

04-258

USAID GRANT AGREEMENT NO. 497-0357

and

USAID/WASHINGTON PROJECT NO. 498-0001

AMENDMENT NO. 3

STRATEGIC OBJECTIVE GRANT AGREEMENT

BETWEEN THE

REPUBLIC OF INDONESIA

AND THE

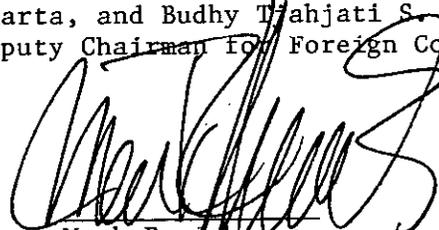
UNITED STATES OF AMERICA

FOR

ECONOMIC GROWTH

DATED: JUNE 22, 1999

Certified to be a true copy of the original signed
by Paul Deuster, Team Leader, Economic Growth,
USAID/Jakarta, and Budhy Tahjati S. Soegijoko,
Ph.D., Deputy Chairman for Foreign Cooperation,
BAPPENAS.



Mark R. Johnson
Program Officer
USAID/Indonesia

Date:

July 9, 99

This AMENDMENT NO. 3 is entered into between the REPUBLIC OF INDONESIA ("Grantee") and the UNITED STATES OF AMERICA, acting through the U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT ("USAID").

WHEREAS, the Grantee and USAID entered into a Strategic Objective Grant Agreement for Economic Growth amending the Agriculture and Rural Sector Support Program on September 16, 1997 ("Grant Agreement"), which was further amended on June 19, 1998 and March 16, 1999, WHEREBY USAID agreed to grant to the Grantee up to One Hundred Five Million Nine Hundred and One Thousand United States Dollars (\$105,901,000);

WHEREAS, the Grantee and USAID now desire to further amend the Grant Agreement to provide an additional increment of USAID financing of Seven Million Five Hundred and Thirty Eight Thousand United States Dollars (\$7,538,000) for the Program;

WHEREAS, the Parties desire to amend the Strategic Objective in order to deal with additional aspects of the severe economic and financial crisis; and

WHEREAS, USAID's Washington headquarters have created a regional project entitled, Accelerating Economic Recovery in Asia (Project No. 498-0001), through which additional resources are being made available to support the objectives contained in this agreement, and the Grantee and USAID now desire to further amend the Grant Agreement to provide \$7,000,000 for the Program from this source;

NOW, THEREFORE, the Grantee and USAID hereby agree as follows:

1. SECTION 2.1. Strategic Objective is revised to read as follows:

“SECTION 2.1. Strategic Objective. In order to contribute to Indonesia’s efforts to overcome the effects of the major financial and economic crisis, so that sustained and equitable economic growth and economic stability can be restored, the Strategic Objective (“Objective”) of this Grant Agreement is the recovery of Indonesian economic and financial systems.”

2. SECTION 2.2. Results is revised to read as follows:

“SECTION 2.2. Results. In order to achieve the Objective, the Parties agree to work together to achieve the following results (“Results”): a) financial sector restructured and governance improved; b) corporate sector restructured and governance improved; c) public sector policy and governance reformed; and d) strengthened non-governmental participation in economic reform. Indicators by which achievement of these results will be measured will be specified in a separate project implementation letter. Within the limits of the definition of the objective in Section 2.1, the Results stated above may be changed by written agreement of the authorized representatives of the Parties without formal amendment of this Agreement.”

3. SECTION 2.3. Annex 1, Amplified Description. Portions of the Amplified Description are hereby amended, as provided in Attachment A of this Agreement Amendment.

4. The first paragraph of Section 3.1 (a) of the Grant Agreement is revised to read as follows:

"SECTION 3.1. The Grant. To help achieve the Objective set forth in this Agreement, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Grantee under the terms of this Agreement an additional increment of not to exceed Fourteen Million Five Hundred Thirty Eight Thousand United States ("U.S.") Dollars (\$14,538,000). This amount, in addition to previous increments, totals not to exceed One Hundred Thirteen Million and Four Hundred Thirty Nine Thousand United States ("U.S.") Dollars (\$113,439,000) ("the Grant")" under the Agriculture and Rural Sector Support Program covered by this Agreement. Additional increment of not to exceed Seven Million United States ("U.S.") Dollars (\$7,000,000) provided under the Accelerating Economic Recovery in Asia project, is hereby incorporated in this Agreement.

5. SECTION 3.2. Grantee Resources for the Program is revised to read as follows:

"The resources provided or caused to be provided by the Grantee for the Program will be \$35,867,000, including costs borne on an in-kind basis. Of this amount, it is expected that not less than the equivalent of \$1,800,000 will be contributed by private sector partners."

6. Subsection 3.3 (a) is revised to read as follows:

“The “Completion Date,” which is September 30, 2002, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all the activities necessary to achieve the Objective and Results will be completed.”

7. A new Section 5.3. of Article 5: Special Covenants is added as follows:

“SECTION 5.3. USAID Standard Provision F.1. Job Loss, Export Processing Zones and Worker’s Rights.

After a thorough review, the Parties have determined that the activities proposed for funding under this Agreement do not in any way relate to the Standard Provision F.1. of Annex 2. Should potential issues arise in the future under this Agreement, the Parties agree to work together to resolve any concerns related to Standard Provision F.1. of Annex 2.”

8. Attachment B to Annex 1, entitled “Budget”, is deleted in its entirety, substituting therefor the revised Attachment B attached to this Amendment No.3.

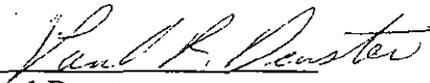
9. The Annex 2, Standard Provisions, is replaced by the Annex 2, Standard Provisions, attached hereto.

Except as amended herein, the Grant Agreement is unchanged and, as amended, remains in full force and effect.

IN WITNESS WHEREOF, the Republic of Indonesia and the United States of America, each acting through its duly authorized representative, have caused this Amendment No. 3 to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

REPUBLIC OF INDONESIA


Paul Deuster
Team Leader
Economic Growth
USAID/Jakarta


Budhy Tjahjati S. Soegijoko, Ph.D.
Deputy Chairman for Foreign
Cooperation
BAPPENAS

**ATTACHMENT A
AMENDMENT TO
THE AMPLIFIED DESCRIPTION**

The original Amplified Description for the Economic Growth Strategic Grant Agreement was written in September 1997, just as the current economic and financial crisis was beginning. At that time, the severity and the longevity of the current crisis was not clear. Since that time, USAID has revised its overall strategy for Indonesia to take account of the multiple problems facing the country. In the economic and financial fields, this requires that USAID undertake actions that are much broader than the previous concentration on international trade and domestic economic competition. There is need to broaden USAID's support to include urgent actions in both financial and corporate restructuring which will help spur economic recovery and restore investor confidence. Secondly, there is a continuing need to strengthen the legal, regulatory and institutional framework that supports both public and private governance in the economic and financial spheres. There is no need to adjust the modalities of technical support and partnership grants through which results under the strategy are to be achieved. However, the drastically changed economic circumstances of the country, require a broadened strategic framework as reflected in modifications to the Amplified Description, as follows. The full Amplified Description, incorporating the revised text given below, is attached.

Section I. Introduction

Subpart: The Economic Growth Strategic Objective

The second paragraph is revised to read, as follows:

“The Agency's objective for equitable economic growth must be tailored to meet the specific needs of Indonesia during this period of intense financial and economic crisis. Therefore the Strategic Objective of the Agreement is defined as: the recovery of Indonesian economic and financial systems.”

Section II. Program Description

Subpart A: Economic and Policy Background

The text of Section II.A. is revised to read as follows:

“The events of late 1997 through the present have demonstrated that, as noted in the original text of the Strategic Objective Grant Agreement for Economic Growth: ‘Economic success is never assured. The sheer size and complexity of the Indonesian economy creates enormous difficulties for its future management. Further, there remain economic policies, practices and institutions that need to be improved to create an internationally and domestically competitive economy capable of prospering in the era of economic globalization ...’

While the current economic and financial crisis has been regional in nature and fueled by a variety of causes, it is clear that legal and institutional weaknesses in Indonesia have contributed to the severity of current problems. Banking practices and supervision were weak, and banking laws were not enforced. Standards of corporate accountability were poor. Many laws regulating finance and commerce were antiquated or weakly enforced. Such factors, combined with an environment in which corruption of various kinds was often condoned, have exacerbated the effects of the regional crisis in Indonesia leading to a major economic contraction, a severe depreciation in the value of the rupiah, a loss of tens of thousands of jobs, a general failure of the banking system, and a severe loss of investor confidence – both domestic and international.

The Government of Indonesia has entered into an agreement with the International Monetary Fund under which many economic and policy weaknesses are expected to be overcome. Other international financial institutions, such as the World Bank and the Asian Development Bank, and bilateral donors, such as the United States, are supporting this agreement both financially and technically. It forms the backdrop for assistance efforts under this Agreement. Given U.S. strategic and economic interests in the region, and its longstanding support for the development of Indonesia, it is reasonable, in fact imperative, that the United States act to support the policy reforms and institutional strengthening needed to help Indonesia overcome some of the effects and causes of this complex crisis.

USAID will provide such support by promoting and financing: continuing access to top U.S. economic and financial expertise; expanded professional exchanges between policy makers and technical experts from both countries; and continued access to U.S. educational and training facilities in economics, finance and related fields.”

Section II, Subpart B, The Strategic Agreement and Intermediate Results

Section II.B is revised to read as follows:

“In order to assist Indonesia in the current crisis, the Strategic Objective under this Agreement is: the recovery of economic and financial systems. Four intermediate results are associated with the achievement of this objective. They are:

1. Financial sector restructured and governance improved;
2. Corporate sector restructured and governance improved;
3. Public sector policy and governance reformed; and
4. Strengthened non-governmental sector participation in economic reform.

Progress toward achieving this objective and the related intermediate results will be judged against the benchmarks mutually established by the parties as the basis for measuring results. These benchmarks and performance indicators for the period 1999 through 2001 will be specified in a separate implementation letter. Progress toward achieving these results will be formally measured at least once annually. Further details regarding performance monitoring are noted in section D which follows and will be the subject of separate implementation letters.”

Section II, Subpart E, Financing

Section II.E is revised to read as follows:

“The current financial plan for the strategy is provided in Attachment B.. Changes may be made to the financial plan by appropriate representatives of the Parties without formal amendment to the Agreement, if such changes do not cause (1) USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement, or (2) the Grantee's contribution to be less than the amount specified in Section 3.2 of the Agreement.

As required under subsection (b) of Section B.5 in Annex 2, the GOI has agreed to maintain books and records under the Agreement, including books and records concerning GOI contributions, in accordance with generally accepted accounting principles prevailing in Indonesia. However, due to the severity of the current economic crisis, Grantee contributions for fiscal years 1999 and 2000 are not formally required to support activities under this Agreement by USAID. The Government of Indonesia agrees however to use its best efforts to continue supplying in-kind services which are judged vital to the continuation of the assistance effort under this Agreement: office space, utilities, and salary of Indonesian counterparts, and report thereon to USAID.

It is anticipated that USAID under the ARSSP-related portion of the Agreement, will supply: \$12.5 million for PEG Linkage Grants; \$15.2 million in new financing for technical assistance; and \$0.3 million for audit and evaluation in the period FY97 through FY01, in addition to \$94.011 million provided in previous years under the ARSSP program. Total anticipated USAID financing over the lifetime of this agreement for the ARSSP-related portion of the Agreement is thus \$122.011 million. This

Agreement also covers \$7,000,000 in USAID financing provided by the regional project Accelerating Economic Recovery in Asia (AERA) which will assist in meeting the strategic objective and results specified in this Agreement. Other activities that contribute to the strategic objective have been fully funded by USAID and the Government of Indonesia, or will be financed through other USAID/Washington budgets.

The Government of Indonesia will contribute \$0.450 million as its share of the Partnership Linkage Grants, \$0.03 million for audit/evaluation, and 0.6 million in additional support for technical assistance; in addition to financing already supplied by the GOI totaling \$33.007 million related to budget support and \$1.780 million for technical assistance. Government of Indonesia contributions are thus expected to total \$35,867 million. Private partners are expected to demonstrate their commitment by covering their overhead/indirect costs to all Linkage Grants, which is estimated at \$1.8 million. Total financing from all sources is thus expected to total \$159.678 million

Details on the arrangements required to finance PEG linkage grants with USAID, Government of Indonesia, and private funding will be the subject of separate implementation letters.

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ATTACHMENT A AMPLIFIED DESCRIPTION

1. Introduction

This annex describes the results to be achieved and the activities to be undertaken with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

The Strategic Framework Concept

The United States Agency for International Development (USAID) is concerned that its development cooperation should result in measurable improvements in the lives of the intended beneficiaries. Increasingly limited resources and this concern with achievements has resulted in a new approach: The Strategic Objective Framework Concept. This concept changes the traditional emphasis on project or program development to a focus on a set of strategic objectives for USAID to achieve in its worldwide mission. With this approach, USAID is concentrating worldwide on five key areas: economic growth, population and health, the environment, democracy and governance, and response to disasters and other humanitarian needs.

Each USAID Mission is reorganizing its work plan to concentrate on some or all of these areas of focus. The reorganization involves working out with its development partners a revised (or amended) agreement to support the advancement of objectives in each area. An agreement in one of these areas typically defines the strategic objective and a revised or amended USAID development cooperation program designed to provide demonstrable progress in achieving the defined objective.

The Economic Growth Strategic Objective

USAID's worldwide economic growth goal encompasses several program areas. First, USAID supports programs to strengthen markets - addressing policy and regulatory impediments to the development of local agricultural and commercial markets and exports, especially by small farms, microentrepreneurs, and small businesses. This work on markets also covers assistance in the privatization of state-owned enterprises. Second, USAID supports programs to expand access and economic opportunity for the less advantaged, also through microenterprises and small businesses. Third, there are programs to build human capital through education and the transfer of technical and business skills.

The Agency's objective for equitable economic growth must be tailored to meet the specific needs of Indonesia during this period of intense financial and economic crisis. Therefore the Strategic Objective of the Agreement is defined as: the recovery of Indonesian economic and financial systems.

Given the increasing complexity of issues involved and the limited resources available to both USAID and the Indonesian government, it is critical to involve Indonesian and American private partners as well as the public sector in achieving the goal of strengthening markets and expanding access and economic opportunity for the less advantaged.

Thus achieving USAID's Economic Growth Objective involves continuing the partnership between the U.S. and Indonesian governments while, at the same time, working to increase the involvement of the private sectors in both Indonesia and the U.S. in this partnership. Thus in addition to USAID continuing to provide Technical Assistance to the Government of Indonesia, this Agreement also provides for a new mechanism known as the Partnership for Economic Growth (PEG). The Partnership is a grants program aimed at linking institutions in the United States and Indonesia with a continuing interest in the exchange of ideas and intellectual capital related to economic development. The PEG objective is to foster a sustainable set of relationships between U.S. and Indonesian institutions, both public and private, which will continue the dialogue on many important economic matters into the 21st century. The Technical Assistance and Partnership concepts are further defined below.

Current Projects and the Use Of ARSSP as the Foundation for the Strategic Objective Agreement

The existing ARSSP program is the logical base on which to construct the new strategic objective agreement for economic growth. Over its ten year life, ARSSP has been transformed from a vehicle for balance of payments support during the period of financial tightening in the mid-80's, to a vehicle for broad-based policy support focused on agricultural and rural development, to a broader framework aimed at supporting a wide area of policy-based economic reforms. Work currently underway under ARSSP which is relevant to the new strategy includes: trade deregulation activities, especially the Trade Implementation Policy Project (TIPP), a series of micro- and small-business research and development activities, including grants and technical support to such organizations as the Central Bureau of Statistics, Bank Rakyat Indonesia, the University of Indonesia, and the Asia Foundation; and technical assistance activities for the Government encompassing overall macro-economic management and regulatory reform.

Previous work conducted under ARSSP related to financial deregulation and financial market development has been completed. Financing under ARSSP for work covering agricultural development (integrated pest management and work on biodiversity; energy; and the environment) is concluding. However, activities in these fields will continue to be supported under USAID/Indonesia strategic objectives and programs related to the environment. Any new technical or managerial arrangements needed to support these activities will be the subject of separate implementation letters.

There are other projects which contribute to the achievement of the Strategic Objective for economic growth defined in this Agreement. These include the Economic Law and Improved Procurement Systems Project (ELIPS) and the Agribusiness Development Project (ADP). These projects are fully funded under separate agreements, will continue until fully completed, and are

unaffected by the changes described herein. Activities under these two projects continue to be subject to the terms of their respective agreements.

II. Program Description

A. Economic and Policy Background

The events of late 1997 through the present have demonstrated that, as noted in the original text of the Strategic Objective Agreement for Economic Growth: 'Economic success is never assured. The sheer size and complexity of the Indonesian economy creates enormous difficulties for its future management. Further, there remain economic policies, practices and institutions that need to be improved to create an internationally and domestically competitive economy capable of prospering in the era of economic globalization ...'

While the current economic and financial crisis has been regional in nature and fueled by a variety of causes, it is also clear that legal and institutional weaknesses in Indonesia have contributed to the severity of current problems. Banking practices and supervision were weak, and banking laws were not enforced. Standards of corporate accountability were poor. Many laws regulating finance and commerce were antiquated or weakly enforced. Such factors, combined with an environment in which corruption of various kinds was often condoned, have exacerbated the effects of the regional crisis in Indonesia leading to a major economic contraction, a severe devaluation in the value of the rupiah, a loss of tens of thousands of jobs, a general failure of the banking system, and a severe loss of investor confidence - both domestic and international.

The Government of Indonesia has entered into an agreement with the International Monetary Fund under which many economic and policy weaknesses are expected to be overcome. Other international financial institutions, such as the World Bank and the Asian Development Bank, and bilateral donors, such as the United States, are supporting this agreement both financially and technically. It forms the backdrop for assistance efforts under this Agreement. Given U.S. strategic and economic interests in the region, and its longstanding support for the development of Indonesia, it is reasonable, in fact imperative, that the United States act to support the policy reforms and institutional strengthening needed to help Indonesia overcome some of the effects and causes of this complex crisis.

USAID will provide such support by promoting and financing: continuing access to top U.S. economic and financial expertise; expanded professional exchanges between policy makers and technical experts from both countries; and continued access to U.S. educational and training facilities in economics, finance and related fields.

B. The Strategic Objective and Intermediate Results

In order to assist Indonesia in the current crisis, the Strategic Objective under this Agreement is: the recovery of economic and financial systems. Four intermediate results are

associated with the achievement of this objective. They are:

1. Financial sector restructured and governance improved;
2. Corporate sector restructured and governance improved;
3. Public sector policy and governance reformed; and
4. Strengthened non-governmental sector participation in economic reform.

Progress toward achieving this objective and the related intermediate results will be judged against the benchmarks mutually established by the parties as the basis for measuring results. These benchmarks and performance indicators for the period 1999 through 2001 will be specified in a separate implementation letter. Progress toward achieving these results will be formally measured at least once annually. Further details regarding performance monitoring are noted in section D which follows and will be the subject of separate implementation letters.

C. Program Activities

To reach the expected results under the strategy, a number of continuing and new activities will be carried out through two components. The first component is the Partnership for Economic Growth (PEG). PEG is a grants oriented component designed to bring the perspective of practitioners and policy analysts from a variety of U.S. and Indonesian institutions to bear on key issues related to the Strategic Objective set forth in this Agreement. The second component consists of technical assistance directly to the GOI to such entities as the Ministry of Industry and Trade, the Coordinating Ministry of Economics and Finance, the Ministry of Finance, Bank Indonesia and Bappenas (the planning ministry). This assistance is designed to support analysis, decision making, and formulation of implementation procedures to facilitate achievement of the objective and associated results defined in this Agreement. Both components will also cover: 1) research to assist in further defining constraints to Indonesian economic efficiency; and 2) ground truthing assessments and analysis to determine whether current or modified practices are having the desired effect on beneficiaries.

This program has been designed to allow flexible selection and modification of activities over time in order to best achieve the strategic objective and intermediate results identified above. The emphasis under this program will be on achievement of agreed-upon results, not simply completion of specific activities. Consequently, activities to be financed under this Agreement, such as linkage grants, technical assistance and research, have not been specified in detail in this Amplified Description.

Although the program therefore offers significant flexibility in selecting suitable activities

to be financed under this Agreement, to be eligible for financing hereunder any linkage grant, technical assistance, research or other activity must: (1) contribute to the strategic objective and intermediate results identified above; (2) be supported by cost estimates that are reasonable and reasonably firm, and appropriate analysis and planning, including feasibility analyses, where appropriate, with regard to institutional, technical, financial, social soundness, or other measures of feasibility; and (3) be likely to be completed within the time frame and budget specified in the Agreement.

Additional criteria and procedures for selection of activities, including the entities responsible for selecting the activities, are specified below.

1. *Partnership for Economic Growth - PEG*

There are many U.S. institutions and scholars who have an abiding interest in numerous aspects of the Indonesian economy. Through PEG, support of a series of partnerships between U.S. entities - public institutions, universities, and research centers - and their Indonesian counterparts, will add intellectual weight to support continued openness and transparency. The economic arguments for specific reforms have to be made or made more publicly. Benefits from reform must be demonstrated not only to government, but to the private sector and the general public as well. They form a significant constituency of beneficiaries who can promote the benefits of reform to policy makers.

The PEG will be the catalyst for approximately 20 to 24 long-lasting relationships between Indonesian and American institutions joining to strengthen economic policies, practices and institutions to improve Indonesia's international and domestic economic competitiveness. Support will be provided through PEG Linkage Grants, typically in the \$250,000 to \$1,500,000 range. Proposals for these Linkage Grants will be solicited in an open and competitive fashion and evaluated against the following criteria:

- a. Importance in terms of focus on significant issues affecting Indonesia's economic growth and Indonesian-American economic ties;
- b. Mutual interest to both Indonesia and the United States, as demonstrated by the commitment and engagement of the Indonesian-American partners who submit the proposal;
- c. Results-oriented with the PEG Linkage Grants clearly targeted on formulating and implementing policy reforms and practices which are measurable and time-bound;
- d. Self-managed in the sense of mature, capable organizations carrying out tasks which they are professionally and administratively capable of implementing;

- e. Likelihood of sustainability after USAID support declines; and
- f. Cost-sharing, with the individual partnerships covering overhead and indirect costs, and PEG supporting direct costs to the greatest extent possible.

PEG will organize an annual Indonesian-American Economic Forum meeting which will provide an opportunity for the PEG Linkage Grant partners to present their work and for a wider range of government, academic, business, finance and professional representatives to debate important issues associated with the Strategic Objective. Each year a different topic will be selected from key policy issues under review.

PEG will benefit from high-level advice from the Indonesian-American Economic Leadership Council, a distinguished group of Indonesian and American experts who have a long-range vision of economic growth in Indonesia and American interests in such growth. This group will meet annually to provide policy guidelines and technical advice and lend their support to the Partnership for Economic Growth's objectives.

USAID will contract with an outside Managing Organization to administer the program. The Managing Organization will be a professional organization with proven capabilities to facilitate and administer the Indonesian-American economic growth partnerships. It will solicit and evaluate proposals and then submit recommendations to a joint USAID/Government of Indonesia Technical Committee for final approval. Once obtained, the Managing Organization will make the awards, make financial payments, monitor progress, ensure quality, and disseminate results. During the first year of the amended Agreement, before the Managing Organization is put into place, USAID itself will make the first few awards under the PEG mechanism based on the recommendations provided by the Technical Committee.

The Technical Committee will be a small group representing USAID, BAPPENAS, and the Management Organization as required. This group will meet quarterly, or as often as necessary to review and approve proposals and monitor progress. The Technical Committee may invite representatives of other Indonesian Government agencies and various economic sectors to join on an ad hoc basis to review proposals and comment on their merit. In addition there will be a Steering Committee. This committee will meet periodically. The Steering Committee will be comprised of the Technical Committee but will be broadened to include other Government of Indonesia representatives from entities such as the Ministry of Finance, the Ministry of Industry and Trade, and the Coordinating Ministry of Economics and Finance. The Steering Committee will be responsible for oversight of the Technical Committee. Details of the organization and working arrangements for both the Technical and Steering Committees will be the subject of separate implementation letters.

2. Future Technical Assistance and Support Activities

Technical assistance to the Government of Indonesia organized by USAID has a long history distinguished by a strong ethic of mutual collaboration and respect. This approach will be the foundation of all future assistance as well.

Technical assistance to be provided under this Agreement is designed to supply: 1) assistance to the Government of Indonesia in examining alternatives and designing or amending policies to improve the equitable economic expansion of the economy; 2) research to highlight constraints to economic efficiency and suggest avenues of change; and 3) field tests which will determine whether proposed new policies will work.

The technical assistance component will be overseen by the same Technical and Steering Committees responsible for the Partnership for Economic Growth component. The complete scope for any contract or grant for technical assistance will be submitted to the Technical Committee which will make decisions about the allocation of resources under the direction of the inter-ministerial Steering Committee. These services will be arranged by USAID/Indonesia either through direct contract(s) or grant(s) with U.S. firms or policy research entities, or under contract(s) or grant(s) managed by USAID/Washington which offer appropriate services. This technical assistance component will not be used to finance equipment (except that directly required to implement the TA effort - computers and telephones are common examples), infrastructure or long-term training. To the extent possible, each technical assistance activity will be funded in its entirety with available funds, so that contingent liabilities to all parties are kept to a minimum.

The Technical Committee's selection criteria for activities to be supported under the Program shall include:

- a. Relevance of the task or tasks to:
 - Broad GOI objectives articulated in the Development Plan
 - Specific objectives or intended actions of the requesting and responsible ministry(ies), agency(ies), or other entities
 - USAID objectives from this Agreement and work of PEG Linkage Grants hereunder
- b. Completeness of request, including at a minimum the details on:
 - Coordination arrangements among interested agencies or units
 - Implementation plan: how experts will be used, who counterparts (individuals, teams or working groups) will be, logistics support (office, communications, equipment), reporting requirements, etc.
- c. Identified amount and source of GOI funding or funding from other Indonesian sources

We note here that there are a number of ongoing technical assistance activities under the current ARSSP agreement which are contributing to achievement of the objectives noted in this amended Agreement. Details regarding these ongoing activities are contained in implementation documents (PILs, PIO/Ts, grants, and contracts) associated with the ARSPP program. Any follow-on to existing activities under ARSSP or related projects will be provided through either the technical assistance arrangement detailed here or a PEG linkage grant.

D. Monitoring, Evaluation, Audit and Dissemination of Results

As the new Performance Monitoring Plan is implemented, the Managing Organization, once it is in place, will take over from existing contractors the supply and analysis of data required to monitor results. Funds will be made available to the Managing Organization for this purpose. USAID may also provide financing to hire individuals or local firms to supplement the work of the Managing Organization as required.

Annual performance reviews of each intermediate result identified in Section II.B will be conducted jointly by the parties. To the degree possible, reviews will involve a wide gathering of development partners and customers with an interest in the outcome of activities financed under the strategy. Tracking of indicators against targets will take the place of past external impact evaluations. The joint evaluation will be structured to identify successes as well as areas of improvement. Special evaluations may be arranged by joint decision as necessary to assess unexpected developments (either positive or negative) that affect desired results. As necessary the Technical Committee will assess the validity of underlying hypotheses, assumptions and management arrangements within the strategic framework and suggest modifications as required. This performance review will also assess whether the needs of intended customers are being met; and to determine whether conditions for sustainability exist. Periodically during the implementation of activities it may be necessary to assess the environmental impact of planned activities or policies.

As required under subsections (c) and (e) of Section B.5 in Annex 2, annual audits are required if USAID funds of \$300,000 or more per GOI fiscal year are expended and if \$300,000 or more per subrecipient's fiscal year are expended by subrecipient.

With respect to all subrecipients receiving funds directly from USAID under the Agreement, such as direct USAID contractors or direct USAID non-governmental grantees (either U.S. or Indonesian), in lieu of an audit plan provided under subsection (e) of Section B.5 in Annex 2, the USAID agreement with these entities will contain appropriate audit requirements (including audit thresholds) for these funds and funding for such audits from Agreement funds where appropriate.

For Host Country contracts (defined as a contract awarded by the GOI under the terms of this Agreement) or any other subrecipient receiving funds directly from the GOI, the following subrecipient audit plan will be used. Cost-reimbursable host country contracts and subcontracts exceeding \$300,000 must be audited to verify the costs claimed and to finalize provisional

overhead rates. Audits of non-U.S.-based firms will be conducted annually by BPKP, provided such contracts are included in a GOI DIP (development budget), or an independent audit agency acceptable to USAID. Guidelines issued by USAID's Office of the Inspector General are to be followed in selecting auditors and in planning, conducting, and reporting on the results of the audit, in accordance with the Memorandum of Understanding signed by BPKP and USAID on January 17, 1994. Contracts other than those described above will be audited when there is reason to question contractor representations concerning source/origin, use of U.S. flag carriers or other matters, and shall be conducted in accordance with the above procedures. All audits of Host Country (GOI awarded) contracts will be financed by the GOI, as part of their contribution under this Agreement.

The purpose of the Agreement is to enhance policy making in the Indonesian environment through support for collaborative research on policy between U.S. consultants and Indonesian researchers in both the government and the private sector. In support of this objective, the parties agree to support an annual event known as the U.S.-Indonesian Economic Forum. This forum represents a major opportunity for Indonesians and Americans involved in research and development work under the Agreement to present findings and discuss major topics of current economic interest. The results of research and study conducted by those involved in work under the Agreement may also frequently be presented in other papers and seminars. However, some studies, if intended to inform government officials regarding sensitive subjects, or using data not in the public domain, will not be shared with the general public as determined by the Technical Committee. Studies done under the PEG grant component where no issue of confidentiality arises will acknowledge GOI and USAID support and state that the opinions or views expressed in the document are those of the authors and do not necessarily reflect the views of either USAID or the Government of Indonesia.

E. Financing.

The current financial plan for the strategy is provided in Attachment B. Changes may be made to the financial plan by appropriate representatives of the Parties without formal amendment to the Agreement, if such changes do not cause (1) USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement, or (2) the Grantee's contribution to be less than the amount specified in Section 3.2 of the Agreement.

As required under subsection (b) of Section B.5 in Annex 2, the GOI has agreed to maintain books and records under the Agreement, including books and records concerning GOI contributions, in accordance with generally accepted accounting principles prevailing in Indonesia. However, due to the severity of the current economic crisis, Grantee contribution for fiscal years 1999 and 2000 are not formally required to support activities under this Agreement by USAID. The Government of Indonesia agrees however to use its best efforts to continue supplying these in-kind services which are judged vital to the continuation of the assistance effort under this Agreement: office space, utilities, and salary of Indonesian counterparts, and report thereon to USAID.

It is anticipated that USAID under the ARSSP-related portion of the Agreement, will supply: \$12.5 million for PEG Linkage Grants; \$15.2 million in new financing for technical assistance; and \$0.3 million for audit and evaluation in the period FY97 through FY01, in addition to \$94.011 million provided in previous years under the ARSSP program. Total anticipated USAID financing over the lifetime of this agreement for the ARSSP-related portion of the Agreement is thus \$122.011 million. This Agreement also covers \$7,000,000 in USAID financing provided by the regional project Accelerating Economic Recovery in Asia (AERA) which will assist in meeting the strategic objective and results specified in this Agreement. Other activities that contribute to the strategic objective have been fully funded by USAID and the Government of Indonesia, or will be financed through other USAID/Washington budgets.

The Government of Indonesia will contribute \$0.450 million as its share of the Partnership Linkage Grants, \$0.03 million for audit/evaluation, and 0.6 million in additional support for technical assistance; in addition to financing already supplied by the GOI totaling \$33.007 million related to budget support and \$1.780 million for technical assistance. Government of Indonesia contributions are thus expected to total \$35,867 million. Private partners are expected to demonstrate their commitment by covering their overhead/indirect costs to all Linkage Grants, which is estimated at \$1.8 million. Total financing from all sources is thus expected to total \$159.678 million

Details on the arrangements required to finance PEG linkage grants with USAID, Government of Indonesia, and private funding will be the subject of separate implementation letters.

F. Roles and Responsibilities of the Parties

Partners

Partners under this Agreement are a wide range of Indonesian public and private institutions that have participated or will participate with USAID on economic growth programs. These include: Bappenas (the national development planning agency); the Coordinating Ministry of Economics and Finance; the Ministry of Finance; the Central Bank; the Ministry of Industry and Trade; the Ministry of Agriculture; the public university system; private and public banks; and a wide range of private policy analysis and research centers. Under this Agreement there will be a broadened focus on Indonesian and American private sector partners whose interest and support for each others' programs and ideas is expected to outlast the infusion of assistance supplied by USAID. Other partners include contractors/grantees such as the entity supporting the PEG Management Organization and the various entities carrying out technical assistance activities.

Customers

USAID/Indonesia has found strong interest in maintaining a mutual dialogue on key

elements of economic policy reform. The intermediate consumers of the reform product will be the entities cited above as partners, along with business organizations and economic advocacy groups. The ultimate customer for such reform efforts are Indonesian and American employees who benefit from job creation and the more widespread availability of competitively priced goods and services.

Other stakeholders include international bodies that promote trade and competition such as the World Trade Organization (WTO), the Association of South East Asian Nations (ASEAN), and the Association for Pacific Economic Cooperation (APEC). Further, the international donor community, particularly multilaterals such as the World Bank and Asian Development Bank are an important source of stakeholder support. These organizations sponsor particular reform efforts in cooperation with USAID and the GOI when there is strong mutual interest.

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