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GOVERNANCE AND CAPACITY BUILDING IN POST-CRISIS ACEH



A Report by Australian National University Enterprise

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Authored on behalf of ANU Enterprise by:

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ABBREVIATIONS

ADB	Asian Development Bank
ADTF	Aceh Development Trust Fund
AGTP	Aceh Government Transformation Programme
AHDR	Aceh Human Development Report
ALGAP	Aceh Local Governance Programme
AMAP	Asset Mapping Assistance Project
AusAID	Australian Agency for International Development
BAPPEDA	Badan Perencanaan Pembangunan Daerah (Regional Development Planning Agency)
BNP	Badan Pertanahan Nasional (National Land Agency)
BPS	Badan Pusat Statistik, or Central Statistics Office
BKPP	Badan Kepegawaian, Pendidikan dan Pelatihan (Human Resources, Education and Training Agency)
BKRA	Badan Kesenambungan Rekonstruksi Aceh (Agency for the Continuing Reconstruction of Aceh)
BPPPA	Badan Perberdayaan Perempuan dan Perlindungan Anak (Agency for Womens' Empowerment and the Protection of Children)
BRR	Badan Rehabilitasi dan Rekonstruksi (Aceh-Nias), or Aceh-Nias Rehabilitation and Reconstruction Agency
CDNA	Capacity Development Needs Assessment
CDP	Capacity Development Plan
CFW	Cash for work
CIDA	Canadian International Development Agency
CSO	Community Service Organisation
DAK	Dana Alokasi Khusus or Special allocation funds
DAU	Dana Alokasi Umum, or General allocation funds
DPD	Dewan Perwakilan Daerah (Regional Representative Assembly)
DPR	Dewan Perwakilan Rakyat (Peoples Representative Assembly)

DPKKA	Dinas Pengelolaan Keuangan dan Kekayaan Aceh (Aceh Office of Financial and Treasury Management)
DPRA	Dewan Perwakilan Rakyat Aceh (Aceh Provincial Legislative Assembly)
DPRK	Dewan Perwakilan Rakyat Kabupaten (District Legislative Assembly)
DRSP	Democratic Reform Support Program
ERTR	Emergency Response and Transitional Recovery
GAM	Gerakan Aceh Merdeka (Free Aceh Movement)
GOA	Government of Aceh
GRDP	Gross regional domestic product
GTZ	Gesellschaft Fuer Technische Zusammenarbeit (German Assistance Agency)
HR	Human resources
HRD	Human resource development
HRM	Human resource management
IDLO	International Development Law Organization
IREP	Infrastructure Reconstruction Enabling Program
JKA	Jaminan Kesehatan Aceh (Aceh Health Guarantee scheme)
KEPRES	Keputusan Presiden (Presidential Decision)
KPI	Key performance indicator
LGSP	Local Government Support Program
LIPI	Lembaga Ilmu Pengetahuan Indonesia (Indonesian Institute of Sciences)
LoGA	Law on the Governing of Aceh
LRRD	Linking relief, rehabilitation and development
MDF	Multi Donor Fund
MP3EI	Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia (Masterplan for the Acceleration and Expansion of Indonesia Economic Development 2011-2025)
MOU	Memorandum of Understanding
MoHA	Ministry of Home Affairs
MPR	Majelis Permusyawaratan Rakyat (Peoples' Consultative Assembly)
NAD	Nanggroe Aceh Darussalam
NGO	Non-government organisations
O&M	Operations and maintenance
PNS	Pegawai Negeri Sipil (National civil servant)
P2K	Percepatan dan Pengendalian Keuangan Unit (Acceleration and Control Finance Control Unit)
REDD	Reducing Emissions from Deforestation and Forest Degradation
Renaksi	Rencana Aksi (Action Plan) for continuing policies (2010-2012) in Aceh

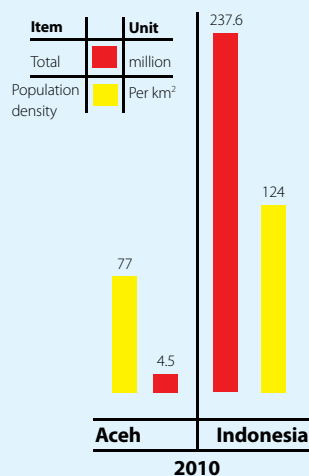
RPJM	Rencana Pembangunan Jangka Menengah (Medium Term Development Plan)
SAF	Special autonomy funds (Dana otonomi khusus, or Dana Otsus)
SAF-OGS	Special autonomy funds - Oil and gas share
SK	Surat Keputusan (Letter of Decision)
SKPA	Satuan Kerja Perangkat Aceh (main departments of the Aceh provincial government)
SKPD	Satuan Kerja Perangkat Daerah (main departments of the Aceh district kabupaten and kota governments)
SME	Small and medium enterprise
SIDA	Swedish International Development Agency
SOE	State owned enterprise
SWF	Sovereign wealth fund
TA	Technical assistance
TGLL	Tsunami Global Lessons Learned
TRWMP	Tsunami Recovery Waste Management Programme
UNDP	United Nations Development Programme
UNFAO	United Nations Food and Agriculture Organization
USAID	US Agency for International Development
UU	Undang-undang, or Law

Notes:

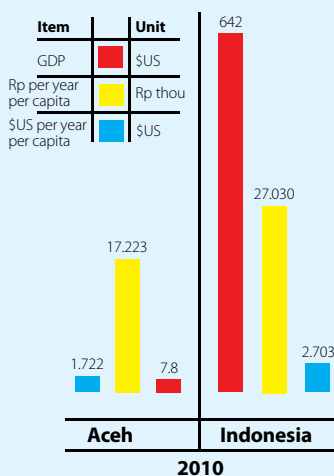
- (1) *In some cases in this study, different data is reported from different official statistical sources, perhaps because of unexplained variations in the time periods referred to or in coverage. Although all care has been taken to check the data, it has not always been possible to reconcile the data reported from different sources.*
- (2) *A simplified foreign exchange rate of Rp 10,000 = \$US 1.00 has been used throughout this study. In fact, the foreign exchange rate has varied somewhat in recent years sometimes weakening below the Rp 10,000 level and sometimes strengthening towards Rp 8,500. A rate of Rp 10,000 has been used here because it simplifies conversions from Rupiah amounts and because the aim is to provide order-of-magnitude indications of the finances being discussed rather than exact amounts. The central bank of Indonesia, Bank Indonesia, provides a useful foreign exchange rate calculator, including for past years, at the following web site: <http://www.bi.go.id/web/id/Moneter/Kurs+Bank+Indonesia/Kurs+Transaksi/>*

Selected Key Facts: Aceh and Indonesia

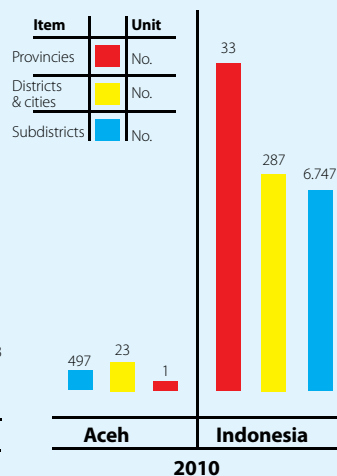
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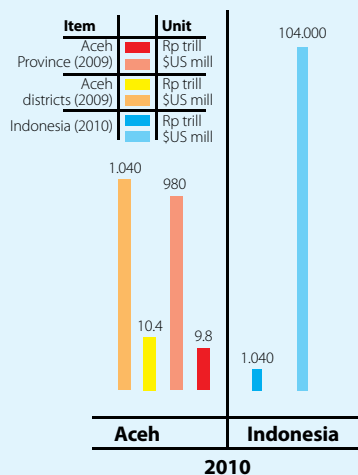
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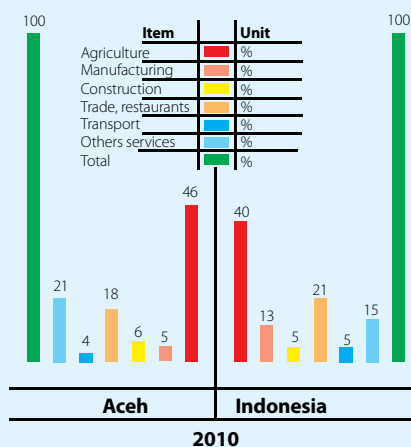
Government



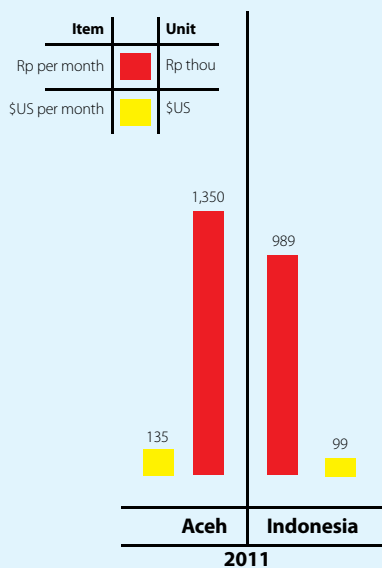
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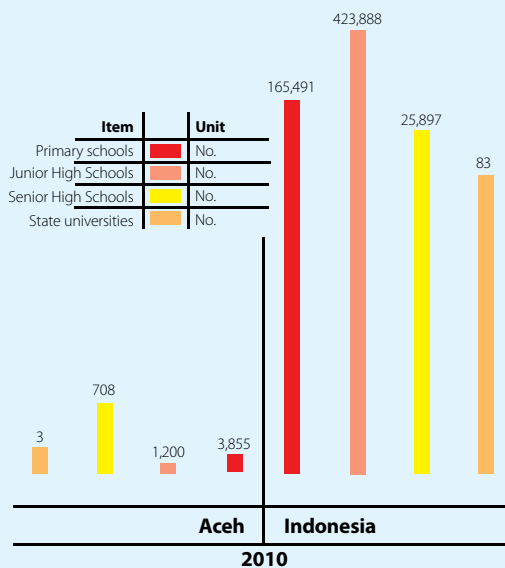
Economic Structure Workforce



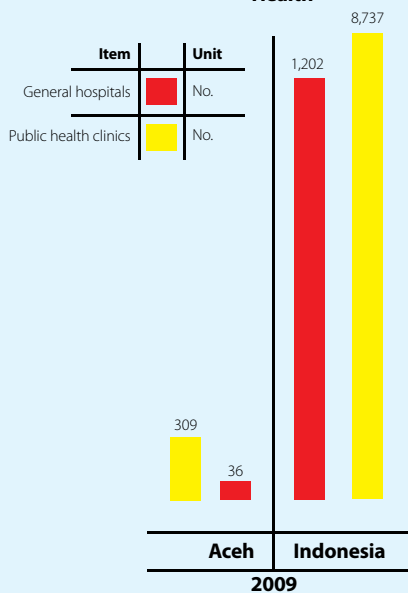
Minimum wage



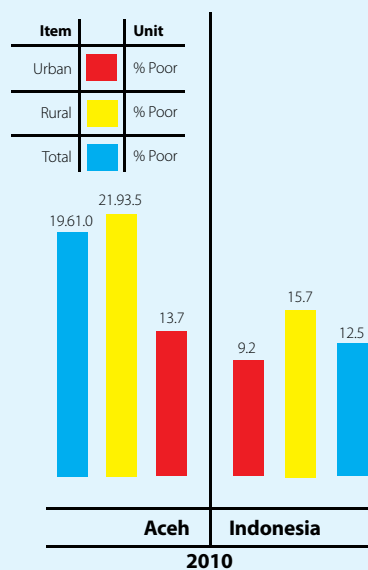
Education



Health



Poverty



EXECUTIVE SUMMARY

Introduction

Aceh is passing through a period of transition. The past three decades, and most recently the past seven years, have been a period of uncertainty and much difficulty in the province. But now, for the first time for thirty years, the prospects for peace and sustained development in Aceh are promising.

This study discusses issues of transition in Aceh. The aim is, first, to consider these issues drawing on the experience of Aceh as a case study in order to contribute to the emerging body of knowledge on issues of governance in transition, and second, to assess the effectiveness of the UNDP Aceh Government Transformation Programme (AGTP) which was designed to assist processes of governance in Aceh during the transition.

Two key events shape the recent history of Aceh: the December 2004 tsunami megadisaster, and the peace settlement for Aceh signed in August 2005. The tsunami took the lives of perhaps 170,000 people. The disaster led to the delivery of a large assistance program in Aceh generally estimated at around \$7.5 billion over five years. The peace settlement brought an end to the long-standing regional conflict in Aceh which had held back development for perhaps three decades.

At the broadest level, Aceh now faces numerous development challenges. Looking beyond internal priorities of management that governments at the provincial and district level in Aceh must consider, this study identifies four strategic issues which now need attention from policy makers in Aceh. These issues are:

- Widespread poverty, and the need to promote development
- Rural policy
- Debates about a range of issues of governance
- The *pemekaran* [proliferation] of government across the province.

The study considers these matters within the context of the expanding LRRD literature which discusses measures which link relief, rehabilitation, and development in the wake of a megadisaster. And against this background, the study provides suggestions for future capacity building efforts in Aceh and offers an assessment of the work of the AGTP activity in the province.

Recommendations

Recommendation 1.1

The Government of Aceh should continue to work to define a clear overall development strategy for Province of Aceh in the period ahead. This strategy needs (a) to be consistent with Indonesia's national development strategy, and especially the national MP3EI Masterplan, as well as (b) to define a firm set of priorities for provincial development.

Recommendation 1.2

A provincial development strategy for Aceh for the next five years should focus on the following priorities:

- Promoting economic growth, especially in a way which is pro-job and which supports income earning activities in small-scale informal sector activities, especially in rural areas, and
- Converting government financial resources obtained from the resource sector as well as other revenue areas into public goods such as roads, water supplies, electricity, health, education which supply services to the majority of the population.

Recommendation 1.3

As part of defining a provincial development strategy, the Government of Aceh should consider supporting the publication of an annual report on poverty in Aceh. The document might be prepared by a small team of independent experts and be funded with support from international donor organisations.

Human resource management and development

Human resources management (HRM) and human resources development (HRD) in post-crisis Aceh, and the approach that the Aceh Provincial Government has adopted towards these issues, are a crucial part of the response to the challenges of transition. Donor support for the provincial government's efforts to develop human resources and strengthen human resources management has been important in underpinning recent attempts to promote reform. Support for HRM and HRD was also a key objective of the Aceh Government Transformation Programme.

While the HRM and HRD challenges that Aceh faces are similar to those in other regions in Indonesia, they are complicated by the legacy of conflict and the damage inflicted by the tsunami. While the special autonomy framework for the province provides an enabling environment for piloting change, the complexities of post-crisis politics and the demands this has placed on policymakers has made bureaucratic reform an unrealistic goal in the short to medium term. Not surprisingly, strengthening HRM and HRD practices turned out to be a major challenge for AGTP. The goal of turning the Aceh Human Resources, Education and Training Agency (BKPP) into a modern civil service college will not be realised within the life of the project and probably not for at least a decade.

Despite the scope for local initiative provide by decentralization and special autonomy, it seems clear that meaningful change in HRM and HRD practices will take place only gradually and over a longer period. Momentum for reform has slowed in Aceh and public demand for bureaucratic

reform is not high. Further reform will likely be driven by central-level initiatives such as the revised Civil Service Law which is scheduled to be tabled in the national parliament in Jakarta in late 2011.

Recommendations

Recommendation 2.1

A review of the Civil Service should be conducted which considers problems, and proposals for reform (including proposals from the public).

Recommendation 2.2

The Government of Aceh should develop a long-term strategy for public sector reform.

Recommendation 2.3

A new business model for the Human Resources, Education and Training Agency (*Badan Kepegawaian Pendidikan dan Pelatihan, or BKPP*) should be developed so that the agency is relevant and responsive to training needs across government

Recommendation 2.4

All senior and mid-level civil servants in the provincial and district governments should be encouraged to undertake appropriate training in management skills.

Recommendation 2.5

A strategy for recruiting more women into the public service, especially in senior ranks should be developed.

Financial resources and budget processes

Economic and financial policy makers in Aceh currently face challenges ranging from issues of broad policy to matters involving the financial management of the affairs of the province.

At the broadest level, the Acehnese economy is marked by two forms of distinct dualism between:

- the resource-rich (oil and gas) part of the economy and the non-resource sector; and
- in the non-resource sector, development in selected urban areas (especially Banda Aceh) and the rest of the non resource sectors, especially rural areas.

Resources from the high-productivity, capital-intensive enclave oil and gas sector can help promote development provided the resources are used effectively. The challenge is to convert a flow of substantial *financial* resources from the enclave sector into *real resources* which provide benefits to ordinary Acehnese citizens. Across much of the Acehnese economy, nearly all activities are carried on in microenterprises in the agriculture and service sectors. One main aim of policy, therefore, must be to help lift productivity and output in the myriad of small farms and enterprises in the agriculture and service sectors.

The pattern of overall growth in the Acehese economy has been variable in recent years. Three broad trends are evident.

- In the oil and gas sector, large and continuing reductions in output in recent years have impacted markedly on the overall provincial growth rate.
- Tsunami assistance spending provided a significant boost to activity in the non-oil and gas sector, especially in 2006 and 2007. However, the recent winding down of assistance activities appears to have contributed to a slower growth rate through a negative multiplier impact.
- Overall growth in the non-extractive economic sectors has been significant but not high over the seven years to 2009 (an average of about 4% per annum).

Looking ahead, a key priority for economic policy makers in Aceh is to encourage accelerating growth in the non-oil sector.

As well as broad issues of economic strategy, policy makers in Aceh will need to pay close attention to several main issues of government management in the next few years.

One set of challenges relates to the management of government budgets. The broad conclusion which has emerged from recent studies of financial management in Aceh is that many of the systems used in the province do not operate well. In particular, there have been marked delays in both the approval of budgets and in the implementation of programs. There is a risk that problems of this kind will be exacerbated during the next few years by the expected large inflows of revenues from the Special Autonomy Fund (*Dana Otsus*) and from the oil and gas tax fund (*Dana Migas*).

A second main issue of financial management relates to the transfer of a large number of post-tsunami assets from the control of the national government to governments in Aceh. Although it would seem to be relatively straight-forward to arrange this matter, in practice the process has proved very difficult. The issue of the transfer of the post-tsunami assets needs, as a matter of priority, to be agreed both to bring closure to past efforts and to make it possible to make the best use of these valuable assets in the years ahead.

Recommendations

Recommendation 3.1

A program of reforms in public financial management should be introduced at both provincial and district level. A dual strategy would be appropriate which would focus on both immediate measures to achieve short-term results as well as, importantly, longer-term measures to introduce structural changes to the budget process.

Recommendation 3.2

As part of the approach to provincial development planning and improved financial management, a published strategy for the use of income revenue flows expected to be received from oil and gas (*Migas*) revenues should be issued on an annual basis.

Recommendation 3.3

A provincial development plan for Aceh should address certain structural issues concerning the pattern of growth. These issues include attention to the strongly dualistic nature of the economy, preparing a realistic evaluation of the prospects for growth in different sectors (including in key individual industries within the sectors) and the implications of the phenomenon of smallness in the numerous micro enterprises across the Acehese economy including the preparation of a pro-informal economy growth strategy.

Recommendation 3.4

The issues surrounding the disposal of the very significant amounts of post-tsunami assets should be resolved as quickly as possible; all parties to the negotiations, at the central, provincial, and kabupaten levels, should look for viable solutions to all remaining issues as quickly as possible so that the assets can be used in the best way possible in the years ahead. The recent decision to extend the work of the AGTP by the inclusion of an additional specified Output for the program and a further \$3 million of funding is a welcome step towards tackling this key post-tsunami transitional challenge.

Recommendation 3.5

Proposals to establish an Aceh Development Trust Fund (ADTF) to help manage the orderly flow of grant funds and plan for the effective use of these funds are well-advanced and deserve support from international donors and multilateral firms with operations in Aceh.

Special autonomy, lines of authority and access to resources

The special autonomy framework adopted as part of the Indonesian government's efforts to resolve the Aceh conflict is a key complicating factor for governance in Aceh.

The Law on the Governing of Aceh (LoGA, or Law 11/2006), passed as a result of the negotiations between the Indonesian government and the Free Aceh Movement, was superimposed on top of an earlier legal framework which applies decentralization throughout the whole of Indonesia. While the LoGA grants special autonomy to the *province* of Aceh, the earlier decentralization framework continues to apply at the *district* level. As a result of these two changes, not only have local governments had to adapt to new and expanded responsibilities, but the precise delineation of authority between national, provincial, and district level governments in Aceh is not often not clear.

The uncertainties and learning processes that now surround special autonomy constitute a significant governance and development challenge in Aceh. From the start, partly as a result of the large number of interests accommodated in the difficult political process of drafting the LoGA, there were serious ambiguities embodied in the Law. In the event, negotiations between different levels of government over these ambiguities has continued on ever since the LoGA was passed in 2006. Even five years after the passage of the Law, different actors continue to hold very different interpretations of what special autonomy means and about the scope of authority provided to different levels of government. Negotiations about these issues – which in some cases have stretched on years past the deadlines mandated by the Law – have injected a strong and continuing element of confusion in governance in Aceh.

Three case studies of tension and uncertainty in the delineation of authorities between central, provincial and district governments under the special autonomy framework illustrate these issues.

- One case study concerns allocation and management of dana otsus funds (special autonomy funds). There has been significant tension between provincial and district (*kabupaten/kota*) governments in the use of these funds. Management of the funds has become a consistent source of resentment among district officials who have accused the provincial government of monopolizing the funds and of ineffectiveness. Provincial officials, in turn, contend that emphasis on the role of the province distinguishes Aceh's *special* autonomy from the *regional* autonomy applying in other provinces.
- Another case study provides details of the difficult issues which have arisen in a dispute about the management of natural gas resources off the coast of East Aceh where the provincial and East Aceh district governments have contested control.
- A third case study -- which concerns the institution of the "*Wali Nanggroe*" (loosely translated as "Guardian of the State") -- illustrates the deeply political nature of special autonomy and how different actors still hold very different understandings of what it means. Members of the provincial parliament, especially those affiliated with the former separatist movement, have tried to create a *Wali Nanggroe* institution with powerful political prerogatives. This has resulted in conflict with the Aceh provincial government.

Taken together, these case studies show that special autonomy remains a deeply contested concept in Aceh. The current prospects are that it will be years before there is a widely accepted set of rules and institutions in the province. In the meantime, the on-going contestation concerning the form and meaning of autonomy in Aceh will have important governance and development consequences.

Donors and international agencies, have recognized the crucial importance of special autonomy for governmental and social recovery in Aceh and supported the work of the provincial government in enhancing legal drafting and advocacy. However, five years after the passage of the LoGA, numerous key implementing regulations, at both national and provincial level, have yet to be issued. There are many ongoing uncertainties and disputes between different levels of government. Donor support will continue to be important for special autonomy to realize the potential of the new framework for underpinning Aceh's long-term rebuilding and transformation.

Recommendations

Recommendation 4.1

Both the Government of Aceh and the Government of Indonesia need to treat the finalisation of outstanding regulations deriving from the 2006 Law for the Governing of Aceh (LoGA) as a matter of urgency. These regulations should be issued as soon as possible.

Recommendation 4.2

The Government of Aceh needs to seriously prepare for the next phase of special autonomy implementation, and put resources into those preparations.

Recommendation 4.3

The management of special autonomy funds should be revisited and reviewed to investigate possibilities for further empowering district/city governments in the management of these funds.

Recommendation 4.4

In paying attention to issues of peace and stability in the province, special attention needs to be given to land issues.

Policy making in post-crisis Aceh

Much of the literature on strengthening government in the wake of disasters such as those in Aceh is concerned with restoring or strengthening the service delivery and management functions of government. However often much less attention is given to a government's capacity for policy development—defined as 'the professional preparation of options, analyses and recommendations for political deliberation and choice'.

An ability to formulate policies is a critical function of any government. The capacity to do so becomes particularly important in the aftermath of crises such as those experienced in Aceh. A strong recovery from the devastation of the tsunami and the protracted civil conflict called for sophisticated policy responses on the part of the provincial government.

Looking ahead, Aceh's policy making infrastructure in the wake of the Indian Ocean tsunami and the resolution of the conflict between Indonesia's security forces and the Free Aceh Movement needs to be effective in order to promote development in the province. But the policymaking *infrastructure* in Aceh—i.e. the processes and mechanisms that facilitate the professional preparation of recommendations and options for political deliberation and choice—is still underdeveloped. This is a critical weakness given that government spending is now one of the main engines of growth—estimated at 29% of regional GDP in 2008.

The experience of AGTP in providing policy support, focussing on the role of the ad hoc advisory teams (*tim asistensi*), established to assist with the transition of recovery responsibilities from BRR to provincial government, has also been important in the policy making process in Aceh. While the advisory teams made notable contributions to the business of government and were intended to serve for a finite period, a significant opportunity was missed to make a lasting impact on policy processes. Indeed, donor support to provincial government policy making capacity has typically taken the form of policy advice.

The lessons from recent governance interventions in Aceh suggest that donors should give more attention to supporting policy processes—and especially to supporting the capacity of local authorities to absorb policy advice and to translate that advice into viable strategies and programs.

Recommendations

Recommendation 5.1

Arrangements should be made to establish a more robust policymaking infrastructure in senior levels of government in Aceh.

Recommendation 5.2

A specialised economic policy unit should be established in the Governor's office.

Recommendation 5.3

Steps should be taken to strengthen the DPRA's role in and capacity for policy making.

Recommendation 5.4

Improved policy coordination arrangements across provincial government and between provincial and district government should be introduced.

Outputs, implementation of policy and service delivery

Surveys of opinion in Aceh suggest that the Acehnese community looks to the government for peace and prosperity, and for the efficient delivery of basic public goods such as health, education, infrastructure services (water and electricity), and support for agricultural and business development. And in principle, in numerous public documents and statements, governments in Aceh have committed themselves to improving the supply of public services. Arguably, then, since the policy commitment is clear, the effective *implementation* of policy rather than the more detailed *definition* of policy is now the main priority for the effective delivery of good government in Aceh.

But the capacity of governments to deliver what is expected of them is often limited. Governments everywhere, including in Aceh, have strengths to draw on but also face challenges of implementation.

The strengths underpinning government in Aceh in 2011 are considerable. In important ways, the government of Aceh is well-placed as activities across the province move into the return-to-normal phase. These strengths amount to a set of important political, financial and social assets in the province. But there are considerable challenges as well. Some of the challenges are largely internal to government in the province. Others reflect external factors likely to serve as constraints on the ability of the government to implement development programs over the next few years.

It was against this background of a growing realisation that increased attention to both policy *formulation* and *implementation* was needed that the Aceh Government Transformation Programme (AGTP) was initiated during 2006 and 2007. The project was designed to have three main outputs. There were to support:

- The Aceh provincial executive, especially the Governor.
- Selected government implementing agencies.
- The Aceh provincial Human Resources, Education and Training Agency (BKPP).

The AGTP was an innovative project because the processes of government in Aceh during the early time of transition during 2008-2009 were subject to much debate within the province.

In overall terms, the AGTP provided strong support for the transition process in Aceh. However the on-going task was and remains an ambitious one. The demands on AGTP from the provincial government were high. And within the original limited budget of around \$14 million, the resources available to AGTP were badly stretched. Nevertheless, there was strong support from the donor community which helped underpin the important work of the project. The additional resources (\$3 million) provided in late 2011 to allow AGTP to provide focused assistance to facilitate the transfer of post-tsunami assets to Aceh allowed a valuable extension of the work of the programme into 2012.

Within the context of the transition in Aceh that the AGTP was designed to assist with, there was increasing pressure governments in the province to improve service delivery. Case studies in three sectors – in the rural sector, in health, and in waste management – indicate that the challenges of service delivery vary between sectors:

- In the rural sector, both policy and implementation of programs needs to be strengthened; supply-side and demand-side strategies need to be linked to encourage much-needed growth in rural areas.
- In the health sector, key issues of carefully defining the role of the state and the role of private sector operating through the market for health services need attention.
- In the waste management sector, considerable benefits can be obtained if a cash-for-work approach is adopted but, at the same time, issues of financial flows and maintenance will need to be addressed for the activity to be sustainable over the longer term.

In order for government in Aceh to become more effective, the governments need to define their roles carefully. In particular, in view of their quite limited capacities, governments in Aceh need to decide which services will be provided *directly* by government agencies, or *indirectly* through reliance on service providers in the private sector. In each case, the role of the government and government agencies is very different.

Looking to the future in Aceh, it would seem inevitable that the provincial and district governments will need to aim to strengthen *both* the private sector across the province, *and* the internal capacity of government to regulate, and to strengthen, local markets. Reform in this direction will require improved skills within government which focus on both *fostering* the private sector, and also *providing an appropriate regulatory environment* for the private sector to expand.

In broad terms, an approach of this sort suggests that moving towards a more performance-based model of government in Aceh would have substantial advantages. A strengthening of mechanisms of 'exit' and 'voice' would be consistent with this strategy and would help empower the citizens of Aceh to participate fully in the development of Acehnese society.

Key recommendations

Recommendation 6.1

In order to improve public service delivery at all levels, the Government of Aceh should initiate a public dialogue on the role of government, and of the public sector, in Aceh. The indications are that the demand on government resources in Aceh greatly exceeds supply; that is, the government sector in Aceh is trying to do too much, and with too few resources. Measures to streamline government, and perhaps move towards the “Good enough governance” agenda, appear to be steps that would help bridge the current gap between demand for and supply of government.

Recommendation 6.2

Increased attention should be given to the effective *implementation* of policy in government in Aceh. Civil servants should be judged on the basis of effective results in the work they do. Civil servants should be rewarded for the effective *implementation* of policy.

Recommendation 6.3

Consistent with an increased attention to the implementation of government programs, a strong emphasis on evaluating the performance of government through a focus on *results* is needed. That is, the controls exercised over the civil service by the Executive and Legislature would best shift from attempts to set details at the beginning of the year to the evaluation of results at the end of the year. The use of key performance indicators which measure *results* needs to be strengthened.

Recommendation 6.4

Consistent with reducing the risk of micromanagement in government, a shift towards the principle of “let the managers manage” would be appropriate. Once meaningful Key Performance Indicators (KPIs) have been established, and after appropriate resources have been allocated in line with the agreed KPIs, then responsibility for achieving the KPIs should be delegated to civil service in-line managers.

Recommendation 6.5

A system of Citizen’s Charters should be introduced in Aceh. As a first step, Citizen’s Charters should be drawn up for a series of perhaps five main groups of agencies, such as the central offices of government (Governor’s office and the offices of *Bupati* and *Walikota*), licensing and land agencies, transportation firms, and banks.

State-building in a post-crisis setting

There is an extensive literature which discusses lessons learned from aid delivery following natural disasters. Some of the main lessons include the need for effective coordination and the need for assistance agencies to be aware that the most appropriate types of support after a disaster will change over time. The AGTP was designed to provide assistance in Aceh as the main post-tsunami aid effort was scaling down. The aim was to facilitate the transition to the return-to-normal phase of governance and support long-term development in the province.

The experience of capacity-building during the AGTP provided valuable experience which points to the continuing need for capacity-building programs in the province in the years ahead. These programs are needed to help build the capacity of the state at the provincial and district levels to provide the services that the Acehese community expects from their governments.

Broadly speaking, the need for capacity-building in Aceh relates to improved skills to manage physical assets (hardware), software (people), and institutions (through institution building). Within these categories, appropriate areas for capacity-building programs in Aceh in the coming period include training and other support in the following areas:

- New Public Management
- Legal issues
- Governance
- Financial management
- Sectoral programs
- Non-government sector activities.

At the wider level of governance, a major challenge in the coming years in Aceh will be to find ways to strengthen the state at both the provincial and district level. In addition, the role of the state, and the relationship between the state and the broader society, needs to be carefully fostered.

An appropriate strategy for governance and capacity-building in Aceh will be one which points towards the way towards, simultaneously, strengthening *both* the state *and* society in a way which allows growth in each sector to support growth in the other.

Recommendations

Recommendation 7.1

A provincial development strategy for Aceh should emphasise the importance of strengthening *both* the state *and* private and civil society in Aceh.

Recommendation 7.2

The international donor community should support the process of capacity-building of both the state, and the private and civil society, in Aceh.

Recommendation 7.3

The international community should continue to support the broad set of integrated activities carried out during the work of the Aceh Government Transformation Programme.

Recommendation 7.4

A number of key elements should be built into the project design of new capacity building activities in the governance sector in Aceh: these include allowing for (a) flexibility, (b) a significant time horizon, and (c) an appropriate range of activities within the scope of the project.

CHAPTER 1

Introduction

Background

Aceh is passing through a period of transition. The past three decades, and most recently the past seven years, have been a period of uncertainty and much difficulty in the province. But now, for the first time for thirty years, the prospects for peace and sustained development in Aceh are promising.

This study discusses issues of transition in Aceh. The aim is, first, to consider the issues of transition drawing on the experience of Aceh as a case study in order to contribute to the emerging body of knowledge on issues of governance in transition, and second, to assess the effectiveness of the UNDP's Aceh Government Transformation Programme which was designed to assist processes of governance in Aceh during the transition.

To appreciate both the opportunities and challenges that Aceh is facing today it is necessary to consider the recent history of transformation in the province.¹ Events matter for the governance of states and institutions. Two key events shape the recent history of Aceh: the December 2004 tsunami megadisaster, and the peace settlement for Aceh agreed to in Helsinki in August 2005.² The first event took the lives of perhaps 170,000 people. The disaster quickly led to the design and delivery of a large relief and reconstruction program in Aceh generally estimated at around \$7.5 billion over five years. The second event brought an end to the long-standing regional conflict across the province which had held back development for perhaps three decades (World Bank, 2008: 16). The peace settlement greatly facilitated efforts to strengthen the processes of orderly governance in Aceh.

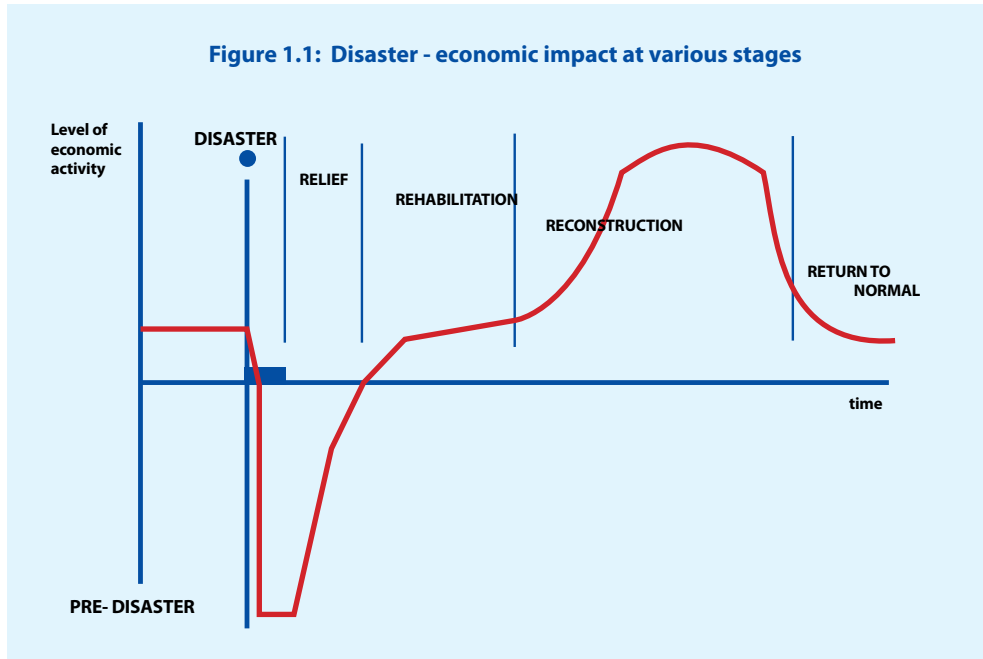
During the period since these two events, the activities of both Indonesian agencies and international donor agencies have passed through a number of phases (Figure 1.1). In the first year or so after the tsunami, much activity in the province focused on relief and initial rehabilitation. Later, large-scale infrastructure work gathered pace which was reflected in the construction of housing and of roads, buildings, communication facilities, and so on.



¹ The UNDP Aceh Human Development Report (2010a) provides a valuable discussion of development challenges in Aceh.

² The literature discussing both events is very extensive. For the tsunami, a thorough annotated bibliography has been prepared by Cosgrave et al (2009 with the support of SIDA; Nazara and Resosudarmo (2007) provide a useful survey of recovery and reconstruction experiences after the tsunami to the end of 2006. For the conflict and the peace settlement, see Aspinall, 2005.

Figure 1.1: Disaster - economic impact at various stages



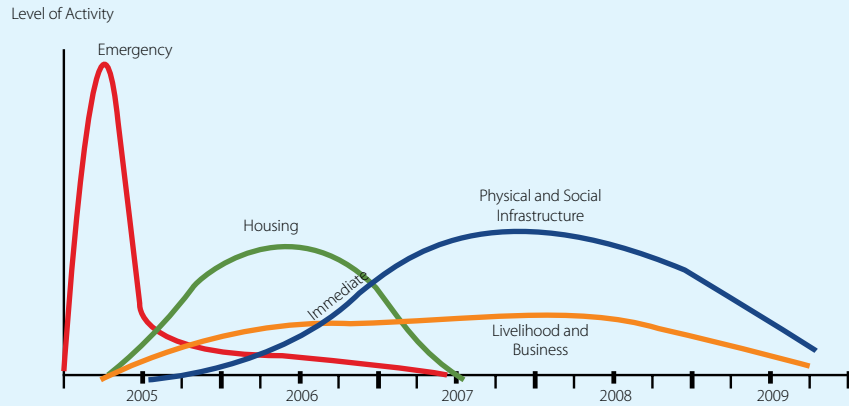
And by 2009, as the reconstruction phase shown in Figure 1.1 came to an end for most domestic and international aid agencies (Figure 1.2 shows an alternative presentation of the post-disaster delivery phases), policy makers within Aceh began to give increasing thought to the need to prepare for the transition challenges (Box 1.1) of the return-to-normal phase.

The immediate period after the tsunami disaster in December 2004 was a time of both immense strain and activity in Aceh (Rusdiono Mukri and Mujiyanto 2009).³ On one hand, there were urgent and very difficult problems of coordination as dozens (and later hundreds) of national and international organisations arrived in the province, including military organisations, to provide assistance. On the other hand, the large amount of immediate assistance provided by both the Indonesian Government and international donors was effective in providing much fast relief. In the first few months, most agencies naturally focused on immediate priorities, looking to address the most urgent needs. The UNDP, for example, gave high priority to implementing cash for work schemes and supporting programs to provide shelter for tsunami survivors. A UNDP Tsunami Recovery Waste Management Programme (TRWMP) was quickly designed to facilitate the need to clear widespread debris and waste. The short term aim of the activity was both to help collect and remove debris so that other relief operations could be conducted efficiently as well as to create temporary employment in disaster-affected areas. The longer term goals were to help develop sustainable waste management systems in selected sites in Aceh and to strengthen the capacity of government to maintain these systems.

Three aspects of the transition to the return-to-normal phase need to be borne in mind as Aceh looks to the future. First, the active work of the major Indonesian agency established in early 2005

³ There is a useful discussion of issues of post-disaster management and transition challenges in a recent book about the experiences of the former Governor of Aceh, Mustafa Abubakar, during the period December 2005 – February 2007 (Rusdiono Mukri and Mujiyanto 2009).

Figure 1.2: Sequencing emergency and recovery



Source: Nazara and Resosudarmo (2007).

to guide rehabilitation and reconstruction activities in Aceh, the Aceh-Nias Rehabilitation and Reconstruction Agency, universally known BRR (*Badan Rehabilitasi dan Rekonstruksi*), formally ended in April 2009 (Nazara and Resosudarmo, 2007: 26). Various aspects of the work of the BRR were taken over by province-level agencies in Aceh, especially the *Badan Kesiambungan Rekonstruksi Aceh* (BKRA, or Agency for the Continuing Reconstruction of Aceh) which in turn passed most activities on to other bodies in Aceh at the end of 2009. However it soon proved a challenge for these other bodies to provide the same level of effectiveness to their development activities that the BRR was able to bring. The work of the interim agency BKRA, in turn, was the subject of criticism in the media in Aceh. In late December 2009, for example, a spokesman for one local NGO claimed that the BKRA ‘had not been able to complete the work of the BRR’ and pointed to problems with well-known donor flagship projects such as the Banda Aceh-Calang highway and the Aceh Tsunami Museum as well as continuing controversy surrounding access to permanent housing for survivors of the tsunami. In response, the head of the BKRA pointed out that the duties and authority of the BKRA was much more limited than those of the former BRR. Much of the work of the BKRA mainly involved the monitoring and evaluation of rehabilitation and reconstruction activities carried out by other Acehnese government agencies as well as being responsible for the oversight of the Action Plan (Renaksi) for reconstruction and continuing policies in the 2010–2012 period.⁴ Thus, as Aceh moves into the return-to-normal phase in 2011 and beyond, a key challenge for the government of the province of Aceh as well as district (*Kabupaten/Kota*) governments will be the management of assets formerly under the charge of the BRR.⁵

⁴ For details, see ‘BKRA dinilai belum mampu selesaikan sisa pekerjaan’ [BKRA seen as unable to finish the work], Serambi, 26 December 2009.

⁵ The ‘big bang’ decentralization change introduced in Indonesia in 1999 and the early 2000s devolved much authority for development programs away from the central government to both provincial and district (*kabupaten/kota*) level governments. Development programs at the district level are quite important. Indeed, both within Aceh and across Indonesia, total government expenditures at the district levels exceed those at the provincial levels. See the discussion in later sections of this study and also Table 3.8 below.

Box 1.1: What is meant by the 'transition' in Aceh

There are references throughout this study to the transition process in Aceh. It is perhaps useful to note that there are different views as to what exactly constitutes a 'transition' in the context of post-disaster recovery.

- At the broadest level, it needs to be borne in mind that experience from around the world indicates that recovery after megadisaster such as the Asian tsunami can take a decade or even much longer. Long-term social and community repercussions from megadisaster (such as the impact on orphaned children) continue to affect populations for at least one full generation after the event.
- Within a more immediate timeframe, the interpretation of the transition process may be taken as the changes involved as the affected community moves from immediate recovery and rehabilitation to longer-term development. In the context of Aceh, this suggests a focus on the transition from the twin challenges of moving from the post-tsunami and post-conflict situation to a longer-term focus on the new autonomy framework in the province. Looking ahead, sustaining the peace and stability will be a central part of the process of supporting long-term development.
- And in the most concrete and practical sense, the transition involves the transfer of assets, projects, capacities, functions and resources from disaster agencies such as the BRR (which ceased to exist in April 2009) to other national, provincial and district government agencies.

Second, looking ahead, management of the Acehese provincial budget, and especially the management of the considerable *Otsus/Migas* funds (*Otonomi Khusus*, or Special Autonomy Funds, and *Minyak*-gas funds), will be another key challenge in the return-to-normal phase. This matter will be discussed in more detail below (Chapter 3). However, in brief, the Aceh provincial government is grappling with a range of difficult issues on both the income and expenditure side of the provincial budget. On the income side, issues currently attracting much attention include pressures from the lower-level district governments to be allocated a larger share of the anticipated *Otsus/Migas* funds and the perceived need to improve provincial revenue-raising arrangements. On the expenditure side, in recent years there have been quite serious difficulties (discussed in several chapters below) associated with underspending from the provincial government budget.⁶ The Governor of Aceh (2007-2012), Irwandi Yusuf, has made it clear in public statements that he believes that these problems need urgent attention so there are encouraging prospects that measures will be announced to respond to the difficulties. Nevertheless, it seems clear the management of provincial finances will continue to need close attention for some time to come.

The third aspect of the return-to-normal phase relates to the LRRD (Linking relief, rehabilitation and development) process which has been receiving increasing attention in the international disaster literature in recent years. The issue of the long-term sustainability of activities supported by aid programs following megadisasters such as the 2004 Asian tsunami was addressed in the major *A ripple in development?* LRRD evaluation report released in early 2009 (Brusset et al 2009). The promotion of the broad sustainability of activities supported by humanitarian aid programs

⁶ These matters have been receiving much attention at the national level in Indonesia in recent years. See 'More talk, less action', The Jakarta Post (Editorial 2011).

following disasters is not an issue which the international aid community has learnt to deal with especially well. It is true that the international aid community has given much attention to challenges of sustainability in the context of environmental issues. However, the global aid industry has found it much harder to ensure that international aid activities, including humanitarian aid activities following disasters, are sustainable in the broad sense of remaining viable once donor support stops. These issues will be discussed in more detail below.

By late 2009, therefore, Aceh had entered the transition to a return-to-normal phase. Commenting on need for a 'post-tsunami paradigm', *Serambi*⁷ summarised some main concerns as follows:

... studies of post-disaster reconstruction are marked by the speed of infrastructure development in Aceh. But there is no guarantee that things will get better, or be more peaceful, or that there will be prosperity. The reality is that large amounts of funds flowed to Aceh but have not reached out to touch the basic social and real needs, especially for those who are economically, politically, socially and legally vulnerable. Good roads and luxurious buildings can exist while there are people who still live in barracks, suffer from bad nutrition, and do not get health and education services -- and this is both a bad precedent as well as an indicator that development in Aceh is still below what it should be. And furthermore, there are certain groups who aim to create disturbances in Aceh and who are irresponsible, discriminative, and who are 'organised gangs' with the potential to do damage in Aceh.

Policy makers in Aceh are well aware of the fact that past benefits from the tsunami reconstruction and rehabilitation process will not be sufficient to overcome the wide range of social and development challenges in the province. Both leaders in Aceh and policy makers in the donor community now need to consider what longer-term approaches to capacity building might be appropriate in the post-tsunami phase of development that lies ahead.

The problem

At the broadest level, Aceh now faces a daunting array of development challenges at the human, physical, and government and capacity building levels. A survey of priority human development challenges in Aceh is set out in the *Provincial Human Development Report* for Aceh issued in 2010 (Box 1.2). This study will focus more closely on governance and capacity building issues in the province, particularly during the post-tsunami transition period.

From the point of view of governance and capacity building in Aceh, there are two fundamental challenges which need to be addressed. These are (a) to promote economic growth, especially in a way which creates jobs, and also supports income-earning activities in small-scale activities, and (b) to convert government financial revenues obtained from the resource sector and other revenue areas into public goods (roads, water supplies, electricity, health, education) which supply services of tangible benefit to the majority of the population.

⁷ 'Mengubah Paradigma Pascatsunami' [Changing the post-tsunami paradigm], *Serambi*, 26 December 2009. Translation by authors of this study. The Indonesia quote is as follows: '... pembelajaran rekonstruksi pascabencana ditandai pesatnya pembangunan infrastruktur di Aceh. Namun belum menjadi jaminan buat masyarakat akan lebih baik, damai dan sejahtera. Realitas banyaknya dana yang mengalir ke Aceh, namun belum menyentu aspek kebutuhan dasar dan riil masyarakat, terutama mereka yang rentan secara ekonomi, politik, hukum dan sosial. Jalanan boleh bagus, gedung bisa mentremg, tapi bila masyarakat masih ada yang tinggal di barak-barak, mengalami gizi buruk, tidak mendapatkan pelayanan kesehatan dan pendidikan-- hal itu akan menjadi preseden buruk sekaligus indikator— pembangunan Aceh belum maksimal. Begitu juga adanya kelompok yang ingin membuat suasana Aceh menjadi keruh dan tidak bertanggung-jawab, diskriminasi, preman "terorganisir" menjadi potensi untuk melukai kembali Aceh.'

Later sections of this study focus on specific governance and management challenges which, it is suggested, are priority matters for the Government of Aceh to consider in addressing internal organizational issues. But looking beyond internal challenges, this section of the study identifies four main strategic issues which the Government needs to pay particular attention to in the immediate future. These issues are:

- Widespread poverty, and the need to promote development
- Rural policy
- Debates about the provincial government
- The *pemekaran* [proliferation] of government across the province.

Box 1.2 : Aceh Human Development Report: 2010

In late 2010 the UNDP, in cooperation with the BPS (*Badan Pusat Statistik*, or Central Statistics Agency) and the Government of Aceh, issued the *Provincial Human Development Report: Aceh 2010*. This report, the first Human Development Report prepared by the UNDP for any province in Indonesia, provides a valuable survey of the human development challenges facing Aceh in 2010.

The Aceh Human Development Report (AHDR) gives special emphasis to the broad set of issues relating human development in Aceh. The overarching theme of the AHDR is people empowerment. The Report takes the view that:

... an effective way to promote human development in Aceh is to empower people and local communities to decide themselves on the use of resources for local development.

In particular, the AHDR identifies five main challenges. These are to:

- improve security
- expand efforts to mitigate future natural disasters
- reduce poverty
- reverse the downward trend in womens' well-being
- redress inequalities in less developed areas of the province.

The present study on *Governance and Capacity Building in Post-Crisis Aceh* aims to build on the approach adopted in the AHDR. The Aceh Human Development Report provides extensive data on the broad scope of development challenges, especially from the peoples' empowerment view, in Aceh. This current study focuses more closely on governance and capacity building issues in the province, particularly during the post-tsunami transition period (see Box 1.1) in Aceh.

Source : *Badan Pusat Statistik et al (2010) The AHDR may be accessed at : <http://www.undp.or.id/pubs/does/Aceh%20HDR%20-%20English.pdf>*

Widespread poverty. Various recent surveys have drawn attention to the enduring problem of poverty across Aceh. The World Bank's *Aceh Poverty Assessment 2008* (2008) discusses recent trends in detail as do numerous other studies prepared during the past few years (BPS 2008, Cosgrave 2009, UNDP 2010a). The key findings of the different surveys may be summarised as follows.

First, the 2004 tsunami caused huge economic damage and brought enormous personal and psychological loss in the affected areas; however the province-wide impacts were more limited. The largest damages and losses were generally concentrated into the areas directly affected by

the disaster. Although province-wide measured poverty increased slightly after the tsunami, the statistical increase in poverty was rather short-lived. Amongst other things, the provision of relief, rehabilitation and reconstruction aid, in numerous different ways, appears to have been effective in helping alleviate the expected impact of the tsunami megadisaster on poverty.

Second, setting the impacts of the tsunami aside, widespread poverty has been a major problem in Aceh for at least three decades. Largely because of the effects of conflict across the province, which have amongst other things greatly hampered rural development, Aceh has had poverty levels well above those seen in most other regions in Indonesia in recent decades (UNDP 2010a). The high levels of poverty, especially in rural areas, are closely correlated with low or negative overall economic growth across the province. And the main reason for slow growth was the longstanding conflict affecting the province, although structural economic issues (especially issues connected with the large oil and gas reserves on Aceh's east coast) appear to have affected the pattern of economic development as well. One central challenge in the immediate future, therefore, will be to promote economic expansion so as to help sustain social stability and peace in the province.

Third, poverty in Aceh (using conservative poverty levels) is especially marked in rural areas. Over 20% of rural households (2011 data) live below the poverty line (Table 1.1). Bearing in mind the fact that the rural poverty line was approximately Rp 292,000 per person per month (around \$US 29 per month) – which is well below the widely used international figure of \$1.25 per day – it is clear that rural poverty is widespread in Aceh. Non-income characteristics associated with high poverty are ones common in many developing countries such as large households, low education levels, female-headed households, and households predominantly dependent on agriculture. Issues affecting women – including access to assets (land, housing, and other assets), pressures of household maintenance and care of children, opportunities to earn income, and protection against violence – became particularly important in the post-tsunami period. The impact of these issues often had important implications for household incomes (IDLO and UNDP 2007; UNDP 2010a).

Rural policy. Given these patterns of poverty across the province, pro-poor development programs during the transition period will need to focus on promoting growth in rural areas in Aceh, both in agricultural and non-agricultural activities.

One main step will be to implement programs at the province-wide level to promote overall economic growth (World Bank 2009). The Indonesian Government is aiming for a national growth rate of around 6.5% per annum over the 2010-11 period accelerating to over 7% per annum by 2014.⁸ It would seem that similar rates of growth at the provincial level will be needed to make significant inroads into poverty.⁹ However, different patterns of economic growth have different impacts on the overall level of poverty. Economic growth which has a higher poverty elasticity is more beneficial to the poor.¹⁰ But a significant share of the overall measured economic growth in Aceh during the past decade or so has been of a capital intensive nature in enclave activities in

⁸ Details of the economic growth targets for the period to 2014 are set out in the National Medium Term Development Plan for 2010-2014 (*Rencana Pembangunan Jangka Menengah Nasional 2010-2014*) released in February 2010. A useful summary may be found at World Bank (2010). See also the growth targets set out in Republic of Indonesia (2011), *Masterplan for acceleration and expansion of Indonesia economic development 2011-2025*.

⁹ Dahlan Sulaiman (2009) provides some details of steps taken by Aceh Governor Mustafa Abubakar during 2006 to promote economic growth in Aceh in the period following the tsunami.

¹⁰ The poverty elasticity of growth is the ratio of (a) the percentage change in the poverty rate relative to (b) the percentage change in per capita income. Thus a -0.5 poverty elasticity (which is relatively low, or 'unresponsive') means that a 1% increase in income per capita translates into only a 0.5% fall in the poverty rate. A higher poverty elasticity of, say, 1.5%, means that a 1% increase in income per capita translates into a more satisfactory fall in the poverty rate of 1.5%.

the oil and gas sector. In general, economic growth of this type often fails to have regional spread effects which benefit the poor. This appears to have been in the case in Aceh. Indeed, the

Table 1.1: Poverty in Aceh, 2011

	Number of Poor 000	% of total population	Poverty line	
			Rp 000	\$ US
Aceh				
Rural poor	720	22	292	29
Urban poor	176	14	333	33
Total poor	895	20
Total Population	4,570			
Indonesia				
Rural poor	18,972	16	213	21
Urban poor	11,046	9	253	25
Total poor	30,019	12
Total population	240,250			

Sumber: BPS, Statistik Indonesia 2011.

Note: Data are approximate. Total population and poverty data are from different surveys so some totals do not exactly match.

‘enclave development’ pattern of growth in the province was identified as a challenge for policy-makers over 20 years ago when Dawood and Sjafrizal (1989: 122) noted that ‘The challenge for the provincial government is to harness the indirect effects of the [oil and gas] boom to develop the potential for the rest of the economy’. This is a challenge which still needs to be addressed by policy makers in Aceh.

Thus, in order to make inroads into poverty, a second main policy step needed is to find ways of encouraging development which is pro-poor. In particular, an increasing emphasis on development in rural areas is needed during the transition period because there have been concerns that some aspects of post-tsunami assistance have been urban-oriented. Measures would appear to be needed on both the supply side and the demand side of local rural economies in Aceh. On the supply side, programs to increase the productivity of farmers would help increase output. But it is very discouraging for farmers to put effort into increasing production only to find that it is difficult to sell their goods. Thus on the demand side, programs to improve access to markets are needed as well. Improving rural infrastructure (roads, markets, village infrastructure) would help improve access to markets for farmers as well as create jobs and stimulate local economies. Indeed, it was measures along these lines that Dawood and Sjafrizal identified two decades ago to promote development in Aceh:

... to ensure efficient resource allocation and exploitation of the province’s abundant natural resources, continuing massive investments in infrastructure – particularly roads – are required. All the major agricultural subsectors have considerable potential if the current transport bottlenecks can be removed. ... in conjunction with these investments, there needs to be an expansion in agricultural extension programmes in fisheries, forestry, livestock, non-rice food crops, and selected estate crops. These measures will provide the ‘unity of the dual economy’ and will be important in restoring Aceh to its position as one of the most prosperous and progressive regions in Indonesia.

Looking ahead, these recommendations for infrastructure investment and other supply-side measures to boost productivity seem just as appropriate today as when they were set out in the late 1980s. But in addition, as will be discussed in later sections of this study, other steps to promote rural development seem to be appropriate as well. Programs are needed to help improve access to markets for rural producers, and targeted measures to reach the poor in rural areas should be designed.

Debates about the provincial government. The political and social environment in Indonesia in 2011 is very different to that which prevailed in Indonesia during the Soeharto New Order period which ended in 1998. Indonesia is now widely recognised as one of the most democratic countries in Asia.

The shift towards a much more contestable political model at the national level in Indonesia has naturally been reflected at the provincial and district level as well. It is now quite common across Indonesia for the decisions of political leaders at both the provincial and district government levels to be discussed vigorously by regional media (such as the daily newspaper *Serambi* in Aceh) and by civil society groups. As just one example of the way that issues are discussed in this open and contestable environment, in December 2009 a series of criticisms were levelled by a *Serambi* columnist at the Aceh provincial government (Aryos Nivada 2009). Detailed matters of comment included the following:

- (a) Administration of the *Badan Reintegrasi Damai Aceh* [Agency for the Peaceful Reintegration of Aceh]
- (b) work of the Committee for the Acceleration of Neglected Areas of Aceh
- (c) problems with the Agency for Sabang Area Management
- (d) credit issues from the Regional Development Bank of Aceh
- (e) the moratorium on illegal logging
- (f) suggestions of increasing corruption in Aceh

Considering the comments in their entirety, the suggestion in this particular case seems to be one of incompetent administration within the provincial government. Whether this is true in the particular examples mentioned is doubtless open to question. However, more generally, what is notable in the current environment of public discourse in Aceh is a perceived freedom on the part of civil society actors to criticise governments as well as a willingness on the part of governments to respond to criticisms. A second aspect of the current vigorous nature of public policy dialogue in Aceh is that discussions focus on both policy formulation and implementation. Some commentators press for better and clearer policies in such areas as post-tsunami policy development and government management. Other commentators are more concerned with perceived shortcomings in down-to-earth issues of service delivery in such sectors as health, education, basic transport services, and law and order.

Pemekaran [proliferation] of government. In recent years, there has been a remarkable proliferation of regional government units in Indonesia at both the provincial and district level through the splitting of existing regions. This process has become known as *pemekaran* (proliferation, or blossoming). In historical terms, there was a marked phenomenon of *Pemekaran* during the 1950s (Table 1.2), especially during the latter part of the decade.¹¹ The process slowed somewhat during

¹¹ See the UNDP study (2009:5), *The missing link: the province and its role in Indonesian decentralization* for some details of the historical background of the tension between centralistic tendencies and pressures for decentralisation in Indonesia.

the 1960s, and then during the long 28 year period of the main part of the Soeharto New Order from 1971 to 1998, the process largely stopped. But following the surge of support for decentralisation which occurred after the main decentralisation laws were passed in 1999, the process of *pemekaran* led to a jump in the total number of large regional units (provinces and districts) from around 330 in 1998 to over 520 ten years later.

The process of *pemekaran*, widely seen as a welcome change at the end of the Soeharto era, has become increasingly controversial.¹² Whilst initially, at the end of the centralised Soeharto era, the idea of sharing authority and power more widely across the Indonesian archipelago received much support, scepticism has grown as the political and administrative implications of the proliferation of regional governments have become more widely felt. A USAID-supported Democratic Reform Support Program study summarised the developments as follows (USAID DRSP 2009: 16):

Pemekaran was seen to be driven by a broad range of factors. Often explained in terms of service improvement and bringing government closer to the people, closer scrutiny revealed a preference for homogeneity, rent seeking and pursuit of political advantage. Fiscal incentives played a role. The negative consequences were not as visible as the advantages, but were felt by more people. This included higher per capita costs of government; a reduced capacity to adequately discharge the functions, assigned uniformly to all districts/cities; increased potential for inter-group (ethnic, religious) conflict.

Support for the process has not been strengthened by the tendency for some political figures and officials in the newly established regional units to spend money on new government infrastructure (buildings, office facilities, and transport) rather than on improvements to service delivery. More recently, the *Aceh Human Development Report* (2010a) has noted that in broad terms, the overall performance of governments in the newly-announced regions in Aceh has tended to be disappointing.¹³

The process of *pemekaran* has presented important challenges for the Government of Aceh. For one thing, a number of new administrative units have been established in recent years in Aceh. Of the existing 21 district governments in Aceh, 11 have been formed since 2000. And these *pemekaran* pressures reverberate at the subdistrict (*kecamatan*) levels as well. The number of subdistricts in Aceh increased from 243 in 2006 to 276 just two years later in 2008. And at the national level across Indonesia, the number of *kecamatan* increased from 5,656 to 6,520 over the same period (BPS, *Statistik Indonesia*, 2010). This process reflects strong local political pressures from political actors and communities who believe that they will be advantaged by *pemekaran*. In February 2010, for example, demonstrations in the capital of South Aceh *kabupaten*, Tapaktuan, obliged the *kabupaten* head to agree to put a proposal to the local regional assembly proposing the further fragmentation of the *kabupaten* by the formation of new *kecamatan*.¹⁴

¹² See, for example, the critical comments from a spokesperson for the Indonesian Human Rights Committee for Social Justice reported in 'Pemekaran wilayah: Jumlah kota di Indonesia meningkat 57 persen lebih [Regional pemekaran: total number of cities in Indonesia jumps by over 57 percent]', *Kompas*, 12 October 2011.

¹³ In June 2011, President Susilo Bambang Yudhoyono reflected widespread concerns about the process of *pemekaran* when he said that there had been many difficulties with the arrangements. He said that there were some instances of success but that there were even more instances of regions with problems. See 'Pemekaran daerah: presiden akui banyak masalah [Regional pemekaran: president acknowledges many problems]', *Kompas*, 24 June 2011.

¹⁴ 'Ribuan warga tuntutan pemekaran kecamatan' [Thousands demand the creation of *kecamatan*], *Serambi*, 27 February 2010.

As elsewhere across Indonesia, pemekaran in Aceh has led to new demands of various kinds, both in terms of the dynamics of provincial politics as well as in terms of administrative and financial arrangements. Further, the capacity of the administrative units varies widely.¹⁵ Importantly, the establishment of each of the new regional units automatically leads to the establishment of a regional assembly with political players.

This, in turn, leads to new social, financial and political debates at both the level of the regional units and at the provincial level. As the USAID DRSP study (2009: 17) observed, 'The creation of new minorities within the new regions also holds the potential for conflict, and raises the possibility of subsequent claims for new regions or reconfiguration of regions.' Some of the main implications of these developments will be considered in more detail below.

Tabel 1.2: Creation of new administrative units in Indonesia

	Provinces	New units created Districts	Total	Running Total
1950-1955	6	99	105	105
1956-1960	16	145	161	266
1961-1965	3	16	19	285
1966-1970	1	11	12	297
1971-1998	1	33	34	331
1999-2005	6	136	142	473
2006-2011(a)	0	57	57	530
TOTAL	33	497	530	

Source: USAID DRSP (2009):16 and BPS, Statistik Indonesia, 2011a.

(a) As of mid 2011.

The literature

What is the role of aid after a megadisaster? Should large-scale aid programs after a large disaster give priority to the provision of immediate relief? Or are there longer term goals that need to be borne in mind as well? And if there are both short-term and long-term goals, what is the balance between them? In recent years – and especially following the Asian tsunami of 2004 – these issues of balance between short-term and long-term goals have attracted increasing attention in the international literature about disaster response policy.

The various issues are encapsulated in the LRRD literature about Linking Relief (immediate life-saving support), Rehabilitation (getting people back on their feet), and Development (long-term change towards socio-economic sustainability). The recent LRRD literature suggests that short-term (humanitarian) relief should be planned and implemented in a way that is consistent with long-term (development) assistance. The approach suggests that humanitarian and development assistance needs to be implemented in a mutually reinforcing way during and after emergencies. The argument of the important SIDA study (Brusset et al 2009: 7) which considered long term perspectives on the response to the Indian Ocean tsunami is that

¹⁵ For a useful survey of the financial management performance at the district level in Aceh as of mid 2006, see World Bank (2007).

The LRRD framework is highly applicable in the tsunami context because it combines the efforts of different actors, and explicitly examines linkages between short and long-term recovery objectives.”

Five key development themes are highlighted in the SIDA LRRD study. These are a useful framework within which to consider issues for the future of Aceh. The five themes are:

- The state and civil society.
- Poverty, livelihoods and economic recovery.
- Social fabric and community development.
- Risk reduction.
- Capacity development.

An emphasis on *the state and civil society* gives attention to the perceived roles of public administration and NGOs and other civil associations in recovery and development, and how these have evolved in the post-tsunami context. There are clear challenges in these sectors for Aceh in the coming years. These issues will be discussed in considerable detail in later sections of the study.

As noted earlier, programs to tackle *poverty, strengthen livelihoods activities and boost economic recovery* need to be at the core of an economic strategy for the future of Aceh. The indications are that a change of approach to emphasise rural development and job creation, especially for microenterprise activities, would be appropriate. The SIDA LRRD report observed (Brusset et al: 2009: 16), for example, that in the past,

The focus of aid has often been on rebuilding and improving housing and infrastructure, especially in urban hubs. Meanwhile, most jobs in Aceh and Nias are in the informal sector and likely benefit little from large rebuilding schemes.

Institutions which support the *social fabric and community development* also need to be strengthened. One of the key lessons of disaster relief after the tsunami is that effective communities, working together on the basis of mutual cooperation, play a vital role in promoting both recovery and longer term development.

And another main lesson of disaster relief after the tsunami which relates to *risk reduction* is the importance, in future of supporting the capacity, especially at the local community level, to identify and mitigate risks to society arising from natural disasters.

Especially important for the approach adopted in this study are programs to support *capacity building*. Later sections of this study will consider measures that might be adopted in Aceh to promote local capacity to respond to and recover from crises, and international capacity to facilitate local initiatives and hand over sustainable skills.

Approaches in this study

The approach of this study is to

- Assess the effectiveness of the UNDP Aceh Government Transformation Programme (AGTP) innovations in strengthening governance systems in Aceh, and
- Contribute to the emerging body of knowledge on governance innovations in a post-crisis environment.

In order to undertake the first task, a broad assessment needs to be undertaken of the impact of the AGTP. The AGTP (which will complete most of the planned activities during 2011) is a \$14 million capacity development and support program initiated during 2007. At the broadest level, the work of the AGTP was focussed on the processes of *transition* in Aceh towards normalised government following the closure of the important Aceh-Nias Rehabilitation and Reconstruction Agency (BRR) in April 2009. The three main planned outputs of the program were:

- (1) Enhanced capacity of the Aceh provincial executive to create the institutional and policy framework for successful transition and recovery.
- (2) Enhanced operational capacity of key provincial government agencies (*Satuan Kerja Perangkat Aceh*, or SKPA) to effectively fulfil their transition and recovery responsibilities.
- (3) Enhanced capacity of the Provincial Human Resources, Education and Training Agency (BKPP) to retain, manage and transfer to provincial and district government agencies the knowledge and skills required for successful transition and sustainable recovery.

In addition, in late 2011 in response to the urgent need to facilitate the transfer of post-tsunami assets (Chapter 3 and Table 3.12), the work of the AGTP was extended until 2012 with the addition of a new program output as follows:

- (4) Rehabilitation and Reconstruction assets are transferred and capacity of district governments to manage these assets is enhanced.

A summary of approach embodied in the AGTP is set out in Box 1.3.

As far as the second task is concerned, the study will draw on recent literature about activities in a post-crisis environment to consider priorities for capacity building efforts in Aceh in the immediate and medium-term future. Both the analysis and suggestions in the study, it is hoped, will be useful to a range of stakeholders:

- Decision makers in Aceh at both the provincial and regional district government levels
- policy makers in the Government of Indonesia in Jakarta
- international donors, and
- other partners who wish to contribute to capacity building efforts in Aceh.

Recommendations

Recommendation 1.1

The Government of Aceh should continue to work to define a clear overall development strategy for Province of Aceh in the period ahead. This strategy needs (a) to be consistent with Indonesia's national development strategy, and especially the national MP3EI Masterplan, as well as (b) to define a firm set of priorities for provincial development.

The definition of a clear provincial development strategy, to be led by the Government of the Province of Aceh, is likely to be more difficult than it might seem for three main reasons.

First, the political leadership of the province needs to develop a clear policy for building an effective partnership *between* the state *and* the community. The state needs to define strategies for *facilitating* growth rather than *leading* growth. *Both* the state *and* markets need to be strengthened in Aceh (see Recommendations 6.1 and 7.1 below).

Second, choices will need to be made in setting goals. An effective development strategy will have clear goals, and will set a hierarchy of goals. For example, if it is decided to make rural development a priority, this is likely to imply that funding in sectoral areas (roads, markets, schools, hospitals) will be channelled to rural rather than urban areas. Clear choices of this kind are required for effective leadership in economic policy.

Third, frequent choices will have to be made in managing government resources (see Recommendation 2.1 and 3.1). Over time, human resources will need to be allocated in a way consistent with the provincial development strategy and provincial budgets will need to be designed in a way that reflects the implementation of the strategy.

Recommendation 1.2

A provincial development strategy for Aceh for the next five years should focus on the following priorities:

- Promoting economic growth, especially in a way which is pro-job and which supports income-earning activities in small-scale informal sector activities, especially in rural areas, and
- Converting government financial resources obtained from the resource sector as well as other revenue areas into public goods such as roads, water supplies, electricity, health, education which supply services to the majority of the population.

The provincial development strategy for Aceh for the next five years needs to focus on overall economic growth. This, in turn, implies a focus on increasing the level of investment in both the private and the public sector. An effective strategy will both set goals and will discuss, in detail, *how* the goals are to be achieved.

Rural development, in particular, should be a central part of a provincial development strategy. A package of measures focusing on both the *supply side* as well as the *demand side* would be appropriate. A set of possible approaches to rural development might include improved infrastructure, promotion of productivity at the farm level, provision of key social services, and support for the development of the private sector (Box 6.2).

The effective mobilization and use of financial resources, especially to create public goods to be supplied to the majority of the population, should also be a central part of the provincial development strategy. Management of public finances currently presents a major problem for the Government of Aceh. Steps to improve the situation are urgently needed (Recommendation 3.1 in Chapter 3 below).

Recommendation 1.3

As part of defining a provincial development strategy, the Government of Aceh should consider supporting the publication of an annual report on poverty in Aceh. The document might be prepared by a small team of independent experts and be funded with support from international donor organisations.

The recent *Provincial Human Development Report Aceh 2010*, published with the support of the Badan Pusat Statistik, the Government of Aceh, and the UNDP, provided an important overview of the state of human development in Aceh. It would be an effective follow-up measure, including as a guide to policy makers, if the publication of this Report were supplemented by the publication

of an annual report on poverty in Aceh. The document might be prepared by a small team of independent experts from well-known research organisations (such as Syiah Kuala University) and civil society institutions perhaps supported by inputs from both well-known Indonesian agencies (such as SMERU in Jakarta) and international specialists on poverty studies.

Box 1.3 : Aceh Government Transformation Programme (AGTP)

The AGTP was a \$14 mill capacity development UNDP program initiated in 2007. The program was originally intended to be implemented over a relatively short time span of slightly over three years starting in late 2007 and finishing in 2011. Initially financed by UNDP, AGTP received support from the World Bank Multi Donor Fund program in 2008.

In broad terms, AGTP focussed on the process of *transition* in Aceh towards normalised government following the closure of the major Aceh-Nias Rehabilitation and Reconstruction Agency (BRR) in April 2009. Key objectives of the AGTP were to:

- ... provide strategic and essential support to the transition from recovery to sustainable development in Aceh by ensuring that the provincial government has the necessary capacity and institutional strength to take over projects, assets functions, capacities and resources from BRR and other reconstruction and recovery programs at the end of their mandate.

The program was an important case study of the 'Links between relief, rehabilitation and development' (LRRD) approach to transition to a long-term development environment after a major disaster.

The AGTP had three main planned outputs. These were to support:

Output 1: The Aceh provincial executive – especially the Governor, who took office in early 2007, to create the framework for a transition to post-disaster management in Aceh.

Output 2: Selected provincial government agencies - to help these agencies manage the transition to a post-disaster management environment in Aceh.

Output 3: Provincial Human Resources, Education and Training Agency (BKPP) - to strengthen the capacities of Acehnese civil servants.

Outcomes: Between 2008 and 2010, and into 2011, AGTP proceeded slowly in some areas but made significant gains in others. But in the limited time available, AGTP delivered significant achievements. These included the following:

Under Output 1: Considerable support to a team of high level advisers to the Governor of Aceh known as Tim Asistensi who worked across seven main areas to design, and in some cases help implement, policy programs.

Under Output 2: Support for capacity development across seven key Aceh government agencies with emphasis being given to the need to assist in the transition process towards normalised government in

Aceh following the closure of the BRR in April 2009. Special attention was focussed on several top-priority financial issues and on promotion of gender mainstreaming efforts.

Under Output 3: Cooperation with AGTP helped enable the Aceh Provincial Human Resources, Education and Training Agency (BKPP) to strengthen training programs for Acehnese civil servants. The activity is an important step

towards underpinning improved management and good governance in Aceh at provincial and district levels.

In late 2011, the operations of the AGTP were extended into *Output 4* by the provision of an additional \$3 mill to provide for continuing work until 2012 to support key post-tsunami asset transfer and management activities.

CHAPTER 2

Human Resource Management and Development

Introduction

A key government priority in the wake of crisis is the provision of critical services to the population. This requires committed and competent public servants. In Aceh developing human resources and strengthening human resources management was considered a priority for the newly elected Governor in 2007 and became a focal point of the Aceh Government Transformation Programme (AGTP)—the UNDP-supported initiative designed to strengthen the provincial government executive in preparation for BRR's exit from the post-tsunami institutional landscape. This chapter examines the Government of Aceh's early experiments with public sector reform and the obstacles to future reform efforts.

Overall, the conclusions of this part of the study are that the HRM and HRD challenges Aceh faces are similar to other regions in Indonesia, but are complicated by the legacy of conflict and the damage inflicted by the tsunami. While the special autonomy framework provides an enabling environment for piloting change, the political situation post-conflict has relegated bureaucratic reform to low priority status. Despite some initial attempts to reform human resource management and development practices and the scope for local initiative provide by decentralization and special autonomy, achieving meaningful change in HRM and HRD practices will be a long-term project. Momentum for reform has slowed in Aceh. It is now likely that further reform will be driven by central-level initiatives such as the revised civil service law, expected to be passed by the national parliament in 2012.

Challenges for human resource management and development in Aceh

While the Government of Aceh faces unique challenges in the management and development of its human resources, it shares many challenges with other regions in Indonesia. Despite extensive political reforms begun in 1999, the Indonesian civil service entered the new democratic era relatively unchanged. Legacies of the authoritarian era include under-funded institutions, institutionalized corruption, non-transparent processes and inadequate skill levels. While the rules of the game changed for politicians, the bureaucracy continued to play by the old rules. Decentralization since 1999 arguably compounded the challenges facing the civil service. Fueled by a legacy of political patronage, decentralization only exacerbated the practice of employing friends and family, undermining prospects for the emergence of a modern performance-based public administration.

While some reform-minded local government leaders seized the opportunity of decentralization to rationalize their administrations, new laws muddled the regulatory environment and stymied many attempts at reform. While the 1999 Law on Regional Autonomy (No. 22/99), for example, transferred management responsibility for two-thirds of all public sector employees to local government, a subsequent revision—the revised law on regional Autonomy (No. 32/2004)—gave greater powers over human resources management to elected officials, while simultaneously giving more responsibility to the national Ministry of Home Affairs for setting the rules. By giving greater powers for human resources management to elected officials, the revision to the law created an environment in which the buying and selling of positions became commonplace (Kristiansen et al 2008). The opportunities for patronage reduced incentives for elected officials to drive reforms.

The scope for local governments to implement change to public agencies and human resources management practices remains a highly contested subject in Indonesia. In the case of Aceh, special autonomy raises even more difficult questions about the extent of the provincial government's authority to manage its own personnel (see Chapter 4). Before discussing the specifics of the Aceh situation, it is useful to review the key human resources management challenges that are seen to be an impediment to the emergence of a professional, performance-based civil service in Indonesia.

Inflexible structures: Since 1968 Indonesia's public institutions have been structured along military lines, reflecting the military's once dominant influence in the state. Public agencies are pyramid-structured (*formasi*) with little regard for efficiency. An agency set up under the leadership of an Echelon I (highest ranking) official will normally be allocated four Echelon II officials, 16 Echelon III officials and 64 Echelon IV staff. When functional civil servants and auxiliary staff are taken into account, any unit set up under the charge of an Echelon I official will end up consisting of over 600 staff regardless of the agency's purpose (Synnerstrom 2007). Furthermore, the central government's discretionary block grant (*Dana Alokasi Umum*, DAU) provides funding to the regions in accordance with the level of the personnel on payrolls, providing a disincentive for downsizing.

Recruitment processes: Indonesia's civil service is a career system with a single point of entry. Applicants all sit the same entrance examination, which tests only general knowledge. Once recruited, staff can be placed in any agency without regard for their abilities and preferences. There is very limited scope for lateral entry or for hiring staff with specific backgrounds or expertise. Since decentralization entrance examinations have been administered at the local level, creating opportunities to manipulate results that favor the preferred applicants of local patrons.¹

Staff Job Descriptions and Divisions: Most positions in the civil service, particularly in the regions and at lower ranks, lack formal job descriptions. Appointment to specific positions is not based on the matching of required competencies with staff skills and experience, but on management decisions. Further, the division between 'structural staff' (generalist staff with mainly administrative and managerial duties) and 'functional staff' (specialist staff with largely technical duties) is arbitrary and ignores the reality that public officials need to be equipped with both generalist and sectoral skills. In practice, the career advancement of functional staff through assessment by outside bodies such as the Indonesian Institute of Sciences (LIPI) means that staff are often incentivised to produce highly technical work that is of little direct relevance and utility for the managers of their agency. Thus one of the most important reservoirs of high-level skills is poorly utilized and sometimes completely wasted.

¹ Interview, Sofian Effendi, Advisor on Civil Service Reform, United Nations Development Programme Indonesia, Jakarta, 10 December 2010.

Performance and Promotion: Promotion and transfer procedures do not adequately match competencies with job requirements. Civil servants achieve a certain rank according to seniority, formal qualifications and completion of training and are then allotted a position which equates to their rank. This ‘rank in person’ approach is akin to the military system of promoting an officer and then finding a posting for them. It results in staff being appointed to positions because of their status rather than their suitability and promotes a closed system in which younger but more appropriately skilled people are excluded (Schiavo-Campo & Sundaram 2000: 426).

Performance evaluation processes are vague and emphasize loyalty to superiors. They include a score card for loyalty, fidelity and honesty, and scores are awarded by the evaluatee’s immediate supervisor. The evaluation remains confidential. Promotion is not linked to performance, but to seniority and patronage. The lack of competition and opportunities for advancement based on merit reinforces a culture of patronage.

Remuneration: The adequacy of remuneration from Indonesia’s civil servants is often a focus of debates on bureaucratic reform. While senior government officials often argue that salaries are too low, several studies have shown that total remuneration is generally higher than for the private sector for employees with similar educational qualifications (Synnerstrom 2007; World Bank 2006). Base salaries for public servants are officially quite low, but they are supplemented by a complex array of allowances, including payments for attending meetings. Because civil servants depend for their livelihoods on optimizing receipt of these allowances, the allowances act as a perverse incentive, often determining how an employee will allocate his or her time during the working day. It is common practice, for example, to organize meetings out of town so that participants can claim travel allowances in addition to meeting attendance allowances. The opaque nature of many allowances also fuels a patronage system within the civil service. The threat of losing access to allowances acts as a sufficient deterrent to whistleblowers (World Bank 2003).

Personnel Mobility and Transfer: Under Indonesian labour law, underperforming staff cannot be laid off, nor is there much flexibility to relocate staff to non-strategic areas. This is one reason why the already large civil service continues to increase in size. Regulations also make staff transfers between districts complicated reducing competition and reinforcing locality-based patronage. Nearly all district-level civil servants (including teachers and health workers) will spend their entire careers in the same district with limited exposure to ideas or alternative ways of working that might be learned from other districts or regions.

Skills and Training: While the formal educational qualifications of new civil servants have increased in recent years, most government agencies suffer from a lack of suitably qualified personnel. Limited training is available for civil servants, and the training that is available is often of low quality and generally not based on assessments of agency and staff needs. Training is supply-driven, with training bodies providing a suite of highly formalized courses that are mandatory for promotion at each rank and that have little regard for the specific needs of each agency.

Integrity: A tradition of patronage, low levels of accountability and lack of discipline provide conditions for corruption to flourish. Public servants routinely pay bribes for placements, access to training and promotions. Pensions are underfunded, which motivates many public sector employees to make hay while the sun shines in order to provide for a comfortable retirement. According to a World Bank (2003: 105) study, ‘the existence of discretionary allowances locks staff into a loyalty network that enables extra-budgetary transactions to be conducted and shared under protected conditions.’

While the situation in Aceh is similar in many respects to other regions in Indonesia, and the challenges for human resource management and development directly reflect challenges at the national level, would-be reformers of Aceh's civil service face additional obstacles. During the long conflict era, local government in Aceh atrophied as control and security forces' agenda took precedence over the provision of public goods and services. The extractive conflict economy exacerbated official corruption. In fact, Aceh's administration came to earn the reputation as one of the most corrupt in the country (McGibbon 2006). The region also suffered from a 'brain drain' as talented and educated youth sought opportunities elsewhere.

The 2004 Indian Ocean tsunami placed even greater pressures on public administration in Aceh. First, the tsunami caused the loss of life of an estimated 10% of local government employees. Second, the tsunami and the peace agreement which settled the conflict in 2005 created new demands and public expectations for more effective public administration. The other challenging factor for human resources management in Aceh is the relative size of the public sector in the region's economy. Because the conflict discouraged private investment, local government became the single biggest employer, a situation which continues to this day. Most educated Acehnese now depend on the public sector for employment. The importance of the public sector as the main source of employment in Aceh means that salaries consume 30% of the provincial budget and up to 70% of district and municipality level budgets.²

Efforts to strengthen human resource management

Upon his election in December 2006 Governor Irwandi Yusuf acknowledged the public's demand for better performing public institutions. The Governor expressed his intention to make the reform of human resources management practices a priority of his administration. He moved to implement a series of 'quick wins' as part of his reform initiative.³ International practitioners of post-conflict reconstruction often advocate for quick wins as a means of generating momentum and interest in reform.⁴ As part of the government's new bureaucracy reform program, the Governor oversaw the reduction of the total number of provincial government agencies from 52 to 42. According to Faisal Ridha, Human Resources Advisor to the Governor, the goal was to design a 'simple structure that was rich in functions'.⁵ But the amalgamations were also a response to central government regulations about the allowable number of government agencies at the local level.

The amalgamations paved the way for the Governor's next initiative—the open recruitment of the 42 heads of provincial government agencies. In the first move of its kind in Aceh and one of the first such moves in Indonesia, all serving heads of departments (Echelon II officials) were required to reapply in an open competition for their jobs. With support from UNDP, an Assessment Centre was established under the guidance of international consultants from the UK and from Malaysia's national Institute of Public Administration (INTAN). A Human Resources advisory team, established with UNDP support under the auspices of the Aceh Government Transformation Programme (AGTP), prepared for the first time detailed job descriptions and competencies required for each position.

² Interview, Weri, Human Resources Development Advisor to BKPP, Banda Aceh, March 2011.

³ Interview with Governor's Advisor, Banda Aceh, October 2010.

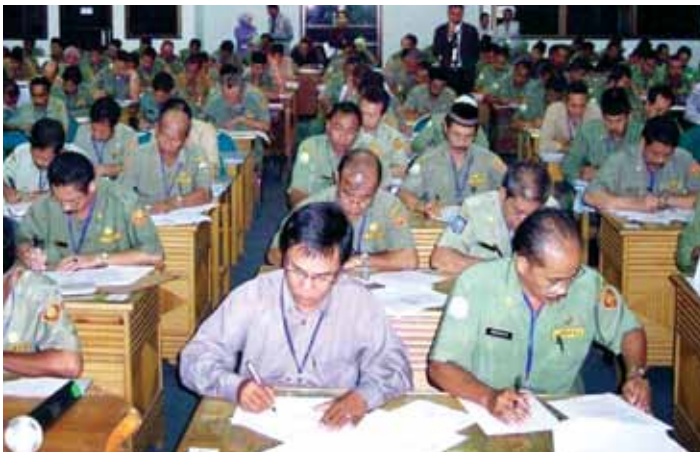
⁴ The 'quick wins' approach to post-crisis reconstruction is not without controversy. As one analyst observes, "quick wins" can be counterproductive if discontinued because they can be at odds with "the steps needed for genuine and lasting change" (see Elhawary et al 2010: 1).

⁵ Interview, Banda Aceh, 8 October 2010.

The team also prepared job descriptions for Echelon III and Echelon IV positions in preparation for the future appointment and promotion of staff at these levels.⁶

In a departure from previous bureaucratic practice, the recruitment drive opened the competition to all qualified civil servants, including those working outside Aceh. Another pioneering feature of the recruitment exercise was that it allowed civil servants at the lower rank of Echelon III to apply for the Echelon II positions as long as candidates met the minimum administrative criteria. In all, 212 candidates applied for the 42 positions, including 24 from outside the province. Applicants were subjected to a series of tests and interviews referred to collectively as ‘Fit and Proper Tests’. The tests covered general aptitudes, but also competencies specific to each department, including ideas for long-term departmental strategies. The Assessment Centre recruited panelists from universities across Indonesia and provided them with a standardized scoring format to assess each applicant. The Assessment Centre then provided the Governor with a shortlist of the three highest-scoring candidates for each of the 42 positions. The Governor then personally interviewed each of the candidates before selecting his new department heads. The recruitment and selection method has since been replicated in some districts in Aceh.

The successes and drawbacks of this exercise should be closely examined in order to apply lessons learnt, not only in relation to the extension of the process to Echelon III and IV staff, but also to draw



Applicants undertaking part of the “Fit and Proper Test”, Banda Aceh, February 2008

wider conclusions about the challenges of public sector reform in a post-crisis situation. The most obvious limitation of the recruitment exercise was that central government regulations prevented the positions from being opened to applicants who were not already career civil servants (PNS). Moreover, although non-Aceh PNS could apply, few actually did

because Aceh is generally not seen as a desirable posting. It also reflects the lack of a tradition of mobility between provinces and districts. This illustrates the challenges of attracting the best possible candidates for senior civil service positions.

Another unanticipated consequence of the process was that many experienced and otherwise competent Echelon II-ranked officials failed to meet the formal administrative requirement for reappointment. According to a former HRM advisor, the abrupt removal of these officials caused unnecessary disruptions to their departments.⁷ The results raised questions about the effectiveness

⁶ Interview with Human Resources advisory team (*tim asistensi*) leader, Professor Jasman Ma’aruf, Banda Aceh, March 2011.

⁷ Interview, Weri, Human Resources Development Advisor to BKPP, Banda Aceh, March 2011.

of the process, despite its rigorousness, in identifying appropriate candidates. Further questions were raised when the Governor dismissed 12 of the newly (re) appointed heads of agencies after serving less than 12 months in office. According to one of the Governor's advisors, this decision was made on the basis of a performance evaluation of all heads of department conducted six months after their appointments. Because of the high rank of these officials, there were no positions that they could be transferred to so a decision was made to appoint the 12 as advisors to BKPP. All 12 former department heads were rather ignominiously located in one room within BKPP without clear duties. They continued, however, to receive their Echelon II salaries.

One of the criticisms leveled at the recruitment process was that it did not truly represent an effort to permanently improve recruitment so much as an opportunity for the Governor to place trusted allies in key positions. This criticism appeared to be supported by the fact that the Assessment Centre established for the process was not maintained for future recruitment, including for officials at Echelon III and Echelon IV levels. Other provinces have since moved ahead of Aceh in conducting 'Fit and Proper Tests' for officials at these levels. For example, the cities of Surabaya and Gorontalo are provincial level administrative units where similar merit-based recruitment mechanisms have been implemented. That there were political motives behind the 'reform' initiative should come as no surprise, however. It must be remembered that public sector reform is an inherently political as well as a technical exercise.

One important outcome of the recruitment process was the precedent it set for merit-based recruitment in Aceh. The development of a professional civil service in Aceh and other parts of Indonesia has long been undermined by patronage systems, which reward staff on the basis of loyalty rather than on performance. The prevalence of patronage and the absence of a tradition of meritocracy discourage civil servants from proving themselves through their professional performance. The merit-based recruitment process held for Echelon II officials has already been replicated by some districts in the province. But the potential for the process to promote a merit-based system will be limited unless the ad hoc Assessment Centre is made permanent and used for future recruitment at all echelon levels as has been tried in other parts of Indonesia. At present there are no indications that the Assessment Centre will be maintained or that such an open recruitment process will be used for future rounds of staff appointments.

The rapid removal of 12 of Aceh's 42 department heads within 12 months of their appointment also raises concerns about the effectiveness of the recruitment process. A corollary problem was the perceived arbitrariness of the sackings, which instilled fear in other department heads. This fear was particularly pronounced among those without strong personal ties to the Governor or former combatant networks, highlighting the centrality of politics in the reforms. Indeed there was sometimes a tendency within the government to evaluate personnel on the basis of their conflict-era credentials. While this would appear to be an inevitable development in the immediate post-conflict period, it raises doubts about the potential for the competitive recruitment process to shape a meritocratic culture in Aceh in the short term.

Across provincial government there were also mixed views on the effectiveness of amalgamations of some provincial government departments in Aceh. According to an advisor from INTAN, the amalgamations did not result in new structures, but merely the joining at the hip of departments under the overall leadership of one person. Staff and structures remained the same and little streamlining took place. In most cases it appeared that amalgamated departments continued to operate as separate agencies under the one roof.

The amalgamations reduced the number of staff with Echelon ranks, which decreased the Government's overall salary bill. However, the dramatic cut back in Echelon positions had its drawbacks, particularly at senior levels. In the case of the Human Resources, Education and Training Agency (*Badan Kepegawaian, Pendidikan dan Pelatihan, BKPP*)—an amalgamation of the agencies of human resource management and human resource development and training, the rank of the head of the training division was lowered to an Echelon III (when the training division was a separate agency, the agency head was ranked Echelon II). Because of the importance attached to individual rank rather than position within the Indonesian system, the new arrangements made it difficult for the division chief to liaise with counterparts in other provinces, all of who were ranked Echelon II.

The amalgamations also did little to reduce the overall number of staff employed by the provincial government. In fact, the total number of staff working for the provincial government steadily increased between 2006 and 2010. According to available figures, there were 6,670 provincial-level PNS in 2006, 7,024 in 2007, 7,240 in 2008, and 7,492 in 2009. Including functional specialists, the total number of provincial government civil servants at the start of 2010 was 8,451—a 27% increase in staffing levels since 2006. Table 2.1 shows changes in staffing levels by rank following the amalgamations. Note the increase in auxiliary staff levels far exceeds the reductions in permanent staff positions.

Table 2.1: Aceh provincial government staff levels before and after amalgamation of government agencies

	2007	2008	Change
Number of provincial government agencies	54	42	-10
Staff Levels			
Echelon I	1	1	0
Echelon II	79	47	-32
Echelon III	359	226	-133
Echelon IV	1,093	594	-499
Non-echelon (auxiliary staff)	5,492	6,372	880
TOTAL	7,024	7,240	+216

Human resource management: women in the public service

A major challenge for policy makers in Aceh is the representation of women in the public service. Aceh has one of the lowest levels of participation rates for women in public sector employment in Indonesia. Only 36% of provincial government employees are women compared with the national average of 45% (UNDP 2010c). The relative position of women is more strikingly highlighted by the proportion of women in the higher echelons of the civil service (Table 2.2). As of 2011 BKPP did not have a plan to increase the participation rate of women in the civil service.

One positive step for women's advancement in Aceh's public sector has been the elevation of the Women's Empowerment Bureau (*biro*) to the status of government office (*badan*). This happened during the first year of the Irwandi administration, but only in response to large civil society protests

Tabel 2.2: Percentage of employed in civil service by echelon⁸

	Echelon IV		Echelon III		Echelon II		Echelon I	
	M	W	M	W	M	W	M	W
Aceh (province)	75	25	89	11	96	4	100	0
Indonesia	53	48	53	47	55	45	91	9

against an earlier attempt to merge the bureau with the Welfare Bureau. The government eventually established a joint Office for Women's Empowerment and Child Protection.

The challenge for women's advancement in Aceh's public sector is also reflected in the composition of the provincial legislature. Only four out of the 69 sitting members are women. And the four female representatives were elected from among a total of 304 female candidates competing in the April 2009 legislative elections (Mellyan 2009). While the representation of women in the national parliament and in other regional legislatures in Indonesia is steadily increasing, in Aceh there has been little progress.

Human resource development

In 2011 the total number of provincial government employees was 8,989. A larger number of civil servants—106,368—worked at the district and municipal level, reflecting the greater responsibility of these levels of government for most public services, including health and education. The total number of public sector employees in Aceh counted for 2.3 % of Aceh's population of 4,695,566.⁹ This figure was significantly higher than the Indonesian national average of about two percent.¹⁰ There thus appeared to be a sufficient number staff to perform government functions in Aceh. Aceh's civil servants also had reasonably high levels of formal education. In 2010, 65 % of provincial level public servants had university degrees or other form of post-secondary qualification (Table 2.3).

Tabel 2.3: Percentage of employed in civil service by echelon

	Provincial Government Departement	PhD	Mast	Bach.	Dip.	SHS	JHS	ES	Total
1	Sekretariat Daerah	1	80	218	44	168	28	7	546
2	Sekretariat Dewan Perwakilan Rakyat Aceh Prov. NAD	0	6	58	22	66	11	1	164
3	Badan Perencanaan Pembangunan Daerah	1	13	74	7	14	2	0	111

⁸ National data from 'PNS Dirinci Menurut Kelompok Umur dan Golongan, Desember 2009', Badan Kepegawaian Nasional/National Civil Service Agency (<http://www.bkn.go.id/stat2009>), cited in UNDP (2010c). Aceh data from BKPP: <http://bkpp.acehprov.go.id>, accessed 7 October 2011. Echelon 1 is the highest civil service rank. There is only one Echelon I official in Aceh's Provincial Government.

⁹ Source: Biro Pemerintahan Setda Aceh (July 2009) www.acehprov.go.id

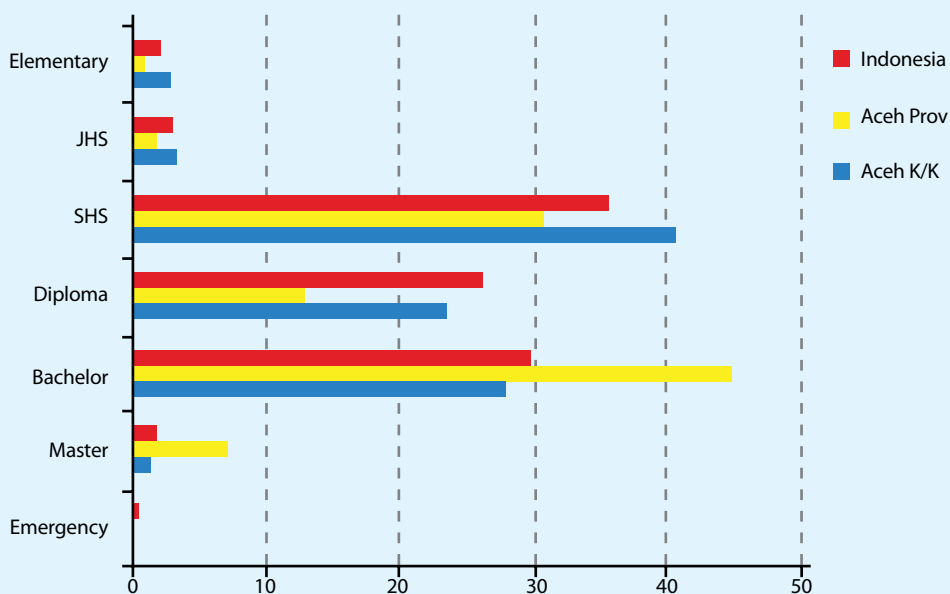
¹⁰ Calculation based on 2010 census data, Indonesia Central Bureau of Statistics (www.bps.go.id), retrieved 20 February 2011. The figure does not include auxiliary staff for which there is no reliable data, although one estimate places the nation-wide figure at 1.5 million (Synnerstrom 2007).

	Provincial Government Departement	PhD	Mast	Bach.	Dip.	SHS	JHS	ES	Total
5	Badan Investasi dan Promosi	0	7	30	7	12	0	0	56
6	Badan Pemberdayaan Perempuan dan Perlindungan Anak	0	5	33	1	11	0	0	50
7	Badan Ketahanan Pangan dan Penyuluhan	0	6	58	2	10	4	1	81
8	Badan Pemberdayaan Masyarakat	0	10	44	12	38	2	0	106
9	Inspektorat Aceh	0	11	72	12	10	1	0	106
10	Badan Kepegawaian, Pendidikan dan Pelatihan	0	32	102	22	40	4	1	201
11	Badan Kesatuan Bangsa, Politik dan Perlindungan Masyarakat	0	9	49	7	28	2	1	90
12	Badan Pelayanan Perizinan Terpadu	0	1	5	0	0	0	0	6
13	Badan Arsip dan Pustaka	0	4	59	25	34	3	1	126
14	Badan Pembinaan Pendidikan Dayah	0	6	19	3	4	1	0	33
15	Badan Pelayanan Kesehatan RSUZA	0	47	257	320	210	8		844
16	Rumah Sakit Jiwa	0	5	60	116	73	3	0	257
17	Dinas Kehutanan dan Perkebunan	0	23	210	12	161	9	2	417
18	Dinas Kelautan dan Perikanan	0	14	98	11	122	2	4	251
19	Dinas Kesehatan	0	39	204	53	93	3	1	393
20	Dinas Perindustrian, Perdagangan, Koperasi dan Usaha Kecil Menengah	0	15	144	27	86	6	5	283
21	Dinas Pertanian Tanaman Pangan	0	29	346	35	152	12	1	575
22	Dinas Kesehatan Hewan dan Peternakan	0	5	122	8	57	2	1	195
23	Dinas Pertambangan dan Energi	0	13	77	12	27	1	0	130
24	Dinas Pengelolaan Keuangan dan Kekayaan Aceh	0	25	160	51	120	8	2	366
25	Dinas Kebudayaan dan Pariwisata	0	14	98	33	84	7	0	236
26	Dinas Sosial	0	18	89	13	65	1	3	189
27	Dinas Pendidikan	1	33	163	16	131	7	4	355
28	Dinas Perhubungan, Komunikasi, Informasi dan Telematika	1	22	112	40	109	5	3	292

29	Dinas Pengairan	0	39	146	30	164	9	6	394
30	Dinas Bina Marga dan Cipta Karya	0	54	284	56	251	26	16	687
31	Dinas Pemuda dan Olah Raga	0	5	38	11	23	1	0	78
32	Dinas Syariat Islam	0	5	52	8	27	3	0	95
33	Dinas Tenaga Kerja dan Mobilitas Penduduk	0	11	163	30	97	7	2	310
34	Kantor Penghubung Pemerintah Aceh	0	3	17	5	20	2	2	49
35	Rumah Sakit Ibu dan Anak	0	8	52	66	47	0	0	173
36	Satuan Polisi Pamong Praja dan Wilayahatul Hisbah	0	4	49	2	5	0	0	60
37	Majelis Adat Aceh	0	0	2	0	3	0	0	5
38	Majelis Permusyawaratan Ulama	0	0	4	2	5	0	0	11
39	Baitull Mal	0	0	6	1	4	0	0	11
40	Komisi Pemilihan Umum	0	1	13	1	5	1	0	21
41	Sekretariat Korpri	0	0	2	1	8	1	0	12
	TOTAL	4	630	3,835	1,127	2,604	185	66	8,451

(a) SHS = Senior high school; JHS = Junior high school; ES = Elementary school.

Figure 2.1: Educational qualifications of Aceh provincial and district government staff compared with average for whole of Indonesia, 2010¹¹ (percentages of total staff)



¹¹ The percentage of staff with PhDs are 0.04 for Aceh Provincial Government, 0.01 for Aceh District and Municipality governments and 0.2 for Indonesia as a whole.

The educational background of civil servants also compares favorably with Indonesia's national average (Figure 2.1). In fact, the percentage of Aceh provincial civil servants with a bachelor or master degree (45% and 7% respectively) is significantly higher than the national average (30% and 1.9% respectively). Educational qualifications of the 106,368 civil servants working at district and municipal levels in Aceh also compare favorably with national averages.

It can therefore be safely argued that education qualifications are not the major capacity-building challenges for provincial government in Aceh. The more important problem is that educational backgrounds of civil servants are seldom matched to job requirements. There are insufficient mechanisms for ensuring that educational qualifications are relevant to the duties performed by staff. There are numerous examples of civil servants working in specialized areas without the required educational background—e.g. graduates of religious studies courses working in finance. New entrants to the civil service with a degree will be assigned a higher rank (*golongan*), regardless of their skills and experience in administration and management. Conversely, civil servants cannot advance to a higher level echelon positions if they do not possess the minimum qualifications assigned to that position, even though they may be highly experienced and suited to the task.

The heavy weighting accorded to formal qualifications in appointments and promotions causes various problems. At the district and municipality level, requirements often mean that only teachers have the qualifications needed for certain positions (as registered civil servants, teachers are eligible for government positions). Indeed there are many examples throughout the province, and throughout Indonesia, of teachers being appointed to senior administrative positions without having any administrative training or experience. Another problem related to the heavy weighting given to formal qualifications in appointments and promotions is fraud. Because of the perceived difficulty of obtaining advanced qualifications once employed, many civil servants simply purchase their diplomas. It is common to find civil servants holding diplomas from educational institutions in Medan for studies supposedly undertaken while they were employed full time in Aceh. According to Acehese academics, the practice of purchasing diplomas is widespread, particularly at the district and municipality level.¹²

Perhaps the biggest challenge for human resource development in Aceh, however, is the quality of training available to civil servants. The overall responsibility for developing human resources in provincial government rests with the Human Resources, Education and Training Agency (BKPP) in Aceh. As noted above, the BKPP was created by the amalgamation of the Civil Service Management Agency (*Badan Kepegawaian*), the Bureau of Civil Servants within the government secretariat (*Biro Kepegawaian*) and the training agency (*Badan Diklat*). BKPP is a relatively small agency, with a total of 205 staff, of whom 162 are classified as 'structural' staff (*staf struktural*) with mainly administrative and managerial roles and 43 trainers who are classified as 'functional' or specialist staff (*staf fungsional*).

The training division of BKPP (*Diklat*) offers induction training to new entrants as well as a range of courses for civil servants at the Echelon III level and below, including several courses that are mandatory for promotion at each rank.¹³ As such, courses tend to be highly formalized. There is an emphasis on completing a course in order to meet the requirements for promotion, rather than

¹² Interview, former Political Advisor to the Governor, Banda Aceh, 8 December 2010; and roundtable discussion on political developments in Aceh with academics at Syiah Kuala University Law School, Banda Aceh, 9 August 2010.

¹³ Training for senior civil servants (Echelon I and II) is organized by the central government's State Administration Agency (*Lembaga Administrasi Negara, LAN*).

whether the content of the course will effect positive change in the skills, knowledge or attitudes of participants. Teaching methods place emphasis on the passive endurance of courses rather than active participation and learning.

In recognition of the importance of BKPP in strengthening the overall capacity of provincial government personnel, the Aceh Government Transformation Programme (AGTP) allocated a large part of its budget for the provision of capacity support to BKPP. Since its amalgamation, BKPP has improved its facilities. It now has a new building and a computer laboratory for software-based training programs. With donor support, the agency has also developed new training courses in the operation and maintenance of computerized asset management systems, which will assist the provincial government assume responsibility for post-tsunami recovery assets.

Despite these improvements, BKPP's training division has limited capacity for developing human resources in Aceh. Training continues to be supply-driven, with BKPP proposing the courses it will offer at the start of each year. Training is mostly conducted by in-house trainers rather than external experts, which means that sectoral agencies tend to rely on their own in-house training divisions for technical skills training, sending staff to BKPP only for mandatory courses. BKPP does not conduct needs assessments of the agencies for which it is supposed to provide training services. Further, there has been no systematic assessment of staff competencies. The Mid Term Review of AGTP (2010) determined that, to be effective, BKPP would need to change its business model to focus more on serving clients' needs.

A major impediment to human resources development in Aceh appears to be BKPP's resistant to change. Like much of the local bureaucracy, BKPP's work culture is a legacy of the authoritarian era in which lower level units simply did as they were told instead of deciding for themselves what needed to be done to become a more effective government agency. BKPP shares with other public service agencies a culture of entitlement that is at odds with a modern public service ethos. As part of the design stage of the AGTP capacity development component, in late 2007 UNDP sponsored a capacity needs assessment of the three agencies that were soon to be merged into BKPP. The assessment was based on self-assessment methodologies known as the Capacity Assessment Framework and Open Systems Analysis. As part of the assessments, which were conducted in depth over several days, agency employees identify organizational challenges and express their views on the agency's progress at meeting those challenges. The international consultant tasked with overseeing the capacity needs assessment concluded the following from the results (Reed 2007: 40):

The answers obtained demonstrate clearly that there is a distinct lack of a meaningful or effective management ethos, system, or practice. Individuals seem to do what they are told to do, or what they believe they should be doing, on a daily basis for the most part with little understanding (or in many cases interest) in what other individuals, departments, or units may be doing.

The culture of the organization is a mix of a control ethos on the one hand (where positional authority and regulation is paramount), and a system where informal alliances, links, patronage and 'belonging' to influential groupings is more important than official positional authority for all but the most senior post holders. Irregular methods of problem solving including financial irregularity undoubtedly exist and lead to a situation where bureaucratic inefficiency and blockages are closely aligned with financial and nepotistic corruption mechanisms to keep the wheels turning, or not, as the case may be.

Developing BKPP's capacity became a large focus of the AGTP program. AGTP's third component (Box 1.3) was focused on developing BKPP capacity to retain, manage and transfer to provincial and district government agencies the knowledge and skills required for successful transition and sustainable recovery (AGTP 2010). This component was managed from within BKPP in order the develop BKPP's capacity to administer such processes in future. The component included the production of a comprehensive capacity development needs assessment (CDNA) and capacity development plan (CDP) for each participating agency (UNDP 2010b). Eight agencies were initially chosen by the Governor for participation in the exercise:

- a) Human Resources, Education and Training Agency (*Badan Kepegawaian, Pendidikan dan Pelatihan, BKPP*)
- b) Regional Planning and Development Board (*Badan Perencanaan Pembangunan Daerah, BAPPEDA*);
- c) Environmental Impact Management Agency (*Badan Pengendalian Dampak Lingkungan, BAPEDAL*);
- d. Aceh Office of Financial and Wealth Management (*Dinas Pengelolaan Keuangan dan Kekayaan Aceh, DPKKA*);
- e) Women's Empowerment and Child Protection Agency (*Badan Pemberdayaan Perempuan dan Perlindungan Anak, BPPPA*);
- f) Department of Education (*Dinas Pendidikan, DISDIK*);
- g) Department of Transport, Communication, Information and Telematics (*Dinas Perhubungan, Komunikasi, Informasi dan Telematika, DISHUBKOMINTEL*); and
- h) Secretariat of the Aceh Regional Assembly (*Sekretariat Dewan Perwakilan Rakyat Aceh, SETWAN*).

Despite BKPP's lead role in hosting the exercise and the fact that it was one of the target agencies for the CDNA-CDP process, the agency's leadership ultimately refused to submit BKPP to the CDNA-CDP process. According to an AGTP staff member working on this component of AGTP, senior officials at BKPP argued that the agency did not need capacity development—that it was already capable of performing the functions it needed to perform and that the only problem it faced was 'political interference'—a reference to the favors demanded by elements linked to former combatant networks.¹⁴ Despite the challenging political environment, BKPP's refusal to participate in the CDNA-CDP process highlighted the agency's continued resistance to change despite an already large donor investment in boosting the agency's capacity. As noted by the AGTP Mid Term Review, BKPP's capacity to develop human resources, indeed the future relevance of its training division, will depend on changes to the agency's business model and in the government's approach to funding the agency. However, recent cuts to the budget for BKPP (the budget was halved in 2010 and reduced to zero in 2011) suggest that BKPP's training programs are a low priority for the government. Until a new finance and business model is put in place, BKPP's training activities appear to be in the hands of donors, notably UNDP's AGTP. As noted in the AGTP Mid Term Review (Bhattacharjee 2010: 30), this will require a continued injection of funds over many years. It might also require a change in capacity development approaches so that there is more focus on systemic-level challenges. As similar reform initiatives around the world have shown, this is a process that will take many years. Public administration reforms, even under stable conditions, typically take longer than a decade (World Bank 2006).

¹⁴ Interview with former AGTP staff member, Jakarta, 8 December 2010.

Opportunities for reform to human resource management practices

Even if BKPP is ultimately able to change its business model to provide better quality training, it is questionable how much impact this will have on civil service performance without a concomitant change in human resources management practices across government. So far, despite an earlier vision of 'transforming' government, the Government of Aceh has achieved little genuine bureaucratic reform. The recruitment process for heads of departments was a positive step toward promoting a merit-based culture as an alternative to patronage and entitlement, but because the process was motivated by short-term political expediency, it is likely to be a long time before such processes are replicated or extended to other levels. Further, in April 2012 Acehnese voters elected a new Governor who has not made public sector reform a prominent part of this agenda. Popular demand for reform will be an essential condition for any advancement of the reform agenda.

Six years after the Helsinki peace agreement and five years after the election of a former separatist as Governor of Aceh, it is probably too soon to expect major reforms of government. The new administration's energies have been absorbed by the challenges of learning how to govern and how to manage Aceh's complex post-conflict politics (Chapter 4). Under such circumstances, the fact that government continues to operate must be seen as a success in itself, although the fact that some indicators such as the corruption index have gone backwards is troubling (UNDP 2010a).

Despite the complexities of governing Aceh in the aftermath of the tsunami and protracted conflict, the peace agreement and subsequent LoGA provided an unprecedented opportunity to effect change. However, the opportunity to strengthen HRM and HRD has so far not been taken up. Several senior Acehnese officials argue that the reason for slow progress with change to HRM and other reforms to the civil service are the constraints imposed by national regulations. It is true that many functions of human resources management are controlled by central regulations. For example, central regulations inflexibly determine the size of the bureaucracy, using a military-style formula introduced in 1968 for determining the number of positions each department should have without regard for need. While local governments are theoretically free to reorganize their departments, they are required to obtain approval for their *formasi* from the national Ministry for Bureaucratic and Administrative Reform (*Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi*, MenPAN). And MenPAN has so far shown little inclination to deviate from the existing formulas. At the same time, the central government's funding formulas for fiscal transfers are based on the number of personnel, which serves as a disincentive for streamlining. Other procedures limit mobility between departments and administrative units.

But archaic and restrictive central government procedures have not stopped some other provinces in Indonesia from experimenting with reforms to local human resources management practices. While authorities under Indonesia's decentralization laws remain ambiguous in places and contradictory in others, regions have certainly acquired the right to reform certain basic functions. A number of regions have used the autonomy granted under the Regional Autonomy Law (No. 22/99) to make incremental changes to human resources management where the mandate to do so is reasonably clear. A USAID-sponsored study identified the scope for change within the limits of provincial authority in the area of personnel management (DRSP 2006: 59). The study found that the current regulatory environment gave regions in Indonesia scope to:

- Introduce a human resources (HR) planning tool to determine HR needs over the medium term;

- Introduce supplementary performance appraisal tools which may be used in addition to existing central government methods and linked to performance and local incentives;
- Implement local remuneration policies and procedures (redistribution of local allowances) to increase transparency and accountability;
- Improve disciplinary tools which monitor civil servants presence and enforce the rules;
- Introduce training needs analysis to train suitable civil servants;
- Apply the principle of ‘the right person for the right job’.

A number of regions have already introduced important changes to local HRM practices. In Gorontalo all allowances are now pooled and distributed as performance bonuses. Solok District in West Sumatra has made similar changes. The Surabaya city and the province of West Sumatra have introduced ‘fit and proper tests’ for all echelon staff. Solok City has introduced performance contracts for department heads (World Bank 2006).

While some Indonesian regions have tested the boundaries of their authority in making local reforms, the Government of Aceh has a much clearer mandate for determining how regional and local government affairs are administered. Indeed, while Law No. 32/2004 on Regional Autonomy muddled the waters about the authority for human resources management at the local level, the Law on Governing Aceh (No. 11/2006) clearly places regional and local civil servants under the authority of provincial and district-level government in Aceh. While Article 11, Chapter IV (Governmental Affairs) holds that the central government ‘stipulates the norms, standards, and procedures as well as conduct supervision over the implementation of affairs conducted by Aceh and District/city Government’, the articles from the Law on Governing Aceh (Box 2.1) are relevant to understanding the Government of Aceh’s scope for managing its bureaucracy.

The relevant articles thus provide Aceh with a reasonably clear mandate for effecting change to local administrative practices. While the long wait for supporting regulations to delineate precise powers

Box 2.1: Articles on the division of powers from the Law on Governing Aceh

Chapter IV (The Authorities of Aceh and District/ Municipality Government)

Article 10

- (1) Aceh Government and District/city Government may form institutions, agencies, and/or commission according to this law with the approval of the DPRA/ DPRK except for those which become the authorities of the Government.
- (2) Further stipulations regarding the formation of institutions, agencies and/or commissions as meant in clause (1) are stimulated by Qanun.

Chapter V (Government Affairs)

Article 12

- (1) Aceh and District/city governments administer governmental affairs which become its authorities except for those which become the authorities of the Government [of Indonesia] as meant in Article 7 Clause (2).
- (2) The administration of governmental affairs as meant in Clause (1) will be self-managed and handled by Aceh and District/city governments.

between the centre and the province has definitely restricted the scope for local government action in a number of domains—e.g. land distribution to ex-combatants, human resources management is not one of them. The Government of Aceh has the legal authority to make changes to administrative and personnel arrangements as it sees fit. Indeed, it was on this assumption that the AGTP support to BKPP component appears to have been designed. It is also on this assumption that Aceh was hailed as a potential laboratory for piloting new approaches in bureaucratic reform. Aceh is further enabled by the central government's hands-off approach to Acehnese autonomy and its experimentation with public sector reform has even been encouraged. Indeed, the Ministry of Home Affairs in Jakarta has gone so far as to advocate that other provinces in Indonesia adopt the open recruitment process for heads of government agencies that was piloted in Aceh in 2007 (AGTP 2010).

Momentum for civil service reform, including sweeping changes to human resources management practices, is also gradually gathering more support at the national level. While changes to human resources management practices have been limited to a handful of central government agencies, the new Civil Service Law will likely bring significant change to human resources management practices in Indonesia's central and regional governments (Box 2.2).

Box 2.2: Key features of the proposed new national Civil Service Law

- Establishes an independent Civil Service Commission
- Decentralizes personnel management authority to sub-national agencies
- Establishes a merit and position-based personnel management system
- Establishes a Senior Executive Service as a special cadre of officials to work in all key public agencies
- Reorganizes the national selection system for new recruits, with centrally-administered examinations
- Allows for contract-based employment
- Introduces a performance-based salary system as from 1 January 2010
- Introduces a fully-funded pension system for public servants recruited on or after 1 January 2010

Concluding comments

A sufficient quantity and quality of human resources is an essential prerequisite both for good governance and for the effective and efficient provision of public goods and services in post-crisis Aceh. While the current level of staffing in the Aceh civil service is generally considered to be sufficient, there are deficiencies in the overall capacity of staff. There are also, importantly, major problems in ensuring that staff are recruited, classified, assigned to duties, remunerated, promoted and transferred in ways that help ensure that positions are filled by 'the right person for the right job'. Work practices reflect a culture of entitlement and patronage, which provides little incentive for professional performance.

While Aceh shares many of these problems with the rest of Indonesia—a shared legacy of the authoritarian era—Aceh faces additional challenges. First, the quality of public service deteriorated significantly during the conflict era. Capacity deteriorated even further following the tsunami, which

claimed the lives of as many as 10% of Aceh's public sector workers. And assuming responsibility for ongoing post-tsunami recovery activities and assets has placed additional burdens on the province at a time when the precise division of responsibilities and authorities between the centre, the province and district-level governments under the special autonomy framework remains unclear. Any changes to human resource management practices and human resources development will need to be based on a clearer understanding of the role of provincial government and its relationship with sub-provincial governments under special autonomy.

The Aceh provincial government has made some attempts to increase capacity and reform management procedures. These have included the temporary establishment of ad hoc policy advisory teams (Tim Asistensi) for the Governor, the creation of duty statements for senior level positions based on workload assessments and the opening of these positions for competitive recruitment in which incumbent officials were required to reapply for their positions. Also, the two agencies responsible for human resources management and the one agency responsible for training were amalgamated into a single agency as a platform for establishing a modern civil service college. But, these changes do not represent reform so much as attempts to make a dysfunctional system work a little better and be more responsive to the new political leadership. Indeed, the changes that have been made to human resources management are more limited in scope than changes made by several other regions in Indonesia that do not enjoy as much scope for autonomous action as the Government of Aceh. The desirability of the amalgamations that created BKPP is also being questioned as the former agencies (now divisions within the larger amalgamated agency) continue to operate as independent units. Furthermore, amalgamations resulted in budget cuts, reducing the resources available to each department. Some officials within the agency and at least one Human Resources Advisor to the Governor believe that the amalgamation has decreased the effectiveness of the constituent agencies. The fact that the head of the training division is of a lesser rank than counterparts in other regions is one example of the reduced effectiveness.

Current attempts to change HRM practices and to support HRD have also been driven by donors, most notably UNDP's AGTP program, which has provided a large amount of money and expertise to the newly amalgamated BKPP. AGTP has helped to give momentum to HRM reforms, by helping to deliver some 'quick wins', but the ambitious goal of transforming BKPP into a modern civil service college is unlikely to be met in the near future, not least because BKPP's leadership is resistant to change. AGTP struggled to make inroads largely because it lacked a political champion. While AGTP works through a handful of motivated and capable officials, BKPP's reluctance to participate in the CDNA-CDP process despite being selected as one of the target agencies by the Governor highlights the lack of political pressure for change. The Governor did not push for wider reform beyond the recruitment of heads of agencies. Experience from around the world suggests reform is only possible when there is a focal point for reform at the highest level of government. It is noteworthy that political parties in Aceh are largely silent on the question of civil service reform, including HRM and HRD. Change will be slow until there is more public demand and political pressure for it. Donor programs need to keep this in mind when setting targets and time frames.

Another obstacle to reform has been the complexity of post-conflict politics (Chapter 4). Levels of trust between agencies and individuals in government and between the province and districts remain low. Government employees continue to be evaluated first and foremost by where they 'stood' during the conflict. Former rebels have a strong sense of entitlement now that former GAM leaders have been elected to political office. This sense of entitlement often manifests in behavior more reminiscent of the conflict era than of modern democratic politics—e.g. intimidation and

extortion. Many government departments complain that harassment by ex-combatants makes it difficult to do their jobs. BKPP staff reported that the head of their agency was sometimes forced to hide when ex-combatants visited.¹⁵ Under these sorts of conditions concern for survival will naturally take precedence over bold reform initiatives. It must be remembered that public sector reform is a political as well as a technical exercise, and there is increasing evidence from around the world to suggest that such reforms are unlikely to succeed in the years immediately following conflict. A much longer time horizon is needed if reform support programs such as AGTP are to succeed.

Despite the challenges, there are opportunities to improve human resources management and development practices in Aceh. To succeed change must be sequenced and incremental. In Malaysia, by comparison, the first phase of civil service reform (institution building) was implemented over a 15-year period.¹⁶ The Government of Aceh would do well to learn from experiences such as Malaysia's but also from experiments in other regions of Indonesia. The provincial government in Yogyakarta, for example, has undertaken a number of important reforms, including significantly reducing the number of local civil servants. In addition, it may be possible to cooperate with other regional governments in the planning and trialing of new proposals. Combined cross-regional efforts to persuade the central government to cooperate with ideas for reform, including introducing the necessary regulatory changes, would also be more effective than approaches to the centre by one province alone. This is an area where donors can usefully assist.

Donors already in place, such as AGTP, will need to realign their objectives so that they are more realistically attuned to the current political situation. A key finding from the independent Mid-Term Review of AGTP was that some program activities will need funding for several years beyond the current project duration if they are to achieve their objectives. The Mid-Term Review also recommended a phase-out strategy which would transfer responsibility for financing key program activities. Provincial government financing is needed as a demonstration of commitment to reform efforts—a commitment, which has so far been lacking. At the same time, donors and other advocates of bureaucratic reform would do well to think about how they might stimulate greater public debate about the need for reform and how to harness popular demand for it.

Recommendations

Recommendation 2.1

A review of the Civil Service should be conducted which considers problems, and proposals for reform (including proposals from the public).

Such a review would serve as an important foundation for designing and planning future reforms. The review would be best conducted by a task force established for this purpose. The establishment of a task force on public sector reform would also symbolize the Executive's intent to seriously tackle the bureaucratic reform challenge.

¹⁵ Interview Ramon Hagad, AGTP Human Resources Advisor, 13 December 2010.

¹⁶ Interview with Meng-Foon Lee, former AGTP advisor and senior official at INTAN, Kuala Lumpur, 30 August 2010.

Recommendation 2.2

The Government of Aceh should develop a long-term strategy for public sector reform.

Human resources management is only one dimension of public sector reform. Aceh needs a comprehensive public sector reform strategic plan, which identifies desired changes in the next five, ten and 20 years.

Successful public sector reforms must be incremental and properly sequenced. Change takes time and expectations must be realistic. Malaysia's first phase of civil service reform (institution building) was implemented over a 15-year period. The Government of Aceh would do well to learn from experiences such as Malaysia's but also from experiments in other regions of Indonesia. The provincial government in Yogyakarta, for example, has undertaken a number of important reforms, including significantly reducing the number of local civil servants. In addition, it may be possible to cooperate with other regional governments in the planning and trialling of new proposals.

Recommendation 2.3

A new business model for the Human Resources, Education and Training Agency (*Badan Kepegawaian Pendidikan dan Pelatihan, or BKPP*) should be developed so that the agency is relevant and responsive to training needs across government .

Because BKPP's training programs are supply-driven, BKPP is often unable to meet the identified training needs of other provincial government agencies. In response, other government agencies have established their own training divisions. To maintain its relevance, BKPP's training department (Diklat) should design and offer new training programs in accordance with demand. A new business model might involve fee-based training. Such a model has proven the most effective way of delivering technical and administrative training programs for officials in other modern bureaucracies.

Recommendation 2.4

All senior and mid-level civil servants in the provincial and district governments should be encouraged to undertake appropriate training in management skills.

Current training programs are insufficient for preparing senior officials to lead public sector agencies. One way to approach this might be to contract an outside agency (management training specialist) to develop a training program for Echelon II and Echelon III officials. This should be done in partnership with BKPP, but external expertise will be essential to successful training program design.

Recommendation 2.5

A strategy for recruiting more women into the public service, especially in senior ranks should be developed.

Aceh has one of the lowest levels of participation rates for women in public sector employment in Indonesia. Only 36% of provincial government employees are women compared with the national average of 45%. BKPP does not yet have a plan to increase the participation rate of women in the civil service.

The relative position of women is more strikingly highlighted by the low numbers of women serving at higher ranks. Only 11% of Echelon III-level and 4% of Echelon II-level officials are women. For Indonesia as a whole the average figures are 47% and 45% respectively.

CHAPTER 3

Financial Resources and Budget Processes

Current Outlook

Economic and financial policy makers in Aceh currently face a number of challenges ranging from issues of overall policy to matters involving the detailed financial management of the affairs of the province. This chapter will first consider some macroeconomic issues before turning to discuss several of the priority sectoral matters. Then some of the main practical matters of management of the financial affairs of the province will be outlined in more detail.

Economic analysis of the overall performance of the Acehnese economy in recent years is complicated by the fact that the regional economy is marked by two forms of distinct dualism: there is, first, the difference between the resource-rich oil and gas part of the economy (particularly around the Lhokseumawe area in *kabupaten* Aceh Utara) and the non-oil and gas sector; and there is, second, the difference between the level of development in selected urban areas (especially Banda Aceh) and the rest of the non-oil and gas sectors across the province.

The overall dualism of the regional economy, and several of the implications, becomes clear when the broad structure of the economy is considered in two different ways. First, when the overall statistics relating to the output of the regional economy (regional GDP) are presented *including* data from the oil and gas extractive sector (Figure 3.1 and Table 3.1), the regional economy appears quite balanced. In this snapshot of the economy, the mining and manufacturing sectors appear to contribute a significant amount to the local economy without being dominant.

But a second view of the regional economy is also useful. The production operations in the oil and gas sectors are mainly enclave activities which have few *direct* linkages with the rest of the regional economy. When they are *excluded* from the regional economic statistics, a rather different picture emerges of the structure of the Acehnese economy (Figure 3.2 and Table 3.2). In this second picture, the Acehnese economy is dominated by the two main sectors of agriculture and services. It is evident that there is little activity in the mining or manufacturing sector outside of the oil and gas sector with the exception of a few large firms in sectors such as cement.

Both of these pictures of Acehnese economy are helpful in considering regional economic policy. The first picture is a reminder of the important contribution that the high-productivity, capital-intensive oil and gas enclave sector can make to the economy. It points to the need to ensure that regional economic policies are conducive to operations in the oil and gas sector, and also that long-term regional planning policies make allowances for likely trends in this key extractive sector. And importantly, this view of the structure of the regional economy also points to the need for the provincial government to give careful policy consideration as to the way that the resources flowing

to the province from the oil and gas sector – mainly through tax revenues – can be used effectively for the development of the majority of people in the province.

This first view of the Acehese economy also points to a policy risk which regional economic planners should bear in mind: that Aceh may be exposed to the related problems of a ‘Dutch Disease’ phenomenon as well as the risk of a ‘resource curse’ pattern of development.¹ Problems arising from resource curse issues include unrealistic expectations amongst local residents of the likely gains from resource-oriented projects, resentment when the expected benefits do not materialise, risks that resentment will overflow into local violence of various kinds, and the need for policy makers to handle all of the related economic and social issues with well-judged care. Indeed, arguably social and economic progress in Aceh since the mid 1970s has been held back by local conflicts exacerbated by resource curse factors. Looking to the future, the challenge for regional policy makers is to ensure that resources available to Aceh from the extractive sector in the province are used to promote equitable development. In principle, the task is easy enough – taxation revenues flowing from the extractive sector need to be used to promote visible and effective development projects across the province. But in practice, the implementation of this strategy will require considerable care and good management.

Activities in recent years supported both by Indonesian leaders and by international donors have clearly contributed to an improved environment for policy-making in these areas. In 2006, then former Governor of Aceh, Governor Mustafa Abubakar, initiated a wide range of changes with the strong support of the Indonesian central government (Rusdiono and Mujiyanto 2009). His successor Irwandi Yusuf, has vigorously promoted further reform across key areas of government administration in Aceh. As just one example, shortly after taking office in early 2007, Governor Irwandi instituted sweeping reforms in the leadership of the senior ranks of the provincial bureaucracy. The heads of most of the 42 departments within the Government of Aceh were replaced as part of a process of review, conducted by Governor Irwandi, of changes that he planned to introduce. Although changes of this kind are common in Indonesia when a new governor takes office, they are frequently controversial. However they are often an important step towards broader government reform. Given the large challenges of reforming government management in Aceh that needed to be tackled, the changes that Governor Irwandi introduced provided a strong signal of a changed approach to the management of the public sector in Aceh.

The broad approach to reform that Governor Irwandi has promoted since 2007 has been supported by the international donor community. International agencies which have supported reform include the European Community, USAID, the World Bank working through the MDF, GTZ, and AusAID (LOGICA). In particular, the AGTP activity supported by UNDP has played a main role. Following the gubernatorial elections in Aceh in late 2006 which led to Governor Irwandi Yusuf taking on the position of Governor in early 2007, UNDP approached the newly-elected governor to begin discussions on possible ways to support the new government at a crucial state in the transition in Aceh.² It was agreed that the provision of expert advice – drawing, particularly, on local expertise – would be very helpful in the transitional phase. A series of high level teams to provide policy advice, known as the *Tim Asistensi*, were subsequently formed to assist in agreed areas. Subsequently, the members of the several groups within the *Tim Asistensi* grouping provided on-going high-level briefings for the Governor and other senior government staff over a range of areas to assist with the process of reform. In addition, AGTP focused support for administrative reform on seven key provincial government agencies:

¹ For a discussion of the Dutch disease in the context of the impact of the tsunami in several Asian countries, see Jayasuriya and McCawley (2008). See also ‘Aceh Economic Update’, World Bank, May 2009.

² A summary of Governor Irwandi Yusuf’s career is on Wikipedia at http://en.wikipedia.org/wiki/Irwandi_Yusuf, accessed 21 August 2011.

- Office of the Provincial Secretariat of the Government of Aceh
- The Regional Development Planning Agency (Bappeda)
- The Human Resources, Education and Training Agency (BKPP)
- Aceh Office of Financial and Wealth Management (DPKKA)
- Aceh Inspectorate Office
- Office of Transportation, Communications & Telecommunications (Dishubkomintal)
- Aceh Environmental Impact Control Agency (BAPEDAL)

Activities in support of these agencies will be discussed in more detail below.

The second picture of the regional economy (Figure 3.2 and Table 3.2) is also instructive because it focuses attention on certain key challenges of development. It is clear that nearly all of the activities outside the oil and gas sector are in the agricultural and services sectors. Further, manufacturing activities, outside the oil and gas sector, are almost non-existent.

This structure points, particularly, to the need to harness the special financial resources available to the province arising from the oil and gas sector (mainly ‘Otsus Migas’ funds) and use them in a way that promotes development in the other non-extractive sectors. The conversion of a flow of substantial *financial resources* into *real resources* to provide benefits to the majority of the ordinary Acehnese people is a challenging one. The task is, in a sense, analogous to the use of foreign aid provided through budget support. Issues of targeting government spending, and of evaluating the effectiveness of the use of the funds, need careful consideration. Especially, programs need to be designed which will provide benefits for the great majority of the Acehnese population, most of whom gain almost all of their incomes from the agricultural and service sectors. In these sectors, the great bulk of the productive activities are carried out by farmers or fishermen, or by entrepreneurs engaged in cottage or very small-scale activities using only small amounts of capital and simple technologies. One main aim of policy must be to use substantial amounts of the financial resources from the extractive sector to help lift both productivity and output in the myriad of small scale farms and enterprises in the agricultural and service sectors.

As the above discussion indicates, the share of the oil and gas sector in the regional economy is relatively large. But what is also a very significant structural trend is that the share of the oil and gas sector in the overall Acehnese economy has been falling markedly in recent years (Figure 3.3 and Table 3.3). In 1999, the measured contribution of the oil and gas sector to Aceh provincial regional GDP was 50%. During the decade to 2009, this share fell more or less continuously as the real levels of production declined in the sector; by the end of the decade, the share was well below 30%. The main offsetting growth in the share of regional GDP has been in the service sector (which includes construction, hotels and restaurants, transport, and a range of other services). It is notable that the share of the non-oil and gas manufacturing sector has not expanded at all during the decade. Some of the implications of these marked changes in the structure of the Acehnese economy will be discussed in more detail below.

In reviewing these structural aspects of the provincial economy and in thinking about economic policy, it is useful to take note of the absolute magnitudes (Table 3.4). In money terms, the economic magnitudes being discussed are not large. Total GRDP in 2007, including the oil and gas sector, was around Rp 73 trillion (approximately \$US 7.3 billion). The GRDP *excluding* oil and gas was around Rp 52 trillion (approximately \$5.2 billion).

These magnitudes are important. First, it is clear that Aceh is one of the so-called resource rich provinces of Indonesia with both the advantages and challenges that this situation brings. One of the main advantages, as noted above, is the expanded flows of *Otsus Migas* funds available to the provinces. One of the main disadvantages are the pressures arising from the Dutch Disease phenomenon, including importantly a loss of economic competitiveness when compared with other provinces in Indonesia, especially nearby North Sumatra province which is generally better-endowed with facilities, including the main port of Medan.

Table 3.1: Structure of the Aceh economy (including oil and gas), 2009 (percentages shares)

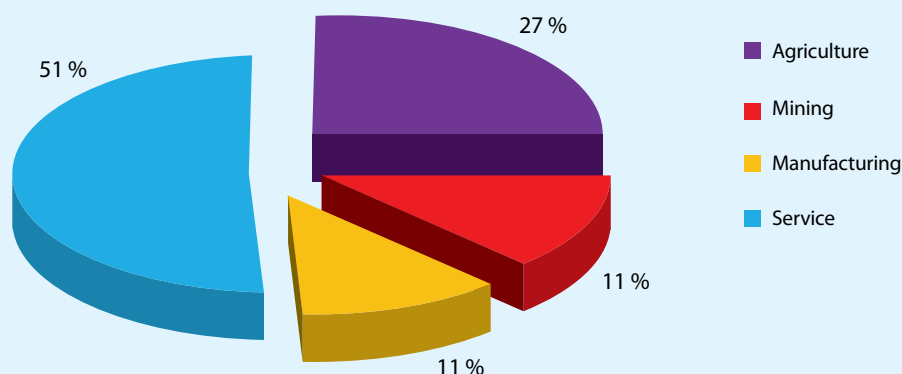


Table 3.1: Structure of the Aceh economy (including oil and gas), 2009 (current prices)

	Rp trill	US\$ Bn	%
Agriculture	19	1.9	27
Mining	8	0.8	11
Manufacturing	8	0.8	11
Services	35	3.5	49
Of which:			
Building	7		10
Trade	10		14
Transport	8		11
Other	10		14
Total	71	7.1	100

Source: BPS and Bappeda (2010)

**Figure 3.2 Structure of the Aceh economy
(excluding oil and gas), 2009 (percentages shares)**

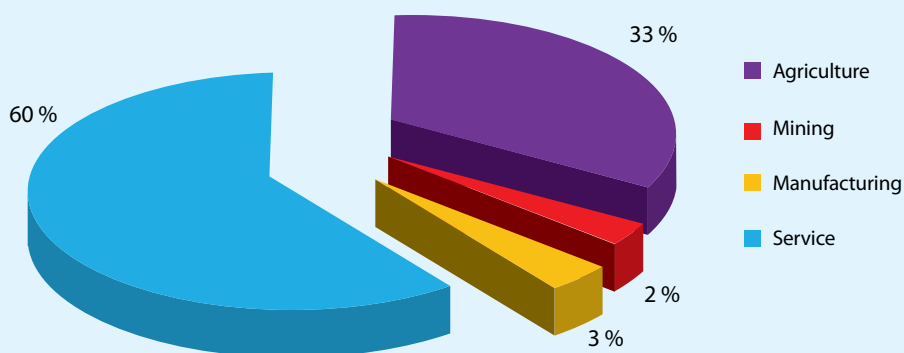


Table 3.2: Structure of the Aceh economy (excluding oil and gas), 2009 (current prices)

	Rp trill	US\$ Bn	%
Agriculture	19	1.9	33
Mining	2	0.1	2
Manufacturing	2	0.2	3
Services	35	3.5	60
Of which:			
Building	7		12
Trade	10		17
Transport	8		14
Other	10		17
Total	58	5.8	100

Source: BPS and Bappeda (2010)

Note: Data in the figure are cumulative and add to 100%. The gap between each pair of lines shows the share of sectors. For example, the gap between the agriculture line and the top (100%) line of the figure shows the share of the oil and gas sector (which is getting smaller over time). See Table 3.3 below.

Figure 3.3: Changes in the structure of the Aceh economy (including oil and gas), 1999-2009
(percentages shares)

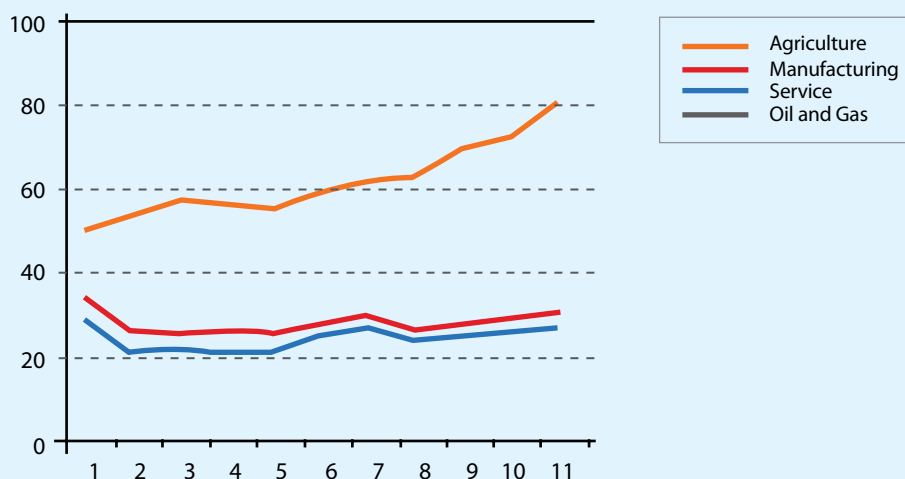


Table 3.3 Changes in the structure of the Aceh economy (including oil and gas), 1999-2009
(percentage shares, current prices)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture	29	21	22	21	21	25	27	24	25	26	27
Manufactures, non- oil	6	5	4	5	5	3	3	2	2	3	3
Services	16	27	31	30	29	32	32	36	42	44	50
Oil and gas	50	47	44	44	45	41	41	37	30	27	20
Total	100	100	100	100	100	100	100	100	100	100	100

Source: BPS, Aceh dalam Angka, various years.

Table 3.4: Gross Regional Domestic Product, Aceh, 2007

Sector	Rp trill		US\$ Bn	%
Agriculture	20.3		2.0	28
Food crops		7.7		
Estate crops		4.3		
Livestock		2.9		
Forestry		2.0		
Fisheries		3.3		
Mining	15.9		1.6	22
Oil and gas		15.2		
other		0.7		
Manufacturing	7.9		0.8	11
Oil and gas		6.1		
other		1.8		
Electricity and water	0.2	
Construction	5.4		0.5	7
Trade, hotels	9.2			13
Transport & communications	5.7			8
Roads		4.6		
Other		1.1		
Finance, real estate	1.4		0.1	2
Services	7.1		0.7	10
Government		6.1		
Private		1.1		
Total				
With oil and gas	73.2		7.3	100
without oil and gas	51.8		5.2	71

Source: BPS, *Produk Domestik Regional Bruto Provinsi NAD, 2004-2007 (2008)*. Data are very provisional.

Table 3.5: Aceh's economy in regional perspective, 2009

	GDP \$US	Pop Mill
Indonesia	539	230
Thailand	264	68
Malaysia	193	27
Singapore	183	5
Aceh province	7	4

Source: *World Bank Indicators*, and BPS for Aceh

A second aspect of the magnitudes that has policy implications is that in economic terms, the economy is small. To say this is not to be critical of the situation in Aceh or to make criticisms of policy making; rather, it is simply to note that the magnitude of the local economy is a factor that needs to be kept in mind in all discussions about the economic management of the province. Some comparisons provide context. The Acehese economy in total is somewhat less than 2% of the Indonesian economy, and much smaller than the neighbouring economies of Malaysia, Thailand and Singapore (Table 3.5). Obviously, the differing populations need to be borne in mind. However, even allowing for the size of relative populations, the differences are striking.

Size has a number of significant policy implications. One is that it is important for the Aceh economy to grow so that decent living standards can be provided for the Acehese people: policy needs to be directed towards strong and sustained economic growth. This, in turn, means that both investment (capital accumulation) and productivity improvements (through, amongst other things, better management and the introduction of newer technologies) need to be a central part of economic strategy.

A second implication is that it needs to be appreciated that the size of most individual production units (farms, and firms, and equivalent units) across the economy are, in economic terms, are relatively very small. They will therefore be quite unable to achieve modern economies of scale. The Establishment Census of 2006 which collected data on non-agricultural firms in Aceh reported that approximately 750,000 people were employed in a myriad of almost 370,000 enterprises across the province (Table 3.6). Several things are striking about this situation. First, the overwhelming number of enterprises were really micro enterprises, reporting the employment of just one or two people in the activity. There were, apparently, few firms with over ten employees. Second, most enterprises (over 90%) reported that they had no legal status. In effect, the great bulk of enterprises were operating in the informal sector with little direct contact with the formal institutions of the state. Third, the majority of people were active in just two sectors – trading, and manufacturing. In the former sector, the operation of small scale stalls and shops was presumably the main activity while the supply of manufacturing services such as the repair of cars and motorcycles, and the manufacture of simple metal-based products, was included in the latter category.

The policy response towards this phenomenon of smallness needs to be two-fold: on one hand, appropriate packages of support (credit, infrastructure, marketing arrangements) need to be designed so as to fit the special needs of microentrepreneurs, especially woman entrepreneurs; on the other hand, policies are needed to encourage the development of larger firms within Aceh. The latter approach is needed because it is unrealistic to imagine that an economy composed of a myriad of microfirms can compete successfully with the larger firms that exist in nearby economies such as in North Sumatra (Medan) and in Malaysia and Singapore.

Another aspect of size is reflected in provincial government expenditures across Indonesia. As noted earlier, because Aceh is one of the resource-rich provinces of Indonesia, provincial revenues benefit from the tax revenues received from the resource sector. This allowed the provincial government of Aceh to maintain a level of total budgetary expenditure of around \$890 million in 2008, or around \$220 per annum per person (Table 3.7).³

³ In some cases, different official sources provide somewhat different estimates of provincial government expenditure in Aceh for various years. These variations are not explained in the sources of the data but presumably they reflect differences in the way different government agencies (both in Aceh and Jakarta) record and report expenditure flows. In some cases, the data are recorded as provisional and can be expected to be amended when final estimates become available.

Three aspects of this level of provincial expenditure need to be noted. One is that the level of expenditure is relatively high by Indonesian standards. The average level of per capita expenditure by provincial governments in Java in 2008, for example, was (excluding the special case of Jakarta) a remarkably low level of \$18 per capita. A second aspect of the level of expenditure in Aceh is although the level is high by Indonesian standards, it is extremely low by international standards and severely limits the level of services that can be provided to the Acehnese community. Similar levels of government in rich OECD countries (in provinces, or province-like jurisdictions) often maintain levels of annual spending around \$6,000- 8,000 per capita. Thus whether the level of spending by the Aceh provincial government is seen as high or low depends entirely upon the benchmark that one chooses to use as a measuring rod.

A third aspect to note is that although the main focus of this study is on the processes of government at the provincial level, expenditure arrangements at the district (*kabupaten/kota*) levels are important as well. Indeed, in Aceh total expenditures at the district level are somewhat greater than those at the provincial level (Table 3.8). For Indonesia as a whole, expenditures at the district level are roughly three times the total amount of expenditures controlled by provincial governments. The clear implication of this situation is that many of the challenges of provincial government management and budget control discussed below are just as relevant for government management at the district level in Aceh.

Table 3.6: Enterprises and employees in Aceh, 2006 enterprise census

	Enterprises			
	With permanent location		Without permanent location or legal status	Total
	and with legal status	No legal status		
Mining & quarrying	119	2,969	0	3,088
Manufacturing	2,549	58,177	1,431	62,157
Electricity, water & gas	114	66	31	211
Construction	658	5,534	356	6,548
Wholesale and retail trade	9,677	83,396	83,484	176,557
Accommodation, foods, etc	1,388	23,267	11,805	36,460
Transport, communications	1,435	2,720	31,029	35,184
Financial intermediaries	1,169	120	25	1,314
Real estate & services	653	5,428	90	6,171
Education services	4,314	2,643	31	6,988
Health and social activities	1,277	1,267	812	3,356
Social services, culture, etc	1,606	19,403	4,429	25,438
Household services	15	444	5,296	5,755
Total	24,974	205,434	138,819	369,227
Share (%)	7	56	38	100

Source: BPS, Hasil Pendaftaran Perusahaan/Usaha, Provinsi Nanggroe Aceh Darussalam, Jakarta, 2007.

Employees				Average number of employees			
with permanent location		Without permanent location or legal status	Total	Enterprises with permanent location		Without permanent location or legal status	Total
and with legal status	No legal status			and with legal status	No legal status		
2,259	5,096	0	8,165	19	2	0	3
18,271	133,059	2,428	153,758	7	2	2	2
1,536	249	42	1,827	13	4	1	9
4,352	15,669	806	20,827	7	3	2	3
27,027	157,260	97,957	282,244	3	2	1	2
5,550	49,508	16,400	71,458	4	2	1	2
5,592	5,834	34,244	45,670	4	2	1	1
14,591	844	31	15,466	12	7	1	12
2,309	9,983	97	12,389	4	2	1	2
59,428	14,523	38	73,989	14	5	1	11
9,823	2,010	842	12,675	8	2	1	4
6,727	35,615	5,276	47,618	4	2	1	2
32	569	5,525	6,126	2	1	1	1
157,497	431,029	163,686	752,212	6	2	1	2
21	57	22	100				

Table 3.7: Provincial government expenditures, 2008

Province & Region		Expenditure			Exp per capita	
		Rp bill	\$US mill	Pop mill	Rp thou	\$US
		2008		2006		
1	Aceh	8,894	889	4.07	2184	218
2	North Sumatra	3,357	336	12.64	266	27
3	West Sumatra	1,496	150	4.63	323	32
4	Riau	4,497	450	4.76	944	94
5	Jambi	1,429	143	2.68	533	53
6	South Sumatra	2,743	274	6.90	398	40
7	Bengkulu	1,223	122	1.57	780	78
8	Lampung	1,730	173	7.21	240	24
9	Bangka Belitung	868	87	1.08	807	81
10	Riau	1,389	139	1.34	1038	104
Sumatra		27,626	2,763	46.89	589	59
11	DKI Jakarta	20,591	2,059	8.96	2297	230
12	West Java	6,185	619	39.65	156	16
13	Central Java	5,601	560	32.18	174	17
14	DI Yogyakarta	1,699	170	3.39	501	50
15	East Java	6,167	617	36.59	169	17
16	Banten	2,158	216	9.22	234	23
Java (without Jakarta)		21,810	2,181	121.03	180	18
17	Bali	1,512	151	3.43	441	44
18	West Nusa Tenggara	1,125	113	4.26	264	26
19	East Nusa Tenggara	1,282	128	4.36	294	29
Bali, Nusa Tenggara		3,919	392	12.04	325	33
20	West Kalimantan	1,302	130	4.12	316	32
21	Central Kalimantan	1,415	142	1.94	730	73
22	South Kalimantan	1,777	178	3.35	531	53
23	East Kalimantan	6,166	617	2.94	2100	210
Kalimantan		10,660	1,066	12.34	864	86
24	North Sulawesi	1,100	110	2.16	509	51
25	Central Sulawesi	974	97	2.35	415	41
26	South Sulawesi	2,118	212	7.63	278	28
27	Southeast Sulawesi	896	90	2.00	448	45
28	Gorontalo	568	57	0.94	604	60
29	West Sulawesi	576	58	0.99	581	58
Sulawesi		6,232	623	16.08	388	39
30	Maluku	806	81	1.27	634	63
31	North Maluku	690	69	0.92	751	75
32	Papua	5,559	556	1.97	2816	282
33	West Papua	999	100	0.69	1452	145
Maluku & Papua		8,054	805	4.85	1660	166
INDONESIA		98,894	9,889	222.19	445	45

Expenditure: BPS, Statistik Keuangan Pemerintah Daerah Provinsi 2005-2008

Population: BPS, Indikator Kunci Indonesia 2008

Foreign exchange rate is assumed, for convenience, to be Rp 10,000 = \$US 1.00

Table 3.8: Expenditures by provinces and districts in Aceh and Indonesia, 2007-2009

	Rp trillion		\$ million		\$ per person	
	Provinces	Districts	Provinces	Districts	Provinces	Districts
Aceh province						
2007	6.8	10.8	676	1,077	160	255
2008	10.1	11.5	1,005	1,152	234	269
2009	9.8	11.2	978	1,122	224	257
Indonesia						
2007	92.2	290.3	9,220	29,030	41	128
2008	113.3	329.1	11,330	32,910	49	143
2009	108.9	327.1	10,890	32,710	46	140

Source: BPS, Statistik Indonesia 2010.

Patterns of growth

In reviewing the current state of the Acehnese economy it is also important to survey the recent patterns of economic growth in the province. The news on this front is mixed. The marked dualism of the Acehnese economy, discussed above, is starkly evident in growth rate data for the seven year period to 2009. On one hand, the overall growth rate (including the oil and gas sectors) presents an extremely worrying – almost alarming – picture (Table 3.9). Overall growth during the period fluctuated markedly and appears to be trending downwards into economic recession territory. This pattern clearly reflects the depletion of the oil and gas fields in the Lhokseumawe area and the continuing tendency for output from the fields to fall. On the other hand, the pattern of growth in the non-oil sector of the Acehnese economy (which more accurately reflects the economic trends that affect the daily lives of the majority of ordinary people in Aceh) is more encouraging. Growth was slow in 2004 and 2005, which is hardly surprising considering the impacts of the aftermath of the tsunami during this period, and then accelerated quite sharply to over 7% per annum in 2006 and 2007, especially in the service sectors, as post-tsunami aid activities got underway. More recently, in 2008 and 2009, growth in the non-oil sector has fallen back to the rather modest levels recorded in the several years before the tsunami.⁴

From the sectoral point of view, there are marked variations in growth patterns. The steady downward fall in the contribution to overall growth from the oil and gas sector (Figure 3.3 above) shows up in the sharp negative contributions to growth in these sectors in recent years, especially in 2009. In contrast, the non-oil sectors of the economy show stronger signs of growth in various ways:

- Not surprisingly, the impact of the tsunami is reflected in output in several of the main sectors in 2005. In the agriculture, utilities, construction, and finance sectors, growth was held back in the immediate wake of the tsunami.
- There was strong growth in several key sectors in 2006 and 2007 as tsunami aid spending on rehabilitation and reconstruction began to gather pace. The construction sector expanded by a remarkable 48% in 2006 and another 14% in 2007. There were also marked increases in output in several other sectors (trade and hotels, and the transport and communications sector) resulting from the sharp increases in aid spending.

⁴ Recent (mid 2011) economic data from Aceh suggests a somewhat higher overall rate of economic growth in the province in the non-oil and gas sector of around 6% per annum. This is encouraging. (Source of data: BPS Aceh, Berita Resmi Statistik, Agustus 2011.)

The indications are that growth in most parts of the non-oil sector slowed markedly in 2008 as tsunami-related aid spending began to decline. Growth in the agriculture sector slowed markedly (although this was presumably not especially influenced by aid-related activities), as did output growth in construction, transport and communications, and services. Growth improved somewhat in 2009 although anecdotal evidence suggests that growth throughout 2010 and into 2011 remained sluggish as most donor agencies finished their main activities in Aceh and closed down most of their programs.

In summary, three broad trends are evident in the recent data on economic growth across the province of Aceh:

- In the oil and gas sector, large and continuing reductions in output in recent years have impacted markedly on the overall provincial growth rate.
- Tsunami spending provided a significant boost to activity in the non-oil and gas sector, especially in 2006 and 2007. However, just as the initial burst of tsunami spending stimulated growth through a positive economic multiplier effect, so the winding down of activities appears to have contributed to a slower growth rate through a negative multiplier impact.
- Overall growth in the non-extractive economic sectors has been significant but not high over the seven years to 2009 (an average of about 4% per annum).

Looking ahead, a key priority for economic policy makers in Aceh is to encourage accelerating growth in the non-oil sector. To do this, policy makers will need, on one hand, to adjust development programs to deal with the impact of the sharply declining contribution from the oil and gas sector, and on the other hand, build on the various physical and institutional assets that now exist in the province following the significant boost to development prospects provided by the post-tsunami assistance programs. Within government at the provincial and at the district level, budget policy makers will need both to administer a range of programs on the expenditure side of the budget in an effective way and in addition, to deal with a set of more technical issues of budgetary management. These technical issues include, especially, oversight of the growing *Otsus/Migas* funds and the transfer of tsunami-related assets to the control of agencies in Aceh. The next sections discuss these matters.

Table 3.9 Aceh regional GDP real growth rates, 2003-2009 (a) (annual percent)

	Share							
	2003	2004	2005	2006	2007	2008	2009	2009 %
1 Agriculture	3.3	6.0	-3.9	1.5	3.6	0.8	3.1	26
2 Mining	9.9	-24.1	-22.6	-2.6	-21.1	-27.3	-49.2	8
Oil and gas	9.9	-24.4	-23.0	-4.3	-22.6	-28.8	-53.3	
other	3.6	7.3	0.8	78.8	16.6	-1.0	1.4	
3 Manufacturing	1.7	-17.8	-22.3	-13.2	-10.1	-7.7	-6.1	12
Oil and gas	1.7	-11.6	-26.2	-17.3	-16.7	-12.0	-12.2	
Other	1.6	-37.3	-5.1	1.1	8.6	3.6	5.0	
4 Electricity and water	17.0	-1.9	-16.1	12.1	23.7	12.8	27.1	...
5 Construction	0.9	-16.1	6.6	48.4	13.9	-0.8	3.2	7
6 Trade, hotels	2.5	6.6	14.4	7.4	1.7	4.6	3.3	19
7 Transport & communication	3.9	14.4	-9.5	11.0	10.9	1.4	4.9	7
8 Finance, real estate	31.0	19.4	-9.5	11.8	6.0	5.2	9.6	2
9 Services	6.3	20.1	9.6	4.4	14.3	1.2	4.7	18
TOTALS								
With oil and gas	5.5	-9.6	-10.1	1.6	-2.4	-5.3	-5.6	100
Without oil and gas	3.7	1.8	1.2	7.7	7.2	1.9	3.9	86

(a) Data reflect real growth rates in constant prices.

Source: BPS, Aceh dalam Angka, 2007 and 2010

Public financial management in Aceh and the budget

One main challenge in Aceh which is central to the overall process of effective government is the oversight of financial management. Much of the management of any government is captured by budget planning and implementation. As a recent World Bank report on *Public financial management in Aceh* put it, 'Effective planning and budgeting lie at the core of effective financial management' (World Bank, 2007: 22). Further, the annual budget is a key part of the relationship between a government and the citizens of any community. As a recent report from The Asia Foundation (2011: 18) noted:

Fiscal management is the concrete expression of government policy, where resource mobilization and expenditure strategies reveal which sectors of the community are taxed and

which are supported. The development aspirations of citizens, and the vision and strategy of community leaders, are summarized in local development plans.

Much of the interaction between the government of Aceh and the Acehnese community, therefore, is strongly influenced by the effectiveness or otherwise of financial management at the provincial and district level.⁵

Various studies of the processes of financial management at the provincial and district level in Aceh have been prepared in recent years (World Bank 2007a; World Bank 2009, USAID DRSP 2009, Ishlahuddin 2009). The broad conclusion which emerges from these studies is that while the official budgetary and financial systems in governments in Aceh are functional, many of the systems do not operate well either in comparison with systems in other parts of government in Indonesia, or in inter-district comparisons across Aceh. In particular, notable difficulties have been the following:⁶

- A range of institutional problems, at various levels within governments, which hamper overall budget management effectiveness. As the World Bank put it, 'The obstacles and bottlenecks need to be identified and tackled comprehensively, whether these include a lack of impetus from the leadership, a lack of technical expertise or an antagonistic relationship between the local government and the local parliament' (World Bank 2007: 22).
- There have been marked delays, at both the provincial and district level, in both the approval of and utilisation of budgets in recent years.
- Excessive political interest and bureaucratic controls which have greatly limited managerial flexibility.

The difficulties of the effective management of government finances, it needs to be noted, are not just a problem in the province of Aceh. The issue has been a widely acknowledged problem in many parts of the Indonesian government system in recent years -- at all levels of government and in most parts of the country. To some extent, important parts of the problem reflect approaches to the management of government finances in Indonesia which are beyond the control of the Government of Aceh. But certainly, there are measures which the Government of Aceh itself can take to improve the management of finances within Aceh so the topic is an important one for policy makers in Aceh to address.

Put simply, the key problem is clear enough -- there are often substantial delays during each budget year, first, in approving expenditures, and then second, in disbursing them. The result is that in many agencies there is often a disordered rush to spend monies in the last few months of the budget year and quite often, despite the rush, significant amounts do not get spent.

One of the consequences is that some of the unspent official monies, when they do not need to be immediately returned to government treasury departments, are deposited in bank accounts for future use. This process, in turn, gives rise to further problems: one disadvantage of these arrangements is that the accounting arrangements entered into for the oversight of these deposited monies are not always satisfactory; another disadvantage is that liquidity builds up inside the banking system because the banks often run into difficulties of various kinds in on-lending the official deposits to borrowers. Provincial governments in Indonesia, including in Aceh, often deposit

⁵ Issues of service delivery are discussed in more detail below (Chapter 6). However it can be noted that there has been much criticism of the pattern of government expenditures in Indonesia in recent years. There has been much comment about the fact that a high proportion of government expenditures are spent for bureaucratic purposes, including the salaries and other costs of officials in Aceh (Burhanudin 2011a). See also the criticisms of spending priorities by regional governments by the Coordinating Minister of Economic Affairs, Hatta Rajasa (Sambor 2011) and the report by Suryana (2011).

⁶ See also the detailed list in World Bank 2007: 34-36.

surplus funds in the local regional development banks (in Aceh, the *Bank Pembangunan Daerah*), which in turn then need to decide how to deal with the rising inflows of funds.

The challenges of the effective management of public monies in Aceh in recent years have therefore been a microcosm of problems elsewhere in Indonesia. And the matter is a major problem for the effective management of government in any region or any country across the world. The efficient administration of government monies is one of the central tasks of government. Governments which cannot manage financial processes in a satisfactory way are unlikely to be able to deliver services effectively.

The provincial government in Aceh has had a mixed experience in the matter of the management of government expenditures in recent years.⁷ From one point of view, the record has been a difficult one because spending in some sectors has been badly delayed. But from another point of view, the record is encouraging because under the leadership of the Governor the provincial government has set out to tackle the problem in a determined way.

In several recent years – in both 2008 and 2009 – the expenditure processes for government spending in Aceh were delayed. For example, at the provincial level, as of early November 2009, an official report from the Aceh Office of Financial and Wealth Management (*Dinas Pengelolaan Keuangan dan Kekayaan Aceh*) noted that at 6 November, only around 40% of the planned annual spending for the budget for calendar 2009 of approximately Rp 9.7 trillion (around \$US 970 million) had been utilised.⁸ Since, in principle, allocations were expected to be utilised by the end of the calendar year, the degree of underspending was serious. In fact, approval of the 2010 provincial budget was significantly delayed. Of all provinces across the country, the government of Aceh was the slowest provincial government to meet the deadline in 2010.⁹

Arrangements for obtaining budget approval were again badly delayed in 2010. All provincial governments in Indonesia are required to submit their budget to the Ministry of Home Affairs in Jakarta for approval. Regulatory requirements are that provincial budgets for each year should be submitted to Jakarta in the last few months of the previous year, and at the latest by end-March of the relevant financial year. In 2011 the Aceh provincial government failed to meet even the extended deadline. As a result, a penalty for late compliance was formally imposed by the central government on the government of Aceh (Box 3.1.)¹⁰

The executive arm of government in Aceh, it should be noted, has implemented a range of measures in recent years in an attempt to improve the budget process. Governor Irwandi arranged for a special budget unit, the *Percepatan dan Pengendalian Keuangan* unit (P2K, or Acceleration and Control of Finance Unit), to be established. The Governor himself takes a close interest in the processes of financial control meeting with the P2K staff and the heads of all SKPA government implementation agencies regularly. Details of the implementation of the budget, compared with expected spending, were posted on web with the aim of improving transparency of the process.

Nevertheless, despite these key efforts to improve the situation, budget management in Aceh remains a troublesome area of government administration. The essential problem, both in Aceh and in many other parts of Indonesia, is that the processes of formulating annual budgets and arranging for them to be approved are excessively bureaucratic and time-consuming. There are

⁷ See also the discussion 'Case study 1: Special autonomy funds' in Chapter 4 below.

⁸ 'Daya serap APBA 2009 baru 40 persen' [Aceh 2009 budget absorption only 40 percent], *Serambi*, 9 November 2009.

⁹ 'Tinggal Aceh yang belum serahkan Perda APBD' [Only Aceh has not yet submitted regional budget report], *Serambi*, 24 February 2010.

¹⁰ Not surprisingly, public comment about the failure of the Aceh authorities (both executive and legislature) was not favourable. See, for example, the sharp comments in the article by Teuku Zahari in 'Penalti' [Penalty], *Serambi*, 4 April 2011.

often extremely detailed listings of planned expenditures approved by legislatures or set down in regulations. At the broadest level, this reflects a tendency towards complexity of government administrative procedures which touches many areas of government management in Indonesia. As far as government expenditure processes are concerned, there is a combination of administrative, legal and political hurdles – at a number of levels of government – which mean that the budget process is very complicated. And this difficult maze-like process exists in an environment where high-level administrative skills are in short supply.¹¹

A summary list of the main actors involved in the annual budgetary process – at the national, provincial and district level – includes the following:

- Executives (ministers, governors and district heads) and officials
- Legislatures
- Legal officers, and perhaps courts if there are appeals
- Line agencies charged with managing the expenditures
- Contractors, consultants, and other implementing bodies
- Community and individuals
- The media

As a result of the complexity, the process of preparing a budget, obtaining approval, and arranging expenditures is often delayed at numerous points (Table 3.10). Further, this extreme detail has the undesirable result that the ability of managers in administrative line agencies to adjust operational budgets during the year to reflect changing circumstances is greatly restricted.

There is, it important to note, no *single* point in the overall system that is the main bottleneck. Rather, there is a *systems* problem. There are far too many choke points in the overall system where delays are likely to occur. Possible approaches, including greater reliance on program budgeting approaches, will be discussed in Chapter 6 below.

In addition to these general problems, there are currently two items of urgent concern which will have a major impact on the processes of financial management in Aceh:

- the outlook for and utilisation of revenues from the expected *Otsus/Migas* flow of funds, and
- arrangements for the transfer of control of post-tsunami assets from the central government in Jakarta to numerous agencies at the provincial and district level.

We now turn to discuss these issues.

Box 3.1: Aceh media comment on budget management in Aceh, April 2011

“General Allocation Funds Cut, Who is prepared to Apologise”

The Ministry of Home Affairs has determined that the share of the General Allocation Fund (DAU) provided for Aceh will be cut by

25 percent this year ... This penalty is being imposed because of delays in Aceh in ratifying the 2011 Aceh provincial budget.

¹¹ See, for example, Picture (Gambar) V.1, page V-36, of the 2009 National Budget document (Nota Keuangan APBN 2009) which provides a view of the main steps of the process of compiling a regional budget.

Reflecting the total allocation to Aceh from the General Allocation Fund of Rp 716 billion [around US\$ 80 million], Aceh must now be prepared to accept a cut of around Rp 178 billion (25 percent) [around US\$20 million] as a result of not providing the Aceh provincial budget document to the central government. The regulatory requirement is that the draft Aceh provincial budget should be completed by the end of January. However at the end of March, the draft budget for Aceh was still under consideration in the Aceh Provincial Assembly.

The Ministry of Home Affairs has repeatedly urged both the Aceh Provincial Government and the Aceh Provincial Assembly to quickly finalise discussion of the provincial budget along with the implementing regulation. “Two official letters have been sent. But until now (end of March), the Ministry of Home Affairs has not received the implementing regulation for the 2011 budget,” an official of the Ministry said.

In the event of the possibility of a continuing deadlock in discussions over the Aceh budget, the Governor of Aceh has the power with the agreement of the Minister for Home Affairs to issue a Governor’s Regulation (*Pergub*) which sets budget limits for 2011. However a regulation of this kind would only apply to public service personnel expenditures. Other forms of public spending would not be covered. Spending on community services for the general public would remain frozen.

Looking beyond the issue of the penalty of the loss of 25 percent of general allocation funds there are clearly various problems. Continual political haggling is one main problem. Another is the question of who might be prepared to come forward, and take responsibility and make a public apology, for the loss of the Rp 178 billion?

The culture of admitting mistakes and making apologies does not exist either amongst officials in our province or, indeed, across the rest of Indonesia. ... But we wish to suggest to those who have been so careless in this matter - whether in the provincial executive or legislature - that they should apologise to the central government and ask that the Rp 178 billion cut be cancelled. But if indeed the proposed sanction is implemented, Aceh will lose Rp 178 billion, an amount sufficient to cover the costs of scholarships for orphans and children from poor families for a full year. Or if the funds were used to build houses for poor families or disaster survivors at a cost of Rp 50 million [around US\$ 5,000] per house, then at least 3,500 houses could be provided.

Hopefully this experience will be a lesson, both for the executive and the legislature in Aceh, since almost all budget discussions in Aceh get delayed. It might be possible to understand delays on one or two occasions. But the delays occur almost every year and whatever the excuse, it is hardly possible to accept the situation.

Source: Extract from “DAU Dipotong, Siapa yang Mau Minta Maaf” (General Allocation Funds Cut, Who is prepared to Apologise), Serambi, 1 April 2011.

Otsus/Migas funds

Overall, over the past decade, the government sector in Aceh (provincial and district governments combined) has experienced a sharp increase in the measured level of resources utilised in the province. Three factors explain the increase (World Bank 2006: xiv):

- Aceh has been one of the main beneficiaries of decentralisation across Indonesia. Following the Indonesia-wide moves towards decentralisation noted earlier and the Special Autonomy Status granted to Aceh (Law 18/2001), the amounts managed by the provincial government and the district governments increased markedly. For example, between 1999 and 2006, Aceh’s regular revenues (provincial and district governments combined) increased from around Rp 2.4 trillion

(1999) to Rp 11.2 trillion (2006). Several factors contributed to the sharp increase, albeit from a very low base, including the transfer of responsibilities in 2001, Aceh's special autonomy status agreed to in 2002, and a sharp increase in the general allocation fund (DAU) in 2006.

- **Tsunami rehabilitation and reconstruction funding.** This spending, much of which however did not pass through official Indonesian or Acehnese government budgets, was expected to be equal to around double Aceh's regular expenditure level over the few years following the tsunami disaster in 2004. In 2006, for example, total funds flowing into Aceh were estimated at around \$US 3.3 billion (much of the amount was provided in kind, however, and was valued at international prices).
- **Special autonomy funds.** Beginning in a significant way in 2008, the new law on the governing of Aceh (LoGA) allowed the allocation of an additional Rp 4 trillion on average (around \$US 400 million) to the *Dana Otsus dan Migas* (*Dana Otonomi Khusus dan Bagi Hasil Migas*, or Special Autonomy Funds and Oil and Gas Share Funds). This amount was expected to rise over time. Bearing in mind that oil and gas revenues were forecast to decline during the next few years,

Table 3.10 Summary of overall budgetary approval and spending problems

Process	Problems
1. Formulation of budgets by officials and executive	
Extremely detailed budgets are drawn up by officials and approved by executive agencies.	Budget spending proposals are extremely detailed. Rigidity is built in at this stage because it is very difficult to make changes later.
2. Discussion between different levels of government	
Current requirements are that different levels of government discuss budget plans. Provincial proposals require approval from the central government (Ministry of Finance).	Negotiations take time. Different levels of government have different priorities.
3. Submission of budgets to legislatures (various levels of government) and approvals	
Legislature members have opportunities to become involved in the details of the budget process and to press for preferred items.	Legislatures tend to become involved in excessive detail. Rather than perform an overall supervisory function, legislatures are tempted to focus on the details of budgets proposals.
4. Executive and official approvals of expenditures	
Specific approvals of expenditure are required (within budget categories)	Officials are cautious in Indonesia at present. Accusations of inappropriate expenditures are common. Officials can find themselves accused of corruption over minor variations in expenditures.
5. Contract processes	
Contracts need to be put out to tender. In some cases, the tender process (even for quite small expenditures) is quite complex	Complex processes open up opportunities for inappropriate agreements. There is considerable dissatisfaction with the contract process in Aceh with reports of overbearing actions and threats carried out within the process
6. Scope for budget flexibility	
Current processes allow for very little variation in spending plans. Once plans have been approved by legislatures, there is little room for change in sub-budget items during the year.	Budget processes are quite inflexible once they are approved. In contrast, in other budgetary systems in many other countries, the executive has room to readjust spending plans provided proper processes are followed.

it was expected that the relative importance of *Dana Otsus* (Special Autonomy Funds) would increase in due course.

The most recent estimates of patterns of revenue over the period 2005–2012 are shown in Table 3.11. The rise in the revenues from the *Dana Otsus-Migas* is striking, increasing from less than \$US 200 million in 2007 to over \$US 550 million in 2012. Looking ahead, this marked increase in expected revenues underlines the urgent need to improve disbursement mechanisms on the expenditure side of both the provincial and district government budgets.

Table 3.11: Aceh province: provincial government revenue 2005–2012

	Realised			Budget	Forecast		
	2005	2006	2007	2008	2009	2010	2011
Provincial Revenue (Rp billion)	3,808	4,067	3,012	6,645	6,732	9,251	10,081
Original local government revenue	262	477	587	796	796	806	897
Balancing funds	2,169	2,313	1,805	2,252	2,208	3,846	4,126
Other revenue (special autonomy) and oil-gas funds	1,376	1,278	620	3,597	3,728	4,598	5,058
Provincial Revenue (\$US mill)	381	407	301	665	673	925	1,008
Original local government revenue	26	48	59	80	80	81	90
Balancing funds	217	231	181	225	221	385	413
Other revenue (special autonomy and oil-gas funds)	138	128	62	360	373	460	506
Provincial Revenue (%)	100	100	100	100	100	100	100
Original local government revenue	7	12	19	12	12	9	9
Balancing funds	57	57	60	34	33	42	41
Other revenue (special autonomy and oil-gas funds)	36	31	21	54	55	50	50

Source: Appendix Table 3.1.

Post-tsunami assets

The second major issue of financial management which has been occupying the time of senior policy makers in Aceh since 2009 are the arrangements for the transfer of a large number of tsunami-related assets from the control of the Indonesian Government in Jakarta to Aceh. Most of these assets were formerly under the control of the major Indonesian tsunami aid coordination agency BRR. As the work of the BRR moved toward completion in April 2009, arrangements needed to be made for the management of the assets be transferred to agencies at the provincial and district level in Aceh and to other appropriate bodies.

On the face of it, it would seem to be a relatively straight-forward official procedure to arrange the transfer of a collection of assets from one level of government to other levels of government or so recognised community groups. But in practice, this matter has proved to be much more difficult to deal with than might have been imagined (Burstedde 2009). Administrative, financial, legal, and political issues have greatly muddled the waters. The issue, which has become a very important test of government capacity in Aceh in the return-to-normal period, provides a valuable case study both of:

- a major issue which needs attention from senior policy makers in the wake of a major disaster, and
- the useful role which a facilitating agency such as AGTP can play in helping overcome important challenges in the return-to-normal stage following a disaster.

The issue of the proper management of assets arises because in the aftermath of a major disaster, thousands of assets of varying types are created or provided by many assistance agencies. In Aceh, the BRR had oversight of a large number of high value ‘fixed assets’ built with the aid of both Indonesian national and international tsunami funds – roads, bridges, ports, housing, community halls, mosques, schools, hospitals, many government buildings, and so on (Table 3.12). Further, many of these main assets had subsidiary “moveable assets” (such as cars, motor cycles, construction equipment, technical instruments of many kinds, radios, computers, medical equipment, office furniture, and so on) attached to them.

In principle, the procedures for the proper management of public and government-owned assets in most countries are clear enough: agreed legal procedures are needed for the purchase of assets, and when the assets are procured their details are entered into a detailed asset registry which, in well-run government agencies, is subject to regular audit examinations (Schiavo Campo and Sundaram 2000). The central problem is that in Aceh, in the wake of the tsunami, few agencies providing assistance maintained such records. The result was that four years after the tsunami, in late 2008 when measures were being introduced to establish more regularised systems of government management in Aceh, records of so-called ‘tsunami assets’ were difficult to trace.

In Aceh, the total original value of these assets was estimated in late 2008 to be over \$ 1 billion. The task of the management and legal disposal of these assets soon turned into an extremely difficult and controversial process once the BRR began to wind up operations in early 2009. In retrospect, it is hard to see how the problems could have been avoided. It seems almost inevitable that similar problems will occur both in Indonesia and in other countries after other major disasters in future.

The first problem was that for a large number of the assets – including, for example, large buildings – the legal documents which Indonesian law requires be produced in any process of transfer of state-owned assets do not exist. Understandably, in the midst of the relief and rehabilitation stages after the tsunami, many staff in aid agencies did not pay much attention to legal niceties which are formally required under Indonesian law (Aryos Nivada et al 2008). Many people who were helping with the relief effort under pressure cut corners to get their jobs done.¹² But the result was that thousands of assets were left in a legal limbo. Important legal documents such as certificates of ownership and numerous other forms of documentation were either never prepared or were lost.

This matter is more serious than it might seem. Some of the most relevant parts of Indonesian law have been drawn up in a strict way so as to minimise opportunities for corruption. The precise requirements that need to be followed in the process of disposing of state assets are generally rather inflexible. Further, to complicate matters, a range of specific regulations were issued in Indonesia to outline procedures for transfer of the assets (Table 3.13) and sometimes the implications of the regulations were not entirely clear. If officials are not extremely careful in disposing of state assets, and if they do not follow the letter of the law quite closely, the chances that they will be accused of (and perhaps formally charged with) corruption are quite high.

The second major problem was that it proved extremely difficult and time-consuming to prepare an agreed inventory of the relevant assets. The assets were scattered around in hundreds of different locations. Some of the assets were difficult to find at all. Joint teams of officials from several different

¹² These matters involved were complicated and it is understandable that they were sometimes neglected. For example, the financial records relating to the original purchase or construction of the assets were sometimes quite confusing because there were many different Indonesian and foreign institutions, with many different accounting systems, involved in the purchase and construction of assets in Aceh in the period following the tsunami. These matters are discussed in some detail in Aryos Nivada et al (2008).

Table 3.12: Post-tsunami assets for transfer to Aceh agencies (selected items)

Sector and asset	Place
Infrastructure	
Roads, national and provincial	Aceh
Ferry ports	6 districts
Airports and airstrips	9 districts
Terminals, boats, and shipping facilities	Various districts
Drainage and flood control	4 districts
Irrigation networks	10 districts
Aceh tsunami museum	Banda Aceh
Disaster mitigation centre	Banda Aceh
Escape buildings	Various Districts
Tsunami memorial building	Sigli
Government buildings, provincial	Banda Aceh
Government buildings, Banda Aceh city	Banda Aceh
Government buildings, Lhokseumawe	Lhokseumawe
Government buildings, kabupaten	South Aceh
Economic assets	
Maintenance of seed centres	5 districts
Care of agribusiness terminal	Pidie
Maintenance of estate offices	8 districts
Maintenance of batik building	Aceh Besar
Institutional assets	
Maintenance, operation of High Court	3 districts
Maintenance, operation of legal offices	Banda Aceh
Community and social	
Social community buildings	7 districts
Multipurpose sports buildings	3 districts
Syiah Kuala University sports centre	Banda Aceh
Tirta Raya swimming pool	Banda Aceh
Hilal Lhok Nha observation hall	Aceh Besar
High schools	23 districts
Zainal Abidin general hospital	Banda Aceh
Mental care institution	Banda Aceh
General hospitals	13 districts
Nursing academies	23 districts
Idi fishing farm and facilities	Aceh Timur
Pusong fishing farm facilities	Aceh Utara
Palm oil plantation facilities	Simeulue
Integrated regional cattle facilities	Aceh Besar

Source: Pemerintah Aceh, *Badan Kesenambungan Rekonstruksi Aceh* (2009). (Section 3.2)

agencies were expected to track the assets down, examine them, and formally record key details.¹³ In many cases, there were disagreements between different parties about the details to be recorded in the files.

Third, the condition that the assets were found to be in varied widely. Roads in the centre of Banda Aceh, for example, and the impressive buildings at the main airport terminal in Banda Aceh, are well-maintained and will clearly continue to get the expected level of use for many years to come. But other assets, such as several tsunami museums and memorials, are already in need of maintenance and may not attract the level of community support originally

¹³ Usually the joint teams consisted of officials from the Aceh Wealth and Financial Management Agency (DPKKA), the potential Acehese government recipient agencies (SKPA), the Governor's Transitional Team (Tim Transisi), and the BRR Tim Likuidasi which had been established as part of the process.

planned for. Numerous complaints about the unsatisfactory nature and provision of the assets were reported.¹⁴ Many of the assets, such as rural extension units and fishing facilities, are important public goods which provide services that will underpin rural development policy in the next few years but which will need to rely largely on government budgets for revenues. In broad terms, assets were classified as falling into five categories: in good condition, having light damage, showing heavy damage, non-existent, or not complete. Many buildings, for example were already showing damage of some kind, and many motor vehicles were missing items such as spare tyres, tool kits, and so on. And when technical equipment was found to be not operating, in principle it was necessary to establish what the problem was – whether, for example, the problem was a relatively minor one (such as flat batteries) or whether there were more serious difficulties with the equipment.

These issues needed to be settled because, amongst other things, the condition of the assets was an important consideration in determining the valuations to be placed on them. Nearly all of the assets needed to be discounted in value from the original estimated value to some degree and the discount applied reflected, amongst other things, the agreed condition of the asset. It was necessary to reach agreement on these matters because potential recipients of the assets were unlikely to be prepared to accept ownership of the assets at inflated values.

Fourth, once official inventories had been prepared, the lists needed to be provided to potential recipient agencies in the provincial or district governments for verification. In many cases, the recipient agencies did not agree with the details provided to them because they were not prepared to accept the implied responsibilities for the assets. Further negotiations were then needed to reach agreement.

Discussions to settle all of these and related matters since early 2009 have taken up much time and effort. Progress has been slow. In effect, the process began in January 2009 when the BRR formally initiated discussions with the provincial government of Aceh and other parties about a list of assets which the BRR valued at Rp 491 billion (around \$49 million). After discussions with various agencies, including the relevant SKPA of the government of Aceh, the verified list was agreed to be around \$33 million (later reduced further to around \$30 million, of which around \$21 million consisted of assets with incomplete documentation).

In March 2009, a more important part of the process was initiated when the BRR provided the Asset Team of the government of Aceh (*Tim Aset Pemerintah Aceh*) with a greatly expanded list of assets valued at Rp 8.4 trillion (around \$840 million). The assets contained in this list were initially classified as those proposed to be transferred to the provincial government of Aceh (around \$490 million) and those which were perhaps more appropriately transferred to a range of other agencies (district governments, social groups, the government on the island of Nias, and so on, which totalled around \$340 million). The production of this second list initiated a long series of negotiations which continued on into late 2010 without agreement.¹⁵ The delays were the subject of public comment, including in the Indonesian national parliament where members expressed concern about the situation.¹⁶

¹⁴ 'Terminal Calang belum Berfungsi' [Calang Terminal not yet Functional], Serambi, 17 February 2011.

¹⁵ 'Kepala Daerah Aceh-Nias Tolak Teken Dokumen Aset BRR' [Regional heads from Aceh-Nias decline to sign BRR Aceh asset document], Serambi, 7 August 2010.

¹⁶ 'Tim Pemantau DPR RI Minta BPK Audit Dana BRR' [Survey Team from the Indonesian Parliament asks for the National Audit Board to audit BRR Funds], Serambi, 10 March 2011.

Table 3.13 Selected regulations about the transfer of post-tsunami assets

(1) Regulation of the Minister of Finance No 62, 2008		
About: The Process for executing the management of state assets of the Aceh-Nias Reconstruction and Rehabilitation Agency [BRR].		A basic regulations which governs the process of transfer of relief and rehabilitations (RR) assets. This forms the basis for negotiations between and the Governor (the President, and the Minister of Finance) in discussing options to facilitate the prompt transfer of assets.
(2) Regulation of the Minister of Finance No 134, 2009		
About: The process for executing the management of state-owned assets formerly of the Aceh-Nias Reconstruction and Rehabilitation Agency [BRR].		A basic regulation which governs the process of preparing an inventory of relief and rehabilitation (RR) assets for the transfer of national state-owned RR assets into the regional Aceh-owned assets.
(3) Regulation of the Minister of Finance No 96, 2007		
About: The process for executing the access to and use, disposal and transfer of state-owned assets.		Sets out the preconditions to be followed in implementing Government Regulation No 6, 2006. Various clauses are important in determining the process of preparing an inventory of assets owned by BRR, and for disposing and transferring the assets.
(4) Government Regulation No 6, 2006		
About: Management of state-owned and region-owned assets.		Sets out the broad framework to be followed in the management of the specified state-owned assets
(5) Regulation of the Minister for Home Affairs No 17, 2007		
About: Technical guidelines for the management of region-owned assets.		Applies to assets owned by regional (provincial) agencies. It therefore does not apply to assets owned by the BRR. If assets owned by the BRR are transferred to the ownership of regional authorities, then this regulation becomes valid
(6) Regulations of the Minister of Finance No 2, 2008		
About: Valuation of state-owned assets		Applies specifically to the valuation of state-owned assets, including for the purposes of transferring the ownership of state-owned assets.
(7) Regulation of The Minister of Public Works No 25, 2007		
About: Guidelines for the certification of buildings		Provides guidelines but also depends on the knowledge and response of the Government of Aceh about the need for such certification.
(8) Regulations of The Minister for Public Works No 26, 2007		
About: Guidelines for expert teams in respect of building construction.		Provides guidance, including for the Government of Aceh, in examining and evaluation the rehabilitation of buildings.

Discussions about the steps needed to transfer the assets to appropriate parts of the government and community in Aceh continued on throughout 2010 and into 2011. It was finally agreed that the total value of ex-BRR assets under discussion was the very significant amount of approximately Rp 11.9 trillion (around \$1.2 billion) of which almost half (Rp 5.5 trillion) had been transferred to local governments. It had further been agreed that assets valued at another Rp 3.2 trillion (around \$320 million) would be handed over to local Acehese governments pending the settlement of

certain legal issues. Nevertheless, in late 2011, the precise status of a remaining amount of around Rp 3.2 trillion of assets still needed to be settled.

One of the more worrying consequences of the failure to settle arrangements for the transfer and ownership of these assets is that the maintenance of the assets has been neglected. Negotiations over the arrangements for the assets are also closely related to arrangements for on-going funding. Some governments in Aceh, for example, are understandably reluctant to take over management of assets that are likely to be a financial burden unless finance for maintenance, perhaps from the *Dana Otsus*, is guaranteed.

To complicate matters, it is quite difficult under Indonesian law for provincial and district governments to allocate annual budgetary funds for assets which they do not own. The official report outlining the issues to be tackled in solving the post-tsunami assets problem in Aceh prepared in later 2009 noted that:¹⁷

Currently, the Government of Aceh is caught in a difficult position because it might be seen as a breach of the law to use funds from the annual Aceh Budget for the management of the RR [Reconstruction and Rehabilitation] state-owned assets. Yet on the other hand, the Government of Aceh is being urged to utilise the RR assets because of the need to be put the assets to good use.

Thus the issue of the disposal of the post-tsunami assets needs to be agreed to not only to bring closure to past efforts but also to make it possible to make the best use of these assets in the years ahead.

The international donor community, which has provided significant assistance to strengthen the processes of asset management in Aceh (Table 3.14), has an important interest in the successful outcome of this process. If the post-tsunami assets are not well-maintained, the risk is that a trail of neglected projects will be left in the wake of the large donor effort after the 2004 megadisaster. This outcome would be a disappointing sequel to the 'build back better' approach that the donor community established as one important goal of the assistance effort. It is this precisely this issue of sustainability that the important LRRD study *A ripple in development?* (Brusset 2009) addressed with the aim of identifying what steps are needed in Asian tsunami-affected communities to strengthen the prospects for long-term successful development.

Against this background, in late 2011 in response to the urgent need to facilitate the transfer of these post-tsunami assets, the work of the AGTP was extended until 2012. In the extended months of the program, the AGTP was expected to be able to:

- Develop detailed road map for asset transfer
- Assist with all of the main aspects of implementing the road map (such as improving asset inventories, verifying the condition of assets, and facilitating the transfer of documents)
- Assist provincial and district governments, where management capacity is currently weak, to implement better asset management practices

In reviewing these events it needs to be noted that support from the UNDP, drawing on the AGTP facility, underpinned many of the negotiations throughout 2009 and 2010 on these issues. The AGTP supported the work of the high-level *Tim Asistensi* of advisers who provided briefs to the

¹⁷ Laporan Inventarisasi Aset Rehabilitasi dan Rekonstruksi per Desember 2009 p. 41.

Government of Aceh and also a range of other agencies. These contributions, which amongst other things reflected the work of the *Tim Asistensi* supported by the AGTP, were noted in the *Laporan Inventarisasi Aset (Tim Asistensi Gubernur Aceh Bidang Transisi 2009: 1)* in the following terms:

As far as this matter of the rehabilitation and reconstruction assets is concerned, the various classifications for the SKPAs have been based on field surveys carried out by the DPKKS, the transitional *Tim Asistensi of the Governor of Aceh*, and the various SKPAs financed by the United Nations Development Program (UNDP) through the Aceh Government Transformation Programme (AGTP). The Governor's *Tim Asistensi* in the transition area provided technical support to the DPKKA and the various SPKAs in the matter of classifying and verifying data as well as reviewing information from the field.

Thus one of the lessons learned from this experience is that the provision of expert advice, well-targeted, can play a valuable role in responding to key policy issues in the return-to-normal period following a disaster.

Table 3.14: Examples of donor support for strengthening asset management

	Agency	Type of activity	Supported by
BRR	Badan Rekonstruksi dan Rehabilitasi (Aceh-Nias)	Software development	UNDP
AGTP	Aceh Government Transformation Programme	Capacity building	UNDP
AMAP	Asset Mapping Assistance Project	Surveying	AusAID, GTZ
LGSP	Local Governance Support Program	Management systems	USAID
IREP	Infrastructure Reconstruction Enabling Program	Program management	World Bank
ALGAP II	Aceh Local Governance Program	Capacity building	GTZ

Source: Burstedde (2009).

Financial outlook for Aceh

Economic policy making and financial management in Aceh is therefore in a state of flux. On one hand, the outlook is promising. Official revenue flows are likely to be substantial during the next few years and there is widespread community support for policy reform that will promote growth and development across the province.

On the other hand, day-to-day management of policy and budgetary management is often difficult. In recent years, numerous observers have remarked on the gap between budget planning and realisation. The World Bank, for example, has reported that '...the frequently wide gap between planned and realized expenditure over several budget cycles illustrates a lack of capacity in developing realistic budgets' (World Bank, 2007a: 35). At both the provincial level and at district levels of government, negotiations over financial matters between the executive arms of government and legislatures are frequently drawn out. Approvals of both the planned budget and the implementation of programs are often delayed. One suggestion for improving both the mobilisation of grant funds as well as implementing development programs has been the establishment of an Aceh Development Trust Fund (Box 3.2). This proposal has received support from both Governor Iwandi Yusuf as well as key agencies in the central government in Jakarta so there are now good prospects that it will be possible to establish the fund during 2012. Additional

proposals for capacity-building measures which might help facilitate financial management are set out in later chapters of this study.

Box 3.2: An Aceh Development Trust Fund

Looking ahead, the current outlook is that there will be continuing support for development programs in Aceh from international donors and various other institutions including some multinational corporations. The World Bank-supported Multi Donor Fund (MDF), established in 2005 to help facilitate the flow of assistance to Aceh after the 2004 tsunami, has played a valuable role in providing a coordinating mechanism for the provision of international funds to the province. With the expected closure of the MDF in mid 2012, there is a need for a new coordinating mechanism to mobilize external funds to support priority development programs in Aceh.

With these aims in mind, there have been recent discussions in Jakarta and Aceh about the suggestion that an Aceh Development Trust Fund (ADTF) might be established. The former Governor of Aceh, Governor Irwandi Yusuf, has expressed his support for the establishment of an ADTF and has requested UNDP to provide support for the management of the fund.

The objectives of such a fund are seen as strengthening the efforts of the international donor community in Aceh during the past seven years. In particular, the goals would be:

- to assist the Government of Aceh to complete the main remaining aspects of rehabilitation and reconstruction efforts following the 2004 tsunami, and
- promote development in priority sectors with the aim of underpinning the period of peace and security established in Aceh in recent years.

Proposals setting out the details of how an ADTF might operate are already well-developed and present a sound base for the establishment of a fund. The main suggestions emphasise that there would be strong Acehnese ownership of the work of the fund supported by inputs from the Indonesian Government in Jakarta, UNDP, and other partners including members of the donor community. It is envisaged that grant funds would be received from:

- donor countries including on a South-South basis through support from the international Islamic community
- international philanthropic organisations including in the Middle East, and
- multilateral firms with operations in Aceh.

A range of management details concerning the possible operations of the ADTF have already been considered at both the national and provincial level with the aim of establishing the fund during 2012.

Recommendations

Recommendation 3.1

A program of reforms in public financial management should be introduced at both provincial and district level. A dual strategy would be appropriate which would focus on both immediate measures to achieve short-term results as well as, importantly, longer-term measures to introduce structural changes to the budget process.

Governor Irwandi Yusuf has recently introduced administrative reforms intended to improve financial management. However, continuing reforms are needed. Delays in spending are still serious with much spending concentrated in the last few months of the financial year. In the short-term, continuing close attention from the Governor and the senior provincial executive is needed. But wider reforms in the entire budgetary cycle are needed because the bottlenecks are structural (Table 3.10). A thorough review by independent public finance experts is needed to recommend administrative reforms. As well as improvements to the budget process, the adoption of a ‘let the managers manage’ approach (see Recommendation 6.4 in Chapter 6 below) is likely to be needed to facilitate efficient spending of government monies.

Recommendation 3.2

As part of the approach to provincial development planning and improved financial management, a published strategy for the use of income revenue flows expected to be received from oil and gas (*Migas*) revenues should be issued on an annual basis.

The output from the oil and gas (*Migas*) sector has been falling in recent years and the current outlook appears to be for a continued decline in output in the foreseeable future. Depending on financial arrangements made with the Indonesian central government, these trends are likely to have significant implications for budgetary management in Aceh. In order to encourage wider understanding of the outlook, including amongst members of the provincial and district assemblies, it would be useful for an annual document to be published (including on the web for public access) which set out forward projections of *Migas* revenues and options for use of the funds. Allocating a part of the revenues for investment within an Aceh Development Trust Fund is one option that might be considered (see Recommendation 3.5).

Recommendation 3.3

A provincial development plan for Aceh should address certain structural issues concerning the pattern of growth. These issues include attention to the strongly dualistic nature of the economy, preparing a realistic evaluation of the prospects for growth in different sectors (including in key individual industries within the sectors) and the implications of the phenomenon of smallness in the numerous micro enterprises across the Acehnese economy including the preparation of a pro-informal economy growth strategy.

The Acehnese economy is marked by several forms of dualism. One is between the resource-rich oil and gas parts of the economy and the non-resource sectors; the other is between selected urban areas and the rest of the largely traditional rural areas. A realistic provincial development strategy should consider the implications of dualism, including likely trends in revenue receipts from the *Migas* sector (see Recommendation 3.2) and prospects for development in non-*Migas* key sectors.

The program to respond to the phenomenon of smallness should, on one hand, set out a pro-growth policy for the informal sector. This might include appropriate packages of support (credit, infrastructure, marketing arrangements). On the other hand, a pro-business investment climate to foster the expansion of larger firms is also needed so that, over time, a robust commercial sector emerges in Aceh.

Recommendation 3.4

The issues surrounding the disposal of the very significant amounts of post-tsunami assets should be resolved as quickly as possible; all parties to the negotiations, at the central, provincial, and kabupaten levels, should look for viable solutions to all remaining issues as quickly as possible so that the assets can be used in the best way possible in the years ahead. The recent decision to extend the work of the AGTP by the inclusion of an additional specified Output for the program and a further \$3 million of funding is a welcome step towards tackling this key post-tsunami transitional challenge.

At the end of 2008, the total original value of post-tsunami assets (such as roads, ports, irrigation facilities, many buildings, numerous agricultural facilities, and much equipment) was put at over \$1 billion. But it has proved very difficult to arrange the proper legal disposal of these assets, including the transfer of the assets to the provincial and district agencies who are likely to be responsible for the use of the assets in the years to come.

One main consequence of the failure to settle arrangements for the transfer and ownership of these assets is that the maintenance of these assets has been neglected. Governments in Aceh are likely to be understandably reluctant to take over management of assets that are likely to be a financial burden. Further, it is quite difficult under Indonesian law for provincial and district government governments to allocate annual budgetary funds for assets which they do not own. For these and other reasons, the issues surrounding the disposal of the assets should be resolved as quickly as possible.

Recommendation 3.5

Proposals to establish an Aceh Development Trust Fund (ADTF) to help manage the orderly flow of grant funds and plan for the effective use of these funds are well-advanced and deserve support from international donors and multilateral firms with operations in Aceh.

The current outlook is that there will be continuing support for development programs in Aceh from international donors and various other institutions including some multinational corporations. The World Bank-supported Multi Donor Fund (MDF), established in 2005 to help facilitate the flow of assistance to Aceh after the 2004 tsunami, has played a valuable role in providing a coordinating mechanism for the provision of international funds to the province. With the expected closure of the MDF in mid 2012, there is a need for a new coordinating mechanism to mobilize external funds to support priority development programs in Aceh. The proposed ADTF would be a valuable mechanism to establish for this purpose.

Appendix Table: 3.1 Aceh province: government budget, 2005-2012
(Rp billions)

Item	Realised			Budget			Forecast	
	2005	2006	2007	2008	2009	2010	2011	2012
PROVINCIAL GOVERNMENT REVENUE								
Original local government revenue	3,807	4,067	3,012	6,645	6,732	9,250	10,081	11,196
Aceh local taxes	262	477	587	796	796	806	897	990
other local government revenues	177	309	362	477	477			
85		168	225	319	319			
Balancing funds	2,169	2,313	1,804	2,252	2,208	3,847	4,126	4,643
<i>Migas</i> and other Non tax share/natural resources	1,807	1,732	1,178	1,477	1,465			
General allocation funds (DAU)	271	461	488	557	510			
other	91	120	138	218	233			
Other revenue (special autonomy funds, <i>Dana otsus</i>)	1,376	1,278	620	3,597	3,728			
PROVINCIAL GOVERNMENT EXPENDITURE								
Indirect expenditure	2,170	2,442	3,343	8,518	9,791	9,250	10,081	11,196
Direct expenditure	1,413	1,398	1,707	2,004	2,620			
Capital expenditure	757	1,044	1,636	6,514	7,171			
other	345	570	775	4,196	5,016			
412		474	861	2,318	2,155			
SURPLUS (DEFICIT)	1,637	1,625	-331	-1,873	-3,059	0	0	0
Financing of which:								
Receipts	1,274	1,877	1,915	2,249	3,142			
Expenditure	2,911	3,502	1,585	375	83			

Source and notes: See Explanation below

Aceh province: government budget, 2005-2012
(US\$ million, assuming for convenience that US\$ = Rp 10,000)

Item	Realised			Budget			Forecast	
	2005	2006	2007	2008	2009	2010	2011	2012
PROVINCIAL GOVERNMENT REVENUE								
Original local government revenue	381	407	301	665	673	0	925	11,196
Aceh local taxes	26	48	59	80	80	0	81	897
other local government revenues	18	31	36	48	48			990
	9	17	23	32	32			
Balancing funds	217	231	180	225	221	0	385	4,643
<i>Migas</i> and other Non tax share/natural resources	181	173	118	148	147			
General allocation funds (DAU)	27	46	49	56	51			
other	9	12	14	22	23			
Other revenue (special autonomy funds, <i>Dana otsus</i>)	138	128	62	360	373	0	460	556
PROVINCIAL GOVERNMENT EXPENDITURE								
Indirect expenditure	217	244	334	852	979		925	1,120
Direct expenditure	141	140	171	200	262			
Capital expenditure	76	104	164	651	717			
other	35	57	78	420	502			
	42	47	86	232	216			
SURPLUS (DEFICIT)	164	163	-33	-187	-306		0	0
Financing of which:								
Receipts	127	188	192	225	314			
Expenditure	291	350	159	38	8			

Source and notes: See Explanation below (note, for convenience it is assumed that US\$ = Rp 10,000).

Sources and explanations

Sources

For 2005–2008: *Badan Pusat Statistik, 'Statistik Keuangan Daerah Pemerintah Daerah Provinsi: Financial Statistics of Provincial Government 2005–2008', Badan Pusat Statistik, Jakarta, 2009.* This document contains detailed explanations of the items listed in provincial government budgets.

For 2009: Government of Aceh, Qanun No 1 2009, about '*Anggaran Pendapatan dan Belanja Negara Aceh Tahun Anggaran 2009*', Aceh.

For 2010–2012: Government of Aceh, *Badan Kestimbangan Rekonstruksi Aceh, 'Kerangka Kerja Kebijakan dan Rencana Aksi Kestimbangan Rekonstruksi dan Percepatan Pembangunan Aceh 2010–2012, Banda Aceh, 2009.*

Explanations

- a) Mainly Aceh Province shares of oil and gas (Migas) revenues.
- b) As is the case for all provinces in Indonesia, Aceh Province receives a share of national General allocations funds (DAU)
- c) *Otsus (Otonomi khusus or special autonomy)* funds; these are a special grant to Aceh and will be equivalent to 2% of the national General allocation funds (DAU) for the 15 years 2008–2022, declining thereafter. There is also a special grant to provinces in Papua. These special Otsus grants provide significant additional revenues to Aceh. For example, of the total amount allocated across the nation for Otsus funds in 2008 of Rp 7,300 billion (around US\$ 730 million), Aceh received approximately Rp 3,600 billion (around US\$ 360 million).
- d) Expenditure for 2010–2012 assumed to equal income.
- e) Surplus or deficit equals provincial government revenue minus provincial government expenditure.
- f) Financial resources available from various sources, such as carryovers from previous year, reserves, and asset sales.
- g) Financial resources spent on various items such as transfers to reserves, capital contributions, and debt repayments.

CHAPTER 4

Special Autonomy, Lines of Authority and Access to Resources

Introduction

The special autonomy framework that was adopted as a crucial component of the Indonesian government's efforts to resolve the Aceh conflict is a key complicating factor for governance in Aceh. Special autonomy in Aceh has a complex history. In the immediate aftermath of the collapse of the authoritarian Soeharto government in 1998, the successor government of President Habibie passed two decentralisation laws (Laws 22/1999 and 25/1999) which devolved considerable political and fiscal authority to districts throughout Indonesia. Two laws followed (in 1999 and 2001) which gave special powers to Aceh, in unsuccessful attempts to defuse the brewing civil conflict there. The Aceh-specific legislation was then superseded in 2006 by Law 11/2006 or LoGA (Law on the Governing of Aceh) which was passed as a result of the negotiations between the Indonesian government and the Free Aceh Movement (*Gerakan Aceh Merdeka, GAM*) which produced the Helsinki Memorandum of Understanding (MOU) in August 2005. This law grants a range of special powers to the province and to the districts. One observer (May 2008:42) has described it as 'an extremely complex piece of legislation that is not limited to the core issues of 'autonomous' regional governance, but covers numerous aspects that are usually regulated in sectoral laws.'

As a result of these historic changes, over the last ten years, and especially over the last five years, the scope and powers of the Government of Aceh (GOA) have been in a fluid state and, to a large extent, are still in the process of being defined. The powers of the GOA are subject to two parallel processes of fundamental change in the machinery of government, neither of which is complete. These two processes to some extent complement each other, but in other ways are at cross purposes. They are:

- The devolution of power from the central government to the provinces and districts across Indonesia that has been occurring since the passage of the laws on decentralisation (Laws 22/1999 and 23/1999) and their amendment in Laws 32/2004 and 33/2004.
- The introduction of special autonomy for the province of Aceh with the passage of Law 11/2006 on the Governance of Aceh (LoGA).

As a result of these two parallel changes, not only have the instruments of local government had to adapt to new and expanded responsibilities, authorities and financial resources, but the precise delineation of authority between national government institutions, and those at the provincial and district (*kabupaten/kota*) levels has not always been clear. Adding further to the complexity, as we shall see, different political actors have had very different interpretations of the meaning of special

autonomy, both in general, philosophical terms, and on particular points of law, and the LoGA itself required the passage of many pieces of additional implementing regulations, some of which required complex negotiations between different levels of government and many of which have not yet been completed, five years after the passage of the LoGA.

This chapter reviews some of the ambiguities that continue to surround the implementation of special autonomy in Aceh. As well as providing a historical background and overview of the autonomy framework, the chapter points to various points where the precise delineation of authority between different government agencies remains unclear or is still to be negotiated and determined by law. By providing case studies where different governmental actors continue to hold very different interpretations of what special autonomy means and the scope of the authorities it grants to different levels of government, the chapter concludes that the uncertainties and learning processes that surround special autonomy continue to constitute a significant governance and development challenge in Aceh.

Historical and legal background

During the Soeharto years (1966-98), as the central government subsequently acknowledged, considerable grievances built up in Aceh about over-centralization of government, especially in the management of the natural resources sector, especially oil and gas. These grievances contributed significantly to violent civil conflict which waged on and off between 1976 and 2005 (Kell 1995, Schulze 2007, Aspinall 2009). In the post-Soeharto years, successive central governments recognized that devolution of political power and fiscal responsibility was needed to make government throughout Indonesia more responsive to the needs of local communities. It was also recognized that further steps would be required to respond to the special circumstances of political conflict in Aceh (as well as in Papua).

During the early phase of post-Soeharto reformasi, the government of President Habibie implemented nationwide laws on regional government and fiscal balance (Law 22/1999 and 23/1999). These laws devolved political and financial responsibility to the district (*kabupaten/kota*) level of Indonesian government. These laws were subsequently amended, with the revised laws still applying in Aceh to the extent that they have not been over-ridden by special laws that focus on Aceh.

Described as involving a 'big bang' decentralization, the decentralisation laws transformed the face of Indonesian governance and devolved far-reaching authorities to the districts. On the face of it, Law 22/1999 reserved to the central government only the areas of foreign affairs, defence and security, judicial affairs, monetary and fiscal matters, religion, and 'other fields'. As has been observed, 'Other fields' remains a problematic classification, however, covering as it does areas such as national planning policy, national standards, human resource development, conservation and high technology development' (Seymour and Turner 2002: 38). Indeed, in the views of some analysts, the law 'remained vague on functions to be transferred and the process to be adopted' (Ahmad and Mansoor 2002: 3). Moreover, the national government reserved the authority to regulate various aspects of governmental authority by way of 'sectoral laws' in areas like forestry and mining, over-riding the authority of the districts. Thus, although there is no denying the historic nature of the changes brought about by Indonesia's decentralization reforms, or the radical effect they had on Indonesian governance, there were also many areas where their consequences were not as thorough-going as had initially been envisaged, and where the delineation of authorities between different layers of government was unclear or disputed.

At the same time, progressively more far-reaching special autonomy laws were introduced for Aceh in 1999 and 2001. The 1999 law (Law 44/1999 on Aceh's specialness) was a brief document consisting of 13 articles, which acknowledged Aceh's 'special status' in the fields of religious life, custom, education and the 'role of *ulama* in the determination of regional policy'. Despite its sparseness, from late 1999 the provincial administration and legislature began to take initiatives to implement it, including by passing regional regulations that increased the authority of the Ulama Council, recognized certain customary institutions, and formalized aspects of Islamic Law, *shariah*.

However, the law and the implementing regulations failed to achieve their desired goal of reducing the armed conflict in the province which continued to escalate. A further attempt was therefore made to enhance Aceh's special powers, with the passage of Law 18/2001 on Special Autonomy for Nanggroe Aceh Darussalam. This Special Autonomy law included much more far-reaching provisions than the 1999 law, notably in two areas. First, the law provided that Aceh would retain a greater share of natural resource revenues than enjoyed by other provinces (70% of gas and oil revenues, and 80% of revenues from forestry, fisheries, and general mining), thus responding to a long-standing source of grievance in the province. Second, the law included enhanced provisions for the implementation of *shariah* in the province, to apply to Muslims, and including by the establishment of Shariah Courts (*Mahkamah Syariat*). Overall, however, 'The law involves a far-reaching devolution of power, although there is no clear definition of new responsibilities with only vague mention of 'authorities within the framework of Special Autonomy.' (McGibbon 2004: 82).

Some of the drafters of the law, especially Acehnese members of the national parliament, had hoped that the law would help to persuade GAM members to give up their armed struggle. However, the law was drafted in a manner that was detached from the peace negotiations then taking place with the facilitation of the Centre for Humanitarian Dialogue (HDC) in Europe. GAM leaders quickly condemned the law, with one likening it to a children's toy, whereas GAM wanted the 'real thing' which was independence.¹ Accordingly, the violent conflict continued, especially after a failed Cessation of Hostilities Agreement in late 2002. In May 2003, the Government of Indonesia declared a State of Military Emergency in Aceh, effectively placing the province under military rule.

By the mid-2000s and the eve of the 2005 peace negotiations, the legal situation in the province was one of considerable uncertainty. The general decentralisation laws that applied to all regions of Indonesia were, in theory at least, also put into effect in Aceh from the time of their implementation in 2001. There was also a special autonomy framework in place that had the potential to bring about considerable changes in the way that Aceh was governed. However, the ongoing conflict and its deleterious effects on governance were crippling impediments to the framework's implementation. According to one observer, weaknesses of the provincial government 'hampered implementation of special autonomy' while 'the absence of checks and balances on the executive ... accounted for the corruption that flourished' (McGibbon 2004: 28). Moreover, from mid-2003 the realities of the state of emergency in Aceh rendered decentralisation largely meaningless because of the direct military control over the province. Next, the extraordinary situation created by the tsunami of 2004 and the leading role played by the Aceh and Nias Rehabilitation and Reconstruction Agency (BRR) made governmental arrangements in Aceh unique.

¹ Kompas, 26 April, 2001.

The Law on the Governing of Aceh (LoGA)

The immediate background to the passage of the Law 11/2006 on the Governing of Aceh was the peace negotiations between representatives of the Indonesian Government and the Free Aceh Movement in 2005 which produced the Helsinki Memorandum of Understanding between the two sides, bringing to an end an armed conflict that had persisted for almost thirty years (Aspinall 2005; Husain 2007). One of the most successful peace processes of recent decades, the Aceh process has rightly been lauded as a great achievement of Indonesia and as a possible model for successful resolution of separatist conflicts elsewhere. Despite this record of achievement, it must be acknowledged that, as with all such peace deals reached between two previously warring parties, the agreement involved numerous compromise clauses that could be interpreted very differently by the two sides. Many of the subsequent ambiguities and challenges in the implementation of special autonomy, peacebuilding and governance reform in Aceh, can be traced to this source.

In giving up their independence goal, the GAM negotiators aimed to wring the maximum concessions possible from the Indonesian government in terms of the powers that would be granted to Aceh. Indeed, they aimed at 'self-government' for Aceh within the Indonesian state, avoiding the term 'special autonomy' which they associated with a policy they had previously rejected. For them, one of the key provisions in the Helsinki MoU was Item 1.1.2.a:

Aceh will exercise authority within all sectors of public affairs, which will be administered in conjunction with its civil and judicial administration, except in the fields of foreign affairs, external defence, national security, monetary and fiscal matters, justice and freedom of religion, the policies of which belong to the Government of the Republic of Indonesia in conformity with the Constitution.

GAM leaders and some other political actors in Aceh have since this time argued that this provision means that all areas of government except six areas explicitly mentioned would be exclusively reserved to the Aceh government, making for the widest possible version of 'self-government'. This interpretation is still held by many Acehnese leaders, especially of the Partai Aceh (the GAM successor party), despite the fact that the wording of this provision was almost identical to that in Law 23/1999, which had obviously not resulted in such an outcome elsewhere in Indonesia. As Bernhard May (2008) has explained:

The wording of the MoU does not justify this interpretation, and such an arrangement would also be unrealistic as there are numerous functions outside the six sectors mentioned in the MoU that need to be regulated and/or implemented by central government. This is particularly true for those government functions that constitute the constitutional obligations of the central government, are related to international conventions that have been translated into national law, or to government functions, the implementation of which by the government of Aceh would affect other regions of Indonesia or even other countries.

At the same time, although key leaders of the central government were committed to the peace agreement and to the implementation of the Helsinki MoU, they were also reluctant to concede too much to 'separatists'. Several political party leaders in the national parliament, as well as officials in several of the most important ministries and other central government institutions, also expressed concerns about various aspects of the Helsinki MOU and its implications for Indonesia's unitary state system.

These differences in perceptions set the scene for a protracted series of negotiations which lasted through 2006, leading to the formulation and passage of the LoGA. Participating in these negotiations were various representatives of GAM, Acehnese civil society, the Aceh government, as well as a large range of government officials and non-government actors at the national level, though of course it was the national parliament and government that approved the final version of the law (for one useful account of these negotiations, written before they concluded, see International Crisis Group 2006: 1-6). There were major differences between versions of the bill prepared in Aceh and those prepared by the central government, though in the end compromises were reached on most matters. The preparation of the bill was thus in some ways a very successful exercise in participatory democracy, ensuring that a significant range of Acehnese and national interests were represented in the discussions. However, this approach also had its costs. As Bernhard May (2008) puts it: ‘the direct involvement of an unusually large number of stakeholders with a vast scope of varying interests in all stages of the drafting process has led to many compromises, which often come at the cost of clarity and consistency of the law.’ As a result, from the start there were serious ambiguities embodied in the Law for the Governing of Aceh, many of which would take years to resolve through protracted negotiations between the central government, government of Aceh, and governments of the districts, and which would inject a strong element of confusion into local governance.

Box 4.1: Key features of the LoGA (Law 11/2006)

The LoGA distinguishes Aceh from other provinces in the following ways:

- Islamic law
- Shariah Court
- Acehnese judicial, religious and cultural institutions (Majelis Permusyawaratan Ulama, Mahkamah Syar’iyah, Majelis Adat Aceh, Lembaga Wali Nanggroe).
- Truth and Reconciliation Commission is to assist in healing the wounds of the long and bitter conflict.
- Human Rights Court.
- A reduced central government role and mechanism for consultation on national policies that impinge on Aceh.
- Formation of local parties.
- A stronger provincial role toward the districts/cities than in other Indonesian provinces.
- Enhanced cooperation with other countries.
- Preferential financial treatment on oil and gas and special autonomy funds.
- Co-management (with central government) of oil and gas resources.
- Offices of the National Land Agency (BPN) at province and district levels to be transferred to the local governments (section 253,2).

It should also be noted that in some areas, the text of the law differed from the text of the Helsinki MOU, leading to accusations by some in GAM and other groups in Aceh that the LoGA ‘deviated’ from the peace agreement, or even ‘betrayed’ its core spirit. This has important implications for the peace process, though is of less direct significance for the analysis of governance which takes place here. In some respects, however, the variations were relevant. For example, there was a significant change on the key issue of the powers reserved to the central government. Whereas the Helsinki MOU listed six powers exclusively reserved to the central government, described above, the LoGA

(article 7.2, Law 11/2006) added the broadly formulated phrase 'government functions (*urusan*) of national character', leaving the matter to be further elucidated in government regulations.²

Crucially, the law also adopted holus-bolus large parts of Law 32/2004 on Regional Government and of Law 33/2004 on Fiscal Balance between the central government and the regions. However, 'at the same time all stipulations of these laws apply to Aceh as well, as long as there are no deviating regulations in the LoGA' (May 2006: 52). Moreover, LoGA also dealt with the substance of many sectoral laws, adopting their provisions but 'modifying or adjusting [them] slightly to the Aceh situation, while at the same time all stipulations of these laws apply to Aceh as well, as long as they do not contradict the LoGA' (May 2006: 52, section 269.1, Law 11/2006). To add to the complexity, it was not always clear in the law whether special autonomy accrued only to the province of Aceh, or also to its districts and municipalities. Different sections in the law are open to both interpretations (May 2006: 56-58). Many of the grants of powers in the law (such as in the areas of Islamic shariah (article 13), community participation in sustainable development (article 143.6) and licenses for mining and other natural resource activities (article 165(5)) are made to both the provincial and district governments, with the precise delineation of authority being left to Qanun (local regulations) to be produced by the Aceh legislature. Other crucial issues were left to be determined by higher government regulations.

The implications of this situation are at least two-fold. First, the fact that, despite the granting of special autonomy, the majority of the legislative framework for government administration in the province is drawn from Laws 32/2004 and 33/2004 means that, in most matters, Aceh is governed by the laws that establish the framework for all other provinces, or at least by their substance. Only in a few additional key areas (Box 4.1) do the powers granted to Aceh significantly exceed those enjoyed by other provinces. The capacity building needs of the GOA have therefore been, at the broadest level, similar to those of other provinces in Indonesia because Aceh has inherited all the issues associated with centre-provincial relations.

As noted by the Donor Working Group on Decentralization Reforms, these issues have been serious:

Prior to the first decentralization Law 22/1999, civil service regulations, management of the civil service and the division of roles and responsibilities between central agencies were already problematic. Mandates and assigned roles and responsibilities were fragmented among central agencies. This fragmentation cut across many functions such as recruitment and training. This situation affected the introduction of the decentralization process and its effective implementation...[including] the long-standing absence of effective management of the civil service rooted in the complexity and ambiguities of the regulatory framework, combined with a flagrant lack of enforcement of rules and the presence of rent-seeking.

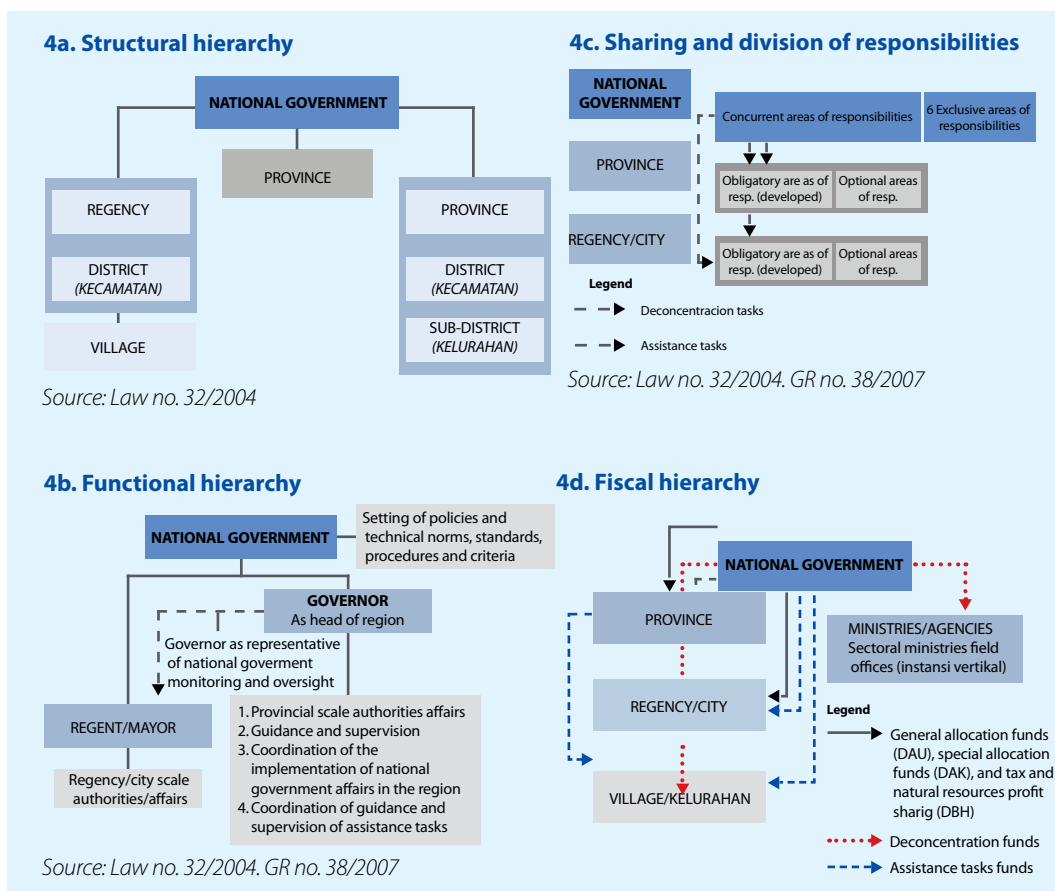
In the years after Law 22/1999 was implemented, systemic reforms in the legal framework, the management of the civil service and the definition of the roles and responsibility of the various levels of government have not proven ... coherent, well-planned or successful. ... In Law 32/2004 the explicit right of regions to manage their civil service was abolished and is now assigned to the Governor acting his role as representative of the central government. ...

² The elucidation of the law explained that such authorities would *include* 'policies in the field of national planning, policies in the fields of national development control, fiscal balance, state administration, state economic institutions, guidance and empowerment of human resources, strategic high technologies, conservation and national standardization', where policies mean 'the authority of the central government to conduct guidance, facilitation, and the setting and implementation of government functions of national character'. May 2006: 11.

The Ministry of Home Affairs has also acquired new responsibilities for overall guidance of the regional civil service... [which has] raised serious questions about the regulatory responsibility for the regional civil service and created disquiet among regional governments and donors. (USAID DRSP 2006: 47-48)

A UNDP study on the role of the province in decentralisation has shown that there is a multiplicity of overlapping hierarchies (Figure 4.1) in the relationship between the central and regional governments (UNDP 2009: 11). In the case of Aceh, to this already confusing situation a new layer of complexity has been added by special autonomy.

Figure 4.1: Multiple hierarchies



A second implication of the situation described above, however, was that the passage of the LoGA in 2006 in many respects marked only the *beginning* of the new era of special autonomy for Aceh rather than its culmination. In many crucial areas of governmental authority, the law makes only general statements and calls for further (about 50 in total) other legal instruments to elaborate on the authority of the government of Aceh and related institutions, and their relationships to the central

government and other bodies or constituents. Specifically, it required 12 national level regulations (9 government regulations and 3 presidential regulations) and, according to the government of Aceh's own count, 59 qanuns (provincial regulations, passed by the provincial parliament: *Pemerintah Aceh* 2010).

Negotiating special autonomy

When he was interviewed in late 2010, the mayor of Aceh's capital, Banda Aceh, gave short shrift to the notion that the new Law for the Governing of Aceh might have brought significant change to the way that the daily business of government goes on in the province's districts: 'The only real change we've experienced since the LoGA is an increase in money. There has been no other significant change...'³ He went on to explain that otherwise, the daily work of administration was continuing much as it had done since the introduction of Indonesia's national decentralization framework in the early 2000s.

At first sight, this response seems puzzling, given the way in which experts and ordinary citizens alike in Aceh expected that the LoGA would transform local governance. In part, the answer to the puzzle lies in the fact that the emphasis of special autonomy has been on the *province* rather than on the *district*. More importantly, it also reflects the fact that many of the changes in the way local government is organised in Aceh have been undergoing lengthy negotiation between different levels of government (especially the Aceh and national governments) since late 2006. As noted above, many provisions of the LoGA established only general principles on division of authorities with further details explicitly left to national or local regulations. As one senior official in the Aceh government put it, the LoGA was only 'the skin' of special autonomy, it will be all the various implementing regulations to be produced by these negotiations that will produce the 'contents'.⁴ The negotiations on these issues have been protracted, and even as this study is finalized late in 2011 not all of them are completed.

Among the first important negotiations, and causing delay to negotiations on other matters, were those that established the framework in which subsequent negotiations would take place. In the talks in Helsinki that led to the peace agreement in 2005, GAM negotiators were concerned to establish a framework which would ensure that Aceh's envisaged autonomy law would not be overridden by subsequent legislative or executive actions by Jakarta. Accordingly, they succeeded in having inserted in the agreement a provision that meant that new laws and administrative measures produced by, respectively, the Indonesian legislature and national government would need to be 'taken in consultation with and with the consent of the legislature of Aceh' (article 11.2.c) and 'will be implemented in consultation with and with the consent of the head of the Aceh administration.' (article 11. 2. d).

These strongly worded measures essentially would have handed Aceh a veto power over national-level laws and regulations affecting Aceh. They were therefore constitutionally dubious (May 2006: 14). Accordingly, they were translated into the LoGA (article 8) in watered-down terms, requiring not the consent but the 'consultation and advice' of the Aceh legislature (for laws) and the governor (for administrative measures), with the details of such consultations to be established by presidential regulation. This provision generated widespread criticism in Aceh. The leaders of the former

³ Interview with Mawardy Nurdin, 6 December, 2010.

⁴ Interview with Bpk Burhan, Head of the Regional Autonomy Section, 6 December 2010.

separatist movement and various civil society activists argued that the provision amounted to a serious diminution of the autonomy offered to Aceh. However, it is likely that a provision requiring provincial approval for national laws and regulations would have been successfully challenged in the Constitutional Court.⁵

Given this framework, soon after the passage of the law, negotiations began on a new Presidential Regulation. The expectation was that the Presidential Regulation would provide the framework for negotiation on all subsequent matters that needed to be determined by national government regulations of various sorts. The Aceh government proposed an elaborate dispute resolution mechanism in the event that consultations between Aceh and the national government produced disagreement.⁶ At one point in the negotiations it seemed that national government representatives were willing to approve at least elements of this procedure, in the end they reverted to an earlier draft which at least by implication reserved the final say to the national government, and Aceh's governor, Irwandi Yusuf, signed off on it. Presidential Regulation 75/2008 on 'Methods of Consultation and of Provision of Considerations Regarding Plans for International Agreements, Plans for Creation of Laws and Administrative Policies that are Related Directly with the Government of Aceh' was eventually promulgated on 24 December 2008, only a few months past the two year deadline set by the LoGA.

Some observers viewed the procedures set down in this Presidential Regulation as contravening the Helsinki MOU because, according to one advisor to the Aceh government, they basically leave all the power in the hands of the president to determine in the event of a failure or breakdown after the consultation process.⁷ On the other hand, the regulation also requires national government agencies to inform the governor in writing when they are planning regulations or other actions that will affect Aceh. It also provides for a broadly-based consultation process in which the Aceh government is provided with numerous opportunities to air its views. The same advisor noted that 'since that time the Jakarta government has indeed been sticking pretty rigorously to the consultation process set down in that presidential regulation. That at least is much better than the alternative' (i.e. if they had been doing it based on the procedures that apply for other provinces).

Since that time, negotiations between the Aceh and national governments have proceeded on a range of issues, producing a series of national-level regulations, either in draft or final form.⁸ Negotiations over crucial regulations – such as a very important one setting out the precise delineation of national and provincial government authorities in Aceh – have been extremely protracted. Negotiations on the formation of a regulation on National Authorities began in 2007, but had not been finished by mid 2011 when the research for this study was concluded.

Space limitations do not allow detailed assessment of the full range of issues that have been negotiated. In any case, such an assessment would be unnecessary in order to outline the key

⁵ A cognate measure that was inserted into the law to safeguard national prerogatives, but which caused less public commentary - even though its application is potentially more far-reaching - is article 235 2 a of the LoGA that grants the authority to the national government to invalidate any provincial Qanun on the grounds that it contravenes the 'public interest'.

⁶ The mechanism proposed a seven person dispute resolution commission, with three persons appointed each by Aceh and the national government, and one from both, that would rule on disputes.

⁷ Confidential interview with advisor to Aceh government, 13 November, 2009.

⁸ According to the government of Aceh's own count, by November 2010, two of the nine required government regulations (peraturan pemerintah) had been produced, three were under negotiation and four had not yet been drafted; of the three presidential regulations (peraturan presiden), two had been issued and one did not yet exist in draft form; the vast majority of the required 59 qanun had not yet been produced (Pemerintah Aceh 2010: 5). The earliest government regulation to be negotiated and issued (in 2007) was on local political parties, allowing the successful participation by six local political parties in the legislative elections in Aceh in 2009.

dynamics. Instead, the brief survey of one of the key negotiations in Box 4.2 outlines some of the key issues.

Negotiations over the implementing regulations have been difficult and protracted, in many cases stretching years past the deadlines mandated by the LoGA. In many ways they have presented fascinating case studies of the dynamics of negotiations between different levels of government. According to participants from the Aceh government side, in general, as time has passed central government agencies involved have becoming increasingly flexible with regard to input from the Aceh government. Aceh government officials have expressed increasing satisfaction about most of the issues that have been negotiated thus far. Even so, Aceh government informants report various issues:

Staff turnover. A tendency for rapid staff changeover in the government (especially central government) teams negotiating the regulations, and the participation in them of relatively junior staff who tend to be much more cautious in their approach to potentially sensitive issues. As a result, Aceh government staff reported that they have had to discuss some provisions as many as six or seven times, often going over the same ground and repeating themselves.

Reliance on national regulations. A default tendency on the part of officials in the key ministries to rely on – indeed often to duplicate – standard national ‘sectoral’ regulations in designing the special autonomy regulations. Early on, this tendency became visible in the negotiations over the draft government regulation on National Government Authorities. Writing about the first central government draft of this regulation, the International Crisis Group (2007: 14) reported that ‘According to those who have seen it, Aceh would be treated almost exactly like any other province, not as a self-governing territory as the GAM team understood had been agreed in Finland.’ An Aceh government negotiator made a similar point, explaining that the first version of the regulation simply had many articles that set out national government authorities by using the phrase ‘in accordance with national laws and regulations’, a provision that would have cancelled out the effect of special autonomy altogether.⁹ Another senior Aceh government went so far as to suggest that ‘The national-level ministries have not understood the LoGA. It’s true, that the regulations produced under the LoGA will *not* be in synchronicity with other laws, indeed they will ‘collide’ (*menabrak*) with other laws or regulations...When national government officials discuss particular provisions, they will often then come up with text which simply reproduces the original law or regulation.’¹⁰

Natural resource issues. Aceh government officials also report that the issues which have proven most difficult concern natural resources and revenues (oil and gas, forestry, land). This is perhaps to be expected given that the central place that revenues play for all governments, but also arguably because of the important patronage resources that these sectors provide. The issue of land has been particularly problematic: article 253 of the LoGA mandates the transfer of offices of the BPN (National Land Agency) in Aceh to the provincial government by the beginning of 2008, with provincial officials arguing that this implies the transfer of the Agency’s important licensing functions. This is an issue of crucial significance in local development planning and in the implementation of the peace agreement.¹¹ Numerous conflicts between development or agricultural companies and local communities have occurred at the grassroots level, putting strain on the peace process and

⁹ Interview, 3 November, 2010.

¹⁰ Interview, 3 December, 2010.

¹¹ Article of the Helsinki MOU (3.2.5) mandates transfer of land to former combatants, political prisoners and affected civilians. This is one issue where there has been minimal progress.

causing frustration among local government officials who view land as one important source of vulnerability for Aceh's future stability and security. As one consultant for the Aceh government put it: 'The problem has been that BPN in Jakarta has not wanted to discuss in an open manner the transfer of the authority to issue HGU and HGB (land licenses).... After all, they are talking about transferring authority over something that is a significant source of funds. So for example, now to get authority to open up a big palm oil plantation, people need to go to Jakarta to get permission. That will shift to Aceh.'¹² Even by early 2011, Aceh government negotiators were reporting deadlock on this issue.

Contentious autonomy: different interpretations of the LoGA

Given this background, it is not surprising that since the passage of the LoGA in 2006 there have been repeated occasions when different levels of government, or actors from different government institutions, have held widely differing interpretations of their authorities under the special autonomy framework. In part, these disputes have arisen because, as discussed earlier, the delineation of the boundaries of authority held by the various levels of government has not been completed. This is especially the case for the various areas of governmental authority to be managed jointly by the provincial and district governments under the LoGA framework.

In part, however, these disputes also arise because of a more simple factor: the different interests that different government institutions have in maximising their access to revenues and other instruments of governmental power. Contests and negotiations between different levels of government are a feature of all systems of decentralised government where authority and revenues are distributed between different levels of government and it should therefore not be surprising that they occur also in Aceh. Many of these contests concern debates about which government agencies are best placed to deliver the developmental programs promised by the LoGA and Indonesia's more general autonomy framework. In part, as we shall also see, these disputes also arise because of more fundamental philosophical differences about the meaning of special autonomy itself.

It is not possible to provide in this study a review of all the autonomy issues that have become contentious topics of debate in Aceh since the passage of the LoGA. However three case studies of issues matters that have been attracting much public attention in Aceh during the past year or so will serve to illustrate the range of issues at stake and the actors that are often involved. These three case studies relate to:

- Management of special autonomy funds
- Disputes over access to gas in East Aceh
- The special position of the Wali Nanggroe.

¹² Confidential interview, 6 December 2010.

Box 4.2: A draft government regulation on oil and gas

Historically, the question of the division of revenues from Aceh's oil and, especially, gas has been a major source of political conflict in Aceh. The LoGA addressed this issue not only by allocating a larger share of revenues from oil and gas revenues than in other provinces, in line with arrangements already in place under the 2001 Special Autonomy Law, but also by providing for 'joint management' of oil and gas resources between by the province and central government (article 160, LoGA).

Throughout the reformasi period, oil and gas revenues have been a contentious issue. Ever since decentralization reforms promoted greater revenue sharing between local and national governments, a basic issue has concerned access to fundamental information about government earnings from the sector. As a long-standing member of the Aceh government's 'oil and gas advocacy team' puts it 'There's no transparency about the management of oil and gas in all of Indonesia, not just in Aceh. Thus, officials of Aceh's provincial government have long tried to access precise information about earnings from Aceh's oil and gas reserves, but have not been able to view the supply contracts, with the responsible government agency (BP Migas) saying they are state secrets. The team instead, obtained material from the producers and other sources about total production and sales revenue but were never able to access information about production costs which is 'crucial because what is shared between the different levels of government are the profits: (Interview with Islahuddin, 10 July, 2010)

According to representatives of the Aceh government who participated in the negotiations on the preparation of the Draft Government Regulation, the negotiations were difficult. The representatives of the central government initially expressed

disagreement even with the principle of joint management. The central government team then conceded the principle (by agreeing to the establishment of a new BP Migas Aceh in which both the central and Aceh governments would be represented) but resisted on many matters of detail. Issues debated included whether a new BP Migas Aceh would be considered a 'Management Agency' (Badan Pengelola) or 'Implementing Agency' (Badan Pelaksana) with the later type being much less powerful and being subordinate to the national agency, the BP Migas. There was also disagreement about allowing the Aceh government access to exploration data, with this matter eventually being settled in Aceh's favour.

The issue of joint management is particularly important because it will provide the Aceh government with what it has in the past lacked: precise knowledge about the contracts between oil/gas companies and the government. The actual collection and distribution of the profits will still be carried out by the central government. However, unlike in the past, the Aceh government will now have hard data from the production contracts rather than just having to take the allocation provided on faith. When oil/gas companies sign new contracts, the new BP Migas Aceh will be able to know the amount received.

Another crucial issue that has been negotiated - and which had not yet been resolved as this research was finalised - concerns offshore oil and gas reserves and whether there will be revenue sharing for production in the zone lying between 12 and 200 miles offshore (which according to the national framework is exclusively under the authority of the national government). This matter is crucial for the Aceh government because most of the likely larger future reserves are located in the offshore zone.

Case study 1: Special autonomy funds

One area where there has been significant tension between the provincial and district governments has been in the area of the management of the several different types of funds that have swelled Aceh's coffers as a result of special autonomy. A particularly contentious topic has been the management of what are known as the *Dana Otsus* (Special autonomy funds, or *Otsus* funds).

The Dana Otsus funds are provided to Aceh as a result of one of the most innovative provisions of the LoGA. In a Special Autonomy law for Aceh passed in 2001 (Law 18/2001), Aceh was provided with additional funds as a result of the greater share of natural resource (especially oil and gas) revenues granted to the province.¹³ However, Aceh's known natural gas reserves are running out and revenues have been declining sharply (Figure 3.3 and Table 3.3 above). Thus, despite the fact that there are no such provisions in the Helsinki MOU, several Acehnese officials and legislators inserted a new provision into the LoGA in 2006 providing Aceh with additional funds amounting to two percent of the national General Allocation Funds for 15 years, declining to one percent for the following five years, with these *Dana Otsus* funds thus lasting until 2027.¹⁴ Thus, while the share of natural resource revenues (*Dana migas*) allocated to Aceh has been declining as a result of falling production in the province (with the provincial income from oil and gas dropping from about Rp 2.2. trillion, or around \$US 220 million, in 2002 to Rp 500 billion, around \$50 million by 2010), the injection of Dana otsus has more than made up for the shortfall. The World Bank has estimated that over the 20 years they are to be provided, the Dana Otsus will transfer approximately Rp. 78.6 trillion, or around \$ 7.9 billion, to Aceh, an amount that exceeds the total estimated losses caused by the years of conflict in the province. In 2008 alone, the Dana Otsus boosted provincial revenues by Rp. 3.6 trillion (approx \$ 360 million) (MSR 150-151). This is a dramatic development windfall that could be used to promote Aceh's 'catch up' with other provinces.

The LoGA, following its general (but by no means absolute) principle that special autonomy applies at the level of the province rather than the districts, explains that the special autonomy funds 'constitute revenue of the Aceh Government' and be used to development programs in six areas: 'construction and maintenance of infrastructure, community economic empowerment, poverty eradication, and funding for education, social programs, and health'. (Article 183(1) Law 11/2006). However in Aceh as in most of parts of Indonesia, much government activity is carried out at the district level. Elsewhere in Indonesia, the bulk of financial transfers are made to the districts and municipalities on the basis of the principle that funds should 'follow function' and be spent at the level where government is best able to assess and prioritise development needs (Table 3.8 above).

From the start, therefore, there was tension on how the arrangements in Aceh would work. In the case of the *Dana Otsus*, there were no real tensions between the province and the central government. The money started to be transferred from 2008, in a way that senior provincial officials agree was quite transparent. But relations between the provinces and districts have been less harmonious. In a deal that was negotiated late in 2007 and early in 2008 and later distilled in both a *qanun* passed by the Aceh legislature (Qanun 2/2008) and in a Gubernatorial Regulation, it was agreed that 40% of the special autonomy funds would be retained at the province while 60% would be allocated to

¹³ Law No 18/2001, known as the Special Autonomy Law for Nanggroe Aceh Darussalam, was superseded by the more recent LoGA passed in 2006.

¹⁴ The General allocations fund (or Dana Alokasi Umum, DAU) is a major fund by which transfers are made from the centre to the regions in Indonesia's national decentralisation framework. Apparently, the Acehnese proposal in the negotiations leading to the formulation of the LoGA was for 5% of DAU, though it was known from the start that they would likely have to accept less than this: interview with Rusjdi Ali Muhammad, 9 March 2011.

districts.¹⁵ These funds were to be distributed according to criteria determined by the province on the basis of program proposals submitted by the districts with the final decision resting in the hands of the provincial government. Moreover, such programs would be ‘implemented, monitored and accounted for by the Aceh government’ (article 13(1) Qanun 2, 2008).¹⁶

The share of funds (60%) allocated to the districts is divided between these governments on the basis of a formula which takes into account factors such as district size and population, Human Development Index ratings, construction expenses and similar factors. It strongly favours the poorer districts, with significant funds being directed toward relatively underdeveloped districts such as Bener Meriah and Aceh Barat. Only Banda Aceh, the provincial capital, has expressed dissatisfaction with the formula, saying it fails to take into account the city’s special needs and penalizes it for the relative wealth of its residents.

Despite the relative ease of reaching agreement on these early arrangements, some dissatisfaction remained. Within a little over a year, the Communication Forum of Aceh District/Municipality Governments (*Forum Komunikasi Pemerintah Kabupaten dan Kota se-Aceh, FKKA*) requested a revision to the policy so that the 60% of Dana Otsus funds allocated to the districts would be transferred directly to their accounts (*kas daerah*). Speaking on behalf of the Forum, the deputy mayor of Banda Aceh explained that projects being carried out with the funds were ‘not going forward in a maximal manner’ and were ‘leaving many problems behind them’. She explained that ‘this condition is the opposite of our goal, mission and desire to speed up improvements in the welfare of the people of Aceh’.¹⁷

Over subsequent years, management of the special autonomy funds has become a consistent source of frustration and even resentment among district officials. Only Banda Aceh has serious concerns with the formula itself under which the district funds are divided. Most other concerns are with the way in which the funds are managed and disbursed. For example, according to one early report, in late 2009 it was reported that Dana Otsus and oil and gas funded projects to the value of Rp 28 billion (about \$ 2.8 million) had ‘failed’ in North Aceh. The local newspaper reported the views of the Head of the Education and Teaching Bureau (*Kadis Dikjar*) of the district, M Jamil, as follows:¹⁸

He explained that in 2009 they had proposed a program worth 24 billion rupiah, but only 4 billion was approved. ‘The failures happened because we didn’t get the chance to put the projects to tender. It was already too late by the time we received the design and documents which the province is supposed to provide’ said Jamil. ... Learning from the experiences of the last two years, Jamil said that he hopes that full authority will be granted to the districts and municipalities to manage the special autonomy and oil/gas funds. ‘Hopefully if that happens then there won’t be any funds that disappear needlessly, when we really need them’.

These worries reflected a wider problem in the first year of the scheme when many projects throughout Aceh in which funds were not fully spent in 2008 were not automatically extended into 2009. This was despite the fact that the responsibility for the delays in project implementation largely lay with the province, including with delays in approval of the provincial budget, which

¹⁵ Serambi Indonesia 3 January 2008.

¹⁶ Following objections from the districts and municipalities, this formula was revised somewhat after the first year of operation to provide the districts with a greater role in the management of these programs, even on matters like procurement, but with the budget and payments still handled at the provincial level (interview with Bpk. Islahuddin, 16 July, 2010).

¹⁷ Serambi Indonesia, 21 January 2010

¹⁸ Serambi Indonesia, 16 December 2009

happened in June that year. The result in Central Aceh district, for example, was that three important projects (a Rp 17 billion hospital, a Rp 1.1 billion health centre, and a Rp 7.4 billion high school) which had been included in the 2008 Aceh budget but not completed, disappeared from the 2009 budget.¹⁹ The problem has continued to the present with unexpended money on special autonomy projects not being rolled into the next calendar year, but instead being absorbed as part of the ‘*silpa*’ (*Sisa Lebih Penghitungan Anggaran*, Unspent Budget Allocation) at the provincial level.²⁰ Though the source of the delays partly resides at the provincial level in the complicated process typically required to approve the provincial budget (Table 3.10), informed observers also suggest another problem is cumbersome negotiation process involved in determining which programs are to be funded. Districts devise their lists of programs, seek approval in their local parliaments, send the programs for approval to the province, which then makes a selection. The approved but amended list then needs to be resubmitted to the district parliament.

In interviews conducted for this study, even senior district and municipality officials described the way that these funds are managed in strongly negative language. The mayor of one of Aceh’s cities called the arrangements ‘unjust’; a senior official in the Banda Aceh government added that the problem since the implementation of LoGA was one of ‘centralisation at the province level’.²¹ The speaker of one district parliament (who was a member of Partai Aceh and like Governor Irwandi, a former GAM leader) said that ‘The management of these funds should and rightly would be at the district/municipality level. ... The people who better know the development needs of the regions are in the regions!’²²

The criticisms of the process of financial management fall into two general categories. The first set of criticisms concerns the difficulties that arise when district priorities are determined and to a large degree managed by the provincial bureaucracy. Thus senior staff from the fisheries bureau in one district complained that each year they propose about twenty programs to the province but typically only about four are approved. In the meantime, provincial officials also approve other proposals made independently by fisher groups or similar bodies. The *bupati* (district head) in the same district gave another example of a proposal for a 14 km road costing Rp 13 billion (around \$1.3 million), for which the province approved only Rp 800 million (about \$80,000), choosing instead to approve different projects in the district.²³ Moreover, that there is some sharing of administrative functions in these programs only adds to the confusion, both the *bupati* and regional secretary of the same district agreed. They believed that the fact that the management of special autonomy projects in the district was a hybrid was problematic. Since 2009, provincial staff were in charge of release of funds and oversight but the programs were jointly administered, with district staff also involved on many technical issues.²⁴ This leads to much duplication and ‘blame games’ from one side or the other when something goes wrong in the administration of the project.²⁵

A second set of concerns points to the capacity of the provincial bureaucracy to manage the funds.

¹⁹ Serambi Indonesia, 22 October 2009.

²⁰ Interview with Bpk Islahuddin, 8 March 2011.

²¹ Confidential interview, December 6, 2010.

²² Interview with Tgk Ridwan Muhammad, December 1, 2010.

²³ Provincial staff respond that the lists of priority programs submitted by the districts are often problematic, for example with land use permits still pending, or lacking the proper engineering designs.

²⁴ From 2009 various parts of the administration of the program were handed over to the districts/municipalities: tendering, determining operators, and some budgetary control: Serambi Indonesia, 6 November 2010.

²⁵ Field interviews, 5–6 March 2011.

Even a Banda Aceh expert advisor who is otherwise sympathetic to the governor's position admits that the new arrangements have stretched the capacity of the provincial bureaucracy:²⁶

The injection of such Rp 4 trillion additional into the provincial budget has required a great increase in the intensity of work by the provincial bureaucracy. Even if that that money is split up and distributed into small-scale projects, it could result in 10-15 thousand projects per year. This poses great challenges in terms of monitoring and implementation.

One mayor said that he estimated that the provincial bureaucracy has the capacity to manage a budget of about Rp 2 trillion per year, not the more than Rp 6 trillion they now receive: 'So what added value have they produced?'²⁷ (Indeed, as noted elsewhere, a chronic problem has continued to be underspending of the provincial budget each year: see Chapter 3). The *bupati* of Aceh Jaya, Ir Azhar Abdurrahman, has publically explained that because of such problems many special autonomy projects in his district have 'gone slowly, are neglected or even completely abandoned.'²⁸

Adding to the perceptions of imbalance, in recent years many of the district governments have been underfunded and have been dealing with budget deficits. The speaker of the DPRK in Bireuen said that: 'The province can't spend all the money it manages every year... That's a loss for the people. Meanwhile, the districts/municipalities are in deficit. They should send the money to the districts/municipalities so it can all properly be absorbed!'²⁹

The districts have called for a revision of Qanun 2/2008 and have even formed a small advocacy team to press for this and related goals. Additional pressure was exerted when, in late 2010, the Budget Body (*Badan Anggaran*) of the National Parliament gave an 'asterisk rating' to the use of special autonomy funds, claiming that it was still questionable whether such funds (and similar funds in Papua and West Papua provinces) were really being used optimally for development needs.³⁰ Senior government advisers and academics in Banda Aceh have added their voices calling for reform in the procedure.³¹

Officials at the provincial level respond to such criticisms by stressing that special autonomy in Aceh, by its very nature, is vested in the *province*. They argue that this provincial focus is a crucial element of the autonomy package that distinguishes Aceh's governance from most other provinces and is a central component of the peace deal. Not surprisingly, therefore, they mostly defend the current arrangements, while arguing that the province has already been generous in allowing significant district participation in the allocation and management of the funds.

Governor Irwandi Yusuf in particular has taken a close interest in issues of financial management and has been reluctant to cede more of the funds to the districts. The provincial government has used its share of the special autonomy funds for numerous policies that have been important for promoting the image of the government (such as the JKA health coverage scheme, the BKPG (*Bantuan Keuangan Pemakmur Gampong*) village development fund and an ambitious scholarship program) and thus

²⁶ Interview with Bpk Islahuddin, 8 March 2011.

²⁷ Confidential interview, 6 December 2010.

²⁸ 'Dinilai Tidak Efektif; Pengelolaan Dana Otsus Aceh Jangan Lagi di Provinsi Banda Aceh', 21 January 2010: http://puspen.depdagri.go.id/index.php?option=com_content&view=article&id=1162:dinilai-tidak-efektif-pengelolaan-dana-otsus-aceh-jangan-lagi-di-provinsi-banda-aceh&catid=60:aktual-media-elektronik&Itemid=76

²⁹ Interview with Tgk. Ridwan Muhammad, 1 December 2010.

³⁰ Serambi Indonesia, 14 November 2010.

³¹ See for example, Taqwadin, 'Pengelolaan Dana Otsus', <https://pekikdaerah.wordpress.com/artikel-makalah/pengelolaan-dana-otsus/>

improving the governor's chances for re-election in late 2011. Moreover, it is widely understood that the governor believes that the districts lack the capacity to use this money widely, and because he is also, as one former advisor put it, 'enamoured with the idea of Soeharto-esque big monumental projects, which require a lot of money'.³² At the same time, and adding to the political sensitivity of this program, the special autonomy funds provide a powerful development tool for governments with important consequences for governments' abilities to secure favourable political opinion. They are also a significant patronage resource, with politically-connected contractors and business people lobbying hard at both the provincial and district level to secure projects.

In short, disputes over the management of the *Dana Otsus* (special autonomy funds) reflect not merely technical issue, but also conflicting visions of the very nature of special autonomy itself and conflicting interests in the province.

Case study 2: A disputed gas field in East Aceh

In 2007 the Indonesian company, Medco E&P Indonesia, acquired a 41.67% participating interest in the exploitation of gas in block A, off the coast of East Aceh, after the lease held by Asamera, Exxonmobil, and Conoco Philips expired with the gas supplies being depleted. Even so, considerable reserves remained. There were large reserves, sufficient for 15 years so the stakes were high. Medco's first contract was due to expire in 2011 and preparations for its extension resulted in conflict between three levels of government (the central government, Aceh and the district of East Aceh) causing considerable delay, uncertainty and political tension.

A large part of the problem was that the LoGA empowered the provincial government with new authority to determine the allocation of oil and gas contracts in the province but that the implementing regulations had not yet been agreed between Aceh and the central government. The Indonesian Minister of Mineral Resources, Purnomo Yusgiantoro, claimed full authority to determine the issue on the basis of the Oil and Gas law (Law 22/2001). Minister Purnomo accused the Acehese government of impeding the extension of the contract. As a result of this uncertainty, in December 2009 Medco decided to delay its work on developing the block.³³

Amidst pressures from members of the 'Oil and gas advocacy team' established by the provincial government to lobby on its behalf, the government of Aceh and the provincial legislature argued that the right to issue a license should be vested in the province in accordance with articles 160 and 161 of the LoGA (even though there was not yet an appropriate government regulation to regulate how and under what circumstances such licenses could be issued).³⁴ To complicate matters considerably, the government of the district of East Aceh also launched its own separate negotiations with Medco. The bupati (*district head*) based his claim on another national regulation, this time Government Regulation 35/2004 on Upstream Oil and Natural Gas Business Activities, under which gas contractors were required to offer 10% participating interests to a regional state-owned enterprise in the district where their activities were to commence. As the bupati later explained:³⁵

³² Confidential interview, 13 November 13, 2009.

³³ Jakarta Post, 22 May 2009; Serambi Indonesia, 18 May 2010.

³⁴ Serambi Indonesia, 18 April 2010

³⁵ Serambi Indonesia, 30 August 2010.

From 2007 we had sent a letter to BP Migas [the national government's Oil and Gas Agency] requesting an allocation of gas for [local] electricity generation. We also asked for a ten percent participating interest for the producing region, namely East Aceh. Also concerning social funds, we had sent a proposal for the construction of a hospital by Medco, which was not agreed to.

In short, each government involved in the discussions looked to different legal instruments to bolster its case. The East Aceh district government quoted the general provisions in the national framework which advantaged the districts; the Aceh government looked to the LoGA; and the national government looked to the relevant sectoral law.

However the LoGA advantaged the province. According to East Aceh sources, in the midst of their negotiations with the district, Medco met with Governor Irwandi Yusuf, relying on articles 160 and 161 of the LoGA. The leaders of the provincial legislature were consulted in the negotiations and an agreement was reached allowing an extension of the contract. Effectively, East Aceh district government was cut out of the deal and Governor Irwandi publicly criticised the East Aceh government for having dragged its feet.

Following these events a political row erupted in East Aceh with members of the East Aceh district parliament and the deputy bupati visiting the Minister of the Interior and the national parliament in Jakarta lobbying to endorse Irwandi's decision and allow Medco to keep operating.³⁶ A war of words between the governor and the bupati of East Aceh, Muslim Hasballah, both of whom were former GAM combatants, broke out. When the news broke that the governor had approved the extension of Medco's contract, *Bupati* Muslim released a press statement:³⁷

Witnessing this process, the Government of East Aceh is very disappointed and feels that the rights of the people of East Aceh and the authority of the Government of the District of East Aceh have been neglected [*diabaikan*]. This is despite the fact that long before those documents were signed, the Aceh Timur District Government in accordance with laws and regulations still in force have with the best of intentions been discussing matters concerned with a Participating Interest [for the government] and a Community Development Program.

He described the ten percent participating interest as a 'right' of the district government under Government Regulation 35/2004. An advisor to the East Aceh bupati explained that the issue became so controversial not only because the funds involved were large (he claimed a 10% stake in the operation would have been equivalent to \$73 million) but because there was a 'clear example of overlapping responsibilities'.³⁸ Further complicating the situation, the Bupati of East Aceh government had the authority to issue the 'location license' (*izin lokasi*) and it was suggested he was deliberately stalling.³⁹ As the public debate became more heated, there were even public airings of accusations (strenuously denied) that the governor had received a Rp 10 billion bribe (around \$100 million) from Medco.⁴⁰ The local branch of the KPA (*Komite Peralihan Aceh*, Aceh Transitional Committee, the body formed by former GAM combatants) urged the bupati to refuse to issue an operating license to Medco if it failed to meet 'the rights of the people of East Aceh',⁴¹ Officials in the Aceh provincial government were dismissive of the position of East Aceh. As one senior official put it:⁴²

³⁶ Serambi Indonesia, 29 August 2010.

³⁷ Serambi Indonesia, 23 August 2010.

³⁸ Confidential interview, 3 December 2010.

³⁹ Serambi Indonesia, 2 September 2010.

⁴⁰ Serambi Indonesia, 3 September 2010.

⁴¹ Serambi Indonesia, 13 December 2010.

⁴² Confidential interview, 10 December 2010.

The problem here is the question of local government participating interest – it needs to be started with capital from the local government. They need to invest in order to get a participating interested. They didn't understand that....They were very quick to make demands [of the investor] by talking about a production-sharing contract, for example, demanding that they wanted an international standard hospital... Investors will run in response to this sort of talk. All this talk of 'must'...There was no government regulation that the East Aceh government could rely on. Only the desire of the bupati.

In the end, it was the Aceh government, with the backing of the central government, that prevailed. The contract was finally signed by Minister Purnomo at a ceremony in which similar contracts for fields in South Sumatra and East Java were also approved. However Irwandi Yusuf was the only governor present to witness the ceremony.⁴³

Case study 3: The Wali Nanggroe

If each of the preceding examples each concerned contests over access to revenues, it should be remembered that the LoGA, the special autonomy it expresses, and the preceding conflict in Aceh have also concerned more political matters and issues concerning the expression of Acehnese identity.

The LoGA touches on issues ranging from recognition of Islamic law to Acehnese customs, symbolic issues such as the name, symbol and anthem of the province, and key issues about how the Aceh government is to be formed. Many of the potentially most divisive political issues in the LoGA were resolved early on. The speedy enactment of new rules allowing independent candidates and local political parties in Aceh has occurred, changes which have enabled the rapid (though arguably still partial) transformation of the former GAM insurgent movement into a political movement oriented to winning power through elections and to the integration of many former rebels into the institutions of local government. Other issues of a more political nature have not yet been finalised including, to mention only one of the most difficult and potentially contentious issues, the question of a Truth and Reconciliation Commission.

One such issue which provides insight into how different actors still hold very different understandings of the meaning of special autonomy concerns the institution of the '*Wali Nanggroe*' which can be loosely translated as 'Guardian of the State'. This term has its origins in Acehnese history. For present purposes it is important to note that it was the title bestowed on the founder and long-time leader of GAM, Hasan di Tiro. Di Tiro enjoyed virtually unchallenged personal authority within the movement. He claimed his right to lead Aceh was derived from his hereditary entitlement to the *Wali Nanggroe* role. This interpretation was not accepted by all Acehnese. However it did mean that term *Wali Nanggroe* became strongly symbolically loaded and powerfully charged among GAM supporters and, to some extent, across wider sections of the Acehnese public.

The incorporation of the term into Aceh's new governance arrangements dates back to 2001 when it was incorporated into the Special Autonomy Law of that year which was the precursor to the LoGA. The term was included as a concession to GAM supporters, with Acehnese members of Indonesia's national parliament even publically expressing the hope that Hasan di Tiro himself might eventually be appointed to such a role. Perhaps for the same reason, but also in order to provide for such a role in a way that did not conflict with the conventional governmental structures in the province, the

⁴³ Extension of Four Signed Gas Contract', 29 October 2010, <http://www.tenderoffer.biz/news/oil-gas/6242-extension-of-four-signed-gas-contract.html?showall=1>

2001 law limited the role of *Wali Nanggroe* to largely symbolic functions, especially in the area of maintaining Acehese *adat* (custom).

This cautious approach was continued both in the text of the Helsinki MOU and in the LoGA. In 2006, Indonesia's national parliament and national officials were particularly wary of the potential for the institution of the *Wali Nanggroe* to become an independent source of political power. They were concerned that a powerful *Wali Nanggroe* would compete with other institutions of executive and legislative government and that former GAM members might be able to influence or even determine who was appointed to such a post. The LoGA thus carefully circumscribed the position, describing the *Wali Nanggroe* as

... a traditional customary (*adat*) leadership as a unifier of the people that is independent, has authority, and has the jurisdiction to develop and oversee the implementation of *adat* institutions and *adat* affairs, the awarding of titles and honors, and the exercising of other *adat* rites' (Article 96.1).

To make matters even clearer, article 96.2 states that the *Wali Nanggroe* 'shall be neither a political nor a government institution in Aceh.' The law also required the Aceh legislature to prepare a Qanun spelling out the role of the *Wali Nanggroe* in more detail.

In the three years after the passage of the LoGA, when the Aceh legislature was still dominated by members of the 'national parties' elected in the 2004, a draft Qanun was prepared that embodied this *adat*-focused and therefore circumscribed role of the *Wali Nanggroe*. However, Governor Irwandi Yusuf refused to endorse the Qanun, citing various reasons, among which were that former GAM believed the draft did not accord with their philosophical understanding of the *Wali Nanggroe* role.⁴⁴ The matter was thus put off until a new Aceh legislature (DPRA), which had been elected in the 2009 elections, was convened.

The new DPRA included a near majority of members of the former GAM party, Partai Aceh. In late 2010, having abandoned the earlier draft altogether, a new preliminary draft was approved by the legislature with the initiative clearly coming from Partai Aceh members. This extraordinary document presented an extremely ambitious interpretation of the *Wali Nanggroe* institution, conferring on the position a role similar to, or even exceeding, that of the head of state in many constitutional monarchies. The draft proposed, among other things, that the *Wali Nanggroe* would be the 'highest' institution of government in Aceh (article 1.5, article 3) with the authority, among other things, to 'carry out governmental authorities assigned to the government of Aceh' (2.b), 'Control [*menguasai*], all Aceh's assets both in and outside of Aceh' (2.d), 'Declare Aceh as being in a state of danger or disaster' (2.j), 'dissolve parliament if the political situation is chaotic' (2.n) and 'Dismiss or make non-active the governor ...if s/he acts ignominiously in a way might make the standing and dignity of Aceh decline in the eyes of the people.' It also declared that Hasan di Tiro was the first *Wali Nanggroe*, succeeded after his death by the GAM 'Prime Minister', Malik Mahmud. Moreover the position would be a lifelong one, with the occupant of the post able to name his or her own successor (articles 14-17).

This draft Qanun expressed views about the ideal form of governance in Aceh that had long been nurtured within GAM when the movement still aimed at the territory's independence. To that extent, the draft served to underscore how much at variance this view of Aceh's special autonomy – or as many supporters of GAM and Partai Aceh still prefer to put it, 'self government' – are with Indonesia's

⁴⁴ Serambi Indonesia, 9 September 2009.

Box 4.3: Contested elections

A major achievement of the peace process in Aceh, and a key to its wider success, was the ease with which representatives of the former rebel movement, GAM, were incorporated into local government by elections: direct local government head elections in 2006, and legislative elections in 2009. It was thus a cause for concern that direct elections for the governorship and district head positions scheduled for late 2011 created a climate of major controversy. At the centre of the dispute was, once again, the issue of special autonomy and its interpretation.

In late 2010, Indonesia's Constitutional Court ruled that article 256 of the LoGA was invalid. This article determined that independent candidates - candidates not nominated by any political party - would be allowed to stand only in the first local elections after the passage of the law (ie 2006). The article was inserted into the law to enable participation in the 2006 election by GAM supporters at a time when regulations allowing local political parties did not yet exist. Over subsequent years, however, two things changed: first, the Constitutional Court ruled that similar rules disallowing independent candidates throughout Indonesia were unlawful and, second, local political parties were established in Aceh, with Partai Aceh (PA), the party of former GAM members, winning a near-majority in the provincial legislature (DPRA) in 2009. Complicating matters, however, a political split had also opened within the ranks of the former insurgents, between supporters of Governor Irwandi Yusuf on the one hand, and Malik Mahmud and other leaders, who dominated PA.

The Constitutional Court ruling was especially significant because it meant that Irwandi

Yusuf would be able to run for election as an independent as he had in 2006. PA, meanwhile, chose Hasbi Abdullah as its gubernatorial candidate. However, PA and the DPRA which it dominated, also refused to accept the Constitutional Court decision. PA leaders said that the Court had failed to consult Aceh's legislature before making its ruling in contravention of article 269(3) of the law which required consultation when there are 'plans to change this law. Apparently failing to understand that Constitutional Court rulings were final, some even talked of appealing against the decision. In June 2011, the DPRA passed an elections qanun disallowing independent candidates, in direct contravention of the Court ruling. Governor Irwandi refused assent to this qanun, and Aceh's electoral commission ignored it, allowing independents to register their candidacy. In response, PA leaders initially refused to participate in the election and for several months it appeared that the party which won the largest vote in the 2009 legislative election - and which commanded the loyalty of many ex-combatants - would abstain.

Eventually, after intervention by the national government and more Constitutional Court cases, a compromise solution of sorts was engineered, by which the election was postponed to April 2012 and registration of candidates was re-opened, while independent candidates (including Irwandi) would still be able to run. PA, after earlier saying their abstention was a defense of the principles of self-government enshrined in the LoGA, eventually registered their candidates. A serious political and legal crisis was narrowly averted, in a way that points to underlying fragility in Aceh's peace settlement.

constitutional framework. Not only did the proposed powers of the *Wali Nanggroë* clearly exceed – and indeed directly contravene – the limits set out in the relevant articles of the LoGA, they also fell foul of a range of other legal instruments setting out the basic political structures of the republic, including the Constitution.

The draft Qanun was did not meet with universal support in Aceh. Governor Irwandi said that he was not able to approve the Qanun, stressing that under the LoGA the *Wali Nanggroë* was not supposed to be a political institution.⁴⁵ More widely, however, the proposed Qanun also drew a strong response from a range of Acehnese intellectuals and civil society activists who criticised it on the grounds both of its substance and for its contravention of superior laws. It also triggered demonstrations in part of Aceh, such as in the central highlands where GAM had always been weak.⁴⁶ It therefore appears that, as with a large number of other Qanun required by the LoGA, the Aceh legislature will have reconsider the issues involved.

Disputed autonomy

In sum, from these three examples it can be seen that the implementation of special autonomy has led to an increasingly complex political and administrative map in Aceh. Not only has it led to new competition between different levels of government, but it is also clear that different political actors have very different understandings of the basic meaning of special autonomy itself.

There is no doubt that the implementation of special autonomy in Aceh has been a crucial ingredient of the peace process that has allowed development activities to resume and new efforts be made to improve governance. These contests pose significant challenges to the delivery of effective development policies in the territory. Meanwhile, the continuing gap between the views of key actors poses potential dangers in the future (Box 4.3), even if so far they mostly shown themselves willing to negotiate their difference in a spirit of compromise.

At the same time, it should be recognised that while these challenges have been particularly acute in Aceh, to a large extent they mirror a much larger drama that has been playing out across Indonesia since the introduction of decentralisation reforms a decade ago. Throughout the country, inconsistency between different levels of legislation, and between sectoral laws and regulations on the one hand and more general legal instruments applying to decentralisation as a whole on the other, continue to cause conflict and disputation between different levels of government and between different agencies on many issues. A 2006 USAID evaluation of Indonesia's decentralisation for example, identified 'a lack of harmonization in legal instruments between streams of legislation relating to decentralized governance, particularly between the cornerstone decentralization laws and sectoral laws' as a critical problem of decentralisation, and suggested that 'Improving the quality and quantity of legal drafting skills and output is very important to successful reform and implementation in decentralization' (USAID 2006: 3). An updated report produced in 2009 noted that progress had been made with the passage of a new regulation (Government Regulation 38/2007) on assignment of functions between different levels of government (centre, province and district/municipality), but that this regulation was also marred by significant problems, including many functions concurrently being assigned to all three levels, unclear distinction between obligatory and discretionary functions and the inclusion of many 'faulty, unhelpful, vague, circular or procrastinating constructions' (USAID 2009: 20).

⁴⁵ Serambi Indonesia, 2 December 2010

⁴⁶ See for example, Serambi Indonesia, 6, 8, 19 December 2010.

It is beyond the scope of this study to recommend how greater clarity can be brought to this question, let alone to propose how precisely the division of authorities between the three levels of government in Indonesia should best be managed or allocated. Assigning governmental tasks as a result of decentralisation has been an immensely complicated and controversial task, the solution of which has continued to elude national policy makers for more than a decade. What does emerge from this study, however, is the conclusion that there can be no room for reform complacency on this critical issue, in Aceh perhaps even more than in other parts of Indonesia, given the acute sensitivity of special autonomy in Aceh's post-conflict and post-tsunami context. The institutions which underpin peace are still fragile in Aceh so it is important that issues of potential conflict be handled with care (Box 4.4).

While considerable donor and government attention has already been focused on this area, there is still significant room for future donor initiatives to assist in both fundamental issues of decentralisation design and in imparting the legal drafting skills which are so badly needed to make autonomy work better for government officials and citizens alike.

Conclusion: capacity needs and governance lessons

Consideration of the capacity-building needs of GOA needs to take account of the sheer scale of the post-disaster crisis that faced the people of Aceh, local and central authorities and the international community in the wake of the tsunami. The death of many individuals who would otherwise have played a critical role in recovery and reconstruction left a vacuum of political leadership and administrative expertise. This was combined with the fact that the conflict across the province had already effectively excluded much of the political and community leadership from an open involvement in public affairs during the preceding years.

For international donor organisations, this situation presented a special set of challenges. Early interventions by UNDP and other agencies had to be directed to immediate relief and recovery activities in a situation where existing social institutions and relationships had been damaged by sustained conflict. Donor initiatives responded to the absence of local capacity, while attempting to address the need to both cooperate with local efforts and build up sustainable institutional strength.

This context was made even more complicated by the introduction of special governing arrangements in Aceh. The full implementation of devolution of power to Aceh did not begin until the creation of LoGA, the inauguration of a popularly elected Governor and district heads in 2006 and the election of new provincial and district assemblies (DPRA and DPRK) in 2009. But these developments not only meant that the decentralisation occurring in other provinces could also bear fruit in Aceh, but also that Aceh would have special autonomy, with a greater range of powers transferred from the centre than was the case for other provinces.

It should be stressed that this outcome was entirely appropriate given the conflict conditions that had so long afflicted Aceh. Major concessions to the province by Jakarta were an essential ingredient of the peace deal brokered in Helsinki in 2005. Decentralisation along the lines already offered to other provinces was simply insufficient to respond to Aceh's special circumstances. Moreover, although it has hardly been touched upon in this study, special autonomy opens up a wide field for experimentation with local government forms and procedures in ways that accord with and express local culture and sensitivities and which will thus have positive long term effects for peacebuilding. For example, there are now opportunities to institutionalise *adat* (customary) justice mechanisms

Box 4.4: How consolidated is peace in Aceh?

Over the last several years, after the signing of the the 2005 Helsinki MoU, a somewhat complacent attitude has become apparent among some donors and national leaders about peace in Aceh. A conventional wisdom has emerged: peace in Aceh is secure and policymakers can now turn their attention to more pressing problems elsewhere.

Viewed in comparative terms, the Aceh peace process has indeed been successful. After the Helsinki MOU was signed, in short order Indonesian security forces were deployed out of Aceh, fighters of the GAM separatist movement disarmed, and a new Law on the Governing of Aceh (LoGA) was passed. Levels of political violence dramatically declined and political representatives of the former separatist movement contested and won elections, taking important positions in governments in Aceh.

But there are at least three reasons to be cautious about long-term prospects. First, international experience suggests that there is often a high chance of resumption of civil war after a peace deal like the one in Aceh. One recent study found that 'Of the 103 countries that experienced some form of civil war between 1945–2009 (from minor to major conflict), only 44 avoided a subsequent return to civil war.' (Walters 2010:2) Sustained peace would make Aceh not only a successful case but also an unusual one.

Second, Aceh's own history provides reasons for caution. For more than a century, beginning with the war against Dutch colonial occupation in the late 19th century, Aceh has been trapped in a cycle in which periods of peace, rarely lasting more than a decade or so, have been interspersed with periods of armed conflict. History is not destiny and Aceh is not doomed to repeat past conflicts. But

many Acehnese view past episodes of armed resistance against outside authorities with pride. Its not hard to find people in Aceh who argue that Acehnese will take up arms again if the current settlement proves unsatisfactory. There are particularly worrying parallels with the early history of the GAM insurgency when, in the mid-1970s, former supporters of the 1950s Darul Islam rebellion became disillusioned with leaders who had made peace with the government.

Third, and most worryingly, many of the drivers of conflict have not yet been addressed. Economic concerns about poverty and marginalisation of rural communities were one major grievance. However, as outlined in this study Aceh must overcome key governance challenges if there is to be sustained economic growth. Disputes about implementation of special autonomy and the delineation of authority between Jakarta and Aceh have so far been contained by responsible political leaders but they could be manipulated by conflict entrepreneurs in the future. And at the grassroots, suspicions of the central government run deep. The traditional ethnonationalist view that sees Aceh's interests as counterposed to those of the rest of Indonesia still has much support.

Reignition of the old separatist conflict in exactly the same form and involving exactly the same actors is unlikely. Many of the old conflict actors have benefited directly from peace, and would not see their interests served by a return to conflict. But resumption of conflict in a new form, perhaps involving a new generation who were children during the GAM conflict is far from being impossible. Donors and policy makers need to be mindful of this possibility, and make state-building and economic development in Aceh continuing priorities.

in ways that it is hoped will provide more effective and legitimate legal enforcement and conflict resolution at the local level (see UNDP Indonesia 2011).

Despite the great promise of this outcome, it must nevertheless be acknowledged that the application of both decentralisation and special autonomy means that Aceh is affected both by the legal and administrative complexity of decentralisation and the working out of the full implications of special autonomy. Any attempt to understand the governance challenges faced by Aceh after the transfer of power from BRR in 2009 must take this reality as a starting point.

Donors and international agencies, including GTZ and the UNDP through the AGTP, have recognized the crucial importance of special autonomy for governmental and societal recovery in Aceh. To that end, the efforts of these agencies have supported provincial government actors in enhancing their legal drafting and advocacy with regard to the design of implementing regulations and negotiations between province and central government. However, five years after the passage of the LoGA, many important implementing regulations, at both national and provincial level, have yet to be issued. There are many ongoing uncertainties and disputes between different levels of government – only some of which have been discussed above. These facts suggest that continued donor support in these areas will continue to be important for special autonomy to realize its potential as a major plank of Aceh's long-term rebuilding and transformation in future.

Recommendations

Recommendation 4.1

Both the Government of Aceh and the Government of Indonesia need to treat the finalisation of outstanding regulations deriving from the 2006 Law for the Governing of Aceh (LoGA) as a matter of urgency. These regulations should be issued as soon as possible.

Given the central importance of the special autonomy formula for building lasting peace in Aceh, and given that much of the essence of special autonomy will be distilled in the forthcoming regulations, these regulations are important not only to future efforts to improve governance and development outcomes, but also for consolidation of peace. Their issuance will underscore the seriousness of the central government in special autonomy implementation, and allow the Aceh government to put flesh on the bones of the new arrangements. The two levels of government have already agreed on much of the substance, they need to rapidly resolve outstanding points of difference. At the same time, it should be recognised that it will take time for special autonomy framework to function fully. Both the new formal and informal rules will settle into place only gradually. Moreover, the special autonomy framework needs to be done in a way that is consistent with the interests of the overall autonomy framework across Indonesia. The Aceh government needs to manage popular expectations about what can realistically be achieved in terms of development outcomes and political aspects of special autonomy.

Recommendation 4.2

The Government of Aceh needs to seriously prepare for the next phase of special autonomy implementation, and put resources into those preparations.

When the additional implementing regulations of the LoGA are finalised and implemented (see Recommendation 4.1) the authorities and responsibilities of the Government of Aceh will experience

another significant expansion. The Government of Aceh has already devoted considerable resources to the preparation of a consistent negotiating position on special autonomy regulations, but implementation of the new regulations will further strain an already stretched provincial civil service. Preparation should be made for the expanded authorities, whether through the establishment of a special unit or through existing structures.

Recommendation 4.3

The management of special autonomy funds should be revisited and reviewed to investigate possibilities for further empowering district/city governments in the management of these funds.

Although special autonomy is specifically designed to operate at the provincial level, there is scope for further devolving authority over the management of special autonomy funds to district and city governments. Doing so will bring management of these funds closer to the end users, and free up capacity at the provincial level to focus on strategic and planning issues.

Recommendation 4.4

In paying attention to issues of peace and stability in the province, special attention needs to be given to land issues.

Though agreement has not yet been reached on the substance, the transfer of authority to Aceh over land management issues will pose particularly acute challenges to the Aceh government, given the high sensitivity of this issue in the post-conflict setting. Although much depends on the legal situation – which in turn depends on national law – all appropriate steps need to be taken at the local level to avoid conflicts over land. New mechanisms need to be developed to take local community views into account and to manage land conflicts.

CHAPTER 5

Policy-making in Post-crisis Aceh

Introduction

Policy development—‘the professional preparation of options, analyses and recommendations for political deliberation and choice’—is a critical function of government.¹ In post-crisis situations, a government’s ability to formulate policies needed for reconstruction is especially important. Aceh’s new political leaders must develop policies that will ensure Aceh’s continued recovery from the twin crises of conflict and natural disaster. While there is no universally applicable blueprint for policy making architecture, experience from around the world suggests that effective policy making requires a number of important ingredients. These include (1) an ability to set priorities and develop effective strategies, (2) an ability to manage policy advice, (3) mechanisms for coordination among policy making institutions, and (4) opportunities for public debate and input into the policy process. Indeed, the process of policy making is sometimes held to be as important as the policy goal itself.

Aceh’s recovery from the devastation of the Indian Ocean tsunami and civil conflict disaster demands a sophisticated response from the newly empowered provincial government. However, the province’s policy making infrastructure—i.e. the processes and mechanisms through which policies are developed—is inadequate. This is a critical weakness considering that government spending is now the main engine of growth—29 percent of regional GDP in 2008 (UNDP 2010a: ix). Donor support for policy making capacity in post-crisis situations generally takes the form of technical advice. Findings from this study suggest, however, that donors should give more consideration to supporting policy processes, especially the capacity of local authorities to absorb policy advice and translate it into viable strategies and programs.

Institutional context of policymaking in Aceh

Local government in Indonesia underwent dramatic change following decentralization in 1999. By greatly empowering lower levels of government, particularly the country’s districts and municipalities, the new laws on decentralization turned a once highly centralized system of government on its head. The laws devolved decision-making responsibilities for 31 areas of public policy, reserving only six areas—external affairs, security, defence, monetary and financial, judicial affairs, and religious affairs—for exclusive central government jurisdiction. While successfully breaking up Jakarta’s stranglehold on Indonesia’s local society and economy, decentralization did not immediately lead to improvements in the quality of governance. In fact, during decentralization’s

¹ Definition adopted from Dror (1995), ‘Strengthening Government Capacity for Policy Development’, p 7.

early years, a number of observers complained that the quality of public administration had gone backward (Usman 2001). The poor performance of public administration was attributed to the weak capacity of local governments which had become used to following central government orders, rather than developing policies and making decisions for themselves. Indeed, local governments across Indonesia were arguably unprepared and ill-equipped for their new decision-making responsibilities (USAID 2009).

The situation in Aceh was broadly similar to other regions in Indonesia following decentralization, but the challenges were compounded by the devastation of the tsunami and protracted conflict between GAM and Indonesia's armed forces. While Aceh had a reputation for producing well educated and competent officials (McGibbon 2006), decades of intermittent conflict between the Free Aceh Movement and Indonesia's security forces had a deleterious effect on the performance of local government. Instability and the threat of violence inhibited public service provision. In the final years of the conflict, particularly following the collapse of the authoritarian regime in 1998, large swathes of the countryside came under the control of the rebels and beyond the reach of the local state. Local government in Aceh atrophied as educated young people fled and those officials who remained were not always in a position to prioritize the welfare of their fellow citizens.

While peace was restored as part of an historic agreement between the Free Aceh Movement and the Government of Indonesia in August 2005, the conditions of the peace agreement led to further decline in the performance of local government, at least in the short-term. This is because the peace agreement and its supporting legislation provided for the participation of the politically inexperienced former rebels in the governing of the province. While their inclusion was a critical element of the peace agreement, it also meant that many poorly educated rebels with no experience of democratic politics, law, administration or public policy would be elected to public office in executive and legislative branches of government at both the provincial and district-municipality level. Their lack of experience combined with lingering mistrust between the former rebels and the province's established public servants added to the dysfunctionality of local government at a time when the needs of tsunami response and post-conflict reintegration were already overwhelming public administration.

Other parts of this study deal with the challenges of local government capacity for public finance (Chapter 3) and public service delivery (Chapter 6). This chapter focuses on the public policy making capacity of Aceh's provincial government—an important, yet understudied dimension of local governance, made all the more important by the implementation of the Law on the Governing of Aceh (LoGA). Decentralization in Indonesia empowered district and municipal governments, effectively circumventing provincial authorities. In Aceh, however, the peace agreement produced a new autonomy framework that gave provincial government more decision-making powers than other provinces in Indonesia. Importantly, the agreement also ensured that Aceh's provincial government would have the resources to implement its policies and programs. The following section provides a more specific overview of the institutional context of policy making in the provincial executive and legislature since the 2005 peace agreement and the executive and legislative elections of 2006 and 2009 respectively.²

² This study covers the period of the Irwandi Yusuf administration from 2007-2012. A new Governor of Aceh, Zaini Abduallah, was elected in April 2012 for a five-year term.

The provincial executive

Executive government in Aceh consists of the Governor and Vice Governor's offices, the Governor's secretariat and 34 government departments. Prior to the introduction of local executive elections in 2006, the Governor of Aceh, like other local executives in Indonesia, had been appointed by the central government. The executive received a shake-up, however, when a former combatant was elected Governor in December 2006. Irwandi Yusuf's victory was a significant symbol of the success of the peace process, coming just 18 months following the signing of the peace agreement. Not only was Irwandi a Free Aceh Movement combatant, but at the time of the tsunami he was incarcerated as a political prisoner. In an ironic twist of fate, the tsunami set him free when the force of the wave knocked down the prison walls. The former fighter, veterinarian and political prisoner was elected Governor by a landslide.³

While Irwandi's victory was a major milestone for the integration of the former rebels into democratic politics (Hillman 2007), Irwandi Yusuf's transition to the role of chief policymaker in 2007 was neither smooth nor rapid. As a veterinary surgeon by training, Irwandi's experience of government was limited. During his first year, the Governor had much to learn about the functions and responsibilities of the Governor's office and government in general. He also had to adapt to a legal environment in which the precise distribution of powers between the centre, the province and the districts remained unclear (Chapter 4).

As an ex-combatant and a political outsider in a political system long dominated by national party elites Governor Irwandi did not have the benefit of established networks within the legislature or the bureaucracy. In fact, it was clear from the outset that there was a high degree of mistrust between Irwandi and the established civil service, which many of the former rebels saw as an extension of the central government against which they had fought. The mistrust between the Governor and senior civil servants created incentives for the Governor to work through informal allies rather than through existing government officials. The Governor also struggled to establish strong working relations with the local legislature, which, because its members were elected prior to the peace agreement, continued to be dominated by national parties. The lack of trust, the Governor's lack of experience, the uncertain legal environment, and the challenge of juggling competing interests in post-conflict Aceh combined to make policy formulation and coordination a difficult task.⁴

The legislature

When Irwandi Yusuf was elected Governor of Aceh in December 2006⁵ his counterparts in the legislative government were national party politicians who had been elected in 2004 during a particularly intense period of the conflict. Relations between the two branches of government were strained because of the mistrust between the former rebels and national parties, which Irwandi and many members of the former Free Aceh Movement associated with central government repression during the conflict era, as well as the prominence of representatives from Islamic parties, who had a different vision for the future of Aceh. Importantly, these two sources of tension were also

³ A summary of Governor Irwandi Yusuf's career is on Wikipedia at http://en.wikipedia.org/wiki/Irwandi_Yusuf, accessed 17 June 2011.

⁴ Various interviews with current and former advisors to the Governor, senior civil servants and AGTP project staff.

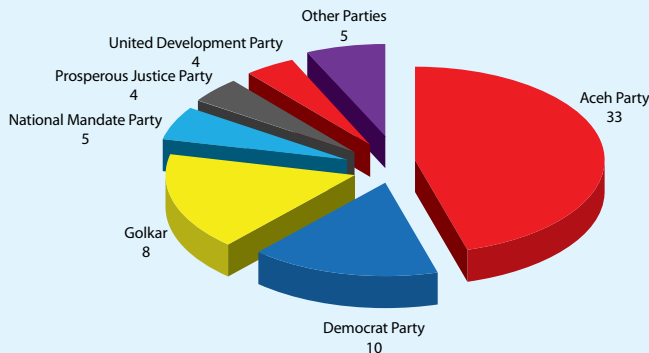
⁵ Irwandi Yusuf was formally instated as Governor on 8 February 2007.

linked. In 2001 the central government sought to divide support for the Free Aceh Movement's effort to secure independence for Aceh by introducing a regional autonomy law that included provisions for the implementation of Islamic, or Sharia, law. By allowing Acehnese to assert their regional distinctiveness through religion rather than through hostility to the central government, it is believed that strategists in the central government and armed forces intended to shift influence from secular rebels to religious elites. While the success of former rebels in subsequent elections demonstrated that these political machinations had failed, the outgoing legislature nevertheless left Governor Irwandi with an apparently unwanted gift—a new criminal law that sanctioned, *inter alia*, death by stoning for adultery.

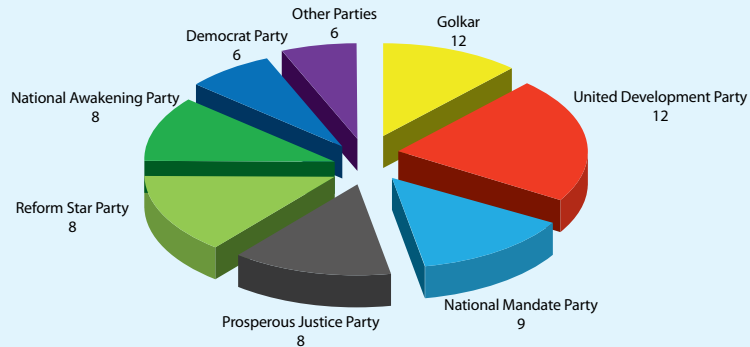
Two years after Governor Irwandi took office, the composition of Aceh's legislature (DPRA) underwent a major transformation following elections in April 2009. In these elections, local political parties in Aceh were permitted to compete for the very first time. Six local political parties registered to contest elections, but the Aceh Party (Partai Aceh)—the party formed to represent the former Free Aceh Movement—was the major victor. The figures below (Figures 5.1 and 5.2) show the composition of the Aceh Regional Assembly before and after the 2009 legislative elections.

Figure 5.1: Composition of Aceh provincial assembly 2009-2014

(No of seats in provincial assembly (DPRA) by party, total = 69)



The strong performance of the Aceh Party in free and fair elections gave the new legislature unprecedented legitimacy during a period when it would need to pass a large number of bylaws (*qanun*) to support the implementation of regional autonomy (Hillman 2009; 2012). As promised by the peace agreement, the rebels would now have a say in how autonomy would be implemented. The clean sweep by the Aceh Party also held out the promise that relations between the legislature and the executive would improve now that both were controlled by former rebels, and that a comprehensive set of policies and laws would follow. Unfortunately, this would prove not to be the case. This was because a deep division existed between the leadership of the Aceh Party—the old guard who spent many of the conflict years in exile—and the Governor, who had been one of the younger generation of combatants in Aceh. Irwandi and many of his fellow young Turks believed that many among the old guard were out of touch. Senior leaders of the old guard believed that Irwandi had been disloyal by running as an independent candidate instead of supporting the old guard's candidates in the 2006 executive elections.

Figure 5.2: Composition of Aceh provincial assembly 2004-2009**(No of seats in provincial assembly (DPRA) by party, total = 69)**

The continued animosity between the two camps underlined a worsening of legislative-executive relations in Aceh during 2009-2011, highlighted by the Aceh Party's decision to field its own candidates in the 2012 executive elections despite Irwandi's continued strong performance in opinion polls. The Aceh Party's candidates for Governor and Vice Governor, Zaini Abdullah and Muzakkir Manaf, were ultimately successful. Zaini and his running mate secured 55.87 percent of the vote, which was well ahead of the incumbent, who placed second with 29.18 percent. The tensions between the Old Guard and the Young Turks are likely to continue, however. Following his defeat in the gubernatorial elections, Irwandi Yusuf immediately launched a rival political party—The National Aceh Party (*Partai Nasional Aceh, PNA*).

The performance of the legislature also suffered from the inexperience of many of the new legislators, especially those from the Aceh Party. Interviews with legislators revealed a general lack of familiarity with constitutional government, Indonesia's legal system, basic government processes, and the roles and responsibilities of the legislature.⁶ Inexperience within Aceh Party ranks is highlighted by some of the party's legislative proposals. For example, in the Aceh Party's draft law for establishing a customary head of Aceh (*Wali Nanggroe*) modeled on the Sultans of a previous era—the Party proposed that the *Wali Nanggroe* be given extra-judicial powers to sack the Governor and dissolve the legislature, despite the electorally sanctioned legitimacy of these bodies. In a similarly unconstitutional vein, to thwart Governor Irwandi's re-election in 2011, the Aceh Party proposed a law that would prohibit independent candidates from contesting executive elections in Aceh, despite a Constitutional Court ruling granting independent candidates the right to run for office anywhere in Indonesia.⁷

⁶ Interviews with Nasruddin Syah, Member, DPRA (Partai Aceh), Amir Helmi, deputy chair DPRA (Partai Demokrat), Mawardy Nurdin, Mayor of Banda Aceh, and Chair of the Aceh Branch of the National Mandate Party, Suleiman Abda, Deputy Chair DPRA (Golkar), and Hendra Budian, Deputy Secretary of the Aceh Branch of the Golkar Party, and Hasbi Abdullah, Chair of the Aceh Regional Assembly (DPRA), Banda Aceh, August 2010.

⁷ Background details of the role of the Constitutional Court in Indonesia can be found on Wikipedia at http://en.wikipedia.org/wiki/Constitutional_Court_of_Indonesia, accessed 7 April 2011.

The inexperience of new members of parliament has inhibited the legislature's capacity to perform even its most basic duties. According to the Speaker of the House, only about 10 per cent of sitting members have the technical capacity required to properly evaluate the budget submitted by the government executive, despite the fact that passing the budget is one of the legislature's primary responsibilities. This has important ramifications as the budget remains the government's most important policy instrument. The provincial budget for 2010, for example, was not passed until July of the same year.

Despite this lack of technical expertise, however, the legislature has shown keen interest in budgetary review. Keen interest in the allocation of resources has also led to interference by the legislature in executive functions, with parliamentarians liaising directly with certain government departments to ensure that programs are implemented in accordance with their preferences. A key reason for the frequent intervention is the parliament's decision to allocate each member a pot of money that they may distribute to an activity of their choosing in their electorate. This 'aspiration fund', or *dana aspirasi* as it is known in Indonesian, is administered by the relevant civil service department, but under the direction of members of parliament.

The legislature is also weak in policy making and legal drafting expertise. This has dramatically slowed the legislation process. The provincial assembly did not manage to produce a single piece of legislation during its first twelve months. Political parties have provided little input. This is partly because parties continue to be driven by personality politics rather than programs—admittedly, an issue not unique to Aceh. When members from different parties were asked about their legislative priorities, few were able to give precise answers.⁸ Most talked in general terms about the need to develop Aceh. Members of the Aceh Party focused on the need to fully implement the terms of the Helsinki Peace Agreement. However, no political party in Aceh has produced detailed policy documents about how their development objectives might be achieved. No such materials are available at political party offices or on political party websites.

The next section of this chapter examines more closely the challenges and opportunities for policy making in Aceh. The analysis is organized along four critical dimensions of policy making: (1) ability to set priorities and develop effective strategies, (2) ability to manage policy advice, (3) mechanisms for coordination among policy making institutions, and (4) opportunities for public debate and input into the policy process.

Setting priorities and developing strategies

An ability to set priorities and develop strategies to meet policy objectives is fundamental to public leadership. In a post-crisis environment the importance of this function of government is magnified because political choices will determine the effectiveness of the recovery. Aceh's leaders have been faced with ongoing tsunami recovery responsibilities as well as the complexities of governing a post-conflict society and economy. Policy decisions need to be carefully calibrated to maintain peace and to transform an extractive conflict war economy into a productive peacetime economy.

⁸ Interviews with Nasruddin Syah, Member, DPRA (Partai Aceh), Amir Helmi, deputy chair DPRA (Partai Demokrat), Mawardy Nurdin, Mayor of Banda Aceh, and Chair of the Aceh Branch of the National Mandate Party, Suleiman Abda, Deputy Chair DPRA (Golkar), and Hendra Budian, Deputy Secretary of the Aceh Branch of the Golkar Party, and Hasbi Abdullah, Chair of the Aceh Regional Assembly (DPRA), Banda Aceh, August 2010.

As a former rebel and outsider to the political system, Irwandi Yusuf's election in 2006 symbolized a fresh start and reflected the public's yearning for change (Hillman 2007). The new Governor put forward an appropriately bold vision for change, which was articulated in Aceh's Mid-Term Development Plan (2007-2011) as follows:

The creation of fundamental change in Aceh in all sectors of the community life of Aceh as well as in government, in a way which upholds transparency and accountability to create a government of Aceh free of the practice of corruption and misuse of authority, so that by 2012 Aceh will develop into a prosperous state which is just and fair in its prosperity.

In the Mid-Term Development Plan the government of Aceh also outlined a list of seven priorities for 2007-2011 (Box 5.1).

Box 5.1: Government of Aceh development priorities, 2007-2011

1. Strengthening of governance, political processes and the law.
2. Economic empowerment, employment opportunities and poverty reduction.
3. Development and maintenance of investments in infrastructure.
4. Development of education that is of high quality and accessible.
5. Increase in quality of health care services.
6. Development of religion, society and culture.
7. Disaster risk reduction and management.

While the government has been able to identify priorities, policy making capacity limitations become apparent when it comes to wrapping specific strategies around broader policy objectives. In the words of one government advisor, 'leaders like to make policy statements, but they don't like to make action plans'. Without such strategies, sweeping policy statements run the risk of becoming little more than hollow slogans. It is not clear, for example, how 'fundamental change' and freedom 'from the practice of corruption' will be achieved by 2012. That challenge has now passed to a new set of provincial leaders.

It is similarly unclear how the government intends to achieve its goals for the economy. While the importance of developing Aceh's economy given the history of conflict and high levels of unemployment is often highlighted in government literature and speeches, the administration has so far been unable to articulate a vision for how jobs will be created. Acehese government officials and public intellectuals generally agree that Aceh has tremendous untapped economic potential. The province is rich in resources, strategically located, and its citizens have relatively high levels of literacy and formal education. The challenge, most public officials realize, is to reshape an economy characterized by resource exploitation, extortion and rent seeking into an economy driven by productive industries such as agriculture and tourism. Many legislators and government officials also speak of the need to stimulate the private sector and attract foreign investment (during the conflict era most large private firms closed up shop and foreign investment was naturally difficult to attract). Indeed, the purpose of many of Governor Irwandi's overseas trips since his taking office has been to attract foreign investment to Aceh. But beyond promotional tours the administration

appears bereft of ideas for how it might stimulate the private sector and attract foreign investment. The administration has not shown a capacity to evaluate policy options for creating conditions to attract private investment. Indeed, there has been virtually no new investment since the peace agreement of 2005. Only five business licenses were granted during this period (UNDP 2010a: 60).

The administration's approach to economic policy also revealed a limited capacity to manage conflicting policy goals. As an example, one of the Governor's first actions was to raise the minimum wage in Aceh to nearly double that in many other parts of Indonesia. Such a wage increase was doubtless welcomed by those working in Aceh's formal sector, many of who work for the state, but the reality is that few new businesses will choose to base their operations in Aceh if they can find equally skilled workers for much lower wages in other parts of Indonesia. A World Bank (2009) study identified the following impediments to economic growth: (i) unreliability of power supply, (ii) physical insecurity, and (iii) criminal extortion. These challenges are widely acknowledged, but the government does not have a policy for dealing with them.

Local economists note that another main factor deterring investment is the implementation of Syariah law. According to local businesspeople, non-Muslim and even some Muslim investors are concerned about how Sharia law might affect their businesses and their staff. Precisely which aspects of life in Aceh are to be governed by Islamic law is an issue with which the government needs to engage. So far, however, the administration has avoided the issue by declaring, for example, that the draft law mandating stoning as a punishment for adultery is under review. The legislation's status as law remains unclear. Some district governments have also passed their own Sharia-inspired bylaws without coordination from the province. Failure to deal with these conflicting policy challenges will only lead to continued uncertainty, which will always be a red flag to investors.⁹

New revenues from oil and gas and the special autonomy fund have given the province unprecedented scope to develop new programs. While the administration has identified health and education as its spending priorities, and new programs have been implemented announced, no new 'policies' have been developed. The government has used its funding to provide more free education and health services, which has admittedly been very popular with the public, there has been too little strategizing about how the programs link to broader development objectives.

A new scholarship program in Aceh provides an instructive example of the problem. In 2009 the government unveiled a new scholarship program, providing up to \$100 million per year in scholarships for Acehnese to study in other parts of Indonesia and abroad. Participants studied in as many as 30 different countries, many at the PhD and Masters level. The program was identified by the government as a strategy for cultivating the human resources needed to develop Aceh. However, it appears that little consideration was given to the skill sets needed for Aceh's development nor how program participants might be employed in Aceh upon their graduation. Currently, the only realistic employment options in Aceh are in the civil service, but there is no horizontal entry to the civil service in Indonesia. While Governor's advisors and education department officials expressed a wish that scholarship recipients would return to work for government, it is unclear what incentives they have to do so when better employment opportunities exist elsewhere. Aceh has long suffered from a brain drain because of limited employment opportunities in the province. Without major economic restructuring, the scholarship program may well only serve to accelerate Aceh's brain drain.

⁹ Interview with Professor Jasman Ma'aruf, Banda Aceh, February 2011.

During interviews legislators and government officials emphasized the importance of agriculture and tourism for future economic growth. Indeed, more than half of Aceh's work force is already employed in agriculture. Agriculture and tourism will require less investment in PhDs and Masters-level programs and more investment in vocational training. Government officials recognize that vocational training is important to Aceh's economic growth, but there has been little strategic thinking about what kind of vocational education training programs are needed and how they should be delivered. During the reconstruction phase several vocational high schools were built in Aceh with support from the German Government, but education authorities admit the schools have not since been managed effectively. There has been no new investment in the 'software' of vocational training—what happens inside the classroom. The executive needs to be thinking about how to optimize the use of facilities built by donors during post-tsunami reconstruction in order to strengthen the quality vocational training and boost employment. So far, the government has no clear strategy linking its education programs to economic policy.

As noted earlier, a key reason for the failure of the executive and legislature to formulate detailed policies for Aceh's development is the lack of policy making infrastructure—mechanisms and processes that facilitate the professional preparation of recommendations and analyses for political deliberation and choice. It is important to note that this is a problem throughout Indonesia as many local governments struggle to adapt to the demands placed upon them by decentralization. Local governments are strongly geared toward implementation rather than to innovation. Historically, there has been no need for local governments to establish mechanisms for policy deliberation and choice. In the absence of such mechanisms, there is, not surprisingly, a tendency in Aceh and elsewhere in Indonesia for local governments to resort to the government processes and policy instruments they are most familiar with—laws and regulations.

As is the case in many other regions in Indonesia, provincial government leaders in Aceh tend to take a legalistic approach to policy making. Draft legislation and executive decrees are the starting point for deliberation rather than the end point of policy development. While 'academic' drafts (*naskah akademis*) of legislation are sometimes prepared by independent experts, using the law as a starting point for political deliberation tends to limit the possibility for discussion about the policy assumptions and options on which the law is based. This, in turn, increases the risk of policy contradictions and implementation failures due to a lack of support from key interest groups.

An example of the weakness of the current system can be seen in the government's introduction in 2010 of the Aceh Health Guarantee scheme, known by its Indonesian acronym—(*JKA, Jaminan Kesehatan Aceh*). Modeled on a similar scheme introduced in Bali, JKA was initially intended to provide free health care to the approximately 1.2 million Acehnese just above the poverty line—i.e. those not considered poor enough to be covered by the national public health scheme (*Jaminan Kesehatan Masyarakat*), but who became vulnerable when faced with large medical bills. The Governor announced the program by executive decree in July 2010 so as to speed its implementation. Supporting legislation would be developed and applied retroactively (the legislation was eventually passed in December 2010).

While JKA was widely popular, and presented a good opportunity to restore confidence in government, poor policy processes undermined its effectiveness. When JKA was launched, the executive decree and supporting regulations quickly revealed gaps in strategic thought about the effects the new policy would have on existing health services and on future government budgets. JKA essentially enabled eligible Acehnese to receive free medical treatment in public hospitals. JKA

did not cover treatment in local health clinics (*puskesmas*)—the first port of call in the Indonesian health system. The immediate effect of the policy was that Acehnese citizens avoided the *puskesmas* to take any manner of complaint directly to hospital. In the second half of 2010 the demand for hospital beds soared by 200%, overwhelming local hospitals and leaving many wondering how and when they would be paid for the extra services they were providing. At the same time, the viability of the *puskesmas* system—critical for emergencies, minor ailments, maternal health, inoculations and other essential medical services—was undermined.

Even though a research team led by a health specialist from Syiah Kuala University was commissioned by the government to study the scheme, findings were not developed into a discussion paper for wider public debate. Such debate might have also included more attention to the costs of the scheme. The budget allocation for universal health care in Aceh in 2010 was Rp 241 billion (around \$24 million) and is expected to increase to Rp 350 million (around \$35 million) in 2011. The source of the funding is the Otsus Fund (*dana otonomi khusus*, or special autonomy fund), but this is a finite fund. Currently \$400 million dollars per annum, the Special autonomy fund will increase each year until 2023 and then begin to decrease before being phased out entirely in 2028. There do not appear to be plans for the long-term financing of the scheme. While the scheme is clearly popular, such large items of public expenditure deserve to be subjected to greater scrutiny and wider debate prior to their legal formalization. Not surprisingly, less than three months after the JKA legislation was passed, the Health Department announced a review of the program's guidelines.

The large expenditure associated with JKA highlights another challenge for policy making in Aceh—the role of the budget as a policy instrument. While the government exhibits an overreliance on laws and regulations as policy instruments, it tends to disregard the budget as a policy instrument. This is perhaps not surprising given the lack of new policy produced, but the lack of debate about the budget represents another significant gap in the policy making infrastructure. Each year the budget is reproduced, for the most part, as a facsimile of the previous year's budget. Departments are allocated a portion of the budget for existing programs. While the legislature is responsible for passing the budget prepared by the executive, only an estimated 10 per cent of sitting members are able to understand the technical document.¹⁰ Parliamentary discussion of the budget is limited to squabbles over the inclusion of pet projects, especially those associated with the *dana aspirasi* earmarks. The spending priorities of the budget are generally not a subject of debate.

Part of the problem lies in the legislature's failure to embrace its policy making responsibilities—one of the main functions of parliament. The legislature has more readily embraced its role as monitor of executive performance, especially given the rivalries between the two branches, but it has contributed little to policy debates. When several sitting members were asked what the DPRA's legislative priorities were for 2010, most found the question difficult to answer. When questioned, a senior and highly respected member of the parliament referred the queries to support staff. When talking about approaches to developing Aceh, members of parliament had more to say. Members from all parties agreed that, as the major employer, agriculture should be treated as a priority sector. But none were able to provide clear answers, however, when asked what the government should do to support agriculture. And there is no evidence that any parliamentarians lobbied for more funds to be allocated to support this sector in the 2010 and 2011 budgets.

¹⁰ Interview with Hasbi Abdullah, Chair of the Aceh Regional Assembly (DPRA), Banda Aceh, August 2010.

The legislature's limitations are a problem not just of individual capacity, but also of limited resources. In advanced democracies legislators rely heavily on teams of well-trained advisors and research staff—personnel which are not readily available to local legislatures in Indonesia. In fact, the local legislature does not even have the resources to recruit its own personnel. The number of administrative support staff has expanded from 122 in 2006 to 164 in 2010 (UNDP 2010b), but these staff continue to be funded and managed by the government executive, which limits the ability of the legislature to develop independent policy making capacity.

Political parties—a chief mechanism for translating public preferences into policy ideas in advanced democracies—have so far contributed little to policy development in Aceh. This is because political parties in Indonesia remain institutionally weak and tend to compete on the basis of personality politics rather than on the basis of ideas. Political party development is arguably more of a problem in Aceh than in other parts of Indonesia because of the dominance of the Aceh Party—the party founded in 2007 to represent the former Free Aceh Movement. The Aceh Party is young and staffed by people with little policy experience. Since its victory in the April 2009 polls, the party has also been largely preoccupied with building itself into a political machine, internal struggles and an unfinished agenda of implementing its version of special autonomy. Some critics of the political process in Aceh argue that the current arrangements are elitist and that the Aceh Party is part of the elitist structure (Burhanudin 2011). Many members of the Party insist on developing legislation with reference only to the Helsinki Memorandum of Understanding and not to the Law on Governing Aceh or other laws of the Republic of Indonesia. Aceh Party leaders have yet to put forward a comprehensive vision for the future of Aceh.

Other political parties in Aceh are similarly short of detailed proposals for Aceh's social, economic and political development. Representatives from national parties interviewed all spoke of the importance of the economy but were only able to provide sweeping policy statements about what should be done. One senior politician from a large national party emphasized the need to support the village economy. However when asked how that might be achieved, he suggested only that a survey would first need to be conducted. Another party representative suggested that rural credit should be expanded, but did not have an answer when asked whether such an idea was being developed as policy either through legislation or the budget. The nature of public expenditure (oriented towards subsidies for seed and fertilizer rather than toward the provision of quality extension services) is seldom debated. A local economist and budget analyst subsequently confirmed that despite the rhetoric about agriculture and the rural economy, there were no additional budget allocations to this sector in 2010 or 2011.

Overall, the major challenge for policy making at the provincial level appears to be the need to strengthen the capacity to wrap specific policies and strategies around broader developmental objectives. While the provincial government has managed to set priorities and to fund programs accordingly, these funding priorities were already determined by the LoGA and thus cannot be considered to represent new policy directions. The government has produced broad policy statements about maintaining peace and developing the economy, but these policy statements risk being seen as empty rhetoric because they are not supported by practical strategies needed to implement the vision.

Managing Policy Advice

A government's ability to manage policy advice is critical to its ability to prepare policy options for political deliberation and choice. Due to international donor engagement in many aspects of post-tsunami and post-conflict recovery, policy advice has been readily available to the administration in Aceh, especially since 2009 when BRR closed and responsibility for ongoing recovery work was transferred to local government. While a large amount of policy advice has been made available to provincial authorities, the infrastructure needed to manage and coordinate available policy advice is non-existent. This is an important point. Many government officials complain that they are hampered in their work by a lack of data needed to make decisions. It appears, however, that the greater challenge lies in the government's capacity to coordinate the data, analyses and recommendations that are already available. The government's lack of a detailed economic development strategy has already been noted above. This is not the result of a lack of information or recommendations. Both Syiah Kuala University and the UNDP have each produced economic development strategies for the Aceh government. However neither strategy appears to have been adopted by the government in its programming.

The experience of donors such as UNDP, AusAID, GTZ and USAID in working with the administration in Aceh since 2007 suggests that the Aceh Government has limited capacity for managing and coordinating policy advice. A large part of the problem appears to be structural—a lack of agreed mechanisms for managing advice. But the problem is also attitudinal. As noted above, the Governor began his term with a low level of trust in existing government officials and a general lack of knowledge of existing government processes. At the same time, the Governor's supporters, especially those who fought alongside Irwandi during the conflict years and those who supported his election to the Governorship expected to be able to exert influence over the decisions of the new administration. Under such conditions, the Governor has tended to work more closely with non-government advisors rather than with local bureaucrats.¹¹ This has served to reinforce a practice, which dates from the highly centralized authoritarian era, that civil servants merely implement orders and are not the source of ideas.

Overall, there is a surprisingly low level of civil service engagement in policy making. Heads of government departments are not in the habit of making policy recommendations and do not produce policy documents. Government department heads tend to see their main responsibility to be to follow directives. In fact there appears to be no culture of independent advice provided by government departments to the Governor in Aceh.

Even the Governor's new advisors do not appear to see it as their role to provide policy advice to the Governor. Following a recent country-wide institutional innovation, since 2009 the Governor has a team of five full-time advisers (*staf ahli*) at his disposal. While the terms of reference for the new advisers includes conducting policy research and making recommendations to the Governor, in practice the 'advisers' only respond to directives from the Governor.¹² This situation reflects hierarchical traditions in decision-making. Notably, according to human resource management regulations, *staf ahli* must be selected from among the pool of registered civil servants, which ensures the recruitment of staff who are trained to follow orders rather than engage in independent policy research (see Chapter 2 above).

¹¹ The practice of governors and district heads (*Bupati*) appointing personal advisers is often a controversial matter in Indonesian government circles. Certain appointments in Aceh in 2007 attracted critical media comment. See, for example, 'Tim Asistensi Gubernur terlalu gemuk' [The Governor's Assistance Team is too fat], *Harian Aceh*, 7 February 2008.

¹² Interview with Jafar Hussein, special advisor to the Governor, Banda Aceh, August 2010.

Because of the lack of trust between the Governor and senior bureaucrats, the Governor has generally sought advice from Acehnese businessmen and academics, especially academics based at Aceh's Syiah Kuala University. But, by choosing advisors on the basis of personal ties rather than on the basis of expertise, the quality of the Governor's advice can be expected to vary. Another legacy of the conflict is the provincial executive's preference for advice from Acehnese citizens. The Governor depends heavily on advice sourced from Aceh-based academics. This means that the Governor does not always get the best advice available nationally.¹³ Further, Aceh-based academics do not necessarily have the research and analytical skills needed to provide reliable data for policy deliberation. Many Aceh-based academics have been preoccupied with teaching throughout their careers and have limited research and analytical experience. Nation-wide the university is rated as third-tier (Level C). Apart from a handful of exceptions, there is a tendency in the provincial executive not to trust the advice of non-Acehnese Indonesians. This is a pity given the expertise available in other parts of Indonesia on many of the provincial government's states policy priorities. Nevertheless, this is a political issue that cannot be quickly resolved.

International advisors have, for the most part, been welcomed. Donors such as USAID, AusAID, GTZ and UNDP have provided international advisors to the Governor since the beginning of his term. Many donors had already established working relations with Governor Irwandi from his time as the Aceh Transitional Committee's (KPA, the successor organization to the Free Aceh Movement's) liaison with the European Union-backed Aceh Monitoring Mission (AMM). From 2007 UNDP supported seven teams of policy advisors in a pioneering project discussed in more detail below. However, it is now clear that while there has been a large quantity of locally and internationally supported policy advice provided to the Governor's office, the executive has lacked a mechanism for using this advice effectively. Several policy papers have been produced, but have not been circulated, followed up or integrated into government programs. While senior officials and advisors complain that they are hamstrung by a lack of data that can be used for evidence-based policy making, the lack of mechanisms for processing such information appears to be the greater handicap.

Coordination Among Policy Making Institutions

Effective coordination among policy making institutions is an essential aspect of policy making. Effective coordination is necessary to ensure that policies are subjected to scrutiny from various viewpoints, that the thrust of the policy is understood and that possible contradictions or problems can be identified as early as possible. Poor coordination is a reason why policies often fail when it comes to implementation—a subject taken up in greater detail in Chapter 6 below.

Coordination between policy making institutions remains a challenge for Aceh. While various communication mechanisms exist between the Governor's office and government departments, including a monthly heads of department meeting and the Regional Leaders Coordination Meeting (Rapat Koordinasi Pimpinan Daerah, RAKORPIMDA), which brings together the Governor's office and district and municipality governments, such forums are typically not used for the purposes of policy debate. When the Governor meets his department heads each month, it is for the purpose of ascertaining whether government programs and expenditure are on track. There are no opportunities at these meetings for department heads to raise new ideas or to provide advice on policy directions. Similarly, while the RAKORPIMDA forums are sometimes used to air grievances at the district and municipality level, they are not designed to facilitate policy debate.

¹³ Interview with Mawardi Ismail, legal advisor to the Governor and former Dean of the Law Faculty, Syiah Kuala University, Banda Aceh, August 2010.

Coordination between the province and the districts is especially important in Aceh because of the lack of clarity surrounding special autonomy arrangements (Chapter 4). Because the districts (i) were previously empowered under decentralization laws, (ii) report directly to the central government's Ministry of Home Affairs, (iii) have their own independent budgets, and (iv) because the special autonomy law confers special autonomy privileges on the province and the districts simultaneously, many district-level executives make decisions rather independently of provincial government. Some district level officials claim that provincial policies are largely irrelevant for them. This has the effect of undermining provincial authority and the premise of the peace agreement. The provincial government needs to assert itself in a number of policy domains where it remains absent. Transport is one example. Currently, several districts are planning to build their own seaports, which would be a waste of public funds. A province of four million people would arguably be better served by one or two properly functioning seaports. This subject was dealt with more comprehensively in Chapter 4 above.

Coordination is also hindered by fragmentation within the provincial executive. It has already been noted that low levels of trust between the Governor's office and the civil service inhibits the frank exchange of advice and discourages innovation by heads of departments. A similar problem can be found between the Governor's office and the Vice Governor's office. While there are personal and political reasons why the Governor and Vice Governor are not close collaborators, there also appears to be an institutional weakness. The offices operate independently of one another, sometimes making separate announcements on the same policy issue. According to provincial government officials, there has never been a meeting chaired jointly by the Governor and Vice Governor. Each chairs his own sessions at a time of his choosing. The role of the Vice Governor needs to be better clarified and a more effective coordination mechanism between the two chief executives established.

Horizontal decision-making structures at the provincial level are also highly fragmented. Provincial government departments (SKPA) are in the habit of submitting budget proposals for their programs without coordinating with other agencies, even where there is overlap in portfolios. Most government agencies compete with one another to win a larger chunk of the budget without the benefit of a holistic view of development priorities. The regional planning board, BAPPEDA, is ostensibly tasked with designing policies and programs that have a more holistic approach in its mid-term and long-term development plans, but Bappeda's recommendations are usually of secondary importance in the contest over funding between the various government departments. According to the head of BAPPEDA in Aceh, less than 40 percent of the medium-term development plan is reflected in government programs funded by the budget.

A similar coordination problem can be found in the relationship between the executive and the legislature. While political rivalries appear to be the reason for poor communication between these two branches of government another problem, noted earlier, is that members of the provincial legislature generally do not consider policy making to be one of their primary responsibilities. At the same time, the executive must also accept greater responsibility for discussing its priorities with the legislature. Given the responsibility of the legislature for passing the provincial budget, communication between the two branches of government is critical. An example of the dangers of communication failure can be seen in the Government's new scholarship program. As noted earlier, hundreds of Acehnese students embarked on new study programs in 2010 with funding approved in the 2010 budget. In the 2011 budget, however, funding was only allocated to new scholarships, and not to students engaged since 2010 on two or three year programs, which includes most

Masters and PhD-level students. In early 2011, many students abroad and in other parts of Indonesia remained unaware whether they would be able to continue their studies.

One way to improve coordination between policy making institutions in Aceh might be to revive an earlier mechanism known as the SKPA Joint Forum, which is organized around sectoral issues. An education forum, for example, would bring together agencies responsible for education, youth, planning and economic development. Members of the provincial parliament, experts and other stakeholders could also be invited to participate in the forums. If properly resourced, these forums could serve as a useful mechanism for managing policy advice and preparing policy recommendations.

Public Participation in Policy Making

The absence of processes for the professional preparation of options, analyses and recommendations for deliberation and choice naturally means that public participation outside of elections is rather limited. It should be noted, however, that Aceh has a long history of civil society activism and a number of civil society groups have regular, albeit informal, access to the Governor. Civil society groups are also active in contributing and sometimes producing draft legislation. One example is Forum LSM, which made an important contribution to the Law on Governing Aceh (No. 11 2006). Aceh's political history helps to explain the administration's close ties to civil society groups. Many civil society groups participated in the broader movement to bring about change in Aceh, a position that brought them into strategic alignment, if not formal alliances, with the Free Aceh Movement. Many civil society groups were even more closely aligned with the Free Aceh Movement through the movement's promotion of a referendum on independence for Aceh. The informality of the relationship and its connection with the Governor suggests that civil society participation might not be secure under future administrations. This can only be secured by establishing more effective mechanisms for preparing policy options prior to law-making.

Outside of a few prominent civil society groups, however, opportunities for public participation in policy making remain limited. This is not because the government is not open to such input – indeed there is no indication that this is the case – but because there are no effective mechanisms for absorbing such input. While the musrenbang (Musyawarah Rencana Pembangunan, Multi Stakeholder Consultation Forum for Development Planning)¹⁴ process is designed to provide a structured opportunity for local communities to provide input into government programs, most officials privately acknowledge that the musrenbang process is a mere formality. The musrenbang is an annual dialogue that is wide in scope, and provides little opportunity to examine specific policy issues. As many as 10,000 projects are 'deliberated' in fewer than three days. This is only possible because government programs have actually been determined in advance of the community-based 'consultations'.

Direct elections for Governor and for members of the local legislative assembly provide the public with an opportunity to choose the province's decision-makers. However because politics is driven by personalities and identity politics rather than programs, and because political parties are institutionally underdeveloped, elections do not necessarily provide the public with much influence over the policy directions of their governments.

¹⁴ The Musrenbang were established as a mechanism for identifying and prioritizing community development policies among government and nongovernmental stakeholders. A hierarchy of forums at the community, subdistrict and district levels was designed to facilitate dialogue between government and communities and to synergize 'bottom up' and 'top down' planning.

Box 5.2: Aceh Green investment targets

1. Energy security through green energy development.
 - a. Geothermal
 - b. Hydropower
2. Environmental conservation based on sustainable forestry management
 - a. Developing management and protection of forests
 - b. Reforestation and rehabilitation
 - c. Developing agro-forestry and community forestry
3. Food and livelihoods security through sustainable economic development
 - a. Developing partnerships between smallholders and the private plantation sector
 - b. Development and management of fisheries and aquaculture
 - c. Development of public infrastructure that supports protection of the environment
4. Waste management and renewable energy
 - a. Management of waste materials through reducing volume, pollutants and adding value
 - b. Management of mineral energy and mining

Case Study in Government Policy: Aceh Green

The next section examines the Irwandi administration's effort to formulate a new policy based on the Governor's vision for environmentally sustainable economic development. The case study offers useful insights into the strengths and weaknesses of the provincial government's policy making infrastructure. The 'Aceh Green' concept was launched in 2007 during the first year of Governor Irwandi's term as both a sustainable development and investment strategy. A key part of the concept was to protect forests and raise revenue by trading in carbon credits. The first concept paper was prepared by an American advisor attached to the Governor's office. It identified four key sectors and 10 subsectors as Aceh Green's targets.

An Aceh Green Transitional Secretariat was established as an ad hoc group reporting directly to the Governor. The secretariat was designated as transitional because it was anticipated that it would eventually be supplanted by a body with legal status and formal powers. Members of the committee were drawn from outside the ranks of government and tasked with (i) developing the Aceh Green policy document that was originally prepared by foreign consultants, (ii) developing strategies for mainstreaming Aceh Green ideas into government programs, and (iii) serving as a focal point for international donors working in related fields.

Aceh Green attracted a lot of attention from the public and the donor community during its first year. This is because the 'development paradigm', as some foreign consultants referred to Aceh Green, was associated with two headline grabbing initiatives. The first was Governor Irwandi's declaration of a moratorium on all logging in Aceh. The second was the Governor's high-profile trip to California with USAID support during which an agreement on carbon credits was signed with California Governor Arnold Schwarzenegger.

While the Aceh Green Transitional Secretariat managed to produce a new version of Aceh Green—the Aceh Green Investment Strategy—the policy framework has been largely ineffective in driving change. There are several reasons for this. First, the policy document produced was too broad and

general in scope—hence the references to it as a ‘development paradigm’. But the broadness and generality of the document has prevented the emergence of a clear concept with clear goals. Several years after Aceh Green was launched many senior government officials remain unclear about what it means—e.g. whether Aceh Green is an investment strategy or a conservation program. Despite attending meetings at which the concept was introduced and despite the secretariat’s stated objective of mainstreaming Aceh Green into government programs, many department heads remain unconvinced that Aceh green has any relevance to them, with perhaps the exception of the Forestry and the Agriculture and Fisheries Departments. In the four years since the policy was released, government activities under the rubric of Aceh Green have mostly been limited to forestry and spatial planning. Interestingly, it is clear that all of these activities would have happened without Aceh Green.

The problems associated with Aceh Green reflect broader problems with the policy making process at the provincial level in Aceh. First, Aceh Green is a sweeping policy statement which commits to conservation, job creation and sustainable economic development. None of these wishes is particularly objectionable, but they do run the risk of being so broad as to make the policy seem vacuous. Aceh Green does not really amount to a policy or strategy because it does not set out clear goals nor identify how its wider objectives will be achieved.

Second, the composition of the Aceh Green Transitional Secretariat reflects a continuing problem in the provincial executive—poor communication between the Governor’s office, his advisors and the public service. Members of public service agencies were not invited to participate in the secretariat, nor in formulation of the document. The secretariat focused instead on ‘socializing’ the concept among heads of departments. Insufficient coordination also extended to the legislature, many members of which were unfamiliar with the content of Aceh Green when interviewed in 2010. At the district and municipality level, local officials know little about the program. Some officials understand it has something to do with forestry. Some district officials claim Aceh Green is not relevant to them because it is a provincial government initiative.

Because of its arm’s length from government, it is perhaps not surprising that instead of taking stock of current government programs related to Aceh Green, the secretariat has tended to focus on new initiatives, especially ones that might attract new donor funding such as REDD.¹⁵ Indeed, it appears that the secretariat invested much more in its relations with donors than its relationship with government departments. Many of the programs the Aceh Secretariat claims to have been activated as part of the Aceh Green initiative are in fact donor-led programs. These include the Aceh Forests and Environment Program funded by the MDF, the Fisheries and Aquaculture Livelihoods program funded by UNFAO and American Red Cross and Aceh partnerships for Economic Development funded by UNDP. It is far from clear how these programs will be coordinated and sustained when donors depart.

While efforts have been made to incorporate the spirit of Aceh Green into other government planning processes, such as the Mid-term and Long-term Development Plans developed by BAPPEDA, these planning processes are themselves problematic insofar as they remain divorced from the budgeting process. Furthermore, the secretariat continues to operate without a structured workplan and without the technical capacity required to identify and articulate clear policy goals and the strategies needed to bring about the desired change.

¹⁵ Details of the REDD scheme at <http://www.un-redd.org/>, accessed 18 August 2011. See also Wikipedia at <http://en.wikipedia.org/wiki/REDD>, accessed 20 August 2011.

Donor Support for Policy Making

In the immediate aftermath of the tsunami donors focused their attention on the Agency for the Rehabilitation and Reconstruction of Aceh and Nias (BRR)—the national government agency established to coordinate post-tsunami recovery. While it was natural and appropriate for donors to work through this agency, donors were probably too slow to engage with provincial government. In fact, as former staff at BRR now freely admit, provincial government was to some extent sidelined in the first three years of post-tsunami recovery efforts. This lack of engagement emerged as a potential problem when it became clear to donors that BRR's mandate would eventually expire and the main responsibility for ongoing recovery work, including responsibility to manage recovery assets, would be progressively transferred to Acehese governments.

Donors began to recognize that the provincial government would need strengthening in order to tackle not only the myriad challenges of coordinating recovery from the tsunami, but also from decades of conflict. A number of donor-funded programs were set up to provide support to government at various levels. While several donors including the World Bank, USAID and GTZ provided policy support, the most ambitious program to strengthen policy making at the provincial level was UNDP's Aceh Government Transformation Programme (AGTP), which was designed to assist the provincial government manage the transition from BRR in 2009 and lead the transition from post-tsunami recovery to longer-term development. Because this program specifically targeted the province's policy making capacity, the experience of AGTP as a local government policy support program merits close examination.

Case Study in Policy Support: Aceh Government Transformation Programme

Designed by UNDP in consultation with the Governor's office, the Aceh Government Transformation Programme (AGTP) was intended to serve as "the Aceh Provincial Government's framework for coordinating the transition and for strengthening local government capacity to manage ongoing recovery work." The program was built around three components (Box 1.3 above). Under the first component AGTP would provide policy support to the government executive. The second component consisted of technical support to local government agencies, with a focus on the transfer and management of post-tsunami reconstruction assets. The third component focused on strengthening human resources and human resource systems, which is the subject of Chapter 2 above. The examination of AGTP in this chapter will focus on the first component of the program—policy support to the government executive.

AGTP policy support was largely provided through the establishment of seven advisory teams (*tim asistensi*) of six members each. The teams covered the following sectors: human resources, economy, anti-corruption, transition, law, communication and information systems. The teams were designed to serve the Governor through the period of the recovery transition from mid 2008 until November 2009, or roughly six months after the end of BRR's mandate. The teams' primary responsibility was to help the Governor to formulate policies and strategies for achieving policy goals. The teams were designed to bridge the gap between the Governor's office and policy implementers in the civil service.

The *Tim Asistensi* component of AGTP was an institutional innovation in policy support for a post-crisis government. The teams made a number of important contributions to government business

processes, including the introduction of a computerized system of financial monitoring and tracking, which was initially developed by BRR, and which provides critical management information to the Governor and heads of line agencies to regularly monitor expenditure, procurement and progress on major projects in the province. Another important contribution was technical assistance to recovery asset verification process.

The teams also played a valuable role in facilitating communication between the new provincial administration and the central government. This was critical during the transition period when much of the details of Aceh's special autonomy were being worked out. It was also important because of the low levels of trust between the former rebels and elements of the central government. Key advisors appointed to the teams were able to bridge this gap, and can be credited with building strong relations between the province and the centre.

The teams also carried out a number of important tasks, including, for example, preparations for a new recruitment for heads of agencies, and the development of important new laws and regulations. According to the AGTP 2010 Annual Report (UNDP 2010c), *tim asistensi* contributed to the following legal products:

1. Government Regulation No. 83/2010 on the Delegation of Central Authority to Sabang Authority Boards
2. Presidential Regulations No. 10/2010 on the Enactment of Cooperation between GoA and Foreign Organizations and Agencies
3. Qanun on Health
4. Qanun on Aceh Investment Enterprises
5. Qanun on direct Grant to GoA and Districts/Municipalities
6. Governor's Decree on Job Analysis
7. Verified Emission Reduction Purchase Agreement
8. MoU between Gol, GoA and the States of California, Illinois and Wisconsin on Environmental Cooperation

While such laws, regulations and MoUs are doubtless important, the teams' contribution to these policy instruments did not necessarily result in a strengthening of policy making capacity. While it is true that the goal of the program was to achieve "enhanced capacity of the Provincial Executive to create the institutional and policy framework for successful transition and recovery" rather than to strengthen policy making capacity per se, the ad hoc nature of the teams meant that opportunities were missed to leave a stronger policy making infrastructure in place. By working directly on policy instruments such as laws and regulations, which is in any case the responsibility of the secretariat and line ministries, the teams missed an opportunity to work on earlier stages of policy formulation. Laws and regulations are the Government's default policy instruments precisely because of the lack of earlier stages of policy formulation and deliberation. The language of the AGTP 2010 Annual Report suggests that the AGTP project team did not distinguish firmly between policies and policy instruments. On page 11, for example, there is reference to the following "draft policies":

- Government Regulation on Oil and Gas resources in Aceh
- Government Regulation on the National Authority in Aceh
- Presidential Decree on Integrating the National Land Agency (BPN) into Provincial Government Offices in Aceh

Other outputs from the seven teams documented in the 2010 Annual Report suggest overlap between the work of the teams and the work of the civil service:

1. A performance evaluation for Echelon II officials
2. A spatial plan data set based on national standards
3. A hazard analysis to complement the spatial plan data
4. An online information system for the Transportation, Communication, Information and Telecommunications Agency
5. A management information system for the Transportation, Communication, Information and Telecommunications Agency
6. Asset transfer guidelines for the Aceh Financial and Asset Management Agency
7. Grant funding guidelines for SMEs
8. A scholarship program for civil servants
9. An anti-corruption curriculum for secondary education
10. A database on existing forest concessions
11. Quality assurance services for the execution of the civil servant scholarship program
12. Follow-up recommendations regarding the workload analysis for Aceh provincial government departments

While the teams' contributions doubtless speeded up work that the provincial government needed to do, the range of activities in which the teams engaged with limited oversight caused problems. Some of the teams, for example, ended up substituting for the civil service, with the potential to undermine the civil service and removing opportunities for the permanent civil service to develop essential capacities. There is also the risk that government work carried out by ad hoc advisory teams obfuscated lines of accountability and responsibility.

The focus of the teams on legal products rather than on earlier stages of policy formulation was encouraged by AGTP's project and financial management arrangements. The teams needed to produce specific 'outputs' they could complete within a short time frame so that they could get paid by AGTP. Mostly, the proposed activities reflected work that the Governor or individual members of the team wanted done, with less regard for strategic prioritizing. The structure of payments and project accountability also placed the teams' activities outside of government. Each team would propose their own set of activities—e.g. attending a conference or holding a workshop that would then be approved by the UNDP project team. In order to strengthen accountability, teams were required to submit activity reports and supporting documentation before being paid for their work. While this ensured that UNDP was provided with copious activity reports and documents, the lines of accountability flowed to UNDP and not to the Governor or relevant government departments. According to interviews with the Governor's advisors, some teams rarely communicated with the Governor.

Interviews with team members and other local government officials indicated that many of the teams failed to translate their work into government policies and programs precisely because of they were disconnected from local government. While the teams were supposed to bridge the gap between the Governor's office and the civil service, in some cases they served to widen it. This is because the teams were constituted separately from government of almost entirely non-government personnel. Some civil servants complained that many of the advisory team members behaved as if they were superior to civil service officials. While some teams managed to strengthen

relations with government departments over time, in hindsight it appears to have been a mistake to not include senior bureaucrats in the teams. This experience reflects a common challenge for donors working in policy support—i.e. how to ensure that technical assistance is responsive and accountable to the indented beneficiary as well as to the donor.

While the advisory teams' produced important results and were only intended as a stop-gap measure during the 'transition' period, the teams might have had more lasting impact had more attention been given to the provincial government's capacity for translating advice into policy. One way to approach this might have been to establish a policy advisory unit within the Governor's office, that might have later incorporated the staf ahli, and provide training for this unit in how to prepare options, analyses and recommendations for political deliberation and choice. The policy unit could be set up to work with government departments to commission policy research and produce policy papers as needed. Ideally, the policy unit would produce policy papers for public debate as a stage prior to legislation. Such a process would greatly strengthen the executive's policy making capacity and the quality of decisions. While donor funds could usefully assist with the establishment of such a policy unit, local budget support would need to be secured to ensure its sustainability. If following the AGTP tim asistensi model, the costs of operating such a unit need not be too high.

Concluding comments

The post-crisis provincial Government in Aceh inherited a weak institutional infrastructure for policy development. This weakness will continue to impinge on the government's ability to develop policies and strategies for Aceh's post-crisis development. While donors recognize the importance of providing policy support, such support is typically provided in the form of policy advice. This was generally true of the post-crisis intervention in Aceh. But the Aceh experience suggests that without adequate policy making *infrastructure*, carefully prepared policy advice is often wasted. Policy formulation mechanisms need to be established if the Acehnese government is going to make effective decisions for the province's long-term development.

In facing this challenge, it must be remembered that Aceh is not unique. Until a decade ago local governments across Indonesia were more accustomed to implementing policy directives from above than developing their own policies. Local government activity followed, and to some extent continues to follow, strict central guidelines. Both public administration and economic governance were highly centralized. Decentralization in 1999 and the special autonomy status accorded to Aceh in 2001 greatly increased local authority and discretion, but in Aceh, this period coincided with a period of violent conflict between the Free Aceh Movement and the central government, which limited scope for policy action. The history of conflict, the uncertainties of decision-making structures and the inexperience of many entrants to the political arena in Aceh have arguably created some of the most difficult conditions for regional policy making in Indonesia.

While donors recognized these limitations, it is questionable whether steps taken have been effective in building the provincial government's policy making capacity. Arguably, too much attention has been given to the production of policy advice and not enough attention given to the administrative procedures and institutional infrastructure for policy management. Aceh remains in need of more effective mechanisms for translating development objectives into detailed policies and coherent strategies. This should be regarded as an important lesson for future governance strengthening programs in Aceh and in other post-crisis regions where local governments are in need of special support.

Recommendations

Recommendation 5.1

Arrangements should be made to establish a more robust policymaking infrastructure.

There is no culture of independent policy advice surrounding executive decision making in Aceh. Aceh needs a stronger policymaking infrastructure. This includes systems and processes for producing and managing policy advice as well as mechanisms for wrapping strategies around policy objectives. Strengthening of policymaking infrastructure also demands the building of firewalls between political processes and professional advisory processes. This is a long-term challenge for Aceh and a process that both GOA and donors need to support.

The Government of Aceh also needs to experiment with new approaches to policymaking at the critical policy formulation stage. The GOA moves too quickly from policy objectives to policy instruments (legislation, budgets), which reduces opportunities for debate and policy refinement. While it should be noted that this is a country-wide phenomenon, special autonomy gives Aceh wider scope for experimentation. One idea might be for the Governor to use staf ahli to produce discussion papers on new policy ideas that can be subjected to media scrutiny and public debate. This could replace the practice of inviting academics to produce draft legislation (naskah) and would lay the groundwork for better policy and more effective laws.

Recommendation 5.2

A specialised economic policy unit should be established in the Governor's office.

A critical gap in GOA's policymaking infrastructure is the availability of coherent and comprehensive economic policy advice. A special unit to advise the Executive on economic policy is needed. Such a unit could be modelled on AGTP's tim asistensi—i.e. by bringing together academics, political staffers and civil servants. The purpose of the economic policy unit would be to look continuously at the overall range of policy issues and targets – e.g. growth performance, growth strategy, sectoral performance, pricing issues (including wages), competition policy, etc. This unit could also evaluate and advise on the economic and fiscal implications of other policy initiatives such as investments in health and education.

Recommendation 5.3

Steps should be taken to strengthen the DPRA's contribution to policy making.

Aceh's new legislature has yet to embrace its policy making role. While this is understandable given Indonesia's recent return to parliamentary democracy and the inexperience of Aceh's legislature, it is important that the legislature's capacity to consider policy is increased. The legislature will need more resources and support in order to do this. The DPRA needs the support of impartial staff who can conduct research and provide advice, on request, to the legislature in the form of professional, and impartial briefs on key issues. A new parliamentary library might be established as a home for such a staff.

Recommendation 5.4

Improved policy coordination arrangements across provincial government and between provincial and district government should be introduced.

More effective institutional mechanisms for coordination need to be established. These include mechanisms for face-to-face communication between senior officials and for the documenting and sharing information, including the use of electronic methods of information management. Current mechanisms are insufficient

Mechanisms also need to be established for policy coordination between provincial and district governments. This is especially important because special autonomy arrangements have structured territorial authorities in a way that is unprecedented in Indonesia. There is still far too much duplication between provincial and district governments, which wastes public resources.

CHAPTER 6

Outputs, Implementation of Policy and Service Delivery

Policy Guidance

In one sense, the main overarching goals of policy for most governments in most countries are clear enough: maintenance of law and order, and the promotion of prosperity. But effective government needs the specification of clearer goals that provide meaningful guidance for senior policy makers and public sector managers. What, then, are the strategic goals for government policy in Aceh?

At the broadest level, the central public sector management task that the senior government leadership of Aceh faces is straightforward. The task may be set out as follows:

Bearing in mind agreed strategic goals, the senior leadership needs to draw on the strengths available to the government and, within the constraints imposed by certain main challenges, prepare and implement policies to achieve the strategic goals.

But this is easier said than done. This government task statement draws attention to a number of key aspects of public sector management which this section of the report will consider: goals, strengths and challenges, and certain policy issues.

Surveys of opinion and reports in the local media suggest that Acehnese community looks to the government for peace and prosperity, and hope for the efficient delivery of basic public goods such as health, education, infrastructure services (water and electricity), and support for agricultural and business development. One recent listing in *Serambi* of the priorities that the Government of Aceh should focus on, for example, suggested the following as key indicators for the evaluation of government performance¹:

- Regional public peace and order;
- Attention by regional governments to the proper implementation of laws and regulations;
- Transparency in the allocation, disbursement, and utilisation of funds (DAU, DAK and tax share);
- Intensity, effectiveness, and transparency in the collection of regional revenues and regional loan arrangements;
- The effective planning, preparation, management, accounting, and supervision of the Aceh budget;
- Promotion of the potential of the region; and
- Creation of new opportunities and innovation in the management of the regional government;

¹'Rapor Irwandi Warna-warni' [Different marks for Irwandi's report card], *Serambi*, 9 February 2010.

Official Government statements often provide considerably more detail. The Government's official medium term development plan for the period 2007-2012 sets out the official vision as follows (Pemerintah Provinsi Nanggroe Aceh Darussalam 2007: III-1):

The creation of fundamental change in Aceh in all sectors of the community life of Aceh as well as in government, in a way which upholds transparency and accountability to create a government of Aceh free from the practice of corruption and misuse of authority, so that by 2012 Aceh will develop into a prosperous state which is just and fair in its prosperity.

A detailed mission statement follows which, amongst other things, emphasises the importance of effective leadership, clean government, strengthening of the rule of law, human development and education programs across the province, economic progress (including infrastructure, small scale and people's development, agrobusiness, external trade, and sustainability), strengthening political institutions, careful resource management, and social, cultural and sporting affairs. Very extensive details for the transition period 2010-2012 were also set out in the *Kerangka Kerja Kebijakan dan Rencana Aksi Kesenambungan Rekonstruksi dan Percepatan Pembangunan Aceh 2010-2012* [Policy Work Framework and Action Plan for the Continuing Reconstruction and Acceleration of Development in Aceh 2010-2012] issued by the *Badan Kesenambungan Rekonstruksi Aceh* [Agency for the Continuing Reconstruction of Aceh] in 2009.

In principle, then, the key goals of official policy during the transition period have been clearly set out by the Government of Aceh. Arguably, effective implementation of policy rather than the more detailed definition of policy is currently the main priority for senior government leaders. And in considering the implementation of policy, it is useful to consider some of the principle strengths and challenges that policy makers in Aceh are likely to need to respond to during the new few years ahead (Box 6.1).

Strengths

The strengths underpinning the management of the government of Aceh, it is important to note, are considerable. In important ways, both the province overall and the government of Aceh are well-placed as activities move into the return-to-normal phase. These strengths amount to a set of important political, financial and social assets that senior policy makers can build upon to promote development in Aceh.

These assets include, for a start, a willingness across all social levels across the province to look anew at governance arrangements in the post-crisis period. This approach was demonstrated, for example, at the highest level of leadership in the province in early 2007 when Governor Irwandi took office. As noted earlier, he introduced key changes in the top-level management of most of the main province-level agencies (SKPA) and he invited the UNDP, working through the AGTP, to establish the *Tim Asistensi* arrangements so as to improve the flow of specialist advice on high priority issues. Further, in the current environment as Aceh moves into the return-to-normal phase through 2011 and beyond, there are opportunities for governments at both the provincial and district level to develop credible development programs, especially in rural areas, which provide jobs and improved service delivery. An environment of this kind has not existed in Aceh for many years. But if the chance to develop credible development programs is missed, the risk is that resentment will reappear at various levels across the province.

The opening to take advantage of these opportunities has been reinforced by the drive of an energetic Governor who has a wide degree of personal support. On one hand, across the province, both local political and executive agencies at the district level are testing their powers in the new decentralization era. Regional government actors are naturally keen to ensure that maximum funds flow directly into their local coffers rather than through provincial accounts (SMERU 2008). But on the other hand, policy makers at the local level recognise the need to work with the Governor of the province in an effective way. Managing the political and administrative balances in such a situation will not be easy. Effective leadership from the Governor and his top staff will be essential.

In addition, the financial resources available to the provincial government, as well as the discretion available to the government to use these resources, have been significantly enhanced in recent years. The *Otsus/Migas* funds arrangements will provide a combined flow of funds to the province of over Rp 4 trillion (about \$US 400 million) per annum for the next few years (Table 3.8 above). Furthermore, the province, especially in and around the urban areas near Banda Aceh, is now relatively well-endowed with post-tsunami assets. In the public sector, there is a very considerable and visible stock of tsunami-connected assets such as roads, buildings, schools, health facilities, and so on. In the private sector, a large stock of housing was built following the tsunami, along with support provided for other activities through the supply of assets such as fishing boats, agricultural equipment, and small scale credit for use in livelihood activities.

Added to these strengths is the intangible but important recognition from senior decision-makers in Jakarta and elsewhere in Indonesia that the province of Aceh has special challenges and special local needs. Whilst it is true that every province in Indonesia has special challenges, it is widely accepted in Indonesia that it is in the national interest that the return-to-normal process in Aceh is successful. There is, therefore, recognition in Jakarta that the current leaders of Aceh need political room to deal with local problems. There is acceptance that the broad principles surrounding the long-standing concept of Aceh as an ‘autonomous region’ within Indonesia need to be meaningful.

Challenges

But the government of Aceh faces considerable challenges as well.² Some of the challenges are largely internal to the processes of government in the province. Others reflect external factors likely to serve as constraints on the room to manoeuvre that the government will have in implementing development programs over the next few years.

The first set of constraints, largely internal to the management of the provincial government at any given time, are those of resources – especially of staff and finance. These matters were discussed in detail earlier (Chapters 2 and 3). However, it is important to bear in mind that in principle, the pressures of work that public service managers in Aceh feel they must respond to are ones which senior public sector managers face worldwide: the pressures arise because the demands placed on public sector agencies exceed the supply of resources (that is, the capacity) to meet these demands. Put simply, demand exceeds supply. And to a considerable degree, the balancing of the various pressures arising from this imbalance is a management issue – that is, it is the job of senior public sector managers to make decisions about the best allocation of resources within their areas of responsibility. However, pressures of this kind are a matter of degree. In the case of some of the challenges that the Government of Aceh is facing, the pressures are acute.

² For a recent thorough discussion of challenges as the Government of Aceh sees them, see Pemerintah Aceh, Badan Kesenambungan Rekonstruksi Aceh [Government of Aceh, Agency for the Continuing Reconstruction of Aceh] (2009).

One priority challenge during the transition period is the need, as discussed earlier (Chapter 3), to complete arrangements for the transfer of significant tsunami-related assets from the control of the central government in Jakarta to appropriate provincial or district level agencies. It can be noted here that it is urgent to settle these matters as soon as possible both because there are immediate financial issues that need attention and because there are longer-term issues of operations and maintenance of these high-profile assets that need to be considered.

There are also, as is usual within governments, challenges for senior government leaders in aiming to balance competing political and managerial issues. Expectations of what the provincial government can deliver are high – indeed, perhaps sometimes unrealistic. And in attempting to meet these expectations, some government leaders themselves must learn on the job because they have found themselves at unexpectedly senior levels in government.

There is clearly a sharp imbalance between the high expectations of government in Aceh on one hand and the constraints imposed by internal capacity on the other. This imbalance means that the institutions of government in Aceh are badly over stretched. There is no easy solution to this imbalance although the suggestions set out in the ‘good enough governance’ agenda are helpful (Grindle 2004). Bridging this imbalance will be a major management challenge for government leaders in the province in the return-to-normal phase.

Box 6.1: Strengths and challenges for the Government of Aceh

STRENGTHS

- Widespread willingness to look at things in a new context (after the tsunami and conflict)
- Energetic Governor with high degree of support
- More financial resources for the province
- Stronger regional autonomy allows space to use the resources
- Relatively well-endowed with assets provided by donors after the tsunami
- Recognition from Jakarta that the province faces special challenges and needs special powers

CHALLENGES

- Resource constraints: staff
- Resource constraints: finance
- Need for new O&M systems to manage the asset legacy

- Tensions between established bureaucracy and new political leadership
- Inexperience of new executive government
- Expectations of the people of Aceh
- Government of Aceh is overstretched
- External support (both from donors and Jakarta) will tend to wane over time
- Rigidities (including uncertainty, and lack of definition) imposed on the province by central controls (legal, financial, regulatory, administrative) from Jakarta
- Uncertainties surrounding the interpretation and implementation of special autonomy arrangements for Aceh
- Uncertainties surrounding the relative authority and delegation of powers as between *Tingkat I* (province) and *Tingkat II* (*kabupaten/kota*)

There are also key external factors which will influence the governance of the province during the next few years. Perhaps the most immediate of these is the external support which both international donors as well as the Indonesian central government provided to Aceh in the post-tsunami period. During the transition period, as expected, external flows of finance from international donors tended to fall away markedly (Figure 1.1). It is also inevitable that increasingly, the policy attention that international donors as well as the central government give to programs in Aceh will tend to receive lower priority. Indeed, during the latter part of 2009 and in 2010, numerous international agencies held handing-over ceremonies in Banda Aceh as they moved to finalise their main programs in the province. Further, it is clear that unspent funds which were originally allocated by donors to post-tsunami activities during the 2005-2006 period are now being redirected to priority programs in other parts of Indonesia.

In addition, there are important legal uncertainties in a range of matters which need to be clarified at the national level from Jakarta that affect the governance of the province. These matters were discussed earlier (Chapter 4) but the main issues may be recalled here as follows. One major area of uncertainty relates to a wide gamut of rather inflexible laws and regulations of various kinds (legal, financial, regulatory administrative) which have been issued from Jakarta in the past. Some of these legal instruments seem too hard to implement in a new area of decentralised governance across the nation. The problem, in short, is that while there has been much decentralization in principle, in practice many laws and regulations are inflexible. These legal instruments do not really facilitate the type of decentralisation expected in the new era.

A second area of uncertainty for the Province of Aceh surrounds the interpretation of the arrangements for the special autonomy of Aceh. Whilst the Helsinki MOU (August 2005) and the Law on the Governing of Aceh (LoGA, August 2006) outline arrangements across a range of areas, so do national Indonesian laws which touch on the same matters. In quite a few areas therefore – such as tax matters, rights of provincial agencies to enter into borrowings, regional ombudsman arrangements, import and export procedures, and so on – Acehnese officials are finding that their room to manoeuvre and to introduce reforms is constrained by national laws. However, because the precise limits of authority between the LoGA and the relevant national laws have not been defined, there is still a considerable area of legal uncertainty.

A third area of uncertainty relates to the relative authority as between the province (sometimes legally defined as Level I or '*Tingkat I*') and the district (Level II, or '*Tingkat II*') levels of government. Not surprisingly, ever since the promulgation of the main decentralisation laws in 1999 (Law No. 22/1999 and Law No. 25/1999), provinces have been arguing with lower-level district authorities about the precise scope of the laws. Whilst the Indonesian Government, at the national level, has indicated that legal uncertainties of this kind need to be sorted out, the current indications are that the process of clarifying the laws will take some considerable time. In the meantime, the lack of clarity adds considerable complexity to the political and administrative relationship between provincial and district levels of government, including in Aceh.

Policy issues: substance and process of implementation

The formulation and implementation of government policy, in any country, is a sensitive matter. Inevitably, political and social judgements are involved. However, in considering capacity building needs in Aceh, it is useful to distinguish between the *substance* of policies on one hand and the processes of *implementing* the policies through service delivery on the other. This distinction

between *substance* and *implementation* is a key issue in considering capacity building programs for governance, including in Aceh.

The distinction between substance and the process of implementation is important because there is a good deal of evidence from cross-country public administration and governance studies which suggest that the processes of policy implementation need close attention. A major study of policy-making in Latin America from Harvard University supported by the Inter-American Development Bank (2006: 3), for example, reported that ‘the processes of discussing, negotiating, approving, and implementing policies may be at least as important as the specific content of the policies themselves.’ This conclusion indicates that programs for capacity building programs in Aceh need to include attention to training about government processes of service delivery as well as the content of policies. This aspect of capacity building will be considered in more detail below (Chapter 7).

The role of AGTP

It was against this background of a growing realisation that increased attention to both policy formulation and implementation was needed that the original approach of establishing the Aceh Government Transformation Programme (AGTP) was initiated during 2006 and 2007.

A main concern at the time was the risk that a capacity vacuum of governance would develop when Aceh moved into the post-disaster transition period. It was widely expected that the donor community would begin to wind down activities in a significant way during 2008 and 2009. With the departure of the aid community, much useful physical capital which had been created during the post-tsunami period would remain, especially in Banda Aceh. There was, however, questionable capacity of government management processes on which to build an effective government once both the BRR and the aid community had left.

For the government of Aceh, several major challenges were beginning to loom by the 2007-2008 period. One was managing the transition to the return-to-normal situation following the closure of the important Aceh-Nias Rehabilitation and Reconstruction Agency (BRR) in April 2009. Another was the need to strengthen the processes of government management in Aceh to cope with the complex agenda that the government was expected to address. The AGTP was designed to assist with both of these challenges (Box 1.3 above).

The AGTP was an innovative and arguably a risky project. But to say this is not to suggest that the approach adopted by the UNDP in supporting the project was a mistake.³ To the contrary, given the sensitive political and social climate at the time, and given the key challenges of transition in Aceh, it was surely a well-judged decision to initiate the project. And it was a vote of confidence in the broad approach that the AGTP adopted when the international donor community agreed to provide financial support for the project starting in 2008 working through the World Bank-supported Multilateral Donor Fund.

The AGTP project had some significant risks because the processes of government in Aceh during the early time of transition in the 2008-2010 period were subject to much debate within the province. The new Governor, who had taken up office in early 2007, had committed himself to promoting reform. Further, the broader social and political environment was passing through an

³ In fact, staff of the project were well aware of the risks. The 2009 Annual Report for AGTP notes that 13 potential risks confronting the project had been identified of which five were regarded as internal and another eight were viewed as external risks. For example, one identified external risk was that the Governor's reform agenda might lose momentum after achieving some quick-win gains. While adjustments were made to the project implementation strategy in response to the identification of the potential risks, none of the risks was regarded as calling for a change in the planned project outputs.

extremely changeable stage (Chapter 4). The new Governor had asked for assistance from UNDP and other donors in handling governance issues, including recruiting people that he trusted to help run the province. In this context, an important part of AGTP's planned work in the early stages was to work with BRR because there needed to be a smooth transfer from BRR to the local government when BRR ceased operations in April 2009. In addition, it soon became apparent that new staffing arrangements were also needed as part of the leadership in provincial government departments at the time.

Often, faced with such contestable environment and uncertain prospects, the international donor community tends to hesitate and to postpone decisions about commitments to provide further support. But support for the *transition process* (Box 1.1 above) was surely a well-targeted donor intervention and was consistent with the need to tackle LRRD (Links between relief, rehabilitation and development) issues. The important *A Ripple in Development?* study sponsored by SIDA in the wake of the tsunami megadisaster in Asia included the following recommendations for consideration by regional governments and donors as part of a well-designed approach to capacity building in fragile post-disaster environments (Cosgrave et al 2009b: 38 and 39):

- Governments of the region should make use of the few relevant tools available for capacity development in disasters, such as universities.
- Donor agencies should actively pursue 'development diplomacy', including the deployment of technical assistance in the field, identification of risks and bottlenecks in delivery, supplementing pooled funding with targeted bilateral initiatives where required.
- Donors should consider funding personnel support programmes designed to improve the skills of specialists, assist in placement, and conversion.
- Donors should be sensitive to the time needed to accomplish effective and sustainable recovery programs.

The original design of the AGTP activity, which focused on providing three main outputs, was consistent with this recommended approach to long-term development in the period after a major disaster.

The AGTP originally had three main planned outputs. These were to support:

- *The Aceh provincial executive*—especially the Governor, who took office in early 2007, in creating the institutional and policy framework for a transition to post-disaster management in Aceh (Output 1).
- *Selected provincial government agencies* – to help these agencies manage the transition to a post-disaster management environment in Aceh (Output 2).
- *The provincial Human Resources, Education and Training Agency (BKPP)* – to strengthen the capacities of Acehnese civil servants (Output 3).

Between 2008 and 2010, and into 2011, AGTP proceeded slowly in some areas but made significant gains in others. For a range of operational reasons, some elements of the AGTP programs were slow to get underway. But in the limited time available, AGTP delivered significant achievements. These included the following:

Under Output 1: Considerable support to a team of high level advisers to the Governor of Aceh known as *Tim Asistensi* who worked across seven main areas to design, and in some cases help implement, policy programs.

The group, which at one point included over 50 advisers, included staff from academia, the private sector, research workers, and other policy specialists. Many members of team were hand-picked by the Governor. This approach, on one hand, ensured that the *Tim Asistensi* had the confidence of the Governor, but on the other hand, led to considerable criticism from the local media and senior members of the Acehese civil service who sometimes felt sidelined by the special role assigned to the *Tim Asistensi*. While the work of the *Tim Asistensi* was sometimes controversial, the group played a valuable role in assisting Governor Irwandi of Aceh formulate policies during his early period in office in 2007, and especially through the transition period in 2008 and 2009 when the work of the major post-tsunami reconstruction agency, the BRR, was being phased out. Formal activities of the *Tim Asistensi* effectively ended in November 2009.

Within this situation, the legal basis for the role that the *Tim Asistensi* might play was established by a Governor's decree in 2007. It was clear, at an early stage, that the *Tim Asistensi* would need to work on various relationships:

- One early challenge for the *Tim Asistensi* was building constructive relationships between the *Tim Asistensi* and relevant SKPAs. There was understandable concern on the part of experienced staff in the SKPAs about the role of a new group of advisers of this kind.
- A basic idea underpinning the *Tim Asistensi* was to help promote transformative policies for the province in various key areas.
- Supporting the asset transfer program was expected to be a major activity.
- And facilitating discussions between the Central Government and the Government of Aceh was an important role.

In order to tackle these goals, it was decided, as part of the AGTP approach, that the *Tim Asistensi* would work in seven key areas:

- management and information systems
- post-BRR transition
- human resources
- legal affairs
- economics and public finance
- anticorruption
- communication

Under Output 2: Support for capacity development across the seven key Aceh Government agencies with emphasis being given to the need to assist in the transition process towards normalised government in Aceh following the closure of the BRR in April 2009. In addition, special attention was focussed on several top-priority financial issues and on promotion of gender mainstreaming efforts.

The AGTP provided major support to the Aceh Office of Financial and Wealth Management (DPKKA) and other bodies to deal with two major financial issues: strengthening of mechanisms to manage the flow of *Otsus* Funds (*Otonomi khusus*, or special autonomy funds) and the *Migas* Funds (Oil and gas funds) to the province, and settlement of arrangement for the transfer of over \$800 million of post-tsunami assets to agencies in Aceh. In addition, other main agencies which the AGTP provided assistance to included the newly-formed BKRA (Agency for the Continuing Reconstruction

of Aceh) which was expected to carry on selected aspects of the work of the former BRR (Aceh-Nias Reconstruction and Rehabilitation Agency), the Aceh Provincial Environment Impact Control Agency (BAPEDAL), and the Agency for Womens' Empowerment and Child Protection (BPP-PA). At times, there were notable delays in the work between the AGTP and these agencies (Chapter 5). However, much good progress was achieved. The activities should be regarded as being mainly successful.

Under Output 3: Cooperation with AGTP helped enable the Aceh Human Resources, Education and Training Agency (BKPP) to strengthen training programs for Acehnese civil servants. The activity is an important step towards underpinning improved management and good governance in Aceh at both provincial and district levels.

BKPP is the primary knowledge management and civil service training agency in Aceh. AGTP assisted, especially, with the development of training programs to strengthen capacity building across Aceh government agencies. Because capacity building and the development of teaching programs in a long-term task, AGTP's work was mainly focused on preparing the groundwork for further expansion of BKPP in future years. Nevertheless, current indications are that stronger support from the Aceh governments at both the provincial and district level will be needed to ensure that BKPP develops into a strong training institution (Chapter 2). AGTP has worked with other donor facilities from the World Bank, the European Union, AusAID, and USAID to expand the work of BKPP. Continuing donor support for BKPP would be appropriate from donor agencies who wish to strengthen the processes of governance in Aceh provided, however, there is rather clearer support for the BKPP than has been evident during the past few years.

In overall terms, the AGTP provided strong support for the transition process in Aceh. The on-going task is an ambitious one. The demands on AGTP from the Aceh provincial government have been high. Within a limited original budget of around \$14 million, the resources available to AGTP were very badly stretched. More recently, in 2011 the funding available for AGTP was augmented by an additional \$3 million to permit the programme to assist with post-tsunami asset transfer activities. Even so, looking back, it might be argued that on the one hand, the activities of AGTP should have been more focused (Chapter 4 above). On the other hand, AGTP staff were rightly keen to respond to the requirements of the main project clients across the Aceh Government. It is notable that one main donor, the European Union, observed of the AGTP (Letter, 1 July 2010) that "We note that there is a clear demand to have a similar programme replicated at district level ... we would like to convey our full acknowledgement of the need for a similar intervention in the districts..."

Rural development: land, health, waste management

Within the context of the transition in Aceh in 2007-2008, as important political changes were taking place, there was increasing pressure on the provincial and district governments to improve service delivery. Issues such as rural development (including especially land issues), health, and waste management were seen as important issues. Indeed the design and implementation of the AGTP was, in part, a recognition of these growing pressures.

Across Indonesia, issues of service delivery by government agencies at all levels of government have therefore been increasingly recognised as important in recent years. At the national level, there is little indication that service delivery standards actually declined after decentralisation, as some had feared might happen, but neither is there evidence of much improvement (USAID DRSP 2009:

47). In fact, the status of service delivery has been difficult to measure. The USAID DRSP survey on decentralisation reforms reported that ‘a countrywide view is still not possible’ (p. 48).

At the broadest level, there is a close relationship between the quality of government management and service delivery. An effective approach to improved service delivery must therefore focus on the overall issues of government management, and on questions such as the appropriate role for government and, more specifically, what performance management tools might be used to encourage the better delivery of public services. It will be useful to consider these issues in the Aceh context by, first, noting some of the main features of the current approach towards performance management in the government sector in Aceh, and then discussing several selected case studies of government service delivery.

At the level of overall government management in Aceh, there has been much more attention given in recent years to setting performance goals for public sector agencies than was formerly the case. And certainly the public scrutiny of the operations of government agencies has increased very significantly. Members of the provincial and district assemblies regularly comment (usually critically) on the performance of government departments and agencies and often press for information about specific problems to be made public. And the Acehnese media and civil society is vigorous in expressing concerns, including through frequent demonstrations and public gatherings, about shortcomings in the performance of government.

But paradoxically, the focus on detail rather than on the broad operations of government has become an important part of the problem. Often, both the goals set down for government agencies as well as the performance targets are specified and analysed in considerable detail. Arguably, changes in the broader approach to government – that is, changes in the architecture of government goals and in the incentives which influence official behaviour – would be more effective in promoting better performance than a focus on detail.

There are several key issues to consider:

- How to define performance.
- How to find the best balance between effective controls over government, on one hand, and sufficient independence for managers on the other.

On the first issue, discussions of ‘performance’ raise complex issues, not least because the concept itself is not simple. The notion of performance combines both subjective efforts on the part of managers and staff, and objective efforts in terms of results. While it is important not to neglect entirely the subjective aspects of effort, performance should generally be measured mainly in terms of results.

Furthermore, results need to be defined carefully. This is often not easy. They can be specified in terms of:

- Inputs – the resources used to produce a public good
- Outputs – the service itself
- Outcomes – the purposes achieved by producing the service.

Each of these performance indicators has advantages and disadvantages.

- An exclusive focus on the correct processes of the procurement of resources and on measurement of inputs runs the risk of encouraging a ‘process mentality’ where officials simply focus on following the rules and regulations without adequate regard to the results of their work.
- Output indicators are quite useful for activities (such as health, and education) which deliver services directly to clients. However they are less helpful for other important work done within government such as policy analysis.
- Outcome indicators provide a broad and useful picture of the overall role of government but are less useful for allocating responsibility for performance.

A survey of current practices relating to the oversight of service delivery in Aceh suggests there are a range of issues which need more attention. These include the following.

- Key Performance Indicators (KPIs) and other performance measures have often been set for public agencies, including with support from the AGTP and other donor-assisted programs. However, it hard to know what to make of the KPIs as they currently exist. Many are quite vague. It is important that KPIs be measurable in a useful way.
- There is sometimes extensive involvement from members of both the provincial and district parliaments in operational matters in departments and in government-owned agencies. In particular, budget expenditure categories are often specified in extreme detail thus leading, amongst other things, to considerable rigidities in the administration of budgets. Over-regulation from parliaments can, in the end, lead to extensive micro-management of the work of government agencies, and greatly hamper day-to-day operations.
- The Governor of the province, too, has a strong ‘hands on’ approach in the management of some parts of government.
- These two sources of supervision – from parliaments, and from the Governor’s office – mean that the principle of “letting the managers manage” is not strongly held.
- The penalties for lack of performance are not clear.
- There are quite a few complaints, including in the media, about the performance of various government agencies in Aceh.

The effective management of budgetary expenditure is also needed so that government agencies can maintain satisfactory levels of service delivery. But as noted earlier (Chapter 3), the management of the overall budget process in Aceh in recent years has frequently run into problems.

Against these challenges of overall performance management and budgetary management in Aceh, a brief consideration of three selected examples of service delivery – in the rural sector, in health, and in waste management – will help illustrate the practical problems at the sectoral level.⁴

⁴ A useful guide to the issues set out here is contained in *Provision of urban amenities in rural areas* published by the Government of India (no date), at <http://rural.nic.in/PURA%20-%20DoRD.pdf> accessed 13 January 2011.

Rural development

In the rural sector in Aceh one of the most glaring problems of service delivery is, quite simply, neglect.⁵ In many rural areas there has been little new investment for over 30 years. Development has been held back by, first, conflict since the late 1970s, and second, by the impact of the tsunami which understandably focused much of the effort of governments on the tsunami-affected areas along the coast. Looking ahead, the main challenges are two-fold:

- To convince people in rural areas that there is now a genuine commitment to provide better services and promote development
- To design and implement effective programs of better service delivery to rural areas.

As far as the first challenge is concerned, there is now much public discussion about the need to accelerate rural development in Aceh. Local media outlets such as *Serambi* and *Harian Aceh* provide extensive coverage of events and local problems in rural areas. Local political leaders – especially representatives from district-level assemblies – frequently talk of the need to provide improved facilities and services to neglected parts of the province. There are, however, sometimes elements of an entitlement approach in some of the public commentary because, as noted earlier (Chapter 5), when local political representatives are pressed to outline their views on a strategy for rural development in Aceh they are often unable to do so.

In fact, the need for a more clearly define strategy to promote rural development is now urgent.⁶ Many of the suggestions aired in public discussions in Aceh focus on the need for *supply side* improvements in rural areas. However, supply-side improvements will be of limited benefit to farmers if they cannot access markets. Attention is needed to *demand side* bottlenecks to development as well. An overall strategy for improved service delivery and rural development in Aceh would therefore best outline measures to overcome both supply side and demand side constraints to growth. A package which would encompass such an approach as well as including the provision of improve social services might focus on the following (Box 6.1):

- Improved infrastructure
- Productivity at the farm level
- Key social services such as education and health
- Promotion of the private sector including support for value chains including access to export markets

All elements of the package are important. However, in view of both numerous reports that governments at all levels in Indonesia face spending bottlenecks, as well as suggestions that the government sector in Aceh might find absorption (and spending) of Otsus Migas funds a problem, the opportunities for greatly expanded investment in infrastructure in rural areas should be noted.

⁵ Some reports of the attitudes of farmers in rural areas in Aceh indicate views close to bitterness about perceived neglect from the authorities. Coffee growers in the Bener Meriah *kabupaten* in Aceh, for example, talk of how they are 'sick and tired of vague promises to take up their problems' (... *sudah bosan dengan janji-janji memperjuangkan nasib mereka yang tak pasti itu*) and that they feel that 'the state hardly exists as far as they are concerned except to collect taxes' (... *mereka bahkan nyaris tak merasakan peran negara kecuali menarik retribusi*). See Burhanudin (2011a).

⁶ A useful discussion of a strategy for rural development in another poor province of Indonesia in the Outer Islands, in Nusa Tenggara Timur, is set out in the recent ILO paper (Kwong and Ronnas 2011), *Employment diagnostic analysis: Nusa Tenggara Timur, Indonesia*.

Many studies in both Indonesia and elsewhere in developing countries in Asia have pointed to the importance of investment, for example, in rural roads. A study of the link between poverty alleviation and investment in rural roads in Laos (Warr 2006: 163) concluded that:

... there is ... a high return to providing dry weather access to the most isolated households of Lao PDR --- those that have no road access at all. ... By providing them with dry season access, rural poverty incidence could be reduced permanently from the present 33 per cent to 29.7 per cent. A further reduction to 26 per cent could be obtained by providing all rural households with all-weather road access. ... The results of this study confirm that in a country like Laos, where roads are primitive, improving road access is an effective way of reducing rural poverty.

More recently, the Aceh Human Development Report (2010) also emphasised the importance of investment in rural roads in Aceh:

For many farmers, the most expensive component of transport costs is the time and effort of carrying produce the first few kilometres from the farm to the nearest main road. Farm to market roads, and even upgraded tracks for carts and motor bikes, can greatly reduce these costs and make it possible to access local markets and compete more effectively in distance locations. The condition of roads also affects transport costs, with many roads improperly maintained due to the lack of funds. Recent data indicates that 20 percent of national roads in the province are in need of repair, a figure that rises to 30 percent for district roads and 37 percent for provincial roads.

In the infrastructure sector, therefore, roads are seen as very important by communities in rural areas in Aceh (RPJM 2007: II-66) because of the stimulus to local economies that the construction of new or improved roads brings.⁷ Indeed, the development of roads is widely seen by local communities as a key factor in creating jobs, promoting private sector growth, increasing agricultural activity and reducing poverty in rural areas.

In the broader area of promotion of rural productivity and associated programs, there are a range of crop-related and other activities which, taken together, add up to an integrated approach to the delivery of services to support rural development (Box 6.2).

Health

In the health sector there are major challenges for Aceh. The Aceh Human Development Report (AHDR) described some of the main problems in the following terms: (UNDP 2010a: viii, 46)

Although considerable progress has been achieved over the last 40 years, health indicators show that Aceh still ranks in the bottom third or quarter of all provinces. Live expectancy is lower, a higher proportion of children are undernourished and infant and maternal mortality rates are higher. ... A national survey by the *Kecamatan* Development Programme (KDP) revealed that the burden of ill health falls most heavily on the poor, especially in Aceh. It shows that, unlike many other parts of Indonesia where richer households reported higher incidences of illness compared to poorer ones, the situation was reversed in Aceh. ... Another problem is the cost of accessing medical services, not only for consultations, medications and treatment, but also for

⁷ Gelling (2009). See also the comments by the Bupati of Gayo Lues, Ibnu Hashim, about the use of Dana Otsus and other funds for the construction of roads in the inland areas of Aceh, 'Komitmen para Bupati: semua jalan ke pedalaman akan ditembus' [Commitments from various Bupati: all roads in the inland areas will be constructed], Serambi, 15 February 2010.

Box 6.2: Possible approaches to rural service delivery in Aceh

Infrastructure

1. Roads: improved main roads, but also rural feeder roads and 'linking roads' which connect *kabupaten*.
2. Tracks in villages: improved paths and tracks around selected villages, perhaps using NGOs and local people to implement small local infrastructure facilities.
3. Water supply: enhanced rural water supplies through wells, catchments, captured springs, tanks, and local dams.
4. Irrigation: dams, irrigation channels, water controls.

Agricultural productivity

1. Seeds. Multiplication and distribution of better seeds for wet and dry paddy, maize, cassava, groundnuts, soybean, tree crops (coffee, palm oil, rubber, coconut, cocoa, cloves), vegetables, fruits, forage shrubs and major grasses.
2. Cattle and poultry improvement. Distribution of animals to villages; strengthen animal husbandry and vaccination programs; strengthen existing research institutions.
3. Fisheries improvement. Encourage expansion of integrated fishing arrangements in provincial ports, including use of new technologies and links to markets.

Schools and health

1. Schools. Enhance primary school facilities and staff, including training for staff.

Establish more vocational schools to serve rural needs (agriculture, engineering, health).

2. Health. Enhance rural health systems (buildings, equipment, staff) and focus, especially, on key priority health issues including maternal and infant mortality, sanitation, and nutrition for women and children.

Private sector and markets

1. Private activities. Accept that much development will occur through informal activities in the private sector. Develop small scale programs (such as rural credit and microcredit programs) designed for small scale entrepreneurs including women.
2. Marketing chains. Encourage private entrepreneurs including women to improve and expand value-added activities to improve quality of local products in such areas as coffee, cocoa and fisheries. Encourage entrepreneurs to improve value chains and explore possibilities of downstream processing and quality improvement of crops, especially for export markets.

Sources: RPJM (2007); numerous sectoral references cited in Cosgrave (2009) such as 'Fisheries rehabilitation in post-tsunami Aceh' (2006); World Bank (2009).

transport to facilities from outlying areas. This prevents many people from using these services, especially those in rural areas as well as the poor."

Key issues for the delivery of health care in Aceh relate to policy questions which are common in the delivery of health services in many other countries. These are: to what extent the government should (and can) guarantee the supply of certain basic services, and to what extent the supply of other health facilities should be left to the market.

The argument for relying on the market, at least to some extent, is the familiar one in the health sector that the price mechanism works both to help ration demand for services and to raise revenues. On

the other hand, the argument against this approach, and in favour of generous subsidies from the government to support access to health services, is that the health needs of the population in Aceh are urgent and that the purchasing power of the population is low.

In response to these policy choices, the provincial government in Aceh has adopted a hybrid model of service delivery in the health sector. The provincial government has recognised the need to provide subsidised health services to the poor and in response, in 2009 a free basic health care service was introduced for all citizens. However, it is not yet clear that the resources currently available to the health sector in Aceh are sufficient to support the public demands on the new program. There are reports that following the introduction of the new system, there has been a substantial increase in demand for services in the larger hospitals in urban areas in Aceh but no increase in funding to support the new demands.

An alternative, more market-oriented model is that adopted in the Aceh Local Governance Programme (ALGAP II) in the health sector. The ALGAP II project was designed to strengthen capacity at both the provincial and district government level in the health sector by promoting principles of improved governance and competition in the provision of health services. As part of the transparency of the process, extensive details of the project were provided, in Indonesian, in a detailed report on *Sosialisasi Qanun Aceh tentang Kesehatan* [Information on the Aceh provincial law about health] distributed in *Serambi* during December 2009. In late 2009, a draft provincial law [*rancangan qanun*] was provided to the DPRA (Aceh's provincial legislative assembly) setting out defined functions for the legislature, executive, and supervisory (regulatory) agencies in the health sector.

The aim of the overall approach was, in effect, to present a carefully planned outline of a design for the management of the health sector in Aceh which emphasised such things as the need to provide minimum services to the poor, to define the responsibilities of the public and the private sectors, and to strengthen market-based principles of competition in the sector where appropriate.⁸

Post-tsunami waste management

A third example of a service delivery activity is the UNDP-supported Tsunami Recovery Waste Management Programme (TRWMP) which began in early 2005 and has been continued through to 2011.⁹ In Aceh, working in cooperation with the provincial and district governments, numerous donor agencies have moved to incorporate an emphasis on service delivery in their post-tsunami development programs. Important aims in many of these activities have included supplying services that are tailored to meet priority community needs, introducing elements of competition and, where appropriate, some reliance on user charges, and an emphasis on technical and financial sustainability. The TRWMP is an example of this approach.

Waste management in the wake of megadisasters such as the tsunami in Indonesia, and more recently the earthquake in Haiti (January 2010) and the tsunami in Japan (March 2011), is often a huge problem. The enormous amounts of waste created by the disaster greatly impede short-term relief operations, hold back longer-term reconstruction, and are a constant reminder to survivors of the awful events of the tragedy that they have been through. For these reasons, waste

⁸ Details of the ALGAP II approach and the draft legislation provided to the DPRA can be found at <http://www.eu-algap2.org/content/view/21/82/>, accessed on 27 February 2010.

⁹ TRWMP Project details are at the UNDP Aceh website at <http://www.undp.or.id/tsunami/publication.asp>, accessed 27 November 2010.

management is often one of the most urgent environmental issues following large scale disasters. The Tsunami Recovery Waste Management Programme was designed to provide a rapid and practical response to the urgent public health and environmental concerns associated with the huge volume of tsunami and earthquake debris in Banda Aceh and other coastal regions in the tsunami-affected areas in Aceh. The short term original aims were to:

- undertake the clearing of debris
- create temporary employment for poor people through the design of cash-for-work programs
- recover materials suitable for recycling and use during the rehabilitation and recovery phases in Aceh.

The original pilot programs for the TRWMP were set up in Banda Aceh and the district of West Aceh (Aceh Barat) in March 2005 with financing from UNDP. By mid 2005 it was clear that the program needed to be expanded and approximately \$14 million of funds were approved by the World Bank-supported Multi Donor Fund in September 2005. Other donor agencies also supported activities in the waste management sector, including the German organisation GTZ, the UN Environment Programme, the Canadian International Development Agency (CIDA), the ADB, Oxfam, and other groups. The work of the TRWMP was extended to a number of other districts during 2006 and 2007. By mid 2007, the service delivery and employment-related aspects of the activity were being conducted in eight areas (the city of Banda Aceh and the districts of West Aceh, Nagan Raya, Pidie, Aceh Jaya, Aceh Besar, Nias, and South Nias).

Additional funding was approved for the TRWMP after the initial two-year program period ended in late 2007. The original goals were amended to include objectives of capacity building in government and the development of sustainable waste management systems in selected areas of Aceh. This program thus has the medium aim of improving service delivery in the field of waste management and, at the same time, has the longer term goal of building sustainability in the waste management sector by strengthening appropriate service delivery institutions.

The use of cash-for-work was an important part of the design of the TRWMP as well. Traditionally, much aid following megadisasters in developing countries is provided in kind. However, this does not need to be case and there are major advantages if local communities, especially poor people, can be involved in post-disaster recovery activities. Commenting on the type of cash-for work (CFW) programs which the UNDP supported in Aceh, one survey (Doocy et al. 2006: 278) noted that:

Many organisations launched cash interventions after the Asian tsunami and large-scale CFW programmes were widespread in Aceh, Indonesia, and Sri Lanka, with tens of thousands of beneficiaries participating in CFW programmes operated by multiple international non-governmental organisations (INGOs) and the United Nations Development Programme (UNDP), sometimes in partnership with local non-government organisations (NGOs). In the post-tsunami context, where livelihoods were destroyed and assets lost, CFW programmes provided income, contributed to community rehabilitation, helped to meet financial needs and had positive social effects in tsunami-affected communities. While CFW programmes have been utilised in a variety of contexts, they have never been implemented before on the scale observed following the Asian tsunami.

It is true that cash-based programs have pros and cons (Harvey 2006; Harvey 2007; Kelaher and Dollery 2008). Disadvantages of cash-based approaches for emergency relief include difficulties in targeting, the possibility of misuse of cash, and the risks of conflict between recipients who are

eligible and those who are not. In situations where supply channels have been severely disrupted cash payments may simply bid up prices of available goods rather than help meet needs. As against this, advantages include the speed with which help can be delivered, the sense of self-reliance that cash provides recipients with, and the multiplier effects that additional spending has on local economies.

In the case of the TRWMP, the use of a cash-based approach served to provide large numbers of poor people with income quickly after the tsunami and also helped to inject funds into local disaster-affected economies. At the end of 2006, around 1,500 workers were being employed per day at a wage rate of around \$3.50 per person per day, over 20% of whom were women.

A recent review of the TRWMP by the UNDP Evaluation Office provided support for the effectiveness of the project. The evaluation report (UNDP 2010: 31) noted that:

... field interviews confirmed project reports that that the work has reached out to the people, done something concrete, built rapport with the local people and the administration and created the visual impact that was psychologically valuable to help communities see that recovery was progressing. BRR found the early visual impact of the cleaning important. The local administration found the growing scale on which the work is being done impressive. ... The CSOs in Aceh valued that money was directly going to needy and local people in the early days of recovery causing "capital formation at the household level."

For the program to be sustainable in the longer-term however, sufficient levels of reliable budgetary support will be required. Thus part of the longer-term approach to institution-building within the TRWMP project are plans to assist the district sanitation and waste agencies to prepare effective budget requests and to consult with local legislatures and executive officers to encourage them to provide the necessary levels of operational funding. Proper attention to maintenance, especially, will need close attention.

Government and service delivery: Public and private sector

Each of these three case studies provides insights into the approach to service delivery and the effectiveness of government in Aceh. Taken together they illustrate a strong awareness of the need to improve service delivery, to promote development, and to support job-creating activities in the province. But they illustrate challenges that need to be faced as well:

- In the rural sector, both policy and implementation of programs needs to be strengthened; supply-side and demand-side strategies need to be linked to encourage much-needed growth in rural areas.
- In the health sector, key issues of carefully defining the role of the state and the role of private sector operating through the market for health services need attention.
- In the waste management sector, considerable benefits can be obtained if a cash-for-work approach is adopted but, at the same time, issues of financial flows and maintenance will need to be addressed for the activity to be sustainable over the longer term.

In order for government in Aceh to become more effective in these and other areas of government management and service delivery, government needs to define its role carefully. A key decision for

all governments in all countries is to decide on the dividing line between the provision of services:

- *directly* by the government itself, or
- *indirectly* through reliance on service providers in the private sector.

In the case of the former system of direct delivery by the government, the government itself becomes a service provider in the delivery markets and needs to interact directly with consumers of the services. In the case of the latter system, the role of the government is quite different: the government becomes a regulator of performance in the delivery markets and so government instrumentalities need to develop appropriate regulatory skills. In each case, the role of the government and of government agencies is very different.

Looking to the future in Aceh, it would seem inevitable that the provincial and district governments will need to aim to strengthen *both*:

- the private sector across the province, and
- the internal capacity of government to regulate, and to strengthen, local markets.

This will require improved skills within government which focus on both *fostering* the private sector, and also *providing an appropriate regulatory environment* for the private sector to expand.

What does this imply for the role of government in Aceh? Broadly speaking, there are two possible approaches towards this issue of defining the role of government. One is to work within the existing model of government administration in Indonesia which tends, as a matter of culture, to be control-oriented. To be sure, decentralisation and much greater democracy in Indonesia in recent years have loosened the tight controls formerly exercised by the central government administration. However, in many cases, the control-oriented approach has been decentralised to the provinces rather than transformed into a different model of government and service delivery. As Professor Sofian Effendi (Effendi 2010) has noted,

the 'command and control' type of management practiced during the Soeharto years has broken down in many areas, but modern management principles have still to be applied.

There are, indeed, still continuing indications of the 'command and control' methods of government administration in Aceh. For example, Governor Irwandi has shown strong leadership by taking a close personal interest in the problems which have delayed budget processes in Aceh in recent years. He has established a specialised unit to monitor annual spending programs, the P2K Unit (*Percepatan dan Pengendalian Keuangan Unit*, or Acceleration and Control of Finance Unit), which arranges high-level meetings every month which Governor Irwandi himself attends. All heads of the main provincial-level spending agencies (SKPA) are required to attend and to report on their expenditure programs. The process is remarkably transparent because details are posted on the web at the following site: <http://p2k-apba.acehprov.go.id/depan.php> (accessed 10 September 2011).

The disadvantage of this approach is that it retains the command and control style of public management. Previously, authority tended to be centralised in Jakarta; now, authority is centralised in the provincial capital. Principles of administrative decentralisation of management within government have not yet been fully implemented.

The alternative model of government management which has been increasingly adopted across a range of OECD countries is to 'let the managers manage.' In broad terms, this involves adopting

a performance-based model of government management, including towards the management of financial and human resources. Considerable emphasis is placed on *administrative* decentralisation. Recent changes in this area were described by Diamond (2005:3) as follows:

Based on the experience of budget management reforms that have been introduced over the past two decades in a large number of member countries of the Organization for Economic Cooperation and Development (OECD), it is not uncommon to find emerging economies moving towards performance-based budgeting. Many have completed the first step of this process by moving away from the traditional emphasis on managers' stewardship of public resources and on compliance with strict detailed appropriations. This usually involves implementing some form of program management and budgeting, along ministry of finance (MOF) lines, where there is greater emphasis on achieving efficient and effective outputs and outcomes. In this process, measures of performance have tended to play a key role as a basis for introducing initiatives such as strategic planning, performance agreements for selected services, remuneration bonuses based on performance, and external evaluation of agency programs.

Key elements of this approach involve carefully-designed centralisation of management of government functions to line agencies (in Aceh, the SKPAs), a 'hands off' model of supervision by legislatures and cabinet-level leaders which focuses on the overall performance of agencies rather than close control, and the simplification of government procedures wherever possible. In the Indonesian context, Professor Sofian (Effendi 2010: 13) outlined the sorts of changes that such a model would imply as follows:

In modern civil services, operational human resource management responsibilities are devolved to line agencies. Often many of these responsibilities, for example staffing decisions, are then delegated within agencies to line agencies. ... The OECD noted a few years ago that public administration in all OECD countries " ... faces the challenge of responding to public demand for more responsive, efficient and effective government." ... For most countries this implies a need to transform government into what has been described as a network form of organisation, interconnected agencies, that retain their autonomy and flexibility, but operation as a "single enterprise" vision of government ...

Professor Sofian Effendi has also noted that the president of Indonesia has launched several major plans for reform of the Indonesian bureaucracy (the *Grand Design for Bureaucratic Reform 2010-2025*, or GDBR, and the *Road Map for Bureaucratic Reform 2010-2014*, or RMBR). He notes that these programs are ambitious but that they might be expensive to implement, especially since significant increases in salaries for officials seem to be part of the proposed packages. He argues (Effendi 2011) that:

... Indonesia should better focus its reform program on limited services much needed by citizens and the business sector ... The present [Grand Design for Bureaucratic Reform] also needs a total review, as it gives too much emphasis on processes and less on outcomes.

In essence, therefore, the choice is between two models of government management (Table 6:1). In the traditional approach, which is still followed to a considerable degree both across the nation in Indonesia and in the province of Aceh (Chapter 2 and Chapter 4), both legislatures and the cabinet-levels of the executive have a considerable say in many of the administrative functions of government. In the alternative role which gives much more emphasis to a performance-budgeting approach, controls over the details of the government machinery are exercised in a much more

indirect way. The former approach tends to emphasise controls over *inputs* and *operations*; the latter approach gives much more emphasis to *outputs* and *outcomes*. Recent experience in many countries suggests that performance delivery of many government functions – such as transport, power, health and education services, to mention just a few examples – is often better when the latter model of government management is adopted.¹⁰

Exit and voice

Consistent with the clearer definition of the role of government so that it is possible to ‘let the managers manage’, mechanisms for both *exit* and *voice* need to be strengthened in Aceh. Community participation in the development of the province is likely to be more effective when these mechanisms are working well.

- *Exit* is the extent to which the clients, stakeholders and others have access to alternative suppliers for a product – that is, the extent to which there is a *choice* for consumers in accessing a market.
- *Voice* provides a measure of the degree to which citizens can protest, or express their views, about access to products and services.

Issues of community participation are the central focus of the *2010 Aceh Human Development Report* (2010a: vii) which outlines the need for social empowerment as follows:

The central theme of this report is people empowerment. By this is meant not just participation in planning, but the sharing of decision making with government or the delegation of decision making to forums representing government, consumers, beneficiaries and stakeholders. It is argued that this is the most effective way of maintaining peace, improving the delivery of public services, and promoting the wellbeing of the citizens of Aceh. It is also a better way to ensure that the needs of disadvantaged and marginalized groups are properly addressed, by providing them with ‘voice’ through active participation and inclusion in such forums.

Table 6.1 Traditional and new views of the public sector in Aceh

Old	New
Legislature and cabinet-level executives exercise close control over <i>inputs</i> and <i>operations</i> of government management	Legislature and cabinet-level executives focus on <i>outputs</i> and <i>outcomes</i> and “let the managers manage”
Emphasis on inputs; not market-oriented	Emphasis on <u>outputs</u> (and “impact” and “outcomes”; much more <u>market-oriented</u>)
Goals of public service often <u>vague</u> : the idea of “public service” was enough	<u>Clear</u> goals required - - both by time (annual basis, “time bound”) and by level of agency (senior, mid-level, personal)
<u>Process</u> and administration is rewarded	<u>Results</u> rewarded
<u>Not business oriented</u> ; the idea was that the “public sector is not profit-oriented” and “is not a business”. There was no “bottom line”.	More <u>like a private business</u> . “Bottom line” is clear results for clients and stakeholders.

¹⁰ A useful summary of the steps need to improve public financial management in Indonesia is provided in the World Bank note on ‘Effective public financial management (PFM) for enhanced public sector performance’, World Bank office, Jakarta.

No clear measurement of results

Little pressure on managers to produce results

Lifetime employment; very hard to dismiss staff

Little outsourcing or contracting

Annual reports and public reporting vague

Public sector did a lot (provided many services, including SOEs) - - public sector an “actor”

Need to measure results (MPIs - - measurable performance indicators)

Strong pressure on managers to produce results for “stakeholders”

Many staff on contracts (2, 3 and 5 years); staff do not keep jobs if goals are not met

Much outsourcing and contracting; key question - - why should the public sector do it?”

Public reporting very important - - emphasis on accountability, transparency, responsibility

Public service to do less - - become a regulator and not an actor; leave “service delivery” to the private sector and the market

In some markets in Aceh such as most activities in the informal sector, standards of exit and voice are quite competitive -- and in some cases very competitive indeed. In other markets, such as for services supplied by government-owned utilities in the electricity and water sector and in the formal financial sector, standards of exit and voice appear more limited. The AGTP, through activities in such areas as legal affairs, economics, anticorruption, and communication, has worked to improve standards of exit and voice. Local representative and social institutions in Aceh, too, help strengthen standards of exit and voice. Institutions such as local parliaments, and the media such as *Serambi*, are valuable mechanisms for improving standards of exit and voice.

Looking ahead, a key issue for capacity building programs will be to consider what steps might be taken to strengthen exit and voice across the province. Institutions which might be supported to improve exit and voice include the following:

- Provincial and district parliaments
- An Ombudsman office
- Local media
- Producer (agricultural) and business organisations (Kadin)
- NGOs
- Other organisations, such representative professional associations and womens’ groups

An additional useful approach might involve considering establishing a series of Citizen’s Charters for institutions in Aceh (Box 6.3). Charters of this kind have been adopted in some states in India where they have been seen as a step towards strengthening the environment for effective delivery of public services.

Thus both defining the role of government more clearly, and at the same time strengthening the processes of exit and voice across the community, are important challenges for Aceh in the return-to-normal period during the next five years in the province. Capacity building programs need to be designed for the government, private, and community sectors to tackle these challenges in Aceh.

Recommendations

Recommendation 6.1

In order to improve public service delivery at all levels, the Government of Aceh should initiate a public dialogue on the role of government, and of the public sector, in Aceh. The indications are that the demand on government resources in Aceh greatly exceeds supply; that is, the government sector in Aceh is trying to do too much, and with too few resources. Measures to streamline government, and perhaps move towards the “Good enough governance” agenda, appear to be steps that would help bridge the current gap between demand for and supply of government.

To expect too much from governments is likely to lead to disappointment and loss of confidence in the role of government. Thus one step towards improved public service delivery is for the government to define its role carefully. Governments need to define, first, *what* goods and services they will provide, and second, *how* they will provide the goods and services that they decide to be responsible for. Further, in addressing the second task, governments in all countries must decide on the dividing line between the provision of goods and services:

- *Directly* by the government, or
- *Indirectly* through reliance on service providers (suppliers) in the private sector.

In the case of the former system of direct delivery by the government, the government itself becomes a service provider (supplier) in the delivery markets and needs to interact directly with consumers of the services. In the case of the latter system, the role of the government is quite different: the government becomes a regulator of performance in the delivery markets and so government instrumentalities need to develop appropriate regulatory skills. In each case, the role of the government and of government agencies is very different.

Looking to the future in Aceh, it would seem inevitable that the provincial and district governments will need to aim to strengthen *both*:

- the private sector across the province, and
- the internal capacity of government to regulate, and to strengthen, local markets.

This will require improved skills within government which focus on both *fostering* the private sector, and also *providing an appropriate regulatory environment* for the private sector to expand.

Matters of this sort require considerable discussion within any society. The Government of Aceh can take an important step towards improving the role of government in Aceh, and towards improving service delivery, by encouraging a clear discussion within Aceh about the most effective role that government in Aceh can perform.

Box 6.3: A Citizen's Charter for Aceh?

One approach to helping make government more accountable and strengthen the voice of citizens in Aceh would be through the preparation of a public document such as a Citizen's Charter. One of the earliest initiatives in developing a Citizen's Charter was in the United Kingdom in 1991. The approach has now been adopted in other countries, including in developing countries such as India.

The broad idea underpinning the establishment of a Citizen's Charter is to help to make citizens aware of what they may expect from government, and what actions they can take when the promises of performance set out by government agencies are not fulfilled.

Specifically the aims usually include:

- Making administration accountable and citizen friendly.
- Ensuring transparency and the right to information.
- Taking measures to improve and motivate civil servants.
- Adopting a stakeholder approach.
- Saving time for both service providers and customers

Citizen's Charters may be drawn up to relate to many specific areas of government including the following at the regional level in Indonesia such as in Aceh: the central offices of government (Governor's office and offices of *Bupati* or *Walikota*); licensing and land agencies; transportation firms (buses, shipping, airlines) banks; utility companies (electricity, water); police and traffic control authorities;

managers of markets and ports; education institutions and health facilities; agricultural extension services; and so on.

Typically, a Citizen's Charter contains a number of main clauses. At a minimum, these should cover the following items for each organization

- The vision and mission statement of the organization
- A proper description of the activities of the agency
- Identification of the citizens (or customers) that the organization expects to serve
- Statement of services to be provided, including standards, delivery times, access points, pricing arrangements
- Grievance mechanisms, including what responses customers can expect
- Expected standards of behavior from citizens and customers
- Additional information, such as compensation if there is failure in service delivery.

Sources: See the explanation of a Citizen's Charter on the United Kingdom House of Commons, Select Committee on Public Administration website: <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubadm/411/41105.htm>. Extensive details on the approach adopted in India can be found at: <http://goicharters.nic.in/>. An example of a Citizen's Charter for the Forestry Commission in England can be found here: <http://www.forestry.gov.uk/forestry/INFD-6DFLBD>.

Recommendation 6.2

Increased attention should be given to the effective *implementation* of policy in government in Aceh. Civil servants should be judged on the basis of effective *results* in the work they do. Civil servants should be rewarded for the effective *implementation* of policy.

There is a close relationship between the quality of government management and the implementation of service delivery activities. An effective approach to improved service delivery must therefore focus on the overall issues of government management, on questions such as the appropriate role for government and, more specifically, what performance management tools might be used to encourage the better delivery of public services.

At the level of overall government management in Aceh, there has been much more attention given in recent years to setting performance goals for public sector agencies. As a result, the public scrutiny of the details of the operations of government agencies has increased very significantly, especially at the beginning of the financial year when budgets for activities are being determined. But there are indications that excessive attention to the details of government administration at the beginning of the budget year are often not helpful. Arguably, changes in the broader approach to government – that is, changes in the architecture of government goals and in the incentives which influence official behaviour – would be more effective in promoting better performance than a focus on detail.

Recommendation 6.3

Consistent with an increased attention to the implementation of government programs, a strong emphasis on evaluating the performance of government through a focus on *results* is needed. That is, the controls exercised over the civil service by the Executive and Legislature would best shift from attempts to set details at the beginning of the year to the evaluation of results at the end of the year. The use of key performance indicators which measure *results* needs to be strengthened.

In broad terms, modern methods of government emphasise the establishment of broad goals by the Executive and by Legislators when setting policy, and then the evaluation of the performance of the civil service by the effectiveness of *implementation* of the policies. This is because there is a significant risk of micro-management when the Executive parts of government or Legislatures attempt to interfere in the detailed implementation of programs.

In Aceh in recent years, there has often been a focus by Executives and Legislatures (at both the provincial and district level) on the details of programs at the beginning of the year rather than on the broad results of the work of government at the end of the year. The risk of micro-management by Executives and Legislatures now appears to be significant. In order to hold government more accountable, it would perhaps be more effective for the focus of accountability to shift towards the examination of the *results* of government performance at the end of the year, measured against the agreed Key Performance Indicators.

Recommendation 6.4

Consistent with reducing the risk of micromanagement in government, a shift towards the principle of “let the managers manage” would be appropriate. Once meaningful Key Performance Indicators (KPIs) have been established, and after appropriate resources have been allocated in line with the agreed KPIs, then responsibility for achieving the KPIs should be delegated to civil service in-line managers.

The traditional approach to civil service management was for Legislatures and cabinet-level Executives to exercise close control over both the inputs and operations of government management (Table 6.1). In this model of government, close management of process and careful administration by civil servants was rewarded.

A more modern approach to government is for Executives and Legislatures to focus on outputs and outcomes, and to “let the managers manage.” This model implies both a sharper delineation of responsibilities between different parts of government and a clearer focus on results as measured through the use of KPIs. This more modern approach has the key aims of emphasising efficiency and increasing productivity across the public sector.

Recommendation 6.5

A system of Citizen’s Charters should be introduced in Aceh. As a first step, Citizen’s Charters should be drawn up for a series of perhaps five main groups of agencies, such as the central offices of government (Governor’s office and the offices of *Bupati* and *Walikota*), licensing and land agencies, transportation firms, and banks.

One approach which might be considered as a step towards helping make government more accountable in the supply of public services and strengthening the voice of citizens would be through the preparation of a Citizen’s Charter (Box 6.3). The approach has been adopted in other countries, including in developing countries such as India. Typically, a Citizen’s Charter contains a number of main clauses for each organization and helps define goals, and improve accountability, within government.

CHAPTER 7

State-building in a Post-crisis Setting

Post-crisis issues in Aceh

It was noted in Chapter 1 that two key events shape the recent history of Aceh: the December 2004 tsunami megadisaster, and the August 2005 peace settlement for Aceh. Now, more than six years after these events, it is possible to draw some of the key lessons of experience during recent years and to look to the future.

It is easier, it might be noted, to draw broad lessons about the response to the tsunami and the Helsinki peace settlement than to pinpoint the contribution that any single intervention has made. Both the Indonesian Government and the international donor community supported thousands of specific interventions, large and small, in Indonesia in the five years after the tsunami in 2004. The so-called 'attribution problem' arises – a well known issue in international development programs – of how much influence in any specific area can be attributed to any single aid program. Thus one of the conclusions of this study is that the Aceh Government Transformation Programme supported by UNDP, as intended, played a valuable role in supporting the transition process in Aceh during the period 2008 to 2011. But it also needs to be borne in mind that in performing the sensitive role expected of them, AGTP staff needed to work with numerous other important actors within the upper echelons of government in Aceh. It is therefore sometimes difficult to attribute the success of any specific activity to any single group of advisers.

As far as the main lessons of the delivery of post-tsunami assistance programs are concerned, there is a very extensive international literature which discusses lessons learned from aid delivery following natural disasters. Numerous official documents discuss disaster risk reduction policy in broad terms (ISDR 2009) and many reports were issued by different agencies which discussed their own experiences of delivering post-tsunami aid in Asia (examples are ILO 2006; Clinton 2006; Schwartz 2006). Depending on the detail, it is possible to list hundreds of lessons reported by monitoring and evaluation teams working in different sectors. A recent detailed survey of the literature of post-tsunami assistance programs (Jayasuriya and McCawley: 2010) identified eight main lessons summarised in Box 7.1.

Looking ahead, a SWOT analysis (Strength, Weaknesses, Opportunities, Threats) provides a useful framework to identify some of the main issues that need attention as Aceh now looks to the future. A list of strengths and weaknesses was provided earlier (Box 6.1) and an accompanying list of opportunities and threats is shown in Box 7.2. The list of opportunities for reform and development is encouraging. They include a positive climate within the province supported by the strong desire of the peoples of Aceh to preserve peace and promote growth and development. Significant flows

Box 7.1: Summary of main lessons of post-tsunami assistance

1. **Objectives.** The very large number of different donors involved in the delivery of assistance following the Asian tsunami, as well as other actors such as the media and policy makers, had many differing objectives. The effective delivery of humanitarian emergency relief was one of these objectives, but only one.
2. **Local responses.** The fastest relief after the Asian tsunami was usually provided by local communities. The key role that local communities play in providing fast relief needs more recognition; strategies to improve the capacity of local communities to cope in times of disaster should receive high priority.
3. **Coordination.** The overall coordination of the tsunami aid effort was often very difficult. A large number of different agencies was involved. The early establishment of credible national and international agencies with recognized standing can help improve coordination arrangements.
4. **Stages.** Responses, and the role played by different actors, varied overtime. In planning, it is important to distinguish between the relief, rehabilitation, reconstruction and post-assistance stages.
5. **Supply-oriented donors.** Donors often tended to be supply-oriented rather than demand-responsive. Mechanisms are needed to ensure that local communities affected by a natural disaster have adequate opportunities to indicate what they see as their priority needs.
6. **Finance.** The details of arrangements for the provision of international finance were often problematic. The performance of the international donor community sometimes fell below the standards generally expected in the delivery of international aid in terms of speed and scale.
7. **Cost increases.** Local Dutch Disease effects, reflected in sharp increases in some costs for items in short supply, occurred in some areas after the tsunami. Aid planners should allow for sharp cost increases, particularly in the construction activities, when drawing up assistance programs.
8. **Methods of spending.** Assistance following the Asian tsunami was delivered in many different ways. The way in which aid is provided has many implications for, amongst other things, the speed of delivery and effectiveness of the assistance. Donors should consider carefully the best way of providing help; choices include whether the aid should be in cash or in kind, and what form in kind aid might take.

Source: Jayasuriya and McCawley (2010).

of resources promise to be available and there is a window of opportunity to press on with reforms in government which have been encouraged in recent years through projects such as the AGTP and other activities supported by the donor community.

There are threats to the reform process which need to be recognised as well. The positive climate which supports change could be lost if results from reform and improved government are not forthcoming.¹ One experienced observer of developments in Aceh, M. Burhanudin, recently noted that there are various sources of conflict causing problems in the province at present including tension over land and mining issues, uneven development, and political competition in the lead up to planned regional elections at the end of 2011 (Burhanudin 2011b). Slow growth and rising unemployment, in particular, could engender growing disappointment and resentment.² Particular challenges for the processes of government itself exist as well which have been discussed in earlier chapters. For the purposes of focus in this chapter, a list of specific challenges for government management which goes beyond the main issues shown in Box 7.2 include the following:

- Improvements to the legal and regulatory systems of the province
- Improved management of provincial finances, including management of expenditures
- Close attention, especially, to the management of *Dana Otsus* and *Migas* funds
- Strengthening systems of human resource management within government
- Improving processes of transparency and accountability of government
- Devising programs to improve service delivery.

Capacity building programs in future might be directed towards helping tackle some of these challenges for government. Some possible approaches for capacity building programs will be discussed below.

Approaches of donors

The experiences of the international donor community in Aceh, working in close cooperation with Indonesian Government agencies, provide useful lessons for coordination of assistance in post-disaster situations. Much of the experience of coordination in Aceh worked well. However, as might be expected, significant difficulties of liaison and coordination also occurred. It would be helpful to draw on the experience of these difficulties to look to ways to improve coordination.

The first thing that needs to be noted is that the decision of the Indonesian Government to establish a strong national coordinating agency, the *Badan Rehabilitasi dan Rekonstruksi Aceh-Nias* (BRR),

¹ Recent political disagreements in Aceh (during 2011) have led to concern amongst civil society in Aceh about the risk that political conflict will emerge if the main political actors in the province cannot reach agreement about key issues of governance. See '*Pilkada Aceh: perlu consensus bersama cegah konflik politik* [Regional elections in Aceh: Consensus is needed to prevent political conflict]', Kompas, 6 July 2011, and the criticisms of the current political processes by Fasya (2011).

² Various experienced Indonesian observers have drawn attention to the need to foster the peace-building process in Aceh. The Executive Director of the Centre for Strategic and International Studies (CSIS) in Jakarta, Rizal Sukma, discussed the issue after terrorist cells were discovered in Aceh in 2010 (Sukma 2010). See also the comments by Farid Husain (Husain 2011) who was a member of the conference delegation to Helsinki in 2005 to negotiate the Helsinki peace accord. Furthermore, there are continuing instances of violence in Aceh although it is not clear whether these incidents are underpinned by political issues or not. During 2010 and 2011, there were cases of robberies and killings. Commentators in Aceh urged that the matters be investigated quickly to establish whether there were political issues involved. One report of a shooting that raised questions about these issues is at 'Keamanan: Penembakan terjadi lagi di Aceh [Security: Another shooting occurs in Aceh]', Kompas, 22 August 2011.

Box 7.2: SWOT Analysis for Aceh (opportunities and threats)

Opportunities

- A positive political and social climate to support reform and change
- New flows of finances provide resources to facilitate reform
- Improved prospects of being able to strengthen Acehese provincial self-reliance
- To rationalise (and streamline) government
- To stimulate growth and development in the province
- To use plentiful supplies of good natural resources to support development

Threats

- Mood to support change could be lost, and undermined, if results are not forthcoming
- Assets left by donors will not be maintained
- Bureaucracy proves unable to reform, and to deliver on expectations Acehese community and government find it hard to adjust to the ending of special external support
- Economic slowdown, lack of jobs
- Misuse and over-exploitation of the national resource base

was very successful.³ Importantly, the head of the BRR, Dr Kuntoro Mangkusubroto, was accorded ministerial-level authority. The level of authority accorded to Dr Kuntoro greatly strengthened the position of the BRR within the Indonesian bureaucracy and enhanced the capacity of the agency to work effectively. Thus one clear lesson from the experience of post-tsunami assistance in Aceh is that the establishment of a strong coordination agency by the national government often greatly assists the management of the response activities to the disaster. This is not to say that there were not numerous organisational and coordination issues which the BRR needed to overcome (Nazara and Resodudarmo 2007). Nevertheless, despite the key role that the BRR occupied, the coordination of large, complex aid projects involving numerous actors is always difficult. Various issues of difficult coordination arose: the multiplicity of actors; lack of coherence; differences in objectives; managing expectations; and oversight of financial arrangements.

Multiplicity of actors

One of the first coordination challenges was to somehow arrange an acceptable level of liaison between the quite bewildering array of organizations who involved themselves in the assistance effort. In Aceh there were numerous multilateral and bilateral donors, a wide variety of national agencies, and by one count over 400 NGOs active in the field (Masrafah and McKeon 2008: 18). Many of these agencies had their own difficult management issues to deal with as well; the BRR implemented over 5,000 of its own projects while being required to coordinate the work of numerous other bodies.

The influx into a disaster zone of a multiplicity of extremely diverse agencies of this kind inevitably gave rise to all sorts of difficulties. The arrival of a large number of new staff, most of whom could not speak local languages, placed considerable strain on local systems. The new arrivals needed housing and transport, wanted priority access to communications, sought to hire the best local staff, demanded quick access to senior local officials, and were often under instructions to make

³ The BRR was formally established by a presidential decree issued on 29 April 2005.

arrangements for early high-profile visits by senior officials or politicians from their headquarter agencies or countries (Bennett et al 2006: 38).

Lack of coherence

Not surprisingly, under such circumstances it is difficult to arrange coherence of aid programs. Problems of lack of coherence in the global aid industry, and even open competition between aid agencies, have been widely discussed in the development literature.

This problem of lack of coherence was no secret amongst those involved in the provision of assistance in Aceh. The problems -- problems, in a sense, of excess competition between aid agencies -- were discussed in many reports about activities in the field (Bennett et al 2006; Tsunami Global Lessons Learned Project 2009). Various attempts were made to improve coordination. Several of the main multilateral organizations, such as the United Nations Development Programme and the World Bank, established mechanisms designed to encourage donors to harmonize the delivery of aid. One of the best-known of these mechanisms was the Multi Donor Trust Fund established by the World Bank in Indonesia (MDF 2008; Thornton 2006).⁴

One abiding difficulty with most attempts to improve coherence was the tardiness of hundreds of aid agencies in participating actively in coordination arrangements. Many individual agencies paid lip service to the need for coordination but were never keen to be coordinated. According to the Tsunami Evaluation Coalition, for example, of the 438 NGOs registered with the Indonesian government in either Jakarta or Aceh, by mid-September 2005 only 128 had provided activity reports to the BRR (Bennett 2006: 40).

An important contributing difficulty in strengthening coherence is that multilateral agencies, bilateral agencies, national organizations, and hundreds of NGOs make up an extremely varied group of organizations. Further, many of the agencies were under pressure to respond to all sorts of different internal and external rules and incentives. Donor bilateral agencies, for example, often needed to comply with quite strict administrative requirements and political pressures determined thousands of kilometres away in donor capitals. Because Indonesia had a reputation as a corruption-prone country, most bilateral donors were under instructions from headquarters to maintain tight oversight over the expenditure of tsunami funds in Indonesia.

There is no easy answer to the problem of the excessive competition between aid agencies which often arises during complex international disasters. The incentives for them to cooperate are usually weak. In an ideal world an international or national institution with sufficient powers to induce strong and effective coherence across numerous agencies would be established. But in practice, it is often difficult for developing countries to arrange for effective cooperation from international donors. The establishment of a strong and credible national agency such as the BRR is usually a very helpful step in the right direction (Bennett 2006: 39). Multilateral coordination can help as well. But much depends on the goodwill and readiness of numerous, often hundreds, of assistance agencies to cooperate. When incentives to cooperate are weak, coordination is likely to be difficult.

⁴ Numerous reports on the operations of the World Bank Multi Donor Fund (MDF) are available on the MDF website at <http://www.multidonorfund.org/index.html>, accessed 17 July 2009.

Differences in objectives

Differences in objectives between the many organizations providing assistance also became evident. At one level of course, the over-riding objective for all agencies was the same - to assist with relief and recovery after the disaster. But a broad objective of this kind can be interpreted in many ways. In practice, donors often have multiple objectives in mounting relief and assistance programs. Naturally, differences of this kind in objectives became evident at the agency level during the delivery of tsunami assistance. It is clear that many organizations had an eye to self-promotion or to the advocacy of programs endorsed by headquarter agencies. Indeed, it seems clear that many donors provided support in cash or in kind with all sorts of other explicit or implicit objectives in mind.

Differences in objectives with respect to timing, the preferred type of assistance, and various broader issues (relating to conditionalities and advocacy-type issues) all became increasingly evident soon after the relief effort got underway.

One set of broader issues related to foreign policy issues.⁵ These considerations were perhaps most evident in the American and Australian aid assistance programs. In the case of America, the US response needs to be seen against the growing difficulties that America was having in relations with the Muslim world following the invasion of Iraq over 18 months earlier. Australia, too, had foreign policy reasons to provide a sizeable response quickly. A little over a week after the tsunami the Australian government announced a greatly expanded program of \$A1 billion of assistance to Indonesia (Tomar 2005). The background to this initiative was that for some years, Australia's relations both with Indonesia and with several other countries in Southeast Asia had been strained. The rapid and decisive provision of substantial assistance to Indonesia helped Australia rebalance relations with Southeast Asia. In addition, the numerous examples of effective cooperation between western donor organisations and local Muslim communities in Aceh in the several years following the tsunami were, taken together, an outstanding example of cross-cultural partnership in response to a regional emergency.

The second main set of broader issues concerning objectives related to so-called cross-cutting considerations - that is, sectoral issues seen as usually needing consideration when assistance is being delivered. These are matters which it is expected should be allowed for, whenever possible, in the design of all assistance programs. The most important of these in case of post-tsunami aid programs related to peace-keeping and security issues, gender considerations, and the environment.

Thus the many aid agencies which arrived in Aceh to provide assistance brought a varied agenda of cross-cutting objectives with them. In practice, both international and national post-tsunami assistance was provided against a veritable kaleidoscope of objectives. It is true that immediate humanitarian relief and longer term rehabilitation and reconstruction were the main objectives for most aid agencies. However the totality of objectives underpinning the numerous assistance programs presented a wide and complex agenda. It is also important to note that the large-scale provision of external tsunami assistance had the very helpful symbolic effect of demonstrating, in a clear and tangible way, international support for a key global Islamic nation in time of trouble. This support, coming as it did just a few months after the new Indonesia government under the leadership of President Susilo Bambang Yudhoyono was inaugurated, helped underpin confidence across the whole of the Southeast Asian region.

⁵ Myrdal (1968: 10-16) presents a prescient discussion which emphasizes security concerns of western countries at the end of the 1960s that influence the approach of western countries towards developing countries.

Managing expectations

Part of the job of delivering assistance programs following a disaster is the management of expectations. If communications, and the associated information flow between donor agencies and recipient communities, are not handled carefully, then misunderstandings are likely to arise. And in retrospect, it can be seen that unrealistic expectations about aid programs were built up in the aftermath of the 2004 tsunami in Asia.

The proper management of communications, particularly in periods following a major disaster, is a skilled task. In developing countries in Asia in the period after the 2004 tsunami, problems of communication between donors and affected communities were exacerbated by the widespread use of translators and aid jargon, and by the extreme levels of distress widespread in the region. Considerable improvements in communications processes are, in principle, possible. But better arrangements need to be supported by increased funding, a strong political and institutional commitment to the idea of good communications, the recruitment of professionals to design programs, and capacity building for local government officers in such things as accountability and transparency processes to enhance relationships with local communities. Given current constraints on local governments such as limited availability of funding, shortages of skilled staff, and numerous other priorities, it is not clear how quickly progress is likely to be made.

Oversight of financial arrangements

The coordination of financial arrangements proved very difficult. There were a range of interrelated problems.

First, it was often unclear who had promised what. In complex emergencies it is common for governments to make impressive statements promising significant responses which, on closer examination, are unclear on details. For one thing, governments pledged assistance in a mixture of currencies, in a mixture of loans and grants, with all sorts of conditionalities attached, and for uncertain time periods. For another thing, although there was much talk of the generosity of the assistance provided, there is no agreement at all about what constitutes an adequate level of funding in responding to large scale disasters.⁶ From one point of view, the tsunami relief effort was well-funded, at least by comparison with many other disasters in developing countries. But when compared with the much more adequate funding provided for disaster relief within rich countries, the funding was meagre.

In addition, unfortunately many of the claims made by donors about transparency and accountability of funding were not fulfilled. The problems were so widespread that there is little point in singling out specific agencies. However some instances of difficulties can be mentioned to illustrate the nature of the issues. For a start, as noted above, ambitious promises raised expectations - but later led to suggestions of 'broken promises'. Further, in practice it soon became difficult to follow which agencies were spending how much, and on what. Telford and Cosgrave (2007: 6) concluded that 'the international system for tracking and accounting for funding flows is seriously inadequate'.

A third main problem with funding arrangements was that, too often, national governments and local agencies were denied ownership of the programs. In practice, in the delivery of tsunami aid many donors, especially international agencies, were not willing to hand over financial management of the programs to national agencies.

⁶ The notion of 'generosity' is something of an issue. Edward Aspinall (2006) spoke of 'the orgy of self-congratulation about "Australian generosity" that quickly dominated discussion of [the Indian Ocean tsunami] in this country'. See also the discussion in Appendix 3.1 above.

There is a dilemma here to which there is no easy answer. On one hand, in recent years donors themselves have increasingly emphasized the importance of country ownership in the delivery of aid. The need to strengthen national ownership in the management of aid was one of the key themes of the Paris Declaration on Aid Effectiveness agreed to in early 2005 by all major OECD donors and representatives from many developing countries.⁷ On the other hand, the international donor staff in the field are under strong pressure from more senior staff in headquarter agencies in capitals to ensure high standards of accountability and transparency (also emphasized in the Paris Declaration). It is therefore perhaps not surprising that foreign aid officials, faced with all sorts of problems of accountability when disbursing funds under high-risk conditions in the field, were reluctant to give up responsibility for financial controls. But it is also not surprising that officials in recipient governments felt that this approach reduced national ownership of activities in their own countries.

The same problem of a conflict of objectives and operational priorities sometimes occurs between different branches of government within Indonesia as well. The central government in Indonesia, for example, must often rely on agencies and the provincial or district levels to implement programs that have been announced and funded by the national government. But when instructions from Jakarta do not really reflect local priorities in provinces such as Aceh, regional officials and other local stakeholders often feel that there is a lack of ownership and are reluctant to lend full support to the national programs. (UNDP 2009: 16).

Capacity building needs

In planning for capacity building activities it needs to be borne in mind that the topic of capacity building is a somewhat unclear subject. It is sometimes not quite clear what is being discussed under the heading of capacity building – the provision of physical assets (hardware), the provision of training for people (software), or the strengthening of institutions (institution building), or all three? The international donor community has often not handled arrangements for capacity building especially well, frequently relying in a somewhat ad hoc way on the provision of short courses or of short-term technical advisers. Perhaps in practice it is hard to improve on this approach. However, it is worthwhile continuing to try to do so.

Further complications are that, first, at any time, the needs for capacity building (however defined) in most developing countries are usually very substantial indeed. It is generally not difficult, in almost any major sector that one cares to focus on (agriculture, technical skills, infrastructure of all kinds, health, education, many parts of government and public administration, civil society), to identify needs for capacity building. It is important, therefore, to try to set priorities – and to identify needs that will probably *not* be addressed in the immediate future given the resource constraints that usually limit capacity building programs.

A second complication is that the process of strengthening the management of governments and societies, including at the level of a province like Aceh, is a holistic process. This means that the aim that donor agencies often have of finding key points of intervention so as to obtain maximum impact from aid efforts is difficult to achieve. Whilst it is certainly worthwhile to try to set priorities, it will often be the case that strengthening operations in one sector will tend to draw attention

⁷ <http://www.oecd.org/data-eod/11/41/34428351.pdf>

to weaknesses elsewhere. Overall progress, therefore, sometimes seems discouragingly slow. This points to the need for realistic objectives in the provision of capacity building, and for a willingness on the part of committed donors to appreciate that measurable results will often not come quickly.⁸

A third consideration is in the past, donor capacity building activities have often focused on the government sector. As the important SIDA LRRD report (Brusset 2009: 31) noted:

State-related agencies continue to receive the bulk of foreign capacity building assistance. This stems from general donor agreement that the state is the principle owner of recovery, but it has detracted attention from needed local capacity building initiatives. ... Donor emphasis on the state has often left existing and potentially uniquely qualified bases of local capacity to go untapped. In some cases in which mainstream agencies identified strong local expertise, it either has been bypassed, or utilised in short-term consulting work for high-profile projects, rather than applied to necessary long-term recovery efforts in local experts' own communities. This has been cited as a 'plunder' of existing personnel.

The consequence has been that non-state parts of society have sometimes been relatively neglected. Women's organisations are often especially affected by this tendency to focus on formal rather than non-formal organisations. There is, therefore, an important challenge to be taken up of designing effective capacity building activities for the non-state sector.

Before considering a tentative list of possible capacity building activities in Aceh which might be implemented in the transition phase in the province, it will be useful to consider priorities for capacity building against the three sectors mentioned above:

- Physical assets (hardware)
- Software (people)
- Institutions and institution building.

Capacity building and physical assets (hardware)

Banda Aceh has received substantial inputs in recent years in terms of public infrastructure. Thus the provision of new infrastructure is not of the highest priority in Banda Aceh at present. However the maintenance of existing assets is often a problem in developing countries (AusAID 1999) and capacity building for the O&M (operations and maintenance) of the new tsunami-related assets, both in Banda Aceh and elsewhere in the province, does indeed seem to be a priority. As just one example, during 2010 the Aceh office of the *Perusahaan Listrik Negara* [State Electricity Corporation] conducted a campaign to reduce thefts of electricity and improve billing arrangements: capacity building support for operational improvements of this kind in other state-owned enterprises (SOEs) at the provincial and district level might be expected to result in the better overall performance of SOEs across the province.

However in many parts of the province outside of Banda Aceh there is still an acute shortage of investment in both the public and private sector. In these other areas, the need for new investment, which clearly extends beyond capacity building activities, and the need for improved O&M would appear to be of equal priority. Stated briefly, some of the implications for a capacity building plan

⁸ The former Administrator of USAID, Andrew Natsios (2010), has provided a very useful survey of the tensions which exist within aid donor programs between, on one hand, the compliance side of aid agency operations (which he calls 'the counter-bureaucracy') and the technical, delivery side.

would seem to be that activities directed towards strengthening, first, O&M programs and second, the rural investment climate (especially for small and micro enterprises and womens' small scale commercial activities) might receive priority (McCulloch 2009).

Software (people)

In the public sector in Aceh there would appear to be clear capacity building needs both at the provincial government level (especially for provincial public servants in Banda Aceh) and at the level of the district *kabupaten/kota* offices.

At the provincial level, there are a wide range of training requirements. However, given the availability of *Otsus-Migas* funds and the need to use them effectively, capacity building training to impart specific financial management skills would seem to be needed for officials in central provincial finance offices involved in the management of the flows, and also in line agencies responsible for the disbursement (spending) of the funds. This latter area is important because the disbursement of funds has been a problem in many government agencies across Indonesia recently, including in Aceh where it has been reported that underspending in such line agencies as the Health Department and the Maritime and Fisheries Department has been a marked aspect of overall spending patterns in recent years. At the district level, two issues of priority for capacity building would appear to be, first, preparation and management of district budgets, and second, effective and prompt disbursement of the funds.

In the private (including small scale and livelihood) sector, feedback from workshops in Aceh has recommended the provision of training in a range of basic skills.⁹ It is important that programs of this kind give particular attention to the involvement of women. UNDP experience in Aceh has been women are keen to take advantage of opportunities provided in livelihood projects. One UNDP assessment of livelihood projects several years after the tsunami (UNDP 2008: 8) noted that:

A 37 percent participation rate by women was achieved in the UNDP Livelihoods programme despite the fact that women in local societies were not specifically targeted by implementing agencies. This is a satisfactory figure given the culture in Aceh where women generally do not play an active or leading role, but rather play a domestic role in household activities.

However, Indonesian experience has not been very successful in the area of livelihood training so it is not clear how best to approach the situation. Technical school training is, perhaps, the most effective approach although the impact often takes a long time to become apparent.

Institutions and institution building

There is limited point in having both hardware and software in place for improved governance if institutions are weak. Institutions (both formal and informal institutions) set the 'rules of the game' so that players can relate to each other in effective ways.

There is no easy or fast way to build effective institutions. The report, referred to earlier, from the Inter-American Development Bank (2006) on *The politics of policies* provides a thoughtful survey of the interaction between institutions and policies which is useful in the context of considering institutions in Aceh. Institutions tend to strongly reflect the local political, administrative, economic

⁹ See the *Assessment of the UNDP Emergency Response and Transitional Recovery (ERTR) Livelihoods Programme* (2008) and the extensive bibliography on livelihood issues in Cosgrave et al (2009).

and community environment, and tend to evolve over time. Whilst bearing in mind the importance of the broader environment, one of the most effective approaches for external agencies is to identify key 'islands' of institutions in any particular governance environment and design programs to support reform in the islands. Leading institutions for attention in Aceh at the present time would appear to be: the provincial parliament; the Governor's office and the key staff who report to the Governor; the Finance Department, the Regional Planning Agency (Bappeda) and key regulatory agencies. These institutions, together, play a central role in setting the overall rules of the game for governance in the province.

Some suggestions for capacity building in Aceh

Drawing on the extensive literature of capacity building needs in post-disaster situations, a summary list of the types of areas in which capacity building might be provided is in Table 7.1.

One of the important lessons of the AGTP effort in Aceh in the period 2008-2011 is that a well-designed and flexible project can provide effective assistance in the types of activities shown in Table 7.1. For example, AGTP staff worked with the Aceh provincial government administration in such areas as strategic planning, management of resources, legal drafting, budget preparation and implementation, rural development policy, and expenditure strategy. Through the work with the BKPP (Human Resources, Education and Training Agency), the AGTP was also able to assist strengthening across the range of New Public Management topics shown in the Table. In retrospect, it might have strengthened the work of the AGTP if funding for selected TA (technical assistance) activities had been made available. These funds could have been used, for example, to support studies of the best way to approach the reform of government in Aceh.

The list shown in Table 7.1, it needs to be emphasised, shows only a broad sample of the types of suggestions contained in the various workshop reports and other studies (such as ALGAP 2008) that have been prepared on Aceh's capacity building needs in recent years. Other subjects, not shown here, include urban planning, environmental issues (including forestry), training for tree crop sectors, and more specialised topics in the infrastructure area, to name a few.

Lessons for intervention in post-crisis settings

Looking ahead to longer term post-crisis issues, the emerging LRRD literature on links between relief, rehabilitation and development surveyed in Chapter 1 provides a useful framework within which to consider some of the key challenges that governments at all levels in Indonesia, and the international community as well, need to consider in planning for the future in Aceh.

One of the main ideas in the current LRRD literature is the importance of the state, and of the need for an effective interaction between the state and civil society (meaning the private commercial sector, but also going well beyond the commercial sector to involve broader civil society as well) (Brusset et al 2009: 9).

In line with the international donor aid effectiveness agenda, the idea is that the state should be central to the recovery process. One would anticipate that the direction of the combined efforts of donor-funded tsunami aid programmes will ultimately reduce affected countries' dependence on international donors for long-term recovery-related development, and increase the capacity of the state and civil society. Donors currently perceive the state in affected areas as the dominant actor in disaster recovery. ... Civil society has not fared as well ...

Table 7.1 Illustrative list of possible capacity building programs in Aceh

New Public Management		Legal issues	
1.	Strategic planning	1.	Central versus regional legal issues
2.	Managing government resources	2.	Legal drafting: laws and regulations
3.	Structure of government: central agencies and line agencies	3.	Protection of the rights of citizens, including women
4.	Coordination within government	Governance	
5.	Clients and stakeholders	1.	Legislature and the Executive
6.	Role of government: markets and regulation	2.	Provincial and district legislatures
7.	Regulatory issues	3.	Governance of state-owned enterprises
8.	Whole of government management approaches	4.	Governance within government agencies
9.	Service delivery; measurement of performance	5.	Governance issues for the private sector
Financial Management		Sectoral Programs	
1.	Budget preparation and management	1.	Rural development policy
2.	Budgetary accounting procedures	2.	Small and medium enterprises, womens' enterprises
3.	Revenue strategy	3.	Planned development of natural resources
4.	Tax policy	4.	Policies to develop infrastructure
5.	Expenditure strategy	5.	Export strategies
6.	Procurement	6.	Social sector policies: health, education
7.	Audit and evaluation	7.	Finance for the private sector
Non-government sector			
1.	Improved agricultural technologies (workshop for specific sectors)		
2.	Processing and marketing (agriculture & fisheries)		
3.	Credit issues, including womens' credit issues		
4.	Safety, including preparedness for natural disasters		
5.	Small scale enterprise management skills		
6.	Maternal and child health		
7.	Rural housing issues		
8.	Maintenance of facilities and equipment in rural areas		

Reflecting this broad approach, recommendations in the LRRD literature look for ways to strengthen *both* the state *and* civil society (Box 7.3). The ideas underpinning this approach are useful and are consistent with the suggestions for capacity building in Aceh listed in the previous section.

One major challenge in the coming years in Aceh, therefore, will be to find ways to strengthen the state at both the provincial and district level. This will be no easy task. The role of the state needs to be carefully considered. A balance needs to be found between supporting stronger and more effective government but, also, government that encourages the role of the private sector and civil society rather than constrains the growth of these sectors. Thus in certain directions (such as in the provision of effective law and order, and some regulatory activities) the government needs to expand its role in Aceh while in others (such as the imposition of unhelpful licensing requirements on firms) the government would best cut back on unnecessary intervention in the local economy.

Strategy for the state and civil society

A strategy which points towards the way towards simultaneously strengthening *both* the state *and* society in a balanced way in Aceh during the coming decade might contain the following elements.

1. Share of government

A recognition that the institutions of the modern nation state are often underdeveloped at the early stage of growth and need to be strengthened; that is, a recognition that the share of the public sector activity in the economy needs to grow rather than be constrained but, at the same time, needs to grow in a way consistent with healthy expansion and growth in other sectors of society.

2. Three sectors

It is useful to consider the strengthening of capacity in three distinct sectors: government, the formal private sector, and the informal sector.

3. Simplification

It is sometimes suggested that absorption problems limit the way that external resources (such as *Otsus Migas* funds) can be used in provinces such as Aceh in Indonesia. Rather, however, than look to ways to slow down the receipt of resources, methods of streamlining and accelerating the use of resources need to be found. Simplification of the program delivery of public sector resources would seem to be a necessary step to take to move in this direction.

4. Government sector

In the government sector, strategy priorities might include the following:

- (a) A review of the role of government to consider an approach where more government agencies “steer, not row”; that is, the activities of government might be shifted away from the direct provision of service delivery towards, rather, the regulation of service delivery which is increasingly provided by the private sector and civil society.
- (b) The systematic simplification of administrative burdens across government (including those which are imposed on civil society) so as to promote a “lite government” approach.
- (c) International donors may wish to continue the selective secondment of a small number of foreign experts but much expanded programs of training for local officials should be introduced.
- (d) Specific and well-designed training programs to bolster good leadership and management within government need to be expanded.

5. Productivity

In designing plans to foster the growth of both the formal private sector and the informal sector, the key emphasis of policy needs to be less on providing *direct* support, and more on *indirect* measure to support the mobilization of resources which are currently underutilised and to promote broad improvements in productivity.

6. Private sector

It is often best for governments to focus on the indirect provision of support for the private sector. Often, the single most important step that the state can do to promote the private sector at an early stage of growth is to strengthen the overall operating environment for commercial activities. Two aspects of the enabling environment are particularly important: (a) good government policy and

administration, including simplified and consistent procedures; and (b) adequate infrastructure. In addition, specific steps to assist might include working with the private sector facilities of the World Bank and ADB, and supporting private sector donor NGO activities (such as business-to-business programs to strengthen entrepreneurship and other business-to-business links).

It is also important, in working with the private sector in the current environment in Aceh, to devise strategies for minimising conflict between commercial firms and local communities. It is not unusual for incidents of local conflict in Aceh to be triggered by disagreements over issues such as access to land. Misunderstands can arise, for example, between mining companies and large plantation sector firms on one hand, and local communities on the other, especially when legal issues concerning use of land are not clear (Burhanudin 2011c). Given the continuing legal uncertainty at the national level concerning many issues of the classification and use of land in Indonesia, perhaps the best way of approaching these difficulties is by careful negotiation at the local level between the interested parties.

7. Informal sector

Government agencies often find it difficult to design effective programs to strengthen the informal sector (including community organisations) in the early stages of growth. But the informal and community sectors are so important that effective strategies need to be developed. A useful model of a possible approach to take towards supporting the informal economy was outlined, for example, in a recent policy document in Papua New Guinea (Papua New Guinea 2011). Appropriate approaches might include the following.

- (a) Support for the supply of small scale basic infrastructure services (such as water, power, and transport and communications infrastructure, and at the village level, roads, local tracks and irrigation and drainage) should have priority.
- (b) Similarly, support for social services such as health and education for the informal sector should be considered.
- (c) A much wider range of specific programs to work with informal civil society organizations should be developed; these programs will often rely on cash grants or cash-for-work schemes and should be designed to minimize red tape.
- (d) Microfinance programs (both microcredit and microinsurance) should be expanded.

Box 7.3: LRRD recommendations for post-disaster efforts

Strengthen local level state effectiveness

National governments should, early in the disaster response stage, formulate a clear division of roles between central and local government. Donors should actively pursue development diplomacy including the deployment of technical assistance in the field, and should supplement pooled funding

with targeted bilateral initiatives. NGOs should work to strengthen participatory processes, including public consultation and grievance mechanisms.

Long range analysis

National governments should draw lessons from the good practices of the BRR in terms

of its high level authority and coordination. Donors should consider multi-year timeframes for providing relief. Procedures for the use of multidonor funds should continue to be reviewed. Multilateral agencies should pay attention to local capacity in the affected country and should consider the impact of their activities on local resources. International NGOs should encourage local presence in use of personnel. All international agencies should include conflict sensitivity analysis in their work.

Better targeted livelihoods recovery

Local administration planning should be holistic and related to household level analysis. Donors should direct funding to basic needs and should reduce the risk of further vulnerability (that is, emphasise preventative approaches).

Risk reduction

National governments should make disaster risk assessments a precondition for development investment decisions in high risk areas. Governments should promote disaster

risk reduction activities at all levels - from the central government down to the village level. Donors should support these efforts and should fund appropriate local level and targeted projects. Donors should conduct risk assessments before providing aid for projects in high risk areas.

Capacity development.

National governments should make use of local institutions such as universities, civil society organizations, and local think tanks, to build local capacity. Donors should consider funding assistance programs to improve specialist skills and help in placements. Donors should also allow for the time needed to establish effective programs. International agencies, which are affected by a high turnover of staff, should strengthen human resource development mechanisms. These agencies should seek to create more linkages with academic institutions.

Source: Brusset et al. (2009), A ripple in development?, SIDA: Stockholm.

Recommendations

Recommendation 7.1

A provincial development strategy for Aceh should emphasise the importance of strengthening *both* the state *and* private and civil society in Aceh.

The institutions of a strong, modern state are still underdeveloped at the regional level in Indonesia. This is true in Aceh, and in most other parts of regional Indonesia as well. A program of strengthening the institutions of a modern state need to focus on building capacity in three distinct sectors: government, the formal private sector, and the informal sector.

- In the government sector, the state needs to be strengthened at the provincial and district level. The ability of the state to exercise key regulatory and administrative controls in Aceh is still underdeveloped. These functions need to be strengthened as a matter of priority.
- In the formal private sector, perhaps the most important single step that the state can do to promote growth is to work to improve the overall operating environment for commercial activities.

- In the informal sector, a supportive strategy of development is needed which emphasises aspects such as small scale basic infrastructure, microfinance programs, and support for well-designed social services which meet the needs of the informal sector.

Recommendation 7.2

The international donor community should support the process of capacity-building of both the state, and the private and civil society, in Aceh.

The international literature on Linking relief, rehabilitation and development (LRRD) emphasises the importance of the state, and of the need for an effective interaction between the state and civil society. On one hand, the state has key regulatory and leadership roles to play in setting and enforcing laws, managing public finances, and determining broad directions of policy. On the other hand, the resources of the state are quite limited so there are many aspects of social and commercial life which will be largely carried on by non-state citizens and organisations. Thus recommendations for action from the LRRD literature suggest ways to support civil society and the private sector as well the state. Appropriate activities include targeted livelihood recovery programs, risk reduction measures, and capacity-building targeted on social and educational institutions (Box 7.3).

Recommendation 7.3

The international community should continue to support the broad set of integrated activities carried out during the work of the Aceh Government Transformation Programme.

The work of the Aceh Government Transformation Programme (AGTP), carried out over the period 2007-2011, focused on three activities intended to provide support to:

- the Aceh provincial executive,
- selected key government agencies, and
- the Provincial Human Resources, Education and Training Agency.

The work of the programme proceeded slowly in some areas but made significant gains in others. Within the limited time available, and operating in a challenging policy environment, the AGTP team delivered a number of significant achievements which donors should build upon during the next five years.

Recommendation 7.4

A number of key elements should be built into the project design of new capacity building activities to support policy making in the governance sector in Aceh: these include allowing for (a) flexibility, (b) a significant time horizon, and (c) an appropriate range of activities within the scope of the project.

There are three main lessons to be learned for the next stage of policy-support programs in Aceh from the experience of the Aceh Government Transformation Programme (AGTP). First, project activities of this kind in the capacity-building area should not be over-designed in the planning stage. Rather, flexibility is important. It is in the nature of policy capacity-building of this kind that the most appropriate types of support will vary over time, and between institutions, depending on the precise type of activity that has priority. The AGTP team was allowed considerable flexibility within the design of the overall project. This was a successful approach. This approach should be replicated in future activities.

Second, much of the main work of the AGTP took place between 2008 and 2010. A time horizon of three years is rather short for work of this kind. Future projects should, where possible, be scheduled over a five-year time period.

Third, in practice it is often not practical to separate out issues of operational assistance within government departments from longer-term capacity-building measures. The two activities often tend to go together. Projects designed to provide capacity-building for policy support should therefore be designed to allow for a wide range of activities, as appropriate, including (a) operational assistance; (b) support for longer-term studies and planning; (c) short-term workshops on civil service training; (d) continued support for the Provincial Human Resources, Education and Training Agency in Aceh; and (e) scholarships for young staff. In addition, (f) efforts should be made to involve civil society in these programs (as consultants, on committees, and as participants in training programs and scholarships.)

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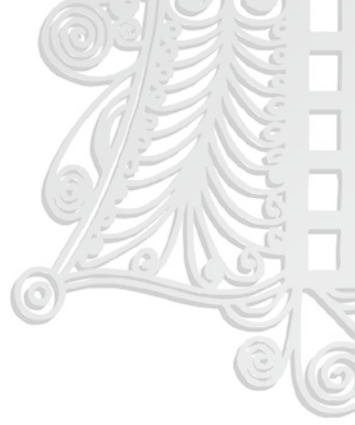
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