



ATTACHMENT 12

PRESIDENTIAL DECREE OF THE REPUBLIC OF INDONESIA

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CONCERNING

**MASTER PLAN FOR THE REHABILITATION AND RECONSTRUCTION
FOR THE REGION AND PEOPLE OF THE PROVINCES OF NANGGROE
ACEH DARUSSALAM AND NIAS ISLANDS, NORTH SUMATRA**

DETAIL BOOK

FUNDING SECTOR

REPUBLIC OF INDONESIA

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CHAPTER I

FOREWORD

The total number of people who died and are missing due to the earthquake and tsunami disaster that occurred in the Provinces of NAD and Nias Islands, North Sumatra at the end of 2004 reached hundreds of thousands of people. Added to that, the damage caused to both public and community owned assets, facilities and infrastructure was so significant that such disaster was categorized as an extraordinary national disaster. Based on the results of damage assessment, both by the Indonesian Government as well as by foreign parties (the World Bank), the estimation of losses and damage (loss and damage assessment) reached no less than Rp.40.0 (forty) trillion. This total is almost equivalent to five times the Regional budget of the NAD province and all 22 (twenty two) *kabupaten/kota* hit by the disaster in 2005.

The hundreds of thousands of people who died and are missing will never be replaced, however efforts to realize a better community and environment must become our main agenda. The reconstruction of the provinces of NAD and Nias Islands, North Sumatra must also constitute a reconciliation of previous disputes to realize a community that is more prosperous, safe and free from any fear.

After the emergency response phase, the rehabilitation and reconstruction phase follows, emphasizing on identification, planning, implementation and evaluation through more precise calculations and considerations. Several aspects that require our attention in the rehabilitation and reconstruction phase will be aspects on psychology, culture and social religious affairs. Furthermore, more in-depth studies are required for physical needs, economy, education and health services, facilities and infrastructure as well as a proper living environment.

During the rehabilitation and reconstruction phase, funding needs are likely to be much greater compared to those during the emergency response phase. In the rehabilitation and reconstruction, the largest amount of funds will be used for the construction of facilities and infrastructure, development of the social sector, development of the productive sectors (economy) as well as other sectors.

As we know, in consideration of the significant casualties claimed by the earthquake and tsunami disaster, the reconstruction of new facilities and infrastructure should definitely take into account present conditions, namely the number of the existing population, the preference of the population, the quality of services (education, health, basic services and other social services) to be established, as well as the aspects of prevention and mitigation of similar disasters in the future. Hence, the estimation of funding required for reconstruction will probably differ from the estimated funding needs for damage and losses.

CHAPTER II FUNDING NEEDS

The funding needs assessment for Rehabilitation and Reconstruction for the Region and People of the Provinces of Nanggroe Aceh Darussalam and Nias Islands, South Sumatra, are collected in two ways. First the estimated funding needs from data gathered by the concerned Departments/Institutions are collected by involving the related agencies in the regions affected by the disaster. Second, the estimated funding needs for the reconstruction from Bappenas are based on the new spatial layout planning, the quality of new services to be created as well as new facilities and infrastructure to support them.

By comparing the above mentioned 2 (two) calculation approaches, it is expected that there will be a cross checking in the setting of priorities with respect to activities, determination of the sequence of activities and the integration of activities among sectors; eventually the types of activities with the corresponding funding needed for each budget year for the next 5 (five) years (from year 2005 up to and including year 2009) can be determined.

Additionally, based on the data on estimated funding needs, evaluations are conduction based on the following principles:

- 1) The government is only to reconstruct infrastructure and public service facilities (public goods) such as: roads, bridges, ports, schools, state hospitals, community health centers, clean water, electricity and others;
- 2) The reconstruction of damaged public goods facilities and infrastructure is only to be conducted in areas affected by the disaster;
- 3) Compensation for private property is to be determined specifically and the contribution from the government will not be too substantial, for example compensation for totally destroyed homes amounts to Rp.28 million/family and for homes that require rehabilitation compensation shall amount to Rp.10 million/family;
- 4) Compensation for earning assets such as house-cum-shop, workshops and others: Rp.2 million for individuals, or Rp.15 million per group which will be on a rolling basis; assistance in the form of facilitated access to the banking system;
- 5) The funding procedure and mechanism must prioritize the aspects of transparency, efficiency, high effectiveness and accountability.

Based on the need assessment conducted by Bappenas, prior to the earthquake befalling Nias Islands and Simeulue Island on March 28, 2005, funds of Rp.41.7 trillion will be required to finance rehabilitation and reconstruction.

With regard to the earthquake disaster that occurred on March 28, 2005 befalling *Kabupaten* Nias, *Kabupaten* Nias Selatan and *Kabupaten* Simeulue, an adjustment has been made to the amount of funding needs and thus it is estimated that additional funds of Rp.3,171.6 billion will be required. In addition, there is also a need for additional funds for Cross-Sector requirements, namely the Order and Security Restoration component amounting to Rp.2,194.9 billion as well as funding needs for the Aceh and Nias Communities Productive Facilities Recovery component in the amount of Rp.1,638.0 billion that was not previously accommodated in the main book and the detail book.

Therefore, the amount of funds needed for the Rehabilitation and Reconstruction for the Region and People of the Provinces of Nanggroe Aceh Darussalam and Nias Islands, North Sumatra following the adjustments made as a result of the earthquake on March 28, 2005 totals Rp.48,767.8 billion. Details by sector and its components can be seen in Table 1.

Based on the proposal of the Ministry/Institution, funding needs for rehabilitation and reconstruction total Rp.58.3 trillion, with the following specifications: namely Rp.5.1 trillion for year 2005, Rp.14.7 trillion for year 2006 and Rp.30.7 trillion for the subsequent three years (see Table 2).

Table 1.
(in billions of Rupiah)

Sector	Damage and Loss Assessment *			Estimated Funding Need
	Private	Public	Total	
Social Sector	300.0	2 508.0	2 808.0	14,564.0
Education	84.0	1 110.0	1 194.0	8,295.7
Health	216.0	622.0	838.0	2,095.1
Religious & Cultural Affairs		776.0	776.0	4,173.1
Infrastructure and Housing	16 129.0	5 216.0	21 345.0	26,593.6
Housing	13 098.0	94.0	13 192.0	5,384.9
Transportation	1 542.0	3 442.0	4 984.0	10,848.8
Telecommunications	80.0	123.0	203.0	386.6
Energy	10.0	622.0	632.0	4,386.9
Drinking Water and Sanitation	170.0	106.0	276.0	3,270.0
Water Resources Infrastructure	1 229.0	829.0	2 058.0	1,913.8
Other Infrastructure			-	402.6
Production Sector	10 207.0	418.0	10 625.0	1 499.2
Agriculture and Food	1 490.0	230.0	1 720.0	492.1
Fishery	4 729.0	23.0	4 752.0	870.9
Industry and Trade	3 988.0	165.0	4 153.0	41.1
Manpower				17.0
SME and Cooperatives				73.3
Tourism				4.8
Cross Sector	130.0	6 309.0	6 439.0	6,111.0
Environment		5 105.0	5 105.0	1 315.0
Administration/Government		829.0	829.0	680.0
Law		375.0	375.0	283.0

Security Order				2,195.0
Production Facility				1,638.0
Assistance				
Banking	130.0		130.0	
TOTAL	26 766.0	14 451.0	41 217.0	48,,767.8

* Source: World Bank

Table 2
Recapitulation of Proposed Funds for
the Rehabilitation and Reconstruction Submitted by
Ministries/Institutions Concerned
(in trillion Rupiah)

Proposal	2005	2006	2007-2009	Total
Emergency Response	5.1	-	-	5.1
Rehabilitation/ Reconstruction	7.8	14.7	30.7	53.2
Total	12.9	14.7	30.7	58.3

The estimated losses and damage assessment are comprehensively calculated, including public facilities and infrastructure as well as private property. The total funding needs exclude the needs proposed by the regional governments and the communities concerned, which should also be taken into consideration.

A re-assessment will have to be conducted on funding needs for reconstruction proposed by departments/ institutions during the rehabilitation and reconstruction phase for the next five years, among others by taking the following into consideration:

- (1) there is still overlapping among departments/ institutions;
- (2) capability of absorption;
- (3) scale of priorities; and
- (4) based on availability of funds.

CHAPTER III SOURCES OF FUNDING

Considering the sustainable funding needs for the rehabilitation and reconstruction compared to the state's limited financial capacity, the policy is to efficiently utilize all potential funding sources available, which in general consists of funds from the State Budget, Regional Budgets, grants and funds from the community.

Funds from the State Budget (APBN)

As a form of the government's responsibility in handling this national disaster, the government needs to allocate funds specifically to be used for the Rehabilitation and Reconstruction of the Region and People of the Provinces of Nanggroe Aceh Darussalam and Nias Islands, North Sumatra. The potential funding sources available in the State Budget consist of the following:

- a) pure Rupiah funds;
- b) foreign grants both bilateral as well as multilateral in nature;
- c) reallocation or reprogramming of offshore loan funds already in progress for the NAD and Nias, North Sumatra Provinces;
- d) new offshore loans (if necessary); and
- e) deferred payment of interest and principal loans as a result of the moratorium from the Paris Club.

Pure Rupiah funds, in the 2005 Stated Budget, pure Rupiah funds that can be used to support the rehabilitation and reconstruction among others originate from general reserve funds amounting to Rp.2 trillion and funds from the proceeds of moratorium (Paris Club) amounting to Rp.3.9 trillion. Additionally there are also funds from Departments/Institutions within the provinces of NAD and Nias, North Sumatra, in the form of deconcentration funds, assistance duties as well as central institution funds the authorization of which is centralized, such as the religious sector, the judicial sector and the financial sector, which could not be used to finance activities as planned prior to the occurrence of the disaster. For the needs of the fiscal year 2006 and the subsequent years, funds needed for the rehabilitation and reconstruction will be directly included in the mechanism of the State Budget.

Moratorium, represents another source of financing for the rehabilitation and reconstruction for the fiscal year of 2005. The Paris Club in its meeting on March 9, 2005 resolved to provide a debt moratorium to countries hit by the tsunami disaster until December 31, 2005. Indonesia acquired a moratorium amounting to Rp.3.9 trillion. The payment of debts which mature this year, is to be postponed for 5 years with a grace period of 1 year. With such moratorium, the Indonesian Government in the fiscal year of 2005 hence possesses the capacity to supply funds for the rehabilitation and reconstruction. Nevertheless such moratorium is a postponement of liability and therefore the government should consider the burden to the budget when such postponement matures.

The Indonesian government has stated its agreement to accept such moratorium offer. Upon the acceptance of such moratorium, the Indonesian will thereby lose a portion of grants from several donor countries as a trade off against the moratorium facility; among others the Indonesian government will lose grants from the USA amounting to Rp.270 billion

Foreign Grants, consist of grants originating from donor countries and agencies joined in the Consultative Group on Indonesia (CGI) that have conveyed their intention and pledge to provide aid of approximately Rp.15.7 trillion consisting of the following:

1. Bilateral Donor US\$1,365.0 million;
2. Multilateral Donor US\$1,286.3 million, US\$637.3 million in loans and US\$649.0 million in grants

In detail, the intentions of such bilateral and multilateral donors are presented in the following Table-3 and Table-4.

Table-3

ESTIMATED ASSISTANCE FOR TSUNAMI NATURAL DISASTER BILATERAL SOURCES	
1. United States of America	
1. Total Commitment	US\$489.15 million
2. Purpose	1) Housing and environment for the people 2) Roads, bridges and water system 3) early warning system and planning for overcoming disasters for all levels of the government
3. Nature	Grant
4. Status	
2. Australia	
1. Total commitment	US\$418.00 million
2. Purpose	1) Construction of infrastructure of Zainoel Abidin Hospital 2) Preparation of medical staff 3) Procurement of equipment for education and training of teachers 4) Development of regional government services 5) Strengthening of Bakornas institution
3. Nature	Grant
4. Status	Signed
3. Austria	
1. Total commitment	US\$10.0 million
2. Purpose	Reconstruction
3. Nature	Loan
4. Status	
4. China	
1. Total commitment	US\$24.75 million

ESTIMATED ASSISTANCE FOR TSUNAMI NATURAL DISASTER BILATERAL SOURCES	
2. Purpose	1) Construction of housing for refugees 2) Development of early warning system 3) Rehabilitation of roads
3. Nature	Grant
4. Status	
5. Denmark	
1. Total commitment	US\$18.00 million
2. Purpose	Clean water and sanitation
3. Nature	Grant
4. Status	

**ESTIMATED ASSISTANCE TSUNAMI NATURAL DISASTER
BILATERAL SOURCES**

Cont'd

6	Japan		
	1. Total commitment	:	US\$ 147.49 million
	2. Purpose	:	1) Rehabilitation of roads from Banda Aceh to Meulaboh
			2) Rehabilitation of clean water and sanitation network
			3) Upgrading flood-absorption flow
			4) Rehabilitation of market, fishery facilities, community health centers (<i>puskesmas</i>) and orphanages (<i>panti asuhan</i>)
			5) Aid for universities, vocation education/school, <i>Madrasah</i> and <i>pesantren</i>
	3. Nature	:	Grant
	4. Status	:	Submitting details of activities
7	Germany		
	1. Total commitment	:	US\$ 7.86 million
	2. Purpose	:	Education, health, clean water, housing and transportation
	3. Nature	:	Grant
	4. Status	:	Signing of cooperation draft
8	Canada		
	1. Total Commitment	:	US\$ 170.00 million
	2. Purpose	:	Rehabilitation and reconstruction
	3. Nature	:	Grant: US\$ 100.00 million
			Loan: US\$ 70.00 million
	4. Status	:	
9	South Korea		

	1. Total Commitment	:	US\$ 13.70 million
	2. Purpose	:	1) Rehabilitation of school and Job Training Hall
			2) Reconstruction of hospital and procurement of hospital equipment
	3. Nature	:	Grant
	4. Status	:	
10	Norway		
	1. Total Commitment	:	US\$ 2.19 million
	2. Purpose	:	Mapping of West Coast of NAD and North Sumatra
	3. Nature	:	Grant
	4. Status	:	

Table 4

ESTIMATED ASSISTANCE TSUNAMI NATURAL DISASTER MULTILATERAL SOURCES			
1	World Bank		
	1. Total Commitment	:	US\$ 301.00 million
	2. Purpose	:	To be determined
	3. Nature	:	Loan
	4. Status	:	In discussion
2	Asian Development Bank		
	1. Total Commitment	:	US\$ 401.30 million
	2. Purchase	:	1) As much as USD 64.6 million from reprogramming of previous loans. The purpose shall be according to the previous projects
			2) The grant component to support activities of agriculture, fishery, small and micro businesses, health, skills development education, clean water for villages, housing, irrigation, rehabilitation and reconstruction of roads and bridges, rehabilitation of power plants, planning management and life

			environment, and strengthening of monitoring
	3. Nature	:	Grant: US\$ 275.00 million
			Loan: US\$ 126.30 million
	4. Status	:	Draft Grant Agreement is in negotiation
3	United Nations		
	1. Total Commitment	:	US\$ 371.00 million
	2. Purpose	:	To be determined
	3. Nature	:	Grant
	4. Status	:	-
4	Islamic Development Bank		
	1. Total Commitment	:	US\$ 213.00 million
	2. Purpose	:	To be determined
	3. Nature	:	Grant: US\$ 3.00 million
			Loan: US\$ 210.00 million
	4. Status	:	Memorandum of Understanding has been executed

Such grant funds shall be channeled into the State Budget on-budget amounting to Rp.9.1 trillion, and the remaining Rp.6.6 trillion shall be channeled off-budget. To date the realization of the grants from the Asian Development Bank amounts to US\$300 million.

Total grants will increase after the donor countries and the international institutions obtain the end-results from the need assessment conducted by the World Bank team. On the other hand, the grant providers also await the completion of the Master Plan on the Rehabilitation and Reconstruction of the Region and People of Provinces Nanggroe Aceh Darussalam Province and Nias Island of North Sumatra.

The grants derived from the private parties/government are sourced from companies, Non Government Organizations (NGO), individuals, and other sources. The estimated grant funds collected from private parties/community are predicted to reach a value of Rp.13.5 trillion. Collections of funds for supporting the tsunami victims are also conducted in various countries.

In principle, the funds collected from the private parties could have been greater if the efforts of collecting the funds were conducted through the Private Sector Summit on Post Tsunami Reconstruction Program in May 2005. Therefore, the government should

facilitate the participation of private parties and the community in the rehabilitation and reconstruction program so as to establish and ensure the accountability, effectiveness, transparency in the distribution and utilization thereof.

Reallocation of offshore funds

The reallocation of offshore loans from the Islamic Development Bank, the World Bank and the Asian Development Bank (ADB) for ongoing projects constitutes a source of funding for the implementation of the rehabilitation and reconstruction. The reallocation shall be conducted without causing detriment to the development of other areas/provinces. The reallocated funds shall be funds that have not been allocated for certain activities (unallocated), and the remaining funds of the unused loans. The lending funds available for reallocation as of 15 March 2005 amounts to Rp.2.49 trillion.

New Offshore Loans.

With such enormous requirement of funds for the financing of the rehabilitation and reconstruction activities, and the limited available domestic funds and grants, then offshore loans, in particular those considered as very soft-loans, will become one of the main sources for the financing of the rehabilitation and reconstruction. Several soft loans which have been agreed upon, among others are from the Australian Government amounting to A\$500 million, under a repayment period of 40 years, a grace period of 10 years, and 0% interest rate.

Table-5
Aids/Grants managed by International NGO

Name of Institutions	Amount of Aids	
	Region (Million USD)	Indonesia (Million USD)
1. Care International	577.5	346.5
2. Oxfam International	200.0	120.0
3. World Vision Int'l.	250.0	150.0
4. Mercy Corps.	35.5	21.3
5. Direct Relief	2.2	1.3
6. Christian Children Fund	9.7	5.8
7. Medicine Sans Frontiers	54.9	32.9
8. Plan International	20.0	12.0
9. Save the Children	200.0	120.0

10. Catholic Relief Services	80.0	48.0
11. Habitat Humanity	20.0	12.0

Non APBN Source, from the various sources of financing, there exist sources of financing from the community, donor institutions and business world that intend to assist in the financing of the rehabilitation and reconstruction of Aceh and Nias territories by directly implementing certain activities without having to go through the APBN (Off Budget).

Although the financing of the rehabilitation and reconstruction is by applying the on-budget principle, however, direct contributions from the community, the donor institutions and the business world need to be facilitated and administered. For this purpose, the administration procedures applied by the UNDP in the Partnership Program can be applied as a model.

As a description of the great interest and attention of the international institutions (NGOs) in aiding the implementation of the emergency handling activities or the rehabilitation of Aceh and Nias, this can be seen in Table-5 abovementioned.

CHAPTER 4

FUNDING MANAGEMENT MECHANISM

In principle, the mechanism and procedures of financing in the context of the Rehabilitation and Reconstruction for the Region and People of Provinces Nanggroe Aceh Darussalam and Nias Island, North Sumatra follow the mechanism and standard funding procedures as set forth in Law Number 17 of 2003 concerning State Finance and Law Number 1 of 2004 on State Treasury and their relevant implementing regulations.

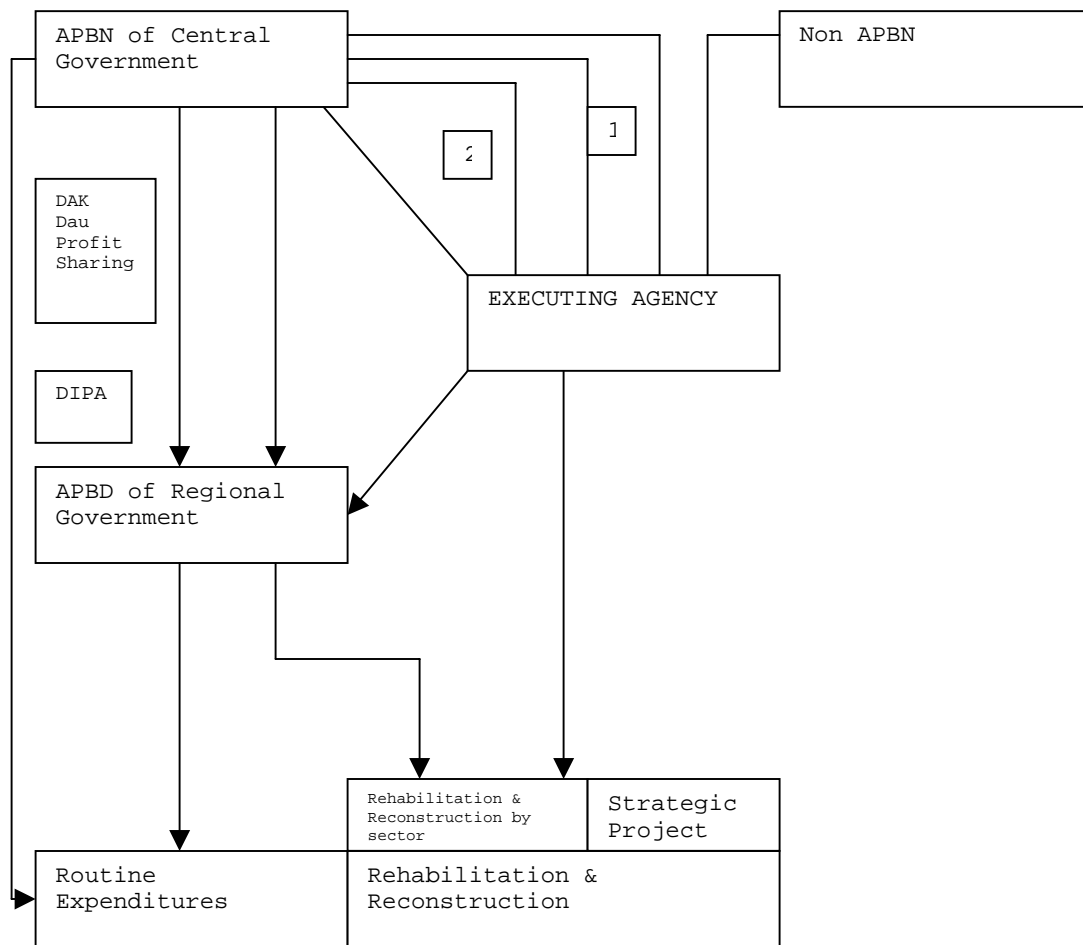
The funding that will utilize the State Budget, both pure Rupiah as well as loans shall be conducted in accordance with the existing rules. However, to speed up the achievement of results of the rehabilitation and reconstruction activities, accelerated measures may be taken, among others: the acceleration of the finalization of budgetary document administration, acceleration of payment through the Special State Treasury Services Office (KPKN). Such KPKN will also implement the foreign exchange payment function.

The Agency on the Rehabilitation and Reconstruction for the Region and People of Provinces Nanggroe Aceh Darussalam and Nias Island, North Sumatra, is established to coordinate implementation of the rehabilitation and reconstruction activities with the role of a Work Unit (Satker), and is a budget user that has its own budgetary documents (DIPA). Hence, the implementation of the rehabilitation and reconstruction activities will be performed by the Agency, including the signing of contracts with third parties or the procurement of goods and services. The implementing agency is authorized to carry out projects in various main and flagship sectors as well as all cross-sector projects.

In the meantime, the development activities which are sourced from the General Allocation Funds, Special Allocation Funds and Profit Sharing available in the State Budget shall be directly implemented by the regional government, by the NAD Province and each of the respective Sub-district/City authorities in NAD and Nias, North Sumatra. The planning and utilization of such funds shall remain to be implemented by each respective regional government. However, for certain activities identical to those conducted by the Agency, coordinative steps are required between the Agency and the Regional Governments.

The mechanism of the distribution of the rehabilitation and reconstruction funds derived from pure Rupiah and offshore loans are presented in the form of the flowchart in Picture-1 below:

Picture-1
Funding Flowchart on Rehabilitation and Reconstruction



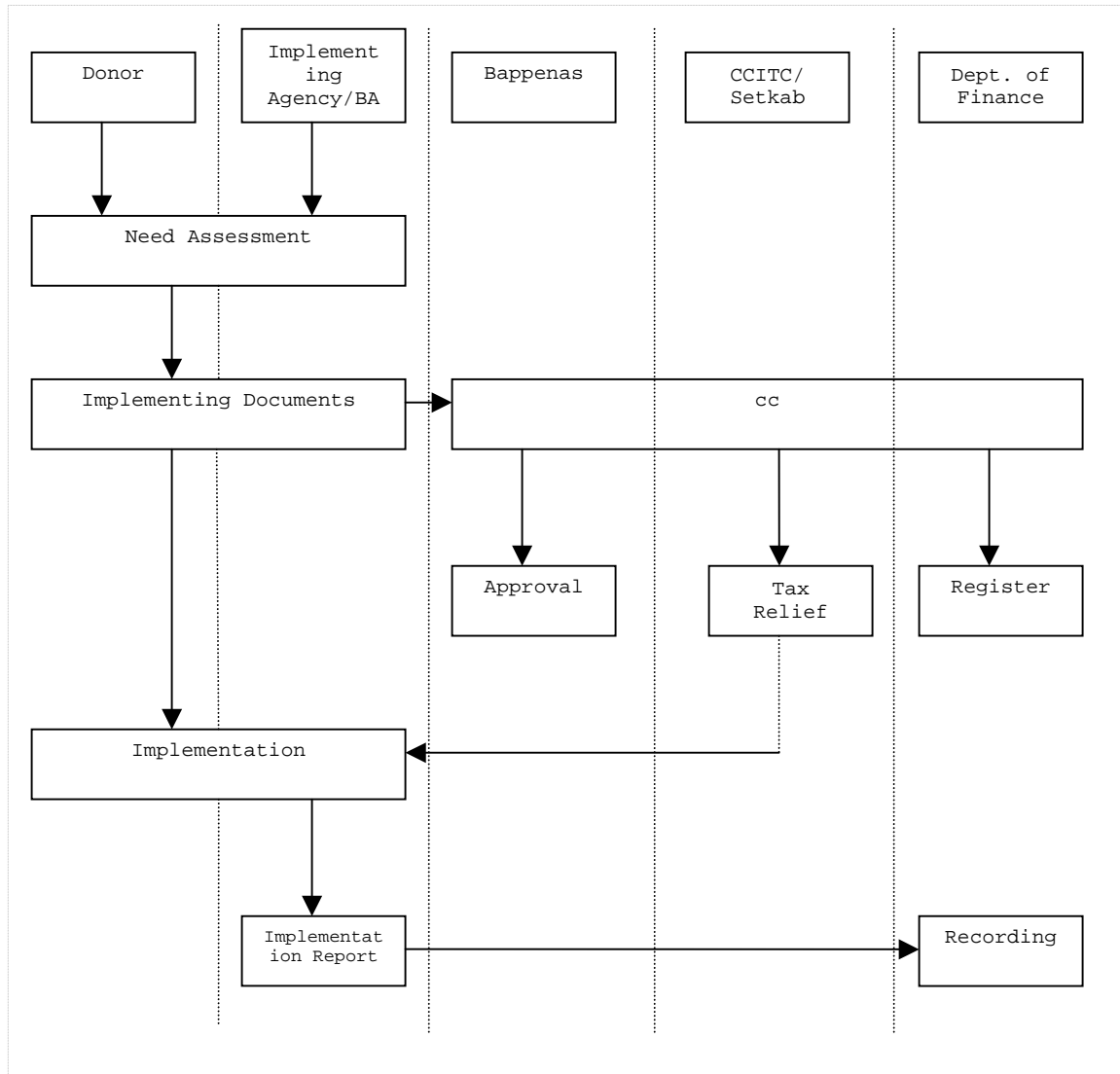
For the distribution of grant funds, in the context of funding the activities of rehabilitation and reconstruction, the Indonesian Government has agreements with various donors/lenders in order to shorten the procedures and accelerate the process, thereby grant funds can be immediately utilized. After obtaining the estimation on financing needs, based on the Master Plan prepared by the POKJA under the coordination of Bappenas, the donors shall prepare a document of understanding, such as: Grant Agreement or Memorandum of Understanding, Exchange of Notes and the like.

Based on such agreement documentation, project activities can be immediately conducted. The implementation of activities that are financed by such grants may be implemented directly by the donor providers or managed by the Indonesian Government (in this matter the Implementing Agency). However, the agreement documentation which shall be the basis for the implementation of such activities should be registered with the Department of Finance, and copies forwarded to Bappenas and the Cabinet Secretary. This is for the purpose of maintaining the order of

administration and alignment of the implementation of the activities as a whole to prevent any overlapping of activities.

Each of the Institutions shall issue an approval for cooperation with the donor according to its authorities and in line with the implementation in the field thereof. Specifically for the procurement of imported goods, tax exemption should be obtained from the Ministry of Finance based on the recommendation from the State Secretariat.

Picture-2
Flowchart of Mechanism for Foreign Grants



The flowchart of project/program preparation, approval and implementation shall be as follows:

- (i) the proposal on the project/program is to be prepared by the Indonesian Government;
- (ii) the Steering Committee is to evaluate the proposal on the project/program and grant approval;
- (iii) the Trustee is to conduct an appraisal.

The grant agreement is to concluded between the Trustee and the Indonesian Government

The accommodation of grants from private parties/ community must be in accordance with the letter of the Minister of Finance No.S-24/MK.06/2005, dated 18 January 2005. In this matter, the Minister of Finance has opened 4 (four) accounts in Bank Indonesia to accommodate the offshore grants and funds from the domestic community in the Rupiah currency (Account Number 510.000.272, United States Dollars (Account Number 602.074.411), Japanese Yen (Account Number 602.075.111) and Euro (Account Number 602.076.991). Domestic and foreign private donors intend to provide grants in the form of cash, can make direct deposits into the above mentioned accounts.

However, if they do not want to deposit their funds, then the private sector/community can carry out the work themselves, provided that the activities/projects to be conducted should first be consulted with and approved by the Agency to ascertain that these activities are in accordance with the Master Plan for the Rehabilitation and Reconstruction for the Region and People of Provinces Nanggroe Aceh Darussalam and Nias Island, North Sumatra,

MDTF

The Multi Donor Trust Fund (MDTF) is a mechanism where several donor countries gather and cooperate to perform activities falling under the same category. Such activities shall be performed in a country or globally in many countries. For example, the trust fund which was used in the country as an aid for the General Elections in Indonesia. The basis of the mindset for the establishment of the trust fund is for the aid provided to be implemented in a more efficient manner. Another matter that serves as the basis of aid in a country shall be the assessment that such country is unable to perform an activity bilaterally.

The mechanism of a trust fund shall be kicked off by appointing an institution as the Trust Fund Manager (TFM). For global activities the appointment of TFM by the summit of the involved countries is usually through a UN agency or a regional organization. Whereas for a trust fund in a certain country, the TFM shall be determined by the concerned country. This appointment is usually determined in a Forum agreement or an MOU.

Along with the donor recipient countries, the TFM will formulate the requirements in detail. Based on this planning, the TFM shall contact the donor countries to ask for and receive their contributions. The TFM along with the donors shall further conclude the agreement on the aid to be provided and the activities that shall be assisted thereof. The TFM shall convey the total commitment it has received to the recipient Country together with the activities to be performed and the details of funds promised by the donor countries.

The TFM shall provide Technical Assistance therefore the assistance provided shall be in the form of goods and services. Hence, the procurement of goods and services shall be conducted in accordance with the rules of the TFM. To comply with the principles of the State Budget the appointed Implementing Agency shall then be obliged to report the amount of funds distributed for each activity to the Ministry of Finance which shall further be recorded as state revenue.

Considering the circumstances, therefore aid for the Rehabilitation and Reconstruction for the Region and People of Provinces Nanggroe Aceh Darussalam and Nias Island, North Sumatra, may use this mechanism. However, considering the legitimacy of the Government that is relatively strong the MDTF somehow becomes less appropriate. However, the assistance through this mechanism is still pursuable considering that several countries interested in helping Indonesia to conduct the rehabilitation and reconstruction chose this mechanism. For example as conducted by IDB which *de-facto* has become the trust fund manager for the assistance from the Islamic Conference Organization (OKI) countries for the development of integrated school facilities (boarding schools) in 5 locations in Aceh. In the meantime, the proposals of the World Bank and ADB to become the trust fund manager have not yet been followed up.

CHAPTER 5

PROCUREMENT OF GOODS/SERVICES

In principle, the mechanism and procedure for the procurement of goods/services in the implementation of the rehabilitation and reconstruction activities, should comply with Presidential Decree Number 80 of 2003, concerning the Guidelines for the Procurement of Goods and Services for Government Agencies. Several amendments need to be made to the Presidential Decree No.80 of 2003, specifically with respect to the implementation of activities in the provinces of NAD and Nias, North Sumatra, in order to provide freedom for the budget users and their proxies to accelerate the implementation of their activities and to provide several facilities and flexibilities, with due observance to the principles of efficiency, transparency, fair competition, and accountability.

Several amendments and adjustments required include the granting of more expansive authorities to make adjustments to the activity contract packages in line with the condition in the field. Besides, broader authorization is also provided for matters with set limitations. Amendments to provisions are also made to enhance monitoring and supervisory roles in order to reduce the potential risk of deviation in the performance of the activities.

In principle, the procurement of goods/services for each activity package should be conducted by the budget user in the institution holding the budgetary documents. The determination of institutions as budget users (holders of budgetary documents) is to be immediately determined according to the authorities set by the applicable laws and regulations.

The implementation of procurement in line with the authorities shall provide an open opportunity for the goods/services providers to participate in the competition for implementation of the works. The involvement of local goods/services providers is to be considered to create comparative superiority, among others, field recognition, the engagement of local manpower and resources, and other local cultures. Nonetheless, if it is considered that the procurement of goods/services would be impossible to be conducted in the areas affected by the disaster, then the Minister/Heads of the Institution or the Head of the Implementing Agency as Budget Users can determine other locations of the procurement of goods/services.

In addition to the simplification of several procedures, and the cutting down of time, uniformed goods/services procurement documents for various funding sources, both international or domestic sources, are currently in progress. In the preparation such uniformed documents, coordination has been made with several lenders/donors, among others: the World Bank, the Asian Development Bank and JBIC.

Based on the above consideration, particularly for the procurement of goods/services in the provinces of NAD and Nias, North Sumatra, in the context of implementing the rehabilitation and reconstruction activities, it is proposed that a new

Presidential Regulation concerning the Guidelines for the Procurement of Goods/Services For the Post earthquake and Tsunami Relief in the provinces of NAD and Nias, North Sumatra. However, it needs to be noted that the aforementioned new regulation outside Presidential Decree Number 80 of 2003 is only applicable in the regions of NAD and Nias, North Sumatra inflicted by the disaster and such regulation shall only be effective for a period of 5 (five) years.

CHAPTER 6

MONITORING OF IMPLEMENTATION AND REPORTING

The monitoring of the overall process of implementation of the rehabilitation and reconstruction constitutes a management tool towards the perfection of subsequent policies. Particularly in the field of financing, development of the mechanism of monitoring and reporting of the use of the rehabilitation and reconstruction funds shall become the priority where all mobilized funds from offshore as well as domestic, may be used in a timely and accurate manner. Additionally, the implementation of such rehabilitation and reconstruction should be benefited by all elements of implementing parties of the rehabilitation and reconstruction to show the international community the improvement of activity performance management in Indonesia.

Considering the vast involvement of the Indonesian and the international community in the provision of aid and attention towards the handling of the impact of the earthquake and tsunami disaster that occurred in the territories of NAD and Nias, North Sumatra, therefore the monitoring and reporting systems to be developed must be able to provide transparent and accountable information to the various stakeholders involved in the execution of the rehabilitation and reconstruction. The provision of transparent and accountable information shall provide direct benefits to the government, the vast community or the people of NAD and Nias inflicted by the disaster. For the government, the information from this monitoring and reporting, shall provide a feedback for continued evaluations on the performance of the various institutions involved and improvement of policies in the maximum utilization of the funds. Adequate information on the implementation could also increase the trust of the world in Indonesia in general. And most importantly, the provision of good information shall provide direct benefits to the people of NAD and Nias, North Sumatra, where the communities are affected by the disasters, where they can feel that the all efforts of rehabilitation and reconstruction are solely for the improvement of their welfare.

With due observance to the above matters, therefore in the context of implementing the rehabilitation and reconstruction, the implementing agency shall develop monitoring and reporting systems on the distribution of rehabilitation and reconstruction funds which shall involve the elements of government, regional governments, the local communities, and the donor institutions. These monitoring and reporting systems should be able to provide information on the rehabilitation and reconstruction activities, particularly on the utilization of the funds, for the requirements of the government, the people as well as the donor institutions.

PRESIDENT OF THE REPUBLIC OF INDONESIA

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