, A-TARP prioritized these opportunities

based on the greatest potential. The project then brought together stakeholders — business people, farmers, and fishermen — with BRR officials, staff from the Investment Outreach Office (IOO), and local government — to develop strategies to enhance the competitiveness of the region's products.

The project completed other activities to support business development in Aceh, including building the capacity of the bankers' association, helping the IOO learn how to promote investment, and helping establish an association of small palm oil farmers.



With nearly 2,000 miles of roads impassable, 120 arterial bridges destroyed, and 1,500 minor bridges out of commission, the reconstruction program was challenged to transport reconstruction materials. A-TARP helped prioritize which bridges and roads were critical to the reconstruction effort and influenced decision makers to fix these critical pieces of infrastructure.

A-TARP also left behind concrete business development opportunities. The most promising and those that would have the most dramatic impact on the Acehese economy include fisheries; small palm oil and cocoa farming; *seriawangi* oil production; coffee processing; patchouli farming; oil processing; and *pinang* (betel nut), *kemiri* (candlenut), and nutmeg products. The project showed producers of agricultural commodities and fishermen how to find new markets and, in some cases, actually created linkages that resulted in better prices for their products. The clearest results are with cocoa farmers and fishermen.

Before A-TARP, the Cocoa Farmers Association in Pidie, with some 2,500 farmer members, relied on one buyer who named the selling price. Now, through introductions made by the project, the association is linked to new buyers who provide current information on the market price for cocoa. As a result, these farmers are receiving 50 percent more per kilogram for their cocoa.

With fishermen, the story is similar. A-TARP connected Acehese fishermen to DSFI, an international fish buyer-processor-marketer based in Jakarta. Today, as a result, new buyers have become aware of Aceh's fish resources, providing competition and

nearly doubling the market price for Acehese unprocessed tuna. DSFI also trained the fishermen to fillet tuna, which adds value to their product. With these added skills, and as their catch increases, the fishermen will be able to command even higher prices for their value-added product.

The IOO has been the most active in following up on the business development initiatives the project left behind. As of the writing of this report, the IOO is working on several deals, including finalizing a deal with an investor interested in opening a coal mining operation.

Lessons Learned

Addressing both immediate needs and long-term planning is critical to building a robust economy.

Farmers, fishermen, and merchants need immediate assistance to reestablish the sources of their livelihoods and expand their markets. At the same time, a long-term strategy is needed to create a more competitive, more productive, and more vital economic future. Both strategy development and creating business linkages must be tackled simultaneously to develop a dynamic economy.

Good information is a prerequisite for both business and strategy development. Knowing what is grown, what can be or is being produced, by whom, in what amounts, and with what potential are prerequisites for anyone — entrepreneurs, investors, and government — to promote local

business development. Basic information of core assets and their potential is also critical to long-term planning. A-TARP demonstrated the importance and usefulness of this information-based approach.

In Aceh, achieving tangible, enduring results in business development requires sustained, hands-on assistance and ongoing follow-up.

The project was successful in developing several market linkages. However, because of the province's lengthy isolation, poverty, low levels of education, a weakened business environment, and a raft of other inhibiting factors, Acehese fishermen and farmers have only a nascent understanding of how to build and manage complex business relationships. Without ongoing assistance to nurture these relationships between Aceh and outside businesses, the results failed to live up to their potential.

Hope is a powerful antidote to years of conflict-inspired despair.

Step by step, by uncovering core assets, building relationships, demonstrating new approaches and perspectives, and showing the concrete results of developing business opportunities, Acehese will circumvent the obstacles of the past and emerge in an era of hope. They will see progress and begin to initiate opportunities on their own. These actions will empower them to participate in the long-term economic development of the province and provide hope for the future.

ANTI-CORRUPTION UNIT

The history of corruption in Indonesia, particularly in Aceh, has left citizens cynical and the donor community skeptical. With the administrative capacity weakened, systems destroyed, substantial offers of financial support from international agencies, and high expectations for speedy delivery, the environment was ripe for corruption.

The world was watching Aceh, not only to ensure that people were housed, roads were built, and livelihoods were restored, but also to guarantee that it was done transparently, with integrity, and without corruption. The reconstruction program had to be fully accountable for the billions of dollars of aid from the Indonesian government and international donors, which was critical to ensure funding of future years of reconstruction in Aceh and Nias.

To live up to its mandate of transparency, the BRR created the *Satuan Anti Korupsi* (Anti-Corruption Unit or SAK). The SAK's core functions are prevention, education, support for investigations, and processing complaints — activities that require collaboration both within the agency and with external stakeholders. The unit collects complaints from citizens and organizations, conducts preliminary investigations to extract intelligence, and depending on the results of each investigation, the complaint is forwarded to the BRR, donor agency, NGO, or government agency for action

or further examination. The unit itself does not prosecute cases or discharge penalties against violators.

Assistance Provided

A-TARP took a lead role in helping design the SAK from scratch. Working closely with the BRR, the project helped map out the scope, role, and responsibilities of the new unit and advised SAK staff during the implementation of its anti-corruption plan. A critical component of the unit's work included a complaints management system to track and analyze complaint data. The project provided technical know-how to develop, refine, and manage this system.

Training staff to take on its new responsibility became paramount. A-TARP trained the SAK staff to effectively establish and manage an anti-corruption program, including how to handle complaints, how to maintain a complaints database, and how to coordinate with other key government agencies, including the *Komisi Pemberantasan Korupsi* (Corruption Eradication Commission or KPK), the *Komisi Pengawas Persaingan Usaha* (Business Competition Supervisory Commission or KPPU), and the *Badan Pengawasan Keuangan dan Pembangunan* (Financial and Development Supervisory Board or BPKP).

Helping the unit foster collaboration among agencies was another major component of the project's assistance. It helped define the mechanisms and rules of engagement for working with these



SUCCESS STORY

Cleaning up Corruption in Aceh

Stories like Badrul Fadhil's are told across the recovery program. An Acehnese native, he moved to Jakarta when he was young, completed university, and began a successful career. Then, the tsunami hit. He returned to the place of his birth to help rebuild and create a better future for the province where much of his family still lives.

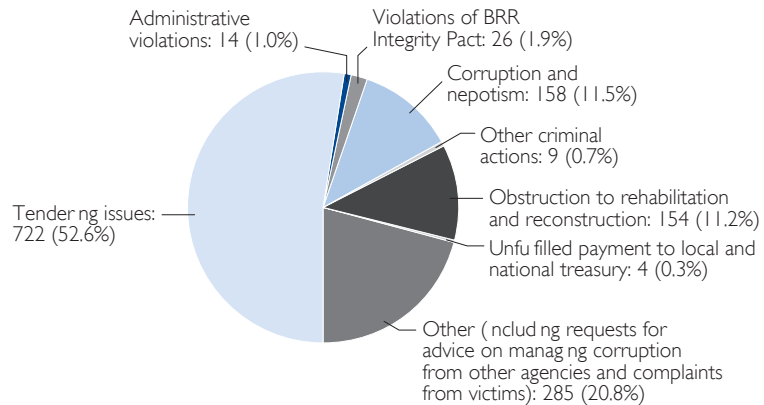
With a background in investigative journalism and experience working in government, Badrul found a place in the BRR's *Satuan Anti Korupsi* (Anti-Corruption Unit or SAK), and he takes pride in being one of its first staff members. He believes that complaints about corruption had not been handled properly in Aceh and that the SAK can help protect those most in need.

Badrul, who worked in the complaint-handling department and conducted investigations, was the first to receive complaints when the unit was formed in September 2005. He says that people came to the SAK almost every day to report fraud and other types of corruption. "The SAK has had a psychological effect on people and has helped deter people from corrupt practices," says Badrul. He admits that the SAK still cannot meet people's high expectations; however, it has performed well, and he believes that it can be a good model to help other provinces in Indonesia counter corruption.

The BRR is often cited for slowing the pace of reconstruction — and the SAK is partly responsible because of its standards for maintaining integrity in the reconstruction process. The expectations of speedy delivery must be balanced with following established procedures. This, according to Badrul, is the biggest challenge, and he remains confident that more people will realize that anti-corruption efforts are in everyone's best interests.

Badrul Fadhil was one of the first staff members at the Satuan Anti Korupsi. An Acehnese native, he returned to the province from Jakarta to help rebuild Aceh by helping to counter corruption and ensure transparency in the reconstruction program.

COMPLAINTS FILED AT THE ANTI-CORRUPTION UNIT



agencies and helped the BRR expand its network with international anti-corruption commissions and experts.

Results and Impact

Two and a half years later, the SAK has remained true to the initial strategy developed by A-TARP. With the project's assistance, the SAK made substantial progress toward developing and implementing its anti-corruption program. Its strategy is well defined, its internal operations are running smoothly, and its complaint-handling system is more efficient. By facilitating relationships with other Indonesian government and key international anti-corruption agencies, A-TARP has helped bring collaboration and international best practices to the SAK's work.

From its inception in September 2005 to December 2007, the SAK received 1,372 complaints. More than half (722 complaints) relate to tendering processes. Of all the complaints filed, 1,348

have been investigated and resolved, resulting in one of three scenarios. The vast majority of cases (1,043) were forwarded to the BRR with recommendations for action. Action can include retendering a contract, cancelling a contract, or developing an educational program to alert staff about how to deal with possible corruption issues. More than 20 complaints have been referred to donor agencies or NGOs for action. And 283 have been referred for further examination and potential prosecution by the KPK.

The unit has established a credible reputation in the international arena and in local communities. In fact, several donors and international financial institutions have actively sought the unit's support in designing their own programs, and local groups, such as school administrators, have approached the SAK seeking advice on how to reduce corrupt practices within their institutions.

Lessons Learned

High-level institutional support strongly positions anti-corruption efforts. The head of the SAK reports to the director of the BRR. This reporting structure demonstrates to staff, the government, and donors, the agency's commitment to its anti-corruption program.

The most important task in running a robust, effective anti-corruption program is reliably executing the day-to-day operations. While the high-profile cases garner media attention, capture the limelight, and may appear more important, the routine task of processing and managing complaints is what brings credibility to the organization and the reconstruction program.

Establish anti-corruption programs early. Particularly in a post-disaster or post-conflict situation, such programs signal that ethics trumps speed in the disbursement of funds.

COMMUNICATIONS

The massive size of the reconstruction program required a sophisticated, integrated communications program to address a wide range of target audiences with varied information needs: the general public at the local, national, and international levels; Indonesian government entities, from district-level government to the upper echelons of central government; and stakeholders, including local civil society groups, NGOs, and diverse multinational and bilateral donors. The BRR needed to coordinate the development and delivery

of messages, policies, programs, results, and challenges with these audiences and with the media. Although the need for communications matched others in the recovery effort, it was often subordinated to more immediate needs, such as providing housing and basic infrastructure. The BRR turned to A-TARP for technical assistance and support with its communications program.

Project Assistance

Communicating the One-Year Tsunami Commemoration

When people around the world saw the horrifying images of the tsunami's destruction, they sent money to their favorite charities to help with relief and reconstruction. On the first anniversary of the tsunami in December 2005, those same donors wanted to know how their donations had been used. The people of Aceh and Nias had questions, too, about where the money was going and when they were going to have permanent housing and sustainable livelihoods.

As the one-year anniversary approached, the scale of the tragedy and the efforts of the recovery program required recognition of similar size. With limited staff capacity and resources, the BRR asked A-TARP to help it conceive and execute an event befitting the commemoration.

Assistance provided. A-TARP, along with local partners and the BRR, put together an "Aceh-Nias Remember, Rebuild" communications strategy, including a month-long series of events and programs, to inform stakeholders



Indonesian President Susilo Bambang Yudhoyono throws flower petals at the mass grave in Lambaro on December 26, 2005, to commemorate the one-year anniversary of the tsunami. Dignitaries from around the world and citizens of Aceh came together to honor those who lost their lives and commit to moving the reconstruction program forward.

at all levels about the status of the reconstruction effort.

Significant resources were committed to planning and executing the strategy. A-TARP staff helped formulate strategic messages about the achievements and challenges of the recovery efforts. A full-service media center was established to serve as the information hub for the hundreds of visitors coming to Aceh. The center provided high-speed Internet connections, disseminated press releases, hosted press conferences, and connected journalists with staff from the BRR and other implementing agencies. Media center staff organized outreach activities that connected Dr.

Kuntoro Mangkusubroto, the BRR director, and his staff with affected communities, donors, and the local media. The activities culminated in a commemoration ceremony on December 26, 2005. Attended by Indonesian President Susilo Bambang Yudyohono and with messages from United Nations Special Envoy for Tsunami Recovery and former U.S. President Bill Clinton and U.N. Secretary General Kofi Annan, the event was an emotional memorial to the people who lost their lives and homes during the tsunami and a call to move the reconstruction program forward.

Results and impact. The commemoration activities recognized the personal loss and perseverance of the province — and answered the many questions regarding the status, challenges, and future of the reconstruction efforts. The media center served more than 1,000 visitors and helped facilitate print and broadcast media coverage in Aceh and around the world. The goal of reaching local, national, and international communities to update them on the progress of the reconstruction had been accomplished and the message of “build back better” was conveyed around the world.

Communicating the Reconstruction Program

The successful implementation of the anniversary events highlighted the importance communications can have in reaching local, national, and international audiences. After the commemoration, the BRR moved toward a longer-term strategy to strengthen its overall communications efforts.

The BRR’s Banda Aceh-based communications department was busy and active, but within a very limited scope. It focused on local media outreach, managing the agency’s Web site and intranet, and local community outreach. The department had no structured plan to work with national and international media or to develop and coordinate agency-wide messages. And although the BRR recognized the importance of communicating with beneficiaries, it left this responsibility to the NGOs that had day-to-day contact with

the communities, leaving a gap in the information flow from the government to its citizens. The lack of staff capacity, inadequate internal communication and systems, and insufficient resources limited the agency’s ability to carry out a proactive communications program. While the BRR expressed commitment to improving its communications and outreach efforts, the delivery of housing and other crucial programs were its priority.

Assistance provided. Ideally, the scope and role of the communications department would have been expanded to meet the agency’s broader institutional needs. This required new management for the communications department. However, given the institutional realities and obstacles, it was determined that making this change was not feasible. Taking a different approach, A-TARP advised the BRR to hire an experienced, high-level communications manager to work alongside the communications department and directly support the director’s office. This new employee would advance the agency’s communications programs with national and international media and help the agency become more proactive in its communications. The project also responded to the BRR’s directive that communicating with beneficiaries was its most important communications goal by developing a comprehensive, detailed framework. This program focused on rallying the BRR’s regional offices to identify information needs in the community and establish systems to disseminate information.



BRR leadership and communications staff meet with senior editorial staff from Rajawali Citra Televisi Indonesia (RCTI), a privately owned television network. Based A-TARP's technical assistance, the BRR hired a high-level communications manager who has fostered relationships with national and international media outlets. The result has been more balanced coverage of the reconstruction effort in both print and broadcast media.

Results and impact. A-TARP's work resulted in significant, tangible outcomes for BRR's communications program.

The BRR developed and published a public tender to outsource a comprehensive public relations program. The local media publicly criticized the BRR for this decision, claiming misuse of funds, forcing the BRR to withdraw the tender. Even without external support, the BRR persevered and implemented select initiatives. It held press briefings with national and international media, sponsored journalists' visits to Aceh and Nias, and issued regular press releases. The strategic plan has

helped the BRR develop strong relationships with national and international media outlets and garnered more balanced, and even positive, coverage in print, as well as broadcast media. Given the media's often unsympathetic treatment of the BRR, securing balanced media coverage in itself is a significant accomplishment.

Internal coordination across departmental lines has improved with the creation of a working group that meets regularly to discuss issues, develop messages, and formulate plans to disseminate them to target audiences. The BRR's message delivery is proactive and more unified than ever before.

While the BRR asserted that communicating with beneficiaries was its priority, it has been unable to secure the needed buy-in from most of the regional offices to implement the program. The regionalization program has focused on implementing the reconstruction priorities, which include housing, infrastructure, and creating livelihood opportunities. Without an institutional champion to advocate for the program, communicating with beneficiaries continues to be subordinated to other recovery programs.

Lessons Learned

Consider the three key audiences — local, national, and international — throughout communications efforts. Each audience has specific needs. Local audiences are most interested in how the reconstruction program affects them personally. National audiences want to know how their government is performing and how their fellow citizens are coping. International audiences want updates on how their funding is making a difference. All want to know about the progress and challenges of the recovery program and how it is ensuring integrity and transparency. The information must flow consistently to each audience. Lack of focus on this critical job can damage the reputation of the recovery efforts, limit future funding, and alienate citizens.

Consider and adapt to realities on the ground. Given the institutional realities of the BRR, expanding the scope and role of the Banda Aceh-based communi-

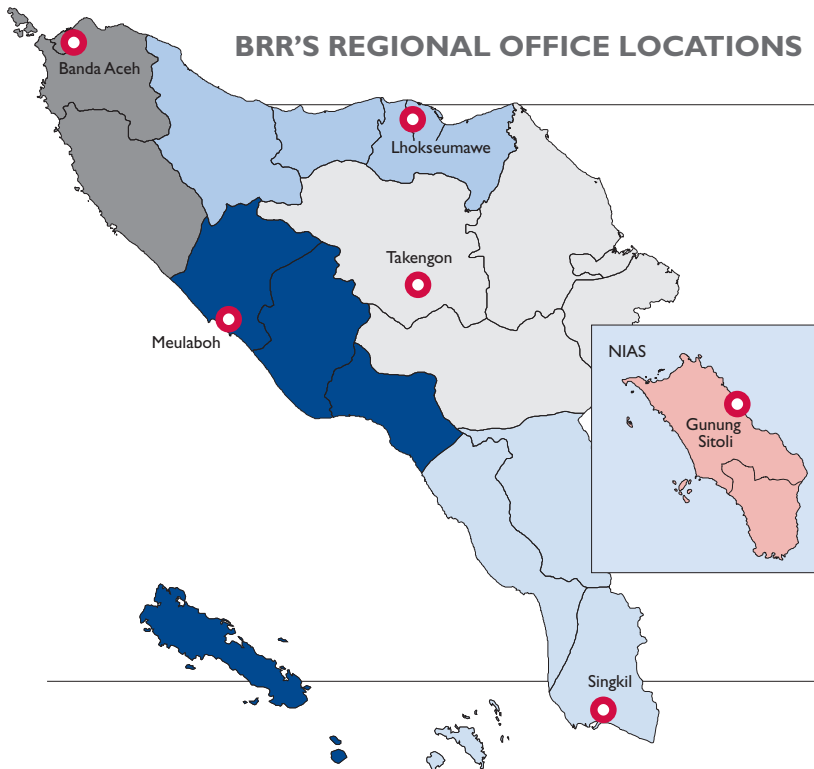
cations department was impossible, although it would have been the ideal solution. Because this was not feasible, an alternative solution was proposed that strengthened its communications program.

SUPPORTING REGIONAL OPERATIONS

The Government of Indonesia finalized its blueprint for rehabilitation and reconstruction just two weeks after the Nias earthquake, which left Nias without a comprehensive plan to rebuild the island and little of the pledged aid that had been committed to the reconstruction program.

The BRR, with A-TARP support, organized a first-of-its-kind event, the Nias Island Stakeholder Meeting (NISM) in December 2005, and just six weeks later it held another. At these meetings, the stakeholders created a blueprint for Nias reconstruction and offered additional financial support and other resources. The plan called for developing strong relationships with local government to involve it in the reconstruction program while building its capacity to manage the program when the BRR's mandate expired.

Due to the enormous success of NISM and Nias' regional program, the BRR and its reconstruction partners came to realize that regionalization should be the model for the entire program. If reconstruction was to address local needs and priorities and involve local government, then operations needed to be expanded into the regions. The BRR also



PRINCIPLES OF BRR'S REGIONALIZATION PROGRAM

- Address challenges and needs of reconstruction through effective coordination at the district and sub-district levels.
- Fulfil the promise to be community-based.
- Fulfil the promise to build back better, in particular to build for disaster risk reduction.
- Ensure effective local government when BRR's mandate ends in 2009.

acknowledged that active participation of local communities and governments in the development and implementation of recovery programs could ensure the continuity of the reconstruction program when BRR's mandate ends in 2009. As a result, in early 2006, the BRR introduced a strategy to decentralize its operations to offices located throughout Aceh.

Although regionalization offered important tangible benefits, it presented many challenges. It required defining roles and responsibilities for both the BRR headquarters and the regional offices and determining how

planning and budget responsibilities would be divided. Building working relationships between the BRR and local governments was perhaps the most difficult challenge because of the historic lack of trust between these entities.

Assistance Provided

A-TARP helped orchestrate NISM and provided critical assistance to establish the regional office in Nias. The project advised on the structure and management of the program; the development of the policy and strategy frameworks; monitoring and evaluation priorities; and establishing a system for BRR's regional office staff to work with



Gunung Sitoli, the capital of Nias, is the location of the BRR's first regional office. A-TARP worked with BRR staff in Nias to help establish the office, which has become the strongest in the reconstruction program.

local governments. A-TARP worked side-by-side with Nias staff during initial deployment of the plan, refining the systems and structure as they were implemented.

Working with BRR Nias staff, A-TARP also developed a comprehensive communications and outreach program. This plan outlined the structure and responsibilities of the communications department and addressed the information needs of its target audiences: the community, stakeholders, and the media. The project provided day-to-day support during implementation and advised the department on

establishing and managing a complaint-handling unit.

On both fronts — the foundations for operations and communications and outreach — A-TARP drew from lessons learned during the establishment of the Nias program and worked with the BRR to develop plans for rolling out these programs to the other BRR regional offices.

Results and Impact

The regional office in Nias is the strongest in the reconstruction program. It has established systems to manage the reconstruction efforts with BRR headquarters and strong relationships with

community members and local government. The community's and the government's involvement will facilitate a smooth transition when the BRR exits in April 2009. The Nias program is so successful that, since early 2008, the Government of Aceh has been using lessons learned from Nias as it prepares to take over the reconstruction program from the BRR.

The Nias communications and outreach program's success mirrors the success of its operational component. Its program to communicate with beneficiaries sets an example for the BRR. The communications program includes distributing information to the community and stakeholders through posters, bulletin boards, and a biweekly newsletter. It also facilitates critical two-way communication by holding village meetings and hosting a radio program that provides information on the policies and results of the Nias recovery program and includes a question and answer segment.

Replicating these successful models throughout the reconstruction program at large has progressed with limited success, in part due to differing philosophies regarding the focus of the regionalization program. Some believed that the regional offices should focus on implementing the reconstruction program. Others contended that regionalization should focus on building the capacity of local government, an approach favored by the Nias experience. In the initial rollout of the regional-

ization program, the former philosophy was embraced. Today, as the BRR's mandate draws to a close, the reconstruction program has identified the importance of involving local government and building its capacity and has belatedly begun to adopt the Nias approach.

Lessons Learned

Decentralization must happen at the right time. Some assert that regionalization should have happened sooner because without local knowledge and participation, the reconstruction program cannot adequately respond to local needs. However, early decentralization is risky if the local capacity to effectively manage development programs is limited. To successfully transfer the program to the regions, the capacity of local players must be enhanced and balanced with the ongoing demands of delivering houses, infrastructure, and other reconstruction programs.

WEST COAST HIGHWAY

The tsunami changed the contour of Aceh's coastline, particularly along the province's west coast. In some areas, it moved the entire coastline inland by as much as half a mile, obliterating entire villages and destroying bridges and roads. The U.S. government committed to rebuilding a portion of the damaged West Coast Highway, a critical lifeline between Banda Aceh, villages, and smaller metropolitan areas to the south.

The road stretches 93 miles from Banda Aceh on the prov-



When completed, Aceh's West Coast Highway which includes numerous arterial and minor bridges, will reduce the isolation of Aceh's southern areas, connecting people, products, and markets.

ince's northwestern tip, south to Calang. The massive project requires rehabilitating certain sections of the road and, in some sections where the coastline and road have vanished, rerouting

USAID'S WEST COAST HIGHWAY PROJECT



and building the remainder. Once completed, the highway will reduce the isolation of Aceh's southern areas, connecting people, products, and markets.

Like the entire rehabilitation and reconstruction program, the road project encountered serious obstacles. The first was coordinating the project's plans and details with multiple stakeholders. As many as eight organizations were involved, including USAID, the U.S. Army Corps of Engineers, USAID contractors (an architectural and design consulting firm and a development consulting firm), a local construction partner, representatives from Aceh's



Communicating actively with beneficiaries through the local media increases understanding of reconstruction planning and progress.

provincial government and two district governments, and senior officials from the BRR. The second obstacle was determining the exact road alignment, which required stakeholder agreement and community participation to ensure the road did not disturb cemeteries and other unmarked landmarks or encroach on existing structures. The final obstacle was reaching agreement on land

prices and executing transfer of ownership along the right of way.

Assistance Provided

Lack of stakeholder coordination and acquiring land along the road's right of way were creating dangerous roadblocks to the project. USAID requested that A-TARP intervene. The A-TARP team mediated the situation from two positions: working with key

project stakeholders to resolve larger planning issues and working with 55 communities along road's alignment to address their concerns and acquire the land to build the road.

Negotiating prices to buy the land from residents posed a great challenge. The negotiation teams, which included members from the local government, the land office, and the local public works office, with assistance from the provincial government, would negotiate prices with each community based on a complex set of variables, including distance from Banda Aceh, whether the land had buildings, and whether the land was productive or unusable. Sometimes the teams returned to Banda Aceh only to be told the negotiated prices were too high for the BRR's budget. The team would return to the field, renegotiate, and return to Banda Aceh only to hear the same answer. This back and forth continued for weeks, jeopardizing the entire project, as pressure to make progress mounted. A-TARP continuously facilitated stakeholder involvement and resolved community concerns, which eventually resulted in an enormous victory: the first land purchase. This significant

milestone released the bottleneck and ensured the continuation of the project.

Results and Impact

A-TARP's successful intervention was possible because of the presence of an A-TARP-funded Acehese consultant working with the outreach team and an advisor in the governor's office. As of the writing of this report, A-TARP had helped facilitate the purchase of more than 3,600 parcels of land along the road's right of way, which represents more than 98 percent of the necessary land acquisition. Despite the many months it took to resolve the issues of coordination, alignment, and payment to communities, it was arguably one of the fastest land release processes in Indonesia.

Lessons Learned

Organize the right team for success. A-TARP's team on this project, an Acehese road consultant and an advisor in the governor's office, worked alongside a champion within the government. This trio brought the skills, influence, and connections needed to address the complex issues between the local communities, local and provincial governments, and the BRR.



Citizens enter the lobby of the provincial government building in Aceh. During the project's lifespan, from May 2005 to May 2008, Aceh had three governors. A-TARP advanced each governor's agenda, supporting the democratization of provincial government.

CHAPTER THREE

IMPROVING GOVERNANCE AND PROMOTING PEACE IN ACEH

Since the 1970s, a low-intensity conflict severely disrupted the daily lives of the Acehnese. The conflict was, in part, driven by resentment that the province's rich resources did not result in development for its citizens.

Their dissatisfaction was directed at the Indonesian state, which was seen as corrupt and ineffective. The nearly three decades of violence, social unrest, and economic lethargy were accompanied by isolation and a weak local government at all levels: provincial, district, and *kecamatan*. High levels of corruption and low levels of trust between the citizens and government, and between central and local government, permeated the province.

The tsunami weakened local government even further, and some claimed that it was insufficiently engaged in reconstruction programming. Local government's

lack of active engagement in the reconstruction program was problematic. First, it created a risk that the needs and priorities of the communities would not be heard and addressed. Second, local government would be taking over the reconstruction program when the BRR exited in 2009, and it needed to be prepared to manage the continuing work and maintenance of the program.

In addition to becoming more involved in the reconstruction program, local government was also expected to implement the peace agreement between the Government of Indonesia and GAM signed just eight months after the tsunami. Under the agreement, Aceh would receive special autonomy, and government troops would be withdrawn from the province in exchange for GAM's disarmament.

“ We wholeheartedly appreciate the selfless and innovative support we received from USAID in Aceh, both post-disaster and post-peace accord. These efforts strengthen the relationship between the U.S. and Acehese governments and support building back a better, more prosperous Aceh. The challenges we all face in sustaining peace while simultaneously developing Aceh’s economy are surmountable, in part because of the commitment from all parties to this mutually beneficial partnership. ”

**ACEH GOVERNOR
IRWANDIYUSUF**

Implementing this agreement would require a high level of involvement from local government, including ensuring security arrangements, facilitating the disbursement of government funding to conflict-affected communities, reintegrating ex-combatants into their communities, and bringing security and lasting peace to the province. As reconstruction progressed and the implementation of the peace agreement unfolded, dissatisfaction arose within conflict-affected communities because the tsunami-affected communities were receiving significantly more development assistance and financial aid.

At the same time, Aceh’s political landscape was inundated with challenge and change. The dynamics between the BRR and provincial and local governments over roles and resources were highly charged. During this time, the province had three governors. The first two, Azwar Abubakar and Mustafa Abubakar, served as acting governors until direct elections could be held as required by the peace accords. In December 2006, in its first open and free elections, Aceh elected Irwandi Yusuf, a former GAM leader, as its governor.

Between rehabilitation and reconstruction and ensuring the proper implementation of the peace agreement, unprecedented change was happening at a pace the province was unaccustomed to. It required new levels of government intervention and new kinds of collaboration and dialogue.

While funding and technical assistance were pouring into the BRR, local government in Aceh was virtually ignored. A-TARP realized early on that the Government of Aceh would need assistance to manage the extraordinary challenges. The project played a significant role in supporting the government on multiple fronts. It provided critical assistance on policy issues through direct support to the governor’s office, improved local government’s ability to deliver public services, and dedicated extensive support to key peace-building initiatives.

SUPPORTING THE ACEH GOVERNMENT

At the provincial level, A-TARP supported the Government of Aceh by providing technical assistance to its three governors from 2005 to 2008, helping advance each governor’s agenda and supporting coordination with the BRR and donor agencies. At the *kecamatan* level, A-TARP worked with an Indonesian partner organization to design and implement a local government capacity building project to improve its delivery of public services.

Support to the Governor’s Office

The Aceh government wanted to create a peaceful, economically stable, well-governed province, but achieving this goal in the post-tsunami, post-conflict environment was challenging. Complicating matters was its uneasy relationship with the central government, which had established the BRR. The agency had effectively assumed the power of



A woman votes in Aceh's first free and open elections in December 2006. Irwandi Yusuf, a former GAM leader, was elected as its governor.

local government, creating a difficult dynamic between the BRR and the provincial government. The BRR's focus on implementing the reconstruction program without adequately engaging local government resulted in a lack of alignment between the plans and priorities of the local government and the reconstruction program.

In the Indonesian government's blueprint for reconstruction, the governor of Aceh was appointed the vice executive director of the BRR. This assignment established a formal framework for the Government of Aceh's involvement, although he, and his government as a whole, often

struggled to define a role for local government in the recovery program.

On the post-conflict side, the local government was tasked with leading implementation of the peace agreement, which included disarmament and reintegration of former combatants and rebuilding damaged communities. Limited capacity and resources challenged the local government's efficacy.

Assistance Provided

A-TARP's advisor was positioned within the governor's office so he could work directly with the governor. During his tenure, the advisor worked with three gover-

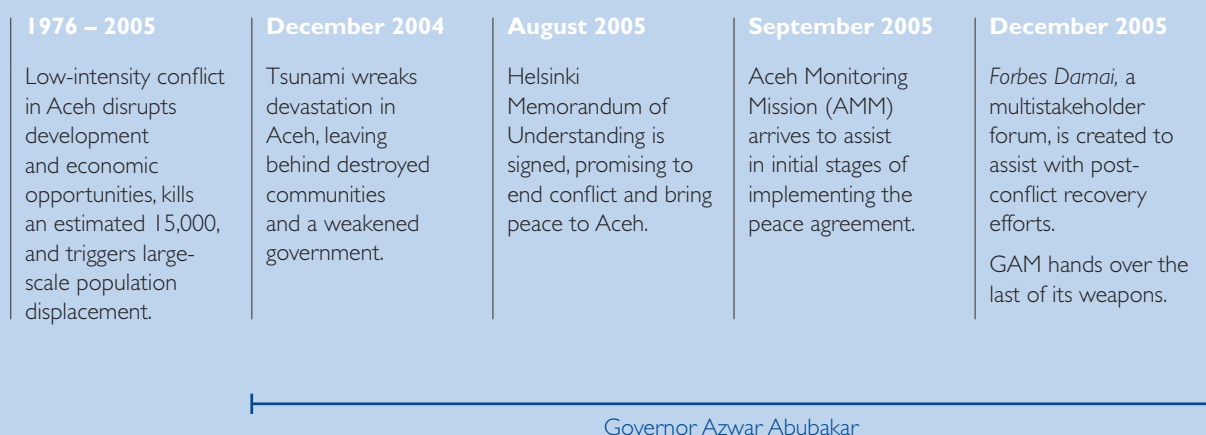
nors, each with his own agenda, governing style, and relationship to the BRR. With each governor, the advisor had to establish credibility and trust, which was particularly challenging in the politically charged environment leading up to the December 2006 provincial elections. Winning the governor's trust was even more critical when the democratically elected governor — a former GAM member — entered office. A-TARP directly supported the governor's office through three years of managing reconstruction, reintegration, securing the peace, and building a foundation for the social and economic development of the province.

Transitioning BRR activities to provincial and local authorities. The BRR's end date of April 2009 provided considerable impetus for initiating the shift of reconstruction activities from

the BRR to local government. However, most of those involved were focusing on the delivery of the recovery program rather than the longer-term plan of preparing local government to take over the program. Given the dynamics between the BRR and the local government, the challenges were formidable.

A-TARP worked with all parties to establish strong, highly functional relationships between local government and the BRR to ensure that technical skills, resources, and capacity of BRR personnel would be institutionalized within respective local government offices. The project's early and consistent intervention helped build and eventually solidify relationships between the two parties, preparing the local government to take responsibility for managing the reconstruction program at the end of the BRR's mandate.

KEY EVENTS IN ACEH'S GOVERNANCE AND PEACE PROCESS



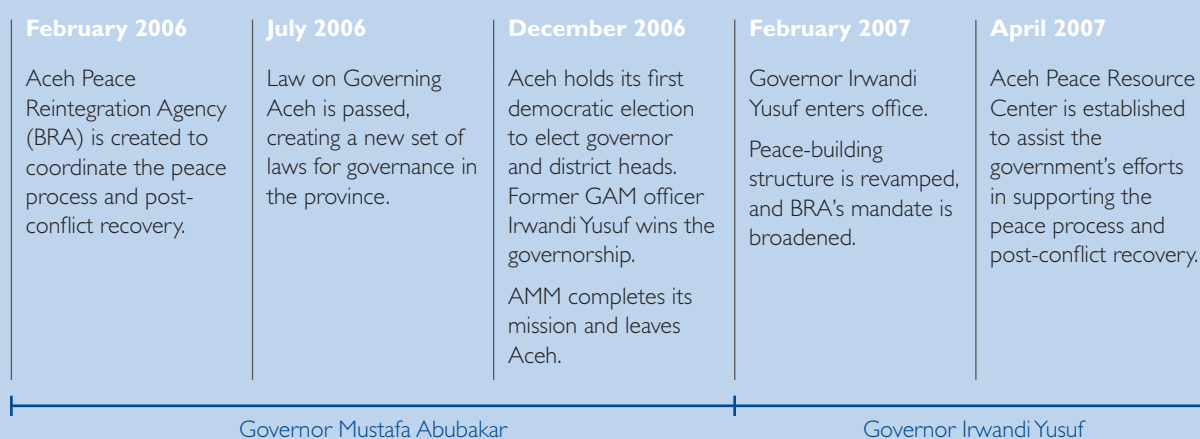
Organizational development. When Governor Irwandi entered office in early 2007, he inherited a provincial cabinet from his predecessor that had never gone through a rigorous recruitment process. He wanted to reorganize and streamline the cabinet, but he also recognized that he needed time to accurately assess its performance and identify an appropriate structure.

A-TARP worked with the governor to outline various options for restructuring the cabinet and the best way to move the process forward. With the governor, the project helped prepare the restructuring plan and identified local partners, including YIPD, to assist with its implementation. With project assistance, the governor was able to create a comprehensive vision for his new cabinet and outline a systematic process to restructure it. A-TARP's assistance was also critical in establishing networks

that brought partners together, including YIPD and the United Nations Development Programme, to support the governor.

Since March 2008, the provincial government has been operating with a more streamlined structure; it reduced the number of technical agencies from more than 50 to 42. And new department heads have been recruited and installed following a transparent hiring process, ensuring that the candidates' technical backgrounds are suited to the departments they manage. As the government operates with this new structure and staff, it will be better prepared to address the needs of the people of Aceh.

Merging the reconstruction and rehabilitation activities with reintegration and reconciliation. The lack of coordination between interconnected development programs, one targeting victims





As the Government of Aceh continues to strengthen and improve its institutional capacity, it will be better positioned to manage reconstruction and reintegration, secure the peace, and build a foundation for the social and economic development of the province.

of the natural disaster and one addressing victims of the conflict, was stifling Aceh's development. Like preparing for the transfer of the recovery program from the BRR to local government, this issue was overlooked due to the focus on implementing the recovery program.

A-TARP drew awareness to the issue, garnering attention from the governor and key stakeholders. The project's advisor to the governor became a member of a dedicated team of donor agencies created to examine how to better integrate the issues of reconstruction and reintegration, including infrastructure and asset management; peace and reintegration;

government capacity building; economic development; rule of law, governance, and democratic decentralization; and basic services. This effort is providing a forum for donors and local government to discuss these crucial issues, building the government's capacity, and enabling it to better manage these efforts when the BRR's mandate ends.

Strengthening donor collaboration on good governance. Many donors supported the Government of Aceh's efforts to promote good governance. They coordinated through a working group that met regularly to discuss implementation of current projects, which for the first 17 months

had no government participation. Although well-intentioned, this group failed to take the opportunity to influence the government's governance policies on the strategic level or work closely with government, its client and *raison d'être*. Opportunities to proactively affect the policy direction and framework for Aceh's governance to enable government to more effectively serve its citizens were being lost.

A-TARP intervened to restructure and refocus the group. Today, the donor working group is advising the Government of Aceh on how to handle some of the most pressing issues related to good governance, including anti-corruption, financial management, economic development, legislation, and natural resources/ecosystem management. The project also linked this group to key government stakeholders through a governance forum initiating government engagement and facilitating dialogue between the two groups.

As with the merging of reconstruction and rehabilitation activities with reintegration and reconciliation, these efforts are providing an opportunity for more effective donor/government dialogue, helping to build government capacity to manage its governance issues when the BRR's mandate ends.

Providing technical assistance on academic and private sector-focused programs. After three decades of isolation and conflict, Aceh Governor Irwandi Yusuf

aggressively initiated economic, environmental, and educational programs to bolster the social and economic development of the province. The people of Aceh had high expectations, and he was working vigorously to deliver.

A-TARP supported the governor's efforts on many of these projects, including initiating a carbon trading scheme to protect Aceh's forests and generate revenue for the province; establishing the Aceh Polytechnic Institute to expand educational opportunities; and organizing a visit of Aceh government representatives and businesspeople in September 2007 to the United States to promote Aceh's economic, investment, and environmental agenda with leading private and public sector leaders.

Most of these initiatives are long-term efforts that will take time to be fully realized. Several of them, however, have already made significant progress. In February 2008, 1.9 million acres of Aceh's forest was certified for sale on the carbon credit market, which will not only protect the forest, but could also generate more than \$26 million for the province. The Aceh Polytechnic Institute is under construction and slated to open in August 2008, ushering in a new era in vocational education opportunities for the province. The visit to the United States also yielded significant outcomes, including investment and economic partnerships and a grassroots agricultural program between Oregon State University

and Aceh's Syiah Kuala University.

Results and Impact

Despite the changing, highly charged political environment, A-TARP was able to remain a consistent player throughout three governors' terms. The project effectively advanced each governor's agenda and the implementation of policies while improving coordination with key partners.

Lessons Learned

Position technical advisors wisely.

An advisor was placed within the governor's office, which helped collaboration with the donors and NGOs working in Aceh and provided USAID a direct point of contact to facilitate implementation of important initiatives.

ACEH-NIAS GOVERNANCE ENHANCEMENT PROGRAM

Before the tsunami, local government in Aceh had a low service orientation, with weak management and planning skills. The tsunami exacerbated an already poor situation. Rehabilitation and reconstruction efforts were slow to arrive in many parts of the province, and even a year and a half later, some of the basics were still lacking. Certain government operations were housed in temporary buildings, electricity was intermittent, and infrastructure, such as water systems and roads, were in poor condition. If government offices had computers, they were not used, either because personnel lacked the skills or because electricity was unpredictable. This resulted

in the unsatisfactory delivery of public services and an inability to actively participate in both reconstruction and post-conflict development programs. Reactivating local government at the grassroots level required significant capacity building whose success would be critical to the long-term development of Aceh.

Assistance Provided

A-TARP, working with local partner YIPD, developed and implemented a capacity building project for 15 *kecamatan* government offices to enhance the delivery of public services. The project provided equipment and supplies, along with training programs to improve their ability to plan and budget, focusing on improving their involvement in the reconstruction program and in post-conflict activities. The A-TARP team also helped create stakeholder forums to improve *kecamatan* coordination with the BRR, NGOs, and other government agencies.

Results and Impact

Through the capacity building program, the *kecamatan* governments strengthened their abilities to provide better services to their constituents. For example, with new equipment and data collection systems, the local government is better equipped to issue birth certificates and other government documents. Before the training, local governments focused almost exclusively on addressing the communities' short-term needs after the tsunami. A-TARP's capacity building training taught them how to plan for longer-term needs, such



SUCCESS STORY

Building Capacity of Local Governments

Jaddal Husseini heads Jaya, a *kecamatan* of the Aceh Jaya province. A three-hour drive south of the province's capital Banda Aceh, Jaya has 48 villages with a population of 22,000, and according to Jaddal, it is one of the busiest in the district.

Jaya was also one of the 15 *kecamatan* selected by A-TARP's partner *Yayasan Inovasi Pemerintahan Daerah* (Center for Local Government Innovation or YIPD) to participate in the Aceh-Nias Governance Enhancement Program. Through this one-year program, almost 40 government staff in Jaya and leaders in its 48 villages received training to improve their administrative and budgeting skills. The training, says Jaddal, made the budgeting process the following year much easier.

Jaya also improved select administrative procedures, including its building planning and permit process. With the help of the project, the government enhanced its ability to plan and was better organized in handling procedures and paperwork. As a result, it was able to receive district approval more quickly, expediting the construction of public facilities. With several community buildings and schools already approved, the *kecamatan* is planning to build additional facilities to provide better services to the people of Jaya.

"The training was very useful, but the time was too short," says Jaddal. The government staff and village leaders in Jaya are eager to learn more. He believes that more detailed training and assistance from programs like YIPD's can help them achieve their vision of a stronger, more independent, and more prosperous Jaya.

The Camat of Jaya, Jaddal Husseini, participated in a capacity building program supported by the project to enhance the delivery of public services. He has ambitious plans to build a stronger, more independent, and more prosperous Jaya and believes that additional capacity building programs like A-TARP's can help realize this goal.



Before the peace agreement was signed by the Indonesian government and Aceh separatists in August 2005, businesses were forced to close early and movement was severely restricted due to safety concerns. Today, social and economic life are back to normal — and there is even time for play.



KECAMATAN PARTICIPATING IN ACEH-NIAS GOVERNMENT ENHANCEMENT PROGRAM



as infrastructure development that will help economic development. The training program also expanded government officials' ability to include a broader spectrum of citizens in determining the goals of the community.

In 3 of the 15 *kecamatan*, the capacity building program was deemed a success; however, the lack of local funds that would allow staff to use their new skills hampered the full realization of the capacity building program.

Lessons Learned

Funding implementation helps ensure the practices learned in capacity building programs are used. Capacity building was essential to raise the ability of *kecamatan* to provide better services to the public. But if the newly acquired skills cannot be applied due to budget constraints, the success of the program cannot be fully realized. Additional funding or limiting the number of *kecamatan* trained can strengthen the efficacy of such programs.

SUPPORTING THE PEACE PROCESS

Nearly 30 years of conflict had taken its toll on the Acehnese people. They distrusted government, lacked economic opportunities, and lived under the constant threat of insecurity. The very foundation of Aceh's society needed to be mended.

The signing of the August 2005 Helsinki Memorandum of Understanding (MOU) between the government of Indonesia and GAM promised to usher in a new era for Aceh. But the road to a lasting peace is a long one, requiring both the government and GAM to attend to the details of implementing the MOU, including:

- *Promulgating the Law on Governing Aceh.* This new set of laws broadens political participation and ensures that

the province receives a greater share of revenue from natural resources and that it has more control over its trade, external loans, taxation, and rule of law.

- *Handling security arrangements.* These measures, completed in December 2005, include demobilizing GAM combatants, the decommissioning of their weapons, and the withdrawal from the province of Indonesian military and police not originally posted in Aceh.
- *Managing amnesty, reintegration, and human rights issues.* The Government of Indonesia and GAM have granted amnesty for those involved in the conflict. The Indonesian and Acehnese governments have worked together to help reintegrate ex-combatants into their communities, foster

INSTITUTIONS SUPPORTING ACEH'S PEACE PROCESS



reconciliation, and address human rights issues.

The first major step in implementing the peace agreement was establishing the Aceh Monitoring Mission (AMM), an international group that was tasked to ensure that basic security and freedom of movement were restored. The AMM's mandate was limited in scope and time — just 16 months — and Indonesia's central government and Aceh's local governments, with A-TARP assistance, began to establish the institutions that would sustain the peace process through the systematic implementation of the MOU and the coordination of post-conflict recovery.

During the next two years, these institutions, their structure, and their roles evolved to address the changing needs of the peace process. As it stands now, three major institutions coordinate the peace process under the umbrella of the *Badan Reintegrasi Damai Aceh* (Aceh Peace Reintegration Agency or BRA): *Badan Pelaksanaan*, the BRA's implementation board or *Bapel-BRA*; *Forbes Damai*, or the Joint Forum to Support Peace; and the Aceh Peace Resource Center (APRC).

Although the Government of Indonesia gave the BRR a powerful mandate and massive resources for coordinating post-tsunami recovery, the central government and donors paid little attention to post-conflict recovery, and this disparity created resentment at both the government and community levels. When the post-conflict recovery program was

being virtually ignored, A-TARP stepped in to provide strategic advice, staff, and other resources to build the capacity of government to drive and sustain the peace process in Aceh.

Assistance Provided

Badan Reintegrasi Damai Aceh. A-TARP provided input to help structure and define the BRA's functions at the very beginning. When Governor Irwandi expanded its mandate in 2007 upon entering office, the project also expanded its assistance. A-TARP helped devise the agency's new strategic vision and once it was established, the project provided technical advice to its leadership and support staff. A-TARP also provided staff and resources to run the agency's communications, administrative, logistical, and information technology units.

Badan Pelaksanaan. In *Bapel-BRA's* early stages, A-TARP provided the agency with technical assistance on how government assistance would be delivered to former combatants and conflict victims. Later, when the BRA's mandate was broadened, support for *Bapel-BRA* significantly increased with additional technical assistance on structuring the program for building houses for ex-combatants. A-TARP also provided operational support in the form of communications, administrative, logistical, and information technology assistance.

Forbes Damai. A-TARP helped establish this multistakeholder body and provided technical advice and staff for the organization. It helped set the forum on



In December 2005, Irwandi Yusuf, acting on behalf of GAM before he was elected Aceh's governor, hands over weapons to the Aceh Monitoring Mission.



School children celebrate Indonesia's Independence Day in Banda Aceh. The sign reads, "Studying diligently at school helps give meaning to independence."

a path to increase operational capacity, credibility, and relevance, providing day-to-day advice and mentoring with an emphasis on how the forum can interact most effectively with the provincial government. The project helped facilitate coordination with donors and other peace-building initiatives.

Aceh Peace Resource Center.
Working with the government of Aceh, A-TARP took the lead in

establishing the APRC. The center provided critical support for the peace process by helping the Government of Indonesia and GAM to identify the outstanding MOU articles for resolution and to uphold articles that were already implemented.

Results and Impact

A-TARP's assistance was crucial in building the capacity of the Government of Aceh to play a more active role in realizing

and sustaining peace in Aceh. Today, the organizations assisted have adept leadership, are well staffed, and have operational support that would not have been possible without A-TARP. The Government of Aceh has increased capacity to implement the MOU, assist with the reintegration of ex-combatants into local communities, and support economic development opportunities and housing programs.

Forbes Damai has had a significant, lasting impact in supporting the peace process. It has been successfully positioned as the forum for the Indonesian and Aceh governments and GAM to bring peace process and post-conflict recovery issues to a neutral table for discussion. *Forbes Damai* played a critical role in brokering agreements between the government and GAM regarding the disbursement of reintegration funds, and it has become a think tank for addressing reintegration issues and advancing the peace process.

Both *Forbes Damai* and the APRC have been so successful that when A-TARP ends, they are likely to be continued by another contract or grant. These models are also likely to be replicated in other post-conflict,

post-international mission situations where local and national actors need to sustain a peace process without direct international involvement.

Lessons Learned

Sustaining peace takes perseverance. The Aceh experience demonstrates that stakeholders need to remain committed to the peace process in the long term and that they must have an institutional framework to support continued dialogue on the implementation of the peace agreement.

Involve government. Although international agencies can play a key role in the post-conflict recovery process, national and local governments must take command and coordinate the process to ensure harmonization with their priorities and programs.

Government capacity building sustains the peace. Central and local governments rarely have the capacity to sustain a peace process and coordinate post-conflict recovery. International and national organizations with experience in post-conflict peace building can act as important resources to provide this type of technical assistance and support.



A-TARP worked with the Ministry of Finance to establish the first department in Indonesia devoted solely to criminal tax investigations, the Directorate of Intelligence and Investigation. In this room, directorate investigators store evidence for ongoing criminal tax fraud cases.

CHAPTER FOUR

SUPPORTING ECONOMIC GROWTH AND STABILITY

Indonesia was the country hardest hit by the crippling East Asian financial crisis in 1997-1998. Against the U.S. dollar, the currency dropped from about 2,300 Indonesian rupiah to nearly 17,000, and the economy contracted by almost 14 percent. Under pressure from widespread protests, President Suharto resigned in May 1998, ending 32 years of rule. Suharto's departure and the fallout of the economic crisis sparked significant reforms across Indonesian political and governmental institutions.

President Susilo Bambang Yudoyono took office in October 2004 after the country's first direct presidential election. Soon after, he implemented the *National Medium-Term Development Plan 2004 – 2009* to reduce unemployment and poverty. The plan has four broad objectives: creating safety and peace;

building democracy; alleviating poverty; and establishing a stable macroeconomic framework for development.

To support the government's efforts in two of these areas — crafting and executing economic growth policies and countering corruption — A-TARP provided critical technical advice to the Ministry of Finance and key departments, including the Directorate General for Taxation (DGT). On the strategic level, project staff worked hand-in-hand with ministry leadership and directorate staff to improve the government's economic policies and increase revenue generation and capture. On the implementation side, it advised on how to translate those policies into action. On both fronts, the project ensured sustainability of its efforts by building the capacity of ministry and directorate staff.

“ I am very grateful for the extraordinary support the Ministry of Finance received from USAID to assist us with critical economic reforms that are helping build a better economic future for the country. ”

SRI MULYANI INDRAMATI
MINISTER OF FINANCE

In addition, the project helped establish and operate a Strategic Objective Agreement Secretariat based in the Coordinating Ministry for People’s Welfare (*Menko Kesra*). The secretariat was charged with managing USAID’s strategic objective teams and partners for the Ministry of Basic Human Services and the Ministry of Education.

SUPPORTING INDONESIA’S ECONOMIC GROWTH

During the last decade, Indonesia has been working itself out of a massive economic crisis, contending with systems and staff rooted in a dated, bureaucratic governance model with limited focus on global best practices and market-based principles.

In response to the government’s *National Medium-Term Development Plan*, the Ministry of Finance launched a series of aggressive policy reform initiatives. The package consists of policies to strengthen investment services; harmonize central and regional regulations; improve customs, excise, and taxation services; create jobs; and support small and medium enterprises. To increase the reforms’ chances for success, the ministry moved toward developing its institutional capacity, improving intergovernment coordination, and engaging the private sector.

Indonesia’s Ministry of Finance is crucial to realizing the country’s economic goals. Its 60,000 employees regulate and operate the government’s economic policies

and systems, including customs, tax, and budgeting operations.

A-TARP worked with the ministry to improve fiscal policies, increase revenue generation and capture, and build the staff’s capacity to move the government’s economic development plan forward.

Project Assistance

Improving fiscal policies. Sound fiscal policies — those policies that manage a country’s economy by adjusting its spending and encouraging private sector investment — give investors confidence in the government’s ability to direct its macroeconomic well-being. Reliable policies and a stable economy attract investors and encourage a healthy, competitive marketplace, resulting in increased tax revenue for government and jobs for its citizens.

A-TARP was instrumental in helping direct Indonesia’s fiscal policy reform. The project advised the Ministry of Finance to expand state revenue by adopting reforms in its fiscal, investment, and enterprise restructuring policies and built sustainability into the program by developing the capacity of the key ministry departments to manage these policies in the future. The project also synchronized policy reforms with Bank Indonesia, state-owned enterprises, and other publicly owned institutions.

The ministry now operates with improved fiscal policies and is better positioned to manage them because of A-TARP’s



Between 2005 and 2008, the Indonesia Stock Exchange index showed remarkable results, increasing 229 percent. This, along with other improved indicators in Indonesia's economy, show the government has delivered strong policies that are increasing investor and market confidence. During these three years, A-TARP provided key technical assistance to the Ministry of Finance on managing its fiscal policies.

capacity building efforts. As demonstrated by increases in key economic indicators in the last three years, the government has shown that it can effectively manage its economic well-being and provide a more favorable climate for business and investment.

The project's assistance to the finance minister and director general of treasury resulted in \$7.5 billion in sovereign bond issues, including the successful launch of Indonesia's first retail bond for individual investors and its first 30-year government bond. Despite being issued just days after the 2005 Bali bombing, there were three-and-a-half times more orders than there were bonds available for sale. This oversubscription demonstrated investors' confidence in Indonesia as a long-term investment option.

Restructuring government enterprises and disposing of state-owned assets. The Indonesian government owns about 140 enterprises and public works agencies. Some have performed well, generating revenue for the government and providing valuable services to the public. Others, however, have underperformed, relying on government loans to operate, and have accumulated \$6.7 billion in outstanding loans. These unpaid loans drain the government's budget, discourage free-market competition, and jeopardize the delivery of public services.

With the Ministry of Finance, A-TARP developed a framework to analyze these enterprises and determine whether to restructure them into viable, creditworthy, institutions, or sell them to the private sector. The project offered hands-on training to improve the ministry staff's ability to manage

Building Administrative Capacity in *Menko Kesra*



BBR / ARIF ARIADI

Indonesia's Ministry of Basic Human Services and Ministry of Education received nearly \$500 million from USAID. A-TARP established, staffed, and operated a full-service Strategic Objective Agreement Secretariat, providing administrative support to manage the programs and projects on behalf of these ministries.

Indonesia received nearly \$500 million from USAID under two strategic objectives for health, environment, food/nutrition, and education projects. *Menko Kesra*, the Coordinating Ministry for People's Welfare, was responsible for managing the programs and projects on behalf of the U.S. and Indonesian governments, but as a new ministry, it lacked administrative experience and capacity.

To remedy this situation, A-TARP established, staffed, and operated a full-service Strategic Objective Agreement Secretariat based in *Menko Kesra*, providing administrative support to USAID teams and partners operating under these two strategic objectives.

On behalf of the secretariat, the project developed standard operating procedures to facilitate administrative tasks, such as procurement of cars and other capital equipment, and reduce processing time for a variety of documents, including assignment letters, government-sponsored visas and visa extensions, tax-free documentation for personal goods, and customs-related clearances. In addition, A-TARP established procedures to monitor and ensure compliance with U.S. and Indonesian government regulations. As part of its monitoring function, the secretariat arranged, scheduled, and sometimes accompanied *Menko Kesra* staff on visits to USAID projects throughout Indonesia.

The secretariat also played a key role in facilitating interdepartmental and partner coordination. Its staff liaised with *Menko Kesra*, USAID, ministry staff, and various donor organizations, including the World Health Organization, the World Bank, GTZ, and AusAid, to help coordinate programs and projects.

The A-TARP-supported secretariat closed in April 2008, but by using procedures and systems established by the project, *Menko Kesra* can now carry out the secretariat's administrative functions on its own.

these processes on its own and worked with the ministry to complete the assessment. Additionally, the project participated in discussions with potential creditors and bidders. After the analysis of state-owned enterprises, project staff began working with the government using this methodology to restructure or sell the ministry's \$6.7 billion debt.

In a parallel process, the project also assisted the Asset Management Company (PPA), a state-owned enterprise that reports to the Ministry of Finance, in generating \$1.2 billion in revenue for the Indonesian government from the sale and disposal of assets, loans, and equity shares in companies managed by the PPA.

Project staff also participated as part of the Indonesian government's restructuring team and advised on the \$914 million debt restructuring of state-owned Garuda and Merpati Airlines and the \$337 million divestment of Cement Gresik.

As debt is reduced and revenue is generated, the Government of Indonesia can provide additional public services to its citizens, fund pro-poor growth strategies and health care and education initiatives, invest in infrastructure and institutional capacity building, and increase the pay for civil servants.

Strengthening the Directorate General for Taxation. With a history of government and public sector corruption, Indonesians have little trust in public institutions to act in the public good. The

government must build citizens' confidence in public institutions. As a key department within the Ministry of Finance and one of the most visible government agencies, the DGT initiated massive reforms to improve its performance and increase the public's trust.

A-TARP worked with the DGT's executive management to reorganize the directorate, which has 30,000 staff, to deliver better public services and increase the capture of tax revenue. The project helped recruit qualified candidates for senior positions, bringing in new talent to more effectively implement the government's policies and programs. The project's assistance marked the beginning of a 10-year initiative to build the competence, integrity, and transparency of the DGT office and increase tax compliance.

Results and Impact

Increases in economic indicators across the board — from direct investment to gross domestic product (GDP) — indicate that Indonesia's economic policies are on track and have increased market confidence. Reinforcing Indonesia's rising prominence in the eyes of international business leaders and investors, Minister of Finance Sri Mulyani Indrawati was voted the "Finance Minister of the Year" in 2006 by readers of *Euromoney*, a prestigious financial publication.

With improved fiscal policies, a plan for restructuring or selling poorly performing state-owned enterprises, and strengthened

KEY ECONOMIC INDICATORS 2005 – 2008

- Direct investment increased 346 percent, from \$5.6 billion to \$25 billion.
- Indonesia Stock Exchange Index jumped 229 percent, from 850 to 2,800.
- GDP increased 121 percent, from \$165 billion to \$365 billion.
- Exports grew 72 percent, from \$69 billion to \$119 billion.
- Per capita income rose 64 percent, from \$1,130 to \$1,850.
- Currency reserves increased 53 percent, from \$36 billion to \$55 billion.
- Government debt as percentage of GDP decreased 29 percent, from 52 percent to 37 percent.

systems for collecting taxes, the Government of Indonesia is better positioned to increase government revenue, decrease government debt, and attract investors.

Lessons Learned

Unemployment and poverty remain challenges. Despite unprecedented policy reforms and economic gains during the life of A-TARP, Indonesia's open unemployment rate rose from 9.1 percent to 10.4 percent, and half the population of 220 million continues to live on less than \$2 per day. The finance minister recognizes that the current financial and capital markets and policies do not provide an adequate foundation to support employment and pro-poor growth strategies, and she is working to address these issues.

COMBATTING CRIMINAL TAX FRAUD

In Indonesia, significant government revenue is lost due to tax fraud. Calculating the exact amount of lost revenue is virtually impossible, but some estimate that less than 10 percent of the total tax due makes it into government coffers. Others claim that more than 60 percent of all registered taxpayers do not even file taxes.

When taxpayers file incorrect or false returns, the penalties are usually negotiated, resulting in some taxes being paid and some fines being levied. When wrongdoing is evident, few violators are ever convicted for breaking tax laws. Without serious consequences, few bother to comply with the law.

Changing both the public's and the government's perspective on tax compliance requires a significant paradigm shift. Most citizens and government bureaucrats do not fully understand how tax fraud affects the ability of government to serve its citizens. Given Indonesia's history of corruption in government and the private sector's and citizens' cynicism, this is a particularly difficult case to make.

Effectively enforcing tax laws requires interagency cooperation, which Indonesian government agencies are traditionally reluctant to do. This has been an impediment to ensuring compliance because tax fraud investigation — as part of a complex criminal justice system that involves the police, prosecutors, and judiciary — requires cooperation and communication across agencies to convict tax offenders.

In recent years, Indonesian political and governmental structures have undergone major changes, including a comprehensive reform and counter-corruption program. Following those policies, the Ministry of Finance initiated aggressive plans to overhaul key departments and decided to take decisive measures to counter criminal tax fraud.

Assistance Provided

A-TARP worked with the DGT at the Ministry of Finance to establish the first department in Indonesia devoted solely to criminal tax investigations, the Directorate of Intelligence and Investigation. This unit focuses



Thirty criminal tax investigators from across Indonesia participated in a 15-day program, preparing them to teach other investigators on such topics as tax law, coordinating with the judicial system, interview techniques, forensic analysis, and public relations.

on high-profile cases with the potential to recoup lost revenue and garner significant media coverage to increase public awareness of the consequences of not complying with tax laws.

Because the concept of investigating tax fraud was new to Indonesia, the new criminal investigators had to be trained. A-TARP developed and delivered a rigorous training program for staff members to learn the foundations and importance of identifying and investigating tax fraud. Project staff also worked with directorate officials to create an intensive train-the-trainer course to deepen the staff's understanding of criminal tax

investigations, including tax law, coordinating with the judicial system, interview and interrogation techniques, forensic analysis, and public relations and media outreach.

The project, working with directorate officials, went through a painstaking process to promote dialogue and interagency cooperation among key government agencies, including the police, the prosecutor's office, and the judiciary.

Results and Impact

Today, the Directorate of Intelligence and Investigation's management, investigators, and support staff are located in Jakarta



SUCCESS STORY

Combating Criminal Tax Fraud

Oral Robert Nainggolan's wife worries about him when he is out all night on surveillance. He tells her not to worry; he is doing his job and fulfilling his duty to the government.

Oral is a criminal tax investigator, part of the Government of Indonesia's new force in combating criminal tax fraud.

Before joining the Directorate of Intelligence and Investigation in May 2007, Oral was an auditor, faithfully auditing tax returns. He would examine financial records and determine the taxes due. Now, as part of this new unit, he does much more than audit: he gathers and analyzes evidence, interrogates witnesses and suspects, and presents cases to prosecutors. Think of your favorite TV criminal investigation show and that is Oral, Indonesian style.

The directorate is well-established in Jakarta and will soon be training investigators throughout Indonesia's 33 regions. Oral is part of the cadre prepared to teach regional investigators how to do the job. He looks forward to teaching others how to be investigators and has ambitions to do more than just teach — he would like to work side-by-side with new recruits to show them the ins and outs of the job. If he gets his wish, he will no doubt share more than his technical knowledge; he will share his enthusiasm for the work and leave new investigators with a clear understanding of how their work is helping their country enforce tax laws to increase revenue for the government and benefit the people.

Oral tells about one recent case. After interviewing witnesses regarding a suspected tax criminal, those witnesses, fearing that they would be investigated next, started refiling corrected tax returns. He knows the system is working.

Oral Robert Nainggolan is an investigator with the Directorate of Intelligence and Investigation. He is proud to be part of this unit, helping to combat criminal tax fraud.

DIRECTORATE OF INTELLIGENCE AND INVESTIGATION CASES 2007

Cases initiated*	45, involving 107 companies
Total state loss	\$270 million
Cases prosecuted	19
Cases resulting in prison sentences	8
Average length of sentences	1.2 years

*The number of investigations began after gathering data that demonstrates possible criminal offenses.

and in regional tax offices around the country. A-TARP’s training has created a solid foundation for staff to take on its new role.

In 2007, the directorate initiated 45 investigations involving 107 companies. Nineteen individuals were convicted and received criminal penalties and fines, and eight people received prison terms. The state lost a total of \$270 million in revenue, some of which will be recouped after additional investigations and tax audits. One case currently under investigation relates to a famous international conglomerate and its owner, reportedly the wealthiest person in Indonesia. When resolved, it will most likely result in significant revenue for Indonesia in criminal fines, penalties, and additional taxes, possibly more than \$700 million. These convictions, spread across the country, represent a significant

change from the previous mild penalties handed down by Indonesian courts. As more investigators are deployed across Indonesia, the numbers will increase.

In addition, doors of cooperation have been opened between the unit and key agencies, strengthening the efficacy of the criminal tax investigation work and setting an example of interagency cooperation for other government agencies. Furthermore, other donors have agreed to continue the work that A-TARP began by funding more technical assistance and capacity building for directorate staff.

By identifying, investigating, prosecuting, and publicizing high-impact criminal tax offenders, the Government of Indonesia will realize significant gains in tax compliance and tax revenues. Such prosecutions will serve as stern reminders to taxpayers that the consequences of fraud are real.

Lessons Learned

Understanding the local context is critical when establishing a criminal tax investigation unit.

This applies to understanding the local law and how it is practiced, as well as recognizing the deep-rooted effect that corruption can have throughout the system. To successfully provide technical assistance in the area of criminal tax investigation, the details and consequences of these issues need to be understood and appreciated.



A little girl skips down a new road in Lamjabat, one of the first villages to work with A-TARP on the community-driven mapping and planning process. Wider roads were part of the new standard incorporated into the village plans, which provides an easier escape route in case of future tsunamis.

CHAPTER FIVE

GENERAL LESSONS LEARNED

Much of what A-TARP learned over the past three years applies to the specific technical assistance that was provided and is reflected in each chapter. But some lessons can be applied generally to the challenge of managing a technical assistance program in a disaster situation and serve as basic principles for providing good technical assistance.

In a disaster situation, design a program that allows for maximum flexibility. In the case of rehabilitation and reconstruction, and in particular in Aceh where the devastation was unprecedented and the needs impossible to anticipate, A-TARP provided USAID with an invaluable mechanism for responding to the rapid changes and dynamic needs of the Government of Indonesia.

As a corollary to the first lesson, technical advisors need the same flexibility when dealing with

the realities of disaster recovery programs. Every A-TARP advisor in Aceh and Nias, and every person who worked alongside the BRR and other reconstruction partners, acknowledged the fact that they were working under extraordinary circumstances that magnified the typical levels of ambiguity and uncertainty. Although approaches used in previous situations could provide a foundation for the technical advice given, the ability to remain open and flexible was often the difference between success and failure.

Building strong, long-term relationships with counterparts is critical for effective technical assistance. Cultural, religious, and economic differences can create barriers that need to be acknowledged when providing technical assistance. It is important to build relationships before the technical work proceeds. Once



Children speed down a newly paved road in Meulaboh. A-TARP's technical assistance supported the Government of Indonesia with priority reconstruction initiatives that played a crucial role in rebuilding communities in Aceh and Nias.

investments in these relationships are made, ensuring the continuity of advisors strengthens the efficacy of the technical assistance provided.

Provide technical assistance at both the strategic level and the practical level. A-TARP approached the problem from two sides, allowing for strategic direction on the one hand and practical support of service delivery on the other. This strategy proved to be effective. Without implementation, a strategy can gather dust on a shelf. Without a strategy, implementation can be misdirected and ineffectual. Attending to both leads to stronger results and helps ensure sustainability.

Ensure counterpart leadership and staff are ready for technical advisors. A-TARP fielded more than 40 advisors to assist personnel in high-level positions, as well as operational staff. Regardless of the counterpart, technical assistance cannot be effective without a commitment from leadership, the institution, and the counterparts themselves. It takes the right mix of timing, personalities, and organizational readiness for technical assistance to be effective.

Position expatriate technical advisors wisely and, when appropriate, team them with local partners. Advisors provide critical expertise and perspective and can facilitate processes and relationships that can be difficult for local staff. But without a local counterpart, technical advisors sometimes lack the necessary influence and

connections. The right advisors, coupled with the right partners, can create the best team to address the complex issues between stakeholders and government.

Disasters can create opportunities for better development. The dramatic influx of post-disaster reconstruction resources presents an unusual chance to tackle not only reconstruction, but also long-term development issues. Effective planning and implementation of reconstruction can improve development patterns and create improved economic opportunities, physical infrastructure, and institutions.

Assess impact and results regularly, but use qualitative and quantitative measures. Effectively supporting reconstruction in a rapidly changing environment requires regular evaluation of impact so that resources can be quickly shifted to the most effective interventions. Some of the most effective activities, however, are the most difficult to quantify and require flexible monitoring and evaluation systems.

Communication is an essential aspect of every area of reconstruction and peace building. Post-disaster and post-conflict periods are times of uncertainty and change. Development interventions, especially reconstruction programs, are most effective when they regularly inform beneficiaries about planning and progress and promote coordination among donors and development agents.



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