

# A PARTNERSHIP FOR PROSPERITY



## USAID INDONESIA STRATEGY 2009-2014

*"...we can no longer afford indifference to suffering outside our borders, nor can we consume the world's resources without regard to effect. For the world has changed, and we must change with it."* – President Barack Obama, January 21, 2009

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## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>EXECUTIVE SUMMARY</b> .....   | <b>4</b>  |
| <b>THE DEVELOPMENT CHALLENGE</b> .....   | <b>7</b>  |
| <b>STRATEGIC TOPICS</b> .....  | <b>11</b> |
| <b>COUNTRY STRATEGY OBJECTIVE:</b> .....   | <b>16</b> |
| <b>DIMINISHED POVERTY WITH GLOBAL THREATS MITIGATED</b> .....  | <b>16</b> |
| <b>CRITICAL ASSUMPTIONS FOR THE COUNTRY STRATEGY -- OVERALL</b> .....  | <b>16</b> |
| <b>AO: IMPROVED CAPACITY OF INDONESIAN INSTITUTIONS TO PREPARE STUDENTS</b> .....  | <b>18</b> |
| <b>THE PROBLEM</b> .....   | <b>20</b> |
| <b>THE ASSISTANCE OBJECTIVE: IMPROVED CAPACITY OF INDONESIAN INSTITUTIONS TO PREPARE STUDENTS FOR LEARNING, WORK AND COMMUNITY</b> ..... | <b>21</b> |
| <b>IR1 EXPANDED ACCESS TO QUALITY BASIC EDUCATION</b> .....  | <b>21</b> |
| <b>IR2 IMPROVED QUALITY AND RELEVANCE OF HIGHER EDUCATION</b> .....  | <b>24</b> |
| <b>AO: IMPROVED MANAGEMENT OF NATURAL RESOURCES</b> .....  | <b>27</b> |
| <b>THE PROBLEM</b> .....   | <b>28</b> |
| <b>THE ASSISTANCE OBJECTIVE: IMPROVED MANAGEMENT OF NATURAL RESOURCES</b> .....  | <b>29</b> |
| <b>IR1 IMPROVED MANAGEMENT OF FOREST ECOSYSTEMS</b> .....  | <b>29</b> |
| <b>IR2 IMPROVED MANAGEMENT OF MARINE ECOSYSTEMS</b> .....  | <b>31</b> |
| <b>IR3 INCREASED ACCESS TO SAFE DRINKING WATER AND ADEQUATE SANITATION</b> .....   | <b>32</b> |
| <b>IR4 INCREASED ACCESS TO CLEAN ENERGY</b> .....  | <b>34</b> |
| <b>CROSS-CUTTING RESULTS: STRENGTHENED RESPONSE TO CLIMATE CHANGE</b> .....  | <b>35</b> |
| <b>AO: DEMOCRATIC GOVERNANCE STRENGTHENED</b> .....  | <b>36</b> |
| <b>(MAKING DEMOCRATIC GOVERNANCE DELIVER)</b> .....  | <b>36</b> |
| <b>THE PROBLEM</b> .....   | <b>37</b> |
| <b>THE ASSISTANCE OBJECTIVE: STRENGTHENED DEMOCRATIC GOVERNANCE: “MAKING DEMOCRATIC GOVERNANCE DELIVER”</b> .....                        | <b>39</b> |
| <b>IR1 STRENGTHENED RULE OF LAW</b> .....  | <b>39</b> |
| <b>IR2 EFFECTIVE GOVERNANCE PROMOTED</b> .....   | <b>40</b> |
| <b>CROSS-CUTTING: STRENGTHENED CAPACITY FOR SUSTAINABLE PEACE-BUILDING</b> .....   | <b>41</b> |
| <b>AO: IMPROVED INDONESIAN HEALTH STATUS</b> .....   | <b>42</b> |
| <b>THE PROBLEM</b> .....   | <b>43</b> |
| <b>THE ASSISTANCE OBJECTIVE: IMPROVED INDONESIAN HEALTH STATUS AND REDUCED DISEASE THREATS</b> .....                                     | <b>44</b> |
| <b>IR1 LOWERED MATERNAL, NEONATAL AND CHILD MORTALITY RATES</b> .....  | <b>45</b> |
| <b>IR2 LOWERED INFECTIOUS DISEASE INCIDENCE AND MORTALITY</b> .....  | <b>46</b> |
| <b>AO: INCREASED EMPLOYMENT</b> .....  | <b>48</b> |
| <b>THE PROBLEM</b> .....   | <b>49</b> |
| <b>THE ASSISTANCE OBJECTIVE: INCREASED EMPLOYMENT</b> .....  | <b>50</b> |
| <b>IR1 IMPROVED ECONOMIC POLICIES TO ENCOURAGE EMPLOYMENT, CAPITAL FOR INVESTMENT &amp; POVERTY REDUCTION</b> .....                      | <b>51</b> |
| <b>IR2: INCREASED PRODUCTION OF SELECTED HIGH-VALUE CROPS</b> .....  | <b>52</b> |

## LIST OF ACRONYMS

|          |   |
|----------|---|
| ADB      | Asian Development Bank  |
| AI       | avian influenza   |
| AO       | Assistance Objective  |
| ASEAN    | Association of Southeast Asian Nations                          |
| AusAID   | Australian Government's overseas aid program                    |
| BAPPENAS | Indonesia's Central Planning Agency                             |
| Bawasda  | Local Oversight Agency  |
| BKKBN    | National Family Planning Program                                |
| BPK      | National Financial Audit Agency                                 |
| BPKP     | National Financial and Development Oversight Agency             |
| CTI      | Coral Triangle Initiative                                       |
| DBE      | decentralizing basic education                                  |
| DOD      | U.S. Department of Defense                                      |
| DOJ      | U.S. Department of Justice                                      |
| DOTS     | Directly Observed Treatment/Short Course                        |
| EID      | emerging infectious disease                                     |
| EU       | European Union  |
| GDP      | gross domestic product  |
| GHGs     | greenhouse gases  |
| GOI      | Government of Indonesia   |
| HIV/AIDS | human immunodeficiency virus/acquired immunodeficiency syndrome |
| IFC      | International Finance Corporation                               |
| INCLE    | State Dept. International Narcotics Control & Law Enforcement   |
| IR       | Intermediate Result   |
| JBIC     | Japan Bank for International Cooperation                        |
| JICA     | Japan International Cooperation Agency                          |
| KPK      | Corruption Eradication Commission                               |
| MCC      | Millennium Challenge Corporation                                |
| MCH      | maternal and child health                                       |
| MDG      | Millennium Development Goal                                     |
| MDR      | multi-drug resistant  |
| MenPAN   | State Minister for Administrative Reform                        |
| MFMA     | Ministry of Fisheries and Marine Affairs                        |
| MoNE     | Ministry of National Education                                  |
| NBFI     | non-bank financial institution                                  |
| NGO      | non-governmental organization                                   |
| NTP      | National Tuberculosis Program                                   |
| OFDA     | USAID Office of Foreign Disaster Assistance                     |
| OTI      | USAID Office of Transition Initiatives                          |
| PISA     | Program for International Student Assessment                    |
| RDMA     | USAID Regional Development Mission for Asia                     |
| REDD     | reduced emissions from deforestation and degradation            |
| SUSENAS  | nationwide Indonesian household survey of social welfare        |
| TA       | technical assistance  |
| TIMSS    | Third International Mathematics Science Study                   |
| USAID    | United States Agency for International Development              |
| XDR-TB   | extreme drug-resistant tuberculosis                             |

## EXECUTIVE SUMMARY

Indonesians have earned the right to be confident and optimistic about their country's future. Sixty years ago, at Independence, Indonesia was one of Asia's poorest nations; Indonesia is now a middle-income country. With confidence comes courage: Indonesians have forsaken strong authoritarian leadership for less certain democracy and decentralized power. Progress is evident in bustling, prosperous cities that are already part of the future. But there is another reality in Indonesia; half the young men and women live in rural villages on less than \$2 a day – and the way forward for them is unclear. Although their country is progressing, young rural Indonesians are wondering when good fortune will come to them, to their family, to the 115 million Indonesians who still fear poverty.

USAID/Indonesia's Program Strategy for 2009-2014 responds to the promise of Indonesia's remarkable democratic transformation: a strong, prospering and inclusive nation. The strategy calls upon U.S. and Indonesian resources to diminish Indonesian poverty and to mitigate global threats. Investments to carry out this Plan are the centerpiece of a broader U.S.-Indonesian Partnership proposed by President Yudhoyono.

In the immediate wake of the 1998 financial crisis and the fall of Suharto, many people worried that Indonesia might disintegrate. The resilience of Indonesia's pluralistic and generally tolerant society and the prudence of its economic policies in the past decade are now apparent. Today, Indonesia is the world's third largest democracy. Indonesia is weathering the current economic crisis with money in the bank. Over the last decade, Indonesia has made a remarkable dual transition from a military-backed autocracy to an electoral democracy, and from highly centralized to decentralized governance. Indonesia is a leading member of the Association of Southeast Asian Nations (ASEAN) and a key participant in the G-20. Indonesia is an emerging regional leader in the promotion of democracy, governance, and human rights. With the World's largest Muslim population, Indonesia is demonstrating how a predominantly Islamic nation competes and leads in the modern world.

Democracy and sustained economic growth, however, have not brought prosperity for all: almost half the population hovers around the poverty line as income inequality increases and growth, though positive, falls short of required levels. Many Indonesians are more concerned with their material well-being than with political freedom. Most poverty-related indicators remain high in Indonesia and the current global economic crisis will pull more families into poverty. Attainment of Millennium Development Goals (MDGs) has been undermined by inadequate resources from the national budget, corruption and weak local government capacity.

Responding to global priorities, Indonesia is taking responsibility for sustainable management of its environment, including extensive forests and highly valued marine fisheries. Indonesia is engaged with global efforts to reduce threats of infectious disease, such as Avian Influenza (AI). Indonesia has the world's highest number of confirmed human AI infections.

A growing global economic crisis will challenge not just the country's economy, but also its social harmony, its government and the skills and priorities of its political leadership. With a slow down in macro-economic growth likely in 2009-2010, it becomes even more important that Indonesia's national and local governments be able to deliver basic social services, stimulate investment, control corruption and preserve social harmony. The strategy assumes that the economic downturn for Indonesia will be over by 2011. Other needs, currently unforeseen, are certain to emerge during the strategy period; USAID will retain flexibility in its budget to encourage innovation and to respond to new problems. Resources will be reserved for long-term training in the United States for Indonesia's next generation of problem-solvers,

Within the U.S. Country Team, USAID has coordinated with the MCC -- anticipating a country compact during the strategy period -- and with other programs such as law enforcement and anti-corruption that reinforce USAID programs. The USAID priorities have been determined in consultation with the other donors and the GOI, currently producing its next five-year plan. USAID programs are complementary and will be implemented collaboratively. USAID is committed to ownership of programs by Indonesian government and private sector partners. USAID will continue to foster long term relationships between U.S. and Indonesian agencies, universities, NGOs and private sector partners.

The Country Strategy is designed to diminish Indonesian poverty and mitigate global threats. It outlines areas where U.S. and Indonesian development interests converge – higher quality basic education; universities that resolve tough development problems; sustainable management of forests, marine ecosystems; a low carbon future with clean energy; government that delivers; effective health and family planning services, and increased employment. A strong partnership will accelerate the country's development while mitigating global threats. The partnership will invest in institutions that can carry forward Indonesian development and move the US and Indonesian institutions towards sustainable relationships.

Now is the time for America and Indonesia to affirm their partnership for prosperity, a partnership that will demonstrate how to:

- lift Indonesia's poor families – half the population -- into the modern economy;
- enable teachers and administrators to provide higher quality educations to prepare young Indonesians for life in a modern, democratic society;

- bring citizens and government officials together to make governance at the local and national levels more effective, participatory, and responsive to citizens' needs;
- revitalize the national family planning program;
- prevent the spread of infectious diseases that know no borders, particularly HIV/AIDS, avian influenza; drug resistant tuberculosis, malaria and other potential threats;
- strengthen health services for mothers and children, in the face of high rates of malnutrition and maternal mortality, increasing unwanted pregnancies, and primary health care services that have yet to reach all communities to prevent children's deaths;
- work with the GOI on a low carbon future and climate change adaptation;
- overcome lagging investment in clean water, in cities where only 34% of families have access to piped water systems;
- combat deforestation including offering communities the alternative of productive and sustainable methods of forest management;
- protect collapsing fisheries in the Coral Triangle through ecosystem-based management;
- revitalize small holder agriculture to produce and to market cash crops for Indonesian and foreign markets;
- mobilize private capital for investment in neglected infrastructure that has handicapped the rural economy;
- support sound policy frameworks in the energy sector, so investment will flow to clean, renewable energy, and
- organize a multi-sector effort in Papua that respects the tradition of self-reliance and provides resources at the sub-district/kecamatan level for management by the indigenous population.

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## THE DEVELOPMENT CHALLENGE

Sixty years ago, Indonesia was one of Asia's poorest countries. Today Indonesia is a middle-income country (\$1,650 per capita income, 2007). The number of families below the poverty line has steadily declined; in 2008 about 15% of the population was officially in poverty,<sup>1</sup> living on \$1.55 per day. Indonesia is the world's third largest democracy, with freely and fairly elected leaders. The population is 87% Muslim; however, the electorate has been reducing support for Islamic parties, to minor roles. The nation is unified, despite hundreds of local languages and thousands of islands. Infant mortality has been drastically reduced, although the decline has stalled at a high level for a middle income country. Primary school enrollment for both boys and girls is almost universal: 94% of school age children are enrolled and 90% of the population is reported as literate.

### **Poverty**

Looking more closely at Indonesian development, the full picture reveals many families that are not benefiting from national economic growth. Half of Indonesia's population—the 15% poor and the 33% near poor-- hover around the poverty line, living on less than \$2 per day<sup>2</sup>. Although Indonesia has come far since independence, it still has far to go to lift the poor and the near-poor into economic security. In recent years, Indonesia's economic growth has been led by domestic consumption and export of its natural resources. Exports of petroleum products and minerals were selling into a market of rising prices, which is not sustainable over the long-term and provides few jobs. During the past decade, 20 million young people entered the workforce, but only 3 million jobs were created in the formal sector. Economists call this jobless growth. The official unemployment rate in the formal sector has held between nine and ten percent over the past five years. Of course, unemployment will increase further as demand for exports and foreign investment declines in response to the global financial crisis. The vast majority of new Indonesian job-seekers have had to find employment in the non-formal sector. Misfortune -- an illness, a lost job, a natural disaster, an economic downturn -- can and does pull these vulnerable, hovering families back under the poverty line.

Reducing poverty in Indonesia is less about having adequate resources than it is about having pro-poor policies and effective institutions. Efforts to reduce poverty in Indonesia face a range of challenges including Indonesia's size and diversity, a political system dominated by elite- and middle-class interests and widespread bureaucratic inefficiency and political corruption.

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<sup>1</sup> The official poverty line represents an earned wage of \$1.55 per day

<sup>2</sup> About 33% of the population earns a wage somewhere between the official poverty line and a wage of less than \$2 per day.

A profile of Indonesia's poor families reveals what is needed before these families share in Indonesia's success as a middle-income nation. The following information from the 2004 SUSENAS national survey, analyzed in detail by the World Bank in 2006, has hopefully become less bleak, but the underlying problems faced by poor families remain:

- 75% of low income workers are in the informal sector; more than 60% of poor families depend on income from agriculture;
- 55% of the poor have less than a primary education and 16% are illiterate;
- 50% of the poor lack access to clean water; 75% do not have adequate sanitation;
- 25% of children under five are malnourished;
- lack of adequate economic infrastructure such as reliable rural roads and efficient ports constrains growth for agriculture and agri-business, and
- by 2015, 45% of poor households will be in city slums as opposed to 30% in 2006.

The joint USAID-Indonesian quest to lift Indonesia's population out of poverty extends back three generations and has had remarkable successes:

- more capable and accountable local government,
- credible national and local elections, a more vital civil society, and independent media (since 1998),
- effective economic policy management and achievement of a sound macroeconomic framework,
- increased rice production, achieving current self-sufficiency despite the growing population,
- watershed management, preventing erosion of Java's mountainsides in the face of land scarcity,
- rural electrification, establishing the benefits of power in rural villages;
- more children surviving by targeting early childhood diseases,
- family size reduced at a dramatic pace due to national availability of family planning/reproductive health services,
- micro-credit availability, particularly for women,
- stimulation of private enterprise,
- since 1998, support for free and fair elections, a vital civil society and an independent media,
- reformed primary education,
- strong university departments in economics, public health and agriculture, and

- countless Indonesians who are applying skills acquired in U.S. universities and local training programs to Indonesian development problems.

These successful programs have directly or indirectly benefited poor families; nevertheless, the goal of lifting these families into economic security is still distant; much more needs to be done.

In partnership with Indonesia's government and private sector, most of USAID's future program will benefit families hovering near the poverty line: higher quality education, effective health care, clean water, disease control, family planning, more responsive government, higher agricultural productivity, and improved access to urban markets. Work with policymakers on bringing energy tariffs closer to market levels and developing sources of capital – pensions, insurance, and investment funds – will generate financing for rural infrastructure. The balance of the program addresses threats that are both global and local: infectious diseases, loss of forests, collapse of marine ecosystems, and extinction of life species. A consistent theme in all of these investments will be a focus on strengthening partner Indonesian institutions.

### ***Areas with Special Needs***

USAID's work in Aceh has repeatedly demonstrated that a field presence and appropriate levels of local administrative and logistical support are necessary and can stimulate recovery and rehabilitation when a major natural disaster destroys all that a society has built. The value of a satellite office to enhance overall program coordination and reporting has been consistently demonstrated, particularly where implementation of multiple projects is simultaneous, complex, and intense, thereby requiring careful coordination among donors, implementing partners, government hosts, and beneficiary communities. Completion of the west coast road project is progressing and will continue to require local administrative and logistical support into the new strategy period.

The Mission is examining in its new strategy if/whether satellite office services continue to bring value added, whether in Aceh or elsewhere. A prerequisite appears to be a continuing critical mass of project activities, high perceived visibility and external interest in project interventions, and a sufficient geographic distance from Jakarta to support the establishment of a remote office location.

At the far eastern end of the vast Indonesian archipelago, Papua also has special needs. Economic development and in-migration of other cultures are undermining Papuan patterns of daily life and – more importantly -- undermining the social structure and traditional mutual support among Papuans. Special Autonomy and abundant natural resources are producing increasing levels of community wealth. But that wealth is not seen as generating development, and for some it is at odds with the Papua's indigenous self-reliant cultures. Corruption is already endemic. HIV/AIDS, TB and malaria have emerged as critical health threats. USAID has begun identifying sector programs for Papua that would

strengthen the indigenous society through local government, health, education, agriculture and environment programs by helping stakeholders to channel more effectively and transparently their abundant financial resources.

### ***Making democratic governance deliver for all Indonesians***

The greatest transformation Indonesia has made over the last decade has not been economic or social in nature; rather it has been in the nature of its institutions of politics and governance. In a relatively short period of time, Indonesia has gone through not one but two dramatic transitions: first, from autocracy to democracy and then from being a highly centralized state to being a much more decentralized one. These dual transitions have produced a variety of benefits for Indonesians, including greater freedom, fewer human rights abuses, increased opportunities to participate in governance, greater responsiveness on the part of government, more accountability, and the emergence of new leadership. But these changes continue to present major challenges to the functioning of the Indonesian nation-state. For example:

- ***National governance.*** National-level policymaking has become more complex and unwieldy and remains dominated by elite interests. The bureaucracy has been slow to reform and is poorly incentivized. Rent seeking and corruption distort policymaking and divert resources from the poor.
- ***Decentralized governance.*** In 2001 Indonesia underwent dramatic decentralization, dispersing considerable governance functions to some 300 kabupatens/kotas. As of 2008, a proliferation of new local government units has brought the number of districts close to 500. Although national policy-makers and local decision-makers are now accountable in a way they have never been, the proliferation of districts/cities poses a challenge for economic management and poverty reduction. Districts/cities have inherited responsibility for the delivery of most public services, but many lack the capacity, autonomy and resources to react properly. Decentralized governance, in the absence of appropriate national policy, may intensify the imbalance between resource-rich and resource-poor districts/cities. Reform has created enormous opportunities for local initiatives in tackling local problems, but has also led to policy uncertainty and confusion over responsibilities for some key functions of government at all levels.
- ***Technical leadership and scaling up for national development.*** Indonesia's dramatic decentralization of authority from the national level to almost 500 local governments (districts/municipalities) has proliferated and fragmented responsibility for programs. Moreover, authorities and capabilities at the Provincial level have been greatly diminished. Indonesia is missing a layer of technical leadership at the Provincial level which, before decentralization, trained and assisted technical staff at the local level. Provinces no longer are able to transfer

successful experiences among local governments. Donors and the GOI no longer can rely on Provincial experts to bring successful district/city programs to scale within the Provinces. Donors and the GOI are seeking remedies. USAID has a comparative advantage among donors in addressing scaling up issues. USAID has extensive experience in using field-based interventions to generate lessons for central policy makers. To increase the focus of Mission management on how best to provide technical leadership and on scaling up, USAID activities will locate in the same districts/cities and provinces, if feasible. USAID together with GOI officials in the central, provincial and district governments will analyze the roles of each level of government in scaling up programs.

- **Conflict.** Violent conflict – with its damaging effects on lives, communities, property and investment -- is inimical to national development. Indonesia's dual transition contributed to the spike in ethnic, religious and regional conflicts. While these conflicts have declined, a resurgence of conflict can not be ruled out, especially if Indonesia's economic growth slows significantly.

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## STRATEGIC TOPICS

The Mission gave special consideration to the five topics in this section, as guides to formulating the sectoral strategies.

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- **U.S.-INDONESIA PARTNERSHIP**

The GOI's National Development Strategy for 2004-09 lists the following broad objectives as its key priorities: peace and security; a just and democratic Indonesia; and enhancing people's welfare. USAID is collaborating with Indonesia to achieve these objectives.

As proposed by President Yudhoyono, the U.S. and Indonesia are considering a deeper partnership that provides a framework for USAID's program. To promote democratic and economic development, the Indonesian Government has put reform platforms in place. Now the task is transformation of people and institutions to realize the reforms and to achieve Indonesia's potential as a thriving, inclusive democracy. The USAID program has an essential role in the partnership, empowering people and institutions to advance U.S. and Indonesian interests in fostering Indonesian democracy, combating climate change, strengthening Indonesia's economic policy analysis, vigilantly attacking infectious diseases and promoting education reform. By helping create opportunities for better jobs and more income, USAID will add stability and self-confidence to Indonesia's poor population. The world economic crisis heightens the need and opportunity for USAID's contributions.

In the spirit of the Paris Declaration, USAID is offering Indonesia a more participatory role in guiding USAID's development strategy. USAID will convene a group of Indonesian and American advisors from the public and private sectors with long-term knowledge of Indonesian development, individuals with broad as well as specific sector experience. The charge to these experts will be to lend their experience and expertise to help ensure that USAID's programs are strategic, responsive and effective.

In accord with USAID's business model, USAID will continue to foster long term relationships between U.S. and Indonesian agencies, universities, NGOs and private sector partners seeking two-way benefit. USAID will continue to set aside resources for long-term graduate level training in the U.S and to stimulate innovation. USAID will partner with U.S. and Indonesian implementing organizations, both in unilateral and bilateral commitments. USAID will seek seasoned Indonesian organizations to take the lead in implementing programs. Non-governmental organizations, including female managed organizations, that are ready to play larger roles will be strengthened and supported in scaling up successful programs.

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- **OTHER DONORS AND COORDINATION**

Regarding other donors, Australia, Canada, UNDP, the European Union, Germany and the Netherlands have technical assistance programs with similar sectoral priorities to USAID. Japan/JICA is redesigning its program, reportedly along the lines of USAID technical assistance. Compared to USAID, Australia, the European Union and UNDP give similar strategic emphasis to the poor and have similar levels of technical assistance.

Australia's recently developed country strategy (2008-2013) supports 1.) sustainable growth and economic management (natural resources, management of the economy, infrastructure and productivity growth), and 2) investment in people (access and management of health and education systems), 3) democracy, justice and good governance, and 4) safety and peace. Australia gives priority to poverty reduction, especially in Eastern provinces and Aceh. A recent annual report indicates one-quarter of funding for technical assistance and one-fifth for scholarships. Scholarships are directed at future leaders across all sectors in the strategy.

Australia is raising the priority of programs directed at climate change and the environment. Australia is complementing World Bank investments in infrastructure with a \$300 million Eastern Indonesia road project. Rural growth is promoted through agricultural and small/medium enterprise programs. In education, school construction will continue to receive support: Australia is completing a Basic Education Program with \$200 million in concessional loans plus \$155 million technical assistance grants. Health system strengthening, and reducing avian influenza transmission and HIV (\$100 million, 2007-15) are

supported. Governance programs focus on legal reform, civil society organizations and increasingly on anti-corruption. Disaster relief and combating transnational crime are priorities.

UNDP's strategy gives priority to human development to achieve Millennium Development Goals (MDGs), promoting good governance and protecting the vulnerable (children and youth, women migrant workers, cultural communities, HIV/AIDS groups at risk, disaster victims and gender based violence victims). UNDP is analyzing how to organize their Papua program.

The European Community Strategy (2007-2013) gives priority to education (basic, higher and vocational), trade and investment, and law enforcement and justice. The EC budget for Indonesia during the five-year strategy period is about 500 million Euros, of which the education sector will receive 80%.

Germany's assistance is a mix of loans and grants (\$150 million annually) for climate change, small and medium enterprises, micro-finance, vocational training, good governance. Netherlands largest program is education, with commitments of \$45 million annually to basic education for 5 years.

Indonesia no longer receives highly concessional ADB lending terms. The ADB program plans to commit up to \$1 billion in 2009 lending for the following areas: infrastructure (roads, water, energy, irrigation), education (secondary and madrasah), financial sector reform, health and nutrition, coastal resources and urban air quality. Loan levels in future years will decline. The World Bank lends annually \$1 billion, including \$200 million for education, making it the largest donor in the education sector. The World Bank is a major donor for agriculture, marine fisheries and coastal conservation. The current five-year strategy gives top priority to building sustainable institutional capability.

USAID regularly coordinates with other donors to ensure that USAID efforts are complementary, including the ADB, AusAID, IFC, JBIC/JICA, EU, and the World Bank, among others. These donors have a number of ongoing and/or planned activities that complement the activities envisioned under USAID's 2009-2014 strategy for Indonesia. For example, both AusAID and the World Bank are providing significant financing for education reform. USAID has taken the lead in designing curriculum changes for students and teachers; AusAID and the World Bank have incorporated USAID's materials into their education reform programs.

Within the U.S. Country Team, USAID has coordinated with the MCC -- anticipating a country compact during the strategy period -- and with other U.S. agencies (DOD, DOJ, DOS/INL, Treasury) with programs such as law enforcement and anti-corruption.

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- **GLOBAL AND LOCAL CHALLENGES**

The value of a U.S.-Indonesian partnership is perhaps most evident in the face of Indonesia-specific problems that implicate general global welfare: climate change from carbon emissions; steadily depleting energy, marine and forest resources; foreseeable species extinction, and difficult to control, deadly infections, such as extreme drug-resistant tuberculosis (XDR-TB) and emergent avian influenza. These challenges are part of the USAID strategy, and solutions are being developed: to stop over-exploitation of natural resources with powerful market incentives for environmentally friendly products; to protect and sustainably manage precious resources, and to overcome animal to human disease transmission and stay ahead of diseases that outmaneuver drugs. Key Indonesian institutions and U.S. partners in coordination with USAID will utilize cutting edge methodologies and technologies in Indonesia to defeat global threats.

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- **PUBLIC-PRIVATE PARTNERSHIPS AND INSTITUTIONS OF EXCELLENCE**

USAID is building on the successes of past and existing partnerships, USAID's goal is two-fold: 1. to partner with an effective and manageable number of private sector firms and non-traditional partners to leverage additional resources to address key development challenges, and 2. to affiliate U.S. universities with Indonesian "institutions of excellence" for education and research.

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- **GENDER ISSUES**

In April 2006, the World Bank, other donors and the Government of Indonesia (GOI) released a gender assessment of Indonesia. In the assessment, data from the 2000 census and other sources shows that women make up 50.2 percent of the population; female labor force participation rate is 37.5 percent; the number of women of working age who were employed fell from 49 percent in the 1990s to 40 percent in 2003; the percentage of female-headed households has remained steady at 13 percent, and the number of women elected to the National Legislature (DPR) increased to 18% in the last election, up from 11%. Currently 102 women are in the 560-member DPR assembly. Another World Bank report entitled Gender Equality and Development – Progress in Indonesia (March 2006), indicates that there is very little gender difference in school enrollment rates, and women have gained more control over their fertility.

The assessment and report underscore lessons learned during implementation of USAID/Indonesia's previous strategy: mainstreaming gender considerations throughout the Strategic Objectives is the best approach. USAID will work with the USAID/Washington's Women in Development Office to integrate gender issues into the activity design, procurement, and monitoring and development component of each technical area under the Strategy. For example, the democratic governance program will emphasize women's participation in civic and political affairs.

In project design, USAID will implement cross-cutting approaches to gender from different perspectives. For example, the Mission would give female-headed households priority, knowing that these households have a higher risk of experiencing negative shocks from conflict, health crises and economic downturns. Women's participation will be given priority in all USAID supported training programs.

**COUNTRY STRATEGY OBJECTIVE:  
DIMINISHED POVERTY WITH GLOBAL THREATS MITIGATED**

The Country Strategy addresses problems that threaten the long-term viability of Indonesia's future: poverty, and environmental and communicable disease threats that also have global consequences. For more than 110 million Indonesians, poverty threatens their welfare every day. USAID programs, mobilizing public and private resources, are directed at the root causes of poverty: inadequate basic education, lack of quality healthy care, low productivity in agriculture, lack of investment in rural infrastructure essential for agricultural marketing, disappearance of natural resources – forests and fish – that rural communities depend on to sustain families. USAID programs are directed at more effective, responsive governance essential to give poor families fair protection under the law and fair access to public resources. USAID will promote energy, clean water and sanitation for long deprived communities and poor families that want to emerge from poverty. USAID programs will support the development of policies that will make more resources available to fight poverty, such as a reduction of energy subsidies that weigh so heavily on the national budget.

In conjunction with these programs, USAID will help mitigate global threats: climate change from deforestation and policies that promote non-renewable energy; disappearance of habitats for diverse plant and animal species, including marine resources; outbreaks and spread of hard to control diseases like avian influenza and multi-drug resistant tuberculosis.

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**CRITICAL ASSUMPTIONS FOR THE COUNTRY STRATEGY -- OVERALL**

- Key officials in the GOI will be reform-minded and value technical assistance.
- Government officials will continue efforts to combat corruption and promote transparent and accountable governance at all levels.
- The GOI is committed to harmonizing the central government policies, roles and authorities in a decentralized governance system.
- The GOI remains committed to improved service delivery through better management, coordination and capacity building. Decentralization efforts will not be reversed.
- The GOI continues to welcome support to non-governmental partners.
- The GOI has the resource capability and political will to expand its role in: protection of the environment including combating climate change, addressing the country's energy investment shortage, support for higher education, achieving significant improvements in jobs created and incomes raised for poor families.

- The current economic crisis for Indonesia will end in 2011, but the U.S. will be ready to adjust the strategy if the crisis is extended.
- The GOI's attention to terrorist threats and its effectiveness in quelling terrorist groups will remain at a high level during the strategy period.
- The U.S. - Indonesian commitment to a strong partnership will endure for the life of the strategy.
- Despite earmarking, USAID will have sufficient flexible use of funds and increased funds for key strategic objectives in environment and energy, higher education, TB and family planning.
- It is likely that a significant Indonesian natural disaster will occur during the strategy period. The U.S. will be ready to respond

**AO: IMPROVED CAPACITY OF INDONESIAN INSTITUTIONS TO PREPARE STUDENTS  
FOR LEARNING, WORK AND COMMUNITY**

**IR1: EXPANDED ACCESS TO  
QUALITY BASIC EDUCATION**

**IR2: IMPROVED QUALITY AND  
RELEVANCE OF HIGHER  
EDUCATION**

With over 46 million students and 2.8 million teachers in more than 227,000 schools, this Muslim-majority nation has the fourth largest education system in the world. Significant progress has been made in primary school participation rates, with Indonesia almost at 100% primary completion rates. However, access, equity, and quality remain restricted toward the upper grades resulting in many children failing to transition along the stages of primary, middle, and high school. As a result, far too many children and youth exit schools with inadequate knowledge and skills necessary for achieving their lives' hopes. In a country where more than half the population subsists on US\$2 per day, education is one of the key solutions to breaking the cycle of poverty.

The low quality of basic education is evident from internationally available data on learning outcomes. In the Third International Mathematics and Science Study (TIMSS 2007), the performance of Indonesian eighth grade students in both fields is poor. Indonesian students ranked 36th out of 49 countries surveyed in math, and 35th out of 49 in science. The poor performance of Indonesian students was confirmed by the Program for International Student Assessment (PISA 2007), that looks at the performance of 15-year old students in science, reading, and mathematics. From 57 countries surveyed, Indonesia ranked 52nd in science, 48th in reading, and 51st in mathematics. In literacy, Indonesian students displayed low levels of retrieving, reflecting and evaluating information. In fact, 25-34% of Indonesian 15-year olds did not reach minimum literacy levels. Even after taking family socio-economic status into account, poor student performance in both TIMSS and PISA suggest that the Indonesian education system has not added sufficient value to student learning.

Decentralization of the education system in 2001 transferred power, management authority, and funds for the delivery of services (including basic education) from the central government to districts. A policy of school-based management further empowered schools and their school committees to plan and monitor school performance. For example, greater responsibility for teacher management has been placed on school principals and local district officials, particularly school supervisors, who in general have not been well-equipped to accept these responsibilities or to hold teachers and principals accountable for their performance. Local level capacity to manage these responsibilities varies greatly. Newly established districts with very low management capacity merit strong support.

There is a strong need for higher quality in-service teacher training, pre-service teacher training, continuing professional education of teachers, and more accountable management and governance. Numerous studies demonstrate the importance of quality of teaching combined with good management and governance in raising student achievement. Good teachers use all available means to create a positive learning experience for students in the classroom, and can compensate for learning disparities arising from different student backgrounds. Greater participation from the parents and

community has been proven to support teachers' performance in classrooms. While central government funding for education has increased in recent times, the amount allocated for teacher training remains low. Budget plans require better assessment of needs and careful analysis of priorities.

USAID's investments in the Indonesian education sector have succeeded in improving school management, teacher performance and student achievement. Typically, teacher training benefits accrue over two or three years as teachers gain expertise in new approaches, but teacher training in the USAID Decentralized Basic Education (DBE) program led to gains in students' achievements the year following training. Students taught by DBE-trained teachers scored 26% higher in language than control school counterparts; smaller gains over control schools were seen in mathematics in DBE schools.

Despite these achievements, USAID-funded efforts have only reached a small percentage of the country's schools and districts. USAID assistance constitutes approximately 11% of donor assistance in the education sector and has been well coordinated with other donors and GOI. However, donor investments remain modest when compared to the GOI resources for education. The challenge going forward is mainstreaming successful reform practices and partnering with government to institutionalize them.

Within higher education there are many positive trends. The number of higher education institutions in Indonesia has increased over the past decade, and more high school graduates are continuing their education. There are significant challenges, however, which constrain the ability of individual institutions and the higher education sector as a whole to contribute to the economic development of the country. The constraints impede higher education institutions in meeting the needs of 21<sup>st</sup> century learning. The challenges include the quality and relevance of teaching, the transparency and efficiency of university management, and the access and participation of Indonesia's poorest students. The challenges are evident in international comparisons demonstrating that the Indonesian higher education sector does not perform as well as neighboring countries such as Malaysia, Thailand and the Philippines. Participation in internationally-recognized academic research is low. Linkages between academic institutions and practitioners are insufficient. Currently no Indonesian higher education institution is listed among the top 100 institutions in the Asia region based on the ranking produced by the Shanghai Jiao Tong survey.

These challenges in higher education are addressed in the GOI's priorities for higher education: to improve the quality and competitiveness of academic programs, and to increase equity of access and opportunity. In order to meet these challenges, the Ministry of National Education has set aggressive milestones for Indonesian higher education institutions that will increase accountability and quality. Universities are expected to improve financial management and administration. University departments will improve quality assurance and external stakeholder collaboration. Effective and efficient internal management is required if Indonesian higher education institutions are to move forward and extend their research network linkages. More robust institutions of higher education will contribute more to economic development and competitiveness in an increasingly knowledge-based society.

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## THE PROBLEM

Participation in primary and junior secondary education has increased significantly in recent years, but the historical legacy of low levels of education is evident in the fact that over one-half of Indonesia's labor force only completed primary school, and Indonesia's labor model predominantly relies on unskilled labor. The country is trying to change to a model that utilizes the skills of graduates from secondary and higher (tertiary) education.

Even as globalization requires more specialized skills, the continued importance of basic education cannot be overemphasized. A quality education teaches students to think critically, a capability that becomes more valuable as societies modernize. A higher quality and more relevant education that stresses critical thinking and reasoning will strengthen the commitment to democratic processes and promote a better understanding of how global issues affect Indonesia.

Quality education relies on teachers, but teachers in Indonesia have relatively lower levels of academic qualifications than those found in neighboring countries. The Ministry of National Education passed a law in 2005 to require all teachers to hold a minimum of an undergraduate degree and to earn teacher certification by 2015. Currently, more than 60 percent of the total 2.78 million teachers do not have these qualifications. New teacher certification requirements are significantly taxing the ability of the higher education sector to provide the undergraduate degrees needed. To meet the challenge, the GOI is designing new modalities that are flexible enough to allow teachers, including those in rural areas, to enroll in higher education and meet these requirements without abandoning their classrooms.

Although decentralization of education services occurred in 2001, many local governments remain challenged in fulfilling their responsibilities to manage education and drive improvement. Continuing to build their capacity in the provision of education services that raise quality is key. The capacity to prepare transparent education plans and budgets based on data and analysis is essential to ensure that school costs are covered; most district governments find it challenging to meet the Minimum Service Standards for education (mandatory by ministerial decree in 2004).

Within higher education, more effective and efficient internal management is required if Indonesian higher education institutions are to have more effective linkages with the industries and sectors they serve. The central authorities need—and have requested—assistance from USAID to develop realistic implementing guidelines for reforming university quality and accountability, so that the reform process can be accelerated and performance improved throughout the higher education system.

The higher education sector also plays a critical role in producing qualified teachers and administrators for basic education, thereby contributing to the achievement of Education for All and the Millennium Development Goals. The problems are two-fold. First, teacher training institutions suffer from weak university management, similar to other institutions of higher education. These challenges are manifested in weak relations between theory and practice, and university and schools. Second, a limited number of programs exist in the country for advanced degrees in education management and administration, although thousands of officials who oversee the provision of basic

education at the local level have clear incentives to pursue advanced degrees as part of their career advancement.

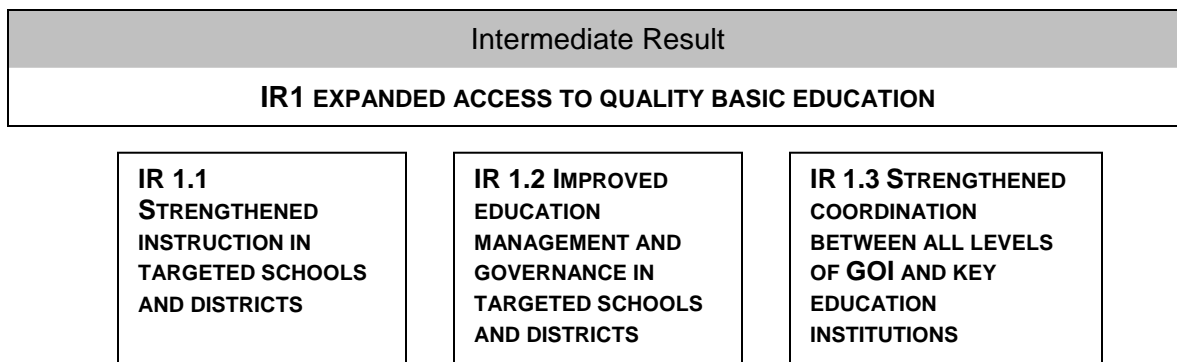
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**THE ASSISTANCE OBJECTIVE: IMPROVED CAPACITY OF INDONESIAN INSTITUTIONS TO PREPARE STUDENTS FOR LEARNING, WORK AND COMMUNITY**

In both basic and higher education, USAID will partner with Indonesian institutions and build their capacity to institutionalize and mainstream best practices so that more graduates are successful in a global context.

USAID assistance, working at the national and sub-national levels:

- will help more Indonesian children, including children with special needs; and youth to succeed and complete basic education;
- will enable more effective decentralized management and governance of schools; and
- will strengthen university level management and performance, including a special focus on applying reforms in higher education to teacher training colleges and universities.



USAID recognizes that education investments take time to pay off. USAID will support the institutionalization of best practices developed under the USAID basic education initiative (2005 – 2010) in order to consolidate gains made in improved teaching and learning and management and governance of education services.

To strengthened instruction in targeted schools, districts and provinces, USAID will partner with government offices and institutions to strengthen their capacity to train more teachers, principals and district officials in supporting quality education. These partners include: district and provincial education offices, teacher training colleges, universities, provincially-based in-service teacher training providers, and other mechanisms such as distance education. USAID will continue to support the improvement of educator quality at the pre-school, primary, and junior secondary level and help the GOI reach its target of enabling 1.7 million uncertified teachers to obtain undergraduate degrees and earn teacher certification. Student-centered and innovative instructional methodology and approaches will be promoted in the teacher training system and mainstreamed in target districts. In-service teacher training will become more systematized, appropriately planned and allocated for, and more widely available.

To improve education management and governance in targeted schools, districts and provinces, USAID assistance will focus on strengthening management and governance

of schools, and district capacity to engage provincial governments. Schools and districts will be helped to produce better education plans and budgets, using best practices, to achieve minimum service standards. Lessons from the GOI/USAID Decentralized Basic Education program will be used to assist decision makers in supporting improved in-service teacher training, to provide resources that improve classroom learning, and to provide leadership to involve parents and the community in the success of schools. These systemic changes will contribute to better quality basic education and hopefully encourage more young people to complete the full nine years of basic education as required by the Ministry of National Education.

To strengthen coordination and monitoring and evaluation capacity between all levels of GOI and key education institutions, USAID will coordinate closely with the country's Ministry of National Education, Ministry of Religious Affairs and other relevant ministries, as well as with other donors to facilitate district based reforms on a wider scale where local governments are receptive to reform and where the needs are apparent. Decentralization of the educational system has given districts more responsibility in overseeing school operations. Provincial governments coordinate activities that support education goals set by the national government. Strengthened coordination between all levels of the GOI and key education institutions will yield vital feedback to the GOI on implementation of national policies and local/district regulations. The several entities at the national level mandated to set policies and regulations will benefit from strengthened coordination and regular reports on how the policies and regulations are implemented at the district level. USAID will facilitate policy dialogue to identify and support effective reforms that raise the quality of education.

**Critical Assumptions: *Basic Education***

- Achievement of USAID's goal (economic growth with more graduates employed in higher value jobs), assumes education quality is a key stimulus to economic growth; without improvements in quality, there is not measurable return on education investments.
- Achievement of USAID's project objectives assumes participation and support from teachers and administrators for teacher training, teacher certification, innovation and reform:
  - That teachers and administrators will see teaching as continuous professional development and not a one-time certification process.
  - That Incentives (financial, training, resources) can influence teachers' behaviors.
  - That the current system of teacher certification ensures that all candidates regardless of pathway (pre-service, in-service, portfolio) meet the competency standards for what teachers should know and do.
  - That the Ministry of National Education with assistance will develop a teacher performance assessment system to regulate teacher education

**Critical Assumptions: *Basic Education (cont.)***

- curriculum, certification criteria, or professional development program objectives and outcomes.
  - That teachers themselves agree that training is needed in a range of innovative teaching methodologies, new technologies, and classroom observation techniques.
- While there are many stakeholders involved in improving teacher quality, that the teacher training institutions will have the most comprehensive engagement in both pre-service and in-service teacher education and professional development.
- Measurement of project success assumes the following:
  - That the national tests are valid instruments.
  - That the GOI will release scores disaggregated by the three grade levels, province, and gender as baseline.
  - That the GOI will release scores disaggregated by three grade levels, province, and gender on an annual basis.
- Improving learning readiness of children before they reach school age is a crucial component in increasing learning outcomes.
- Success of Sesame Street program assumes sufficiently large numbers of pre-school children have access to TV.
- Actions by other donors are assumed for project success:
  - GOI policies that shape teacher training will be modernized with World Bank or other donor assistance.
  - Reference to other donor assistance is essential to provide rationale for the focus of USAID funded assistance.
- That MONE actions at national and provincial levels, assumed for project success, are timely:
  - MONE officially endorses the DBE modules.
  - Legislation to clarify MONE provincial level functions passes as expected in early 2010.
  - Provincial level functions provide value added to school system coordination and effective school performance.
  - That inclusive education, a government imperative, will not be integrated into the coursework for pre-service teacher education.

Intermediate Result

**IR2 IMPROVED QUALITY AND RELEVANCE OF HIGHER EDUCATION**

**IR 2.1 STRENGTHENED DIKTI  
CAPACITY TO IMPLEMENT  
POLICY REFORMS**

**IR 2.2 STRENGTHENED  
MANAGEMENT OF TARGETED  
HIGHER EDUCATION  
INSTITUTIONS**

**IR 2.3 IMPROVED TEACHING,  
RESEARCH, AND SERVICE AT  
TARGETED UNIVERSITY  
DEPARTMENTS**

USAID assistance will increase the vitality and quality of the entire Indonesian higher education system. Strong working relationships within the Ministries of Education and key tertiary institutions will develop capability for reforms in Indonesian higher education. USAID will promote increased access to quality higher education among poor and underserved populations throughout the country. Given the management and quality concerns identified by Indonesians involved with higher education, USAID will collaborate with the Ministry of National Education to address four key reforms:

- university financial management,
- transparent university-wide administration,
- quality assurance of academic programs, and
- collaboration with business and government stakeholders.

Through a combination of assessments, technical assistance, and partnerships, USAID will help central authorities to develop realistic approaches and guidelines for management reforms throughout the higher education system. At specific schools, USAID assistance will improve teaching, research and service to enable Indonesian higher education institutions to become sources of leadership for a modern economy.

Focusing on skills needed for employment, USAID will support partnerships among U.S. and Indonesian-based universities, businesses, foundations, and practitioner associations. Cooperation with businesses will help Indonesian universities become major drivers of development, undertaking research tailored for the modern economy, promoting innovation in commerce and improving the quality of the curriculum based on the needs of practitioners. USAID support for reforms in teacher training institutions and university schools of education will complement USAID investments in basic education. For example, partnerships between U.S. and Indonesian schools of education will integrate basic education theory and practice at teacher training institutions.

Three sub-intermediate results reflect GOI priorities, and were developed via extensive consultation with the GOI and other donors. In addition to helping USAID achieve the assistance objective, “students better prepared to succeed in learning and work,” the program components will also contribute to the education aims of the U.S. Indonesia Partnership.

Within the Ministry, the Directorate General of Higher Education, MONE (DGHE) has lead responsibility for policy reforms. Although DGHE has a legal framework and policies concerning the management of tertiary institutions in Indonesia, the central ministry lacks adequate capacity to develop effective implementing guidelines and model approaches. In addition, institutional managers at the 2,900 public and private

institutions of higher education in Indonesia lack the resources and expertise needed to develop better approaches. Technical assistance will target units such as DGHE and a select set of approximately 20 strategically identified higher education institutions (see IR 2.2). Specific outcomes of USAID assistance will include the following:

- Increased capacity at DGHE for articulating overall strategy and developing policy and implementing procedures.
- Development and implementation of a) strategic plan with DGHE, and b) a roadmap to operationalizing “autonomy”.

Management of target higher education institutions strengthened as the basis for effective reforms. Undeveloped management at Indonesian universities constrains the development of educational programs that prepare graduates to compete in a global economy. The assurance of quality and relevance, including strong collaboration with external stakeholders, is vital to thriving as an autonomous institution. USAID assistance will strengthen the capacity of Indonesian higher education institutions to perform effectively in four core areas: financial management; general administration and management; quality assurance; and collaboration with external stakeholders.

- Increased management capacity at 20 target institutions
- Increased analytical knowledge drawn from a sample of HEIs on key issues including: access for the poor, incentives for external collaboration, lecturer qualifications, systems and incentives for quality assurance, and revenue generation.
- Testing of models and approaches for improved university management at 20 targeted institutions. (Includes a special focus increasing links between teacher training institutions or LPTK and government education offices as an example of external stakeholder collaboration.)

Improved Teaching, Research, and Service will demonstrate successful reform at Targeted University Departments. There is a long history of collaboration between U.S. and Indonesian tertiary institutions. The collaboration has existed at many levels, including support for scholarships, exchange programs and research. Previous experiences clearly demonstrate the many advantages of collaboration between institutions. Thousands of Indonesians have received graduate degrees in the United States and many now hold high positions in government and business. Many faculty members were educated in the United States or Europe and would be excellent interlocutors for future collaboration.

USAID will fund multi-year partnerships between U.S. and Indonesian institutions of higher education that will address issues that are critical to Indonesia’s social and economic development and will foster improved teaching methodologies, better research practices, and increased service of value to external stakeholders. Improving the quality of higher education at Indonesian institutes, colleges and universities will involve but not be limited to a range of endeavors: improving instructional delivery; increasing the relevance of curriculum and degree programs (and the actual use of such curriculum); enhancing research skills and methods, particularly applied research and research in science, technology and engineering; building quality extension and community engagement/service programs; and engaging external stakeholders in academic program development and delivery. Specific outcomes of USAID assistance will include the following:

- improved teaching methods in engineering, technology and education departments,,
- more relevant curricula in engineering, technology and education departments, based on needs of industry and community clients, and
- more original research with improved methods applied in the field.

Partnership solicitations will give priority to expanded opportunities for lower income students, partnerships with institutions in less-developed Indonesian provinces, substantial commitments from Indonesian partners, substantial involvement of surrounding industries and communities, and programs that are financially and institutionally sustainable. Solicitations can be developed to target particular sector priorities. For example, the Education Office anticipates supporting partnerships that improve human and institutional capacity at teacher training institutions, programs in education administration and management. Such investments will complement Basic Education programming as well.

#### Critical Assumptions: Higher Education

- If GOI lacks political will to implement systemic reform in the education system, USAID investment in strengthening the academic and administrative capacity of targeted higher education institutions is not likely to have national level impact.
- DIKTI officials are receptive to a new GOI higher education strategy and to USAID assistance.
- Since Indonesian HEIs are similar to U.S. HEIs, U.S. style faculty programs and course offerings can be effectively introduced into Indonesian schools.
- That overcoming underdeveloped management and operational systems at Indonesian HEIs, will enable the HEIs to adapt U.S. curriculum and learning materials effectively and to raise the quality of education.
- That Indonesian HEI faculties and administrations will accept and support academic programs that are practical, rather than theoretical.
- That student-centered, problem-oriented learning materials like case studies will be accepted and developed in academic programs.
- That employment waits after graduation ranging from 6 months to 2 years can be reduced by academic programs suited to job market needs.
- That effective institutional development programs at lower ranked HEIs will reduce the gap with top ranked schools.
- That merit-based admissions will give students from the middle to lower income groups more opportunity to enter top-ranked schools.
- That development of HEI research centers as well as support to umbrella organizations aimed at cooperation among HEIs will aid and stimulate HEI reform.

## **AO: IMPROVED MANAGEMENT OF NATURAL RESOURCES**

**IR 1 IMPROVED  
MANAGEMENT OF  
FOREST ECOSYSTEMS**

**IR 2 IMPROVED  
MANAGEMENT OF  
MARINE ECOSYSTEMS**

**IR 3 INCREASED  
ACCESS TO WATER  
AND SANITATION**

**IR 4 INCREASED  
ACCESS TO  
CLEAN ENERGY**

**CLIMATE CHANGE**

Natural resource depletion and global climate change are the defining human development issues of our generation. Natural resources are defined here as forest, marine, water and energy resources. By almost any measurement, the United States and Indonesia are two of the most significant countries in relation to the causes of and solutions to these issues. In this ecologically interdependent world, strengthening the partnership between the two countries is essential for our futures.

The GOI's commitment to managing its natural resources and responding to climate change continues to grow. Sustainable use of natural resources is a central component of its five-year National Development Plan and is buttressed by the National Climate Change Action Plan. Indonesia was one of the first signatories to the UN Convention on Biological Diversity and the UN Framework Convention on Climate Change. More recently, the GOI hosted the 2007 UN Climate Change Conference in Bali. Despite these commitments and the importance of natural resources to Indonesia's economy, terrestrial and marine ecosystems are being degraded at an alarming rate, and Indonesia's deforestation is creating significant greenhouse gases (GHGs). The use of its natural resources needs to be carried out in a far more sustainable manner, thereby reducing GHG emissions and assuring continued natural resource-based economic growth and employment.

Over the next five years, USAID will provide assistance to strengthen the management capacity of institutions and apply market-based approaches to support the sustainable management of Indonesia's natural resources. The U.S.-Indonesia environmental partnership will have many components. As its core purpose, the USAID program will help Indonesia achieve its national objectives in managing the sustainable use of declining natural resources and address climate change.

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## THE PROBLEM

Current declines in natural resources will result in severe local hardship in the every day lives of people, in the loss of wildlife, in political unrest where resources are scarce and in increased GHGs that affect worldwide climate. USAID's assistance will have a direct and measurable effect on promoting the sustainable management of Indonesia's natural resources to ameliorate these critical losses, to lower Indonesia's overall carbon footprint, to help communities adapt to climate change and to reduce risks associated with disasters. USAID's programs will improve the management of forest and marine ecosystems, and increase access to drinking water, sanitation and clean energy. Conservation of these resources through sound management and the availability of clean energy will benefit Indonesian communities economically, and help traditional societies maintain their culture. Not only will the availability of resources be protected and maintained, but also GHGs will be reduced and communities will begin adaptation measures for resilience against the impacts of climate change as well as disasters. USAID will provide technical support, make critical investments, and partner with Indonesian institutions to achieve results and to spread and sustain them in key areas across the country.

The sustainable management of natural resources will occur when governments, communities and the private sector work collectively to assure their wise, continuing conservation and use. To achieve this, institutions at all levels must have the proper skills, tools and policies. Among these are tools of governance: national and local laws and regulations that are harmonized; institutions responsive and accountable to constituents; transparency in decision-making and effective law enforcement. Tools are also necessary to address the forces of demand and supply of natural resource-based products in the market. USAID assistance will measurably improve natural resource management practices by building such capacity in these institutions at the central and local levels, forming partnerships between these levels and harmonizing their respective policies.

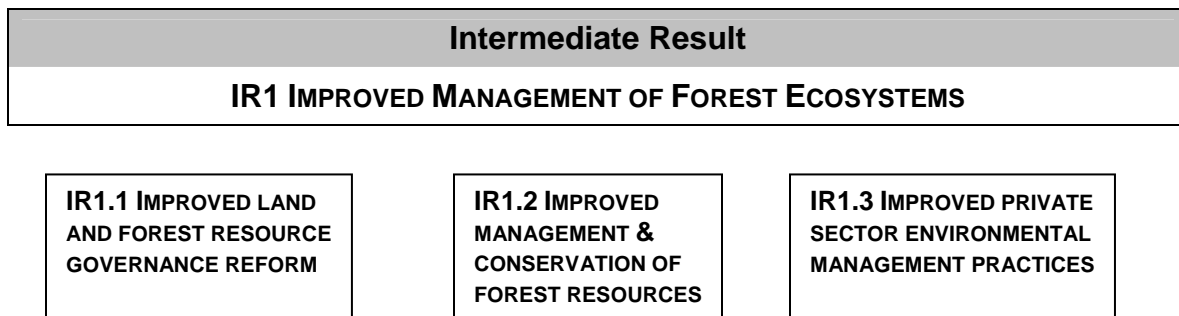
USAID will concentrate on key sectors that contribute most significantly to poverty eradication, rapid resource depletion, and climate change. In a country containing the world's third largest forest stocks, assistance will enable Indonesians to effectively manage their forest ecosystems. To support the sustainability of the world's greatest marine biodiversity, USAID activities will target institutional development and best management practices of marine resources in the field. Coastal communities will be supported to adapt to climate change and reduce the risks of disasters. With at least 60 million people still lacking access to improved drinking water and sanitation, assistance will allow Indonesians to measurably reduce this number. Water is predicted to become more scarce in the future due to climate change; therefore, investments now in efficient delivery and management of the water supply will provide benefits in adequately conserving future water supplies and help communities adapt to climate change. Finally, USAID will help Indonesia manage the process that

increases access to clean energy technologies. USAID will employ market-based approaches and make operational national GOI initiatives through geographically-concentrated field activities described below.

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**THE ASSISTANCE OBJECTIVE: IMPROVED MANAGEMENT OF NATURAL RESOURCES**

Addressing climate change is a major theme of this program. The forest and energy activities will reduce carbon emissions while marine and water activities will assist Indonesia to adapt to changes in climate. The program will operate at national and sub-national levels.



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Indonesia has the world’s third largest stock of forests. USAID assistance will result in improved management practices that lead to the sustainable use and conservation of these forests and their biodiversity. Improved management will mean first, deforestation rates are reduced due to sustainable and equitable forest management; second, Indonesian timber producers sell increasingly to the growing market for legal, sustainable and conflict-free wood.

USAID will work in forest areas with high biodiversity. A landscape approach involving public, private and communal stakeholders will be promoted. Governance will be a primary focus for sustainable management. Among the steps to be taken will be harmonizing conflictive policies between national and local governments, and negotiating forest management agreements that clarify ownership, use and control over forest resources.

Partnerships between the private sector, government and communities will be established. These partnerships will work towards the sustainable use and conservation of forest while exploring alternative income-generating opportunities, such as payments for environmental services, and Reducing Emissions from Deforestation and Degradation (REDD). Given USAID’s past successes on orangutan conservation and the fact that current orangutan habitats themselves are representative of forests with high conservation value and often forests on carbon-rich peat soils, their habitats will also take priority within this assistance strategy. Orangutans represent a triple win because a focus on them achieves at the same time species conservation, forest conservation and the reduction of GHGs particularly in peat forests.

Global demand for legal and sustainable wood products is growing. The United States and the European Union have regulations prohibiting the import of illegal wood products into their countries. As demand increases, Indonesia should gain market access and premiums by increasing its supply of legal products. USAID will work with Indonesia's producers and communities to increase the supply of legal and sustainable products that meet international market standards.

As a part of assistance to increase such supplies, USAID activities will improve the capacity of institutions to provide services for the verification of legal and sustainable wood products. At the national level, USAID will support the implementation of the Lacey Act and the implementation of the GOI's legality standard for timber to ensure compliance with the US and EU regulations against the import of illegal wood products. Assistance will build private sector, local government, and community capacity among Indonesians to better understand regulations and timber export verification systems.

**Critical Assumptions:** *Forest*

- Key officials in the Government of Indonesia, at all levels remain or become committed to improving coordination of roles and authorities related to biodiversity conservation in a decentralized system.
- International support for forest conservation initiatives remains strong with continued mandates to operate in Indonesia.
- Economic stability and conditions in Indonesia remain conducive to forest conservation and sustainable use with no significant deterioration in rural incomes, climatic trends, fire occurrence, or population patterns.
- Communities will adopt forest conservation measures if they benefit from doing so.
- Linkages may exist between the Tropical Forest Conservation Agreement field-based grant activities in Sumatra and potential USAID forestry program activities.

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| <b>Intermediate Result</b>                          |
| <b>IR2 IMPROVED MANAGEMENT OF MARINE ECOSYSTEMS</b> |

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| <b>IR2.1 STRENGTHENED<br/>INSTITUTIONAL CAPACITY<br/>OF MINISTRY OF MARINE<br/>AFFAIRS AND FISHERIES</b> | <b>IR2.2 IMPROVED<br/>SUSTAINABLE<br/>FISHERIES<br/>MANAGEMENT</b> | <b>IR2.3 IMPROVED<br/>MANAGEMENT OF<br/>MARINE PROTECTED<br/>AREAS</b> | <b>IR2.4 IMPROVED<br/>CAPACITY TO REDUCE<br/>ILLEGAL,<br/>UNREGULATED, AND<br/>UNREPORTED</b> |
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Indonesia is the heart of the Coral Triangle and the country with the greatest marine biodiversity in the world.

USAID assistance will support institutional strengthening of the Ministry of Marine Affairs and Fisheries (MMAF), resulting in effective management practices which reduce the rate of destruction of fisheries and high biodiversity coastal ecosystems. Improved management will mean first, the Ministry of Marine Affairs and Fisheries (MMAF) becomes a stronger management, policy and service institution; second, the GOI expands effective management of its marine protected areas, and third, a sustainable ecosystems approach to fisheries management is widely adopted in the country.

This assistance will be carried out in strong partnership with the MMAF, and every aspect will focus on strengthening its capacities. The collaboration in this sector will be an example of a strategic partnership between the two countries that will advance mutual interests. It will also be an integral part of the regional effort between six countries and the US under the Coral Triangle Initiative (CTI). USAID will support CTI by jointly implementing with MMAF Indonesia’s CTI National Plan of Action, investing in regional marine management initiatives and strengthening GOI’s capacities and role as leader of the CTI.

USAID will support MMAF to implement an ecosystems-based management approach in key fisheries to replace the current “yield maximization” approach. This will require the development of licensing practices based on sustainable catch regimes, wider adoption of non-destructive fishing practices, improved policies including the limitation of open access, development of MMAF extension services, alternative livelihoods to reduce pressure on fisheries, and effective enforcement to reduce illegal, under-reported and unregulated fishing. Capacity building assistance will strengthen partnerships among GOI entities responsible for environmental law enforcement.

The GOI has committed to establish 10 million hectares of marine protected areas by the year 2010, and 20 million by the year 2020. USAID is committed to partner with Indonesia to legally establish these areas and assist communities, local governments and MMAF in sustainably and effectively managing them.

This will be accomplished through policy support, institutional development and community-based fieldwork in key areas of high marine biodiversity.

USAID will work with the global private sector to promote demand for marine products that have been sustainably produced. The supply of legal and certified marine products will be supported in local industry to meet their nascent but growing demand in international markets. MMAF will be supported to ratify regional and international commitments regarding efforts to ensure sustainable fisheries management.

Coastal communities will be supported to adapt to the impacts of changing climate and reduce the risks of disasters. Activities will improve local government capacity to assess, plan, and budget for community resilience initiatives and engage families in diversified livelihoods. Assistance will develop partnerships with the MMAF, which is responsible for the welfare of coastal communities, as well as other ministries as appropriate in order to reduce the vulnerabilities of coastal communities.

**Critical Assumptions: *Marine***

- The MMAF at all levels is committed to taking the steps necessary to protect the marine environment.
- The GOI will sufficiently fund MMAF to carry out its mandates.
- Authorities enforce and prosecute violations of marine related laws.

**Intermediate Result**

**IR3 INCREASED ACCESS TO SAFE DRINKING WATER AND ADEQUATE SANITATION**

**IR3.1 MOBILIZED DEMAND FOR IMPROVED WATER AND SANITATION SERVICES**

**IR3.2 IMPROVED CAPACITY TO PROVIDE SUSTAINABLE SAFE WATER AND SANITATION SERVICES**

**IR3.3 STRENGTHENED GOVERNANCE AND FINANCIAL MECHANISMS TO SUPPORT EQUITABLE WATER &**

USAID assistance in building institutional capacity will result in increased access to safe drinking water and adequate sanitation. Increased access will result when demand for safe drinking water and adequate sanitation increases, and the capacity exists to meet the demand. (In the case of water, access is defined as the availability of piped connections to safe drinking water, provided by water utilities. In the case of sanitation, access is defined as the availability of household or community level sanitation facilities.)

USAID assistance will help institutions improve service delivery capacity in the water and sanitation sector in urban areas, especially to impoverished

communities. Technical assistance will be provided to water utilities and local government institutions to improve their performance and enable them to expand services to the urban poor. This assistance will also help water utilities adapt to the impacts of climate change on water resources, in order to ensure a safe, continuous, and efficient flow of water for consumers. Activities to improve service delivery capacity will be integrated with efforts to increase demand for better water and sanitation services. Pilots on innovative pro-poor models and approaches will be implemented as catalysts for utilities and local governments.

Increased demand for better water and sanitation services will put more pressure on service providers to improve their performance. Activities will include advocacy, raising awareness of water, sanitation and hygiene standards and services, and providing technical assistance to local governments implementing the national diarrhea prevention and sanitation campaigns. Pilots for small-scale systems and household level technologies/ methods will be implemented, as well as community mobilization activities and private sector service provision to address urban poor areas that may not be reached by formal services.

The overall enabling environment for water and sanitation must improve in two ways to reach all the urban poor: governance and access to financing, especially at the local level must be sustained and scaled up. USAID will support advocacy efforts to expand support among governments and legislative bodies at local, regional and national level. Financing at two levels will be supported: at the city or utility level, and at the household level.

**Critical Assumptions: *Water, Sanitation, and Hygiene***

- Government of Indonesia continues to be highly committed to the support of the achievement of the water and sanitation Millennium Development Goals and will address challenges such as raw water sources availability and long-term water and sanitation financing options.
- Highly committed local governments and water utilities will continue to improve water and sanitation services performance and coverage through institutional and operational development, budget allocation and water tariff setting.
- Other bilateral donor organizations will continue to support long-term financing options for building water and sanitation infrastructure.
- Financing options are available to water utilities.

## Intermediate Result

### IR4 INCREASED ACCESS TO CLEAN ENERGY

#### IR4.1 IMPROVED POLICY REFORM, COORDINATION AND IMPLEMENTATION

#### IR4.2 EXPANDED GENERATION OF POWER FROM RENEWABLE ENERGY AND USE OF ENERGY EFFICIENCY APPLICATIONS

Th  
e

Indonesian energy sector is projected to experience the single largest growth in GHGs of any sector over the next 20 years. By 2030, fossil fuel GHG emissions in Indonesia could be four times the present levels, on par with total current combined emissions from land use and forestry. Indonesia is richly endowed with energy resources derived both from fossils (oil, gas and coal) and renewable sources. However, renewable energy resources have been largely unexploited. A recent energy sector assessment identified several potential USAID interventions that could catalyze a lower carbon development trajectory in this sector while promoting sustainable development and economic growth. USAID's long history of support for the Indonesian energy sector coupled with the flexibility to support a variety of stakeholders and utilize the expertise of the U.S. private sector provide a comparative advantage relative to other donors currently engaged in clean energy development.

USAID support for clean energy development in Indonesia will yield significant results with a modest investment. USAID will carry out a selected array of activities that are economically viable and could quickly lead to private sector driven replication in order to increase the amount of clean energy generated. To achieve this objective, USAID will support local institutions engaging in public information campaigns and analysis for electricity tariff reforms to reduce the heavy claim on the national budget (25% in 2008).

USAID will work with small scale independent power producers to harness renewable, efficient energy. USAID will also seek alternate energy solutions, such as household biogas systems, that can help improve sanitation, reduce deforestation, reduce carbon emissions, and improve indoor air quality.

#### **Critical Assumptions:** *Energy:*

- There will be a political willingness to increase electricity tariff, led by the new Energy Minister.
- There are champions for reform within cooperating partner institutions in the energy sector to drive institutional change.
- The state-owned electric company will support energy efficiency improvements and distribution system upgrades.
- The public will accept energy and transport sector reforms, including increases in energy prices.

## Intermediate Result

### CROSS-CUTTING RESULTS: STRENGTHENED RESPONSE TO CLIMATE CHANGE

**IR1.4 INCREASED  
NET CARBON  
SEQUESTRATION**

**IR2.5 STRENGTHENED  
COMMUNITY RESILIENCE  
TO DISASTERS AND  
ABILITY TO ADAPT TO  
CLIMATE CHANGE**

**IR 3.4 IMPROVED  
CAPACITY TO  
ADAPT TO CLIMATE  
CHANGE**

**IR4.3 REDUCED GHG  
EMISSIONS IN ENERGY  
AND TRANSPORTATION  
SECTORS**

Each of the four intermediate results above will strengthen the ability of Indonesia to respond to climate change: first, the sustainable management of forest resources will maintain stores of carbon and therefore avoid emissions from deforestation, especially burning of forests on peat soils; second, the sustainable management of marine resources includes a strengthened public and private sector in coastal communities to adapt to climate change and associated disasters; third; improved capacity of water service providers includes the ability to adapt to potential affects of climate change on water sources; fourth, investment in clean energy is an absolute necessity to reduce carbon emissions.

To improve communities' ability to adapt to climate change, USAID will provide technical assistance and training to strengthen the Ministry of Marine Affairs and Fisheries capabilities to provide districts with the regulatory framework for climate adaptation practices along the coast, track vulnerabilities and climate change impacts, and contribute to appropriate land use and sea use planning. Special focus is needed on conserving critical habitats such as mangrove forests and coral reefs that act as buffers against storm damage. The effort to raise awareness of climate change and disasters must reach across ministries and others (such as the Ministries of Environment, Health, Education, and Home Affairs and the National Climate Change Committee and the National Disasters Board) will be engaged as appropriate

Beyond sustainable management of ecosystems addressed in the other components, this component will strive to reduce exposure along shorelines and infrastructure, engage families in diversified livelihoods, strengthen services to protect human health and safety during disasters, and improve water resource and land use in coastal areas. In addition to training, activities will include improving local government capacity to assess, plan, and budget for community resilience initiatives, supporting the development of reliable economic livelihoods, and strengthening social networks.

Climate and weather hazards induce about 85 percent of natural disasters throughout Asia. Analysis has revealed that many of the same interventions are required to reduce vulnerabilities for both disasters and climate change impacts. Since many populations in Indonesia face the impacts of both disasters as well as climate change, they should be addressed together.

**AO: DEMOCRATIC GOVERNANCE STRENGTHENED  
(MAKING DEMOCRATIC GOVERNANCE DELIVER)**

**IR1 STRENGTHENED  
RULE OF LAW**

**IR2 EFFECTIVE  
GOVERNANCE PROMOTED**

**CROSS-CUTTING PROGRAM: DEEPENED CAPACITY FOR SUSTAINABLE PEACE-BUILDING**

Over the last 10 years Indonesians have successfully institutionalized democratic politics, made multiple improvements to their constitution, reduced the political role of the military and initiated sweeping decentralization. USAID/Indonesia's 2008 Democracy and Governance Assessment for Indonesia concluded that the institutional structure of democracy in Indonesia is now largely in place<sup>i3</sup>. In many ways, Indonesia is a successful and stable new democracy, and is emerging as a regional leader in this arena. This is exemplified through initiatives such as the Bali Democracy Forum (BDF) to promote regional democracy and President Yudhoyono's urging of Burma, bilaterally and through ASEAN, to undertake democratic reforms. Through partnership with Indonesia, the United States can have an impact on democratic governance not only in the country, but also more broadly in the region.

Despite the remarkable political achievements since the end of Suharto's rule, deeply-rooted and powerful legacies from more than three decades of authoritarian rule remain. This is particularly true with regard to the character and functioning of the Indonesian state. The problematic legacies of Suharto's New Order include:

- The persistence of strong statist and centralist orientations;
- State institutions tend to be under-funded and the civil service is inadequately trained and poorly incentivized;
- The responsibilities and authorities of state institutions often are overlapping or unclear;
- Patron-client relations and hierarchy continue to play key roles in determining institutional relationships and behavior;
- Public policy decision making processes tend to be non-transparent and non-participatory;
- Institutionalized corruption remains widespread, while enforcement is haphazard.

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<sup>3</sup> See "Indonesia Democracy and Governance Assessment" prepared for USAID by Democracy International, June 2008

The potency and persistence of these legacies is visible in the slow reform of the justice sector, public finance and the civil service. Indeed, after 10 years of *reformasi*, it has proved easier to reform Indonesia's political system than it has been to reform the nature of the state.

Looking to the future, while Indonesia's *transition* to democratic politics has been very successful, there still are a number of problems and shortcomings that are significant impediments to the *consolidation* of democracy in Indonesia.<sup>4</sup> In addition to the legacies noted above, these include the still-weak rule of law, relatively low levels of transparency and accountability, often dysfunctional inter-governmental relations, and a political system heavily influenced by money politics.

Ten years after the beginning of *reformasi*, democratic governance has yet to produce tangible benefits for many Indonesians. Justice remains elusive, corruption is still widespread, and the delivery of basic government services still falls short of most people's needs. In some cases, the national and local governments have put in place sound frameworks to promote democratic governance, but lack sufficient enforcement and oversight mechanisms to effect the envisioned change. Governance reform, therefore, is perhaps the most significant unfinished element of Indonesia's reform agenda.

In new democracies steady resources and attention are needed to ensure that broad-based reform moves forward, increasing the likelihood of democratic consolidation and improved governance that serves the needs of its citizens. Thailand and the Philippines are two examples of how vulnerable democratic processes can become subject to erosion and backsliding. More needs to be done to increase the likelihood of democratic consolidation and to support governance that serves the needs of its citizens.

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## THE PROBLEM

First, the legal and normative foundations for democratic governance need further strengthening, specifically through a better functioning justice sector and stronger accountability mechanisms. The last decade has shown that reform of the justice sector requires (a) Indonesian leadership and ownership and (b) a multi-faceted approach that supports, capacitates and links reformers inside and outside key justice sector institutions, the judiciary, the Corruption Eradication Commission and the Attorney General's Office. The challenge ahead is to both sustain and deepen these reforms. Longer term, the prospects for justice sector reform will be affected by the quality of legal education.

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<sup>4</sup> Democratic "consolidation" as used here is defined as a situation characterized by: 1) *essentially* democratic institutions and political processes, 2) the widespread acceptance of these institutions and processes, and 3) the absence of actors or social forces that present a serious threat to democratic institutions and processes.

Second, the range of accountability mechanisms needs broadening and strengthening. Indonesia has a long history of powerful elites -- including politicians, businessmen, senior government officials and military officers -- rarely being held accountable for corruption and other abuses of power. Some of the excesses have been reigned in over the last decade with the strengthening of a variety of accountability mechanisms, including regular elections, the creation of independent agencies such as the Corruption Eradication Commission, and monitoring by “watch dog” NGOs and the media. Yet these gains have been driven by a relatively small number of agencies and actors and remain limited in scope, vulnerable to reversal and subject to “fatigue.”

Third, the quality and credibility of legislative and other policymaking processes require broader participation by key stakeholders, better information and more transparency. Because of the frequent shortcomings in both the process and the end product, many laws and policies are ignored, poorly enforced or contested. This undermines the credibility of both legislative processes and government’s commitment to uphold the rule of law. USAID will support more informed and participatory legislative and policymaking processes. USAID will help establish laws rooted firmly in fairness, transparency and respect for contracts.

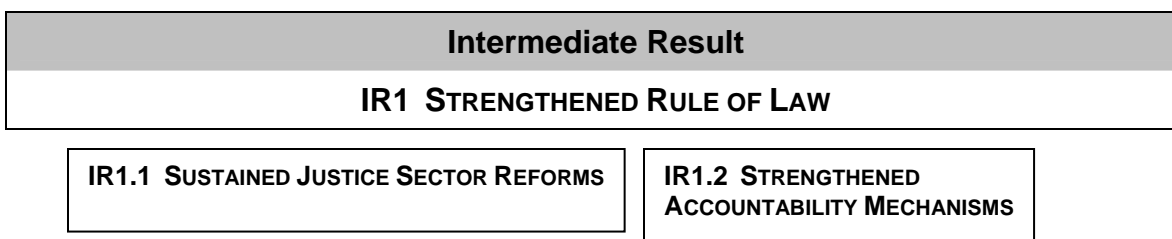
Fourth, the process of decentralization has shifted huge responsibilities to the districts, which require more capacity and accountability to govern effectively. District and city governments now are responsible for the majority of government functions and are responsible for about 40 percent of the entire State budget. The roles and responsibilities of different levels of government are not clearly defined and inter-governmental relations are weak. At the regional level, elite capture, weak capacity, and even weaker accountability are serious problems. USAID’s future support for local governance will focus on better service delivery outcomes, incentives for local government innovation and improving the capacity of local institutions (such as universities, government training centers, associations, etc.) to support improved local governance

Finally, Indonesia’s recent history has included notable episodes of violent conflict. While the current situation is much improved, new or recurring forms of violence could undermine democracy and development, particularly at the regional level. Therefore, USAID will continue to support capacity building for sustainable peace building.

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**THE ASSISTANCE OBJECTIVE: STRENGTHENED DEMOCRATIC GOVERNANCE: “MAKING DEMOCRATIC GOVERNANCE DELIVER”**

Indonesia has emerged as a regional leader in democratic governance and is globally recognized for its diversity and pluralism. The Government of Indonesia has taken concrete steps to address a number of the problems above, including tackling high-level corruption. USAID’s modest contributions in this area are intended to support these efforts and to strengthen institutions--both at national and local levels-- to ensure that democratic governance delivers on its promise of improving citizen’s lives.



USAID will support justice sector institutions and strengthen legal education if the justice sector leadership continues its commitment to institutional reform. The Supreme Court has demonstrated that commitment by achieving specific Millennium Challenge Threshold Program goals in human resources, financial management, and increased transparency reforms. The Attorney General’s Office has also adopted reforms in human resource management through the Threshold Program. The Supreme Court and the Attorney General’s Office will receive the largest share of assistance. Some assistance may also be provided to other special courts. USAID will support organizations, such as NGOs, think tanks and professional groups that assist and push for judicial reform as well as improve policy-oriented legal research. USAID will provide support to improve legal education and policy-oriented legal research.

USAID will bolster the capacity of state and non-state promoters of accountability. This includes, but is not limited to, those that seek to prevent, expose and punish corruption and other abuses of power. Assistance may be provided to key state accountability bodies such as the Corruption Eradication Commission (KPK), auditing bodies such as the BPK, BPKP and Bawasda, and the Inspectorate General offices at key ministries and MenPAN. Assistance may also be provided to the national legislature (DPR) and selected local legislatures (DPRDs) to help them better exercise their oversight functions. Additionally, USAID support will strengthen the capacity of the media, NGO and citizens “watchdog” groups, and religious and educational organizations which also have important roles to play in strengthening accountability at the national and regional levels.

**Intermediate Result**

**IR2 EFFECTIVE GOVERNANCE PROMOTED**

**IR2.1 IMPROVED LEGISLATIVE AND POLICYMAKING PROCESSES**

**IR2.2 IMPROVED REGIONAL GOVERNMENTS' ABILITY TO RESPOND TO CITIZEN NEEDS**

USAID assistance will improve the analysis supporting legislation and policymaking in high priority development areas, working both with the national and selected district legislatures as well as capacity building for stakeholder groups representing key constituencies. The focus will be on improving legislation and policies dealing with key governance issues, which might include bureaucratic reform, accountability and anti-corruption measures, justice sector reform and decentralization. Support will be provided to groups that represent citizen interests (including NGOs, political parties, and labor unions) in order to strengthen their ability to represent diverse constituencies and stakeholders (including women and marginalized groups). This component is designed to be flexible and capable of responding rapidly to emerging needs and opportunities.

USAID support will improve the capacity of selected local governments in 2 to 3 provinces to better deliver key public services to their citizens. USAID will assist local government (legislative councils and executive branch) to develop appropriate policies, allocate resources, execute budgets, coordinate across jurisdictions and achieve performance standards needed to meet water, sanitation or other basic service needs of citizens, especially the poor. Democracy and Governance will collaborate with other sectors to increase access to clean water for citizens in selected locations. If this approach is successful, USAID will expand and tackle other basic government services. We will support performance benchmarking, applied research, oversight boards and other activities that increase demand and incentives for better local government. To address the common challenge of replicating and scaling up successful models, we will support associations, regional universities, media, civil society organizations and government training institutions. In delivering local governance assistance, we will work with and strengthen the capacity of targeted government and non-governmental institutions to provide both technical services to local governments and policy development. USAID will support national government champions within the Ministry of Home Affairs, the Ministry of Finance, the central planning agency (BAPPENAS) and key technical ministries to enable local governments to allocate and use revenue and resources to meet the needs of citizens.

## Intermediate Result

### CROSS-CUTTING: STRENGTHENED CAPACITY FOR SUSTAINABLE PEACE-BUILDING

USAID will support capacity building for peace building and conflict prevention and implementation of activities that contribute to sustainable peace. There will be a continued emphasis on Aceh and possibly Papua. Crisis response and human rights will continue to be emphasized. Barring the eruption of a major new conflict, these programs represent the final generation of USAID conflict programming in Indonesia.

Peace building is a cross cutting theme that will complement the entire program. The goal is to stabilize communities where conflict has occurred in the past or could in the future. The program addresses causes and effects of the conflict, such as lack of employment opportunities or lack of sufficient health facilities. In both Aceh and Sulawesi, for example, the program is working on psychosocial issues and environmental concerns.

The Rule of Law program, DG IR1, seeks to bolster the capacity of state and non state partners to prevent, expose and punish corruption and other abuses of power. In the areas of Indonesia in which peace building activities will be implemented (Aceh, Sulawesi and possibly Maluku and Papua) corruption is an often cited factor of dissatisfaction by the public. As an example, the program in Aceh will help the new Parliament to be more accountable in decision making to all their constituents and not, for example, favoring only ex-independence (GAM) combatant interests. To work with the Parliament, small grants can go to watchdog groups, NGOs, or other institutions, or more directly training sessions can be provided to members of parliament.

#### **Critical Assumptions:** *Democracy and Governance*

- The economic downturn won't cause a severe economic crisis in Indonesia that in turn triggers significant social unrest.
- The new administration and key cabinet members will be generally reform-minded in nature and receptive to foreign assistance.
- There isn't a major roll back of decentralization.
- GOI doesn't restrict USAID's ability to provide support to non-governmental organizations and political parties.

## AO: IMPROVED INDONESIAN HEALTH STATUS

**IR1 LOWERED MATERNAL,  
NEONATAL AND CHILD  
MORTALITY RATES**

**IR2 LOWERED INFECTIOUS  
DISEASE INCIDENCE AND  
MORTALITY**

Today, Indonesia is an emerging middle income country. It retains, however, a high burden of disease. With lagging performance on many health indicators, Indonesia is unlikely to achieve Millennium Development (MD) Health Goals by 2015.<sup>5</sup> Infant mortality decreased only slightly from 44 to 39 per 1000, significantly above the MD Goal: 23 by 2015. Likewise, neonatal mortality reduced from 23 to 19. The maternal mortality ratio declined approximately 5% per year in the past five years, from 307 to 228<sup>6</sup> per 100,000 births; however it masks wide regional disparities. Proven methods to safeguard infants, exclusive breastfeeding and rehydration for managing acute diarrhea have actually deteriorated. Meanwhile, countries with similar rates of child mortality continue to demonstrate progress. Reinvigoration of Indonesian programs is needed to address these problems effectively.

Maternal mortality remains higher than it should given Indonesia's GDP and a broad network of birthing providers and facilities in the public and private sectors. Inadequate access to quality obstetrical and neonatal care services persists.

The National TB Control Program (NTP) successfully reached global targets for case detection (>70%) and treatment success (>85%) in 2006, after rapid expansion since 2000. However, many challenges remain to ensure these achievements will contribute to the TB-related MDG of halving prevalence and death by 2015. Indonesia possesses one of the fastest growing HIV/AIDS epidemics in South East Asia; despite a low national prevalence, prevalence in concentrated high risk groups, and in the Papua Provinces, is extremely high. In addition, malaria kills an estimated 30,000 Indonesians annually, and is a major contributor to maternal and child morbidity and mortality in eastern Indonesia.

Indonesia has the world's highest number of confirmed human AI infections. By December 2008, the World Health Organization (WHO) had reported 139

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<sup>5</sup>MDG4 - child health: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate); MDG5 - improved maternal health: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio); MDG 6: Combat HIV/AIDS, Malaria and other diseases (Have halted by 2015 and begun to reverse the spread of HIV/AIDS and other major diseases such as TB and malaria)

<sup>6</sup> Based on 2007 Indonesia Demographic and Health Survey (unpublished).

confirmed human infections in Indonesia, accounting for 36% of all cases worldwide. The case fatality rate in Indonesia is 81%. Avian influenza is endemic in poultry in most provinces of Java and Sumatra. Poultry outbreaks occur sporadically in all but two of the remaining provinces. In addition to the pandemic risks posed by the AI virus, other newly emerging infectious diseases (EIDs) pose an ever present threat to human health. Over 60% of EIDs are of animal origin and over 70% of those originate in wildlife.<sup>7</sup>

USAID previously supported reproductive health programs, including family planning, for over two decades in Indonesia which resulted in increased contraceptive prevalence and reduced fertility rates. These successes have eroded in the wake of the late 1990s Asian economic crisis, and a stagnant GOI expenditure on health. . Despite having been a model, Indonesia's current overall use of contraceptives is not growing, and the available mix of contraceptives is narrowing, particularly in poor regions. Unwanted pregnancies remain high (estimated 2 million annually) among both married and unmarried women.

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## THE PROBLEM

The public health system is under-funded, inefficient and dysfunctional. Public expenditures on health constitute only 1% of GDP – among the lowest in the Asia region. The average household spends three times more on tobacco than on health.

A generation of dramatic reductions in child mortality has stalled in the aftermath of the Asian economic crisis of the late 1990s and amidst the challenges facing a decentralizing new democracy. Indonesia's maternal mortality ratio is higher than most East Asian neighbors.

The HIV/AIDS epidemic in Indonesia is the fastest growing in Asia. The problem is two-pronged: 1) a concentrated epidemic among most-at-risk-populations in the major urban areas of Java and Sumatra, and 2) a generalized epidemic unfolding in Tanah Papua.

Indonesia has the third highest burden of tuberculosis (TB) in the world -- only India and China surpass it-- and the fifth highest burden for multi drug resistant (MDR) TB.

The risk of an influenza pandemic sparked by the influenza A H5N1 virus (AI) remains high; Indonesia is one of a handful of countries at greatest risk to be the source of a pandemic influenza strain.

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<sup>7</sup> Jones, K et al: Global trends in emerging infectious diseases: Nature 451, 990-4.

Malaria is widespread outside of Java, with likely more than 10 million infections and 30,000 deaths annually. Malaria diagnosis and treatment of malaria is inadequate and prevention efforts are minimal.

Indonesia is uniquely vulnerable to the threat of ongoing highly pathogenic avian influenza (AI) outbreaks and the emergence of a pandemic influenza strain due to high human and poultry densities and traditional close human contact with poultry. Indonesia has the world's highest number of confirmed human AI infections.

A planned comprehensive assessment of the health private sector as part of a larger National Health Sector review will identify private institutions/associations that should be incorporated into the longer term strategy for MCH and infectious diseases.

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#### **THE ASSISTANCE OBJECTIVE: IMPROVED INDONESIAN HEALTH STATUS AND REDUCED DISEASE THREATS**

The health of Indonesians will improve through:

- reliance on evidence based interventions wherever possible to prevent or treat illness;
- strengthening the capacity of the health system to deliver quality services;
- civil society engagement to better understand, value, and promote good health practices.

Life-of-strategy investments will reduce child and maternal mortality rates in populations most at risk, and reduce the risks of priority infectious diseases. Over many years, USAID has worked effectively with the GOI agencies that have carried out successful health programs. This strategy continues those productive working relationships; however, the resources available from the GOI budget are insufficient to address the problems and an additional component of this strategy focuses on leveraging opportunities such as the Global Fund. The current financial crisis is likely to reduce family resources for health care. The program will operate both nationally and sub-nationally.

Intermediate Result

**IR1 LOWERED MATERNAL, NEONATAL AND CHILD MORTALITY RATES**

**IR1.1 IMPROVED QUALITY OF  
OBSTETRIC AND NEWBORN CARE**

**IR1.2 INCREASED COMMUNITY  
DEMAND FOR HIGH IMPACT  
MNCH SERVICES**

USAID is a technical leader in assessing the impact of essential neonatal care protocols and has much to offer and learn from Indonesia. In line with the Health Development Plan towards Healthy Indonesia, USAID will contribute to reduced maternal and neonatal mortality rates, while strengthening referral systems, and potentially contributing to quality reproductive health services by: 1) focusing on improving the quality of services delivered by skilled-birth attendants, 2) providing technical assistance in logistics and cold-chain management to support the national acceleration immunization program, 3) strengthening institutional capacity of the midwives association, and 4) advancing advocacy for health to promote civil society participation and improved local governance. In partnership with other donors, the GOI, civil society, and institutions of excellence, USAID will promote policy reform to strengthen health systems.

Targeting programs for women of reproductive age and children at-risk is essential, especially for reducing neonatal deaths, which account for most under-five mortality. USAID plans to engage more closely in support of the National Midwives Association and National Clinical Training Association. The objective will be to reduce maternal mortality by strengthening access and demand for reproductive health services, especially among impoverished demographic groups. Midwives are respected health experts in every community, engaged in both the public and private sectors and key to reversing these trends.

## Intermediate Result

### **IR2 LOWERED INFECTIOUS DISEASE INCIDENCE AND MORTALITY**

**IR2.1 INCREASED ACCESS TO HIV PREVENTION, CARE AND TREATMENT AMONG MOST AT RISK POPULATIONS (MARPS)**

**IR2.2 INCREASED PERCENTAGE OF TB CASES DIAGNOSED, TREATED AND NOTIFIED ACCORDING TO NATIONAL GUIDELINES**

Under the President's Emergency Plan for AIDs Relief (PEPFAR), USAID works within Indonesia's National HIV and AIDS Strategic Action Plan and partners with the National AIDS Commission. The HIV/AIDS program will provide technical assistance in technical areas and organizational performance to increase the capacity of the National AIDS Commission, the MOH and civil society partners to implement prevention programs with high risk groups, as well as increase the MOH's capacity in strategic information and surveillance. As a key partner in the fight against HIV/AIDS, USAID will continue to support the National HIV/AIDS Strategy, and to focus technical assistance on increasing best practice interventions. Civil society institutions working in priority areas ("hotspots") of the concentrated epidemic will reach Most At Risk Populations (MARP) with prevention, care, and treatment outreach.

The TB program will provide technical assistance to the National TB Program and partners to increase case detection and treatment. The TB strategy is based on Directly Observed Treatment Short Course (DOTS). USAID partners closely with the National TB Control Program in support of DOTs implementation. The USAID program strengthens TB case management by clinicians in public/private hospitals and health centers, promotes International Standards for Tuberculosis Care for private providers/medical associations and the national drug management system, and is increasing its emphasis on reducing the spread of drug resistant tuberculosis (MDR-TB and XDR-TB).

The malaria program will provide technical assistance to the National Malaria Program and partners to prevent and treat malaria in pregnancy in Eastern Indonesia, where malaria is endemic. MCH funds provide much-needed technical assistance focused on combating malaria in pregnancy to the National Malaria Program. In all three disease areas, limited USAID funding leverages and strengthens technical programming for the significant Global Fund for AIDS, Tuberculosis and Malaria (GFATM) resources available in Indonesia; USAID's contribution fills a critical gap for technical assistance. USAID's malaria support leverages significant funding from the Gates Foundation. USAID leverages local and international resources to support delivery of malaria control services via integration with maternal health and immunizations services.

USAID is the largest donor for avian and pandemic influenza prevention and control in Indonesia. USAID will continue to support priority control objectives highlighted in Indonesia's national strategy. The Ministry of Agriculture's progressive control strategy

for poultry includes: integrated animal and human surveillance, AI control in poultry, communications and community-based interventions to reduce risk; and provision of key commodities. New projects will focus on private sector partnerships to reduce AI outbreaks in commercially raised poultry. The pandemic influenza program will: 1) increase the capacity of the GOI, private sector, and civil society organizations to plan and collaborate for avian and pandemic influenza control and prevention, and 2) focus on preventing human exposure to AI through limiting poultry outbreaks, reducing risky behaviors, and improving care seeking practices.

**Critical Assumptions:** *Health*

- Appointment of new Health Minister, Dr. Endang, in October 2009 will enable increased collaboration with MOH.
- Level of USAID funding will continue to support sufficient program interventions.
- Funds for Global Fund activities that support the national level programs in HIV/AIDS, TB and Malaria will continue unimpeded in Indonesia.
- Enabled civil society and private sector participation will build stronger, more equitable and effective public health outcomes.
- Increased local institutional capacity to improve practices, services and leadership will increase public health outcomes

## AO: INCREASED EMPLOYMENT

**IR1 IMPROVED ECONOMIC  
POLICIES TO ENCOURAGE  
EMPLOYMENT, CAPITAL FOR  
INVESTMENT & POVERTY  
REDUCTION**

**IR2 INCREASED PRODUCTION  
OF SELECTED HIGH VALUE  
CROPS**

Over the past five years, Indonesia has experienced average annual growth of 5.5%, achieving 6.3% in 2007, a 10-year high. However, the emerging global financial crisis threatens future economic prospects as growth is expected to decrease from 6% in 2008, as low as 2.5% in 2009<sup>8</sup>. Export growth is slowing; Foreign Direct Investment inflows are declining, and layoffs are on the rise. The GOI is taking the right macroeconomic steps overall to weather the storm, but remains unable to put into place the key microeconomic and policy frameworks to promote equitable growth, a sound investment climate, and an economy diversified out of a commodities focus.

There are opportunities for the agricultural sector to play a more dynamic role in the economy. Value chain analysis has shown that the horticulture, cocoa, and coffee sub-sectors, accounting for 25% of total agricultural production, have tremendous growth potential in terms of jobs and income opportunities. To achieve the potential of the crops cited, a focused program of technical support is required. The successful interventions of the current AMARTA program have demonstrated that the application of technical advice combined with improved plant materials and inputs and modern harvest and post-harvest handling practices can improve the competitiveness of the sectors mentioned as well as the income of the small producers.

The failure to maintain the agricultural research system is part of the problem, but the failure to invest in rural economic infrastructure such as roads, ports and cold store facilities limits agricultural growth and overall competitiveness. Half of all vegetables produced are degraded or destroyed before reaching the consumer's table, often due to shipping delays and poor handling. The lack of adequate economic infrastructure is a major impediment to growth and competitiveness, and was cited as the number one constraint to doing business in a recent survey of over 12,000 firms. The Global Competitiveness Report ranks Indonesia 96 out of 134 countries in terms of quality of overall infrastructure. Moreover, local government has limited resources to invest in infrastructure and since the 1997-98 financial crisis, both public and private sector infrastructure investment has decreased substantially. Infrastructure and energy policies are two examples

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<sup>8</sup> According to the IMF, estimated in May, 2009.

where policy reform is needed. Other areas are exchange rate and macroeconomic policies that impact on competitiveness.

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## THE PROBLEM

Employment and its twin, poverty reduction, are a central concern. As of the end of 2008, the official poverty rate decreased to 15.4% from 16.6% the previous year. However, the recovery from the 1997 Asian financial crisis in aggregate growth has not produced proportional gains in well-paid employment. Twenty million young Indonesians entered the labor force in the last decade but Indonesia's economy could provide only 3 million jobs in the formal sector. The official unemployment rate has averaged between nine and ten percent over the past five years. More than 60% of the labor force is employed in the informal sector while job creation in the higher-paying manufacturing and modern service sectors has been minimal. Most poor families – 60% – live in rural communities, scraping by on income earned from small enterprises or the informal sector. These are the groups that will suffer most in a period of economic decline.

Agriculture accounts for over 41% of national employment, but contributes less than 14% of GDP. The agricultural sector has served as a brake on the rest of the economy, with a growth rate only one-half that of the national economy. As an example of the failures in the sector, 80% of fruits and 20% of vegetables sold in Indonesian supermarkets today are imported—far larger shares for imports compared to similar developing countries.

Indonesia lacks long-term savings – pension funds, insurance funds, and retirement savings – that can provide capital for long-term investments in economic infrastructure such as roads and ports. Indonesia's financial system is considerably less advanced than those of its regional peers. A small banking sector is dominant; other sources of capital are underdeveloped, especially for long-term investment. Moreover, at present, less than 10% of the Indonesian population is covered by any form of insurance; pension assets represent only 4.7% of GDP while they represent 8.4% in Thailand, 57% in Malaysia, and 75% in Australia; and assets of all institutional investors amount to only 7% of GDP in Indonesia compared to 20% in Thailand and over 100% in Malaysia and Singapore. With the growth of long-term assets for investment, the public sector can issue long-term bonds to raise capital needed for economic infrastructure investments.

The current worldwide economic crisis poses a challenge to the Indonesian economy. A failure to maintain or improve competitiveness in key agricultural and industrial sectors will have serious consequences not only at the macroeconomic level but at the household level. At present almost 50% of Indonesians live on less than \$2 a day. Of these, nearly 1/3 lives on less than \$1.50 per day. By supporting programs that maintain or improve the competitiveness for key agricultural products, rural incomes can be increased.

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## THE ASSISTANCE OBJECTIVE: INCREASED EMPLOYMENT

The unfolding financial crisis highlights the importance of raising employment and incomes. Because most low income households are in rural areas, as explained above, USAID is focusing the Economic Growth program where U.S. contributions can be most effective in increasing employment and incomes: on production and marketing of high value crops, including related agribusiness. The GOI and donors agree that improved rural infrastructure is a high priority and essential to achieve income gains from crop production. The USAID contribution is modest; however, the involvement of agricultural universities providing teaching, research and extension will achieve sustainable benefits.

Economic growth that benefits the poor will be the main route to poverty reduction. The poor are producers, entrepreneurs and workers who must find ways to increase productivity and to increase sales. Here is what is needed to spur growth:

- improved productivity of selected high-value crops to generate employment and incomes;
- maintaining an appropriate policy environment, and
- strengthened non-bank finance for investments in infrastructure.

Lessons learned from the current USAID strategy provide the basis for programs that will expand production and sales of high-value crops. The strengthening of the agricultural research system will provide a basis for US-Indonesian cooperation in important areas and long-term agricultural sector growth. Complementary action in supporting the creation of essential rural institutions will further ensure that growth opportunities in the sector are realized as will actions to improve the policy environment. Furthermore, the development of the non-bank financial sector is necessary to provide long-term capital for financing development projects, including investments in critical infrastructure.

USAID will address these needs directly. It will promote public sector policies, investments, services and private sector practices that raise productivity and increase competition.

Intermediate Result

**IR1 IMPROVED ECONOMIC POLICIES TO ENCOURAGE EMPLOYMENT, CAPITAL FOR INVESTMENT & POVERTY REDUCTION**

**IR1.1 IMPROVED POLICIES, REGULATIONS AND SUPERVISION FOR CAPITAL MARKETS, INSURANCE AND PENSION FUNDS**

**IR1.2: IMPROVED LABOR POLICIES, LAWS AND REGULATIONS**

**IR1.3: IMPROVED TRADE & INVESTMENT LAWS, POLICIES, REGULATIONS, AND PROCEDURES FOR, DOING BUSINESS**

More employment-encouraging policies are required to provide incentives for investors, both domestic and foreign, to invest in activities that utilize the vast underutilized labor resources of Indonesia. USAID will focus its policy assistance by starting with an assessment to determine the priority reforms needed to achieve the objective, and which of them other donors and the Indonesian government are already addressing. USAID will work with the Coordinating Ministry for the Economy, BAPPENAS and related Ministries. The in-depth assessment of the effects of current policies on employment generation will be conducted in collaboration with Coordinating Minister for the Economy and BAPPENAS, especially in, but not limited to, the areas listed below, with follow-up technical advice:

- Macroeconomic and sector policies conducive to economic growth and stability.
- Microeconomic policies that promote employment generation in all economic sectors.
- An improved trade and investment climate for both domestic and foreign investors.
- A pro-growth and more flexible labor policy.
- Improved policies for long-term finance, especially for infrastructure and savings instruments.
- Less restrictive regulations regarding market access, especially for local agricultural products.
- Improved capacity for economic policy analysis and formulation.
- Effective private sector participation in the policy-making process.

**Intermediate Result**

**IR2: INCREASED PRODUCTION OF SELECTED HIGH-VALUE CROPS**

**IR2.1 ESTABLISHED EFFECTIVE PUBLIC-PRIVATE PARTNERSHIPS FOR DELIVERING SERVICES TO TARGETED FARMER**

**IR2.2: IMPROVED. COMPETITIVENESS OF SELECTED COMMODITIES**

**IR2.3: EXPANDED PRODUCTIVE AGRICULTURE RESEARCH AND EXTENSION LINKAGES**

In order to spur the growth of horticulture, coffee, and cocoa, USAID will focus its assistance on the following results:

- Raising agricultural productivity through strengthened capacity of leading Indonesian agricultural research universities through linkages with U.S. land grant universities.
- Improving the GOI's extension system to deliver production- and income-enhancing services to farmers.
- Reducing barriers to market access by increasing the capacity of farmer associations and agribusinesses to advocate for less restrictive regulations.
- Support macroeconomic and sector policies that provide the necessary environment for economic growth.

In general the types of technological changes being introduced in relationship to cocoa, coffee and horticulture are labor using, rather than saving. For example, more intensive maintenance of cocoa plants, more intensive use of land for vegetables, and further processing of coffee beans. However, the key employment impact from the increase of production of these crops is expected to come, not from the on farm use of labor, but through the whole impact on the value chains, use of income earned, and multiplier effects in the local communities. More production is taken to mean more inputs, more processing, more marketing, more income earned, more investment and consumption expenditures, more generation of income through multiple uses of the money, and, hence, more employment overall.

**Critical Assumptions:** *Economic Growth*

1. Indonesia maintains economic, political and security stability.
2. The Indonesian new administration follows through on reform commitments, promises and direction.
3. Critical Indonesian national and local government partners are responsive and strongly participate, e.g. extension services, research institutions, and key policy teams, such as on labor, exports, and investment.
4. Necessary additions and improvements in infrastructure both for economic growth overall and for the selected agriculture production areas, especially energy, irrigation, roads and ports, are provided in a timely fashion.
5. Relevant Government budget items and programs are adequate and implemented well, e.g. cocoa development, coffee replanting, and reduction in subsidies, e.g. energy.
6. Natural disasters and bad weather do not seriously damage the country in general and the selected agriculture areas in particular.
7. Market demand remains strong for the selected commodities.
8. Compensating improvements in safety net systems are put into place to allow key reforms to proceed.