



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

March 21, 1995

MEMORANDUM

TO : See Distribution

FROM : ANE/EA, Kay Freeman *KAK*

SUBJECT : ANE Review of the Indonesia Country Program Strategic Plan

You are invited to participate in the Country Program Strategic Review process for Indonesia. Please review the attached Country Program Strategic Plan (CPS) for Indonesia, and forward your written issues me by e-mail by COB March 29, 1995. Issues should be concise, and followed by options for resolution. You will be asked to present and discuss your issue(s) in preliminary issues meetings during the week of April 3, 1995.

The schedule for pre-Program Week and Program Week meetings to review the Indonesia CPS is as follows.

**PRE-PROGRAM WEEK MEETINGS**

<b>Preliminary Meetings</b>	<b>Date(s)</b>	<b>Time/Place</b>
Discussion to determine issues for technical meetings and Program Week Issues.	Tuesday, April 4, 1995	10:00a-12:00p Room 1406
Side-meetings: strategic, technical, resource, and MFR issues as needed	Wednesday, April 5, 1995	1:00-4:30p Room 1406
Tentatively,	SO 1: Economic Growth	1:30-2:15
	SO 2: Health and Population	2:15-3:00
	SO 3: Environment	3:00-3:45
	SO 4: Democracy	3:45-4:30

Please note that pre-Program Week meetings are for reaching consensus on which issues will be forwarded for discussion and decision by senior managers during Program Week. Agreements reached during pre-Program Week side-meetings on the resolution of issues will be reported to senior managers as well.

**PROGRAM WEEK CORE MEETINGS**

Strategy Review      Monday, April 10, 1995      Room 3524 NS/1:30-3:30

Action Plan Review Wednesday, April 12, 1995 Room 3524 NS/1:30-3:30  
 Wrap-up Meeting Thursday, April 13, 1995 Room 6212 NS/1:30-3:30

The first two meetings during Program Week are open to heads of reviewing offices or their designees. However, the Program Week Wrap-Up/Final Decisions meeting on Thursday, April 13, 1995, is for senior ANE Bureau staff only (or their designees), unless there are unfinished agenda items from previously held sessions that warrant broader participation.

The ANE Bureau will use the following procedures for reviewing issues.

-- Preliminary meetings will be held prior to Program Week so that review participants may: determine key issues (as opposed to concerns) coming out of the review; resolve or recommend options for resolving issues/concerns; and determine which issues go on the agenda for Program Week review meetings. The Program Week Discussion Agenda will be distributed on April 7, 1995.

-- Only issues submitted in writing to the Program Week Coordinator, per the established schedule, should be tabled for discussion at the core meetings. Issues submitted should represent internal agreement within reviewing offices about the key issue(s) which that office will raise. If an office fails to submit written issues to the Program Week Coordinator in time for incorporation in the issues paper, that office may submit the written issue(s) to the meeting chair, explaining why it was not submitted earlier and why it should be included in review discussions. The chair will determine whether the issue is tabled.

-- Individuals and offices reviewing the CPS (and Action Plan) are asked not to communicate their issues/concerns directly to Missions without first submitting them to the Program Week Coordinator and getting geographic desk authorization to do so.

-- At the core meetings, spokespersons from reviewing offices will present the issues and, if possible, the recommended resolution emerging from preliminary meetings. Offices must identify their spokesperson so that the Program Week Coordinator knows who to contact to: advise of meeting times, places, dates; and to finalize and clear the language of issues. The spokesperson must be able to speak for the office represented, and make decisions regarding proposed resolutions, so that issues can be resolved at the meeting. Finally, it is hoped that the same spokesperson represents an office at all the relevant sessions during the Program Week and pre-Program Week meetings.

Please use the criteria outlined in Attachment A as the framework for your review. To help focus the pre-Program and Program Week reviews only on major issues and concerns, we encourage you to

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structure your issues papers around standard questions (in Attachment B).

Attachments:

- A -- CPS Assessment Checklist
- B -- Standard Review Questions
- C -- Indonesia Country Program Strategy Document

Distribution:

(List on following page)

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## CPS Document Distribution List: Indonesia

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G/WID	Rebecca Jennings	1	900	816-0238
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DAA/M/ART	David McCloud	1	984	663-3402
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BHR/FFP/DP	James Lehman	1	315	351-0168
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## CPS ASSESSMENT CHECKLIST

**Note:** These illustrative criteria are drawn from Agency and Bureau guidance on setting and monitoring program strategies.

### STRATEGIC OVERVIEW

Criteria	Comments
<p>1. Country program strategy conforms to Agency and Bureau policies, strategic priorities, and strategy implementation guidelines.</p> <p>2. Analyses underlying country program strategy proposals for addressing key problem areas are sound, particularly as concerns probable results of activities relative to the Agency's poverty reduction, access/participation and gender directives.</p> <p>3. Risks implicit in proposed strategy are assessed as they bear on the feasibility of proposed strategy.</p> <p>4. CPS objectives match client country's expressed needs and absorptive capacity in priority areas, and political commitment of host government is demonstrated.</p> <p>5. Strategic priorities selected reflect: participation of development partners in determining areas to be addressed and delivery mechanisms; USAID's comparative advantage and experience; complementarity with activities of other development actors; a good probability that program approaches will effect anticipated outcomes.</p>	

**COUNTRY PROGRAM OBJECTIVE TREE**

Criteria	Comments
<p><b><u>Strategic Objectives</u></b></p> <p>1. SOs together with targets of opportunity set direction for selection and design of all assistance activities to be carried out in strategy period.</p> <p>2. SOs are concise statements of RESULT that is a significant contribution to host country development objectives.</p> <p>3. SOs are measurable.</p> <p>4. SOs are pegged to highest level of Mission's manageable interest:</p> <p>--USAID resources essential to fulfillment of this objective in strategy timeframe.</p> <p>--Important elements outside Mission control captured as critical assumptions.</p> <p>--USAID can plausibly associate its interventions with results achievable in 5-8 years.</p> <p>--Number and scope of assumptions linking POs to related SOs are reasonable and SO is not constrained by assumptions too great in number and/or too risky.</p> <p>5. Special interests/targets of opportunity are feasible.</p> <p>6. SOs pursue clear strategy that is consistent with Agency and Bureau priorities.</p> <p>7. SOs are unidimensional -- i.e., have a single purpose and direction.</p>	

CPS Assessment Checklist (Cont'd)

Criteria	Comments
<p>8. Describe people-level impact as appropriate.</p> <p><u>Program Outcomes</u></p> <p>1. are concrete, near-term results that can be attributed to USAID's own activities.</p> <p>2. are measurable.</p> <p>3. are critical to the achievement of SOs and, taken together with other program outcomes, is adequate to show significant impact on the SOs.</p> <p>4. can be monitored and reported on at regular intervals.</p> <p>5. are achievable in 3-5 years</p> <p>6. aren't constrained by critical assumptions that are too great in number and/or too risky.</p> <p>7. are logically consistent to SOs they support.</p> <p>8. are unidimensional.</p> <p><u>Indicators</u></p> <p>1. Measure progress as directly as possible-- i.e., proponents and skeptics would agree that the indicator is a valid measure.</p> <p>2. Show the size of the problem as well as the portion that USAID is tackling.</p>	

b

CPS Assessment Checklist (cont'd)

Criteria	Comments
<p>3. Have significance for a wide audience.</p> <p>4. Are practical and cost-effective to measure.</p> <p>5. Provide a measure that can be related to the magnitude of USAID's investment.</p> <p>6. Are disaggregated where possible -- i.e., specify the target population or geographic area covered.</p> <p>7. If measurement process were duplicated, same result would be achieved.</p> <p><b>TARGETS</b></p> <p>1. Establish reasonable markers for quantitative and qualitative results</p> <p>2. Identify beneficiary population</p> <p>3. Indicate timeframe for achieving anticipated results.</p>	

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**ACTION PLAN**

<b>Criteria</b>	<b>Comments</b>
<p>1. Anticipated and actual impact in selected priority areas justifies strategic choices.</p> <p>2. Activities outlined in program action plan are feasible instruments for attaining POs and SOs.</p> <p>3. Resource levels needed to support program and activity implementation are (a) justified, and (b) likely to be provided in the current budget environment; i.e., realistic given program funding, and FTE/OE realities.</p>	

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**STANDARD CPS/AP REVIEW QUESTIONS**

A. The Strategic Analysis

1. Are strategic interventions proposed technically sound approaches to address key development obstacles and/or opportunities in areas of strategic interest to the Agency?

(a) What are the risks implied in implementing the proposed strategy?

(b) Does the strategy analysis make a compelling case (e.g., in terms of spread effect, replicability and/or sustainability of results) for the Agency to pursue strategic interventions notwithstanding these risks?

2. Are targeted results attainable in country X with the level of resources committed, and given the Agency's comparative advantage?

3. Does strategy reflect the mix of donor and host country resources being brought to bear in strategy areas to help attain results?

4. Does strategy reflect coordination with development partners in selecting strategic focus of USAID interventions?

B. Country Program Objective Tree

1. Does the CPS objective tree track to the strategic analysis of the strategic overview section?

2. Do Strategic Objectives (SOs) and Program Outcomes (POs) accurately reflect results the Agency can accomplish during the strategy period?

a. Are the external factors beyond the control of the Mission fully captured in critical assumptions?

b. Does the number and/or riskiness of assumptions imply that SOs and POs are beyond the Mission's scope of plausible impact?

c. Should SO and PO levels be refined given resources available and the Mission's ability to control proposed outcomes and results?

c. Are causal linkages between POs and SOs clear and logically consistent?

2. Will SO and PO indicators accurately and efficiently measure impact -- particularly at people-level impact -- in the timeframe allotted for achieving results?

C. Action Plan

1. To what extent has Mission reported results in this year's action plan; and does monitoring plan indicate that Mission will be able to report progress on POs and SOs in next year's action plan?

2. Will tactics/activities produce outcomes/results targeted by POs and SOs?

(a) Are there tactics/activities that should be revised and/or dropped?

(b) With less than anticipated resources, what impact can be anticipated by paring back program activities rather than dropping them?

(c) If it is necessary to drop activities, which would be eliminated, and how would results be affected?

(d) What G Bureau activities (field support and core research) and BHR activities are being implemented in support of the strategy?

3. Are there category C activities in the current portfolio and what are the prospects for getting them on track?

4. Does the portfolio pipeline make Mission's program especially vulnerable to recision?

(a) Where pipeline is substantial, what are the causes and likely burn-rate for reducing the pipeline?

(b) Has Mission provided AA/ANE with plan for managing-down recision vulnerability?

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**USAID/INDONESIA**



**USAID/INDONESIA**

**COUNTRY PROGRAM STRATEGY**

**1995 - 2000**

**MARCH 1995**

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## GLOSSARY OF ACRONYMS

AA	Assistant Administrator
AAFLI	Asian-American Free Labor Institute
ADB	Asian Development Bank
ADP	Agribusiness Development Project, USAID/I
ADR	Alternative Dispute Resolution
AEE	Agriculture and Environmental Enterprise Office, USAID/I
ANE	Bureau for Asia and the Near East
AP	Action Plan
APEC	Asia Pacific Economic Conference
ARSSP	Agriculture & Rural Sector Support Program, USAID/I
ASEAN	Association of Southeast Asian Nations
AIDS	Acquired Immune Deficiency Syndrome
AIDSCAP	Aids Control and Prevention Project, USAID/W
BASICS	Basic Support for Institutionalizing Child Survival, USAID/W
BAPEDAL	Department of Environmental Protection, GOI
BAPPENAS	National Planning and Development Board, GOI
BKKBN	Family Planning Organization, GOI
BHR	Bureau for Humanitarian Response
BOO/BOT	Build, Own, Operate/Build, Own, Transfer
BRI	Bank Rakyat Indonesia
CA	Cooperating Agency
CBS	Central Bureau of Statistics, GOI
CLEAN	Coordinated Local Environmental Action Network Project, USAID/I
CPS	Country Program Strategy
CRS	Catholic Relief Services
DA	Development Assistance
DHS	Demographic Health Survey
DSP	Development Support Project, USAID/I
ECP	Enhanced Credit Program
EIA	Environment Impact Assessment
ELIPS	Economic Law & Improved Procurement Systems Project, USAID/I
EOPS	End-of-Project Status
EPSO	Economic Policy Support Office, USAID/I
ESF	Economic Support Funding
FMP	Financial Markets Project, USAID/I
FTE	Full Time Equivalency
FY	U.S. Fiscal Year (October 1 - September 30)
G	Bureau for Global Programs, Field Support, and Research
GATT	General Agreement on Tariffs & Trade
GC	Office of General Counsel
GEF	Global Environment Facility
GOI	Government of Indonesia
GOJ	Government of Japan
GPT-II	General Participant Training-II Project, USAID/I

HAPP	HIV/AIDS Prevention Project, USAID/I
HCF	Health Care Financing Project (ECP), USAID/I
HG	Housing Guaranty
HIRD	Human and Institutional Resource Development Office, USAID/I
HIV	Human Immunodeficiency Virus
HRT	Human Resources Training Project (ECP), USAID/I
IBF	Indonesian Biodiversity Foundation Project, USAID/I
ICIP	Indonesian Clean Industrial Production (activity under NRM project), USAID/I
IEC	Information, Education and Communication
IFY	Indonesian Fiscal Year (April 1 - March 30)
ILO	International Labor Organization
IMR	Infant Mortality Rate
IPM	Integrated Pest Management Program, USAID/I and World Bank
IPR	Intellectual Property Rights
ITP	International Training Program
JHU/PCS	John Hopkins University/Population Communications Services
JICA	Japanese International Cooperation Agency
LGB	Local Government Bond Project (ECP), USAID/I
LOP	Life-of-Project
M	Bureau for Management, USAID/W
MCH	Maternal and Child Health
MFEI	Municipal Finance for Environmental Infrastructure (HG), USAID/I
MFP	Municipal Finance Project, USAID/I
MFR	Management for Results
MOF	Ministry of Finance, GOI
MOH	Ministry of Health, GOI
NAD	New Activity Description
NAM	Non-Aligned Movement
NED	National Endowment for Democracy
NGO	Non-Governmental Organization (Indonesian)
NIC	Newly Industrialized Country
NRM	Natural Resources Management Project, USAID/I
NRM II	Natural Resources Management Project II, USAID/I
NXP/ADP	Non-Expendable Property/Automated Data Processing
OC2P	Office for Community & Civic Participation, USAID/I
OE	Operating Expense
OMNI	Opportunities for Micronutrient Intervention, USAID/W
ORA	Office for Operations and Resource Allocation, ANE, USAID/W
OYB	Operational Year Budget
PACD	Project Assistance Completion Date
PD&S	Project Development and Support
PED	Private Enterprise Development Office, USAID/I
PHN	Population, health, and nutrition
PID	Project Identification Document
PL-480	Public Law 480 ("food aid")
PP	Project Paper
PO	Program Outcome
PPC	Bureau for Program and Policy Coordination, USAID/W

PROKASIH	Clean River Program, GOI
PURSE	Private Sector Participation in Urban Services Project, USAID/I
PVO	Private Voluntary Organization (Non-Indonesian)
SDA	Sustainable Development Account
SDES	Service Delivery Expansion Support
SDI	Strengthening Democratic Initiatives Project, USAID/I
SEA	Office for Strategic and Economic Analysis, ANE, USAID/W
SEC	Security Exchange Commission
SO	Strategic Objective
SOE	State-Owned Enterprise
STATE	U.S. Department of State
STD	Sexually Transmitted Disease
TA	Technical Assistance
TAF	The Asia Foundation
TAGS	Transition Assistance for Growth Support Project, USAID/I
TFR	Total Fertility Rate
TO	Target of Opportunity
UNFPA	United Nations Family Planning Agency
UPAP	Urban Policy Action Plan
USAEP	U.S.-Asia Environmental Partnership
USAID/I	United States Agency for International Development/Indonesia
USAID/W	United States Agency for International Development/Washington
USMTP	Urban Management Training Program
WHO	World Health Organization
WID	Women in Development
WTO	World Trade Organization

## PREFACE:

### *Customer Participation in the Preparation of this CPS*

The Mission has used a variety of means to obtain customer input into this strategy, beginning with the participation seminars of 18 months ago.

The *Indonesian Family Life Survey* represents the Mission's most substantial effort at increased participation. Interviews with thousands of Indonesians from all walks of life have been compiled and are being analyzed. The survey details the hopes, expectations, and needs of the average Indonesian. It promises to become an effective tool in determining the underlying incentives which drive Indonesia's economic growth.

Results of the *Indonesian Family Life Survey* will impact heavily on the Mission's population and health objective (SO2), particularly in terms of better understanding family health dynamics. In addition, the GOI's own demographic and health surveys provide annual updates of how well health interventions are received by client groups. And the upcoming survey of reproductive health issues (to be funded under the new HAPP project) will shed light on factors contributing to the spread of the HIV/AIDS epidemic. Focus groups and direct counseling of persons at high risk will help us better target our resources.

The Mission natural resources (SO3) focus on decentralized management is the fruit of an exhaustive *Environmental Assessment*, the methodology of which relied on a series of sub-sectoral focus groups involving nearly 200 private and government representatives. Indonesian experts from universities and business were interviewed to identify the most appropriate indicators of success in this area. In addition, the rich experience of the Mission's Natural Resources Management and Integrated Pest Management activities with broad community participation in implementation has informed SO3, particularly PO3.1 which is concerned with greater stakeholder participation in natural resource decisions.

The Mission's urban environment strategy (SO4) is also based on the analysis of this *Environmental Assessment*. New program design (CLEAN) will be based on this assessment as well as on ongoing activities which involve decentralized community planning and intensive discussions with many small and medium-sized industries. Achieving urban environmental improvements relies heavily on decentralized, community-level networks which partner local government, business, and residents to determine and manage activities. Industrial waste minimization activities respond directly to the requests of targeted businesses.

The Mission's democracy building objective (SO5) was developed pursuant to the recent *Democracy Assessment and Strategy* during which individuals concerned with democratic development as well as representatives from a wide range of relevant organizations were interviewed. As a conclusion, the Mission embraced the concept that the NGO community is the most appropriate partner to help Indonesians pursue a pluralistic society. NGOs have actually helped identify numerous progress indicators under this SO and have been consulted extensively as to their future participation.

## **EXECUTIVE SUMMARY: USAID'S STRATEGY IN INDONESIA**

### ***Why aid to Indonesia?***

Indonesia's development is important to the U.S. and the world.

- If current growth continues, Indonesia will reach NIC status by 2020, making it the world's fourth or fifth largest economy and a major trading partner of the U.S. (12% of Indonesia's imports and a significant share of its total foreign investment already come from the U.S.).
- Indonesia has globally important natural resources -- the largest area of tropical forests, the widest range of biodiversity, and the richest marine resources of any USAID recipient.
- Indonesia is assuming a greater role on the international stage, as leader of NAM, leader in South-South dialogue, and now as a member of the Security Council.
- Political stability and increased political participation will impact on Indonesia's own economic development as well as on security and trade and investment issues within the region and with the U.S.

During the past 25 years, Indonesia's economic performance has ranked among the best in the developing world. Yet many challenges lie ahead.

- Indonesia's per capita income is only \$730 and there are still nearly 30 million people living in poverty -- more than the populations of most countries in which USAID works. Though reliance on donors is declining, Indonesia's financing gap remains at \$5 billion annually (World Bank estimate). Continued growth will require further, perhaps more difficult, policy reforms to increase competitiveness.
- Population pressures, urbanization, and industrial growth fuel rapid environmental degradation. Deforestation occurs at the rate of a million hectares per year. No water source in Java is safe for drinking, and water-borne diseases account for 80% of infant deaths.
- Indonesia needs to increase the number of contraceptive users by 10 million to reach fertility replacement rate by 2005, a very ambitious target that will determine its

ability to achieve NIC status. HIV infections are already estimated at 100,000 and growing exponentially. Maternal mortality is still the highest in ASEAN.

- Broad-based economic growth has not been accompanied by an expansion in political participation, a prerequisite for sustainable development.

Though USAID is dwarfed in resource levels by the IBRD, ADB, and Japan, we have a unique niche among donors that gives our funds tremendous leverage.

- USAID is the primary -- and preferred -- source of policy-level technical assistance for policy formulation and analysis as well as for institutional strengthening.
- USAID finances pilots and models that demonstrate innovative techniques for policy implementation. Once tested, these are often adopted nationally with help from other donors.
- USAID provides direct support to the development of civil society, thus strengthening popular pressure for change.

#### ***What is USAID's strategy?***

USAID's declining resources and Indonesia's rapid development signal time for a transition in USAID's program to one less resource-intensive and more reliant on Indonesian institutions; however, the approaches that give USAID its comparative advantage -- policy-based TA, pilots and support to civil society -- will remain central to USAID's strategy. USAID will pursue five strategic objectives:

#### ***To promote sustained economic growth in the transition from economic assistance to economic cooperation***

USAID will facilitate access by Indonesian economic institutions to U.S. institutions to work on practical problems of interest to both countries. Since they are mutually beneficial, these institutional linkages will continue once USAID funding is completed, which we would expect by the year 2000. They will lead to the following program outcomes:

- improved economic management in key areas (as measured by indicators of fiscal management, local government decentralization, and trade, among others);
- strengthened institutions for economic management; and
- tested pilot programs with people-level impact.

### ***To improve health and reduce fertility***

USAID will narrow its efforts to those areas of reproductive health -- family planning, HIV/AIDS, and maternal health -- where performance has lagged and U.S. TA offers special expertise. If performance targets are met, USAID will phase out assistance for this objective early in the new century, except for limited Global Bureau assistance and support for Indonesia's South-South family planning training. We expect four program outcomes:

- increased use and quality of family planning services through wider access to longer-term methods;
- increased use and quality of STD/HIV/AIDS and reproductive health services, through demonstration of models for broader replication;
- developed and implemented national AIDS and reproductive health policies; and
- improved balance of public and private sector provision of health and family planning services, through pilot testing of new models and promotion of private sector service delivery.

### ***To decentralize and strengthen natural resources management***

Transition will take longer in this area because of the weakness of environment-related institutions, though the Indonesian Biodiversity Foundation represents an important model. USAID will form partnerships with government, NGOs, local communities, natural resource-based industries, and other donors to demonstrate innovative approaches, support policies and practices that increase conservation, and strengthen institutional capability to implement improved policies. The following program outcomes are anticipated:

- greater stakeholder participation in decisions about planning, management and monitoring of natural resources;
- increased conservation and pollution reduction by natural resource-based industries;
- improved policy development and implementation; and
- strengthened institutional capacity for biodiversity conservation.

### ***To strengthen urban environmental management***

While most donors will continue to finance the design and implementation of infrastructure construction projects, USAID will focus on the policy and procedural framework to plan and manage infrastructure locally, relying on networks of local decision-makers and community

groups, with the expectation that this framework will remain in place so that future USAID activity will not be required beyond completion of proposed activities. USAID will achieve the following program outcomes:

- adoption of new policies and practices to facilitate decentralized financing of urban environmental infrastructure;
- wider adoption of improved practices in urban environmental infrastructure provision; and
- adoption by government and industry of policies and procedures to reduce industrial damage to the environment and promote cost-effective use of clean, renewable energy.

***To increase effectiveness of selected institutions which promote democracy***

Given the uncertainty of progress in democratic development, the inevitable change in Indonesian political leadership, and the USG position of influence in this area, USAID cannot plan for a transition during this strategy period. USAID will target institutions which promote democratic political culture and rule of law, with particular focus on women, Muslim groups and politically sensitive areas like East Timor, for these program outcomes:

- Increased NGO advocacy for democratic participation;
- Increased activities that promote respect for rule of law;
- Enhanced capacity, reliability and responsiveness of selected NGOs.

**USAID/INDONESIA: COUNTRY PROGRAM STRATEGY**

**PART I**

**SUMMARY ANALYSIS OF  
ASSISTANCE ENVIRONMENT**

## INDONESIA'S ECONOMIC, SOCIAL AND POLITICAL DEVELOPMENT: 1950-1994

Comprised of 13,667 islands spanning over 3,000 miles from east to west, Indonesia is the world's largest archipelagic nation. Its territorial waters include several strategic waterways such as the Malacca and Makassar straits. Indonesia has the fourth largest population in the world (200 million), as well as the world's largest Moslem population. This population is extremely diverse, with over 300 separate ethnic groups and 250 distinct languages throughout the archipelago. Indonesia's islands are endowed with an abundance of natural resources which include rich farmland, large oil and natural gas reserves, many strategic minerals, expansive forests, and rich marine resources.

Indonesia emerged from its struggle for independence in 1949 with one of the world's poorest economies.<sup>1</sup> Centuries of colonial rule had left the country with poorly developed physical and social infrastructure. The nation's literacy rate was an abysmal 10%, and the majority of the workforce was uneducated, unskilled, and largely dependent on subsistence agriculture. In short, fifty years ago, Indonesia's prospects for growth and development looked bleak.

The post-independence Sukarno government made some progress in advancing the nation's development, notably in the field of education. Primary and secondary school enrollment, as well as enrollment in universities, increased significantly during the Sukarno era. Despite the political turmoil that characterized this era, some economic growth occurred during the early years of the Sukarno government. Over the period from 1950-1957, growth averaged 5.4% per annum. However, a combination of factors, including rebellions on the islands of Sumatra and Sulawesi, the nationalization of foreign owned firms, and a highly distorted trade and exchange regime, caused output to plunge in 1958. Over the next several years, budget deficits grew, inflation soared, and the government assumed an increasingly *dirigiste* role.<sup>2</sup>

In 1959, threatened by growing regional and ethnic protests, Sukarno declared a new era of "Guided Democracy," thus ending Indonesia's experiment with parliamentary democracy. In the ensuing years, however, Sukarno was unable to keep in check the nation's seemingly irreconcilable social and political forces.<sup>3</sup> An abortive coup in 1965, widely believed to have been instigated by Communist forces, plunged the nation into violent political upheaval. Massive purges of Communists and their sympathizers were carried out, with estimates of those killed ranging from 100,000 to one million.

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<sup>1</sup>Indonesia declared its independence in 1945 but its struggle for sovereignty continued until 1949. The U.S. was a leading proponent of Indonesia's right to nationhood within the international community.

<sup>2</sup>Wing Thye Woo, Bruce Glassburner, and Anwar Nasution, *Macroeconomic Policies, Crises, and Long-Term Growth in Indonesia, 1965-90*, World Bank, Washington, D.C., 1994, pp. 26-28.

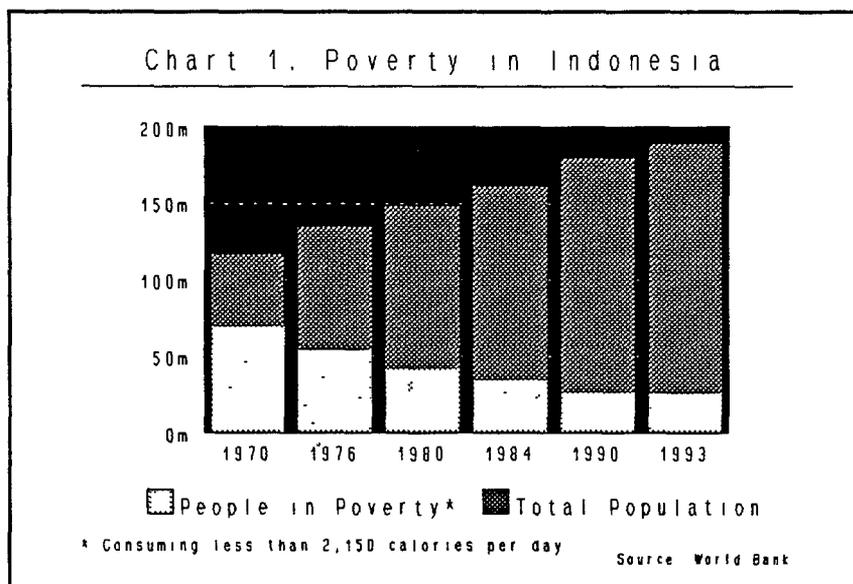
<sup>3</sup>For a good synopsis of the political tensions which prevailed during the Sukarno era, see Adam Schwartz, *A Nation in Waiting: Indonesia in the 1990s*, Westview Press, Boulder, 1994.

It was against this chaotic backdrop that Soeharto's "New Order" regime came into power.<sup>4</sup> Soeharto succeeded in securing the support of the military and in fashioning a government charged with restoring the nation's ravaged economy. The new government pledged to adhere to a balanced budget policy in 1967. Monetary growth was sharply curtailed, and by 1969 the inflation rate was brought under 20%. The exchange rate was allowed to depreciate which enabled a revival of export growth.

Indonesia enjoyed significant windfalls from the oil and commodities boom of the 1970s, enabling the government to intensify its development efforts. Compared with other oil-exporting developing nations, Indonesia used its enhanced revenues wisely,<sup>5</sup> investing heavily in infrastructure development. Resources were channelled into rural infrastructure, which contributed significantly to the tremendous growth in agricultural productivity.<sup>6</sup> The government also emphasized expanding education, health services, and family planning. These investments in social and physical infrastructure enabled dramatic progress to be made in improving living standards and in reducing the incidence of poverty (see Chart 1). Overall, the economy grew at close to 8% per annum during the 1970s.

Rapid growth, however, obscured the need to pursue market-oriented economic policies, and throughout the 1970s the state came to play an increasingly dominant role in the economy. Trade and investment grew more inward-oriented, and mounting protective barriers reduced overall economic efficiency.

Indonesia's over-reliance on oil earnings became a glaring liability when the oil boom ended in the early 1980s. In response, the government initiated a broad-based adjustment program aimed at reviving



<sup>4</sup>For a detailed description of the "transfer" of power from President Sukarno to General Soeharto, see Jon Bresnan, *Managing Indonesia*, Columbia University Press, New York, 1993.

<sup>5</sup>The World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, New York, 1993, p. 137.

<sup>6</sup>U.S. assistance played a major role in supporting Indonesia's efforts to increase agricultural productivity. In the early 70s, USAID and other donors joined forces with the International Rice Research Institute (IRRI) to help the Ministry of Agriculture launch a major new research and extension program aimed at increasing yields in rice production. The results were spectacular: in just 15 years, Indonesia doubled its rice production. By 1985, Indonesia could proclaim self-sufficiency in rice, a giant leap from the early 70s when it was the world's largest rice importer.

competitiveness and reducing reliance on oil. The government cut fiscal expenditures and reduced the bias against non-oil exports by devaluing the rupiah (in 1983 and 1986). It also launched major financial, tax and customs reforms. These policies succeeded in bringing down the current account deficit and reducing the country's dependence on oil exports.<sup>7</sup> Beginning in 1986, the government also undertook a series of structural reforms aimed at stimulating private trade and investment. Since 1989 tariffs and non-tariff barriers have been progressively reduced, and the economy has been increasingly opened to foreign investment.

These reforms, while still incomplete, have greatly stimulated private investment and trade. Non-oil exports grew dramatically in recent years, averaging nearly 20% yearly over the period 1989-1993. Private investment also picked up strongly in response to the new incentives. Economic growth averaged 6.9% over the period 1989-1993, compared to 5.7% over the previous five year period.

Perhaps the most encouraging sign of the government's commitment to continuing liberal economic policies has been its active participation in global and regional trade agreements. Indonesia was a full player in the Uruguay Round negotiations and was among the first countries to ratify the GATT agreement. Indonesia has also demonstrated strong commitment to advancing regional free trade, providing crucial leadership at last year's APEC Ministerial and Leaders' meeting in helping to forge a bold agreement for regional trade liberalization.

Indonesia's impressive growth record over the last 25 years has been matched by significant improvements in the quality of life for most Indonesian citizens. Life expectancy increased dramatically over the last quarter century, and infant mortality fell nearly 60% (see Table 1).

Source: World Bank	Life expectancy at birth (years)		Infant mort. per 1,000 live births		Population per physician	
	1965	90	1965	1990	1965	1990
Indonesia	44	61	138	61	31,740	7,030
Philippines	56	64	73	41	na	8,120
Malaysia	57	70	57	16	6,220	2,590
Thailand	56	66	90	27	7,230	4,360
South Korea	57	71	64	17	2,700	1,070
India	45	59	151	92	4,880	2,460

<sup>7</sup>While growth declined considerably over this adjustment period. As expenditures, the government was

over the period 1983-1987, Indonesia still made progress in reducing poverty to the World Bank, by cutting public investment while preserving basic social to limit the cost of adjustment borne by the poor.

Near-universal primary school enrollment has been achieved for both genders, an accomplishment which contributed significantly to the country's progress in reducing poverty.

Expanded economic opportunities, however, have not been accompanied by an expansion in citizens' political participation.<sup>8</sup> In the name of preserving national stability, the New Order government has from its inception consolidated its power base, suppressing any effective opposition to its rule. The military, with its dual purpose (*dwifungsi*) of serving as both a military and a socio-political force, continues to play a key role in "safeguarding" the nation's stability and is strongly represented at the national as well as local levels of government. At the same time, economic development has fostered the emergence of an educated middle class whose aspirations include expanded opportunities to participate meaningfully in the nation's political and civic arena. Circumstances are further complicated by perceptions of a significant income gap between the rich and the poor; by Indonesia's diverse (and potentially fractious) ethnic make-up; and of course by the question of who will succeed President Soeharto if he steps down in 1998.

The next several years will be critical in Indonesia's path towards stability and sustainable development. As in the past, the U.S. government has a unique opportunity to play a key role in assisting Indonesia to meet these formidable challenges.

#### INDONESIA'S DEVELOPMENT PROSPECTS

Twenty-five years ago, Indonesia's GDP per capita was only \$70, and 60% of the population lived in absolute poverty. Today, per capita income has risen to \$730, the poverty rate is just below 14%, and Indonesia's economic performance ranks among the best in the developing world. Indonesia's goal of NIC status, however, is still some way off. Achieving this goal will require a host of wide-ranging policy and legal reforms in the years ahead. To perpetuate rapid economic growth, these reforms will have to increase transparency and create incentives for productive, sustainable activity, while strengthening the capacity and accountability of both private and public institutions.

With regard to **accountability**, it is true that Indonesia possesses many of the negative characteristics of an immature economy. Corruption, rent seeking, and patronage are established and pervasive practices -- especially in those areas of the domestic economy that remain protected. This rent seeking undoubtedly has negative impacts both on growth and on the distribution of the benefits of growth. Yet Indonesia has made substantial progress in deregulating its economy and opening previously favored sectors to competition and private sector participation. The government is keenly aware that this trend must continue if Indonesia is to remain competitive. USAID actively supports Indonesia's moves toward increased economic openness, greater participation in public policy, and improved

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<sup>8</sup>*Indonesia Democracy Assessment*, U.S. Agency for International Development, Jakarta, Indonesia, November 1994.

accountability. At the same time, advocacy NGOs and an increasingly vocal press are playing a more effective "watchdog" role than ever before, thus adding momentum to these reforms.

Overall, Indonesia's strong growth rate -- and increasingly equitable distribution of the benefits of growth -- has proven that corruption is not a *major* brake on development. The rapid growth of non-oil/gas exports (in double digits) is also proof that new, competitive industries are establishing themselves successfully in Indonesia. Highly responsible fiscal management has consistently earned Indonesia international praise for its ability to keep prestige or crony expenditures under control. Indonesia has an equally good reputation among international donors for being a responsible aid user.<sup>9</sup>

### ***Economic Growth Prospects***

Indonesia is preparing to join the next tier of newly industrializing economies. The Government of Indonesia (GOI) has set the ambitious goal of raising per capita income to \$1,000 by the turn of the century and to \$2,600 by the year 2020. The government also aims to reduce the poverty rate to about 6% of the population by the turn of the century, a reduction of more than 50% from its current level. If Indonesia can attain these targets, it will have established a firm foundation for sustainable growth in the 21st century. It will also have succeeded in greatly improving the quality of life for all its citizens. Ambitious as these goals are, Indonesia has the potential to reach them. Indeed, over the next half-century, Indonesia has the prospect of becoming one of the world's largest and most dynamic economies.

While Indonesia's long-term development goals are feasible, their attainment poses enormous challenges. To reach a per capita income of \$2,600 by the year 2020, Indonesia must achieve an average annual growth rate of between 6 and 7% over the next 25 years. To achieve growth of this magnitude, Indonesia must tackle a range of formidable development challenges. Non-oil exports have to grow by at least 16% per year, while private capital inflows must be sustained amidst rising competition in the global marketplace. Indonesia must push ahead with comprehensive trade and investment reforms in order to reserve a competitive position in the liberalized global economy. Progress on these fronts is in turn essential to advancing the development of a more democratic environment. Policy reforms are also needed to move Indonesia's economy away from unsustainable, resource-depleting industrial growth towards human resource-intensive growth.

To equip its rapidly growing labor force with the requisite skills and knowledge for productive employment, Indonesia must significantly expand educational opportunities. While Indonesia has achieved nearly universal primary education for both genders, it must now

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<sup>9</sup> USAID exercises a high level of oversight regarding its appropriated funds in order to assure U.S. taxpayers that their dollars are going to the intended beneficiaries. More than 85% of the Agency's assistance to Indonesia is channeled through direct grants and contracts. Moreover, USAID has entered into a direct arrangement with the Indonesian supreme audit authority to audit all USAID local expenditures in Indonesia.

expand universal education to the next levels. At present, only 60% of Indonesians aged 13-15 attend school. Attaining the goal of universal junior secondary education will require substantial new investments in schools, teacher training, and educational materials. Efficient allocation of public resources will also require greater decentralization of decision-making, accompanied by an increase in the capacity of local governments to effectively manage public education programs.

Indonesia's rapid urbanization and industrial growth will require greatly increased investment in economic infrastructure. At present, only 44% of Indonesia's urban households have access to piped water. Only 24% of all households have electricity. To fill the investment gap, the private sector will have to play an increasingly important role in the provision of infrastructural services such as power, water, sanitation, and telecommunications. To that end, Indonesia must enact and enforce a host of policy, legal and regulatory reforms to ensure fair and efficient private sector participation. To meet the enormous infrastructure needs of a country as large and diverse as Indonesia, local governments must acquire true decision-making powers reflective of local priorities and greater capacity to design and implement infrastructure development plans.

The GOI is committed to eliminating poverty in Indonesia. Over the past 25 years, the incidence of absolute poverty has fallen from 60% of the population to 14%. Further reductions in poverty will not come easily. Indonesia must sustain rapid, labor-intensive growth to generate productive employment opportunities for the poor and near-poor, while better targeting public sector resources towards the provision of services which benefit the poor.

Maintaining macroeconomic stability presents another set of challenges. Indonesia's banking sector is still trying to recover from an accumulation of bad debts. Over the past two years, inflation has hovered threateningly near the double digit range, and efforts to rein in monetary growth are hampered by international capital flows and the lack of effective monetary instruments. The task of managing Indonesia's macroeconomy has become increasingly complex while its human resource and institutional capacity to deal with the complexities has not increased commensurately. The major lesson of the Mexican debacle is that no "emerging market" can rest too comfortably on its past macromanagement laurels.

Indonesia's success in achieving sustainable broad-based growth has important implications for the United States. Indonesia now holds the prospect of becoming the world's fourth or fifth largest economy in the 21st century. Presently, the U.S. supplies approximately 12% of Indonesia's imports and a significant share of the country's total foreign investment. The U.S. and Indonesia have enjoyed a special bilateral relationship dating back to Indonesia's independence. As such, American businesses, workers, and consumers stand to benefit immensely from Indonesia's development into a sustainable commercial partner.

While the prospective gains to both Americans and Indonesians are enormous, the costs associated with Indonesia's failure to realize its development potential are equally great. A

drop in Indonesia's growth rate to 3%, for example, would reduce the economy's capacity to generate jobs for an estimated 1 million people. The country's ability to mobilize public sector resources for education, health, and basic economic infrastructure would suffer, exacerbating the slowdown in growth and frustrating attempts to alleviate poverty. This could in turn trigger capital flight from the economy, making it extremely difficult for Indonesia to finance its \$93 billion in foreign debt. A disruption in growth would also likely induce public discontent which could result in a reversal of moves towards greater political openness and participation. In short, Indonesia's failure to attain its growth and development objectives could have serious consequences for the U.S., the Indonesian people, and the world at large.

### ***Population and Health Prospects***

Indonesia's achievements in reducing fertility have earned its family planning program worldwide recognition. Over the past quarter century the fertility rate has dropped by nearly half, from an average of 5.6 births per woman in 1971 to 2.9 births per woman in 1994. This dramatic reduction was made possible by a rapid increase in contraception use. In 1971 less than 10% of married women used contraceptives while today contraceptive prevalence is approximately 55%.

Significant progress has also been made in improving the health of Indonesia's citizens. Over the past quarter century, life expectancy has increased significantly for both men and women, from 44 in 1965 to 61 in 1990. Infant mortality rates have fallen by more than half, from 138 in 1965 to 61 in 1990.

Despite these achievements, serious challenges remain. To reach its goal of replacement fertility rate (two children per family) by the year 2005, Indonesia must reduce fertility by an additional 28% over the next decade. This will require contraceptive prevalence to rise to 65 - 70%.<sup>10</sup> While the fertility rate is currently declining, the pace of its fall is insufficient to achieve these ambitious goals, and Indonesia must significantly expand the outreach of its family planning efforts. The program will need to expand to the roughly 14 million currently married women with unmet needs for family planning. Many of these women are among segments of the population that are difficult to reach, such as urban slums or rural and coastal areas.

Broadening outreach alone, however, will prove inadequate. Sustainable progress in family planning will require increased reliance on long-term contraception methods. To promote greater use of long-term methods, Indonesia must give greater attention to women's overall reproductive health needs. Mounting evidence suggests, for example, that women's reluctance to adopt long-term methods stems from their perception of the health risks associated with such methods. Focusing on women's overall health concerns can help address this difficulty, as well as other concerns such as reducing the family planning "dropout" rate.

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<sup>10</sup>A.I.D. Population Assistance Strategy for Indonesia: 1993-1998, USAID/Jakarta, January 1993.

This focus on women's health will be integral in addressing another critical challenge facing Indonesia -- one of the highest maternal mortality ratios in Asia, estimated at 450 deaths per 100,000 live births. These figures point again to the urgent need to enhance women's general health and nutrition and to improve the quality of pre-natal care and child delivery services. The GOI is committed to increasing women's health and reducing maternal mortality and has begun to implement measures that accord with the world-wide Safe Motherhood Initiative.

Indonesia is currently experiencing a rapid increase in the number of HIV infections that threatens to reach epidemic proportions in a matter of years. From the current 100,000 estimated infections, it is projected that there will be 510,000 HIV infections by the year 2000. Swift, effective action now is the only way to contain the disease and the potentially explosive health costs an AIDS epidemic would bring. The GOI has established a National AIDS Control Commission tasked with coordinating the nation's response to the impending crisis. There is also growing consensus in Indonesia that HIV/AIDS is a complex problem that will require an integrated approach, involving close coordination between the NGO community and several governmental departments. Indonesia has a strong track record in applying such strategies, but immediate action is crucial if a veritable AIDS epidemic is to be averted.

Continued expansion of health care services to Indonesia's large population will require that the private sector play a much greater role than in the past. Public resources for health care are already stretched to the limit and will have to be more specifically targeted to benefit the poor. Private health care financing institutions must therefore be developed to meet the growing demands for quality health care. (Currently, only 4% of the population are covered by private health insurance.) While there is enormous potential for private sector provision of health care, the government will have to continue to improve the policy environment to facilitate greater private sector participation.

A healthy, stable population will be crucial to Indonesia's continued development. The government's efforts over the next decade in reducing population growth, containing the looming AIDS epidemic, and creating a framework for private sector provision of health care will impact not only on the well-being of Indonesia's citizens, but also on the future development of the country's economy. Failure to meet these key challenges now will place all of Indonesia's development goals in jeopardy.

### ***Environment Prospects***

Indonesia's immense natural resources -- which include the world's second largest tropical rainforest and the world's longest coastline and most extensive coral reefs -- are global as well as national treasures. The destruction of these vast and unique resources would have repercussions not only for Indonesia, but for the world at large. Yet rapid industrialization is bringing these precious natural resources under increasing threat, and swift action will be required if Indonesia's irreplaceable ecosystems are to be preserved.

In the past, Indonesia's industrialization has been fueled largely by exploitation of its non-

renewable resources (notably oil). Over the next decade a major shift must be made away from resource-depleting growth towards more efficient and sustainable use of natural resources. This will prove a formidable task, as it entails significant readjustments in some of Indonesia's most prosperous markets.

Indonesia's vast forests, second in size only to those of Brazil, are under serious threat from decades of poor logging and replanting practices. Estimates of the rate of deforestation are as high as 1.3 million hectares per year. Reversing these long-running trends will require improving the capacity of national and local government agencies to plan and manage sustainable forestry programs. It will also require reforming policies which distort incentives and result in the underpricing of scarce forest resources. NGOs and those local communities affected by pernicious logging practices must also be engaged in assessing and monitoring policies and practices, as well as in elevating the public's awareness of the issues.

The rapid pace of industrial growth and urbanization in Indonesia presents another set of challenges. It is estimated that by the year 2020, half of Indonesia's population will reside in urban areas. Industrial and household pollution poses a serious threat to health and human welfare in these increasingly crowded areas. Contaminated drinking water, for example, is one of the major sources of disease in Indonesia, and in Jakarta alone, approximately 7000 deaths per year are due to diarrhea.<sup>11</sup> Rapid industrial growth is expected to result in substantial increases in virtually all pollutants, and if current policies and practices remain unchanged, the absolute level of industrial pollutants in Indonesia's cities is expected to increase nearly ten-fold over the next 25 years.<sup>12</sup> As the demand for energy continues to rise in urban areas, Indonesia must develop clean, renewable sources of energy. Continued industrial and urban pollution and congestion would erode the efficiency of public and private investment, reduce Indonesia's ability to attract foreign investors, and eventually lead to strong community resistance to further industrial expansion.

The next ten years will be a crucial period for Indonesia's natural resources. Much of the degradation now threatening Indonesia's environment will be irreversible, with global repercussions. Indonesia is still in a position to learn from other countries' experience and avoid their worst mistakes, but the window of opportunity is closing rapidly. The challenge will lie in integrating environmental concerns into development planning, and in dealing effectively with the inevitable trade-offs.<sup>13</sup>

In addition to its own national priorities, Indonesia is also committed to working with its global partners to tackle global environmental issues. Indonesia's unique natural resource endowments make its participation essential to the success of these global partnerships.

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<sup>11</sup>World Bank, *Indonesia Environment and Development: Challenges for the Future*, March 21, 1994, p. 88.

<sup>12</sup>*ibid*, p. xii.

<sup>13</sup>*ibid*, p. 26.

### ***Democracy Prospects***

Indonesia's New Order Government has pursued market-oriented development policies that have brought significant achievements in the country's economic development. These gains have not, however, been accompanied by a commensurate expansion in political participation. The GOI has pursued its own style of democracy, "demokrasi Pancasila," which emphasizes communal over individual rights, stability over diversity.

Indonesian workers and the burgeoning middle class are increasingly frustrated by the constraints imposed on their ability to publicly discuss, debate, and participate meaningfully in government decisions affecting their lives. The conventional wisdom that economic prosperity entails a sacrifice of political and individual freedoms is losing currency in Indonesia, and calls for increased openness are more and more common. In response, thousands of independent NGOs have been formed, advocating change, demanding consistent and fair application of the law, and supporting social development causes.

Indonesia has reached the point where the government can no longer afford to ignore the calls for expanded political participation. Yet making a peaceful transition to greater democracy will entail a host of critical challenges. One key challenge in the years ahead will be the development of a strong civil society that promotes a democratic political culture and can effectively represent the true legal and political interests of their constituencies. These include legal aid and legal advocacy organizations that are equipped with the analytical, information, and communication resources to present strong and accurate cases on behalf of their clients. They also include more specialized public interest organizations such as environmental protection NGOs, labor and human rights groups, and press freedom associations.

Making the transition to greater democracy will also require substantial improvements in the state's willingness and capacity to fairly and consistently enforce the rule of law. This will hinge largely on the progressive development of a more independent and objective judicial system in Indonesia.

A more open and representative political system is the *sine qua non* of Indonesia's continued stability and development. Indonesia's constitution, which calls for the free elections of representatives, an independent judiciary, and freedom of speech, worship, and association, sets in place the *de jure* framework for greater democracy. In the years ahead, Indonesia will need to put this framework more fully into practice than has been done in the past.

### ***Conclusion***

As Indonesia prepares to celebrate its 50th anniversary in August 1995, there is indeed an opportunity for its citizens to reflect on a half-century of impressive development progress. However, formidable challenges still face this dynamic nation, and the next several years will be critical in Indonesia's bid to reach NIC status.

While Indonesia is generally reducing its dependence on donor assistance, the country still

needs the capital resources which international donors provide. The World Bank has consistently recommended to the Consultative Group for Indonesia (CGI) that some \$5 billion annually be provided to Indonesia in new concessional assistance. This high level of assistance is based on Indonesia's substantial financial needs as a still immature economy, combined with the country's consistent track record as a responsible and effective aid utilizer. U.S. assistance has traditionally constituted less than 1% of total aid to Indonesia; yet our presence has had a disproportional impact and has been instrumental in the country's past development achievements. Given Indonesia's continuing "thin" layer of expertise in many key policy areas, it continues to rely on the research, models, and catalytic impact of our assistance. In light of Indonesia's immense size, vast natural resources, and enormous potential as a trading partner, the U.S. has a clear stake in the country's continued stability and development. Limited resources and shifting global conditions, however, do call for a transition to a new U.S.-Indonesian cooperative relationship.

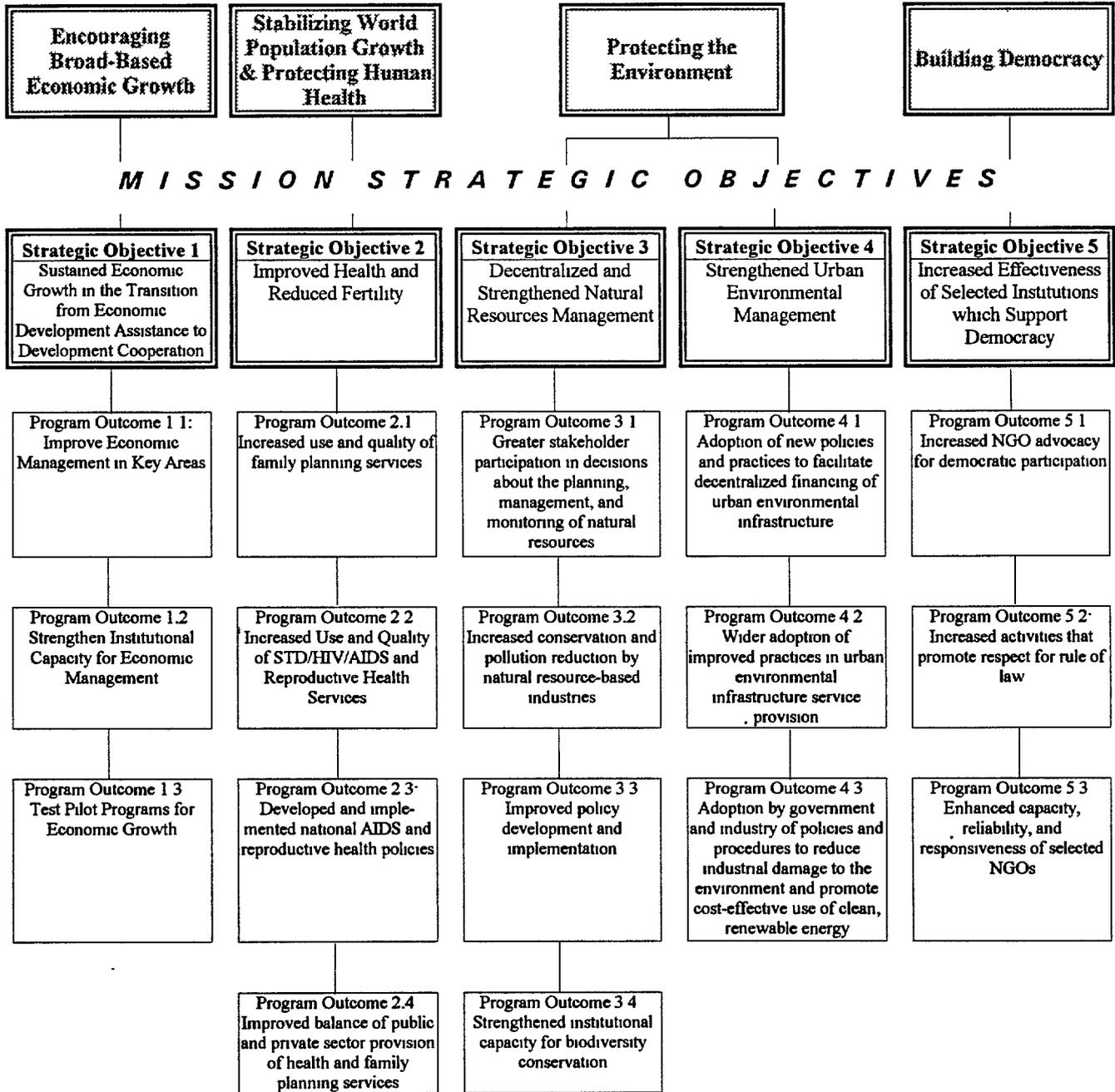
**USAID/INDONESIA: COUNTRY PROGRAM STRATEGY**

**PART II**

**PROPOSED STRATEGY, RATIONALE,  
AND KEY ASSUMPTIONS**

# USAID/INDONESIA PROGRAM OBJECTIVE TREE

## AGENCY GOALS



## INTRODUCTION

### *USAID and Indonesia: Beginning a Transition to a New Bilateral Relationship*

Indonesia -- with its large population, rapidly growing economy, strategic location, and unique natural resources -- is of great importance to the United States. The trade and investment implications for the U.S. of this big, emerging market are clear. If Indonesia achieves its goal of NIC status by 2020, it will become the fourth or fifth largest economy in the world and a major trading partner of the United States. As a huge archipelago with vast biotic diversity, Indonesia is of importance to us and the world in the context of global climate change and biodiversity. As Indonesia assumes a greater role on the international stage, both its leadership abroad and the prospects for stability at home will be enhanced by greater political openness and broader participation in the country's decision-making processes. Indonesia is also at the crossroads of social issues such as HIV/AIDS and population with choices facing the country which will have impact far beyond its borders.

During the past 25 years, Indonesia has enjoyed an impressive economic growth rate. In fact, with a current per capita income of \$730 and a poverty rate of just under 14%, its economic performance ranks among the best in the developing world. Its growth record has been matched by similar improvements in the quality of life with, for example, a dramatic increase in life expectancy, a halving of the infant mortality rate, and nearly universal primary school enrollment.

Yet many challenges lie ahead for Indonesia. Its goal of NIC status is 25 years away at best, with current per capita income only about half of that of Thailand. The number of Indonesians living in poverty exceeds the populations of most countries in which USAID works. Infant and maternal mortality ratios are still the highest in ASEAN. To reach the goal of two children per family (by 2005), the number of new contraceptive users required represents more than all of the (current) contraceptive users in sub-Saharan Africa. Only 60% of Indonesians aged 13-15 attend school. Only 44% of urban households have piped water. No country with a USAID assistance program has a greater level of yearly tropical deforestation. And citizens' participation in the nation's political and civic arenas is still severely limited. "Tiger" status is indeed some way off.

Thus, the imperatives for continued U.S. engagement in Indonesia's development at this critical juncture are clear. Yet, limited U.S. resources, shifting global conditions, and an evolving political environment require a change in the U.S. - Indonesia economic development relationship. Given these realities, USAID believes that it should work toward a new way of doing business which builds on decades of successful collaboration and takes advantage of the close, even unique, relationship we have with Indonesia, wherein our policy-level technical assistance is actively sought and very effectively utilized.

Over the last two decades, USAID has become the primary provider of policy-level technical assistance in Indonesia (the World Bank role notwithstanding). This assistance is particularly

valued for both its quality and timeliness and, beyond this, the fact that this assistance is provided by the USG adds further to our ability to influence policy in Indonesia. Given the importance of Indonesia to the United States and the magnitude of the development challenges that lie ahead, this special niche should be exploited as we work toward leaving behind useful (and sustainable) units of development assistance. These useful units will be characterized by strengthened Indonesian institutions and by strengthened bilateral institutional linkages that are viable beyond the presence of USAID and, at the same time, responsive to U.S. interests and regional (trade and investment and democracy) and global (environment, population, AIDS) objectives. Establishing such linkages -- while taking advantage of our unique niche -- implies careful, sector-by-sector, consideration of the means and speed of the transition, rather than an abrupt and total withdrawal based on some artificial construct.

The complexity and uncertainty of Indonesia's socio-economic and political future precludes simplified predictions of how this transition might best take place, or at exactly what pace, within the various sectors. However, the Mission already has important models (in place or being developed) which suggest the direction of this transition: an independent, bilateral economic commission (SO1), a fully functioning BKKBN with south-south training capability (SO2), vastly strengthened local NGOs (SO2 and SO5), an independent biodiversity foundation (SO3), a promising health financing model (SO2), and -- in terms of funding modality -- a partial shift from grant to loan under the ECP facility. With most ongoing projects ending midway through this strategic period, the Mission has an obvious opportunity to deliberately work out the details of its transition strategy in the context of designing the activities proposed in the set of attached NADs (see Annex B). These NADs point the way to achieving a new U.S. - Indonesia economic development relationship.

### ***Economic Growth***

Indonesia's GDP per capita is currently \$730. If Indonesia can achieve average real growth of about 6.5% yearly, the country could be on the verge of NIC status by the year 2020, with a per capita income slightly higher than that of Thailand today.

Indonesia's prospects for sustained growth of 6-7% are fairly good, though by no means assured, and U.S. assistance can play a critical role in supporting the country's ambitious goals for growth and poverty reduction. Economic growth critically undergirds the Agency's other strategic objectives -- democracy, health, and environment. It is also at the heart of our trade and investment interests, and the USG cannot afford to ignore Indonesia's economic assistance needs at this juncture when the country is still putting in place its regulatory framework for sustainable growth. However, changing needs and priorities do mandate a transformation of our USAID bilateral relationship from a traditional donor/host country relationship to one based on sustainable, mutually beneficial linkages between U.S. and Indonesian economic actors and institutions. By shifting towards a relationship that stresses development cooperation rather than development assistance -- primarily through establishment of a U.S. - Indonesian Economic Commission -- our two countries will achieve a more mature and enduring bilateral relationship, one that recognizes the contributions of each country and encourages two-way participation. The TAGS activity (see Annex B)

visions that the Commission will provide the framework for cooperation beyond the life of the project (2002) and apart from USAID involvement.

### ***Family Planning and Health***

The GOI's health and family planning goals present Indonesia with serious challenges in the years ahead. Significant progress in family planning will require expanded program outreach and sweeping improvements in the quality of family planning services. Given Indonesia's large population, which impacts powerfully on global population targets, and the country's proven ability to employ population resources effectively, the Agency has designated Indonesia a global emphasis country for population. USAID has committed itself to helping Indonesia achieve its goal of two children per family by the year 2005. In effect, this means that -- aside from promoting Indonesia's role as a South-South trainer in population -- USAID will largely withdraw from this sector at the turn of the century when BKKBN will be fully functional and Indonesia should be at or nearly at the 65% contraceptive prevalence rate. Selected, specialized technical inputs from Global Bureau collaborating agencies might continue for fine-tuning the program.

In light of Indonesia's high maternal mortality ratio of 450 -- the worst in ASEAN and among the highest in Asia -- and the potential of an AIDS epidemic here commensurate with those in India and Thailand, the Mission's health efforts are focused on maternal health and HIV/AIDS. Given that USAID's current role is related primarily to policy and IEC (information, education and communication), the Mission expects to have withdrawn from these areas at the end of this strategic period (2000) when it is expected that policies and the techniques for implementing them will be in place.

During this strategic period, as the Indonesian health system shifts from an emphasis on communicable to chronic diseases, continued improvements in the delivery of health services related to these chronic diseases will be required. In order to meet this challenge, the private sector will be led upon to play a much broader role than it has in the past and, if resources allow, USAID will continue working with the government through the year 2000 on a sustainable health care financing model (which is now in the trial stage).

### ***Natural Resources and the Environment***

No country receiving USAID assistance possesses natural resources of greater global importance than Indonesia. The archipelago's expansive tropical forests, abundant marine resources, and vast biodiversity -- all under increasing threat -- have led the USG to designate Indonesia a priority country for the environment. The Mission's environmental strategy through the year 2000 acknowledges the immense socio-economic importance of preserving these resources. It also recognizes the U.S.'s compelling interest in remaining actively engaged in Indonesia in efforts to protect genetic diversity, limit global climate change, and prevent environmental destruction inimical both to Indonesia's economic stability and to U.S. trade and investment objectives in the region. The Mission's strategy calls for improved management techniques in Indonesia, as a means of boosting incomes while conserving natural resources. The strategy also calls for promoting industrial efficiency, reducing

pollution, and improving urban environmental conditions. The Mission envisions a comprehensive bilateral environment program which exploits our comparative advantage in providing technical assistance and training, which strengthens advocacy NGOs, and which promotes improved environmental policies as well as practices.

Given the importance -- to the United States and to the world -- of Indonesia's considerable impact on the global environment, as well as the excellent prospects for efficient and effective resource use in the Indonesian arena, the Mission does not foresee a significantly reduced U.S. engagement in this area (SO3 and SO4) before the end of the century. The Mission will remain engaged through a bilateral mechanism which will tap Global and regional resources as available and appropriate.

### ***Democracy***

During the next few years, Indonesia will inevitably face a change in political leadership, with all the inherent risks of a political system which does not have clear rules of succession and which has not promoted widespread participation. Within this context, the USG has as much or more influence than any other outsider in effecting events and, through USAID, is able to actively promote greater individual initiative and participation in the political process. Recognizing that it is clearly in the interest of the U.S. to support enhanced democratic participation and rule of law, the Mission is developing a project that will strengthen key institutions and promote governmental transparency and a more participatory political system. This activity will take advantage of the U.S. government's ability to influence ongoing changes -- even with modest levels of assistance -- by providing a mechanism to boost those institutions (mainly NGOs) best positioned to advance democracy building.

### ***Conclusion***

The Mission is still developing the details of its transition strategy. These will become clearer as the Mission, ANE and Global begin working on designs of the transition "results packages" which have been outlined in the attached NADs (see Annex B). However these details evolve, it seems clear even at this early stage that the USAID-Indonesia relationship during this strategy period will be characterized by: transition to a joint commission model in the area of economic growth; phasing out of health and population by the year 2000, with the possible exception of South-South population activities; remaining engaged bilaterally in the environment (green and brown) area into the next century; and continuing with democracy building activities.

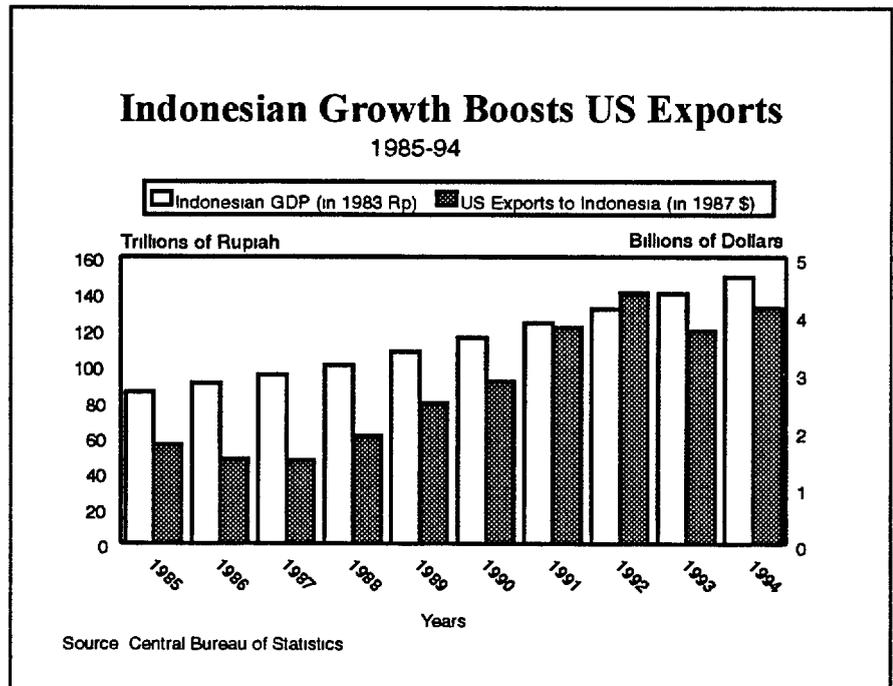
**STRATEGIC OBJECTIVE 1:<sup>1</sup>**  
**SUSTAINED ECONOMIC GROWTH IN THE**  
**TRANSITION FROM ECONOMIC DEVELOPMENT**  
**ASSISTANCE TO DEVELOPMENT COOPERATION**

**INTRODUCTION**

The two reasons for sustaining USAID assistance to economic growth in Indonesia until at least the end of the decade are very simple: it is highly effective and it is clearly in the U.S. interest.

Indonesia has the potential in the years ahead to achieve the transition to sustainable growth. Provided it continues uninterrupted growth of about 6.5% per annum, by the year 2020 Indonesia could be on the verge of NIC status with a per capita income slightly higher than that of Thailand today. This would make Indonesia the fifth largest economy in the world and a major trading partner of the United States. Targeted policy-based assistance from USAID has been very effective in the past in assisting Indonesian economic growth. Continued, but evolving, assistance in key areas will materially aid Indonesia in the complex task of managing Indonesia's expanding economy. It will also serve the U.S. interest by encouraging Indonesia's increasing engagement in deregulated international markets and by supporting policy development in sectors of key interest to U.S. trade and investment.

Conversely, the failure to sustain economic growth in Indonesia will do major damage to the growth of employment and to the poor in Indonesia, as well as to U.S. commercial and even geopolitical interests. USAID policy-based assistance in key areas will help ensure the maintenance of Indonesia's high growth trajectory. Sustained economic growth is also critical to the success of USAID's strategies for



<sup>1</sup> This strategic objective has been changed from that approved by USAID/W in June 1994 in order to better reflect resource flows and an increased emphasis on transition. As the Mission phases out of our existing economic growth program (most current projects terminate in 1997 or sooner) and puts in place the new transition activity (TAGS), different or additional indicators from those now described in Annex A may be required.

assistance to population growth, to the evolution of democracy and to the management of the environment.

Indonesia has been hugely successful in promoting economic growth over the last 25 years. As a result of sound macro and sectoral growth policies -- with key assistance from USAID -- the ruined economy of Indonesia in the mid-sixties has been transformed into one of the miracles of East Asian economic growth. These achievements include self-sufficiency in rice; sustained growth of jobs; increased participation of women; economic growth over 25 years averaging 6.9% per annum; universal primary education; deregulation and transformation of the economy from near-total dependency on oil and gas (for both government revenues and foreign exchange); liberalization of banking and the development of financial markets; growth of decentralized municipal finance; the emergence of Indonesia as a major and reliable trading partner for the United States; and Indonesia's unprecedented leadership in global trade deregulation through GATT and APEC. USAID has supported each of these (and many other) achievements in the Indonesian economic success story and we remain not only one of Indonesia's oldest but still one of Indonesia's most respected development partners.

While the *entire* USAID development assistance effort is less than half of 1% of the Indonesian development budget, our targeted policy-based assistance is still making critical and urgently needed contributions to Indonesian economic growth. As the recent debacle in Mexico has shown, the sustained work of years of efforts to promote economic growth can be undone in days. Economic success is never assured. Moreover, the sheer size of the Indonesian economy -- already larger than Canada, South Korea or Thailand -- creates enormous complexities and difficulties for the future management of an ever deepening and ever more complex economy. Indonesia's human capital and institutional base for economic policy analysis, design and implementation is still *very* slender. Indonesia needs continued access to U.S. know-how in economic management in order to succeed in the formidable task of achieving sustained economic growth and to bring itself to the edge of NIC status in the twenty-first century. This is the key development constraint that USAID will address.

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### Challenges to Economic Growth

Indonesia's economic growth over the past 25 years has been among the strongest in the developing world. Yet significant challenges will have to be met in the years ahead if Indonesia is to reach its goal of achieving NIC status. These challenges will include

- Maintaining average GDP growth of 6.4% for the next 25 years.
  - Revamping Indonesia's commercial code, much of which dates back to the colonial era.
  - Increasing the country's electricity supply by 13 fold over the next 25 years.
  - Achieving universal junior secondary school education. Currently only 60% of Indonesians aged 13-15 attend school.
  - Boosting non-oil exports by at least 16% yearly.
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## STRATEGY

USAID's economic growth strategy is to promote *sustained economic growth in the transition from economic development assistance to development cooperation*.

This strategy will provide support in key areas of economic management and, simultaneously, enhance the opportunities for U.S. business to participate in and contribute to Indonesian economic growth.

With limited resources in a vast economy, policy-based assistance is the only way to exercise influence on national aggregates. USAID experience of the last decade has demonstrated time and again just how effective policy-based assistance is in promoting growth and in supporting U.S. interests.

Actively promoting economic development and our own interests -- including an improved environment for U.S. business -- means continued USAID policy-based assistance in such areas as the deregulation and openness of the Indonesian economy, development of new economic law, creation of modern municipal financing instruments, assistance to the emergence of a more dynamic agribusiness sector, expansion of the role of the private sector (including in the provision of public services), and maintenance of a sound fiscal environment.

While Indonesia is far from ready for graduation, USAID sees a need for a significant transition over the next few years in the nature of our policy-based support to Indonesia. Unlike the past, the future will be increasingly characterized not by the *difference* between Indonesia and

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### SO1: Integration with Other Mission Objectives

SO1 supports the Mission's other strategic objectives in the following ways:

#### SO2: *Improved Health and Reduced Fertility*

Economic growth is key to the expansion of incomes and the ability of people to pay for health and family planning services. Economic growth also expands government revenue, increasing finances for public sector programs and enhancing local government management of these services. Expanded education, which accompanies economic growth, is a major determinant of contraceptive prevalence and infant mortality reduction.

#### SO3: *Decentralized and Strengthened Natural Resource Management*

Environmental degradation is *caused* by people acting out of their individual economic interests. Economic growth is the primary cause of the pressure on land and water resources. Poor economic policies such as the pricing of forest concessions have major adverse impacts on the environment. Sound economic policy is necessary to eliminate divergences between private and social costs and benefits.

#### SO4: *Strengthened Urban Environmental Management*

Economic growth policy, such as subsidies for electricity and transportation, has a strong impact on pollution and on the provision of urban services. SO1 supports increased decentralization of municipal finance for expanded public and private provision of urban environmental infrastructure.

#### SO5: *Increased Effectiveness of Selected Institutions which Support Democracy*

Most of the major political issues in Indonesia are also economic or pocket book issues, e.g., wage policy, broad-based income distribution, equal economic opportunity, equal access to land and capital. Economic growth and freedom from want are also preconditions to the emergence of civil society. Lack of growth will destabilize political development and slow down the democratic transition. Transparency, the rule of economic law, and competition in economic activity, all of which are supported by SO1, also contribute directly to SO5.

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the United States (one poor and the other rich) but by the *mutuality* of our common interests.

In terms of future development cooperation, what the United States has to offer Indonesia is access to the best and brightest of our institutions and collaboration between Indonesian and U.S institutions in mutually beneficial and sustainable ways. For example, we need to work together to support the development of APEC by jointly promoting regulatory environments which open business opportunities in goods and services to the private sector. We need to connect the U.S. Customs Service to the Indonesian Ministry of Finance to work on practical joint problems of customs administration. We need to foster exchange of ideas and data between Bank Indonesia and the Federal Reserve System to support monetary policy management and cooperation in increasingly internationalized markets. We need to link responsible Indonesian municipal finance authorities with the finance systems of the United States and with our own experience in the development of bonds, secondary markets and mortgage instruments to deliver better and vastly expanded municipal service to the urban poor (while allowing U.S. business to participate in the financing and construction of urban infrastructure). We need to foster durable linkages between the American Bar Association and the Indonesian legal profession for the development of commercial law to protect both Indonesian and American investors. We need to encourage the deepening of professional relations between the SEC and the Indonesian Stock Market so that stronger financial markets can finance Indonesian development and so that American fund managers can responsibly place funds in Indonesia's emerging markets. We need to foster linkages between educational institutions so that Indonesians and Americans are better prepared to manage a far more complex future bilateral relationship. We need to foster linkages which encourage mutually beneficial exchanges in science and technology. These are but a few examples of areas in which Indonesians and Americans will perceive a mutual interest for collaboration. USAID can play a catalytic role in fostering and promoting such long-term linkages.

In order to achieve this strategic vision USAID has identified three key components of its strategy.

***First, Indonesia has to maintain a high rate of growth of output.*** High growth of output generates growth in employment and consumption, fosters expansion of savings and investment (including of direct foreign investment), and permits the expanded public financing of education, health and other social services. Low growth not only deprives Indonesia of these critical benefits but makes macro-economic (and even political) stability questionable. As a result investment would dry up and expansion give way to contraction.

***Second, Indonesia must continue to accelerate its integration into global and regional open trading systems.*** The historic Bogor declaration has shown that Indonesia has the political will for sweeping trade liberalization. It is also evident that there are substantial benefits to Indonesia's growth from pursuing the development of an open, competitive economy. High growth and increased openness of the Indonesian economy also creates the pre-condition for expanded trade and investment -- including with the United States.

*Third*, in order to allow U.S. business to participate in the expanded and more open Indonesian economy and in order to provide Indonesia better access to U.S. expertise in economic management *there is a need to encourage the greater maturity of the bilateral Indonesian-American Economic relationship.*

In summary, *sustained growth of output, increased Indonesian participation in the global economy, and increased maturity of the bilateral Indonesian-American relationship*: these are the key challenges to which our SO1 economic growth strategy responds. At the Strategic Output level, USAID has indicators which track whether the USAID program is achieving results which contribute to each of these three key components of the strategy. By reducing our mortgage for ongoing projects which are not absolutely central to an SO1 transition strategy, the Mission has opened up the budgetary room for an FY 96 new project start that will allow us to phase out our current portfolio and re-engineer our support for economic management and make the transition of U.S. assistance to a more sustainable form of development cooperation. This strategy allows for the graceful but responsible termination of USAID assistance in economic growth early in the new century. The Mission's initial thinking on how we will accomplish this is described in the "TAGS" NAD in Annex B.

#### PROGRAM OUTCOMES

In order to monitor SO1, USAID seeks results in three linked program outcomes: (1) improve economic management in key areas, (2) strengthen institutional capacity for economic management, and (3) test pilot programs for economic growth. These indicators are shown in detail in Annex A.

##### **Program Outcome 1.1: *Improve Economic Management in Key Areas***

The Indonesian economic miracle of the last 25 years is a textbook example of the importance of economic policy at both the macro- and micro-level. It is also testimony to our own indirect influence through Indonesian policy-makers trained in the United States who continue to apply their U.S. training in the Indonesian context.

Key policy questions facing Indonesia in the future will be increasingly complex and urgent. Our support for improved policy

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#### Crucial Questions for Indonesia

As Indonesia's economy matures, the GOI is facing increasing complex issues in the area of economic management. Following are a few samples of crucial policy questions on the table *today* with which USAID is assisting Indonesia:

- How should Indonesia phase in its compliance with its GATT bindings and implement the APEC Bogor Declaration for full open regional trade by the year 2020?
  - How should Indonesia's competition law be rewritten to reduce monopolistic practices, increase the fairness and efficiency of trade and investment, and protect Intellectual Property Right?
  - How should Indonesia manage its exchange rate policy in the wake of the collapse of the Mexican peso?
-

design and implementation must continue to be responsive to the key policy questions of the day -- questions which can only be identified as the future unfolds. Indonesians are anxious to access American experience and capacity in public and private sector economic management. As USAID moves into a transition from development assistance to development cooperation, it will build on the numerous existing linkages between policy based institutions - public and private -- in the United States and Indonesia.

**Key Assumptions:** The United States and Indonesia will continue to support global and regional trade liberalization as a *mutual* source of continued economic growth. If either party adopts an inward looking view -- and there are forces at work in both countries which might foster such a regressive view -- then the scope for mutual, sustainable collaboration will be seriously undermined.

### **Program Outcome 1.2: *Strengthen Institutional Capacity for Economic Management***

Policy implementation is frequently the greatest binding constraint on policy decision-making and effectiveness. Consequently, any policy-based program has to address the problems of institutional capacity. A significant part of the Mission's current program is developing the human resource base, the organizational and informational requirements of key policy institutions. These currently include BAPPENAS, the Ministry of Trade, Ministry of Finance and Bank Indonesia. In the future the Mission will continue to foster the expansion of capacity in policy-based institutions -- including think tanks and research organizations, trade associations and policy-based NGOs. However, in a departure from the past, the Mission will increasingly promote the development of mutual self-sustaining linkages between U.S. and Indonesian policy institutions and will withdraw gradually from direct USAID involvement. Education of Indonesians has been a key contributor to economic growth and has clearly provided one of the highest returns to USAID investments. The Mission is seeking to continue human resource development in institutions of economic management, but at significantly lower cost, by shifting from grants to enhance credit (ECP) financing of participant training in the United States.

**Key Assumption:** Indonesia will both want and support linkages with a wide range of U.S. organizations.

### **Program Outcome 1.3: *Test Pilot Programs for Economic Growth***

Pilot programs are important to the USAID strategy because they have people-level impact and because they establish viable systems for large-scale replication by the private sector, by government or by other donors which would be far beyond USAID's modest resources. They also "ground truth" policy design and implementation.

USAID has played an important role in Indonesia in developing pilot projects which, once tested and perfected, are diffused and replicated (e.g., microfinance, small-scale irrigation, privatization of SOEs). Pilot programs also serve the equally important function of being

laboratories for better practices, and experience from pilots can illuminate and inform the policy debate. Do new policies actually work? What are the real constraints faced on the ground by micro-entrepreneurs and can policy change help overcome them? Is there a gap between policy declaration and policy implementation as seen by business persons? Are improved services actually being delivered to people, and how much do they address the real needs of target groups? Are women participating fully or does the design of programs constrain their involvement? These and other key questions can only be addressed by having a program which in part is out in the "real world" where men and women are struggling to make their businesses succeed and to make ends meet for their families. USAID includes pilot interventions to "ground truth" policy and test new models for delivery of services, while at the same time assisting clientele groups. For example the Mission is currently supporting innovative means of expanding microenterprise lending and testing new systems for the private delivery of urban services and for financing health services -- all of which inform our policy dialogue and provide working models for widespread replication.

As the Mission moves into the transition phase of its economic growth assistance, and despite the fact that much of the focus will be at the "macro" policy level, we still see multiple opportunities for fostering linkages between U.S. and Indonesian institutions (NGOs, business, advocacy groups) to sustain a critical people-level involvement in the development and testing of the policy environment to sustain economic growth. The rich experience of the U.S. "third sector" (nonprofit, volunteerism, etc.) will continue to be highly relevant for Indonesian development just as the unique Indonesian experience in microlending can contribute to the United States' own poverty eradication efforts through "Lessons Without Borders".

**Key Assumption:** Indonesia will expand and accelerate the movement to decentralization and to non-government participation to allow experimentation and adoption of new forms of support for production and service delivery.

#### RESOURCES REQUIRED

A minimum of \$5 million per year in SDA "discretionary" funds are required in the out years to fund the new SO1 activity, TAGS. This is \$4.5 million per year more than the Mission received for all discretionary SO1-related activities in FY 95. The Mission has unilaterally reduced its LOP funding (mortgage) for all current Economic Growth projects (ARSSP, Agribusiness) in order to help make budgetary room for implementing this transition strategy. Without these resources the United States will have lost a major opportunity for the development of our mutual interests in Indonesia.

This SO also includes \$5 million annually in HG loans (with an additional \$20 million in HG loans annually under SO4). In addition, approximately \$2.2 million in FY 95 and \$1.5 million in FY 96 in PL 480 Title II resources are required as part of the Catholic Relief Services (CRS) phase-out.

## BUDGET CUT SCENARIOS

If rescission or budget cuts require further SO1 reductions, the Mission will, first, eliminate PL 480 assistance, and, if discretionary account cuts are required, scale back or terminate some *existing* projects or project components in order to protect the transition-based assistance envisioned in TAGS. Choices include reducing the Agribusiness Project LOP funding (which would curtail our involvement in strengthening agroindustries) and/or eliminating all remaining unprogrammed funds under the ARSSP Program from FY 95 until its PACD in 1997.

If earmarks and directives continue at current levels, implementation of our SO1 transition strategy will be impossible. In FY 95 the Mission received only \$.5 million in discretionary resources for SO1 and a further \$2.2 million in Microenterprise directives. This was the entire tranche of resources available for SO1. We have initiated some "policy and pilot" activities through which we are trying to accelerate the development of a framework for expansion of microenterprise. However, encouraging microenterprises is not the core of the Mission's macroeconomic policy-based transition strategy.

## IMPLEMENTATION AND STAFFING

The Mission currently has 5 FTE USDHs supporting the economic growth strategy. They are in three of the Mission's technical offices. The Mission has adopted a matrix management approach in the design and implementation of its economic growth strategy and, as the Mission designs the TAGS program, it will examine again the SO1 staffing and organizational needs.

## COMPLEMENTARITY WITH OTHER DONOR ASSISTANCE

USAID policy-based assistance has balanced the work of other major donors and presented alternatives and deeper perspectives on a variety of issues such as exchange rate policy, debt management and bond financing. As overall concessional financing for Indonesia declines, USAID assistance not only helps to enable Indonesia to assume a greater financing burden for itself, but also provides an opportunity for the U.S. to continue to provide leadership in the transition of overall donor assistance to new and more mature development co-operation relationships.

The 1994 pledges of all donors to Indonesia totaled \$5.2 billion, of which about 65% was for economic growth activities. Three principal donors account for more than 80%: Japan (\$1.6 billion), the World Bank (\$1.4 billion) and the Asian Development Bank (\$1.2 billion). USAID was ranked 12th amongst all donors to Indonesia in 1994. However, total annual pledges are expected to decline as the two multilaterals reduce their lending for large-ticket public infrastructure projects, and as the GOI expands its capacity to finance its own public

sector expenditures. This reduction in donor funding of public sector activities has been made possible in large part by USAID's pioneering work in opening up infrastructure and public services to private provision as well as through USAID support to increase Indonesia's own fiscal efforts and improved tax collection.

Further, over the years, USAID has developed many innovations which, with declining USAID funding, have been followed up on by the Banks with their own funding, e.g., the Regional Development Account, expansion of BRI (Bank Rakyat Indonesia) microenterprise lending, private power generation, and policy research of the sort done by USAID under the recently terminated Development Studies Project.

## STRATEGIC OBJECTIVE 2:<sup>1</sup> IMPROVED HEALTH AND REDUCED FERTILITY

### INTRODUCTION

While Indonesia has made impressive strides over the past 25 years in family planning and health care, many critical challenges still beset this developing nation -- challenges which GOI and USAID decision-makers believe can be better and more quickly met with carefully targeted U.S. training and assistance, continuing through the rest of this century.

Foremost among the challenges facing Indonesia is the need to limit the growth of HIV infection, currently estimated at 100,000 cases and increasing rapidly. Few Indonesians have adequate knowledge of how HIV/AIDS is spread or how to protect themselves from infection. Care and treatment of sexually transmitted diseases (STDs), which significantly increase the risk of HIV infection, is fragmented and of poor quality. As a result, many people remain undiagnosed and untreated.

The U.S. offers internationally recognized expertise in training and technical assistance, through AIDSCAP and the Centers for Disease Control, capable of addressing the HIV/AIDS crisis in a country which is increasingly aware of the problem and willing to build a government-NGO-private sector coalition to deal with it. U.S. assistance now can help Indonesia avert an AIDS epidemic that could cost hundreds of thousands of lives and millions of dollars in medical costs, lost income, and other economic losses (and preclude the demand for ongoing assistance beyond this strategy period).

Maternal mortality occurs in Indonesia at the ratio of 450/100,000 births, which far exceeds other ASEAN nations and many lesser developed

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#### Health and Population: Future Challenges

Despite the gains of the past quarter century, Indonesia will have to confront significant challenges in the years ahead in order to insure a healthy, stable population. Key problems to be addressed include the following:

- o an estimated 100,000 HIV infections, increasing at a staggering rate. Indonesia could become one of the countries hardest hit by HIV virus by the year 2000.
- o the need to increase the number of contraceptive users by 10 million by the year 2005 in order to achieve Indonesia's goal of 65% CPR. This increase represents more than the total number of contraceptive users in sub-Saharan Africa today.
- o a maternal mortality ratio of roughly 450 deaths per 100,000 births -- the highest in ASEAN and 100 times higher than the U.S. ratio.
- o an infant mortality rate of 58 deaths per 1,000 births -- again, the highest in ASEAN.

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<sup>1</sup>*This strategic objective and its program outcomes are the same as those approved by USAID/W in June 1994. However, as a result of feedback from USAID/W and further Mission-internal review, some indicators have changed. These changes are discussed in Annex A.*

countries. This high maternal mortality rate is due to the poor health and nutrition of women (approximately 55% of women of childbearing age are anemic); insufficient prenatal care; poor management of labor and delivery; inadequate referrals; and too many high risk pregnancies. The GOI has set an ambitious target for reducing maternal mortality by half through the deployment of large numbers of trained midwives to communities throughout Indonesia. USAID's MotherCare II project will work with district health officials in South Kalimantan to develop and support a model for increasing the effectiveness of the village midwife system, which will be critical to the achievement of the GOI's target.

Among donors, USAID was one of the earliest to support the promotion of private sector delivery of the services needed to address maternal and infant health issues and, together, the U.S. and Indonesia are now engaged in testing a promising health financing model. This model has the potential for expansion throughout Indonesia and, indeed, elsewhere in the world.

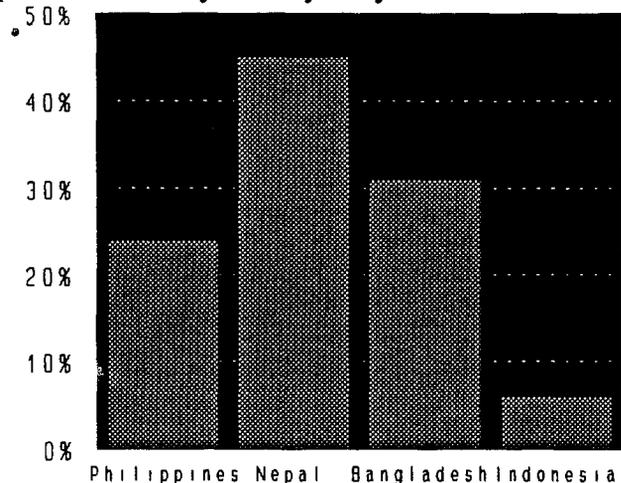
Infant mortality occurs at the rate of 58/1000 and, in 80% of the cases, is linked to water-borne disease. In support of child survival objectives, sustainable urban slum infrastructure improvements are being developed with U.S. technical assistance and HG loan funding. The Mission proposes to build on this successful intervention by supporting the local municipal bond market, to finance water and waste water systems through an Enhanced Credit Facility (NAD submitted to USAID/W in November 1994), as well as through the new environmental activity, CLEAN (see Annex B), which will target environmental mitigation efforts at the local level.

Through an Enhanced Credit Program in Health Care Financing (again, see Annex B) USAID and the GOI will complete and document the gains in access and quality of services and improved health status in demonstration areas, thereby helping Indonesia to achieve a comprehensive and replicable health care system.

The Indonesian family planning program has set the goal of reaching an average of two

### Contraception: Long-Term Methods Lag Behind

While contraceptive use has increased steadily in Indonesia over the past 25 years, long term methods have lagged far behind those in other developing countries that have achieved replacement fertility levels. The chart below shows the percentage of contraceptive users who have opted for sterilization. Indonesia must boost its numbers in long-term methods such as sterilization if the country is to reach its goal of replacement fertility level by the year 2005.



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children per family by the year 2005. In order to achieve this, the total number of family planning users will need to increase from 15 million to over 25 million by 2005, an increase of nearly two-thirds. The number of new users needed (10 million) represents more than all of the contraceptive users in sub-Saharan Africa. But, while contraceptive use rose from 50% to 55% during the 1991 to 1994 period, there was a notable drop in long-term effective methods, (see table) and the current rate of fertility decline is too slow to reach the above goal before the year 2010.

In terms of worldwide impact, after India, Indonesia has the largest population of any country in which USAID provides family planning assistance. Its strategic impact on global targets, combined with Indonesia's strong political will and ability to build on its past successes, argue in favor of continued USAID assistance through this transition period (when it is estimated Indonesia will be near or at 65% CPR). Further, U.S.-sourced training and TA are seen in Indonesia as providing state-of-the-art technological advances, while adding credibility, effectiveness and leverage to the program's requests for increased funding from GOI sources. And finally, Indonesia is emerging as a leader in providing family planning training to other developing nations through South-South cooperation programs, and USAID can help promote this multiplier effect on other developing nations.

USAID support to the Indonesian family planning program has been unique in its scale (\$250 million over 25 years; \$50 million 1994-97), comprehensiveness (training, TA, research, commodities, social marketing) and innovations (voluntary sterilization and social marketing campaigns). We will continue through this strategy period to provide long-term technical advisors for effective policy dialogue as well as operational innovations; and our assistance will be unique among donors in areas of private sector support,

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## **SO2: Integration with Other Mission Objectives**

SO2 reinforces and is supported by the Mission's other SOs in the following ways:

### **SO1: *Sustained Economic Growth in the Transition from Economic Development Assistance to Development Cooperation***

Policy reforms and improvements in the delivery of health and family planning services support the policy and implementation goals of the Mission's economic growth portfolio, especially with regard to increased private sector participation (e.g., public-private balance).

### **SO4: *Strengthened Urban Environmental Management***

Mission urban infrastructure activities support water and wastewater system improvements, which contribute significantly to reducing infant mortality linked to water-borne diseases.

### **SO5: *Increased Effectiveness of Selected Institutions Which Promote Democracy***

A large portion of family planning and HIV/AIDS resources go to advocacy NGOs, which promote the rights of their client groups while helping to insure increased participation and improved access to services.

The Mission's population efforts also strengthen thousands of family planning "acceptor groups". Such community-based groups, which promote broad involvement, support the enhanced participation aspects of the Mission's democracy building efforts.

both for commercialization of contraceptive services and for NGO development; support for long-term effective methods of family planning; social marketing; production of operational research to guide the program; and development of successful models of service delivery.

## STRATEGY

To improve health and reduce fertility, the Mission's portfolio through the year 2000 will increasingly focus on reproductive health and, thereby, on greater integration between the population and health components.

Under reproductive health, the Mission will reduce its family planning emphasis from six areas to three -- focusing on improving effective family planning methods, expanding the capacity and use of the private sector, and redirecting the use of social marketing. These three family planning areas in which we will remain during 1997-2000 are those where performance has not met expectations or where U.S. technical assistance brings to bear considerable worldwide experience and expertise which is not locally available.

USAID will no longer work in strategic planning, research and evaluation (except for minimal support to the 1997 Demographic and Health Survey which is used to measure results relevant to our portfolio). This focusing will reduce the number of Global and bilateral population activities from 19 to 8 (a reduction of nearly two-thirds), thereby lessening the Mission's management burden. The Mission has enjoyed a long, productive relationship with Global programs, the pooling of resources resulting in a very positive synergistic impact. Our buy-ins and OYB transfers in population and health have almost equaled our bilateral resources, and in the future these will be virtually all of the population program, as well as a large part of our health activities in HIV/AIDS and maternal health. This linkage with G Bureau gives us state-of-the-art technical assistance; the ability to draw on vast world-wide experience of Cooperating Agencies; more flexible programming and the ability to quickly respond to targets of opportunity outside long-term bilateral project designs; and the ability to leverage additional central resources.

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### **Reproductive Health: The Core of SO2**

To ensure greater integration of the population and health components of SO2, the Mission is making reproductive health the core of its health and family planning portfolio. This refocus flows from the strategies which were developed under extensive consultations between USAID and the GOI, as well as from key messages from the Cairo population conference. Reproductive health, which includes family planning, maternal health, and HIV/STD control, is the consolidating theme for this SO. An example of this integration is the Mission's support for Indonesia's village midwives network, which addresses family planning needs as well as maternal health and STD control

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The newly drafted joint MOU with G Bureau formalizes this working relationship, clarifies management responsibilities of the Mission and Bureau, and helps to ensure that adequate resources to carry out the Mission's objectives are made available.

In order to build up the GOI's capacity to pass on expertise to numerous other LDC family planning policy and program staff -- and in conjunction with the Common Agenda with Japan and as a follow-up to the U.S.-Indonesia Joint Statement issued during President Clinton's November 1994 visit -- the Mission will support South-South population activities through training, workshops and technical assistance, utilizing selected cooperating agencies (primarily JHU/PCS) as part of their on-going developmental work in both the government (BKKBN) and NGO sectors.

In health, the Mission will consolidate its focus after 1997 and through 2000 from four to two main areas: maternal health and HIV/AIDS. Child survival activities will be undertaken at a lower level of funding as supportive activities to reproductive health. While still critical, child survival rates are not as dismal as maternal mortality and neither CS nor health financing is as central to an integrated reproductive health approach as maternal health and HIV/AIDS. Both the number of Global Bureau and bilateral projects will be reduced during this period (from nine to six), again, saving management time.

## **PROGRAM OUTCOMES**

### **Program Outcome 2.1: *Increased use and quality of family planning services***

This program outcome addresses two important aspects of family planning in Indonesia: contraceptive use among younger women who seek to delay childbirth and use of longer-term and more permanent methods of contraception among older women. By making family planning services more available and increasing and improving the range and quality of contraceptive choices, the Mission expects to improve services for both of these groups. These activities are focused in the seven most populous provinces of Indonesia (which make up over 70% of the total population). With adequate resources at its disposal, the Mission will be able to promote greater contraceptive use, change patterns and quality of contraceptive use and, thereby, contribute to a reduction in the national fertility rate while improving services.

**Key Assumptions:** Two assumptions underlying the achievement of this program outcome are that the unmet demand for contraception will continue to remain high, and that GOI and other donors will continue their commitments to family planning.

### **Program Outcome 2.2: *Increased use and quality of STD/HIV/AIDS and reproductive health services***

The Mission is assisting the GOI by testing interventions in demonstration areas on STD/HIV/AIDS and maternal health. The Mission's work in information, education, and communication (IEC) campaigns, increasing accessibility of condoms, and improving the quality of STD care is expected to result in behavioral change toward prevention and, ultimately, a reduction in STD prevalence rates and a decrease in the rate of increase of HIV transmission. Pilot maternal health interventions include testing a prenatal care referral system and iron supplementation, to be complemented by strengthening the Indonesian Midwives Association to support the rapid training and development of village midwives, the key front line workers in reproductive health. This work will result in the development of private and public sector programs in demonstration areas which document the effectiveness of strategies for diagnosis, treatment and prevention of STDs.

**Key Assumptions:** Underlying the accomplishment of this program outcome is the assumption that HIV/AIDS infections in Indonesia are primarily transmitted through sexual activity, that the GOI will be committed to a strong HIV/AIDS prevention program and maternal health, and that GOI and other donor funding for these activities will continue.

**Program Outcome 2.3:** *Developed and implemented national AIDS and reproductive health policies*

Many of the constraints to continued and improved good health reside in the lack of clear and appropriate national policies or the limited implementation of those which do exist. Past Mission efforts have already led to significant policy changes in the areas of HIV/AIDS and reproductive health, however, these policies are neither fully articulated nor implemented. The Mission will focus on working with policy leaders, implementors and other donors in the design and implementation of interventions aimed at effective implementation of these national programs.

**Key Assumptions:** Underlying the achievement of this program outcome are assumptions that policymakers are willing to act on information about the nature of health problems and effective interventions and that resources (all donors, not just USAID) are adequate.

**Program Outcome 2.4:** *Improved balance of public and private sector provision of health and family planning services*

This program outcome addresses the continuation of efforts to increase the private sector's role in providing reproductive health services and redefining the public/private sector relationship. The Mission has already provided substantial assistance in this area but current heavy demands on health care services, and the impending burden of an AIDS epidemic, will tax Indonesia's health care delivery system, especially as the country moves toward a disease profile resembling that of more industrialized countries. Putting a viable health care financing system in place now will enable Indonesia to successfully meet these challenges. Mission efforts will focus on expanding access to quality health and family planning services

through an integrated health care financing model (see HCF-ECP NAD in Annex B) which utilizes both the private and public sector to provide comprehensive coverage under a basic benefits package which emphasizes preventive care as a means of improving health status and lessening the need for expensive curative care. Through technical assistance related to the Mission's urban portfolio, assistance will also be targeted at expanding the private sector's role in delivering improved water and sanitation services -- key elements in a comprehensive approach to strengthening health care delivery by reducing the burden on health care service providers.

**Key Assumptions:** Critical assumptions to accomplishing this program outcome include continued GOI commitment to the implementation of national health policies and continued USAID resources available for health care and family planning financing initiatives. Continued support from the World Bank, UNFPA, the Ford Foundation and the Australians and Japanese is also assumed.

#### RESOURCES REQUIRED

Approximately \$16 million per year (SDA and POP) through FY 2000 will be required in order to achieve these program outcomes. This is significantly lower than the two-year (FYs 94-95) average of over \$23 million received for this SO but still deemed adequate, given program refocus, to achieve the desired impact.

In addition, approximately \$1.6 million in PL 480 Title II resources are required in FY 95, as the last tranche of USAID support for CRS's MCH program.

#### BUDGET CUT SCENARIOS

If budget cuts are made in this area (which in recent years has been mostly earmarked or directed), the Mission would eliminate, first, PL 480 assistance, next, OMNI (vitamin A) and all child survival programs (BASICS and related urban services) and then, as necessary, funding for grants to BKKBN and local NGOs through the SDES (Pathfinder) and CA population activities.

**Initial budget reductions** would mean an end to all health interventions except maternal health and HIV/AIDS prevention; that is, an end to the social marketing of vitamin A and iron-rich foods intervention, an end to joint U.S. - Indonesia efforts aimed at developing a sustainable health care financing mechanism (greater cost recovery through improved private-public sector balance) for the delivery of health and family planning services -- at a time when Indonesia is facing the challenge of providing better and more affordable services to a rapidly increasing urban population -- as well as an end to child survival interventions (largely urban slum-based).

*Any additional budget reductions* would impede the achievement of increases in contraceptive use which will bring Indonesia to the next CPR plateau (65%) and help them meet the goal of an average of two children per family by the year 2005.

Respectively, indicators for Program Outcomes 2.4 (public/private provision of health and family planning services) and 2.1 (family planning services) would be reduced in scope or eliminated and, in the extreme, the Mission would revise its SO to reduce expected impact in the health area and significantly reduce or eliminate the potential for impact in reducing fertility.

### **IMPLEMENTATION AND STAFFING**

Implementation of USAID-supported activities under this SO has been enhanced by strong GOI commitment to reducing its own and worldwide population growth -- as articulated at the November population conference in Cairo and as shown, for example, by its innovative, yet still experimental, policy to increase the use of voluntary sterilization to reduce maternal mortality. The government has taken a similarly proactive approach in promoting a greater role for the private sector and in developing health care financing models. In addition to the GOI, USAID and its CAs work in partnership with over 15 local non-governmental organizations, which are important additional institutional partners.

Historically, the Mission has depended heavily on USAID/W support in achieving its PHN objectives, and this close relationship will continue through cooperation with the Global Bureau in using central delivery mechanisms as a way of obtaining high quality technical and programmatic services. The Mission will, however, reduce the number of CAs (from 19 to 8) for the delivery of these programs, in order to lessen its overall management burden.

At the Mission, we will continue through at least FY 97 with three USDH staff to oversee six activities: ARSSP [Indonesia Family Life Survey], HCF/ECP, MotherCare II, OMNI (micronutrients), SDES (Pathfinder), and HAPP, valued at a total of approximately \$85.5 million LOP. The Mission will also support (jointly with Global) nineteen (in FYs 95 and 96) other activities funded at an average of roughly \$16 million per year through the year 2000.

### **COMPLEMENTARITY WITH OTHER DONOR ASSISTANCE**

Several years before the recent formal announcement of the South-South partnership initiative by BKKBN, USAID was the initial supporter of the development of BKKBN's International Training Program (ITP), the cornerstone of the GOI's South-South cooperation in population. We have funded long-term technical advisors to ITP, trainee scholarships, IEC materials development, and we have encouraged other donors to support this activity. Over the next three to five years, we will continue to support training facilitators and trainers, and provide TA on effective training techniques, IEC materials and equipment.

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In HIV/AIDS/STD prevention, USAID is collaborating extensively with the Australians, Germans, Japanese, French, and with WHO, UNDP, EEC, and the World Bank in development of their respective projects and activities totalling well over \$100 million. In maternal and child health, both the Australians and the Japanese are developing integrated provincial activities in Sulawesi. Inter-donor discussions to date have focussed on developing effective referral systems, means of increasing the use of ante-natal services, and improved training of midwives. These efforts complement and provide substantial opportunity for collaboration with USAID's MotherCare activities in South Kalimantan. Based on numerous discussions and information sharing, the World Bank will replicate in five provinces USAID's Klaten (Central Java) health sector financing/managed care model. USAID will also provide technical assistance through the BASICS Project to complement and facilitate implementation of the World Bank Project in five provinces. USAID works closely with the World Bank, UNFPA, ADB, the Ford Foundation and the Japanese at the planning level in family planning and population.

Our collaboration with the Japanese in population, HIV/AIDS, and child health is conducted with JICA, the GOJ Ministry of Foreign Affairs and the GOI in the context of the "U.S. - Japan Common Agenda". The Agenda itself is seen by the U.S. and Japan as a means of assuring closer collaboration in these sectors in Indonesia, as well as six other priority developing countries.

**STRATEGIC OBJECTIVE 3:<sup>1</sup>**  
**DECENTRALIZED AND STRENGTHENED**  
**NATURAL RESOURCES MANAGEMENT**

**INTRODUCTION AND STRATEGY**

Out of all the countries receiving USAID assistance, Indonesia stands out as having the most globally important natural resources. Indonesia has the largest area of tropical forests, the widest range of biodiversity, and the richest marine resources. Indonesia also has the greatest potential to destroy natural resources of immense global significance. No country with USAID assistance has a greater level of yearly tropical deforestation. None has a longer list of endangered species.

The richness as well as the problems of Indonesia's natural resources are of concern not only to the sustained economic growth and quality of life of its own population, but also to the rest of the world. Destruction of its biological resources constitutes lost genetic resources for improved crops and new cures for diseases. Pollution and deforestation result in global climate change. Loss of Indonesia's natural resource base on which the economy relies would result in political instability and significant loss of opportunities for U.S. and regional trade growth. For all these reasons, continued U.S. Government support for Indonesia's natural resource and environmental activities is crucial. In fact, the USG has declared Indonesia to be one of the worldwide high priority countries for biodiversity conservation and for global climate change.

Indonesia has acknowledged and is responding to the challenge of managing its natural resource base and environment. The government has given high priority to environmental issues in its current five- and twenty five-year development plans. It has passed key laws in

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**Threats to Indonesia's Environment**

Indonesia's natural resource base, one of the broadest and most diverse on Earth, is under increasing threat on a number of fronts:

- o Deforestation is occurring at a staggering rate of one million hectares per year, one of the highest rates in the world.
  - o Coastal and marine resources degradation is expanding rapidly with 73% of coral reefs classified as severely or moderately damaged, and the mangrove area has decreased 11% in only 10 years.
  - o Watershed destruction and underlying degradation of aquifers is threatening agricultural productivity and Indonesia's rice self-sufficiency and is creating increasing social conflict in the allocation and use of land, water, and other natural resources.
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<sup>1</sup>This strategic objective dealing with natural resource management is derived from SO3 as approved by USAID/W in June 1994. It differs in that it focuses solely on "green" and "blue" issues: forestry, agriculture, marine resources, land management, and biodiversity.

this sector, and has steadily increased the number of employees, most recently doubling and decentralizing the operations of the GOI Environmental Impact Agency (analogous to the USEPA). It has designated 10% of the country's land area (about 19 million hectares) as terrestrial parks and reserves and 5% of its water area (about 30 million hectares) as marine conservation zones and is implementing the *National Action Plan for Biodiversity Conservation for Indonesia* with coordinated donor support. However, the problems are massive, and Indonesia continues to need the support of donors in key aspects of natural resource management and environmental protection.

The recently completed draft *Indonesia Environmental Assessment and Strategic Action Plan* prepared for the USAID Mission by the World Resources Institute (WRI) highlighted the natural resources management problems of (1) terrestrial biodiversity and stock loss caused by forest and land conversion, over harvesting, and destructive extraction practices; (2) aquatic and marine biodiversity and stock loss caused by uneven harvesting, and pollution from urban and industrial and transport sources; and (3) reduced water quality caused by overdraw, deforestation, and inadequate water catchment area management. The World Resources Institute noted, USAID has the comparative advantages that enable it to support strategic, complex activities at a significant enough level to influence decisions about priorities, strategy, and objectives. It can help create an 'enabling environment' of better policy, implementation strategies, and natural resources management and environmental problem solving options that substantively contributes to Indonesia's sustainable development. USAID's comparative advantages include top-level technical expertise, the ability to flexibly use grant resources, and effective supporting (Global and USAEP) programs. These advantages are augmented by a high level of confidence and support among Indonesian partners for the Agency's sustainable development objectives.

### **SO3: Integration with Other Mission Objectives**

SO3 reinforces and is supported by the Mission's other SOs in the following ways:

#### **SO1: *Sustained Economic Growth in the Transition from Economic Development Assistance to Development Cooperation***

The preservation of natural resources under the Mission's environmental portfolio is essential to Indonesia's sustained economic development.

#### **SO2: *Improved Health and Reduced Fertility***

The Mission's efforts to stabilize population growth in Indonesia, in turn, reduce the rate of destruction of natural resources, particularly deforestation and marine resource degradation.

#### **SO4: *Strengthened Urban Environmental Management.***

The Mission's programs to finance urban environmental infrastructure will reduce water pollution that is a major threat to marine resources.

#### **SO5: *Increased Effectiveness of Selected Institutions which Support Democracy***

By assisting local governments in the management of natural resources, and by supporting local community groups and environmental advocacy NGOs, the Mission's environmental efforts support its participation objectives.

Operationally, USAID's strength lies in its ability to co-finance the demonstration of innovative options in the field so that a persuasive case can be made for their replication.

To help Indonesia overcome the problems mentioned above, the USAID Mission has identified key partners and activities on which it will work with these partners. These activities will support the following policy agenda:

- \* Sustainable management of forestry, marine and agricultural resources through better technical practices and greater local community management of resources and involvement in government programs.
- \* More efficient resource use, conservation, and pollution prevention by forestry, marine and agricultural industries through removal of policy and regulatory distortions, introduction of new technologies, and increased public awareness.
- \* Decentralized regulatory and management authorities and strengthened local and regional environmental impact assessment.
- \* Capacity building of private institutions for increasing awareness of sustainability and environmental issues by the Indonesian public.
- \* Increased participation of women in all aspects of natural resources planning and management.

This strategy will promote sustained incomes and conserve biological diversity by improved forest, agriculture and marine resource management. It will also promote industrial efficiency and pollution reduction by improved management of land resources and production processes.

### **PROGRAM OUTCOMES**

**Program Outcome 3.1:** *Greater stakeholder participation in decisions about the planning, management, and monitoring of natural resources*

USAID will form partnerships with government, NGOs, local communities and other donors to demonstrate innovative approaches for managing forest, marine and agricultural areas with an emphasis on local community participation, and more efficient and sustainable use of natural resources. These partnerships will test community management models for conserving forests and coastal and marine resources to meet the livelihood of local communities while providing incentives for long-term, sustainable use.

**Program Outcome 3.2: *Increased conservation and pollution reduction by natural resource-based industries***

USAID will support policy and practices that provide incentives for natural resource-based industries to adopt better land husbandry practices and to produce higher value, less polluting products. The Mission will continue support to the GOI to examine policies that affect environmentally sound natural resources management. Since public and private industries directly control and manage a major portion of Indonesia's natural resources, responsible allocation and management of natural resources are critical environmental and socio-economic issues. USAID assistance will promote the development of improved policies and encourage private investment and technological innovation in natural resource based industries.

**Program Outcome 3.3: *Improved policy development and implementation***

USAID will strengthen networks and partnerships among governments, universities, NGOs and communities for policy analysis, implementation, and monitoring. This will involve support for the decentralization of authorities, increased information sharing, and advocacy for greater participation of women in all activities. Policy development and implementation will be done at the national, provincial and local levels. Strengthened decentralization of management authorities and improved environmental impact planning and monitoring will be an important element of all community management demonstrations.

**Program Outcome 3.4: *Strengthened institutional capacity for biodiversity conservation***

USAID will support GOI implementation of the *National Biodiversity Action Plan for Indonesia* by strengthening private institutions supporting biodiversity conservation. This will involve analysis, field work and public education concerning natural resources management, biological diversity conservation, and pollution prevention working with the GOI, other donors, and a variety of NGOs. The Mission will continue to work closely with the new Indonesia Biodiversity Foundation to help it become a center of excellence for biodiversity program support in Indonesia. Other environmental NGOs will be strengthened both technically and in terms of administration and management, particularly for increasing public awareness and community involvement in biodiversity conservation.

**Key Assumptions:** A critical assumption to the accomplishment of these program outcomes is the increased recognition by the GOI that it cannot solve its environmental problems through a centralized command-and-control approach. While the GOI may be able to forecast macroeconomic and environmental issues, it does not, and likely will not, have the resources nor the reach to anticipate and solve these problems where they occur, far away from Jakarta and centers of government authority. Indonesia's business community, the engine of economic growth, and its citizens, the beneficiaries of growth, need the rights, responsibility

and authority to participate even if, from a political point of view, it may be perceived as risky.

A second critical assumption is the continued ability of the Mission to support environment NGOs without significant constraint, and the continued willingness of the GOI to work with NGOs on environmental issues. USAID possesses the unique ability among the major donors (WB, ADB and the GOI) to provide support to environmental NGOs. It also possesses the unique ability among all other large in-country donors to provide support to NGOs without specific GOI approval and oversight.

#### RESOURCES REQUIRED

Approximately \$15 million per year will be required to achieve these program outcomes. This is approximately the same level as that provided in FY 95.

#### BUDGET CUT SCENARIOS

*Initial budget cuts* would result in the Mission reducing activities funded under the new Natural Resources Management II Project. This would impede the development of new models for community management of marine resources, and reduce our ability to establish our field testing and policy analysis role in the area of coastal and marine resources.

*Any cuts above 20% of the planned levels* would require the reduction of or withdrawal from efforts in two areas: (1) conservation and pollution reduction by natural resource-based industries and (2) coastal and marine resources conservation. (These two areas would be reduced first, because they are new to our portfolio, and USAID thus has less invested capacity in them. Also there is somewhat less GOI commitment to these areas, as compared with terrestrial natural resources management.) This would mean the elimination of P.O.3.2 and elimination of the targets of P.O.3.1 and P.O.3.4 related to marine resources. The result would be a diminution of the country-level program and reduced role for USAID in national policy dialogue. It would also mean a reduction in the global impact of the Mission's portfolio, since the Indonesian forest and marine sub-sectors are extremely important for global biodiversity and, likewise, the Indonesian forestry sub-sector is extremely important to USAID climate change efforts, since 76% of Indonesia's greenhouse gas emissions are from deforestation.

#### IMPLEMENTATION AND STAFFING

SO3 activities will be supervised by three USDHs who will oversee environmental activities in forestry, marine, agricultural and biodiversity sub-sectors involving six government ministries.

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The environmental assessment stated that USAID's ability to innovate and to support civil society was unique among donors. Yet interventions in these areas, which are key to achievement of this objective, are by nature staff-intensive. Nor are there currently Indonesian institutions which can assume responsibility for these interventions. For this reason, if USAID is to work effectively in this area, staff and funding requirements will continue to be relatively high over this strategic period. During design of the new strategic objective-based program (NRM II), USAID will explore possibilities for establishing sustainable models that will enable USAID to rely more on Indonesian institutions to further the strategy. Some models already exist:

- the Biodiversity Foundation will provide a sustainable, high-quality mechanism for research, pilot activities and advocacy;
- USAEP and Global program partnerships with USAID will create institutional linkages with Indonesian organizations that will allow for eventual reduction of USAID management and will attract resources of the private sector;
- the assessment has recommended development of other Indonesian institutions to carry on activities as USAID reduces its hands-on management, including an Institute for Community-Focused Natural Resources Management;
- direct linkages which already exist may be strengthened between U.S. and Indonesian environmental organizations such as the U.S. Forest Service and Ministry of Environment; USEPA and BAPEDAL.

USAID's program also collaborates effectively with other USG natural resource and environmental programs, particularly the U.S. Forestry Service (support for forest fire control and numerous training initiatives), the U.S. Environmental Protection Agency (industrial pollution prevention and various technical assistance efforts) and the Oceans, Environment and Science Bureau of the Department of State (International Coral Reef Initiative activities). USAID prepared two joint statements of the U.S. and Indonesia regarding sustainable management of forest resources and the International Coral Reefs Initiatives, that were issued during President Clinton's visit to Indonesia in November 1994. In addition, the Mission accesses considerable support from both USAID/W's Global and regional bureaus, most notably from Global Environment Facility funds and the US-Asia Environmental Partnership activities (Biodiversity Conservation Network, Professional and Organizational Development, Environmental Improvement Project).

#### COMPLEMENTARITY WITH OTHER DONOR ASSISTANCE

Other donors have formed effective alliances with the USAID Mission, and this is continuing to expand on several fronts.

In the area of forestry, there is extensive support from many bilateral donors, multilateral banks, and international organizations. Coordination is undertaken through the Consultative

Group on Indonesian Forestry that meets regularly in Indonesia to discuss forestry programs. USAID's role, which was confirmed by the recent WRI assessment, lies in elaborating innovative policy alternatives, testing forest management and concession-granting reforms, and promoting increased local community participation in forest resources planning and use. WRI believes that good opportunities exist for USAID to coordinate and leverage resources, especially in association with U.S. foundations and bilateral aid programs. USAID also works directly with donors on specific forestry projects, particularly with the World Bank to promote improved forest management policies and with Japan and the International Tropical Timber Organization under our Natural Resources Management Project.

In biodiversity conservation, there are fewer donors. The major donors are Japan, the U.S., the World Bank, ADB, and the GEF. Coordination is planned under the *National Biodiversity Action Plan for Indonesia* through the creation of a National Biodiversity Commission. Since the Commission has not yet been formed, the Governments of Indonesia, Japan and the United States have formed a program coordinating committee to assure complementary GOJ financing for activities in degree training, applied research and nature conservation to support the implementation of the new Indonesian Biodiversity Conservation Program. USAID's role is working on the interface of GOI programs with NGOs and communities for *in-situ* biodiversity conservation. The new Indonesia Biodiversity Foundation and the field testing of integrated conservation and development models are the principal elements of USAID's efforts in biodiversity conservation.

In agriculture, there has been extensive donor support for many years, primarily focusing on agricultural production research, extension activities, and supporting infrastructure and services. USAID has gradually withdrawn from traditional production-oriented areas of assistance and has established a new role in defining environmentally-sound approaches for agriculture and agribusiness. Our role of testing agroecosystem approaches in community management models, and of working with agroindustries and associations to promote better land husbandry was endorsed by the recent WRI environmental assessment. Agricultural coordination is undertaken through a variety of committee and direct project relationships. The World Bank has provided a loan to co-finance farmers' training and extension activities identified in USAID's IPM Program, and Japan is continuing user group approaches for water resources management established by USAID's Irrigation Management Program.

In coastal and marine resources, there are fewer donor projects and no formal coordination mechanism. Donor projects have primarily involved fisheries or national parks/protected areas, with emphasis generally focused on resources management in a specific geographic area. Recently, several donors, particularly the multilateral development banks, have begun to expand their programs in these areas. USAID's marine resources conservation activities will be expanded under the new NRM II Project by engaging several donors in testing decentralized community management models for coastal and marine resource conservation.

**STRATEGIC OBJECTIVE 4:<sup>1</sup>**  
**STRENGTHENED URBAN ENVIRONMENTAL MANAGEMENT**

**INTRODUCTION AND STRATEGY**

Indonesia is facing urban environmental management challenges that are unique among countries receiving USAID assistance, because of the size of the Indonesian population, the speed with which it is concentrating in cities, and the impacts on urban areas of rapid industrialization. The government estimates that by the year 2004, sixty percent of the entire population -- about 155 million-- will reside in urban areas. Much of that growth will occur in the largest cities. By 2004, the Jakarta metropolitan area is expected to have 35 million residents. By 2020, Indonesia expects to have at least 35 urban areas with over one million residents each.

The speed and scale of Indonesia's urban growth are causing severe environmental damage and are now overwhelming the ability of local officials to provide a healthy and productive living and business environment. Impacts on the urban poor are particularly severe, especially for women and children who typically spend more of their time in the residential environment and thus feel the harshness of urban poverty more directly. By the year 2000, the impacts of urbanization, industrialization, and an estimated four-fold increase in energy production will lead to severe degradation of air, water, and ground resources. As of the mid-1990s, only a handful of Indonesian cities have central sewage treatment systems; these serve a tiny fraction of the total urban population. With the exception of bottled

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**Growing Threats to Indonesia's Cities**

Rapid urbanization and industrialization are bringing a host of threats to Indonesia's cities:

- o Unsafe water is one of the major sources of disease in the country, and is a contributing factor in a majority of infant deaths.
- o About 44% of urban households rely on private septic tanks, the rest dispose of human waste directly into rivers and canals.
- o Industrial waste is making a rapidly increasing contribution to urban water pollution; its production is growing exponentially, it is increasingly untreatable by conventional means, and often is hazardous.
- o Other forms of solid waste constitute an additional, serious polluting factor in urban areas; as much as 40% of urban solid waste is not collected at all in Indonesia, and much of what is collected ends up in rivers or uncontrolled dump sites.
- o The lack of clean, renewable energy production is contributing to significant urban environmental pollution affecting air quality, solid waste disposal, and thermal water pollution.

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<sup>1</sup>*This strategic objective is derived from SO3 as approved by USAID/W in June 1994. It differs in that it focuses solely on "brown" or urban and industrial issues.*

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**SO4: Integration with Other  
Mission Objectives**

SO4 reinforces and is supported by the Mission's other SOs in the following ways:

**SO1: *Sustained Economic Growth in the  
Transition from Economic Development  
Assistance to Development Cooperation***

A strengthened system of intergovernmental transfers, an effective mechanism for local government borrowing, as well as transparent regulations for private participation in urban services are all crucial to Indonesia's sustained economic development. Without local government financing for the development of urban environmental infrastructure, urban areas will be unable to continue as engines of economic growth.

**SO2: *Improved Health and Reduced Fertility***

Safe water and effective disposal of human and solid wastes are essential for the improved health of the average Indonesian citizen. Water-borne diseases are especially prominent in Indonesia and contribute significantly to infant mortality nation-wide.

**SO3: *Decentralized and Strengthened Natural  
Resources Management***

Urban and industrial sources of pollution are critical factors in marine damage in coastal areas, as well as ozone depletion and other basic kinds of environmental damage throughout the "blue" and "green" sectors.

**SO5: *Increased Effectiveness of Selected  
Institutions which Support Democracy***

The kinds of community awareness of and participation in local government infrastructure planning and management, which SO4 activities will promote, should prove to be key building blocks in long-term democratization efforts. The decentralization of government finance, necessary to effectively fund improvements in urban environmental infrastructure, will move key government decisions closer to the level of the average Indonesian citizen.

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water, virtually all existing sources of water are already unsafe for drinking.

The Indonesian government is making an effort to address the urban environmental management challenge. Urban environment issues have received priority in the government's current five-year development plan, and are central concerns of the annually updated Urban Policy Action Plan (UPAP). Human and solid waste management has been targeted as a critical urban issue, and the government is currently surveying these needs in 25 key urban areas. The government has also just announced a new initiative to grant administrative autonomy to 26 cities, to allow them to better respond to the challenges of urbanization. The government plans to expand this list rapidly over the next two years and will expect these cities to find ways of engaging community groups more directly in the planning and management of urban environmental services.

Despite these efforts, Indonesia will make little headway against the massive challenges of urban environmental management without continued donor support. While most donors will continue to help design and implement infrastructure construction projects, particularly in the area of water supply, the USAID Mission will continue to focus on the policy and procedural framework within which this infrastructure must be planned and managed at local and community levels.

The MFEI Housing Guaranty Program (FYs 94-99) has helped to focus the Indonesian government on an urban policy agenda that is changing the way infrastructure funds are collected, managed, and repaid, to the long-term benefit of urban residents. A major output of these efforts has been the government's own decentralization agenda, embodied in the Urban Policy Action Plan (UPAP) and the collection of monitoring

indicators that quantitatively measure UPAP progress. In support of the urban policy agenda, technical assistance efforts under MFP and PURSE projects will help strengthen the central government policies and procedures necessary for a decentralized system in which local government can more effectively plan, manage, and finance environmental infrastructure. The Indonesia Clean Industrial Production (ICIP) activity will demonstrate the savings possible for selected industrial sectors from waste minimization techniques, and will train Indonesian engineers to advise on waste-reducing processes to decrease reliance on expatriate assistance. When possible and appropriate, local officials will be encouraged to consider innovative, cost-effective environmental management technology identified as part of the US-AEP program.

A key element in the decentralization of infrastructure finance will be the launching of a municipal bond market in Indonesia, which will be made possible under the proposed Local Government Bonds Project (with support from the Enhanced Credit Program.) Municipal bonds are widely recognized as the most cost-effective method for financing local government public works and are a key mechanism in mobilizing under-utilized domestic savings. The LGB Project (the LGB-ECP NAD was submitted to the ANE Bureau in November 1994) will demonstrate how such bonds can be sold and the outstanding debt managed. The combination of (1) a sustainable market in municipal bonds developed under LGBP, (2) new opportunities for private participation in urban infrastructure provision developed under PURSE, and (3) increased local government responsibility for planning, managing, and financing infrastructure development achieved as part of MFP, combined with the linkages between U.S. companies and local governments promoted by US-AEP, should substantially expand opportunities for the private sector to provide part of the \$8 billion in urban environmental infrastructure investments needed by Indonesia over the next decade.

Future technical assistance proposed as part of the Coordinated Local Environmental Action Networks (CLEAN) project (see NAD in Annex B) will add a concluding chapter to USAID's ten years of urban work in Indonesia by institutionalizing and operationalizing policies, procedures, and financing techniques at the local level of government. Working directly with decision-makers from local government, businesses, and community organizations, CLEAN technical assistance teams will encourage a comprehensive approach to urban environmental management in key urban areas, with special emphasis on the water cycle, industrial pollution, as well as clean and efficient energy production. A special focus of CLEAN activities to be undertaken as part of the Indonesian Clean Industrial Production (ICIP) activity will be the demonstration of savings gained in selected industrial sectors from waste minimization techniques.

#### PROGRAM OUTCOMES

**Program Outcome 4.1:** *Adoption of new policies and practices to facilitate decentralized financing of urban environmental infrastructure*

The Mission will support development of policies and procedures that increase government

investment in urban environmental infrastructure. The focus of USAID work in this area will be on decentralized financing that allows local governments to plan and implement infrastructure activities via discretionary intergovernmental transfers, loans provided by central government financial intermediaries, or direct access by local governments to domestic capital markets. The Mission will also continue to promote policies and procedures that encourage and facilitate private sector participation in urban services. These efforts include fundamental changes in government procurement rules and regulations, as well as BOO/BOT demonstration projects.

**Key Assumptions:** Continued willingness of the government to decentralize responsibilities for government finance to local level (level II) government units.

**Program Outcome 4.2:** *Wider adoption of improved practices in urban environmental infrastructure service provision*

The Mission will support the development of policies and procedures that facilitate sound planning, management, pricing, and financing of environmental infrastructure services at the local level. The Mission will play a major role in efforts to support the development of an indigenous capacity to deliver technical assistance and training in urban environmental quality management. Technical assistance and training will also focus on increased public awareness of, and participation in, local planning, management, and financing of these services. Technical assistance will help to organize informal communication networks involving local government decision makers and representatives of community groups to more effectively carry out planning and management activities.

**Key Assumptions:** Continued government commitment to human resource development at the local level; continuing central government support for and encouragement of increased local participation in municipal development decision making

**Program Outcome 4.3:** *Adoption by government and industry of policies and procedures to reduce industrial damage to the environment and promote cost-effective use of clean, renewable energy*

The Mission will provide technical assistance and human resources development in selected industrial sectors to promote the use of pollution-reducing and energy-efficient processes. USAID will assist the government in encouraging industries to reduce their pollution output and adopt self-compliance to emission and treatment standards, through a combination of economic incentives, penalties, and public recognition. Full-cost pricing, "polluter pays," and valuation of public goods are principles that will be integrated into industrial pollution and energy management support policy.

**Key Assumptions:** Continued government willingness to implement rules and regulations regarding industrial pollution emissions; active government financial support for clean, renewable energy production.

## RESOURCES REQUIRED

Approximately \$9 million per year will be required to achieve these program outcomes, in addition to annual HG lending of \$20 million (with another \$5 million in HG loans under SO1).

## BUDGET CUT SCENARIOS

*Initial budget cuts* would result in the Mission cutting back on new activities proposed as part of the CLEAN project. Any cuts in this already modest project would reduce the ability of the Mission to move toward effective strategic objective management within the urban environmental sector. Budget cuts would mean less activity in the critical industrial pollution and energy production sectors, and would likely affect the project's ability to demonstrate the local government improvements in environmental management targeted as part of CLEAN to an appropriately wide audience of central and local government officials.

*Any cuts above 20% of the planned level* would mean reductions in industrial pollution abatement activities to be undertaken as part of the Indonesian Clean Industrial Production (ICIP) activity. More extensive cuts would affect the urban environmental management component of the Municipal Finance Project (MFP), including the Local Government Bond activities proposed with Enhanced Credit Program support, and likely eliminate at least some pilot project activities to be undertaken as part of the PURSE Project.

## IMPLEMENTATION AND STAFFING

Over the next three years the SO4 agenda will continue to be implemented by teams of technical advisors managed by Mission staff. MFP advisors assigned to the offices of key Indonesian counterparts in four central government ministries will continue to work on all aspects of decentralized government finance. One MFP advisor will head the National Training Secretariat, which will guide all training for senior urban managers. PURSE advisors will continue to work directly with central government and local government officials, particularly in connection with new policies and procedures to facilitate public-private partnerships in urban infrastructure service provision.

CLEAN advisors will apply and institutionalize the successful aspects of MFP and PURSE at local and community levels (particularly in poor areas), through a substantial technical assistance effort aimed at direct interaction with local environmental action networks composed of local leaders from government, business, and residential communities.

US-AEP and the Global Bureau will continue to provide support to USAID's urban programs over the next three years.

The Indonesian government has indicated strong, continuing support for USAID's work in the urban sector. SO4 is fully consistent with the GOI agenda for urban development, as set forth in Repelita VI and the current Urban Policy Action Plan. The government has recently begun to target human and solid waste management as a critical urban issue, and is currently surveying these needs in 25 urban areas. By grant complete administrative autonomy to 26 cities (soon to be expanded to 60 cities), the government has asked these municipalities to seek ways of more actively engaging community groups more directly in the planning and management of municipal services. Such government initiatives are being implemented in consultation with USAID, and are expected to assist the Mission in achieving SO4, particularly as the CLEAN project begins implementation.

Over the next three years, MFP, PURSE, and US-AEP activities will continue, and activities under CLEAN, ECP-LGB, and ICIP will accelerate. Four USDHs will oversee activities under this SO; two of these USDHs will continue to have regional responsibilities.

#### COMPLEMENTARITY WITH OTHER DONOR ASSISTANCE

USAID's unique approach among donor efforts in the urban environmental sector focuses on the policy and procedural framework within which infrastructure construction projects, often designed and implemented with the direct involvement of other donors, must be carried out. Other manifestations of this relationship between USAID and other donors include the following:

ADB-funded technical assistance to help local governments prepare proposals for loans to finance urban environmental infrastructure is being designed according to USAID preliminary specifications; the USAID Housing Guaranty Program funds many of the targeted local government loan programs, and USAID-funded advisors have helped the Ministry of Finance to prepare a strategic development plan for the future administration of these loan activities.

Training for local government officials to improve municipal management and urban environmental practices, sponsored by the World Bank and ADB, will be designed and coordinated within the existing framework of the Urban Management Training Program (UMTP), created as part of USAID's Municipal Finance Project; all training modules will meet UMTP curriculum requirements.

Current efforts underway by the World Bank and ADB to assist local governments in the development of capital plans and long-term strategic development plans will be required by the Ministry of Home Affairs to conform to its action plan for local government administrative reform, developed as part of USAID's Municipal Finance Project activities in support of policy change.

The Urban Policy Action Plan, developed in BAPPENAS with the help of MFP consultants, now guides all donor development work in the urban sector.

Efforts by other donors to support renewable energy production, clean industrial production, and other energy-related activities, have taken place within policy and procedural frameworks established as part of USAID activities.

**STRATEGIC OBJECTIVE 5:<sup>1</sup>**  
**INCREASED EFFECTIVENESS OF SELECTED INSTITUTIONS**  
**WHICH SUPPORT DEMOCRACY**

**INTRODUCTION AND STRATEGY**

Indonesia's New Order Government, under the leadership of President Soeharto, has for nearly three decades consistently pursued market-oriented development policies that have brought major achievements in economic growth and poverty alleviation. Despite these important gains, noted in earlier sections, the New Order has been from its inception an authoritarian regime dominated by a single powerful leader. Broad-based participation in economic life has not been accompanied by an expansion of political participation. A fully "Western" view of representative democracy, with its clear separation of powers, freedom of association, free elections, independent parties and unbridled press is alien to Indonesia's own brand of democracy, called "Demokrasi Pancasila", which emphasizes "consensus through consultation."

While there is resistance to greater democratization, there are increasing calls from the growing middle class for more openness, greater transparency in government, and reduced corruption and abuse of power. Indonesia's constitution theoretically mandates an independent judiciary, free election of representatives, and freedom of speech, worship and association. However, such "rights" are severely circumscribed by many of the tenets of the national ideology "Pancasila" and by the "security approach" practices of the New Order Government. Nonetheless, the basic framework for democracy is in place. While much can happen to derail the development of a more democratic environment based on the rule of law, Indonesia's future course can be portrayed in four likely stages: (1) economic growth, with increasing deregulation and transparency; (2) development of truly independent and autonomous civil society organizations; (3) development of an autonomous political party system; and, (4) strengthening of the responsiveness and accountability of state structures -- the executive, legislature and judiciary -- to the people. Most analysts see Indonesia today at stage (2).

Recognizing the inherent influence of the USG in promoting democracy, and in the context of the Embassy's Human Rights Action Plan, USAID has focused its democracy portfolio in Indonesia on increasing the effectiveness of selected institutions which promote a democratic political culture and adherence to rule of law principles. In keeping with the Agency's democracy guidelines, NGOs dealing with citizens' rights, freedom of the press, legal aid, labor relations, land disputes and consumer protection are targeted, as will be GOI judicial institutions if circumstances warrant. The Mission's program supports advocacy and

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<sup>1</sup>*This strategic objective flows from the analyses and recommendations contained in an extensive USAID and U.S. Embassy Democracy Assessment and Strategy, which was approved by Washington in December 1994.*

encourages dialogue between NGOs and the GOI. While the GOI does not accept all Western concepts of democracy, our countries do share a common ideology regarding the primacy of the rule of law. USAID's focus on rule of law will enable the Mission to program activities that the GOI does not find overly controversial; we will support the enhancement of the respect for rule of law through greater public awareness of the laws and greater access to the courts and/or alternative dispute resolution mechanisms. The Mission also seeks to strengthen the civil society in order to generate public demand and pressure for reforms and equal access. A special effort is being made to target NGOs which represent the following groups: women, who constitute an increasingly large portion of the workforce yet remain under-represented politically; Muslim groups, which are a moderating and pro-democracy majority voice in Indonesia, and have contributed greatly to the success of national programs such as family planning; and people in politically sensitive areas (like East Timor) where the local population is often severely marginalized.

In implementing its democracy program, the Mission is building on its already-established relationship with advocacy and other NGOs and, when appropriate, engages U.S. institutions such as The Asia Foundation. To date the U.S. remains the single most important source of support in this area.

## **PROGRAM OUTCOMES**

### **Program Outcome 5.1: *Increased NGO advocacy for democratic participation***

Many NGOs started out in Jakarta or as provincial service organizations but have since become national advocacy and lobbying bodies. These NGOs need resources to improve their advocacy skills, to temper their enthusiasm with more comprehensive research and analysis, and to mobilize public participation more effectively. The program will encourage NGOs to increase public awareness of their activities through the local press media. NGOs will be supported in mobilizing public opinion through seminars, publications and surveys. The program will seek to expand the scope and effectiveness of NGO advocacy campaigns, especially in the areas of citizen's rights, media freedom, environmental and labor concerns. Education of the public about citizens' rights will be promoted. NGOs will be encouraged to seek dialogue with government officials in policy-making.

### **Program Outcome 5.2: *Increased activities that promote respect for rule of law***

USAID will work with selected NGOs and government agencies involved in monitoring corruption, abuse of power, and collusion. Resources will also be made available to enable government agencies and NGOs to publish and publicize the existing laws of Indonesia. Legal aid institutions will assist marginalized groups and individuals (women, laborers, indigenous peoples, the poor and children) in legal proceedings to ensure a more consistent enforcement of existing laws. In particular, USAID will support NGOs that are lobbying to

ensure that employees receive minimum wage and health requirements, and that forestry developers recognize the legal land rights of indigenous people. The judicial system is not efficient and has backlogs ranging from one year in the high courts to five years in the Supreme Court. This program will encourage the establishment and use of alternative dispute resolution mechanisms, in the commercial area, as well as possibly in the labor and human rights arena.

**Program Outcome 5.3: *Enhanced capacity, reliability and responsiveness of selected NGOs***

To ensure sustainability of NGO efforts to promote advocacy and rule of law, selected organizations need to strengthen their own internal management and client responsiveness. The program will also support institutional development. To promote institutional development and greater NGO autonomy, USAID will encourage more diverse financial resource bases for NGOs. Activities that strengthen the management and planning capabilities will be supported. NGOs will be required to become more accountable with more transparent management and financial reporting systems. Networking with other national and international NGOs is seen as a way to share information and learn from experiences of other similar agencies.

**Key Assumptions:** Underlying the accomplishment of all these program outcomes is the assumption that USAID will continue to enjoy direct access to NGOs and other institutions with which the Mission will work. A government clampdown on NGOs would seriously hinder the achievement of the above outcomes, the entire democracy SO, and potentially USAID's very presence in Indonesia.

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**SO5: Integration with Other Mission Objectives**

SO5 reinforces the Mission's other strategic objectives in the following ways:

**SO1: *Sustained Economic Growth in the Transition from Economic Development. Assistance to Development Cooperation***

Greater democratic participation increases the demand for access to markets and services, which is a key element in the Mission's economic growth portfolio.

**SO2: *Improved Health and Reduced Fertility***  
Under SO5 the Mission supports several advocacy NGOs that are active in family planning and HIV/AIDS activities, giving constituent groups greater "voice" and "choice".

**SO3: *Decentralized and Strengthened Natural Resource Management***

Several NGOs supported under the Mission's democracy portfolio are leading national advocates for environmental and natural resources concerns.

**SO4: *Strengthened Urban Environmental Management***

The success of the proposed CLEAN project will depend on local community participation in the decision making surrounding infrastructure development. SDI (SO5's main project) strengthens NGOs that play a crucial role in facilitating such community participation.

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### **RESOURCES REQUIRED**

The Mission estimates that approximately \$8 million per year through FY 2000 will be required in SDA, discretionary, and possibly earmarked (e.g. Administration of Justice) resources in order to achieve these program outcomes.

Other USG funds also support the core activities of TAF, AAFLI, and NED in Indonesia.

### **BUDGET CUT SCENARIOS**

While USG influence in this sector is disproportionately greater than the financial resources we bring to bear, any budget cuts would nonetheless limit program intervention and inhibit performance. Depending on the extent of the cuts, fewer grants would be made to institutions, and, given sufficiently deep cuts, the sustainability targets (PO3) would be revisited or eliminated. Very severe reductions in the level of resources would, of course, require revisiting the entire objective framework.

### **IMPLEMENTATION AND STAFFING**

The Office of Civic and Community Participation (OC2P) will be the principal USAID office that handles activities under this strategic objective. OC2P will be staffed by two USDHs. Because of the sensitive nature of the program, the ever shifting Indonesian political terrain and the numerous small grants necessary for the Mission to be responsive to changing circumstances, it is envisioned that OC2P will maintain this level of staffing through the next five years. (In accordance with Part II.B (p. 8) of the Action Plan Guidance for FY 97, we are assuming a straight-line of FTE levels through FY 97.) The Embassy's Human Rights Working Group, in the context of the Human Rights Action Plan, coordinates the work of all USG agencies in Indonesia in these fields to ensure that there is no duplication of efforts. A recent GAO evaluation found such programs consistent and complementary. Enhanced cooperation between USIS and USAID/I democracy programs will be given special attention.

The Mission expects to provide program grant assistance each year to approximately ten organizations (mostly Indonesian) engaged in democratic culture advocacy, in increasing respect for rule of law, and/or in strengthening their own institutional capacity. The highest priority will be on promoting democratic culture and advocacy and increasing respect for rule of law. Strengthening judicial structures will be considered if there is proven commitment and other donor agencies are not active with these government institutions. In line with Agency guidelines, USAID will give priority to NGOs that promote democratic culture and participation. The existing electoral system, political parties and the legislature are tightly controlled by the GOI; therefore, USAID will not assist electoral processes or political

parties, at this time. There are some opportunities to enhance transparency within the legislature and the judicial systems; USAID will pursue such opportunities, when politically and fiscally possible.

Within the democratic culture/rule of law focus, the Mission will use the following criteria for allocating resources: (1) more resources will be allocated to civil society rather than the GOI, as the former sector is significantly weaker and in much greater need of resources; (2) more resources will be allocated to national rather than the local level, as GOI is highly centralized and as such there is better chance for higher impact on policy formation by national advocacy NGOs; (3) activities targeted at Muslims, women and groups in politically sensitive areas (especially East Timor) will receive special attention. The Muslim community makes up about 87% of the population; in the Islamic mainstream, there are many democratic culture/rule of law groups which seek USAID funding, and an effort will be made to address their requests. The nascent women's movement in Indonesia has already established good contacts with USAID; most of the women's groups promote democracy and rule of law as central parts of their programs. In politically sensitive areas (Aceh, East Timor, and Irian Jaya) human rights violations are more frequent, and NGOs in these difficult circumstances need support.

#### COMPLEMENTARITY WITH OTHER DONOR ASSISTANCE

International donors and foundations look to USAID for leadership and direction in this sensitive program area. However, because the area is controversial and is approached differently by the various donor countries, there is only limited formal interaction. Canada and the Scandinavian countries are currently attempting to increase their democracy support program. The Australian aid program also has activities in Eastern Indonesia, principally through support for Australian-based NGOs. The German government supports some democracy, labor and rule of law programs through their political party foundations (*stiftung*.) The World Bank will be working with the GOI to strengthen portions of the judicial system, as proposed in the GOI's Sixth Development Plan (Repelita VI). The UNDP has been working with the NGOs in community development and WID projects, and has established the UN NGO Forum. ILO monitors workers issues and advocates for relevant law reform and worker education programs. UNICEF monitors children's rights, including child labor. Nonetheless, it is widely known that USAID has the largest "democracy" program and budget and that many of the most aggressive democracy NGOs permitted to function in Indonesia seek and receive our funding. For a relatively small investment, USAID has secured "most influential" status among donors in an especially difficult sector.

**USAID/INDONESIA: COUNTRY PROGRAM STRATEGY**

**PART III**

**ACTION PLAN FOR 1995 - 1997**

## A. ACTION PLAN NARRATIVE<sup>1</sup>

### OVERVIEW

The Mission's program goal is *broad-based and sustainable economic growth in Indonesia*. This goal supports Indonesia's target of achieving a per capita income of \$1,000 by the year 2000. To attain growth sufficient to meet this target, USAID will pursue five strategic objectives: 1) promote sustained economic growth in the transition from economic development assistance to development cooperation; 2) improve health and reduce fertility; 3) decentralize and strengthen natural resources management; 4) strengthen urban environmental management; and 5) increase the effectiveness of selected institutions which support democracy. These five strategic objectives (SOs) underpin USAID's program goal in Indonesia and are of long-term benefit in terms of U.S. involvement in this big emerging market.

The FY 95-97 Action Plan period calls for a rationally paced phase-over to a new bilateral relationship which moves away from past development grant assistance modes of operation. This new bilateral relationship will be predicated on mutual cooperation and a growing trade partnership. The 95-97 Action Plan, accordingly, introduces several new activities to effect this transition. All of these proposed transitional activities are based on the belief that a phase-over has become imperative to an equal, more collaborative relationship which emphasizes institutional and trade linkages.

An orderly phase-over to a portfolio characterized by U.S. and Indonesian private sector business involvement, by a lending or self-financing ethic, and by an emphasis on maintaining linkages (and respective influence), will preserve the benefits of trade and development sought by both countries. This transitional period in U.S.-Indonesian cooperation will be characterized by: transition to a joint commission model in the area of economic growth; phasing out of health and population grant assistance by the year 2000, with the possible exception of South-South population activities; remaining engaged bilaterally in the environment (green and brown) area into the next century; and continuing with democracy building activities.

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<sup>1</sup> *The Mission is aware that effective FY 96 the Agency intends to authorize/obligate by strategic objectives and results packages, pursuant to Reinvention. Nonetheless, in accordance with "Action Plan Guidance for the FY 97 Reviews" (pp. 15-16) we have prepared NADs for all new activities proposed for initial obligation during the FY 95 - 97 Action Plan period.*

## **SO1: SUSTAINED ECONOMIC GROWTH IN THE TRANSITION FROM ECONOMIC DEVELOPMENT ASSISTANCE TO DEVELOPMENT COOPERATION**

### **RATIONALE**

Indonesia faces a formidable challenge in managing sustained economic growth. If Indonesia can achieve annual growth of between 6-7% over the next quarter century, it will become the world's fifth largest economy. In the process Indonesia can become a major source of dynamism for global and regional economic growth. Conversely, failure to sustain robust growth would have serious negative ramifications for global prosperity and U.S. bilateral trade. Hence, it is in the strategic interest of the U.S. to assist Indonesia in managing its sustained growth. In the past, key components of economic management in Indonesia have been macroeconomic stability, infrastructure investment, basic education, deregulation, and institutional development. These will need to be sustained. However, managing an economy of the size and complexity that sustained growth will produce, presents major new challenges for Indonesia. Indonesian human and institutional resource capacities to take on these challenges are still very thin. The U.S. should therefore continue to play a key role in assisting Indonesia to meet the new challenges of economic management. At the same time, we need to develop a new type of bilateral relationship based on sustainable development cooperation instead of the traditional USAID-financed donor-client relationship. USAID will achieve this by promoting sustainable institutional linkages in the broad arena of economic management. U.S. assistance to Indonesia will contribute not only to Indonesia's sustainable growth but also to our long-term bilateral economic relationship.

### **TACTICS**

To achieve SO1, there are three tactical imperatives which need to guide its implementation over the next three years. *First*, the Mission's current activities under SO1 (all of which are in the form of traditional projects and have PACDs within the next two-three years) must be brought to an orderly close-out while simultaneously ensuring their achievement of key results. *Second*, in consultation with our customers and partners, the Mission must design and initiate new transition results packages which build sustainable Indonesian-American linkages in economic management that will continue beyond USAID involvement (for details see the TAGS NAD in Annex B). *Third*, we must maintain room in the budget to enable the SO1 team to implement the new transition strategy starting in FY 96. In order to protect this key transition strategy the Mission will, if necessary, reduce funding of the existing portfolio or "sell off" project components to other donors. This will enable us to initiate a transition to a more mature bilateral economic relationship based on development cooperation rather than development assistance.

USAID's economic growth strategy has three linked components. The first is *to improve economic management in key areas*. The second is *to strengthen institutional capacity for*

*economic management.* And the third is *to test pilot programs for economic growth.* Improved economic management requires improved policy analysis and formulation. It requires improved institutional capacity to implement policies and to manage a more complex market economy. And it requires the testing of new interventions and delivery systems which once proven can be generalized throughout a sector or industry.

**Program Outcome 1.1:** *improve economic management in key areas*

Under this PO, economic growth is highly dependent on *improved economic management.* It is through improved economic management that greater efficiency and productivity in the economy can be realized. Economic management also offers the best means for targeted USAID assistance to influence large national aggregates. This requires working with institutions (e.g., the Ministries of Trade and Agriculture, trade research think tanks, and business associations) responsible for trade and sectoral analysis and policy implementation. It also involves sharing U.S. technical expertise in the area of commercial law and government procurement in order to improve the legal and regulatory framework for fair and efficient private sector participation. USAID will also support activities which improve the stock and flow of information on microenterprise activity and policies. These activities will illuminate the public policy debate and improve the quality of policies and programs aimed at strengthening microenterprise development.

**Program Outcome 1.2:** *strengthen institutional capacity for economic management*

USAID places a high priority on PO1.2. Drawing on the extensive experience of the U.S. and other countries, USAID will work with agribusiness associations to strengthen the market development of this strategic industry. To increase the fairness and efficiency of public sector investment, high priority will continue to be given to promoting decentralized decision-making and to strengthening local governments' capacity to mobilize and manage resources for the maximum benefit of their communities. USAID will also build on its highly successful experience in strengthening Indonesia's financial markets with particular emphasis placed on improving the regulatory framework for private sector participation in the provision of public services and on developing local bond markets.

**Program Outcome 1.3:** *test pilot programs for economic growth*

Under PO1.3, USAID will also identify new ways of managing the economy and to demonstrate schemes which can be generalized by other players throughout the economy. Examples of our pilot strategy include microenterprise lending by NGOs, linking higher education to job markets, the opening of private sector provision of power and health services and the privatization of state-owned enterprises.

In the future, USAID will give greater priority to forging sustainable linkages between U.S. and Indonesian economic management institutions (both public and private). New activities under TAGS will not rely on long-term technical advisors working within government



ministries. Instead, we will seek to establish sustainable linkages between U.S. and Indonesian institutions. This will entail drawing upon and developing specialized knowledge and expertise of both U.S. and Indonesian participants and will result in the establishment of a self-sustaining mechanism for bilateral economic cooperation. Indonesians place a high value on American technical expertise and welcome opportunities to establish cooperative relationships with U.S. firms and institutions. Hence, the U.S. is well positioned to cultivate such relationships for the long-term benefit of both U.S. and Indonesian citizens, firms, and workers.

Finally, USAID also aims to ensure that women are meaningfully integrated into all of our activities. In each activity, USAID officers will seek to identify constraints to women's greater participation and to eliminate gender-based biases where they exist. We will also support activities specifically designed to improve the information base and public's awareness of gender-based differentials and to identify policy and program reforms needed to eliminate the source of gender biases. USAID also plans to cooperate closely with the Global Bureau in identifying and implementing strategic activities for increasing women's participation in the economy and in the management of sustainable growth policies and activities.

### PERFORMANCE

USAID has contributed substantially to the realization of a major *policy reform agenda* which has improved economic management in Indonesia. These relate to sustaining economic growth, increased integration of the Indonesian economy in the global and regional economy and increased bilateral trade with the United States.

Through USAID support for improved management of fiscal and monetary policy, support for deepened financial markets and support for increased private financing of infrastructure, Indonesia turned in another sound growth performance in 1993/94 of

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### Highlights of Performance: Economic Management

USAID assistance to improve economic management directly contributed to a number of significant results in 1993/94:

- For the first time, Indonesia participated fully in the Uruguay Round GATT Agreement, agreeing to bind 95% of its tariffs line items and committing itself to significant reductions in tariffs and NTBs. It was among the first countries to ratify the GATT accord.
- The Department of Taxation had another stellar year in increasing the efficiency of tax administration: in IFY 93/94 non-oil tax revenues increased by a whopping 22%.
- On March 7, 1995, President Soeharto signed a new company law which for the first time covers mergers and rights of minority shareholders, and eases the requirements for establishing a legal business in Indonesia.
- In October of last year, Indonesia's launched a major public offering of shares in the country's state-owned telecommunications firm. Shares of the stock were placed on both the New York and Jakarta Stock Exchanges and both offerings were highly successful. The success of this IPO provides an exemplary model for future public share offerings of state-owned companies.

6.5% and laid the groundwork for even higher growth in 1994/5. In the area of increased participation in the global economy USAID contributed to Indonesia's active participation in the Uruguay Round agreement which resulted in its commitment to across-the-board tariff bindings on 95% of its tariffs line items, in addition to other significant reductions of tariff and non tariff barriers over the next 10 years. The Deregulation Package of June 1994 went beyond the GATT/WTO obligations in eliminating 108 tariff surcharges and reducing tariffs on 739 tariff line items. Indonesia was among the first countries to ratify the Uruguay Round GATT agreement and USAID technical assistance was instrumental in informing policy makers, legislators, and the public of the benefits of global trade liberalization. As last year's host of the APEC Ministerial and Leaders' Meeting, Indonesia promoted member economies' adoption of a bold agreement for regional trade liberalization.

**PO1.1: *improved economic management in key areas***

Significant progress was recorded under this PO. IRS advisors to the Taxation Department of the Ministry of Finance contributed significantly to the GOI's strengthened capacity to increase the efficiency of tax administration. Tax revenues increased by almost 22% in 1993/94, against an expected increase of 17%. Progress was also made in improving government procurement practices, with 58% of all GOI tenders awarded competitively in the first eleven months of 1994/95, compared to 52% in 1993/94. In the area of commercial law, with the help of U.S. technical expertise, substantial progress was made both in the drafting of key commercial legislation and in the compilation and dissemination of commercial codes and regulations. A new company law was passed by Parliament and signed by the President in 1995. The law is an important step towards improving the legal framework for economic activity by providing more transparent procedures for investing in and managing corporations. Progress towards achieving greater efficiency and equity in public sector resource allocation was mixed. The targeting of central government grants improved as indicated by the increased percentage of central government grants allocated to the poorest regions of Indonesia. U.S. technical assistance was of great value in helping to analyze the causes of the slowdown in Indonesia's non-oil and gas exports which was fairly severe in the first half of 1994 and has now improved sharply. USAID-supported work also showed the importance of capital goods imports and maintenance of a realistic exchange rate in encouraging non-oil export growth. This work was timely and effective in demonstrating the need to reduce import barriers and to allow the exchange rate to reflect market demand forces (a lesson of particular value in avoiding a Mexican-type crisis).

**PO1.2: *strengthened institutional capacity for economic management***

This PO also achieved favorable results. In 1994/95, the analytical and communication capacity of 309 staff persons in key GOI institutions (Ministry of Trade, Ministry of Justice, and the Coordinating Ministry for Economy and Finance) was strengthened via on-the-job or classroom training. Over 25% (80 persons) of trained personnel were female. (The percentage of women trained in all USAID-funded training programs was 27% in 1993/94, up slightly from the previous year.) In accordance with USAID's Urban Action Policy Plan,

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substantial progress was made towards increasing local governments' decision-making authority as indicated by the increased proportion of central government grants under local government spending discretion. As evidence of results achieved in strengthening the effectiveness of Indonesia's agribusiness associations, the target for increasing association membership was fully met in 1993/94.

**PO1.3: test pilot programs for economic growth**

Under PO1.3, the most significant accomplishment was the launching of public share offerings of two state-owned companies. The initial public offering of Indonesia's state-owned telecommunications firm (Indosat) on the New York and Jakarta stock exchanges was highly successful, and will serve as an exemplary model for future public share offerings of state-owned firms. USAID contributed significantly to the success of these public offerings via the provision of technical support to the DG for State-Owned Enterprises, the Jakarta Stock Exchange and the Capital Markets Supervisory Board. While USAID's financial support for the privatization component of this activity ended in February of 1995, other partners and the GOI are providing follow-on support. Hence, USAID expects the pilot activity to generate more public offerings of state-owned firms in the outyears. The pilot activity for linking employment to education via job placement systems became operative ahead of schedule with the placement of 4 university graduates in 1993/94. The pilot activity designed to produce a model for partnerships between local governments and private firms in the provision of urban services made substantial progress towards establishing the basic framework for public-private partnerships, but signed agreements are not expected until 1996/97.

The above record of performance clearly demonstrates the significant impact USAID's program has had in supporting key aspects of Indonesia's management of sustained economic growth.

**Constraints and Obstacles**

The limitation on economic growth funds experienced throughout the Agency places severe strains on the orderly achievement of this SO. This difficulty is compounded by the imposition of earmarks with little or no discretionary funding. The second constraint facing the development of the new TAGS project is the need to design a flexible activity which can respond promptly to changing circumstances. The Agency's new reinvention "results package" processes will be more responsive to this need than the traditional project approach.

**Key Assumptions**

Two critical underlying assumptions are: 1) adequate discretionary resources are made available to fund the planned results package, and 2) consistent with the reinvention goals, the Mission is granted the latitude to pursue creative and innovative means of achieving its SO1 objective.

## EXPECTED IMPACT

If the Mission receives the necessary resources, we can have a major impact in helping Indonesia sustain economic growth in the transition from development assistance to development cooperation. Details of the expected results are documented by the 13 program outcome indicators shown in Annex A. As USAID designs its new economic growth assistance package in CY95-96 (see the NADs for TAGS and HRT-ECP), USAID will likely replace some indicators (at the program level) and develop new ones which document the results of our transition to development cooperation.

During the Action Plan period, USAID expects to continue to assist Indonesia with policy-based assistance which sustains growth of output, increases Indonesian participation in the global economy, and supports the increased maturity of the bilateral economic relationship. The following are some highlights of policy results that will be achieved.

USAID will support Indonesia in maintaining vitally important fiscal discipline by assistance to boost domestic revenue on the one hand and in implementing a balanced budget on the other. USAID will also provide continued assistance to implementing prudent monetary policy and more rapid and timely management of monetary aggregates (e.g., the use of stop-out rates and the application of electronic funds transfers). USAID policy work will also be directed at policy improvements in financial and capital markets (e.g., establishment of bond-rating mechanism) and improved service delivery (e.g., in health and education financing and in private sector participation in the power sector). USAID activities will also help Indonesia comply fully with its Uruguay Round obligations as well as to implement other trade policy reforms needed to increase the transparency and efficiency of Indonesia's foreign and domestic trade regime. These include removing import surcharges on all bound items, eliminating NTBs on bound items, and reducing agricultural tariffs by 5-10%. USAID activities will also result in policy and legal reforms which increase both the fairness and efficiency of domestic trade. For example, work now underway will yield policy and regulatory changes which increase the efficiency of interregional trade in cement -- a key commodity for Indonesia's sustained growth.

At the Program Outcome level, the following are a few highlights of the results that will be achieved (for details see Annex A). USAID expects passage of a number of key commercial laws and regulations, the drafting of which benefited from the sharing of U.S. expertise. These laws are designed to increase the fairness, transparency, and efficiency of business activity in Indonesia. USAID work will also contribute to improving the efficiency of government procurement as measured by an increase in the percentage of government contracts which are awarded competitively. USAID will also contribute to a strengthened system of intergovernmental finance, in which local governments will have greater access to credit, discretionary grant funding, as well as direct investment by private companies for use in locally planned and managed infrastructure development projects. This includes, *inter alia*, strengthening the capability of local governments to mobilize and manage public resources by

increasing the percentage of RDA loan disbursements to local governments. USAID also expects its work to result in improved targeting of central government grants as measured by an increase in the percentage of these grants which are allocated to the poorest regions of Indonesia. Within the next three years, USAID also expects to contribute to the expansion of urban environmental infrastructure by formulating a viable framework for private-public partnerships in the provision of urban services. It is expected that the first agreements will be signed in IFY 1996/97, and that these agreements will serve as a model for replication in other urban centers.

Finally, in FY 95 USAID received \$2.2 million in directive financing for microenterprise development in Indonesia. USAID has already developed eight microenterprise activities. These activities will expand participation in microenterprise policy analysis and debate and equip Indonesia with one of the world's most complete sets of microenterprise policy data. They will also build new capacity for sustainable ME financing by NGOs and other microfinance institutions, resulting in an expansion of the number of female and male clients who receive micro-loans in underserved areas.

#### **RESOURCES NEEDED**

At the FY 95-97 base levels, ARSSP and MFP would be fully funded. Agribusiness would have its LOP reduced slightly in order to free up funds for the new TAGS project in transitional economic growth, as well as the FY 97 bilateral funding for the ECP-Human Resources (HRT) activity. The only global field support needed under SO1 would be FY 96 funds to begin the ECP-HRT activity in FY 96 and token amounts of PD&S.

At the FY 97 reduced level, ELIPS would have its LOP reduced.

## SO2: IMPROVED HEALTH AND REDUCED FERTILITY

### RATIONALE

Despite tremendous strides in the 1970s and 1980s in developing a comprehensive system of health and family planning service delivery, stark differences persist throughout Indonesia in both the total fertility rate and the infant mortality rate. Infant and maternal mortality are the highest among ASEAN countries.

The prevalence of sexually transmitted diseases (STDs) among persons at high risk is high and reported HIV-positive cases are increasing exponentially. The National AIDS Commission estimates there may be as many as 100,000 Indonesians currently with HIV/AIDS with a prevalence of 0.05%.

Reducing the fertility rate and improving health have a direct bearing on the ability of the nation to educate its growing work force and to sustain economic growth. Our interventions will diminish the adverse impacts of the HIV/AIDS epidemic before the costs of containment become prohibitive. The epidemic threatens not only the health of individuals, but the viability of this big emerging market.

### TACTICS

#### **Program Outcome 2.1:** *Increased use and quality of family planning services*

PO2.1 depends entirely on continued funding for large OYB transfers under the G Bureau's SDES project and on extensive technical assistance from a variety of G Bureau field support projects. In helping Indonesia reach its goal of a two-child family by 2005, the main tactical approaches will be: to improve the quality, availability, and use of longer-term and more effective methods of contraception among women who wish to space or limit the size of their families; to increase access to all methods in hard to reach areas (i.e., coastal/island areas, mountain areas, transmigration areas); and to increase the use of private/non-governmental sector family planning services. The SDES project will work with BKKBN and ten NGOs to support this approach by expanding family planning service delivery in seven provinces that contain 70% of the total population. The main activities will include establishing a national training network, providing clinical and counseling training for service providers, producing IEC materials, renovating service delivery points and conducting special outreach services to hard to reach areas. The anticipated impact of these efforts is a contraceptive prevalence rate of 57.5% for all methods and 39.5% for long-term contraceptives by 1997.

#### **Program Outcome 2.2:** *Increased use and quality of STD/HIV/AIDS and reproductive health services*

PO2.2 addresses two problems: (1) persons infected with STD's are often incorrectly diagnosed and inadequately treated, while those at high risk of STD/HIV infection often lack

knowledge of preventive practices; and (2) the high rate of maternal mortality caused by both poor nutrition and the low quality of prenatal, delivery, and postnatal care, and by high risk pregnancies in general. The Mission's new HAPP project (FYs 95-00) will address the first issue by helping the GOI develop and pilot test interventions in three demonstration areas, which will include training for peer and community health educators, development of educational materials and mass media campaigns, expanded access to condoms through social marketing, and development of protocols and standards for improved STD diagnosis and treatment. The anticipated impact of these interventions in demonstration areas is a 70% increase in condom use in high risk relationships; a 50% increase in correctly diagnosed and treated STD patients; an 80% improvement in knowledge of prevention practices; and a 50% increase in the number of people at high risk receiving STD/HIV counseling. The Mission will rely on the MotherCare project through FY 98 to address the second problem of maternal mortality by testing a prenatal care referral system and incorporating an iron supplementation program in pilot areas, which should lead to an 80% increase in births attended by trained health personnel in the demonstration area.

**Program Outcome 2.3:** *Developed and implemented national AIDS and reproductive health policies*

HAPP will assist the GOI in carrying out modeling and economic analysis for use by policy decision-makers and will facilitate policy dialogue on key topics by supporting workshops and seminars, with the expectation that the GOI will develop at least five policy papers related to key issues in addressing HIV/AIDS/STD prevention and will also increase the allocation of national health resources allocated to STD/HIV/AIDS activities to over Rupiah 12.5 billion (roughly \$6 million) by the year 2000. Similarly, it is expected that national health resources allocated to reproductive and maternal health will double to Rupiah 8.6 billion (roughly \$4 million) by 2000, based on improved maternal health following increased use of ante-natal care, more effective and timely delivery referrals, and the increased number of births attended by trained health personnel.

**Program Outcome 2.4:** *Improved balance of public and private sector provision of health and family planning services*

The new Health Care Financing/Enhanced Credit Program (HCF/ECP) project (FYs 96-99) will support expansion of a managed health care financing trial in Klaten, Central Java, that will contract with both the private and public sector to provide a basic benefits package of preventive and curative services to enrolled members. Through training in rational drug use, we anticipate a 50% reduction in inappropriate injections and antibiotic use; through innovative marketing of the managed care concept and community mobilization, enrollment should increase three-fold by 1998 to over 394,000 persons in the Klaten area; as the public sector assumes a larger regulatory role, the private sector will focus more on providing effective preventive care in an effort to avoid more costly curative care.

Without the ECP-HCF project, our efforts to shift the balance of health care to the private sector will be limited to the provision of contraceptive services.

The SDES project is also expanding private sector family planning services. Through this project, seven NGOs will improve their capacity to provide family planning services for a fee by expanding and improving their service delivery network and by increasing private contraceptive distribution at the village level. SDES will also support BKKBN's efforts to increase community awareness and utilization of private sector family planning services. The expected impact of these interventions is an increase in the number of people receiving contraceptive services through the private sector from 28% (1994 DHS) to 33% in 1997.

## PERFORMANCE

SO2's *policy reform agenda* deals with STD control, long-term family planning methods, and greater private sector participation in the provision of health care services. Specific policy reforms might include: the promotion of condoms to prevent STDs particularly among persons at high-risk, more accurate and comprehensive diagnosis and treatment of STDs, more resources dedicated to STD/HIV/AIDS prevention activities, development of a national AIDS policy supported/implemented by a broad spectrum of society, an increase in the use of long-term contraception methods, and greater private coverage of health care delivery under a managed health care financing system.

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### Indonesia's Health Posts: An Executive Visit

Indonesia's system of village health posts, or *posyandu*, have proven extremely effective in bringing basic maternal and child health care to a diverse population spread across a vast archipelago. Organized and run by local volunteers, these posts are set up one day each month in over 200,000 villages nationwide and bring basic services to millions of people.

During her November visit to Indonesia for the APEC conference, First Lady Hillary Clinton took time to visit a *posyandu* in Central Java. Her praise for the system was noted in local and international press, and the visit emphasized the common concerns and successful cooperative efforts between the U.S. and Indonesia.

Data is now available against all indicators except those related to STD/HIV/AIDS where the late startup of the HAPP project has postponed data collection efforts. In the policy area there is significant progress to report with respect to HIV/AIDS. Under the indicator "National AIDS policy developed", a policy on inter-ministerial coordination was issued after extensive participatory dialogue among numerous GOI agencies and NGOs and in consultation with USAID and other donors. The GOI continues disbursement of its initial resources allocated to HIV/AIDS, that is, \$2.5 million, and the Mission continues to support IEC activities and key studies of people at risk to be targeted under HAPP.

With the issuance of the 1994 Indonesian Demographic and Health Survey, USAID can report significant progress in increasing the overall contraceptive prevalence rate from the expected 53.35 to 54.7% with the most significant increase in

four of the most populous areas where USAID concentrates its efforts: the three provinces of Java and Lampung. Long-term prevalence rates did not meet expectations overall, except in Central and East Java which exceeded expectations. The discontinuation rate remained steady, with over 21% of married women discontinuing use of a contraceptive method in the past 12 months, for reasons other than to get pregnant. These statistics relate directly to the lower fertility rates which are found in Central and East Java, two of the seven most populous provinces. Overall the total fertility rate did not drop as much as was projected by the GOI, but its decline to the present 2.86 level is a 5% decrease over a three year period.

In maternal health, USAID's funding of training of midwives and support of community health centers contributed to a reduction in the Maternal Mortality Ratio (MMR) from 450 maternal deaths per 100,000 births as reported in the 1993 National Household Health Survey, to an estimated 425 per 100,000 by mid-1995, which will be confirmed by the 1994 DHS survey figures to be released in July 1995. Increased support in this area, including increased proportion of births attended by trained health personnel and prevention or referral of high-risk pregnancies, should facilitate a steady decline in the MMR.

The number of people receiving family planning services from the private sector has increased beyond the 24% expected to 28% causing USAID to increase its expectations (projections) for the future. The number of people paying for public family planning services has also increased steadily during the 1990s and by 1995 is estimated to exceed 50% of all users, showing not only increased interest in family planning but increased ability and willingness to pay. And finally the number of people covered by health insurance has increased slightly from the 111,000 reported in the

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### Financing Health Care

Financing health care for a population of 200 million is a daunting task. USAID's Health Sector Financing project seeks to meet this challenge by helping the GOI to improve its health policies and to facilitate increased private sector involvement in providing health services. By transferring much of the burden of health provision to the private sector, the Ministry of Health is able to allocate increased resources to its core programs, such as child survival, where as early as 1991 the Ministry had committed itself to a 35% increase in real spending (thus achieving a major target early in the project cycle).

Other achievements of the Health Sector Financing project include:

- GOI commitment to establishing a dual system of private and public managed health care that seeks to provide universal coverage of basic health services to Indonesia's citizens. An integrated trial of this system is currently underway in Klaten, Central Java, with initial results expected in March 1995.
- Passage of two health insurance laws that require private companies to provide their employees with basic health benefits. (This requirement will extend basic benefits to approximately 42% of the population.)
- Pilot testing of a cost recovery system for government hospitals. The system allowed the pilot hospitals to boost their cost recovery by an average of 24%. The MOH has expanded this self-financing system to 48 additional hospitals.

demonstration area in 1993 but should show more significant growth in 1995 as the Klaten demonstration site becomes fully operational. A breakdown of these data by gender was not available from the Ministry of Health during this reporting period.

### **Constraints and Obstacles**

Mounting a nationwide HIV/AIDS prevention campaign is constrained by Indonesian policy-makers' reluctance to confront three issues openly: (1) the high prevalence of extramarital sex, (2) the existence and extent of Indonesia's commercial sex industry, and (3) the need to promote condoms for disease control as well as contraception.

### **Key Assumptions**

The following three assumptions apply if the Mission is to deliver the SO2 performance indicated at the FY 95-97 base levels: (1) global field support continues apace; (2) The NAD for ECP-HCF is approved; and (3) GOI is willing to approve and implement HAPP.

## **EXPECTED IMPACT**

At the FY 95-97 base levels, we expect Indonesia's total fertility rate to drop from 2.86% to 2.70%, and the syphilis prevalence rate among high risk populations to drop to 10% (baseline values will be available from an upcoming survey under the HAPP project), and the maternal mortality ratio to drop from 450 to 400 per 100,000 live births.

As condoms are the only means of preventing the spread of HIV among sexually active individuals and Indonesia's sexually active persons at high risk have negligible rates of condom usage, the adoption of condoms among these people will unquestionably reduce the scope and severity of Indonesia's HIV/AIDS epidemic. A more accurate and comprehensive STD diagnosis system will give researchers and policy-makers a firmer foundation on which to justify increased resource allocations and prevention campaigns. Better treatment protocols for STD patients will not only focus resources more effectively but should potentially reduce the spread of STDs. Our technical assistance will lead to findings that argue very convincingly for significant increases in STD/HIV/AIDS prevention. Only with a national HIV/AIDS policy in place will Indonesia be able to muster the external resources and expertise necessary to mount an effective HIV/AIDS prevention campaign. The issuance of the policy on inter-ministerial coordination on HIV/AIDS was a solid first step.

Greater acceptance of long-term contraceptive methods among women of child-bearing age will contribute significantly to Indonesia's goal of a two-child family by 2005. Indonesia's funding gap in the health sector reveals major disparities in service among income groups; by tapping private sector funds a fuller range of higher quality health services will become available to a larger number of beneficiaries. The more the private sector is involved in financing health care in Indonesia, the more responsive the care providers will be to the beneficiaries. The overall impact of SO2 will be to make Indonesians more healthy,

productive, and in control of their own future with less of a drain on limited government funds.

#### **RESOURCE NEEDS**

The family planning portion of SO2 currently depends on the continuation of earmarked SDES bilateral OYB transfer (full funding between FYs 95-98) and the maintenance of significant amounts of Global field support, while our efforts in the areas of maternal health and STD/HIV/AIDS call for additional bilateral funding. An annual level of \$16 million per year is needed to sustain this program.

## SO3: DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT

### RATIONALE

The extractive sectors of the economy, such as agriculture, forestry, mining, and fisheries, have contributed considerably to the national revenue stream, employment generation, and availability of food supplies for the population, and raw materials for industry. However, rapid industrialization and urban concentration are placing great pressure on Indonesia's natural and biological resources resulting in depletion of the resource base by the extractive sectors, and degradation of the quality of water and air resources by the industrial sector, power generation and urban centers. Under current development trends, pressures on the natural resources base will clearly accelerate.

A transition in Indonesia is already well underway -- from dependence on oil and forestry and agriculture to reliance on rapid industrialization, from a largely rural and low-income society to one that is predominantly urban with a growing middle class that is increasingly well educated. Better natural resources management is essential to the success of this transition.

The government, private sector, and citizens of Indonesia are also recognizing that government alone cannot solve their daunting environmental problems and are looking for new policies and practices that will lay a foundation for local government, private sector, and community management of environmental problems, and will establish a system of incentives to persuade industries and citizens to adopt resource conservation systems and technologies.

### TACTICS

USAID's recently completed *Indonesia Environmental Assessment and Strategic Action Plan* recommends a strategy focused on decentralized and strengthened natural resources management. Our tactics are to focus on impacts in the areas identified by the *Assessment*, where there are constraints to effective action that can be addressed by the resources and tools available to USAID. The key management options identified by World Resources Institute (WRI) that USAID will use are: (1) prevention rather than cure -- emphasizing prevention of environmental problems rather than repairing damage; (2) decentralization to strengthen the capacity to address problems locally; (3) regional planning which integrates environmental impact assessment (EIA) into development planning; (4) private sector participation; (5) voluntary compliance through good incentives; (5) good decision-making through high quality and accessible information; and (6) institution-building through well trained people in government, private, and non-governmental organizations.

The Mission has determined four program outcomes which establish a clear impact focus, and also emphasize our principal client groups: local communities, private businesses, the government, and non-governmental organizations.

**Program Outcome 3.1:** *greater stakeholder participation in decisions about the planning management, and monitoring of natural resources*

Under this PO, the Mission will focus on its principal clients in Indonesia -- local communities, industries and the government. Our tactic will utilize integrated approaches involving all three of these stakeholders and will establish partnerships with other development groups and institutions. A clearer synergy about what customers really want should develop from this integrated approach. The Mission believes its comparative advantage lies in supporting strategic activities at a level significant enough to influence decisions about priorities, strategy, and objectives. It can help create an enabling environment of better policies and strategies which will help identify a wider range of options to address Indonesia's problems in the natural resource and environmental sector.

**Program Outcome 3.2:** *increased conservation and pollution reduction by natural resource-based industries*

Under PO3.2, USAID will co-finance field demonstration of innovative options so that a persuasive case can be made to industry for their adoption, linking field results with policy reform and implementation. The new NRM II project is being designed to test these field options and to make these linkages with industry.

**Program Outcome 3.3:** *improved policy development and implementation*

Under this PO, the Mission will develop and test options and models through pilot activities and policy analysis. This will be achieved by working within government institutions through technical assistance and encouraging government policy entities to work with other groups -- universities, NGOs, etc. Together we will use the results of pilot activities and policy analyses to improve policy, and to strengthen government and non-government institutions, and thereby achieve more wide-reaching results.

**Program Outcome 3.4:** *strengthened institutional capacity for biodiversity conservation*

Under PO3.4, a major component will be implementation of the new Biodiversity project which will provide endowment funding for the Indonesia Biodiversity Foundation. In cooperation with the Government of Japan and other donors, we will also support the implementation of the "Biodiversity Action Plan for Indonesia".

The ongoing Natural Resources Management Project (NRMP) has undertaken important policy analysis with an Inter-Ministerial Policy Committee coordinated by the National Planning Commission (BAPPENAS). It has also promoted technical innovation with forestry industries, tested community-based management approaches with the Ministry of Forestry, and promoted clean production technologies with industries, the Ministry of Industry, and the Environmental Management Agency. The NRMP has created the opportunity for expanded testing, innovation, and institution-building activities that will be continued and expanded

under the new FY 96 NRM II Project.

## PERFORMANCE

SO3's *policy reform agenda* is composed of five elements:

- (1) Sustainable management of forestry, marine, and agricultural resources through better technical practices and greater local community management of resources and involvement in government programs;
- (2) More efficient resource use, conservation, and pollution prevention by forestry marine, and agricultural industries through removal of policy and regulatory distortions, introduction of new technologies, and increased public awareness.
- (3) Decentralized regulatory and management authorities and strengthened local and regional environmental impact assessments.
- (4) Capacity building of private institutions for increasing awareness of sustainability and environmental issues by the Indonesian people.
- (5) Increased participation of women in all aspects of natural resources management.

**PO3.1:** *greater stakeholder participation in decisions about the planning, management, and monitoring of natural resources*

Under PO3.1, the Mission is forming partnerships with government, NGOs, local communities, and other donors to demonstrate innovative approaches for managing forest, marine, and agricultural areas with an emphasis on local community participation, and more efficient and sustainable use of natural resources.

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### **Bunaken National Park: A Model for Management**

Management of national parks is a perennial concern in Indonesia. Differing perception of the function of a reserve area render consensus between national and local government and the local people difficult. The standard pattern has been for the Ministry of Forestry to take unilateral action, excluding the local government and communities from the planning process.

Bunaken National Park, a large marine reserve in north Sulawesi, has broken this precedent by pursuing a management strategy that engages all major players in the planning process. Under USAID's Natural Resource Management Project, studies were conducted to ascertain existing attitudes towards the park as well as use patterns in and around the park area. Dialogue was then facilitated between local communities, local government, and national government. Feedback from this ongoing exchange of ideas formed the basis of the Park's management plan. Drafts of this plan were presented and discussed at regular regional meetings.

The result: a management plan supported by all major players. Under the plan all players have a role in the management of the park, thus giving everyone involved a stake in park's continued preservation.

Bunaken is the first example in Indonesia where a national park management plan has been produced using a truly participatory approach. The park promises to become a model for future development of natural reserves in Indonesia.

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Considerable progress has been achieved in promoting local community participation in the management of a national marine park, Bunaken National Park. Significant progress has also been made in the development of a concept for community rights to harvest marine resources based on use zones and documentation of traditional use (e.g., through mapping, field research, and policy studies). Closer collaboration was developed with other community-based activities for managing forest and marine resources. These models for community participation in natural resources planning and management will be extended to new areas through broader partnerships with NGOs and other donors under the new NRM II project.

Indonesia again endorsed the importance of its Integrated Pest Management efforts by establishing Ministerial Decree No. 390/TP600/1994 on May 9, 1994, which officially establishes the program within the Ministry of Agriculture. The national program is rapidly expanding, and increasingly being adopted for new crops and in new geographical areas. Data on the increase in rice production and the decrease in pesticide use is due next year. A habitat study has been completed that will provide inputs on farmer training regarding agroecosystem analysis.

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#### **Integrated Pest Management: Training Trainers**

Under IPM, Farmer Field Schools are being planned to train 800,000 Indonesian farmers to become integrated pest management experts, capable of applying IPM techniques to their own land as well as training other farmers. By December 1994, the target output had reached 37.6% or more than 250,000 farmers.

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#### ***PO3.2: increased conservation and pollution reduction by natural resource-based industries***

Under PO3.2, policy studies on eco-certification were completed that support the development of a voluntary system based on various incentives (market share and fewer Ministry of Forestry administrative requirements) rather than on a mandatory approach. This will help the new system build a strong foundation for operations and encourage active participation by forest concession holders. Additional policy studies were completed which demonstrated the urgent need to restructure the forestry sector to allow forest concessions to sell logs for furniture production.

The WRI assessment indicates that there is a growing market for innovative policy alternatives, forest management and concession-granting reform, and reforms that will provide incentives for natural resources-based industries to adopt better land husbandry practices and to produce higher value, less polluting products. Industry demand and willingness to pay for pollution prevention practices remains high.

#### ***PO3.3: Improved policy development and implementation***

Under this PO, progress was made to strengthen networks and partnerships among governments, universities, NGOs, and communities for policy analysis, implementation, and

monitoring. The Inter-Ministerial Policy Committee coordinated by the National Planning Commission (BAPPENAS) has directed three new policy studies concerning forest concession management, community participation, and the role of market boards that have stimulated national policy discussions. These analyses have had an enormous impact in stimulating discussion of current marketing arrangements for timber products, especially plywood. (The plywood cartel has been openly criticized in several fora, something unthinkable a year ago.) Similarly, the GOI is devolving greater authority to provincial and district levels governments for forest resources management, and USAID pilot activities have helped to accelerate this devolution.

**PO3.4: *strengthened institutional capacity for biodiversity conservation***

Under PO3.4, the new Indonesia Biodiversity Foundation has been established as an independent private institution for supporting biodiversity conservation efforts in Indonesia. This is the first institution of its kind in Indonesia. USAID will be providing continuing support to make the Foundation a self-supporting center of excellence for biodiversity conservation support.

The network of donors and NGOs active in biodiversity conservation were strengthened through meetings and workshops as a means of sharing information on conservation programs and challenges. These activities are supporting the implementation of the *National Biodiversity Action Plan for Indonesia* by strengthening private institutions supporting biodiversity conservation.

**Constraints and Obstacles**

Several obstacles dealing with pricing, organization, and training constrain Indonesia's ability to respond effectively to problems of resource depletion and growing pollution. Until full pricing policies are in place to cover real costs of production, public and private funds for solving the problems will remain insufficient. Since resources move through different mechanisms, coordination is inefficient. Local government executive capacity must be strengthened to handle effectively

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**The Indonesian Biodiversity Foundation:  
Protecting Irreplaceable Ecosystems**

The Indonesian Biodiversity Conservation Program -- a joint effort between Indonesia, Japan, and the U.S. -- is an unprecedented effort to combine the human, financial, and technical resources of these three countries to address the conservation of biodiversity in one of the most biologically important countries in the world.

The U.S. component of the program is to support the Indonesian Biodiversity Foundation, an independent grantmaking institution dedicated to funding biodiversity conservation activities by NGOs, scientists, local communities, and others. The Foundation will provide Indonesia with a flexible, catalytic funding mechanism to more aggressively pursue efforts to conserve the country's tremendous biotic wealth.

The Foundation opened its Jakarta office in July of 1994. Program activities are currently being planned with emphasis on: broadening environmental awareness; identifying and analyzing public policy priorities relevant to biodiversity; and strengthening community-based nature conservation activities.

By the end of the project, a professional, self-sustaining foundation of international standards of good governance will be in place, making catalytic grants to a variety of institutions, individuals, and NGOs across the archipelago.

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new responsibilities, particularly at provincial and local levels in distant parts of the country.

### **Key Assumptions**

The following assumptions apply if the Mission is to deliver the SO3 performance indicated at the FY 95-97 base levels: (1) NAD for NRM II approved; (2) G/ENV and ANE/USAEP field support levels to Indonesia continue; (3) GOI continues and expands its commitment to addressing environmental issues through collaborative approaches with industry, NGO, and donors; (3) GOI decentralization continues; (6) political and economic framework for local government does not change.

### **EXPECTED IMPACT**

If the GOI puts in place new policies to encourage wider community participation in natural resources management planning and implementation, and to encourage sustainable forest, marine, and agricultural resources management, the forest and land resources depletion rate is expected to slow assuming other factors remain stable. The benefits from this will be protection of Indonesia's forests, and with them its biodiversity and potential options for future development; protection of watersheds and aquifers and coastal and marine systems and their ability to support economic activity; reduced social conflict in the allocation and use of land, water, and other natural resources and reduced alienation of local communities for the process of development. Thus, the overall impact will be improved prospects for long-term economic growth and better human health.

### **RESOURCE NEEDS**

Over 60% of our FY 95 obligations under SO3 are programmed for one effort -- the Biodiversity project. In FYs 96 and 97 the lead obligation will be for NRM II. While the bulk of these requirements are covered by directive funds, the SO3 portfolio needs a significant amount of Global field support and regional funds (10-25% over the three-year period) which will provide vital information for environmental staff to design cutting-edge projects and to keep up with latest developments in this sector. Cuts in the Global field support or regional budgets deeper than those budgeted at the -20% FY 97 level would significantly lessen USAID impact in the sector, and POs would be revised.

## **SO4: STRENGTHENED URBAN ENVIRONMENTAL MANAGEMENT**

### **RATIONALE**

Indonesia is facing urban environmental management challenges that are unique among countries receiving USAID assistance, because of the size of the Indonesian population, the speed with which it is concentrating in cities, and the impacts on urban areas of rapid industrialization. The government estimates that by the year 2004, sixty percent of the entire population -- about 155 million -- will reside in urban areas. Much of that growth will occur in the largest cities.

The speed and scale of Indonesia's urban growth are causing severe environmental damage and are overwhelming the ability of local officials to provide a healthy and productive living and business environment. Impacts on the urban poor are especially severe. With the exception of bottled water, virtually all existing sources of water in Indonesia are already unsafe for drinking. The vast majority of urban households rely on poorly maintained private septic tanks or dispose of human waste directly into rivers and canals. Industrial waste contributes less to water pollution than does household waste, but it is growing exponentially, is increasingly untreatable by conventional means, and often is hazardous. Other forms of solid waste constitute an additional, serious polluting factor in urban areas; as much as 40% of urban solid waste is not collected at all in Indonesia, and much of what is collected ends up in rivers or uncontrolled dump sites. Finally, lack of clean, renewable energy production is also contributing to significant urban environmental pollution affecting air quality, solid waste disposal, and thermal water pollution. By the year 2000, the impacts of urbanization, industrialization, and related efforts to expand energy production will be approaching crisis proportions.

### **TACTICS**

To fully achieve SO4, two key tactical approaches will be required. First, the Mission will focus financial support (in the form of the MFEI HG Program) and technical assistance on reform of the policy and procedural framework within which the urban environment must be managed in Indonesia. Other donors focus on urban infrastructure design and construction, but USAID assistance encourages the government to plan, implement, and monitor policy change that guides specific development project work. MFP and PURSE have shown considerable success in helping to reshape government policy with regard to urban areas, as has been documented in the government's own "scorecard" for policy change, the Urban Policy Action Plan, and the associated quantitative measure of progress to be found in the UPAP monitoring indicators.

Second, the Mission will begin an orderly conclusion to USAID's efforts in the urban sector, with a transition to full government management of its urban policy agenda. The proposed CLEAN project will develop and assist Local Environmental Action Networks, consisting of local leaders from government, business, and communities. These networks will prepare

action strategies aimed at taking advantage of the policies, procedures, and financing instruments now at the disposal of local governments in Indonesia as a result of activities under MFP, PURSE, and other urban projects. CLEAN is designed to institutionalize and fully operationalize the policy and procedural tools developed as part of predecessor projects, while addressing specific urban environmental management problems related to water cycle administration, industrial pollution control, and clean energy production.

**Program Outcome 4.1:** *adoption of new policies and practices to facilitate decentralized financing of urban environmental infrastructure*

Under this PO, technical assistance efforts under MFP and PURSE will strengthen the central government policies and procedures necessary for a decentralized system in which local governments can more effectively plan, manage, and finance environmental infrastructure. In association with the MFP and PURSE grant programs, the MFEI Housing Guaranty Program (FY 94-99) is helping to focus the Indonesian government on an urban policy agenda that is changing the way infrastructure funds are collected, managed, and repaid to the long-term benefit of urban residents. The proposed ECP-Local Government Bonds Project will help provide credit support for local government debt issues sold to finance urban environmental infrastructure provision. Successful local government bond issues should demonstrate the feasibility of bond issuance as a key financing technique for cities and other Level II government units.

**Program Outcome 4.2:** *wider adoption of improved practices in urban environmental infrastructure service provision*

Under PO4.2, MFP and PURSE will strengthen pricing, financing, and project management capabilities of local government officials. The new Urban Management Training Program (UMTP) is now underway, and will train hundreds of local government officials during 1995. Future technical assistance proposed as part of the CLEAN project will more directly help to institutionalize and operationalize new policies and procedures in urban areas, and provide a transition to complete government ownership and management of programs to address environmental management at local levels. Local decision-makers will be brought together with community groups to make effective use of the management, planning, and financing techniques increasingly at their disposal. Improved management of the entire water cycle in selected cities will be the goal of these future efforts, which will also include attention to industrial pollution and clean, renewable energy production. When possible and appropriate, local officials will be encouraged to consider innovative, cost-effective environmental management technology identified as part of the US-AEP program.

**Program Outcome 4.3:** *adoption by government and industry of policies and procedures to reduce industrial damage to the environment and promote cost-effective use of clean, renewable energy*

Under PO4.3, the new CLEAN project will employ teams of technical consultants to work with leaders of local government and business to develop action plans for strengthening clean industrial and energy production. The Indonesia Clean Industrial Production (ICIP) activity

will demonstrate the savings possible for selected industrial sectors from waste minimization techniques, and will train Indonesian engineers to give advice on waste-reducing processes in order to decrease reliance on expatriate assistance. Continuing work under SO4 will promote the use of clean, renewable energy production.

## PERFORMANCE

SO4's *policy reform agenda* is promoted by the MFEI HG Program and supported by the kinds of technical assistance projects outlined above. This agenda focuses first on decentralized financing that allows local governments to plan and implement infrastructure activities via discretionary intergovernmental transfers, loans provided by central government financial intermediaries, through direct access by local governments to domestic capital markets, or through increased private sector participation in urban service delivery. A second focus of SO4's policy reform agenda is on policies and procedures that facilitate sound planning, management, pricing, and financing of environmental infrastructure services at the local level. Community participation in planning and management activities, as well as formal training programs for local officials are aspects of the new policies being adopted by the government as a result of current project activities. A third focus of the policy reform agenda is on policies and procedures to promote the industrial use of pollution-reducing and energy-efficient processes. SO4 activities will continue to assist the government in encouraging industries to reduce their pollution output and adopt self-compliance to emission and treatment standards, through a combination of economic incentives, penalties, and public recognition.

**PO 4.1:** *adoption of new policies and practices to facilitate decentralized financing of urban environmental infrastructure*

Under this PO, a series of reliable government statistics show that steady progress has been

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## Financial Analysis Models

Attracting private capital for infrastructure projects is a very competitive business. Structuring projects for private financing requires an approach that differs from conventional public sector or donor loan financing. Private financing requires a construction cost estimate early in the process to enable financial prefeasibility analysis prior to further project preparation. Under conventional public sector financing, cost estimates and financial analyses are often not given priority until considerably later in the project development cycle.

The Private Participation in Urban Services (PURSE) project has developed a set of computerized financial analysis models for evaluating the financial viability of potential water supply projects. Three models have been developed:

1. *Project Pre-feasibility Analysis* uses construction cost and water production estimates to calculate the base price for water sales necessary to obtain the needed rate of return on equity to the investor, or conversely, the return on equity given a specified price for water sales.
2. *Debt Service Capacity Analysis* examines whether tariff revenues will be adequate to repay project financing costs as well as any other outstanding debt of the water authority.
3. *Tariff Rate Model* forecasts revenues under alternative rate structures.

The PURSE financial models have proven to be critical diagnostic and training tools, of vital importance in assessing the financial feasibility of potential demonstration projects and in training government officials in transaction origination.

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made in decentralizing government finance. The share of central-local transfer payments over which local governments have discretionary authority has increased on an annual basis since the MFP and PURSE projects were initiated. Discretionary grants made directly to urban level government units (as opposed to provincial units) have increased steadily as well. Local government use of loans supplied by central government financial intermediaries is increasing, and local governments are now using MFP assistance to plan municipal bond issuance, with proposed ECP support, as a new, more cost-effective method of financing large infrastructure projects. Progress has also been steady in the area of changing rules and procedures to allow more private participation in urban service delivery (through BOO/BOT projects).

**PO 4.2:** *wider adoption of improved practices in urban environmental infrastructure service provision*

Under PO4.2, policy and procedural change to promote better management practices at local government levels is occurring rapidly. Own-source revenues of local governments are increasing rapidly, via increases in user charges, growing property tax revenues, and improved management efficiency. The Urban Management Training Program, initiated with support from MFP, is currently scheduling delivery of tested training modules for senior city managers. Some studies on sustainable pricing of urban environmental resources have been completed under PURSE; complementary studies are scheduled for preparation under MFP. All of these policy-oriented interventions are reflected in increasing numbers of citizens served by piped water and sewer treatment facilities, although water loss continues to be a significant management challenge for most local

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**Successes of US-AEP/HG**

The U.S.-Asia Environmental Partnership/ Housing Guaranty Loan program in Indonesia has achieved remarkable success in pursuing its goal of increasing the sales of U.S. environmental technology for use in improving the living conditions of below median income urban residents in Indonesia.

During the first year of the program, US-AEP/HG assistance has produced the following results:

- o Identified 34 project opportunities for private sector participation in the delivery of urban services, totaling more than \$590 million in potential environmental goods and service contracts.
- o Provided technical inputs, market intelligence, and counseling to 50 U.S. firms, including 10 of the 20 largest U.S. design and construction engineering firms and 17 of the 40 largest environmental services firms in the U.S.
- o Provided project identification and business development support resulting in the award of \$5.7 million in contracts for U.S. equipment and environmental services.
- o Assisted other firms that are in a position, or short-listed, to receive approximately \$22 million in contracts in 1995.

US-AEP/HG/Indonesia fosters solutions to pressing, urban environmental problems in Indonesia, and supports sustainable development by facilitating access to U.S. environmental experience, technology and practices.

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water utilities.

**PO 4.3:** *adoption by government and industry of policies and procedures to reduce industrial damage to the environment and promote cost-effective use of clean, renewable energy*

Under PO4.3, clean energy production and non-polluting industrial practices comprise a new area of emphasis for SO4. Policies and procedures in both areas have changed in recent years due to USAID activity, and progressive results have been measured in specific industrial sectors.

### **Constraints and Obstacles**

Two obstacles will be addressed under the Urban Environment Management SO. One, financial systems still require substantial reform to attract private investors into the municipal infrastructure sector. The Enhanced Credit Program - Local Government Bonds project will address this first obstacle. Two, technical staff in secondary towns require significant training in areas such as project cost estimating and bid review procedures. The ongoing MFP project and ADB assistance will address this second problem.

### **Key Assumptions**

Five key assumptions apply if the Mission is to make full delivery of expected SO4 performance levels: (1) continued willingness of the government to decentralize responsibilities for government finance to local level (Level II) government units; (2) continued government commitment to human resource development at the local level; (3) continuing central government support for and encouragement of increased local participation in municipal development decision making; (4) continued government willingness to implement rules and regulations regarding industrial pollution emissions; and (5) active government financial support for clean, renewable energy production.

## **EXPECTED IMPACT**

In the area of urban environmental management, the percentage of the urban population that has access to clean, piped water is expected to grow from 40% to 45% over the 1995-97 period. The number of factories in selected sectors whose industrial pollution discharge meets or exceeds government standards is expected to grow by four times. The use of renewable energy and cogeneration will increase by 7%.

Regarding decentralized urban finance, the share of all discretionary grant funding received by local governments (including cities) is expected to grow from 57% to 62% of the 1995-97 period. Total loan disbursements to local governments and local public utilities from central government intermediaries will increase by 21%. Private sector participation in environmental infrastructure service provision will increase by 4.6 times.

Concerning urban service delivery, the number of urban households with access to wastewater disposal and treatment facilities is expected to grow by 74% of the 1995-97 period. The

percentage of lost or unaccounted for water will decrease in selected urban areas from 40% to 27%. The proportion of total local government revenues from own-source revenues will increase from 29% to 30.5%.

In the field of industrial pollution and clean energy production, the number of firms in selected sectors that will shift significantly to clean industrial production will quadruple from 1995-97. The number of consulting firms whose key personnel have received training in clean industrial production techniques will increase by five times. The number of firms in selected sectors that adopt efficient energy usage practices should increase by five times. Nation-wide energy efficiency will increase by 10%.

### **RESOURCE NEEDS**

Approximately 54% of SO4's FY 95 obligations are programmed for MFP and 20% for PURSE, with the rest spread across a number of activities. In 1996, over 49% of SO4's obligations are programmed for PURSE, 25% for MFP, and 18% for the new CLEAN project. In 1997, the bulk of obligations (68%) will be programmed for CLEAN. Significant Global field support funds (non-add) will be required for the Enhanced Credit Program/Local Government Bonds Project, as well as for HG program budget support. Regional funds will be required for US-AEP activities in FYs 1995 and 1997.

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## **SO 5: INCREASED EFFECTIVENESS OF SELECTED INSTITUTIONS WHICH SUPPORT DEMOCRACY**

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### **RATIONALE**

The pressure for a more open, pluralistic system involving Indonesia's diverse civil society becomes more urgent as Indonesia develops economically and socially. Indonesian advocacy NGOs are becoming more numerous and aggressive in their actions. As the number and capabilities of these institutions increase, greater democratization within civil society and between civil society and the GOI will occur.

The GOI's reaction to changes leading to a more open, pluralistic system has been mixed, and most observers expect the government to keep a tight rein on formal political activity for the foreseeable future. On the one hand, the GOI recently banned three prominent publications and detained those who protested that action. On the other hand, the GOI created the National Human Rights Commission which has demonstrated a significant (many would say surprising) degree of independence and influence, and the Parliament has taken a slightly more independent, activist stance on corruption and economic development planning. Intensive debate still continues on the role of the military in civilian affairs. The GOI just initiated a study on the level of military participation in parliament and it is widely agreed that military influence in government has been reduced (but surely not eliminated) over the past three decades.

Indonesia's NGO community is growing larger, more vocal, and more skilled at bringing citizen concerns to public and GOI attention. Though the GOI supports NGO participation in development and poverty alleviation, and recognizes that NGOs can frequently identify problems at the grassroots, it frequently challenges NGOs involved in legal and workers' rights, environmental advocacy, consumer protection, development planning or land tenure issues.

Without a more transparent and participatory political system, long-term sustainable economic growth may be in jeopardy. A more accessible and representative political system will help Indonesia maintain its enviable economic growth rate and will allow more Indonesians to help mold the policies which affect their daily lives. A more open society will promote greater cooperation between our two countries and help avoid risking relationships across the spectrum of economic, political and social engagement. If we do not support Indonesian institutions which promote democracy now, we will be risking our own long-term interests to forge a fair and equitable relationship with this emerging market and key southeast Asia nation.

Notwithstanding the connection between other aspects of development and democracy, democracy is a valued aim in and of itself. Given our assessment of Indonesia's level of

development, we have formulated a strategy which will continue Indonesia's democratic progress.

USAID is the only donor in Indonesia with a well devised, active and reasonably funded democracy program; without the USG's and USAID's leadership and credibility, Indonesian's democrats are likely to be pushed back in their efforts and human rights progress is likely to be slowed.

## TACTICS

The Strengthening Democratic Initiatives (SDI) project (FY 1995-99) will be the primary activity that addresses this strategic objective. The project will support institutions, particularly leading national advocacy NGOs, in the field of legal aid and reform, human rights, environmental monitoring, freedom of the press, consumer affairs and labor training and organization. Two U.S. NGOs active in the areas of labor and judicial reform, and some smaller Indonesian NGOs that are establishing themselves as leaders in the areas of women's labor rights, micro-lending advocacy, environmental level, etc., will also be supported. NGOs will be selected on the basis of their credibility with the community and their track records as advocacy agents. They will be assisted to become better advocates, so that they will be in a stronger position to effectively lobby for the basic ingredients of a democratic system and to better participate in national policy formulation. NGOs will also be supported in activities that promote greater respect for the rule of law by all parties in Indonesia. These organizations will also be encouraged to strengthen their own internal organization so that they will be more autonomous and better able to participate in democratic development.

### **Program Outcome 5.1: *increased NGO advocacy for democratic participation***

This PO will focus resources on NGOs advocating greater understanding of political (democratic) culture, especially human rights, freedom of speech and association, political competition and tolerance, and civic responsibility and greater community influence on government decision-making. More frequent civic education programs concerning citizens' rights and an increased number of published critiques should raise public awareness of key policies affecting their lives. It is expected that NGO grantees will better inform public opinion through surveys and follow-up GOI-NGO dialogue covered by the media. More effective advocacy campaigns in the area of human rights, labor, and media independence are expected to draw more people into the debate, which, in turn, will elicit greater transparency and information exchange. A portion of SDI funds are also expected to be funneled to NGOs in politically sensitive areas such as East Timor.

### **Program Outcome 5.2: *increased activities that promote respect for rule of law***

Activities contributing to PO5.2 will support NGOs that intend to increase their monitoring of corruption and human rights violations, to demand and initiate more legal proceedings that

encourage consistent enforcement of laws, and to lobby more effectively so that laws are evenly enforced across all sectors of society. Increased legal transparency will give Indonesians greater confidence that their legal system can redress grievances and that the application of law is predictable and fair. The ELIPS project will support this effort by increasing opportunities for awareness of existing laws through selected NGOs and government agencies. ELIPS will also strengthen the "rule of law" theme by helping create more alternative dispute mechanisms and increased usage of the judicial system.

**Program Outcome 5.3: enhanced capacity, reliability, and responsiveness of selected NGOs**

PO 5.3 will increase the economic independence and autonomy of advocacy NGOs by broadening their base of donors and by establishing sources of independent income. Local and regional networking capabilities will be enhanced to permit NGO leadership to coordinate their response to major issues in the democracy sector. The SDI project will encourage internal NGO management to become more transparent and accountable to its own constituents and beneficiaries. These tactics are expected to give NGOs greater freedom of expression and to ensure that they accurately reflect the aspirations of their followers.

**PERFORMANCE**

The Agency approved the *Democracy Assessment and Strategy for Indonesia* in January, 1995. The Mission revised SO5 (See Annex A.) soon thereafter. Baseline data from the on-going Strengthening Institutional Development (SID) project enables us to report against actual SO and PO achievements this fiscal year.

SO5's *policy reform agenda* focuses on numerous elements which together will promote a deepened democratic political culture and strengthen adherence to the rule of law in Indonesia: more independence for the media,

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**Indonesia's Troubled Province**

USAID has the largest assistance program in East Timor, Indonesia's youngest and most politically troubled province. Since integration into Indonesia in 1975, it is estimated that over 25% of East Timorese have disappeared, been killed, or migrated from the former Portuguese colony.

From FY 1991 through FY 1994, USAID has obligated approximately \$10.4 million to Indonesian and U.S. NGOs for rural and community development activities there. The National Cooperative Business Association (NCBA) and the East Timor Agricultural Development Program (ETADEP) are especially influential NGO's receiving USAID support.

NCBA's efforts contributed to the breaking of the Sino-Indonesian/military monopoly over coffee. Thanks to this achievement, commodity prices have risen some 40%, and additional rises are anticipated as NCBA's technical assistance, credit, and training are expanded.

ETADEP, widely acknowledged as the most influential East Timorese NGO, was established with USAID funding in 1982 and continues to provide essential community development programs throughout the province. Many communities in East Timor count on ETADEP's expertise in farming and water supply. The organization also serves as a human rights monitor in the province. Due to the organization's strong credibility within the community, ETADEP officers remain apprised of political as well as development events in East Timor. ETADEP's influence with East Timor communities, the GOI, and foreign governments make it a central player in the resolution of the continuing conflicts in this troubled province.

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increased monitoring of corruption and human rights violations, minimum wage and health rights for workers, the rights of indigenous peoples/rural communities to participate in the formulation of policies which affect them, the right of citizens to hold their government accountable for its decisions, the uniform and fair enforcement of laws, and the encouragement of a pluralistic society.

### **Constraints and Obstacles**

A major constraint to achieving the POs is the continued uncertainty about "how far" the GOI will go in allowing NGOs to associate freely and expand their roles as advocates for change. Additionally, recognizing that "knowledge is power," certain vested public and private interests do not favor having the GOI improve the public's access to legal documents in order to maintain their dominant position in the economic and political system. With a limited budget, USAID's process of selection of "key" NGOs and institutions is critical for success. Therefore, priorities must be clearly identified and maintained.

### **Key Assumptions**

The following three assumptions apply if the Mission is to deliver the SO5 performance indicated at the FY 95-97 base levels: (1) adequate unearmarked resources will be available; (2) the regulatory climate for NGOs does not become more restrictive and NGOs can continue to receive foreign funding without interference; and (3) key Indonesian NGOs, with extensive influence and credibility, continue to seek USAID assistance.

### **EXPECTED IMPACT**

NGOs will more effectively demand improvements in Indonesia's political and judicial systems in accordance with existing laws and practices, and they will significantly increase their influence on the formulation of government policy. By the end of the planning period, key NGOs are expected to have more than doubled both their policy and civic education impact in numerous quantitative terms. NGOs will enter into more frequent and more analytical dialogue with GOI on behalf of their clients, and as part of their advocacy efforts. By the end of five years, the entire body of law is expected to be widely available to the public on CD ROM disks at a reasonable price. As a result of NGO lobbying, exposure of collusion and abuse of power, and publication of existing laws, a more open political culture and increased respect for the rule of law by civil servants, businessmen, industrialists, and the armed services will result. As a consequence, society in general will have more faith in the Indonesian constitution, political processes and possibilities, judicial institutions and the rule of law. NGOs will be expected to increasingly address concerns specific to women. NGOs supported by USAID are also expected to be in a stronger position as autonomous national advocacy institutes.

### **RESOURCE NEEDS**

The bulk of required SO5 funds are unearmarked resources for the new SDI project to primarily support local advocacy NGOs during FYs 95-99. However, human rights,

administration of justice, environmental and micro-enterprise directives have and will fund appropriate democracy activities. Some bilateral funds are also required to complete activities under MFP and ARSSP (FYs 95 and 96) and to fund grants to professional associations under ELIPS in FY 97. Global field support funds are needed during FYs 95-97 to meet the total resource needs for the new democracy program in Indonesia.

## B. RESOURCE REQUIREMENTS

### 1. PROGRAM PERFORMANCE REQUIREMENTS

#### **SO1: *Sustained economic growth in the transition from economic development assistance to development cooperation***

At the FY 95-97 base levels program outcomes as described in the SO1 narrative will be accomplished, with one important caveat. The SO1 strategy requires discretionary resources. In FY 95 the Mission received only \$0.5 million in discretionary economic growth resources. The remainder was \$2.2 million in microenterprise directives. Our transition strategy -- to replace development assistance with development cooperation -- requires discretionary resources and cannot be achieved without them.

If slightly higher funding were provided in FY 96, USAID would accelerate the implementation of its transition strategy.

If significantly less funding were provided in FY 96 then USAID would terminate or reduce funding for ongoing activities (ARSSP, Agribusiness, and perhaps other projects) in order to protect the transition strategy and start up of TAGS.

At the higher +10% FY 97 level there would be the further possibility of accelerating the transition strategy.

At the lower -20% FY 97 level the economic growth SO would be in jeopardy.

At levels significantly below the -20% FY 97 scenario, the SO would have to be abandoned, and no orderly transition strategy would be possible -- to the detriment of U.S. bilateral interests.

#### **SO2: *Improved health and reduced fertility***

At the FY 95-97 base levels, activities as planned will effectively accomplish the program outcomes.

If slightly higher population funding were provided in FY 96, there would be no perceptible increase in the contraceptive prevalence rate. If health-related resources were increased, these would be applied to HAPP with possibly more rapid achievement of objectives.

If significantly less funding were provided in FY 96, then the following adverse effects are projected: (1) the South-South initiative announced by President Clinton would be put on hold; (2) the growth in the contraceptive prevalence rate would slow by about 0.15% in FY96; (3) condom use in relationships at risk would drop from 40% to 36%, people at high risk diagnosed and treated in STD project clinics would drop from 30% to 27%, individuals

advised of prevention practices would drop from 40% to 36%, and people at high risk receiving STD/AIDS counseling would drop from 30% to 27%.

At the higher +10% FY 97 level, there would be no immediate measurable net effect on any SO2 indicators, although increases in POP and health resources would accelerate project implementation and impact measurable in the longer term.

At the lower -20% FY 97 level, none of the SO2 indicators would be adversely affected because the -20% cut would be directed to other SOs in order to preserve our commitment both to HAPP and child survival activities (health account), and in accordance with CPS guidance not to assume any reductions in population.

Even at levels significantly below the -20% FY 97 scenario, none of the SO2 progress indicators would be adversely affected because the Mission would still plan to take the cuts in other SOs for the reasons cited above.

### ***SO3: Decentralized and strengthened natural resource management***

At the FY 95-97 base levels, activities as planned will effectively accomplish the program outcomes.

If slightly higher funding were provided in FY 96, they would be used in support of new environment activities identified by the Environmental Assessment Team, and objectives might be achieved at a more rapid rate.

If significantly less funding were provided in FY 96, then the new NRM II Project would fund no new activities. This would impede the transition of the Mission towards strategic objective management within the environmental sector, and reduce USAID's ability to establish field testing and policy analysis in the newer subsectors, most specifically in the areas of marine resources and energy. The result would be a diminution of the country-level program and reduced role of USAID in national policy dialogue. It would also entail a reduction of the global impact from the Mission's portfolio since the Indonesia marine subsector is extremely important for global biodiversity and likewise the Indonesia energy subsector is extremely important for USAID climate change.

At the higher +10% FY 97 level, there would be expansion of new activities as described above and more active participation in global activities.

At the lower -20% FY 97 level, same scenario as "significantly less".

At levels significantly below the -20% FY 97 scenario, we could not justify new activities and would phase out of some on-going projects.

**SO4: *Strengthened urban environmental management***

At FY 95-97 base levels, activities as planned will effectively accomplish the program outcomes.

If slightly higher funding were provided in FY 96, funds will be used to support new activities as identified by the Environmental Assessment team in the areas of clean industrial production and energy, and objectives may be achieved at a more rapid pace.

If significantly less funding in FY 96, there will be no new activities in the areas of industrial pollution and/or clean renewable energy. We would also have to slow the delivery of urban environmental infrastructure under the ongoing MFP or PURSE project. A funding reduction would also impair USAID's ability to establish field testing and policy analysis in the clean industrial production and energy sectors.

At higher +10% FY 97 level, there would be expansion of new activities in the clean industrial production and energy sectors.

At the lower -20% FY 97 level, there will be no new activities to be achieved in the areas of industrial pollution and/or clean renewable energy -- resulting in this SO focusing on the provision of water, waste water, and solid waste management exclusively.

At levels significantly below the -20% FY 97 scenario, we would drop all activities in clean industrial production and renewable energy.

**SO5: *Increased effectiveness of selected institutions which support democracy***

At the FY 95-97 base levels, activities as planned would effectively accomplish the program outcomes, provided the SO is not burdened with a significant portion of earmarks which are not responsive to rule of law and political culture objectives.

If slightly higher funding were provided in FY 96, there would be the opportunity to expand contacts with NGO groups and deepen the programs of key NGOs.

If significantly less funding were provided in FY 96, it would be necessary to revisit the entire object framework and determine what might be salvaged, and certainly not all outcomes could be achieved. First, institutional development and then rule of law activities would be affected.

At the higher +10% FY 97 level, existing relationships with NGOs would be strengthened and possibly new NGO contacts could be made.

At the lower -20% FY 97 level, we would no longer attempt to enhance the capacity, reliability, and responsiveness of selected NGOs. Rule of law activities would be reduced, thereby jeopardizing the impact and sustainability of our democracy efforts.

At levels significantly below the -20% FY 97 scenario, it would be difficult to achieve the objective as defined by the recent Democracy Assessment Strategy and as planned in the new project.

## 2. PROGRAM MANAGEMENT REQUIREMENTS

**Personnel:** While maintaining its program budget at approximately the same level since 1988, the Mission has reduced its USDH FTE from 43 to the current level of 27. FSN staff, both direct hire and PSC, are also down substantially from a total of 154 in 1988 to 132 today. The Mission has accomplished these reductions by combining functions and by relying increasingly on a more senior FSN pool.

Although guidance on page 11, Part II.B of the *FY 1996-97 Action Plan Guidance for the FY 1995 Reviews* seems to suggest straight-lining full-time equivalent (FTE) levels through FY 1997, the Mission is planning to reduce its staff levels to roughly 25 USDHs and 120 FSNs during this strategy period, depending on program (and OE) resource flows. A significant reduction in program funding would result of course in a faster reduction in both USDH and FSN personnel, with perhaps greater reliance on regional and/or Global management. In any case, as the Mission implements its transition strategy, it will be looking for ways to reduce fulltime in-country staff commensurate with these changes.

Mission staff will also continue to be realigned as the transition strategy comes into place. During FY95, a new IDI joined the OC2P (democracy) office to help initiate the new Strengthening Democratic Initiatives (SDI) project. This IDI will eventually fill an FTE opening left by the Private Enterprise Development (PED) Office which will be completing a project during the current fiscal year. Such changes -- possibly including technical office consolidation -- will continue through the strategy period.

**Operating Expenses:** Even a straight-lining of the OE budget would mean, in real terms, a reduction in expenditures for FYs 96 and 97 due to inflation. To handle this loss, the Mission would be forced to reduce NXP/ADP acquisitions, training, domestic travel, and some FSN administrative support personnel. Each of these items is a critical component in support of program goals: the Mission requires current technology and adequate FSN support staff to reduce the level of non-development work required of our professionals; the Mission also relies heavily on training to develop our local staff who are assuming more responsibility as our USDH FTE level falls; and reduced domestic travel will limit ability to carefully monitor projects and would also reduce physical presence in focus areas such as East Timor.

However, these areas are the "best" alternatives for reduction, given that the current non-support staff levels are needed to effectively manage our program.

Even if the Mission were to suffer a large reduction in program funds (new obligations) for FYs 96 and 97, the Mission OE support needs would not immediately fall. With an anticipated pipeline of approximately \$67 million as of the end of FY 95 and annual expenditures of approximately \$52 million, it would take over a year at current support levels to expend the remaining funds while maintaining accountability. Beyond this timeframe, support costs would, of course, fall more rapidly, along with pipeline levels and expected annual expenditures.

In the event of a straight 20% OE cut in FYs 96 and 97, a number of planned program activities could not be carried out. NXP/ADP acquisition, training, and domestic travel would be cut back further. We would also reduce staff in all office. Approximately, 25-30 FSNs and 3 USDH/PSC positions would have to be eliminated immediately.

# **USAID/INDONESIA: COUNTRY PROGRAM STRATEGY**

## **ACTION PLAN TABLES AND FIGURES**

Table 1

**ALL RESOURCES TABLE**  
**USAID/Indonesia**  
**(\$000)**

Funding Category	FY 1995 *	FY 1996	FY 1997 Scenarios		
			-20% Straight Line	+ 10%	
<b>Sustainable Development:</b>					
Economic Growth <sup>1)</sup>	<u>11,061</u>	<u>18,167</u>	<u>13,600</u>	<u>20,225</u>	<u>21,183</u>
Population <sup>2)</sup>	<u>20,624</u>	<u>7,203</u>	<u>13,500</u>	<u>13,500</u>	<u>15,200</u>
Environment	<u>21,367</u>	<u>26,344</u>	<u>14,523</u>	<u>18,154</u>	<u>19,969</u>
Democracy	<u>5,227</u>	<u>6,565</u>	<u>5,000</u>	<u>6,400</u>	<u>7,755</u>
Economic Support Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>PL 480</b>					
Title II	<u>3,806</u>	<u>1,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
Title III	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Grand Total</b>	<b><u>62,085</u></b>	<b><u>59,779</u></b>	<b><u>46,623</u></b>	<b><u>58,279</u></b>	<b><u>64,107</u></b>
<b>Other (Non-Add):</b>					
Orphans funds <sup>3)</sup>	<u>650</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
HG (loan)	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
HG Credit Subsidy	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>
Additional Global Field Support (Grant)	<u>1,479</u> <sup>4)</sup>	<u>8,350</u> <sup>5)</sup>	<u>1,500</u> <sup>6)</sup>	<u>1,500</u> <sup>6)</sup>	<u>1,500</u> <sup>6)</sup>
Additional Global Field Support (Loan)	<u>0</u>	<u>82,500</u> <sup>7)</sup>	<u>2,000</u> <sup>8)</sup>	<u>2,000</u> <sup>8)</sup>	<u>2,000</u> <sup>8)</sup>
PD & S	<u>310</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

\*

FY 1995 NOA only, does not include FY 94 carryover funds of \$23.622 million

<sup>1)</sup> Includes health, child survival, Vitamin A, and AIDS activities per Agency's theme<sup>2)</sup> POP activities only, per Agency's theme<sup>3)</sup> On top of OYB<sup>4)</sup> For ABEL Secondary School Costs & Equity Considerations (300), ABEL Girls Secondary Education in Indonesia (300), HERNS Field Support (100), Conservation of Biological Diversity (400), EPIC (120), Renewable Energy (120) and Biomass (139)<sup>5)</sup> For Enhanced Credit Program/HRT (3,300)

Enhanced Credit Program/LGB (3,750)

Enhanced Credit Program/HCF (800) and BASICS (500)

<sup>6)</sup> For OMNI<sup>7)</sup> For Enhanced Credit Program/LGB (50,000), Enhanced Credit Program/HRT (30,000) and Enhanced Credit Program/HCF (2,500)<sup>8)</sup> For Enhanced Credit Program/HCF

Table 1.1  
**FUNDING BREAKOUT BY STRATEGIC OBJECTIVE**  
**USAID/Indonesia**  
**(\$000)**

**Mission Strategic Objective 1: To improve the Management of Sustained Economic Growth and the Transition from Economic Development Assistance to Development Cooperation**

Funding Category	FY 1995	FY 1996	FY 1997 Scenarios		
			-20%	Straight Line	+ 10%
<b>Sustainable Development Account:</b>					
Economic Growth	<u>3,100</u>	<u>12,714</u>	<u>10,100</u>	<u>16,725</u>	<u>17,683</u>
Population	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Environment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Democracy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Economic Support Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>PL 480</b>					
Title II	<u>2,250</u>	<u>1,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
Title III	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Grand Total</b>	<u><b>5,350</b></u>	<u><b>14,214</b></u>	<u><b>10,100</b></u>	<u><b>16,725</b></u>	<u><b>17,683</b></u>
<b>Other (Non-Add):</b>					
HG (loan)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
HG Credit Subsidy	<u>640</u>	<u>640</u>	<u>640</u>	<u>640</u>	<u>640</u>
Additional Global Field Support (Grant)	<u>700</u> <sup>1)</sup>	<u>3,300</u> <sup>2)</sup>	<u>0</u>	<u>0</u>	<u>0</u>
Additional Global Field Support (Loan)	<u>0</u>	<u>30,000</u> <sup>3)</sup>	<u>0</u>	<u>0</u>	<u>0</u>
PD & S	<u>0</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

<sup>1)</sup> For ABEL Secondary School Costs & Equity Considerations (300), ABEL Girls Secondary Education in Indonesia (300) and HERNS Field Support (100)

<sup>2)</sup> For Enhanced Credit Program/HRT

<sup>3)</sup> For Enhanced Credit Program/HRT

Table 1.2  
**FUNDING BREAKOUT BY STRATEGIC OBJECTIVE**  
**USAID/Indonesia**  
**(\$000)**

Mission Strategic Objective 2: Improved Health and Reduced Fertility

Funding Category	FY 1995	FY 1996	FY 1997 Scenarios		
			-20%	Straight Line	+10%
<b>Sustainable Development Account:</b>					
Economic Growth	<u>7,961</u>	<u>5,453</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
Population	<u>20,624</u>	<u>7,203</u>	<u>13,500</u>	<u>13,500</u>	<u>15,200</u>
Environment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Democracy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Economic Support Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>PL 480</b>					
Title II	<u>1,556</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Title III	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Grand Total</b>	<b><u>30,141</u></b>	<b><u>12,656</u></b>	<b><u>17,000</u></b>	<b><u>17,000</u></b>	<b><u>18,700</u></b>
<b>Other (Non-Add):</b>					
HG	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
HG Credit Subsidy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Additional Global Field Support (Grant)	<u>0</u>	<u>1,300</u> <sup>1)</sup>	<u>1,500</u> <sup>2)</sup>	<u>1,500</u> <sup>2)</sup>	<u>1,500</u> <sup>2)</sup>
Additional Global Field Support (Loan)	<u>0</u>	<u>2,500</u> <sup>3)</sup>	<u>2,000</u> <sup>3)</sup>	<u>2,000</u> <sup>3)</sup>	<u>2,000</u> <sup>3)</sup>
PD & S	<u>35</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

1) For BASICS (500) and Enhanced Credit Program/HCF (800)  
2) For OMNI  
3) For Enhanced Credit Program/HCF

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Table 1.3  
**FUNDING BREAKOUT BY STRATEGIC OBJECTIVE**  
**USAID/Indonesia**  
**(\$000)**

**Mission Strategic Objective 3: Decentralized and Strengthened Natural Resources Management**

Funding Category	FY 1995	FY 1996	FY 1997 Scenarios		
			-20%	Straight Line	+10%
<b>Sustainable Development Account:</b>					
Economic Growth	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Population	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Environment	<u>15,775</u>	<u>18,211</u>	<u>10,298</u>	<u>12,295</u>	<u>13,710</u>
Democracy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Economic Support Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>PL 480</b>					
Title II	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Title III	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Grand Total</b>	<b><u>15,775</u></b>	<b><u>18,211</u></b>	<b><u>10,298</u></b>	<b><u>12,295</u></b>	<b><u>13,710</u></b>
<b>Other (Non-Add):</b>					
Additional Global Field Support (Grant)	<u>400</u> <sup>11)</sup>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
PD & S	<u>100</u>	<u>100</u>	<u>0</u>	<u>0</u>	<u>0</u>

<sup>11)</sup> For Conservation of Biological Diversity

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Table 1.4

**FUNDING BREAKOUT BY STRATEGIC OBJECTIVE**  
**USAID/Indonesia**  
**(\$000)**

**Mission Strategic Objective 4: Strengthened Urban Environmental Management**

Funding Category	FY 1995	FY 1996	FY 1997 Scenarios		
			-20%	Straight Line	+10%
<b>Sustainable Development Account:</b>					
Economic Growth	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Population	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Environment	<u>5,592</u>	<u>8,133</u>	<u>4,225</u>	<u>5,859</u>	<u>6,259</u>
Democracy	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Economic Support Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>PL 480</b>					
Title II	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Title III	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Grand Total</b>	<u><b>5,592</b></u>	<u><b>8,133</b></u>	<u><b>4,225</b></u>	<u><b>5,859</b></u>	<u><b>6,259</b></u>
<b>Other (Non-Add):</b>					
HG (loan)	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
HG Credit Subsidy	<u>2,560</u>	<u>2,560</u>	<u>2,560</u>	<u>2,560</u>	<u>2,560</u>
Additional Global Field Support (Grant)	<u>379</u> <sup>1)</sup>	<u>3,750</u> <sup>2)</sup>	<u>0</u>	<u>0</u>	<u>0</u>
Additional Global Field Support (Loan)	<u>0</u>	<u>50,000</u> <sup>3)</sup>	<u>0</u>	<u>0</u>	<u>0</u>
PD & S	<u>150</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

1) For EPIC (120), Renewable Energy (120) and Biomass (139)

2) For Enhanced Credit Program/LGB

3) For Enhanced Credit Program/LGB

Table 1.5

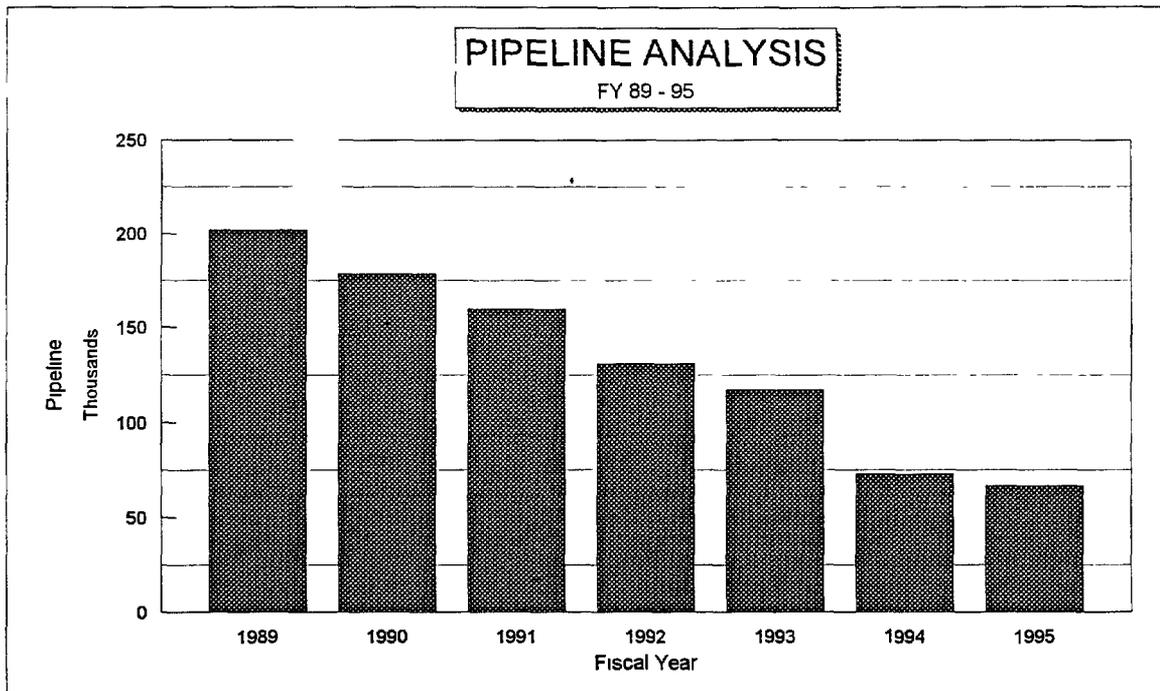
FUNDING BREAKOUT BY STRATEGIC OBJECTIVE  
 USAID/Indonesia  
 (\$000)

Mission Strategic Objective 5: Increased Effectiveness of Selected Institutions which Promote Democracy

Funding Category	FY 1995	FY 1996	FY 1997 Scenarios		
			-20%	Straight Line	+ 10%
<b>Sustainable Development Account:</b>					
Economic Growth	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Population	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Environment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Democracy	<u>5,227</u>	<u>6,565</u>	<u>5,000</u>	<u>6,400</u>	<u>7,755</u>
Economic Support Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>PL 480</b>					
Title II	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Title III	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Grand Total</b>	<u>5,227</u>	<u>6,565</u>	<u>5,000</u>	<u>6,400</u>	<u>7,755</u>
<b>Other (Non-Add):</b>					
Orphans funds <sup>11</sup>	<u>650</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
PD & S	<u>25</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

<sup>11</sup> On Top of OYB

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#### Financial Status History

Mission	Quarter	LOP Funds	Obligations	Commitments	Expenditures	Pipeline
Fiscal 1989	12/31/88	568,189	462,458	336,704	246,994	215,464
	03/31/89	568,189	462,458	351,050	264,794	197,664
	06/30/89	568,189	470,059	370,925	282,283	187,776
	09/30/89	596,939	501,360	380,915	299,277	202,083
Fiscal 1990	12/31/89	581,029	491,597	381,777	308,152	183,535
	03/31/90	541,779	467,372	351,485	286,371	181,001
	06/30/90	545,683	468,975	370,605	299,002	169,973
	09/30/90	565,829	464,960	352,110	286,354	178,606
Fiscal 1991	12/31/90	521,230	432,749	337,513	271,627	161,122
	03/31/91	513,230	435,955	348,032	290,595	145,360
	06/30/91	501,269	426,340	340,024	285,845	140,495
	09/30/91	554,269	466,136	371,045	306,484	159,652
Fiscal 1992	12/31/91	613,545	466,136	377,728	318,900	147,236
	03/31/92	577,145	435,566	354,173	295,942	139,624
	06/30/92	577,145	442,916	371,099	312,234	130,682
	09/30/92	577,145	455,509	371,099	324,632	130,877
Fiscal 1993	12/31/92	466,683	379,006	323,167	259,984	119,022
	03/31/93	463,821	379,046	328,368	272,112	106,934
	06/30/93	478,446	373,600	327,632	275,301	98,299
	09/30/93	432,611	367,466	317,572	250,337	117,129
Fiscal 1994	12/31/93	337,347	258,216	220,867	176,869	81,347
	03/31/94	442,347	363,121	322,337	272,809	90,312
	06/30/94	429,773	367,021	335,302	285,788	81,233
	09/30/94	429,773	375,021	353,697	302,301	72,720
Fiscal 1995	12/31/94	429,773	374,817	356,320	312,082	62,735
	03/31/95					
	06/30/95					
	09/30/95					66,603*

\* Estimated

Note. Obligations and expenditures in FY94 and FY95 do not include OYB transfers to centrally funded activities of \$13.475 millions in FY94 and \$17.776 millions in FY95

# USAID/INDONESIA PORTFOLIO TIMELINE

## Bilateral Resources Under FY 95-97 "Base" Assumptions

**Strategic Objective 1: Sustained Economic Growth  
in the Transition from Economic Development  
Assistance to Development Cooperation**

		FY 1994				FY 1995				FY 1996				FY 1997			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>Primary Supporting Activities</b>																	
<i>Project Number</i>	<i>Project Name</i>																
497-0360	Financial Markets																
497-0347	Small Scale Irrig Mgt																
497-0340	Development Studies																
497-0353	Rural Roads Maint Systems																
497-0328	General Participant Trng II																
497-0358	Higher Edu Dev Support																
497-0357	Agr & Rural Sec Support Prog*																
497-0372	Econ Law & Improv Proc Syst																
497-0368	Agribusiness Dev																
497-0386	ECP-HRT (non-add)																
497-0390	Transit Asst for Growth Support																
<b>Related Activities</b>																	
497-0365	Municipal Finance																

\* All components except Integrated Pest Management end 9/97

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**Strategic Objective 4: Strengthened Urban Environmental Management**

**Primary Supporting Activities**

<i>Project Number</i>	<i>Project Name</i>
497-0365	Municipal Finance
497-0373	Private Particip in Urban Serv
497-0391	CLEAN
497-0388	ECP-Local Gov't Bonds

FY 1994				FY 1995				FY 1996				FY 1997			
1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4

**Related Activities**

940-0019	Int'l Executive Service Corps
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**Strategic Objective 5: Increased Effectiveness of Selected Institutions which Support Democracy**

**Primary Supporting Activities**

<i>Project Number</i>	<i>Project Name</i>
497-0364	Strengthening Institutional Dev
497-0385	Strengthening Dem Initiatives

FY 1994				FY 1995				FY 1996				FY 1997			
1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4

**Related Activities**

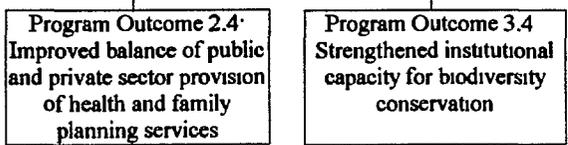
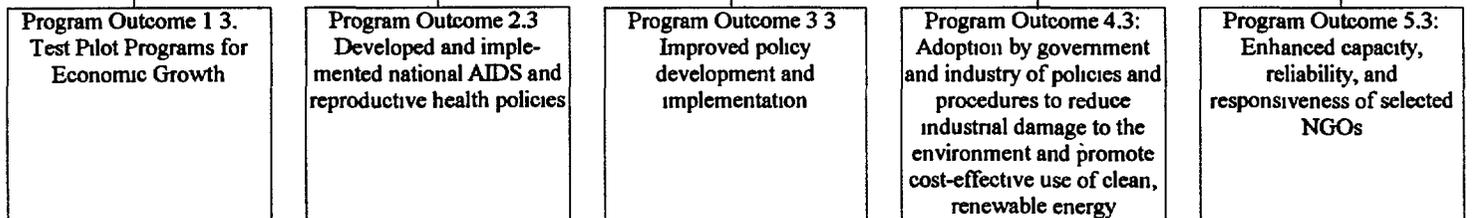
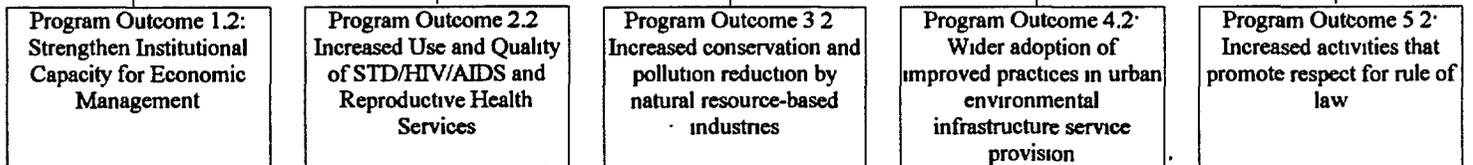
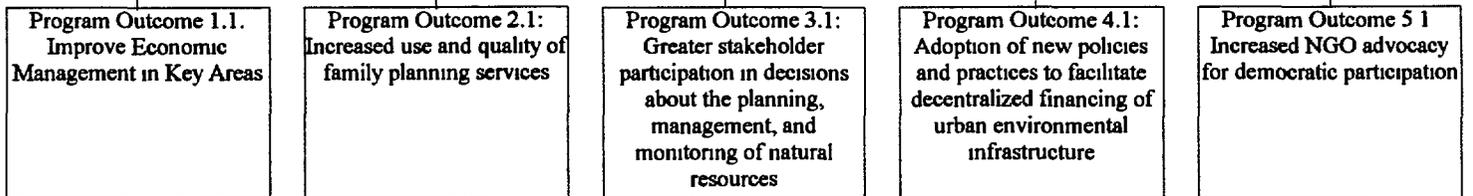
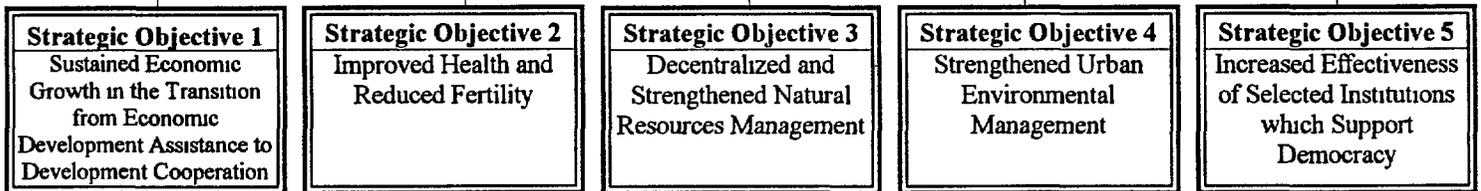
497-0372	Econ Law & Improv Proc Sys
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# USAID/INDONESIA PROGRAM OBJECTIVE TREE

## AGENCY GOALS

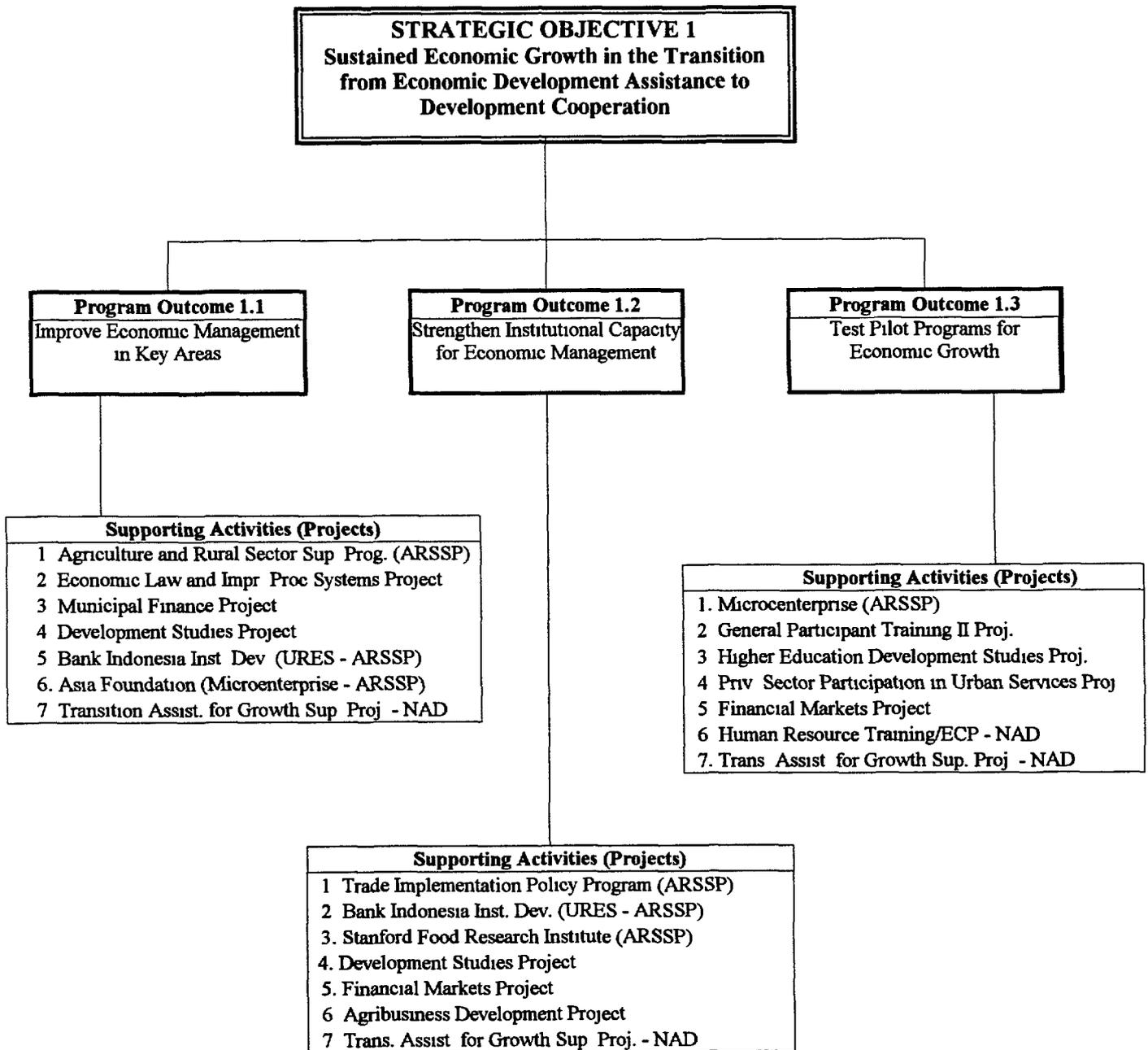


## MISSION STRATEGIC OBJECTIVES

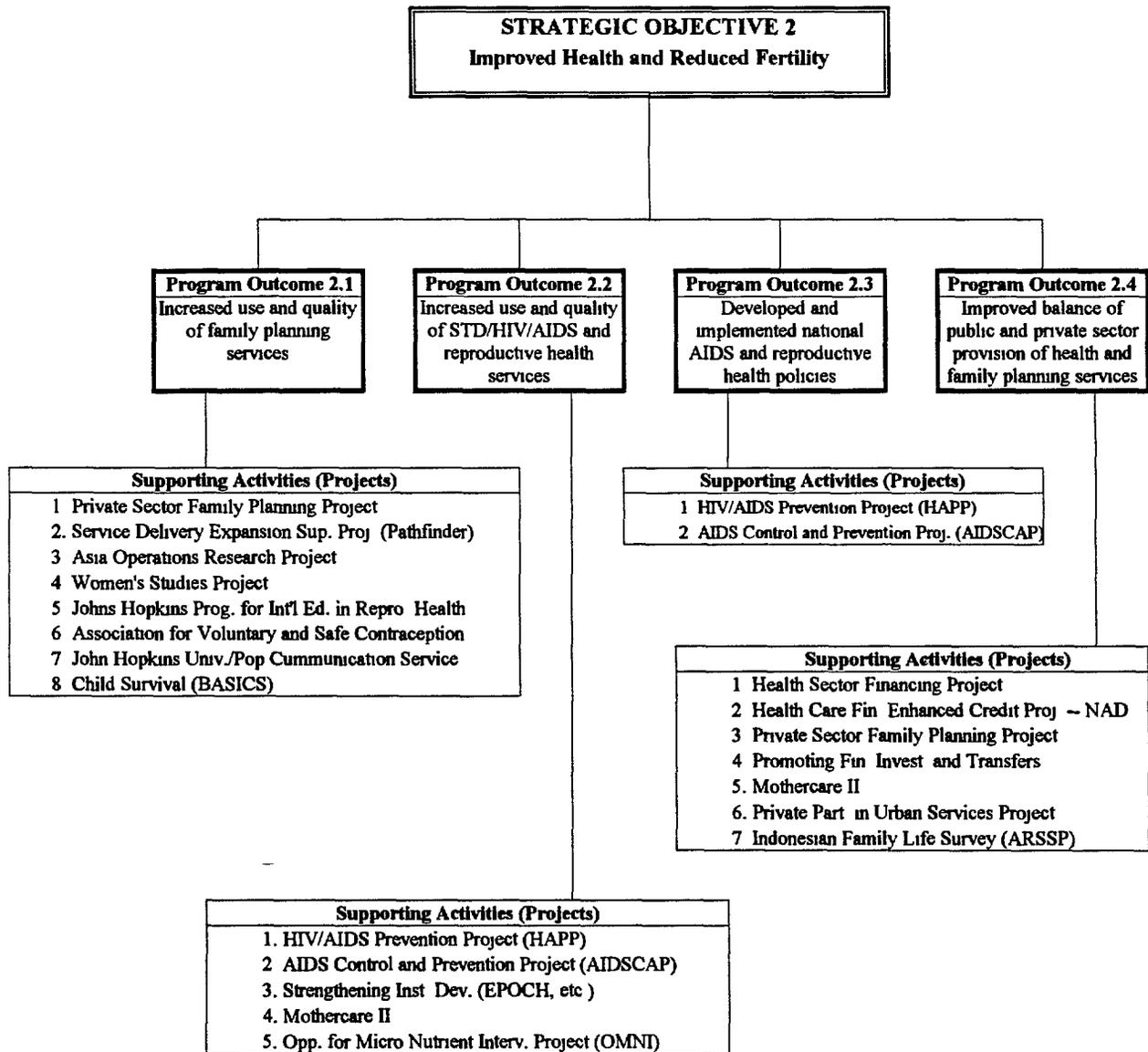


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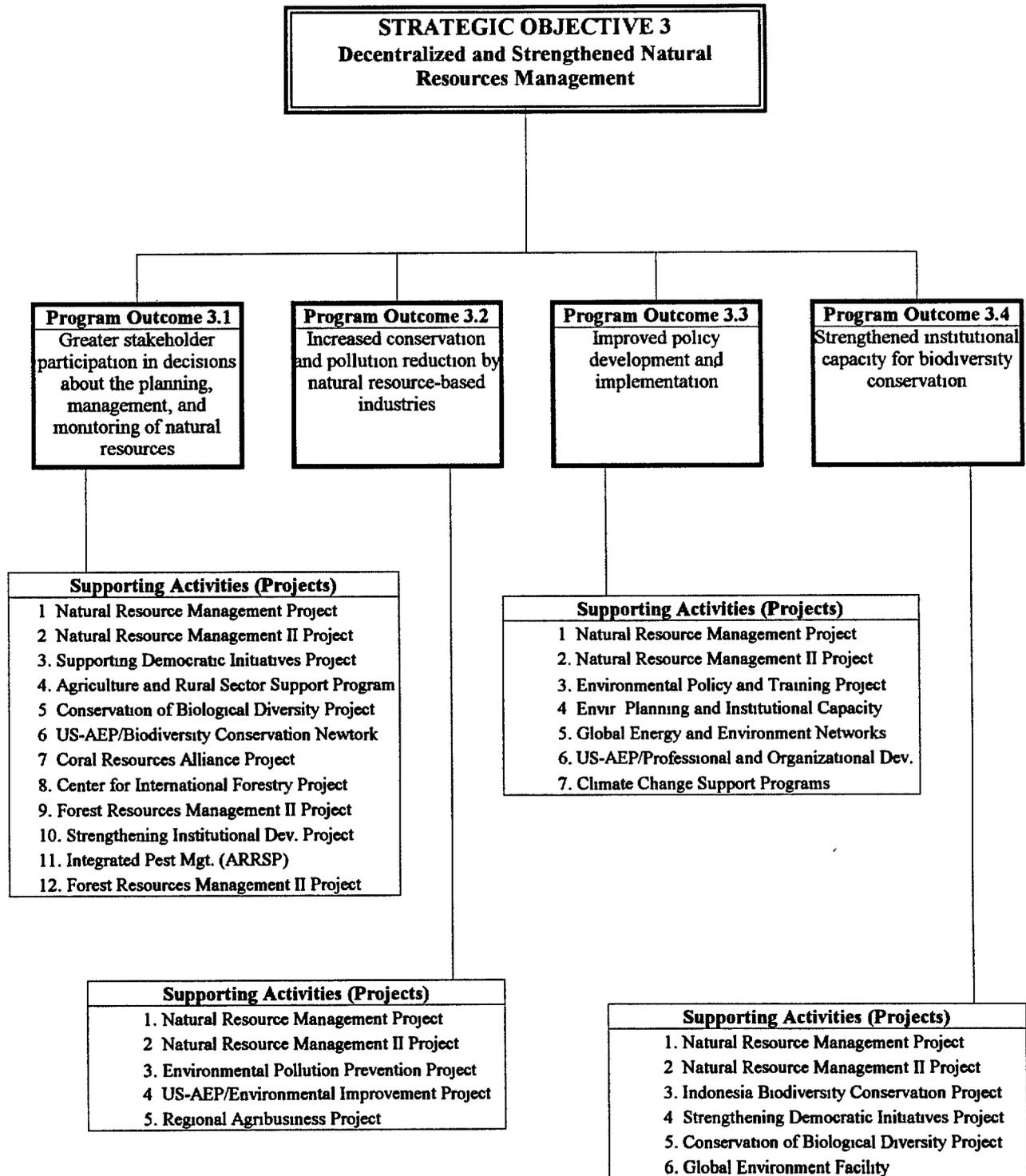
# STRATEGIC OBJECTIVE 1: PROGRAM ACTIVITY TREE



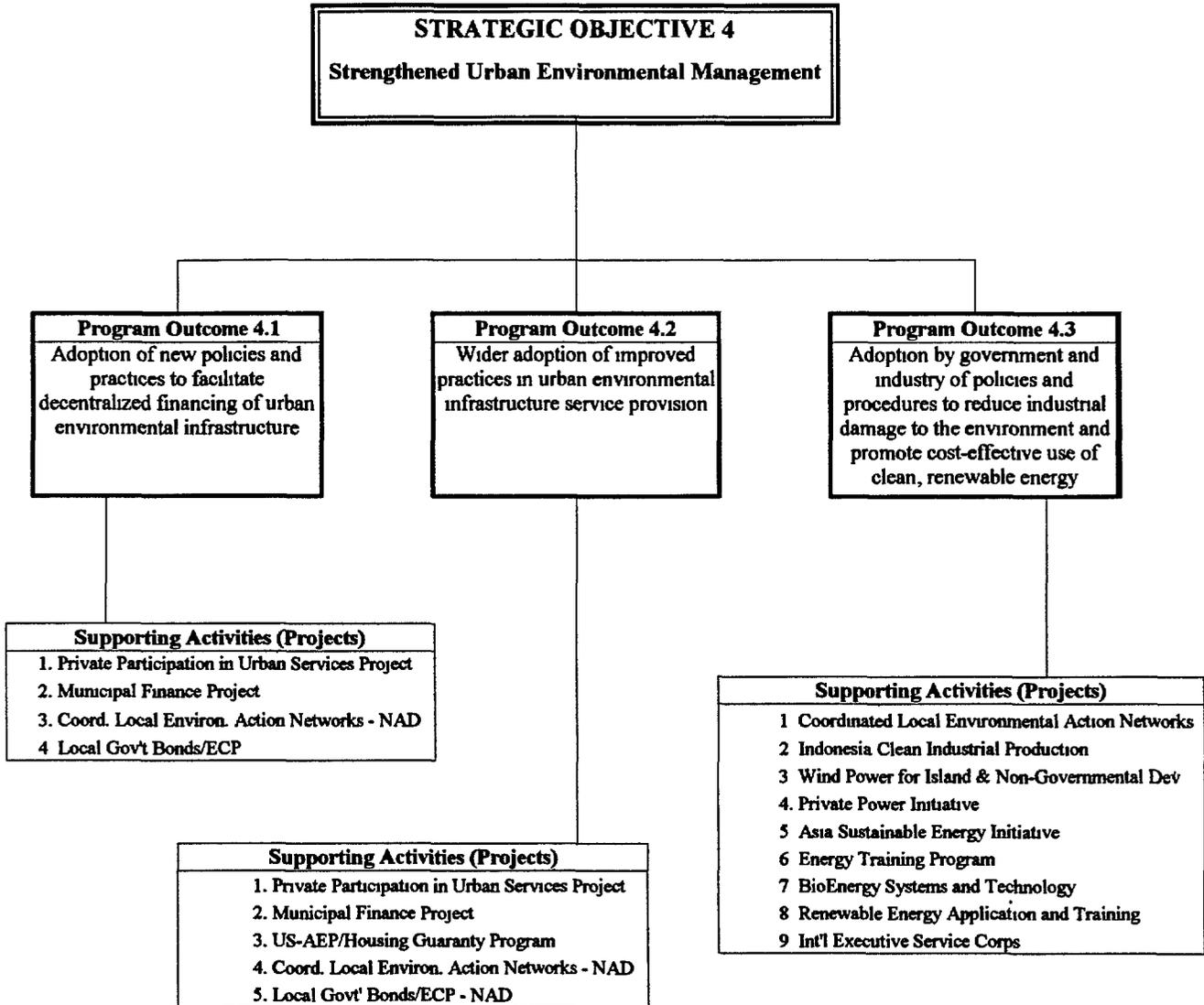
## STRATEGIC OBJECTIVE 2: PROGRAM ACTIVITY TREE



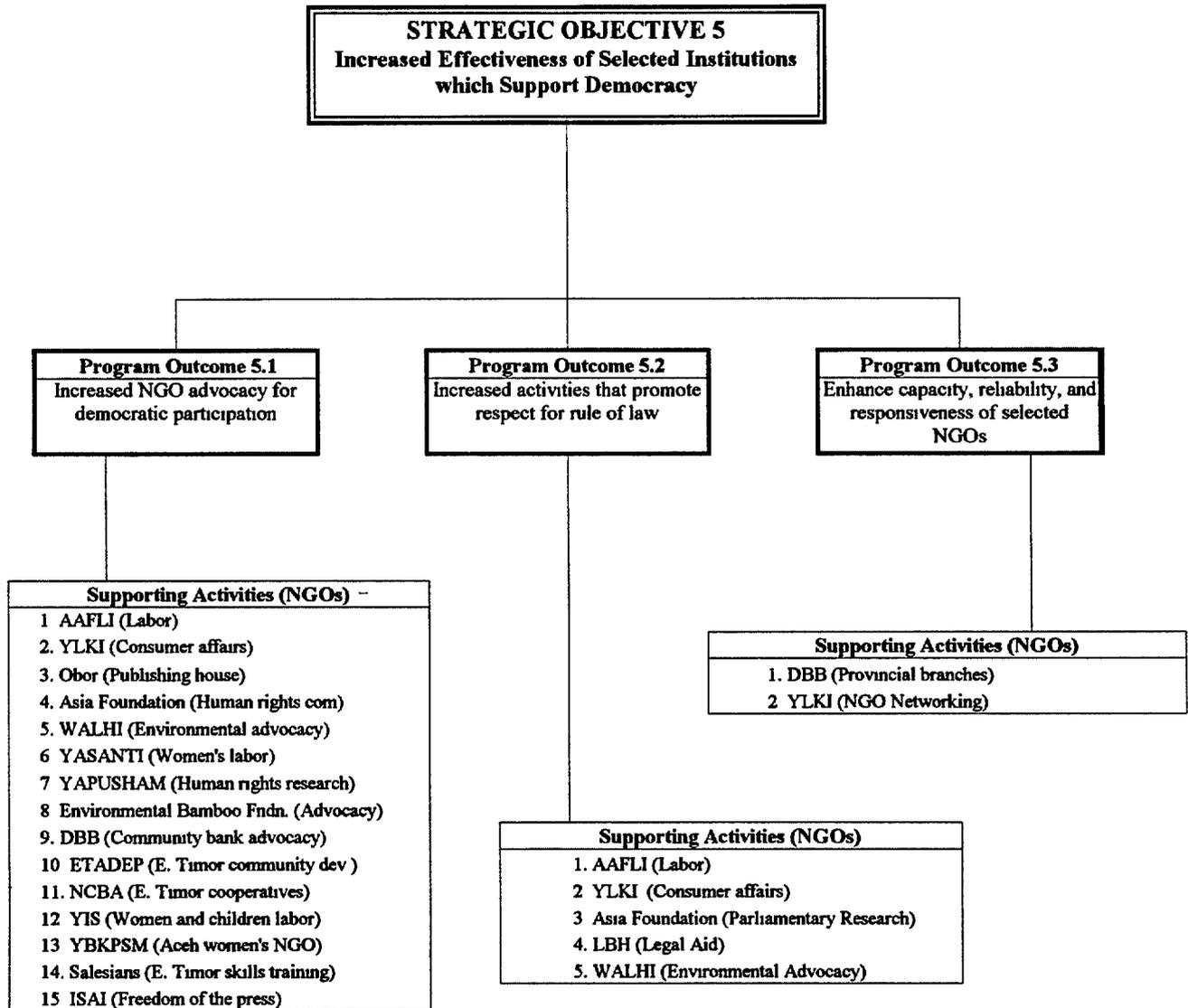
## STRATEGIC OBJECTIVE 3: PROGRAM ACTIVITY TREE



## STRATEGIC OBJECTIVE 4: PROGRAM ACTIVITY TREE



## STRATEGIC OBJECTIVE 5: PROGRAM ACTIVITY TREE



# **USAID/INDONESIA: COUNTRY PROGRAM STRATEGY**

## **ANNEX A**

### **PERFORMANCE MONITORING SYSTEM INDICATORS, BASELINES, TARGETS, AND PERFORMANCE BY SO AND PO**

## INTRODUCTION:

The tables which follow contain the data necessary to review the Mission's progress against the five Strategic Objectives and the fifteen Program Outcomes which support those objectives. In total there are 76 indicators which track these outcomes and objectives of USAID's Country Program Strategy.

The indicators are those which we believe best represent our progress, and those for which we have been able to get baseline data and reliable reporting. Several indicators have been dropped due to unavailability or unreliability of data. Several new indicators have been added due to the recent redefinition of the Mission's SOs. For each SO, there is a brief narrative followed by two sets of tables for each SO:

### **Definition Tables include:**

- o Performance Indicator
- o Definition of Indicator and Unit of Measurement
- o Data Source/Frequency
- o Method/Approach
- o Baseline (Year)
- o Future Cost of Data Collection
- o Quality of Data
- o Responsible Person/Office

### **Data Tables include:**

- o Performance Indicator
- o Unit of Measure
- o Baseline Data: Year/Value
- o Performance by Year: Expected vs. Actual

While the tables are for the most part self-explanatory, the newcomer to this reporting system may want to read the guidance on the Performance Monitoring System to understand how/why the data is organized in this fashion.

The narratives which introduce each of the four sections defend the choice of indicators and mention successes as well as any problems which have occurred in collecting the data. Where new indicators have been introduced, the whole set is described in more detail. Also, some rewording and reorganizing of SOs, POs and indicators has been necessary as the result of recent assessments, joint programming efforts, and advice received from USAID/W. These changes are explained under each SO.

***SO1: Sustained Economic Growth in the  
Transition from Economic Development  
Assistance to Development Cooperation***

**EXPLANATORY NOTES**

**Strategic Objective Indicators**

Three strategic indicators rely upon individual annual report cards to measure the relative success of USAID performance in achieving its manageable interest with respect to assistance to Indonesia under SO1. Each annual report card has a different focus in keeping with the sub-objective served by each indicator: (1) economic growth (SO1.1); (2) participation in the global economy (SO1.2); and (3) increased maturity of the Indonesian economic relationship with the United States (SO1.3). Each annual report card addresses the major indicators of Indonesian economic growth and compares actual performance with USAID expectations. However, the central concern of each report card is to monitor and report upon USAID successes and failures in its efforts to contribute to each sub-objective.

The annual report card on USAID policy-based assistance to sustained growth will document annually the specific successes and failures of USAID's policy-based activities to help Indonesia improve its management of sustained economic growth. The focus will be on achievements related to (a) fiscal and monetary policy, (b) financial and capital market development, and (c) improved service delivery.

The annual report card on USAID policy-based assistance to increase Indonesian participation in the global economy will document annually the specific successes and failures of USAID's activities to help Indonesia increase the transparency and openness of its economy and strengthen its capacity to participate fully in evolving trade and financial relations with global and regional partners. The report card will focus on UAID achievements in (a) trade policy, (b) deregulation, and (c) increased competitiveness.

The annual report card on USAID assistance to the management of key components of a maturing bilateral relationship will document annually the specific successes and failures of USAID's activities that help Indonesia carry out its growing role in the evolving and increasingly important bilateral relationship with the United States. The report card will focus on increased linkages between the United States and Indonesia, and the movement from development assistance to development cooperation.

## **Program Outcome Indicators**

### **PO1.1 *Improve Economic Management in Key Areas***

Percentage change in GOI tax collections for corporate income, individual income, and value added taxes (PO1.1.1) will measure the government's ability to raise additional revenues is one of the more difficult areas of economic management. Based substantially on the work of a USAID-funded team, a major legislative overhaul of the GOI tax system has been enacted to reduce tax rates, improve management, and increase tax compliance. Despite impressive gains, tax compliance is still low. Success in achieving the targets for this indicator will provide the additional fiscal resources critically needed to help finance the increasingly broad range of Indonesian development activities.

Percentage of GOI tenders competitively awarded in the government procurement system (PO1.1.2) will measure the increased openness and transparency of government purchasing. This will help broaden and deepen the ability of the Indonesian private sector to participate effectively in government procurement activities. Success in achieving this indicator will result in greater efficiency of public investment and reduce rent-seeking behavior by Indonesian public officials and private businessmen.

Measuring the number of commercial laws and regulations compiled into full-text or electronic image databases and made available to the public (PO1.1.3) will show further progress toward increased openness, transparency, and certainty of Indonesian government and business practices -- improvements that will also have more general beneficial effects in promoting the rule of law in Indonesia. Among other benefits, the institutional reforms and improved management made possible by transparent commercial law also help to limit the scope for rent-seeking activities by public officials and private businessmen.

Targeting of central government grants and payments to poorer regions (PO1.1.4) measures increases in the long-run fairness of Indonesian government activity. Targeting of central government grants increases the capacity and discretion of provincial and local officials in poorer regions to provide improved public services. Decentralization assists economic management by bringing decisions about resource allocation close to affected people.

Regional Development Account (RDA) loan disbursements to local governments (PO1.1.5) measures the effectiveness of one of the key economic management tools for improving the loan financing of major components of public infrastructure. Increasing the proportion of financing of local public works facilities with loan rather than grant funds helps (a) make additional grant funds available to poorer regions, (b) encourage additional responsibility by local officials, and (c) match services provided through infrastructure investment more successfully with local demand.

## ***PO1.2 Strengthen Institutional Capacity for Economic Management***

Improving the quality of human capital is one of the key factors (perhaps the key factor) in improving economic management. Thus, USAID supports training activities to improve the human capital available to key development institutions, measured in this indicator (PO1.2.1) by the training activities carried out in two sample projects.

The central importance of assuring that women participate fully in development is underlined with this separate training indicator (PO1.2.2) measuring gender participation.

Increasing the proportion of central government grants to local governments that are under "local discretion" (PO1.2.3) helps encourage additional responsibility by local officials, and helps match services provided better with local demand. Such decentralized economic decision-making is critical to overall improvements in economic management and efficiency, and paves the way for more effective and improved cooperation with the NGO sector.

Improving the effectiveness of agribusiness associations -- as indicated by their ability to provide services to members and attract increasing numbers of active members (PO1.2.4) -- helps raise productivity and create additional employment and value added. This, in turn, accelerates Indonesian exports and improves the overall institutional capacity to manage the development of the key agribusiness industry.

Innovations in the delivery of financial services in underserved areas (PO1.2.5) counts the additional persons who benefit through microenterprise borrowing from or lending to non-profit institutions whose management is improved by USAID. This will help provide microenterprise market-rate lending to additional areas of Indonesia not yet well served by the current, very successful Indonesian microenterprise credit activity.

## ***PO1.3 Test Pilot Programs for Economic Growth***

Increasing the number of students employed and securing one-year internships through utilization of Job Placement Centers (PO1.3.1) will help correct a major weakness in Indonesian institutions of higher education -- the absence of linkage to job markets for graduates. New graduates typically spend three years before obtaining suitable employment. This pilot activity is showing Indonesian educational institutions how to link students and curricula more successfully to job markets. Generalization of the success achieved in this pilot activity will help other universities throughout Indonesia to place graduates more successfully.

The value of signed agreements between local governments and private firms in providing urban service (PO1.3.2) measures progress toward meeting the investment needs for urban services infrastructure -- needs which vastly exceed the capacity of public sector financing. This indicator shows the degree of success of a pilot activity to demonstrate how innovative private-sector financing mechanisms, such as BOOs and BOTs, can help to solve the

infrastructure financing problem. Generalization of this pilot activity will help increase urban services and relieve pressure on the public finances.

The number of state-owned enterprises conducting initial public offerings (PO1.3.3) measures pilot efforts to achieve privatization of state-owned enterprises. Such activities provide for improved government debt management, increases in scarce government budget room, and removal of for-profit businesses from the government payroll. Based on successful privatization models, additional privatization activities will occur, as the benefits of privatizing state-owned enterprises are demonstrated to Indonesian government officials.

**STRATEGIC OBJECTIVE 1: SUSTAINED ECONOMIC GROWTH IN THE TRANSITION FROM ECONOMIC DEVELOPMENT ASSISTANCE TO DEVELOPMENT COOPERATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
SO1.1 Improved Policies for Sustained Economic Growth	Annual Report Card on USAID <i>policy-based</i> assistance to sustained economic growth. This will focus on USAID achievements related to a) fiscal and monetary policy, b) financial and capital market development and c) improved service delivery. This report card will include e"grade" between 0 (low) and 10 (high)	USAID economists, project managers and policy advisors, and GOI counterparts/ annual	EPSO estimates	1992/93	Moderate	A/B	EPSO

Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.

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**STRATEGIC OBJECTIVE 1: SUSTAINED ECONOMIC GROWTH IN THE TRANSITION FROM ECONOMIC DEVELOPMENT ASSISTANCE TO DEVELOPMENT COOPERATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
SO1.2 Improved Policies for Increased Indonesian Participation in the Global Economy	Annual Report Card on USAID policy-based assistance to increase participation in the global and regional economy. This will focus on USAID achievements in a) trade policy, b) deregulation and c) increased competitiveness. The report card will include a "grade" between 0 (low) and 10 (high)	USAID economists, project managers and policy advisors, and GOI counterparts/ annual	EPSO estimates	1992/93	Moderate	A/B	EPSO
Comment Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.							

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**STRATEGIC OBJECTIVE 1: SUSTAINED ECONOMIC GROWTH IN THE TRANSITION FROM ECONOMIC DEVELOPMENT ASSISTANCE TO DEVELOPMENT COOPERATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
SO1.3 Increased Maturity of Indonesian-American Economic Relationship	Annual Report Card on USAID assistance to increased economic linkages between the United States and Indonesia and movement from development assistance to development cooperation. The report card will include a "grade" between 0 (low) and 10 (high)	USAID economists, project managers and policy advisors, and GOI counterparts  Annual	EPSO estimates	1992/93	Moderate	A/B	EPSO
<p>Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.</p>							

**PROGRAM OUTCOME 1.1: IMPROVED ECONOMIC MANAGEMENT IN KEY AREAS**

<b>PERFORMANCE INDICATOR</b>	<b>DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT</b>	<b>DATA SOURCE/FREQUENCY</b>	<b>METHOD/APPROACH</b>	<b>BASELINE (YEAR)</b>	<b>FUTURE COST OF DATA COLLECTION</b>	<b>QUALITY OF DATA</b>	<b>RESPONSIBLE OFFICE/PERSON</b>
PO1.1.1 Percentage change in GOI tax collections for corporate income, individual income, and value added taxes	Percentage change in the sum of corporate and individual income tax and value-added tax collected by the GOI. This is a measure of fiscal effort and the ability of the GOI to finance government services	Agency for Financial and Monetary Analysis, <u>Economic Indicators and Budget Statistics</u> , published annually in December	Percentage change in the data collected and published annually by the Ministry of Finance	1992/93	Low	A	EPSO
PO1.1.2 Percentage of GOI tenders competitively awarded in the government procurement system	Number of GOI large value procurement tenders that are approved by the Coordinating Ministry for Economics, Finance, and Development Supervision (EKKU)	EKKU staff review all large value procurement; reports are prepared annually	EKKU staff monitor procurement activities on a continual basis	1992/93	Low	A	PED
<p><b>Comment:</b> Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.</p>							

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PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO1.1.3 Number of commercial laws and regulations compiled into full-text or electronic image databases and made available to the public	Laws and regulations consist of provisions of the constitution, laws passed by Parliament, Government Regulations, Decrees, Instructions, Provincial Government Regulations and Treaties with other countries	Projects/annually	As collected by projects	1992/93	Low	A	PED
PO1.1.4 Targeting of central government grants to the poorest provinces	Percentage of Inpres aid going to the 9 poorest provinces, as measured by the percentage of their population living in the poorest category of village. Data cover all Indonesian provinces except DKI Jakarta	Report issued annually by MOF with support from USAID's Municipal Finance Project. The poorest villages are classified by the GOI (approximately 10% of the population)	For the allocations of grants, only budget data are available. The indicator measures the improvement in regional fairness planned by the government. Poverty data from poorest villages as calculated for the "Inpres Desa Tertinggal" Program	1992/93	Low	A	PED
<p>Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.</p>							

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PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO1.1.5 Regional Development Account (RDA) loan disbursements to local governments	Annual percentage change in the total amount of RDA loan disbursements by the Ministry of Finance to local governments	Urban Policy Action Plan Monitoring Indicators Report / Annually	Data compiled annually by the Ministry of Finance, Bureau for Regional Financial Analysis (MOF/BAKM) drawing upon data prepared for the annual budget report and semi-published figures of the Ministry of Home Affairs, DG of General Government Affairs and Regional Autonomy (MOHA/PUOD)	1992/93	Low	A	PED
<p>Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.</p>							

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**PROGRAM OUTCOME 1.2: STRENGTHENED INSTITUTIONAL CAPACITY FOR ECONOMIC MANAGEMENT**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE\PERSON
PO1.2.1 Train Indonesians in key development institutions needed for sustainable growth	Number of persons trained through USAID activities in Trade Implementation and Policy Program (TIPP) and Economic Law and Improve Procurement System (ELIPS) projects	Annually for TIPP and ELIPS Projects	Compile data from projects	1992/93	Low	A	HIRD with PED/EPSO data
PO1.2.2 Participation of women (out of total trained)	Percentage of women of all participants trained by USAID funded by Project Implementation Order/Participants (PIO/Ps)	Project data for all Mission funded training projects	Compile data from projects	1992/93, US FY	Low	A	HIRD
PO1.2.3 Proportion of central government grants to local governments that are under "local discretion"	Central government grants to local governments refer to SDO and INPRES. Local discretion refers to central government grants to local governments that are under the flexible discretion of local governments to allocate based on local conditions and priorities. It currently includes the non-wage portion of SDO, the entire INPRES Data I and II and INPRES Desa Tertinggal	Urban Policy Action Plan Monitoring Indicators / Annually	Central government grants categorized as "local discretion between sectors" are divided by the total of all central government grants and transfers	1992/93	Low	A	PED
<p>Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.</p>							

**PROGRAM OUTCOME 1.2: STRENGTHENED INSTITUTIONAL CAPACITY FOR ECONOMIC MANAGEMENT**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO1.2.4 Improve effectiveness of agribusiness associations as indicated by their ability to provide services to members and attract increasing numbers of active members	Improve effectiveness will be measured by the change in the number of active members of agribusiness associations. Active membership is measured as "those members who regularly participate in association events and programs, whether or not they pay their dues" (gender disaggregated)	Agribusiness Development Project (ADP) has conducted a detailed baseline survey of agribusiness association membership in January/February 1994. This survey will be repeated each year throughout the lifetime of the project	Data are collected by ADP during the life of the-of-project	1993/94	Medium	A	AEE
PO1.2.5 Adoption of innovations and best practices by institutions to increase financial services to clients in underserved areas	Number of clients receiving loans from financial institutions in underserved areas (gender disaggregated)	Microenterprise projects, semi-annually	Collected by projects	1992/93	Low/Medium	A	AEE, OC2P
Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.							

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**PROGRAM OUTCOME 1.3: TEST PILOT PROGRAMS FOR ECONOMIC GROWTH**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO1.3.1 Number of students employed and securing one year internships through utilization of Job Placement Centers	Number of students obtaining professional counseling at Job Placement Centers (at seven Sumatran Universities) operated under USAID/GOI auspices	Job Placement Center Advisors, project records and Ministry of Education (General Director of Higher Education, Jakarta) / Annually	As reported to USAID and the Ministry of Education	1992/93	Low	A	HIRD
PO1.3.2 Value of signed agreements between local governments and private firms in providing urban services	Value of signed agreements is the total value in millions of US dollar of Private Sector Participation in Urban Services (PURSE) supported public private partnership project agreements	Project Reports / Annually	Annual and quarterly reports of the PURSE project	1992/93	Low	A	PED
PO1.3.3 Number of state-owned enterprises conducting initial public offerings	Most state-owned enterprises have been restructured as limited liability companies. USAID and a task force in the Directorate General for State Enterprises have been working to clarify procedures for public offerings by these companies	The data have been initially collected by USAID under the Financial Markets Project. In the future, the Directorate General for State Enterprises and the Indonesian Capital Markets Supervisory Agency (BAPPEPAM) will collect and publish the data/annually	As reported	1989/90	Low	A	PED
<p><b>Comment:</b> Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.</p>							

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**STRATEGIC OBJECTIVE 1: SUSTAINED ECONOMIC GROWTH IN THE TRANSITION FROM ECONOMIC DEVELOPMENT ASSISTANCE TO DEVELOPMENT COOPERATION - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
SO1.1 Improved Policies for Sustained Economic Growth	Number	1992/93	10	Actual	10						
				Expected	9	6	5	4	4	4	4
SO1.2 Improved Policies for Increased Indonesian Participation in the Global Economy	Number	1992/93	10	Actual	10						
				Expected	10	10	10	8	5	5	5
SO1.3 Increased Maturity of Indonesian-American Economic Relationship	Number	1992/93	4	Actual	2						
				Expected	2	3	4	6	9	10	10
Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.											

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**PROGRAM OUTCOME 1.1: IMPROVED ECONOMIC MANAGEMENT IN KEY AREAS - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO1.1.1 Percentage change in GOI tax collections for corporate income, individual income, and value added taxes	Percentage change from previous year	92/93	22.3% increase to 22,626.6 million rupiah (about 78% of GOI non-oil own-source revenues)	Actual	21.8 %						
				Expected	17.0%	20.0%	17.0%	16.0%	15.0%	15.0%	15.0%
PO1.1.2 Percentage of GOI tenders competitively awarded in the government procurement system	Percentage	92/93	52%	Actual	52%	58%					
				Expected	52%	60%	63%	65%	68%	71%	75%
PO1.1.3 Number of commercial laws and regulations compiled into full-text or electronic image databases and made available to the public	Number	92/93	0	Actual	150	4,000					
				Expected	100	1000	2500	3000	3400	4000	4500
PO1.1.4 Targeting of central government grants to the poorest provinces	Percentage of funds to poorest region	92/93	26%	Actual	27%	28%					
				Expected	26.5%	27%	27.5%	28%	28.5%	29%	29.5%
PO1.1.5 Regional Development Account (RDA) loan disbursements to local governments	Percentage change from previous year	92/93	Rp.88.06 billion	Actual	-12.5%						
				Expected	+8%	+12%	+15%	+20%	+20%	+20%	+20%

Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.

**PROGRAM OUTCOME 1.2: STRENGTHEN INSTITUTIONAL CAPACITY FOR ECONOMIC MANAGEMENT - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO1.2.1 Train Indonesians in key development institutions needed for sustainable growth	No. of persons	1992-93	20	Actual	309 (90 women)						
				Expected	298	235	235	210	210	210	210
PO1.2.2 Participation of women (out of total trained)	Percentage of AID-trained participants	1992-93	25	Actual	27						
		U.S FY		Expected	26	27	27	28	28	28	29
PO1.2.3 Proportion of central government grants to local governments that are under "local discretion"	Percentage	1992-93	20.3%	Actual	22.3%	21.5%					
				Expected	23.1%	23.5%	24.0%	24.5%	25.0%	25.5%	26.0%
PO1.2.4 Improve effectiveness of agribusiness associations as indicated by their ability to provide services to members and attract increasing numbers of active members	Change in the number of active members of agribusiness associations (percentage of women participating)	1993-94	Base of 21,350 (0 % women)	Actual	N/A						
				Expected	N/A	2,135 (4 % women)	2,135 (7 % women)	3,205 (10 % women)	5,335 (13 % women)	3,415 (16 % women)	3,725 (16% women)
PO1.2.5 Adoption of innovations and best practices by institutions to increase financial services to clients in underserved areas	Number of clients receiving loans from selected financial institutions in underserved areas (percentage of women served)	1992/93	0	Actual	0 (0 % women)						
				Expected	0 (0% women)	0 (0% women)	840 (50% women)	1,500 (52% women)	2,360 (55% women)	3,120 (58% women)	3,380 (61% women)

Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.

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**PROGRAM OUTCOME 1.3: TEST PILOT PROGRAM FOR ECONOMIC GROWTH - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO1.3.1 Number of students employed and securing one-year internships through utilization of Job Placement Centers	Number of internship and placements	1992-93	0	Actual	4 (1 woman)						
				Expected	0	160	320	640	640	640	640
PO1.3.2 Value of signed agreements between local governments and private firms in providing urban services	Value of PURSE supported signed agreements include service agreements, performance agreements, BOO + BOT projects	1992-93	0	Actual	0						
				Expected	0	0	0	\$ 50 million	\$ 75 million	\$ 100 million	\$ 100 million
PO1.3.3 Number of state-owned enterprises conducting initial public offerings	Number	1989-90	1	Actual	0	1					
				Expected	2	4	7	11	16	22	29

Comment: Unless stated otherwise, all annual data are based on the Indonesian fiscal year which runs from April 1 - March 31.

## **SO2: Improved Health and Reduced Fertility**

### **EXPLANATORY NOTES:**

#### **Strategic Objective Indicators**

Progress toward this strategic objective will be measured by three dynamic indicators, indicators for which there is reliable data, indicators upon which USAID has some direct impact and indicators which clearly demonstrate the need for improving health and reducing fertility in Indonesia. *Total fertility rate* is the main measure of success in the area of family planning and counseling. The data is reported every three years by the national Demographic and Health Survey, partially funded by USAID. We look at the fertility rate nationally and by province because this varies considerably as do the populations of the seven provinces where USAID inputs are concentrated. The *syphilis prevalence rate* is an important indicator of STD prevalence and the potential for spread of HIV/AIDS in Indonesia and relates directly to USAID's efforts in HIV/AIDS/STD prevention. For this indicator data is collected in demonstration areas. The *maternal mortality ratio*, that is, the number of maternal deaths per 100,000 live births is very high for a country at Indonesia's stage of development. USAID addresses this problem through several activities and tracks it through two surveys which are done every three years.

#### **Program Outcome Indicators**

##### **PO2.1: *Increased use and quality of family planning services***

This program outcome contributes to the Mission's objective by addressing two important aspects of family planning use in Indonesia: contraceptive use among hard to reach population groups, and use of longer-term and more effective methods of contraception among couples who would like to space their children and especially to limit the size of their families. By making family planning services more available and increasing and improving the range and quality of contraceptive choices, the Mission expects to reach both of these groups. Through a combination of bilateral and centrally-funded activities, the Mission is working in the seven most populous provinces of Indonesia (which make up over 70% of the total population). The Mission believes that with the resources at its disposal, it will be able to: 1) *promote greater contraceptive use*, 2) *increase the use of long-term more effective methods*, 3) *contribute to a reduction in the discontinuation rate* through improved quality of service delivery. Data is collected on these three key indicators through the same three survey which tracks the fertility rate.

##### **PO2.2: *Increased use and quality of HIV/AIDS/STD and reproductive health services (targeted populations in demonstration areas)***

It is estimated that the number of people infected with HIV/AIDS in Indonesia is doubling every six months. At this point, few Indonesians have adequate knowledge of how HIV/AIDS is spread and how to protect themselves from infection. Care and treatment of sexually transmitted diseases (STDs), which increase the risk of HIV infection significantly, is fragmented and of poor quality. As a result, many people remain undiagnosed and untreated. Recently the GOI released a National AIDS Control Strategy which coordinates AIDS prevention activities among twelve ministries. HIV/AIDS is not the only health threat in Indonesia. The high maternal mortality ratio is the result of poor nutritional status among women; inadequate pre-natal, delivery, and post-natal care; and too many preventable high-risk pregnancies. In the new five-year plan, Repelita VI, the GOI has targeted this area.

The Mission is focusing at this point specifically on HIV/AIDS/STD prevention and maternal health. It is assisting the GOI to address these problems at two levels: by *testing interventions in demonstration areas*, and by *informing and assisting the GOI in the development and implementation of health policies*. In HIV/AIDS/STD prevention the Mission's focus is on *information, education, and communication (IEC) campaigns*, increasing accessibility to and use of condoms, and improving the quality of STD prevention, diagnosis and treatment in order to decrease the rate of HIV transmission. Activities in support of HIV/AIDS/STD prevention will focus heavily on high risk populations within the demonstration areas. The Mission's work in maternal health will focus on improving and expanding pre-natal delivery and post-natal care in a pilot area in South Kalimantan. This includes testing a pre-natal care referral system and providing iron supplementation, as well as *strengthening the midwife association IBI to support new village midwife networks*. The Mission expects that these activities will result in an increase in the use and quality of these health services and in improved health for the target population.

Indicators are focused on the use of condoms, STD counseling and awareness of AIDS prevention practices, particularly among high risk groups, and quality maternal health services. All are measured within the demonstration areas.

**PO2.3: *Developed and implemented national AIDS and reproductive health policies***

USAID actively promotes policy reform in the health care area. Many of the constraints to continued and improved good health reside in the lack of appropriate national policies or the limited implementation of those which do exist. The Mission's past efforts have already led to significant policy changes in the areas of family planning and financing of health services. This program outcome focuses on the Mission's work in assisting the GOI to develop and implement national AIDS and reproductive health (at this point, STD) policies.

The Mission has chosen two indicators to monitor this program outcome. One is *the development of a set of national AIDS policies*. The other indicator measures *national resources devoted to HIV/AIDS/STD activities*.

**PO2.4: *Improved balance of public and private sector provision of health and family planning services***

The current heavy demands on health care services and the increasing demand which an AIDS epidemic will lead to will tax Indonesia's health care delivery system. Improved health care financing is a necessary precondition to health service sustainability and the ability to target health resources for national health priorities. The Mission has already made substantial progress in assisting the GOI to develop policies which promote the involvement of the private sector in family planning service delivery and health care financing. This program outcome addresses the continuation of efforts to increase the private sector's role in providing these services and redefining the public sector's role to one of "regulator."

The Mission has identified three indicators to monitor progress. These indicators address the *changes in the relative roles of the public and private sector in both health and family planning.*

**STRATEGIC OBJECTIVE 2: IMPROVED HEALTH AND REDUCED FERTILITY<sup>(1)</sup>**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
SO2.1 Total fertility rate: national; 7 provinces <sup>(2)</sup>	The average number of children a woman would bear during her lifetime given current age-specific fertility rates	Demographic and Health Survey (DHS) (Every 3 years)	Survey - data will be provided for national and 7 most populous provinces	1994	Low	A	HIRD
SO2.2 Syphilis prevalence rate among high risk populations <sup>(3)</sup> in demonstration areas <sup>(4)</sup> : male, female	Number of high risk women/men aged 15-49 attending clinics with positive serology for syphilis as a proportion of all high risk women/men aged 15-49 attending clinics	Project survey (Annually)	Survey	1995	Medium	B	HIRD
SO2.3 Maternal mortality ratio	Number of maternal deaths per 100,000 live births	National Social Economic Survey (SUSENAS) (Every 3 years)  DHS (Every 3 years)	Survey	1994	Medium	B	HIRD
<p>Comments:</p> <p>(1) All SO2 indicators are national figures, unless otherwise specifically indicated.</p> <p>(2) The seven provinces are West, Central and East Java; North and South Sumatra; South Sulawesi and Lampung (the most populous provinces in Indonesia and the focus of Mission program activities).</p> <p>(3) High risk populations are defined as commercial sex workers, gay men and clients.</p> <p>(4) Demonstration areas are initially defined as Surabaya and North Jakarta (see detailed definition in HAPP PP; 3rd target area to be determined in year one of the project).</p>							

**PROGRAM OUTCOME 2.1: INCREASED USE AND QUALITY OF FAMILY PLANNING SERVICES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST/DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO2.1.1 Contraceptive prevalence rate: national; 7 provinces <sup>(1)</sup>	Percentage of married women of reproductive age (15-49) using contraceptives	DHS (Every 3 years)	Survey	1994	Low	A	HIRD
PO2.1.2 Contraceptive prevalence rate, long-term methods: national; 7 provinces <sup>(1)</sup>	Percentage of married women of reproductive age (15-49) using a long-term contraceptive method <sup>(2)</sup>	DHS (Every 3 years) SDES MIS <sup>(3)</sup>	Survey (DHS) Project evaluations of SDES	1994	Low	A	HIRD
PO2.1.3 Discontinuation Rate: national; 7 provinces <sup>(1)</sup>	Percentage of contracepting married women age 15-49, who discontinue use 12 months after the start of use	DHS (Every 3 years) BKKBN (Annually) SDES (Annually)	Survey (DHS) may require special analysis for provincial level Service statistics SDES MIS	1994	Low	B	HIRD
<p><b>Comments:</b></p> <p>(1) The 7 provinces are West, Central, and East Java; North and South Sumatra; South Sulawesi and Lampung (the most populous provinces in Indonesia and the focus of Mission program activities.</p> <p>(2) Long term methods are here defined as: Norplant™, IUDs, and male and female sterilization.</p> <p>(3) SDES = Service Delivery Expansion Support - a Cooperative Agreement with Pathfinder International, 5 years \$50 million with implementation during 1994-98.</p>							

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**PROGRAM OUTCOME 2.2: INCREASED USE AND QUALITY OF STD\HIV\AIDS AND REPRODUCTIVE HEALTH SERVICES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE\PERSON
PO2.2.1 Condom use in relationships at risk (demonstration areas) <sup>(1)</sup>	Percent of persons age 15-49 at risk reporting use of condom during the most recent sexual encounter with a non-regular partner	HAPP Project Data (Annually)	Project MIS and special survey.	1995 <sup>(2)</sup>	Low since part of routine project data gathering	A	HIRD
PO2.2.2 People at high risk correctly diagnosed and treated in STD clinics (demonstration areas) <sup>(1)</sup> ; male, female	Percent of persons with STDs aged 15-49 using project STD clinic services who receive treatment conforming to standard protocol	HAPP Project Data (Annually)	Project MIS and survey	1995 <sup>(2)</sup>	Low	A	HIRD
PO2.2.3 Knowledge of prevention practices (demonstration areas) <sup>(1)</sup> ; male, female	Percent of persons aged 15-49 who can correctly name at least two acceptable ways of protecting themselves from HIV infection	HAPP Project Data (Annually)	Survey	1995 <sup>(2)</sup>	Low	A	HIRD
PO2.2.4 People receiving STD/AIDS counseling: male, female (demonstration areas) <sup>(1)</sup>	Percent of persons with STDs aged 15-49 attending project STD clinics areas who receive appropriate STD/AIDS counseling	HAPP Project Studies (Every other year - 3 times)	Survey	1995 <sup>(2)</sup>	Low	A	HIRD
PO2.2.5 Proportion of births attended by trained personnel in demonstration areas <sup>(3)</sup>	No. of pregnant women attended during delivery by trained health personnel	MotherCare Project Data (Annually)	Service Statistics	1994	Low	A	HIRD
<p>Comments:</p> <p>(1) Demonstration areas are initially defined as Surabaya and North Jakarta (see detailed definition in HAPP PP; 3rd target area to be determined year one of project).</p> <p>(2) Assumes timely startup of HAPP.</p> <p>(3) Demonstration areas are 3 districts in South Kalimantan.</p>							

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**PROGRAM OUTCOME 2.3: DEVELOPED AND IMPLEMENTED NATIONAL AIDS AND REPRODUCTIVE HEALTH POLICIES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO2.3.1 National AIDS policy developed	The development of a set of national AIDS policies: (yes/no to each) - Policy on inter ministerial coordination - Mass media HIV/AIDS campaign policy on condom promotion - Policy standards for STD diagnosis and treatment - Policy on confidentiality - Policy on sero surveillance system	Project reports (Annually)  Written policies	Review of project report	1994/95	Low	B	HIRD
PO2.3.2 National health resources allocated to STD\HIV\AIDS activities	The amount of national resources allocated to STD\HIV\AIDS activities in dollars	National Budget - GOI (Annually)	Data abstraction	1994/95 GOI Budget	Medium	B	HIRD

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**PROGRAM OUTCOME 2.4: IMPROVED BALANCE OF PUBLIC AND PRIVATE SECTOR PROVISION OF HEALTH AND FAMILY PLANNING SERVICES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO2.4.1 People receiving family planning services from the private sector	Percentage of people receiving services from the private sector	DHS (Every 3 years) BKKBN (Annually)	Survey Service statistics	1994	Low	B	HIRD
PO2.4.2 People paying for family planning services provided by the public sector	Percentage of persons using family planning services provided by the public sector and paying partially or fully for these services	DHS (Every 3 years) BKKBN (Annually)	Survey Service Statistics	1994	Medium	B - DHS C-Services Statistics	HIRD
PO2.4.3 People covered by comprehensive* health insurance : male, female, in demonstration trial area	Number of people covered by comprehensive health insurance in Klaten district	Insurance company records (ASKES, ASTEK and others) Ministry of Health(Annually)	Analysis of Company and Klaten district reports	1993	Medium	B	HIRD
Comments: *Comprehensive health insurance plan includes basic benefits package required under JPKM (managed care) legislation.							

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**STRATEGIC OBJECTIVE 2: IMPROVED HEALTH AND REDUCED FERTILITY - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994	1995	1996	1997	1998	1999	2000
		YEAR	VALUE								
SO2.1 Total fertility rate (national; 7 provinces) <sup>(1)</sup>	Average number of children a woman would bear during her lifetime	1994 <sup>(2)</sup>	(N) 2.86 (P1) 3.17 (P2) 2.77 (P3) 2.22 (P4) 3.88 (P5) 2.87 (P6) 2.92 (P7) 3.45	ACTUAL	2.86						
				EXPECTED	(N) 2.82 <sup>(3)</sup> (P) Average decline of .05	2.81	2.75	2.70	2.65	2.58	2.50
SO2.2 Syphilis prevalence rate among high risk population <sup>(4)</sup> in demonstration areas <sup>(5)</sup> ; male and female	Percent of high risk people with positive serology	1995	TBD <sup>(6)</sup>	ACTUAL							
				EXPECTED			10%		5%		2%
SO2.3 Maternal mortality ratio	Ratio (per 100,000 live births)	1992	450	ACTUAL	425 <sup>(2)</sup>						
				EXPECTED	420		400		350		300

- Comments:
- (1) The seven prov. are West(P1), Central(P2) & East Java(P3); North(P4) & South(P5) Sumatra; South Sulawesi(P6) & Lampung(P7) (the most populous provinces in Indonesia (excluding Jakarta) and the focus of Mission program activities).
  - (2) Source: 1994 Indonesia Demographic and Health Survey.
  - (3) Source: *Proyeksi Gerakan KB Nasional Tahun 1994/1995 Dalam Pembangunan Keluarga Sejahtera, BKKBN, Jakarta 1993.*
  - (4) High risk populations are defined as commercial sex workers, gay men and clients.
  - (5) Demonstration areas are initially defined as Surabaya & N. Jakarta (see detailed definition in HAPP PP; 3rd target area to be determined in year one of the project).
  - (6) Survey during first year of HAPP will determine baseline.

Note: N = National; P = Provincial

**PROGRAM OUTCOME 2.1: INCREASED USE AND QUALITY OF FAMILY PLANNING SERVICES - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994	1995	1996	1997	1998	1999
		YEAR	VALUE							
PO2.1.1 Contraceptive prevalence rate, all methods: national; 7 provinces <sup>(1)</sup>	Percentage	1994 <sup>(2)</sup>	(Nat.) 54.7 (Prov.): West Java 56.7 Cent Java 61.1 East Java 55.9 N.Sumatra 47.0 S.Sumatra 52.9 Lampung 59.3 S.Sulawesi 42.6	ACTUAL	(N) 54.7  (P) See data to left					
				EXPECTED	(N) 53.35 <sup>(3)</sup> (P) <sup>(4)</sup>	56.2	57.7	59.2	60.7	
PO2.1.2 Contraceptive prevalence rate, long-term methods: national; 7 provinces	Percentage	1994 <sup>(2)</sup>	(Nat.) 35.0 (Prov.): West Java 26.0 Cent Java 42.0 East Java 42.0 N.Sumatra 33.0 S.Sumatra 35.0 Lampung 25.0 S.Sulawesi 15.0	ACTUAL	(N) 35.0 (P) See data to left					
				EXPECTED	37.37 <sup>(3)</sup>	36	37	38	39	40
PO2.1.3 Discontinuation rate: national; 7 provinces	Percentage	1994 <sup>(2)</sup>	21	ACTUAL	21					
				EXPECTED	27	26	25	24	23	22
<p>(1) The 7 provinces include North and South Sumatra, Lampung, West, Central and East Java, and South Sulawesi.                  (2) Source: 1994 Indonesia Demographic and Health Survey.                  (3) Source: <i>Rancangan Repelita VI Pembangunan Keluarga Sejahtera, Kantor Menteri Negara Kependudukan/BKKBN, Jakarta 1993.</i>                  (4) Average of provincial prevalence rates not practical since requires weighing of population &amp; percent by age group. Assume 1.5% annual increase per province.</p> <p>Note: N = National P = Provincial</p>										

**PROGRAM OUTCOME 2.2: INCREASED USE AND QUALITY OF STD/HIV/AIDS AND REPRODUCTIVE HEALTH SERVICES - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1996	1998	2000
		YEAR	VALUE				
PO2.2.1 Condom use in relationships at risk (demonstration areas)	Percentage	1995**	TBD	ACTUAL			
				EXPECTED	40%	50%	70%
PO2.2.2 People at high risk correctly diagnosed and treated in STD project clinics (demonstration areas*): male and female	Percentage	1995**	TBD	ACTUAL			
				EXPECTED	30%	40%	50%
PO2.2.3 Knowledge of prevention practices (demonstration areas*): male and female	Percentage	1995**	TBD	ACTUAL			
				EXPECTED	40%	60%	80%
PO2.2.4 People at high risk receiving STD/AIDS counseling: male, female (demonstration areas)	Percentage	1995**	TBD	ACTUAL			
				EXPECTED	30%	40%	50%
PO2.2.5 Proportion of births attended by trained health personnel(in demonstration areas)	Percentage	1994	40%	ACTUAL			
				EXPECTED	50%	65%	80%
<p>Comments:</p> <ul style="list-style-type: none"> <li>* Demonstration areas are initially defined as North Jakarta and Surabaya (see detailed definition in HAPP PP, 3rd target area to be determined year one of project.</li> <li>** Assumes timely startup of HAPP.</li> </ul>							

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**PROGRAM OUTCOME 2.3: DEVELOPED AND IMPLEMENTED NATIONAL AIDS AND REPRODUCTIVE HEALTH POLICIES - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994	1995	1996	1997	1998	1999	2000
		YEAR	VALUE								
PO2.3.1 National AIDS policy developed	Policy documents*	1994	1**	ACTUAL	1						
				EXPECTED (Cum)	0	2	3	4	5	6	7
PO2.3.2 National health resources allocated to STD/HIV/AIDS activities	Amount of resources (\$)	1994	\$2.5 million	ACTUAL	2.5						
				EXPECTED	2.5	5.0	5.75	6.6	7.6	8.7	10.0
<p>Comments:</p> <ul style="list-style-type: none"> <li>• 5 illustrative policy documents are:               <ol style="list-style-type: none"> <li>1. Policy on inter-ministerial coordination.</li> <li>2. Mass media HIV/AIDS campaign policy on condom promotion.</li> <li>3. Policy standards for STD diagnosis and treatment.</li> <li>4. Policy on confidentiality.</li> <li>5. Policy on sero-surveillance system.</li> </ol> </li> <li>•• Policy on inter-ministerial coordination.</li> </ul>											

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**PROGRAM OUTCOME 2.4: IMPROVED BALANCE OF PUBLIC AND PRIVATE SECTOR PROVISION OF HEALTH AND FAMILY PLANNING SERVICES**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO2.4.1 People receiving family planning services from the private sector	Percentage	1994	28	ACTUAL	28.0						
				EXPECTED	24.0	30	31	33	35	37	40
PO2.4.2 People paying for family planning services provided by the public sector	Percentage	1993	45.0	ACTUAL	(*)						
				EXPECTED	50	52	54	56	58	60	62
PO2.4.3 People covered by comprehensive health insurance in demonstration trial area: male, female	Number of health insurance participants.	1993/4	111,000	ACTUAL	111,000						
				EXPECTED	132,000	197,458	263,140	328,393	394,913	N/A	N/A
(*) Source: 1994 Indonesia Demographic and Health Survey, results to be available o/a March 31, 1995											

## **SO3: Decentralized and Strengthened Natural Resources Management**

### **EXPLANATORY NOTES**

#### **Strategic Objective Indicators**

Progress toward the strategic objective will be measured by four indicators, each of which corresponds to one of the four principal client groups with which USAID is working to decentralize and strengthen natural resources management. The first indicator is designed to measure changes required in government policy to create the conditions for greater local authority. The second indicator is designed to measure the progress of local communities towards more active participation in natural resources management. The third indicator acknowledges the key role of indigenous NGOs as promoters and arbitrators of decisions for better local natural resources management and seeks to measure the strengthening of these organizations. The fourth and final SO3 indicator acknowledges the key role of forest, marine and agricultural industries in managing and using natural resources and uses "eco-certification" of "best practices" as a measure of management improvements by this group. All of these are broad indicators designed to give a national perspective on how Indonesia is moving towards better natural resources management through joint efforts of the government, USAID and our development partners.

#### **Program Outcome Indicators**

**PO3.1:** *Greater stakeholder participation in decisions about the planning, management, use and monitoring of natural resources*

This program outcome presents the areas in which USAID is working to establish models for local natural resources management. These activities build on existing programs and experience and respond to the conclusions in the *Indonesia Environmental Assessment and Strategic Action Plan* that there is a need for innovative policy alternatives, management and concession granting reform, and increased local community participation in resources planning and use. The four indicators correspond to the different types of models with which USAID will be working.

**PO3.2:** *Increased conservation and pollution reduction by natural resource-based industries*

This program outcome covers USAID's efforts to create incentives for improved conservation and pollution reduction by natural resources-based industries through policy analysis and implementation, by disseminating information, and by working directly with specific industries to demonstrate improved conservation and pollution reduction practices. USAID's efforts are now concentrated on forest industries, but we will also be working with key marine and agricultural estate industries.

**PO3.3: *Improved policy development and implementation***

USAID will continue the approach established by our Natural Resources Management Project of undertaking policy analysis with key national ministries and linking this analysis with the experience and issues arising from field demonstrations. The indicators for this program outcome are chosen to show our efforts to expand participation in policy analysis beyond the government to include universities, NGOs, and others and to link this with improved local and regional planning, associated with use of environmental impact assessment methodologies. This program outcome will be supported by increased advocacy for key issues like increased participation of women in all aspects of natural resources management and by expanded efforts for information sharing and dissemination.

**PO3.4: *Strengthened institutional capacity for biodiversity conservation***

This program outcome presents the role that USAID has defined for itself with the government and our developmental partners within the *National Action Plan for Biodiversity Conservation in Indonesia*. The indicators will measure our progress in establishing sustainable support for private biodiversity institutions, through the Indonesia Biodiversity Foundation and several other indigenous NGOs, and in building institutional capacity with select environmental NGOs. Much of our work under this PO will be focused on specific regions in association with the development of models for community management under PO3.1.

### STRATEGIC OBJECTIVE 3: DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
SO3.1 Policy implementation devolving to the local level	<p>Official recognition of the role of local authorities in natural resource conservation activities</p> <p>Measure: National park management plans that include procedures for integrating provincial, regional and local governments into park planning and management</p>	<p>Ministry of Forestry, Directorate General for Forest Protection and Nature Conservation</p> <p>Annual</p>	Directorate General for Forest Protection and Nature Conservation	1993-94	Low	A	AEE

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**STRATEGIC OBJECTIVE 3: DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
SO3.2 Local communities actively participating in natural resources planning and management	Area of forest and marine resources managed by local communities through stewardship  Measure: a.) decrees issued, or type of legal instrument(s) approved, and b.) number of hectares covered by stewardship agreements	Ministry of Forestry  Collected annually	Review annual reports of Ministry of Forestry	1994-5	Low	B	AEE
SO3.3 NGOs strengthened to promote improved natural resources management	Number of environmental NGOs strengthened  Measure: # of NGOs	Mission  Annual		1995	Low	Reliable	AEE

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**STRATEGIC OBJECTIVE 3: DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
<p>SO3.4 Natural resource-based industries using "best practices" for land-use management and production processes</p>	<p>"Eco-certified" wood is wood-produced using "best known practices" (e.g., damage control logging, environmentally sensitive design and construction of roads and bridges and adherence to silvicultural guidelines for forest regeneration). An independent Eco-labeling Institute was established in late 1994 to certify wood products. The purpose of eco-labeling is to help Indonesia continue competitive exporter of wood products while improving overall forest management practices</p> <p>Measure: cubic meter volume of wood certified annually</p>	<p>Ministry of Forestry and the Eco-labeling Institute</p> <p>Collected annually</p>	<p>Contact sources to obtain information</p>	<p>1993-4</p>	<p>Medium</p>	<p>A</p>	<p>AEE</p>

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**PROGRAM OUTCOME 3.1: GREATER STAKEHOLDER PARTICIPATION IN DECISIONS ABOUT THE PLANNING, MANAGEMENT, USE, AND MONITORING OF NATURAL RESOURCES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
PQ3.1.1 Tested traditional forest areas and integrated conservation and development concepts for community management of forest and of coastal and marine resources	<p>Areas mapped for traditional resource use secured through policies and legislative decrees</p> <p>Measure: Number of documented areas that are secured</p>	<p>Reports and discussion with the donor community and GOI ministries</p> <p>Collected on 2 year continuous basis</p>	Maintain regular contact with the donor community and relevant ministries	1993-94	Low	A	AEE

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**PROGRAM OUTCOME 3.1: GREATER STAKEHOLDER PARTICIPATION IN DECISION ABOUT THE PLANNING, MANAGEMENT, USE, AND MONITORING OF NATURAL RESOURCES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
PO3.1.2 Established models for enhancing community participation in management planning and implementation for selected national parks	<p>Institutional mechanisms, including community advisory boards, incorporated into national park management plans to elevate the level of local community involvement, national park management, and planning processes</p> <p>Measure: Number of national park management plans containing such institutional mechanisms that are approved by the Ministry of Forestry, Directorate of Nature Conservation and Protection</p>	<p>National Park management plans obtained from the Ministry of Forestry, Directorate of Nature Conservation and Protection</p> <p>Collected on a regular basis</p>	Obtain and maintain a collection of the Ministry's National Park management plan	1993-94	Low	A	AEE

**PROGRAM OUTCOME 3.1: GREATER STAKEHOLDER PARTICIPATION IN DECISION ABOUT THE PLANNING, MANAGEMENT, USE, AND MONITORING OF NATURAL RESOURCES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
PO3.1.3 Determined the biological and technical feasibility of enterprise-oriented approaches to community-based sustainable management of forest and marine resources	<p>Pilot studies of financially viable approaches to community-based sustainable management of forest and marine resources</p> <p>Measure: Number of case studies on community-based management prepared by the NRM project and USAID-funded activities, including those channeled through the Indonesian Biodiversity Foundation and the Biodiversity Conservation Network</p>	<p>The NRM project, the Indonesian Biodiversity Foundation, and the Biodiversity Conservation Network</p> <p>Collected continuously</p>	Information is routinely sent to USAID office	1994-95	Low	A	AEE

**PROGRAM OUTCOME 3.1 : GREATER STAKEHOLDER PARTICIPATION IN DECISION ABOUT THE PLANNING, MANAGEMENT, USE, AND MONITORING OF NATURAL RESOURCES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE
PO3.1.4 Implemented agricultural practices based on an agro-ecosystem approach fostered by IPM	<p>Farmers are encouraged and assisted to understand the ecological dynamics of their fields and make their own decisions regarding pest control</p> <p>Measure:                      - Amount (%) increase in rice production and                      - Amount (%) decrease in pesticide use</p>	<p>Integrated Pest Management Training                      Project monitoring</p> <p>Sample surveys to be conducted bi-annually</p>	<p>Project monitoring as well as periodic evaluations will report on both the expansion of use of the IPM approach and related technologies within the project farming population target monitoring will include sample surveys of local vendors and/or farmers</p>	1992-93	Low	B	AEE

**PROGRAM OUTCOME 3.2: INCREASED CONSERVATION AND POLLUTION REDUCTION BY NATURAL RESOURCE-BASED INDUSTRIES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO3.2.1 Increased incentives for secondary and tertiary processing of higher value, less polluting forest products	<p>Increasing the value of wood furniture produced while the volume of plywood output decreases indicates that a greater percentage of wood is being allocated to more efficient, higher value furniture manufacturing</p> <p>Measure: Ratio of change value of wood furniture produced to value of plywood exports</p>	<p>Ministry of Forestry, Ministry of Finance and trade associations of furniture and plywood producers</p> <p>Collected annually</p>	Contact data sources to obtain existing information	1993-94	High	B	AEE

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**PROGRAM OUTCOME 3.2: INCREASED CONSERVATION AND POLLUTION REDUCTION BY NATURAL RESOURCE-BASED INDUSTRIES**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
3.2.2. Accelerated adoption of pollution prevention technologies among natural resource-based industries	Number of technologies to reduce industrial pollution adopted  Measure: # of practices or equipment utilized	Contractors (ARD, EIP, EP3)  Annually	Monitor private sector adoption of technologies	1995	Contractors will absorb monitoring cost	Numerous assumptions will have to be made, but the estimate should be reliable	AEE

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**PROGRAM OUTCOME 3.3: IMPROVED POLICY DEVELOPMENT AND IMPLEMENTATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO3.3.1 Strengthened networks for natural resources policy and law reform	<p>Ad hoc policy working groups have already begun to be established in the Ministry of Forestry as a result of NRM project activities</p> <p>Measure: The number of policy working groups established in ministries concerned with natural resources management</p>	<p>Ministries of Forestry, Environment and Trade</p> <p>Collected periodically</p>	Discussions with Ministry policy working group members	1993-94	Low to Medium	B	AEE

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**PROGRAM OUTCOME 3.3: IMPROVED POLICY DEVELOPMENT AND IMPLEMENTATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO3.3.2 Strengthened partnerships among the GOI, the private sector, and communities for local and regional environmental impact planning monitoring	Number of working partnerships established  Measure: # of partnerships	Mission  Annual	Monitor environmental impact planning/monitoring	1995/6	Low	A reliable figure for number of partnerships should be available	AEE

**PROGRAM OUTCOME 3.3: IMPROVED POLICY DEVELOPMENT AND IMPLEMENTATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO3.3 3 Increased participation of women in all aspects of natural resources management	Number of women participating in AID-assisted NRM policy and institutional strengthening activities  Measure: # of women in workshops, seminars, training programs	Mission, NGO grantees and contractors	Require NGOs and contractors receiving AID funds to track this indicator	1995	Contractors and NGOs will absorb monitoring cost	A rough estimate based on some assumption will be available	AEE

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**PROGRAM OUTCOME 3.3: IMPROVED POLICY DEVELOPMENT AND IMPLEMENTATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO3.3.4 Improved information sharing on environmental issues	Environmental newsletters and natural resources seminars  Measure: Number of environmental newsletters produced, and number of natural resources seminars held annually	Ministries concerned with natural resources management; NGOs; and donor groups  Collected annually	Discussions with ministries, leading NGRs, and donor groups	1994-95	High	B	AEE

**PROGRAM OUTCOME 3.4: STRENGTHENED INSTITUTIONAL CAPACITY FOR BIODIVERSITY CONSERVATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO3.4.1 Established sustainable support for private biodiversity institutions	Number of institutions receiving sustainable AID support  Measure: # of private sector institutions	Mission  Reports from NGOs and Indonesian Biodiversity Foundation	Monitor our support activities	1995	Low	Reliable	AEE
PO3.4.2 Strengthened environmental NGOs carrying out research, public awareness, policy studies and other activities to support biological diversity	Number of biodiversity NGOs strengthened  Measure: # of NGOs	Mission	Monitor NGO grants	1995	Low	Reliable	AEE

**STRATEGIC OBJECTIVE 3: DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
SO3.1 Policy implementation devolving to the local level	National park management plans that include procedures for integrating provincial, regional and local governments into park planning and management	93/94	0	Actual	0						
				Expected	0	1	4	7	10	12	14
SO3.2 Local communities actively participating in natural resources planning and management	Measure in a.) Decrees issued, or type of legal instrument(s) approved, and b.) Number of hectares covered by stewardship agreements	93/94	0	Actual	0						
				Expected	0	0	2	4	6	8	10
				Actual	0						
				Expected	0	0	5,000	10,000	15,000	20,000	25,000
SO3.3 NGOs strengthened to promote improved natural resources management	# of NGOs			Actual							
				Expected	0	0	0	5	9	15	20
SO3.4 Natural resource-based industries using "best practices" for land-use management and production processes	Measure in volume (cubic meters) of wood certified each year	93/94	0	Actual	0						
				Expected	0	0	50,000	100,000	125,000	150,000	200,000

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**PROGRAM OUTCOME 3.1: GREATER STAKEHOLDER PARTICIPATION IN DECISIONS ABOUT THE PLANNING, MANAGEMENT, USE, AND MONITORING OF NATURAL RESOURCES - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO3.1.1 Tested traditional forest areas and integrated conservation and development concepts for community management of forest and of coastal and marine resources	Measure in number of documented areas that are secured	93/94	0	Actual	0						
				Expected	0	0	2	4	6	8	10
				Actual	0						
				Expected	0	0	2,000	10,000	15,000	20,000	25,000
PO3.1.2 Established models for enhancing community participation in management planning and implementation for selected national parks	Measure in number of national park management plans containing such institutional mechanisms that are approved by the Ministry of Forestry, Directorate of Nature Conservation and Protection	93/94	0	Actual	0						
				Expected	0	1	4	7	10	12	14

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**PROGRAM OUTCOME 3.1: GREATER STAKEHOLDER PARTICIPATION IN DECISIONS ABOUT THE PLANNING, MANAGEMENT, USE, AND MONITORING OF NATURAL RESOURCES - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO3.1.3 Determined the biological and technical feasibility of enterprise-oriented approaches to community-based sustainable management of forest and marine resources	Measure by number of case studies on community-based management prepared by the NRM project and USAID-funded activities, including those channeled through the Indonesian Biodiversity Foundation and the Biodiversity Conservation Network	94/95	0	Actual	0						
				Expected	0	2	5	8	10	12	15
PO3.1.4 Implemented agricultural practices based on an agro-ecosystem approach fostered by IPM	Increase in rice production per hectare (in ton/hectare)	92/93	5.7	Actual	Avail '95	6.0					
				Expected		6.0		6.2		6.5	
	Decrease in pesticide use per hectare (in kg or lt)	1993	6	Actual	0						
				Expected		5		4		3	

**PROGRAM OUTCOME 3.2: INCREASED CONSERVATION AND POLLUTION REDUCTION BY NATURAL RESOURCE-BASED INDUSTRIES - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO3.2.1 Increased incentives for natural resource-based industries to adopt better land husbandry practices and to produce higher value, less polluting products	Measure by ratio of value of wood furniture produced to value of plywood exports	93/94	150	Actual	150						
				Expected	150	175	200	225	250	275	300
PO3 2.2 Accelerated adoption of pollution prevention technologies among natural resource-based industries	Number of technologies to reduce industrial pollution adopted	95/96	100 est.	Actual	0						
				Expected	0	0	0	5	9	15	20

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**PROGRAM OUTCOME 3.3: IMPROVED POLICY DEVELOPMENT AND IMPLEMENTATION - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO3.3.1 Strengthened networks for natural resources policy and law reform	Measure by the number of policy working groups established in ministries concerned with natural resources management	93/94	0	Actual	0						
				Expected	0	5	6	7	8	9	10
PO3.3.2 Strengthened partnerships among the GOI, the private sector, and communities for local and regional environmental impact planning and monitoring	Number of partnerships	95/96	100 est.	Actual	0						
				Expected	0	0	10	30	70	100	200
PO3.3.3 Increased participation of women in all aspects of natural resources management	Number of women	94/95	10 est.	Actual	0						
				Expected	0	10	20	30	50	50	50
PO3 3.4 Improved information sharing on environmental issues	Measure by number of environmental newsletters produced, and number of natural resources seminars held annually	94/95	5  35	Actual	4						
				Expected	4	5	6	7	8	9	10
				Actual	25						
				Expected	25	35	40	45	50	55	60

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**PROGRAM OUTCOME 3.4: STRENGTHENED INSTITUTIONAL CAPACITY FOR BIODIVERSITY CONSERVATION - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE								
PO3.4.1 Established sustainable support for private biodiversity institutions	Number of private sector institutions	1995	0	Actual	0						
				Expected	0	0	1	2	3	4	5
PO3.4.2 Strengthened environmental NGOs carrying out research, public awareness, policy studies and other activities to support biological diversity	Number of NGOs	1995		Actual							
				Expected	0	0	1	3	5	8	10

## **SO4: Strengthened Urban Environmental Management**

### **EXPLANATORY NOTES**

#### **Strategic Objective Indicators**

Progress toward this strategic objective will be measured by three indicators over which USAID has influence, and for which reliable data is collected on a regular basis. Increased access by urban populations to clean water is the principal measure of environmental management quality in urban areas. Clean water requires comprehensive, integrated management of the entire urban water cycle, including management of human and solid wastes. Access is defined as connection to a system providing treated, piped water. USAID promotes clean water provision in a number of ways, at both central and local government levels. The data used in connection with this indicator is national in character and is collected and published on an annual basis. Industrial pollution is a second key urban environmental management challenge, and reduced industrial pollution emissions, measured by the number of firms in specific areas that meet or exceed government discharge standards, is a second indicator of SO4 progress. Energy production is the third urban environmental management challenge, both in terms of its effects on environmental degradation (via waste by-products, air pollution, water pollution), but also in terms of the huge urban demands for energy and the related impacts on non-renewable resources. For that reason, this SO indicator focuses on installed electrical generating capacity that makes use of renewable energy and cogeneration. Data for use in developing this measure is regularly collected as part of on-going USAID project activities.

#### **Program Outcome Indicators**

**PO4.1:** *Adoption of new policies and practices to facilitate decentralized financing of urban environmental infrastructure*

This program outcome supports the Mission's strategic objective by measuring the extent to which urban areas have access to funding necessary for infrastructure construction and/or renovation. In other words, this PO measure the means necessary for local government managers to carry out their tasks in an effective, responsible fashion. Funding can come via discretionary intergovernmental transfers, loans provided by or through central government financial intermediaries, or investments by private sector firms in infrastructure projects. USAID is working directly with the three key central government ministries responsible for making decisions regarding the decentralization of government finances, as well as with local governments who may need skill upgrading in order to justify increased financial responsibility. Reliable statistical data for measuring these kinds of changes is collected and published annually by government sources, with the assistance of USAID-funded consultants.

**PO4.2:** *Wider Adoption of improved practices in urban environmental infrastructure service provision*

This program outcome focuses directly on urban environmental management capabilities. Increased access by urban households to wastewater disposal and treatment measures sewer connections, and is usually a function of the ability of local officials to plan and manage sewer system expansion, in association with already existing water supply facilities. The percent of treated water "lost" during distribution measures water unaccounted for because of physical or administrative loss. This is the measure of water utility management efficiency that is most commonly cited in the developing world. The Ministry of Home Affairs collects reliable information on specific utility water loss. USAID advisors address this issue at both central and local government levels. Finally, financial management efficiency is also measured by the extent to which own-source revenues (OSR) make up total local government revenues (which typically also include central government transfers and loans). OSRs measure self-sufficiency and business-like management capabilities, and are regularly included in statistics published by the government, with the assistance of USAID-funded consultants.

**PO4.3:** *Adoption by government and industry of policies and procedures to reduce industrial damage to the environment and promote cost-effective use of clean, renewable energy*

This program outcome focuses on industrial and energy production as the remaining, key urban environmental management challenges. Clean industrial production is measured by the numbers of firms implementing the results of technology audits, as well as the number of local consulting firms with key employees trained in clean industrial production. Future project activities will assist the GOI in developing regular, reliable collections of this data, in connection with efforts to strengthen government oversight and regulation of industrial production. The number of firms implementing the results of energy audits will measure the increased use of technology and practices that promote efficient energy use. Again, current project efforts are assisting the GOI in collecting reliable information of this kind. Efficient energy use on a national scale, as measured by the widely used indicator of "energy intensity" in relation to GDP, will show the impacts of central government policy change, currently being promoted via USAID project activity. Readily available, reliable data will facilitate this calculation.

**STRATEGIC OBJECTIVE 4: STRENGTHENED URBAN ENVIRONMENTAL MANAGEMENT**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
SO4.1 Increased access by urban populations to clean water	Percent of total urban population served by local water treatment and piped distribution	Ministry of Public Works, Ministry of Home Affairs  Collected annually	Contact data source to obtain information	1993-94	Low	A	PED
SO4.2 Reduced industrial pollution emissions	Number of factories in targetted sectors whose environmental performance meets or is better than the government's requirements for the discharge of pollutants	BAPEDAL (Environmental Impact Management Agency)  Collected annually	Contact data source to obtain information	1994-95	Medium	B	PED
SO4 3 Increase in the environmentally sound production and use of energy	Installed electrical generating capacity, which makes use of renewable energy and cogeneration	Ministry of Mines and Energy, National Electric Company, ADB, World Bank reports  Collected annually	Contact data source to obtain information	1993-94	Low	B	PED

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**PROGRAM OUTCOME 4.1: ADOPTION OF NEW POLICIES AND PRACTICES TO FACILITATE DECENTRALIZED FINANCING OF URBAN ENVIRONMENTAL INFRASTRUCTURE**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO4.1.1 Increased access by local governments to grant funding from the central government	Share of all SDO and INPRES grants received by local governments	Bureau for Regional Finance Analysis, Ministry of Finance  Deputy V - BAPPENAS - - Yearly report to USAID/RHUDO on Progress and Accomplishments under the Urban Policy Action Plan  Annually	Obtain yearly published reports from the Ministry of Finance, the Municipal Finance Project and Deputy V in BAPPENAS	1993-94	Low	A	PED
PO4.1.2 Increased access by local governments to development credit provided by or through central government intermediaries	Total loan disbursements to local governments and local public utilities from SLAs, RDI, and RDA	Directorate of Subsidiary Loan Management, Ministry of Finance  Annually	Obtain yearly from the Ministry of Finance	1993-94	Low	A	PED
PO4.1.3 Value of signed agreements between local governments and private firms in providing urban services	Total value in millions of US dollars of PURSE-supported public/private partnership project agreements	Project Reports/ Annually	Annual and quarterly reports of the PURSE project	1992-93	Low	A	PED

**PROGRAM OUTCOME 4.2: WIDER ADOPTION OF IMPROVED PRACTICES IN URBAN ENVIRONMENTAL INFRASTRUCTURE SERVICE PROVISION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO4.2.1 Increased access by urban households to wastewater disposal and treatment facilities	Number of households connected to sewer treatment facilities, in targeted urban areas	Ministry of Public Works, Ministry of Home Affairs  Collected annually	Contact data source to obtain information	1993-94	Medium	B	PED
PO4.2.2 Increased efficiency of local water utility management	Percent of potable treated water lost during distribution, in targeted urban areas	Ministry of Public Works, Ministry of Home Affairs  Collected annually	Contact data source to obtain information	1993-94	Medium	B	PED
PO4.2.3 Strengthened ability of local governments to manage their affairs in a business-like fashion	Proportion of total local government revenues from Own Source Revenues (OSR)	Bureau for Regional Finance Analysis, Ministry of Finance  Collected annually	Obtain yearly from the Ministry of Finance	1993-94	Medium	A	PED

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**PROGRAM OUTCOME 4.3: ADOPTION BY GOVERNMENT AND INDUSTRY OF POLICIES AND PROCEDURES TO REDUCE INDUSTRIAL DAMAGE TO THE ENVIRONMENT AND PROMOTE COST-EFFECTIVE USE OF CLEAN, RENEWABLE ENERGY.**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA COLLECTION	QUALITY OF DATA	RESPONSIBLE OFFICE/PERSON
PO4.3.1 Wider adoption of clean industrial technology	Number of firms implementing results of technology audits (of practices as well as investment) in selected sectors	BAPEDAL (Environmental Impact Management Agency)  Annually	Contact Deputy for Pollution Control, BAPEDAL to obtain information	1994-95	Medium	B	PED
PO4.3.2 Strengthened skills of key personnel in clean industrial production	Number of local consulting firms with key personnel trained in clean industrial production techniques	BAPEDAL (Environmental Impact Management Agency)  Annually	Contact Deputy for Pollution Control, BAPEDAL to obtain information	1994-95	Medium	B	PED
PO4.3.3 Increased use of technologies and practices that promote efficient energy use	Number of firms implementing results of energy audits (of practices as well investment) in targeted sectors	Ministry of Mines and Energy, National Electric Company, ADB, World Bank reports  Collected annually	Contact data source to obtain information	1994-95	Medium	B	PED
PO4.3.4 Strengthened government policies and procedures for promoting efficient energy use	Energy Intensity (per capita energy use) in relation to GDP	Ministry of Mines and Energy, National Electric Company, ADB, World Bank reports  Collected annually	Contact data source to obtain information	1993-94	Low	B	PED

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**STRATEGIC OBJECTIVE 4: STRENGTHENED URBAN ENVIRONMENTAL MANAGEMENT - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
		YEAR	VALUE							
SO4.1 Increased access by urban populations to clean water	Percentage (coverage)	1993/94	40%	ACTUAL						
				EXPECTED	40%	41%	43%	45%	47%	49%
SO4.2 Reduced industrial pollution emissions	Number of factories in targetted sectors whose environmental performance meets or is better than the Government's requirements for the discharge of pollutants	1994/95	100 est.	ACTUAL						
				EXPECTED	100	200	300	400	500	600
SO4.3 Increase in the environmentally sound production and use of energy	Megawatts (MW) of installed generating capacity using renewable energy resources	1993/94	3,399	ACTUAL						
				EXPECTED	3430	3500	3560	3660	3750	4000

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**PROGRAM OUTCOME 4.1: ADOPTION OF NEW POLICIES AND PRACTICES TO FACILITATE DECENTRALIZED FINANCING OF URBAN ENVIRONMENTAL INFRASTRUCTURE - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE							
PO4.1.1 Increased access by local governments to grant funding from the central government	Percentage of INPRES & SDO Grants	1994/5	57%	ACTUAL	57%					
				EXPECTED	N/A	58%	60%	62%	64%	66%
PO4.1.2 Increased access by local governments to development credit provided by or through central government intermediaries	Amount of Credit in Billion Rp.	1992/3	257	ACTUAL						
				EXPECTED	280	300	320	340	360	380
PO4.1.3 Value of signed agreements between local governments and private firms in providing urban services	Value of PURSE supported signed agreements to include service agreements, performance agreements, BOO + BOT projects	1992/93	0	ACTUAL	0					
				EXPECTED	0	0	\$50 million	\$ 75 million	\$ 100 million	\$ 100 million

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**PROGRAM OUTCOME 4.2: WIDER ADOPTION OF IMPROVED PRACTICES IN URBAN ENVIRONMENTAL INFRASTRUCTURE SERVICE PROVISION - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
		YEAR	VALUE							
PO4.2.1 Increased access by urban households to wastewater disposal and treatment facilities	Total Number of Households served	1993/4	166,000	ACTUAL						
				EXPECTED	380,000	380,000	480,000	660,000	800,000	1 million
PO4.2.2 Increased efficiency of local water utility management	Percentage of water lost	1993/4	40%	ACTUAL						
				EXPECTED	35%	32%	29%	27%	25%	25%
PO4.2.3 Strengthened ability of local governments to manage their affairs in a business-like fashion	OSR as Percentage of total Local Government revenues	1991/2	28.2%	ACTUAL						
				EXPECTED	29.0%	29.5%	30.0%	30.5%	31.0%	N/A

**PROGRAM OUTCOME 4.3: ADOPTION BY GOVERNMENT AND INDUSTRY OF POLICIES AND PROCEDURES TO REDUCE INDUSTRIAL DAMAGE TO THE ENVIRONMENT AND PROMOTE COST-EFFECTIVE USE OF CLEAN, RENEWABLE ENERGY - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	UNIT OF MEASURE	BASELINE DATA			1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
		YEAR	VALUE							
PO4.3.1 Wider adoption of clean industrial technology	Number of firms	1994	2	ACTUAL						
				EXPECTED	5	10	15	20	25	30
PO4.3.2 Strengthened skills of key personnel in clean industrial production	Number of consulting firms	1994	0	ACTUAL						
				EXPECTED	3	5	8	10	14	18
PO4.3.3 Increased use of technologies and practices that promote efficient energy use	Number of firms	1994	2	ACTUAL						
				EXPECTED	5	10	15	20	25	40
PO4.3.4 Strengthened government policies and procedures for promoting efficient energy use	Per capita GNP divided by per capita energy use (in BOE)	1994	23.1	ACTUAL						
				EXPECTED	24.9	26.9	29.0	31.4	34.0	36.9

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**SO5: Increased Effectiveness of Selected  
Institutions which Promote Democracy**

**EXPLANATORY NOTES**

**Strategic Objective Indicators**

As the result of the recent Democracy Assessment/Strategy exercise, this strategic objective was redefined as were all the program outcomes and indicators under it. Most of the activities in support of this SO will be under one project, and each segment of the project, each grantee, will perform a number of activities, contributing toward the achievement of one or more program outcomes. It is expected that the grantees will be able to provide considerable valuable data under this SO because the project has been developed AFTER the strategy and, therefore, designed in support of it. One indicator was chosen to measure progress toward this Strategic Objective -- increased NGO impact on government policy formulation. Supporting NGOs in general helps to improve democratic participation, but is not sufficient. In future the Mission will encourage NGOs to be advocates for democracy and rule of law on behalf of their client communities. In that regard we will measure the impact of the grantee NGOs. Some NGOs that have been supported by USAID have already had a considerable impact on the formulation of government policies, sometimes retrospectively, but in most cases, pro-actively. The establishment of "measurable effect" is difficult where GOI has consultations with NGOs before policy formulation. They are most obvious where GOI policy is made without consultation and then NGO voices are raised after the fact, and the policy changes as a result. The code of "Pancasila" encourages dialogue, consultation and consensus and the government has been increasingly including NGOs in policy formulation. USAID supports this dialogue. The unit of measurement will be the number of times that the activities of the grantee NGOs have a measurable impact on government policy. It is proposed to contract an Indonesian academic institute to prepare an annual assessment that will count the impact of the grantee agencies. Definitions of "measurable" will be agreed upon in the formulation of the scope of work for the contract. Every two years a U.S. consultant will evaluate the Mission's activities initiated to meet this Strategic Objective, and part of the scope of work will include an evaluation of the impact of NGOs on government policy formulation. This assessment will be used as a independent check on the annual assessments.

**Program Outcome Indicators**

**PO 5.1: *Increased NGO advocacy for democratic participation***

Increased public awareness of NGO activities through publication of independent articles reported in the Indonesian media (PO5.1.1) will measure advocacy. Many NGOs do very good advocacy work on behalf of the public or small communities, however the public is

often not aware of it. To ensure that these NGOs have an increased impact on democratic participation and are more credible advocates there must be greater public awareness. This also enhances the NGOs credibility as advocates. The unit of measure is the number of independent articles (favorable or otherwise) about grantee NGO activities reported in the Indonesian public media. The NGOs themselves will be asked to report on these media items through their own clipping service. They also will report on them in their semi-annual reports to USAID, as a requirement under their grant agreements. The public media currently available includes national and provincial newspapers, weekly magazines, provincial and national radio, and provincial and national television.

The concept of advocacy implies that the advocates are the appointed representatives of a group. Because many NGOs are new to advocacy activities, they lack that mandate and need to build it, to ensure their credibility and effectiveness. One of the ways they can do that is to mobilize public opinion, and support, through surveys and publications. The unit of measuring progress in this regard (PO5.1.2) will be the number of surveys and publications -- organized by the grantee NGOs and regardless of funding source -- that mobilize public opinion. The grantee NGOs will count these surveys and publications and report on the them in their semi-annual reports.

Increased and more effective NGO advocacy campaigns in the areas of human rights, environment, labor, women's issues and independent media (PO5.1.3) are likely to have considerable impact on democratic participation, as they are the focus of the public's concerns at present. USAID has, in the past, supported more NGOs that are service providers, rather than advocacy NGOs. As the national environment has changed and with the development of this strategy, we are encouraging those same NGOs to develop their advocacy skills. The unit of measurement will be the number of effective advocacy campaigns in specified areas, initiated by the grantee NGOs. An advocacy campaign shall be determined as "effective" if the advocacy reaches the target audience, is responded to by the target audience and is legal. The response may be positive or negative, when counting this indicator. If the target of the advocacy ignores the campaign entirely it cannot be considered effective. The indicator counts the campaigns not just activities. A campaign would include a full range of activities addressing one specific issue.

Increased civic education programs concerning citizen's rights (PO5.1.4) will promote public awareness of rights guaranteed by existing laws or the constitution. The current lack of awareness means that now people often cannot or will not insist that they are treated in accordance with the law. One of the roles of the NGOs is to increase that awareness, with the implication that, as a result, the public will be able to participate more fully in their democracy.

Counting the number of formal meetings between GOI representatives and NGOs at appropriate national, provincial and local levels, and the number of formal consultative meetings between communities and a GOI representative, organized by the grantee NGOs (PO5.1.5) will indicate the level of dialogue between GOI and NGOs and between GOI and the communities. To ensure that there is increased democratic participation, NGOs will have

to actively seek dialogue with the relevant government officials. It is hoped that once the contacts are made that the officials will find it worthwhile to seek NGOs for consultations as well. The participation of the public in the development of their communities in collaboration with government officials is also important, and so the dialogue between government and communities, organized by the grantee NGOs would be significant.

The NGO/GOI meeting indicator will include meetings initiated by either the NGO or the government, but the meetings must be dialogues to be counted. Briefings on government policies would not be considered dialogues, except if there was a chance to review or modify the policies as applied to local areas. Only GOI/community meetings initiated and organized by the NGOs would be counted in the second instance and, again, the meeting must be consultative to be counted.

Increased community participation in politically sensitive areas will be particularly measured (PO5.1.6). As stated in the Assessment/Strategy, there are provinces in Indonesia (Aceh, East Timor and Irian Jaya) where national advocacy is neither effective nor acceptable. USAID will work at a different level with provincial NGOs that encourage participatory community development. The unit of measurement will be the number of village-level self-help groups such as local NGOs, village cooperatives and credit groups established and assisted by the grantee NGO.

**PO 5.2: *Increased activities that promote respect for rule of law***

One indicator (PO5.2.1) of this program outcome will be the number of cases of corruption, abuse, or collusion exposed by NGOs to the public or to appropriate government officials. Both the government and society have already recognized the high cost of corruption, abuse of power and collusion on national economic development. (In the context of this measurement, selected NGOs will be able to monitor and report on these cases in other areas of development as well, ensuring a better respect for rule of law generally.)

The Assessment identified the lack of access to the written laws as part of the problem of law enforcement. This lack of access extends from the public up to the judges of the Supreme Court and representatives in Parliament. The body of laws of the nation are not available in any single location. The SDI project will encourage selected NGOs to publish laws regarding sectors of interest, i.e., labor, environment, women's rights, etc. TAF will help to further strengthen parliamentary research and resource skills. And the ELIPS project is putting the body of laws into electronic media for broad distribution, currently through all ministries. As a result, opportunities for awareness of existing laws through selected institutions should increase (PO5.2.2). Impact will be measured -- according to the number of laws published by selected institutions; media availability for the public or relevant professional associations; the number of people attending seminars (as organized by grantee NGOs) publicizing laws relate to consumers, the environment, labor, land ownership and civil rights; and the number of enquiries by representatives at the parliamentary Research and Information Center.

At present certain groups do not get the full protection offered by Indonesia's judicial system because they do not know the laws, cannot afford legal representation or legal representation is not available, and other more powerful sectors of society are willing to exploit this weakness for their benefit. Increases in legal proceedings, initiated by grantee NGOs, that encourage the consistent enforcement of law will be measured by the number of proceedings initiated by selected NGOs on behalf of marginalized groups and individuals (e.g., women, laborers, indigenous groups, the poor and children) (PO5.2.3). "Legal proceedings" are taken to be formal legal proceedings in the Indonesian justice system.

As stated in the rationale for PO5.2.3, there are sectors of society willing to take advantage of people's lack of knowledge of the laws. Certain NGOs have taken on the role of advocates for the public to lobby for the full recognition of these rights under existing laws. Two good examples of these are employers not meeting the minimum labor requirements, and forestry developers exploiting the land of indigenous people. Well-planned lobby campaigns can ensure that the rule of law prevails without the necessity of legal action, usually protracted. More active and effective lobbying by NGOs to ensure that laws are evenly enforced across all sectors of society (PO5.2.4) will be measured by the number of planned lobby campaigns organized by grantee NGOs that encourage the enforcement of existing laws protecting marginalized groups or individuals (irrespective of outcome). A "planned lobby campaign" would include all the activities planned to address one specific issue (geographic).

The judicial system is not held in high esteem and is cluttered with backdated cases awaiting trial. The Supreme Court has a five year back-list. There are some existing alternative dispute resolution mechanisms for hearing complaints about labor and commerce which would help alleviate such backlogs. Where both parties respect a dispute resolution mechanism, these can be more expeditious and less likely to revert to the all ready overloaded judicial system. The SDI and ELIPS projects encourage the formation and usage of ADRs, which will be measured (PO5.2.5) by the number of such mechanisms applied by selected institutes, and the number of times disputes are initiated by selected grantee NGOs with existing targeted ADRs. An "alternative dispute resolution mechanism" can be any dispute resolution not part of the existing legal framework, i.e., provincial labor arbitration boards, the Human Rights Commission, or more local community committees.

### **PO5.3: *Enhanced capacity, reliability and responsiveness of selected NGOs***

It is important that for independence and autonomy, NGOs do not rely too heavily on USAID or any other single source of income. NGOs will be encouraged to develop diverse resource bases. The number of grantee agencies where the USAID contribution is less than 25% of the actual annual revenue, and the number of grantee agencies with more than five funding sources contributing at least 10% of the total annual revenue -- will form the basis for measuring the increased economic independence and autonomy of grantee NGOs (PO5.3.1). Actual annual revenue includes in-kind revenue. The NGOs would report on this quarterly in their regular financial reports. (Funding sources are not always audited annually, so it would be unreliable to use actual percentages as an indicator.)

Strengthened and more NGO networks at local, national and international level. There are a large number of NGOs in Indonesia doing similar work in each of the 29 provinces. NGOs can be strengthened by being part of consultative networks amongst themselves, which enable sharing of experiences, resources and advocacy and seeking assistance from other NGOs. There is already a good telephone network throughout most of Indonesia and there are bulletin boards and computer networks in the capitals of at least four provinces. NGOs in several cities now have access to the World Internet at a very low cost, but have yet to realize this resource. Advocacy and rule of law activities are enhanced by such networking and rapid communications. The Mission will encourage the establishment of new networks specifically for NGOs and also the use by NGOs of existing networks. The extent to which NGOs are thereby strengthened (PO5.3.2) will be measured by the number of new networks established by grantee NGOs linking 3 or more other non-grantee NGOs in Indonesia and the number of existing networks used by grantee NGOs at local, national and international levels. Networks can take many forms from the more traditional conferences and associations to electronic bulletin boards, and range from local to global. This indicator will count separately the local (within the province), national and international networks of any sort. "Used" will mean used at least three times a year.

NGOs are often formed for ideological or programmatic reasons and the administrative side is often neglected. To ensure the sustainability of NGOs in Indonesia, it is essential that they have strong decision-making and administrative structures and the trained staff to use them. This also makes them more "grant-worthy" to a larger resource base. Strengthened management and planning capabilities (PO5.3.3) will be measured by the number of Indonesian NGOs that have complete documented and operating management systems and the number of selected grantee NGO staff that are trained, either internally or externally, in operating the management systems (reported as all/female). A management system will include financial, information, procurement, personnel, decision-making, planning and communication systems.

**STRATEGIC OBJECTIVE 5: INCREASED EFFECTIVENESS OF SELECTED INSTITUTIONS WHICH PROMOTE DEMOCRACY**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/ FREQUENCY	METHOD / APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA	QUALITY OF DATA	RESPONSIBLE OFFICE/ PERSON
SO5.1 Increased NGO impact on government policy formulation	# of times that the activities of grantee NGOs have a measurable impact on the formulation of Government policy	NGO reports Semi-annual	OC2P Report Officer	1994	Medium	B	OC2P
		Biennial Grant Evaluation	Consultants	1994	High	B	OC2P

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**PROGRAM OUTCOME 5.1: INCREASED NGO ADVOCACY FOR DEMOCRATIC PARTICIPATION**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/ FREQUENCY	METHOD / APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA	QUALITY OF DATA	RESPONSIBLE OFFICE \ PERSON
PO5.1.1 Increased public awareness of NGO activities through publication of independent articles reported in the Indonesian media	# of independent articles about grantee NGO activities reported in the Indonesian media. Articles can be favorable or not	NGO records and semi-annual reports	Terms of the Grant	1994	Low	A	OC2P
PO5.1.2 Increased NGO mobilization of public opinion through surveys and publications	# of surveys and publications that mobilize public opinion that are organized by grantee NGOs, regardless of funding source	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
PO5.1.3 Increased and more effective NGO advocacy campaigns in the areas of human rights, environment, labor, women's issues and independent media	# of effective advocacy campaigns in the specified areas, initiated by targeted NGOs. "Effective" will mean that the advocacy reaches the target audience and receives a response. N.B. This counts campaigns not activities	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
PO5.1.4 Increased civic education programs concerning citizen's rights	# of civic education programs concerning citizens' rights	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
	# of civic education programs addressing women's concerns						
PO5.1.5 Increased dialogue between GOI and NGOs and between GOI and communities	# of formal meetings between GOI representatives and NGOs at appropriate provincial & national levels. formal NGO meetings that are initiated by NGO or GOI and are dialogues will be counted	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
	# of formal consultative meetings between communities and a GOI representative organized by the grantee NGOs. Only formal community meetings organized by the NGOs will be counted	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
PO5.1.6 Increased community participation in politically sensitive areas.	# of self-help groups such as LSMs or credit groups established and assisted by grantee NGOs.	NGO records & half yearly reports		1994			
	% of membership of groups which are female						
<p>* Reference to "grantee NGOs" includes grantee NGOs and also sub-grantee NGOs assisted through umbrella NGO grants. (Including registered cooperatives and local branches of labor unions)</p>							

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**PROGRAM OUTCOME 5.2: INCREASED ACTIVITIES THAT PROMOTE RESPECT FOR RULE OF LAW**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/ FREQUENCY	METHOD / APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA	QUALITY OF DATA	RESPONSIBLE OFFICE/ PERSON
PO5.2.1 Increased monitoring by NGOs of corruption, abuse of power and collusion	# of cases of corruption, abuse or collusion reported by NGOs to the public or appropriate government rep	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
	# of cases reported that are targeted against women						
PO5.2.2 Increased opportunities for awareness of existing laws through selected institutions	# of publications of laws by NGOs in media available to the public or relevant professional associations	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
	# of laws published by governmental institutions available to the public or relevant professional associations						ELIPS
	# of people attending seminars publicizing laws, organized by grantee NGOs, focussing on consumer environmental, labor, land and civil rights	NGO records & half yearly reports	Terms of the grants	1994	Low	B+	OC2P
	# of females attending above seminars						
	# of enquiries by the Representatives at the DPR Research & Information Center (P31)	Library's records	Terms of the grants	1994	Low	A	OC2P
PO5.2.3 Increased legal proceedings, initiated by grantee NGOs, that encourage the consistent enforcement of existing laws	# of legal proceedings initiated by selected NGOs on behalf of marginalized groups and individuals (e.g.. women, laborers, indigenous groups, poor, and children)	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
	# of legal proceedings on behalf of women						
PO5.2.4 More active and effective lobbying by NGOs to ensure that laws are evenly enforced across all sectors of society	# of planned lobby campaigns organized by grantee NGOs that encourage the enforcement of laws protecting the marginalized groups or individuals, irrespective of outcome	NGO records & half yearly reports	Terms of the grants	1994	Low	A	OC2P
	# of planned lobby campaigns re women's issues						
PO5.2.5 More alternative dispute resolution mechanisms and increased usage	# of new alternative dispute resolution mechanisms initiated by selected institutions	NGO reports semi-Annual	Terms of the grants		Low	A	OC2P
	# of disputes resolutions initiated with existing targeted alternative dispute resolution mechanisms, by selected grantee NGOs	NGO semi-annual reports	Terms of the grants		Low	A	OC2P

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**PROGRAM OUTCOME 5.3: ENHANCED CAPACITY, RELIABILITY, AND RESPONSIVENESS OF SELECTED NGOs.**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	DATA SOURCE/FREQUENCY	METHOD/ APPROACH	BASELINE (YEAR)	FUTURE COST OF DATA	QUALITY OF DATA	RESPONSIBLE OFFICE \ PERSON
PO5.3.1 Increased economic independence and autonomy of NGOs	# of grantee NGOs where USAID contribution is less than 25% of the actual annual revenue	Annual reports to USAID by NGOs	Grant conditions	1994	Low	A	OC2P
	# of grantee NGOs with at least five funding sources that contribute 10% or more each to the annual revenue	Annual financial NGO reports	Set in Grant	1994	Low	A	OC2P
PO5.3.2 Strengthened and more NGO networks at local, national and international level	# of new networks established by grantee NGOs linking 3 or more other NGOs in Indonesia	NGO semi-annual reports	Set in Grants	1994	Low	A	OC2P
	# of existing networks used by grantee NGOs at provincial, national or international level	NGO semi-annual reports	Set in Grants	1994	Low	A	OC2P
PO5.3.3 Strengthened management and planning capabilities of grantee NGOs	# of NGO staff trained, both internally and externally, in management and planning	NGO Reports of Workshops	Set in Grants	1994	Low	A	OC2P
	# of women trained, as above						
	# of Indonesian NGOs that have complete documented and operating management systems, including financial, information, procurement, personnel, decision making and communications	Mid term & final evaluations	Set in grants	1994	Med	A	OC2P
* Reference to "grantee NGOs" includes grantee NGOs and also sub-grantee NGOs assisted through umbrella NGO grants. (Including registered cooperatives and local branches of labor unions)							

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**STRATEGIC OBJECTIVE 5: INCREASED EFFECTIVENESS OF SELECTED INSTITUTIONS WHICH PROMOTE DEMOCRACY - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	Baseline Data		Plan	1995/6	1996/7	1997/8	1998/9	1999 /2000
		Year	Value	Actual					
SO5.1 Increased NGO impact on government policy formulation	# of times that the activities of grantee NGOs have a measurable impact on the formulation of Government policy		20	Plan	30	35	40	45	50
				Actual					

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**PROGRAM OUTCOME 5.1: INCREASED NGO ADVOCACY FOR DEMOCRATIC PARTICIPATION - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATORS	DEFINITION AND UNIT OF MEASUREMENT	Baseline Data		Plan	1995/6	1996/7	1997/8	1998/9	1999/0
		Year	Value	Actual					
PO5.1.1 Increased public awareness of NGO activities through publication of independent articles reported in the Indonesian media	# of independent articles about grantee NGO activities reported in the Indonesian media. Articles can be favorable or not	1994	275	Plan Actual	370	380	390	400	410
PO5.1.2 Increased NGO mobilization of public opinion through surveys and publications	# of surveys and publications that mobilize public opinion that are organized by grantee NGOs, regardless of funding source		8	Plan	16	16	20	20	25
			30	Plan Actual	35	45	40	40	45
PO5.1.3 Increased and more effective NGO advocacy campaigns in the areas of human rights, environment, labor, women's issues and independent media	# of effective advocacy campaigns in the specified areas, initiated by targeted NGOs. "Effective" will mean that the advocacy reaches the target audience and is responded to. N.B. This counts campaigns not activities. # of campaigns addressing women's issues		20	Plan Actual	30	30	32	32	35
				Womens issues Plan Actual	4.5				
PO5.1.4 Increased civic education programs concerning citizens' rights	# of civic education programs concerning citizens' rights		40	Plan Actual	65	75	80	80	80
	# of civic education programs addressing women's concerns		8	Plan Actual	14	17	19	20	20
PO5.1.5 Increased dialogue between GOI and NGOs and between GOI and communities	# of formal meetings between GOI representatives and NGOs at appropriate provincial & national levels. Formal NGO meetings that are initiated by NGO or GOI and are dialogues will be counted		65	Plan Actual	100	120	130	140	150
	# of formal consultative meetings between communities and a GOI representative organized by the grantee NGOs. Only formal community meetings organized by the grantee NGOs will be counted		20	Plan Actual	30	40	50	50	55
PO5.1.6 Increased community participation in politically sensitive areas	# of self-help groups such as LSMs or credit groups established and assisted by grantee NGOs		13	Plan Actual	40	45	50	55	55
	% of membership of groups which are female		25%	Plan Actual	35%	40%	45%	50%	51%

\* Reference to "grantee NGOs" includes grantee NGOs and also sub-grantee NGOs assisted through umbrella NGO grants. (Incl. registered cooperatives and local branches of labor unions)

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**PROGRAM OUTCOME 5.2: INCREASED ACTIVITIES THAT PROMOTE RESPECT FOR RULE OF LAW - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATORS	DEFINITION AND UNIT OF MEASUREMENT	Baseline Date		Plan Actual	1995/6	1996/7	1997/8	1998/9	1999/2000
		Year	Value						
PO5.2.1 Increased monitoring by NGOs of corruption, abuse of power and collusion	# of cases of corruption, abuse or collusion reported by NGOs to the public or appropriate government representative		35	Plan Actual	45	50	55	60	60
	# of cases reported that are targeted against women		2	Plan Actual	7	8	9	10	12
PO5.2.2 Increased opportunities for awareness of existing laws through selected institutions	# of publications of laws by NGOs in media available to the public or relevant professional associations.		8	Plan Actual	35	40	45	45	45
	# of laws published by governmental institutions available to the public or relevant professional associations			Plan Actual					
	# of people attending seminars publicizing laws, organized by grantee NGOs, focussing on consumer environmental, labor, land and civil rights		850	Plan Actual	950	950	1000	1000	950
			150	Plan Actual	190	285	400	450	475
	# of females attending above seminars			Plan Actual					
# of enquiries by the Representatives at the DPR Research & Information Center (P3I)		5	Plan Actual	300	350	400	450	450	
PO5.2.3 Increased legal proceedings, initiated by grantee NGOs, that encourage the consistent enforcement of existing laws	# of legal proceedings initiated by selected NGOs on behalf of marginalized groups and individuals (e.g., women, laborers, indigenous groups, poor, and children)		500	Plan Actual	600	650	700	700	700
	# of legal proceedings on behalf of women		75	Plan Actual	96	111	126	133	140
PO5.2.4 More active and effective lobbying by NGOs to ensure that laws are evenly enforced across all sectors of society	# of planned lobby campaigns organized by grantee NGOs that encourage the enforcement of laws protecting the marginalized groups or individuals, irrespective of outcome		90	Plan Actual	110	120	120	120	120
	# of planned lobby campaigns that address women's issues		30	Plan	35	40	40	40	40
PO5.2.5 More alternative dispute resolution mechanisms and increased usage	# of new alternative dispute resolution mechanisms initiated by selected institutions		1	Plan Actual	2	3	3	3	3
	# of disputes resolutions initiated with existing targeted alternative dispute resolution mechanisms, by selected grantee NGOs		1	Plan Actual	30	30	30	30	30
* Reference to "grantee NGOs" includes grantee NGOs and also sub-grantee NGOs assisted through umbrella NGO grants. (Including registered cooperatives and local branches of labor unions)									

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**PROGRAM OUTCOME 5.3: ENHANCED CAPACITY, RELIABILITY, AND RESPONSIVENESS OF SELECTED NGOs - EXPECTED AND ACTUAL RESULTS**

PERFORMANCE INDICATORS	DEFINITION OF INDICATOR AND UNIT OF MEASUREMENT	Baseline Data		Plan Actual	1995/6	1996/7	1997/8	1998/9	1999/ 2000
		Year	Value						
PO5.3.1 Increased economic independence and autonomy of NGOs	# of grantee NGOs where USAID contribution is less than 25% of the actual annual revenue	1994	50	Plan Actual	60	65	70	70	70
	# of grantee NGOs with at least five funding sources that contribute 10% or more each to the annual revenue		5	Plan Actual	7	12	14	16	18
PO5.3.2 Strengthened and more NGO networks at local, national and international level	# of new networks established by grantee NGOs linking 3 or more other NGOs in Indonesia		7	Plan Actual	15	8	8	5	5
	# of existing networks used by grantee NGOs at provincial, national or international level		25	Plan Actual	35	50	60	70	75
PO5.3.3 Strengthened management and planning capabilities of grantee NGOs	# of NGO staff trained, both internally and externally, in management and planning		115	Plan Actual	140	120	140	120	110
	# of women trained, as above		40	Plan Actual	56	54	70	60	55
	# of Indonesian NGOs that have complete documented and operating management systems, including financial, information, procurement, personnel, decision making and communications		7	Plan Actual	15	20	25	28	31
<p>* Reference to "grantee NGOs" includes grantee NGOs and also sub-grantee NGOs assisted through umbrella NGO grants. (Including registered cooperatives and local branches of labor unions.)</p>									

# **USAID/INDONESIA: COUNTRY PROGRAM STRATEGY**

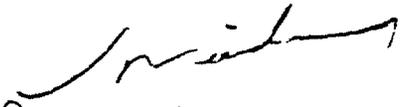
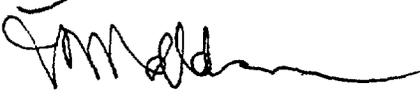
## **ANNEX B**

### **NEW ACTIVITY DESCRIPTIONS (NADS)**



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
AMERICAN EMBASSY  
JAKARTA, INDONESIA

**ACTION MEMORANDUM FOR THE DIRECTOR, USAID/INDONESIA**

**FROM:** Virgil Miedema, PPS   
**THRU:** Vivikka Molldrem, DD   
**SUBJECT:** USAID/Indonesia Submission of Four New Activity Descriptions (NADs)  
- Annex B of the *FY 1995 - 1997 Action Plan*

**ACTION:** You are requested to approve the submission to the ANE Bureau of four NADs as part of the Mission's *FY 1995 - 1997 Action Plan*: (1) Natural Resource Management II (NRM II 497-0387), (2) Health Care Financing Enhanced Credit Program (HCF-ECP 497-0389), (3) Transition Assistance for Growth Support (TAGS 497-0390), and (4) Coordinated Local Environmental Action Networks (CLEAN 497-0391).

**DISCUSSION:** The four NADs were reviewed on February 27 and 28, 1995. They are consistent with the transitional portfolio plan proposed in our Country Program Strategy in several ways. First, they rely on market incentives and the private sector to help customers plan and control services they receive. Second, they introduce Indonesian stakeholders to U.S. counterpart organizations to help forge business ties which transcend development grant assistance. Third, they empower local people, be they rural or urban, to manage their own resources for their own benefit. There will be a total of six NADs reviewed in the context of the upcoming Country Program Strategy review: the four discussed here plus two ECP NADs submitted to the ANE Bureau in November 1994. If all six NADs are approved, the implied out-year mortgages represent about two-third's of funding availabilities presuming our OYB is straight-lined from FY 97 on.

*Natural Resource Management II (NRM II 497-0387)*

The ERC originally reviewed this NAD under the title "Indonesia Environmental Project I". Subsequent to the decision to have two environmental strategic objectives: one for "Brown" and one for "green and blue", the title was changed to more aptly describe the newly focused purpose. NRM II will result in the adoption of improved policies and practices for

decentralized and strengthened natural resources management. The NAD has been improved over its earlier version by including many of the substantive recommendations in the now completed *Environmental Assessment*, by giving greater recognition of the linkages between the environment and advocacy NGOs, and by describing how the activity fits into the portfolio's overall transition strategy.

*Health Care Financing Enhanced Credit Program (HCF-ECP 497-0389)*

On May 14, 1994 the PPC Bureau in STATE 128871 solicited from Mission Directors project proposals for potential funding under a new Enhanced Credit Program (ECP) for which legislative authority was pending. In response you submitted two ECP proposals in November, 1994: Local Government Bonds Enhanced Credit Program (LGB-ECP 497-0388) and Human Resources Training Enhanced Credit Program (HRT-ECP 497-0386). Bureau comment on these first two ECP proposals is anticipated during the upcoming review of the Country Program Strategy.

In further response to the call for ECP proposals, USAID/Indonesia has prepared a NAD for Health Care Financing. The activity is fully consistent with the Mission's Strategic Objective no. 2 to improve health and reduce fertility in Indonesia. Also, it reflects the GOI's interest in pursuing a national program of managed health care to ensure equitable access to quality health care for all citizens. HCF-ECP will facilitate the implementation of a financially sustainable and replicable model for integrated health sector reform in Klaten including universal coverage under a basic health benefits package. The project will consolidate early work under a predecessor project and provide critical analysis of an innovative field trial. It will also serve as a bridging project pending GOI receipt of World Bank and/or ADB funds to generalize the pilot experience throughout Indonesia. Legislative authority for the ECP proposals is still pending.

*Transition Assistance for Growth Support (TAGS 497-0390)*

This activity is supportive of Strategic objective no. 1 to "improve the management of sustained economic growth in the transition from economic development assistance to development cooperation". Pursuant to the review of the draft NAD, the final version is more focused on SO1, explains how the proposed commission would work, details the kinds of linkages it would foster. The new TAGS activity will be central to the maintenance of the Agency's leadership role in advising Indonesia on macroeconomic reforms.

*Coordinated Local Environmental Action Networks (CLEAN 497-0391)*

The CLEAN activity will provide an organizational and financial umbrella for technical assistance and training related to comprehensive management of the urban environment, including clean industrial and energy production, in selected cities and industries.

The following changes have been made pursuant to the Executive Review Committee (ERC) meeting: clarification of what the project will leave behind as part of a transition strategy, the activity's linkages with past and current projects, and an explanation of how US-AEP and Global Bureau resources will be included.

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Draft e-mail guidance on NADs indicates that the AA for ANE Bureau formally approves NADs and associated strategic Action Plans. In this connection, STATE 295857 dated November 2, 1994 provided further clarification in its paragraph 3:

*If the Director believes that sufficient work has been done on strategy development and defining outcomes/indicators, he should submit the NAD. The Bureau will review it for conformity with the Mission's strategic plan and any performance indicator information the Bureau has on hand, and either approve it or defer it for consideration in conjunction with the Mission's strategy/Action Plan review in the spring.*

Bureau approval of the four attached NADs would mean the Mission may proceed to Project Paper design contingent, of course, upon three factors: (1) passage of still pending ECP legislation in the case of HCF-ECP, (2) resolution of any environmental issues raised by the Bureau Environmental Officer during the course of further design, and (3) the normal vagaries of the OYB allocation process.

**RECOMMENDATION:** That by signing below in the appropriate space you endorse the Executive Review Committee's recommendation that a copy of this Action Memorandum and the attached NADs go forward for ANE Bureau review and approval in conjunction with the Country program Strategy and Action Plan reviews scheduled for April 10-14, 1995.

Approved:  \_\_\_\_\_  
Disapproved: \_\_\_\_\_  
Date: 3/15/95

**Attachments:**

- Natural Resource Management II (NRM II 497-0387)
- Health Care Financing Enhanced Credit Program (HCF-ECP 497-0389)
- Transition Assistance for Growth Support (TAGS 497-0390)
- Coordinated Local Environmental Action Networks (CLEAN 497-0391)

**USAID/Indonesia Submission of Four New Activity Descriptions (NADs) as part of the  
FY 95-97 CPS and Action Plan:**

Executive Review Committee clearances:

- |                  |            |      |         |
|------------------|------------|------|---------|
| - WMFrej, PED    | (in draft) | date | 3/13/95 |
| - JCarney, HIRD  | (in draft) | date | 3/14/95 |
| - MPurvis, EPSO  | (in draft) | date | 3/13/95 |
| - BStoner, AEE   | (in draft) | date | 3/13/95 |
| - MJohnson, OC2P | (in draft) | date | 3/13/95 |
| - PShirk, CM     | (in draft) | date | 3/14/95 |
| - HJamshed, FIN  | (in draft) | date | 3/13/95 |
| - TRiedler, RLA  | (in draft) | date | 3/14/95 |

**Natural Resources Management Project II (NRM II)**  
*New Activity Description (NAD)*

**I. PROJECT DATA**

Title:	Natural Resources Management Project II (NRM II)
Project Number	497-0387
Initial Year of Obligation:	FY 96
LOP Funding:8 Years	\$50 million
Funding Source:	Development Assistance Funds
PACD:	2003

**II. POLICY CONTEXT AND OBJECTIVES**

Policy Context:

Economic and population growth coupled with poor natural resources management have had very negative impacts on the Indonesian environment. Although Indonesia's natural and biological resources are the most extensive in Asia, pressure on these resources is intense and growing. The Government of Indonesia's (GOI) current strategy for achieving high economic growth through greater reliance on diversified exports is heavily dependent on successful management of its rich natural resources base. Consequently, there are serious problems in the areas of deforestation, loss of biodiversity, degradation of water and land resources, and increasing water and air pollution.

USAID, working with the World Resources Institute (WRI), has just completed the *Indonesia Environmental Assessment and Strategic Action Plan* involving strong participation from representatives of our development partners in Indonesia--from government, private businesses, nongovernment organizations, universities, and other donors. As recommended by this analysis, as well as by USAID development experience, the USAID/Indonesia environmental strategy focuses on decentralized and strengthened natural resources management and environmental problem solving. The Government, private sector, and citizens of Indonesia are recognizing that government alone cannot solve their daunting environmental problems and are looking for new policies and practices that will lay a foundation for local government, private sector, and community management of environmental problems, and establish a system of incentives to persuade industries and citizens to adopt pollution prevention systems and technologies. As part of the process, USAID will utilize integrated approaches and establish partnerships with other development groups and institutions. Together we will develop and test options and models through pilot activities and policy analysis, and together we will use the results of these to improve policy, and to strengthen government and non-government institutions, and thereby achieve more wide-reaching results.

Strategic Objective Being Supported:

The USAID environmental program in Indonesia is focused on decentralized and strengthened natural resource and urban environmental management. Because of the magnitude and complexity of environmental problems in Indonesia, USAID/I has established two environmental strategic objectives: (1) decentralized and strengthened natural resources management, and (2) strengthened urban environmental management. The new NRM II Project will be the implementing mechanism for the USAID/I Strategic Objective for decentralized and strengthened natural resources management (NRM Strategic Objective).

The USAID Country Program Strategy (CPS) for Indonesia and the supporting Environmental Strategy define expected results under several program areas. The NRM Strategic Objective will be achieved through interlinked efforts to improve policies and practices in the areas of forest, agriculture, and marine resources management, and biological diversity conservation. The Natural Resources Management Project II (NRM II) is designed to continue successful activities in these sectors, while simultaneously expanding work with groups that will continue these efforts beyond the scope and time frame of USAID's direct involvement in Indonesia.

The NRM II will also support USAID's global environmental objectives, since Indonesia is a key country for both of the Agency's global environmental priorities: biological diversity and climate change. Indonesia is recognized as one of the world's foremost centers of biological diversity with a very rich diversity of both plant and animal species and has approximately 104 million hectares of closed tropical forest -- more than half of such forests remaining in Asia. With rapid economic growth, Indonesia is also experiencing large land use changes and increasing industrialization. Consequently, according to the ranking of World Resources Institute, Indonesia is the ninth largest contributor to greenhouse gas emissions -- only two countries with USAID programs are ranked higher. Since deforestation is responsible for approximately 76% of present greenhouse gas emissions from Indonesia, better natural resources management is important. Thus, achievement of the Mission's strategic objective in environment will also have an important global impact.

To address both country-level and global priorities USAID/Indonesia will use NRM II as a mechanism for expanding collaborative partnerships with key regional and centrally funded USAID projects, with NGOs, with other U.S. Government agencies, and with Indonesian and U.S. private businesses.

Purpose Statement:

NRM II will result in the adoption of improved policies and practices for decentralized and strengthened natural resources management.

### Expected Results:

The NRM II Project expects the following results:

- \* **Greater stakeholder participation in decisions about the planning, management, and monitoring of natural resources.** The project will form partnerships with government, NGOs, local communities and other donors to demonstrate innovative approaches for managing forest, marine and agricultural areas with an emphasis on local community participation, and more efficient and sustainable use of natural resources.
- \* **Increased conservation and pollution reduction by natural resource-based industries.** The project will support policy and practices that will provide incentives for natural resource-based enterprises e.g., wood concessionaires, to carry out better land husbandry to produce higher value, less polluting products.
- \* **Improved policy development and implementation.** The Project will strengthen networks and partnerships among governments, universities, NGOs and communities for policy analysis, implementation, and monitoring. This will involve support for the decentralization of authorities, increased information sharing, and advocacy for greater participation of women in all activities.
- \* **Strengthened institutional capacity for biodiversity conservation.** The Project will support implementation of the GOI *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* by strengthening PVOs and NGOs supporting biodiversity conservation. The Indonesia Biodiversity Foundation will still be the Mission's main support for this activity. However, NRM II will work with international PVOs and perhaps local NGOs in this area. This will involve analysis, field work and public education concerning natural resources management, biological diversity conservation, and pollution prevention.

### Relationship to Indonesia's Environmental Priorities and Programs:

Environmental quality and sustainability are an integral part of the Government of Indonesia's development program. The sixth five-year plan (REPELITA VI) of the GOI states "... environmental values influence all of the desirable development activities of the Second 25 Year Plan."

The GOI development strategy acknowledges that development in the coming years must be fundamentally different than the past. In the past, successes in development, especially rural development and poverty alleviation, came through a strategy based primarily on natural resource intensive growth. Oil, forestry, and agricultural expansions were the major contributors to growth. A transition in Indonesia is already well underway--from dependence on oil and forestry and agriculture to reliance on rapid industrialization, from a largely rural and low-income society to one that is predominately urban with a growing middle class that

is increasingly well educated. Better natural resources management is essential to the success of this transition. Unless existing policies and practices are changed, it is likely that natural resource degradation and depletion will threaten overall GDP growth and equity in the coming years.

The forest sector generated almost \$4 billion in foreign exchange in 1993, and the number of people dependent upon forest resources is estimated at 60 million out of a total population of 180 million. The economic and environmental benefits from timber, non-wood forest products, environmental services and biological diversity are enormous. Deforestation accounts for 76% of Indonesia's greenhouse gas emissions. Poorly considered policy signals continue to cause Indonesia's logs to be valued below international market rates, and logging practices are needlessly destructive in economic, biological, and social terms. These inefficient practices combined with population pressure, over-intensive shifting agriculture, and conversion of forest to other purposes means that the window of opportunity to reverse current trends is very short -- about 15 years.

Sixty percent of Indonesia's population, or about 110 million people, live in coastal areas. The coastal and marine sector employs approximately 16 million people. Eighty percent of the country's fishermen practice traditional fishing methods. Increasing population, combined with scarcity of terrestrial resources means that marine and coastal resources will be a primary source of employment for those who are not employed in an increasingly efficient industrial sector. Unfortunately, massive fish kills, cases of disease, and shrimp production failures, and species scarcity indicate threatened water quality conditions. Between 1982 and 1993, the extent of mangrove forests in Indonesia declined from 4.2 million hectares to 3.7 million. In addition, 73% of Indonesian coral reefs are classified as severely or moderately damaged. Areas of greatest population density, the North Coast of Java, and the Malacca and Bali Straits have been particularly hard hit. The remainder of the country's coastal and marine resources are still reasonably good shape, but the continuation of existing trends would dramatically degrade all marine resources during the next 25 years.

The agriculture sector accounts for just under 20% of Indonesia's GDP. In 1992 this sector employed more than 50% of the labor force and generated about 54% of non-oil exports. Increased agricultural productivity has been a pillar for Indonesia's economic growth during the last 30 years. Indonesia takes great pride in having moved from the world's largest rice importer in 1965 to self-sufficiency in rice in 1984. However, now ten years later, due to drought but aggravated by land use changes and stagnant productivity, Indonesia is once again importing rice. Competition for land and water resources from industrialization and urbanization is reducing agricultural land in the most fertile and densely populated areas of the country--Java, Madura, Bali, Lombok, 8% of Indonesia's land areas which is home to two-thirds of its population. There is an immediate need for better integrated resources and regional planning in these intensive land and water resources use areas and decentralized regional management approaches need to be established over the next 5 to 10 years in other areas of the country.

Consequently, future growth, including the process of industrialization, will increasingly strain Indonesia's stock of natural resources (land, forests, biodiversity, water, energy) and the sustainability of ecosystems (including groundwater aquifers in cities, watersheds, and coastal and marine resources). The current pattern of resource use and rate of resource degradation calls into question the sustainability of even the current levels of economic activity in a number of key sectors. In addition, the poor are particularly vulnerable to growing pollution and the erosion of natural resources. Lacking the resources to protect themselves, the poor would bear the brunt of polluted water and air in cities and the falling productivity of marginal lands, degraded forests and marine/coastal resources. The poor also contribute to environmental degradation through unsustainable production practices and the unsafe disposal of human and other wastes.

GOI and all its development partners in Indonesia acknowledge that integrating sustainable use of the environment with other development policies is crucial to achieve Indonesia's future. This will require continued improvements in the policies and incentives for environmentally responsible behavior, a substantial increase in investment in environmental protection by both the Government and private sector, and sustained efforts to strengthen institutions responsible for environmental planning and management. The NRM II will provide a key strategic investment by USAID in shaping an environmentally-sound path for future growth in Indonesia. The World Resources Institute assessed USAID's comparative advantages in Indonesia and concluded,

“USAID has the comparative advantages that enable it to support strategic, complex activities at a significant enough level to influence decisions about priorities, strategy, and objectives. It can help create an ‘enabling environment’ of better policy, implementation strategies, and natural resources management and environmental problem solving options that substantively contributes to Indonesia's sustainable development. USAID's strength is the ability to co-finance the demonstration of these innovative options in the field so that a persuasive case can be made for their adoption or rejection.”

Strategic investments in these areas will have an enormous long-term impact and, accordingly, should be given highest priority as USAID determines how best to complement and sustain Indonesia's economic development.

#### Relationship to Other USAID Activities:

The NRM II will provide follow-on funding to USAID/Indonesia natural resources management projects, all of which will be completed by FY 97. During FY 95, Indonesia has natural resources management obligations of \$16 million and environmental obligations totaling over \$24 million. These are funded from six bilateral and ten central/regional project sources. The main bilateral activities are: Natural Resources Management Project

(NRMP); Indonesia Biodiversity Foundation (IBF); Development of Democratic Institutional Support (DDIS) Project; Agricultural and Rural Sector Support Project (ARSSP); Municipal Finance Project (MFP); and Private Participation in Urban Services Project (PURSE). USAID/Indonesia also has buy-ins to several USAID/Washington projects to provide long- and short-term technical assistance, training, and other field support in Indonesia and collaboratively manages the Indonesia programs of the US-Asia Environmental Partnership (US-AEP).

The design of the NRM II Project will permit the Mission to analyze the results of these projects as a whole, to identify the most successful activities and approaches and to continue these within a new program framework focused on strategic objective and program outcomes. The NRM II Project will especially use the experience and lessons of the Mission's first comprehensive environmental project, the NRMP, which started in 1990 and will conclude in 1997. The NRMP "umbrella" project has undertaken important policy analysis with an Inter-Ministerial Policy Committee coordinated by the National Planning Commission (BAPPENAS). It has also promoted technical innovation with forestry industries, tested community-based management approaches with the Ministry of Forestry, and promoted cleaner production technologies with industries, the Ministry of Industry, and the Environmental Management Agency. The NRMP has created the opportunity for the expanded testing, innovation, and institution-building activities of NRM II.

### **III. INTERVENTIONS AND MANAGEMENT COSTS**

#### Type of Interventions Anticipated:

NRM II will support the implementation and monitoring of the Mission's NRM Strategic Objective and Program Outcomes.

- 1. Greater stakeholder participation in decisions about the planning, management, and monitoring of natural resources.**
  - \* Test "traditional forest areas" and "integrated conservation and development" (ICAD) concepts for conserving forest and coastal and marine resources to meet livelihood needs of local communities while providing incentives for long-term, sustainable use.
  - \* Establish models for enhancing community participation in management planning and implementation for selected national parks (forest and marine), for conserving biodiversity while addressing the livelihood of local communities.
  - \* Determine the biological and financial feasibility of enterprise-oriented approaches to community-based sustainable management of forest and marine resources.
  - \* Expand the implementation of agricultural practices based on an agroecosystems approach fostered by Integrated Pest Management (IPM) to address new problems

(i.e. water resources and soil erosion) and to expand IPM to new areas (upland areas and crops).

**2. Increased conservation and pollution reduction by natural resource-based industries.**

- \* Increase incentives for natural resource based industries to adopt better land husbandry practices and to produce higher value, less polluting products.
- \* Demonstrate technologies for more efficient resource use under sustainable management (i.e. community-based fire control, low impact harvesting techniques, environmentally-sound logging road/bridge design and construction, and other methods for improved management of natural production forests).
- \* Accelerate the adoption of pollution prevention technologies among natural resource based industries. This will involve increasing environmental awareness and technical knowledge among industries in targeted sectors, as well as among environmental service organizations including NGOs, universities, associations, foundations, consulting firms, etc.

**3. Improved policy development and implementation.**

- \* Strengthen networks for natural resources policy and law reform. Better linkages of government with universities and NGO will assist the National Development Planning Commission (BAPPENAS) and the Ministry of Environment Inter-Ministerial Policy Working Groups as well as key Ministry policy groups on important issues.
- \* Establish pilot demonstrations for strengthened decentralization through local level partnerships among government, private sector, and local communities concerning better management of natural resources.
- \* Strengthen local and regional environmental impact planning and monitoring by integrating EIA capacity building with the testing of integrated conservation and development models.
- \* Improve environmental information sharing and public education on natural resources management including advocacy for greater participation of women in all areas of natural resources management.

**4. Strengthened institutional capacity for biodiversity conservation.**

- \* Establish sustainable support for private biodiversity conservation institutions.

- \* Strengthen environmental NGOs both technically and in terms of administration and management, particularly for increasing public awareness and community involvement in biological diversity conservation.

#### Management Costs:

NRM II will be designed and managed using the new methods of Managing for Results (MFR) and the new operational guidance coming from Agency Re-engineering Teams. USAID/I is already acting as an environmental reinventing workshop and is sharing and gaining experiences from workshops in other USAID Missions. Consequently, since this project is the funding and implementing mechanism for the Mission's NRM Strategic Objective, it will be managed by a Strategic Objective Team. This management team will include: (a) the USDH Strategic Objective Team Leader; (b) a USDH Project Officer and/or FSN for each component depending on the scope and complexity of the "results package;" and (c) legal, contracting, and financial support staff.

Since this program falls within the jurisdiction of the USAID Office of Agro-Enterprise and Environment (AEE), Mission restructuring will not be required. However, it will permit the consolidation of several Mission activities into a few well-defined RPs and thus result in more efficient program management within the Mission.

Management of the Mission's Urban Environment Strategic Objective and the proposed project for that SO, is with the USAID Office of Private Enterprise Development (PED). The Mission will continue to use its Environmental Working Group, which has existed for the last year and a half, to provide overall environmental program coordination. This coordination will be very important for addressing regional issues with regard to natural resources degradation and water and air pollution that defy rural-urban division. It will also help assure consistent monitoring and measurement of impacts and coordination for the geographic location of activities so as to promote integrated resources management with an ecological and stakeholder participation perspective.

#### **IV. POLICY AGENDA TO PURSUE**

The *Indonesia Environmental Assessment and Strategic Action Plan* has identified several major policy themes that will be pursued by NRM II. These are:

- \* Sustainable management of forestry, marine and agricultural resources through better technical practices and greater local community management of resources and involvement in government programs.
- \* More efficient resource use, conservation, and pollution prevention by forestry, marine and agricultural industries through removal of policy and regulatory distortions, introduction of new technologies, and increased public awareness.

- \* Decentralized regulatory and management authorities and strengthened local and regional environmental impact assessment.
- \* Capacity building of private institutions for increasing awareness of sustainability and environmental issues by the Indonesian public.
- \* Increased participation of women in all aspects of natural resources management planning and management.

## **V. Design and Analytical Work Needed/Program Documentation**

### **Reinventing USAID/Indonesia's Environmental Program:**

USAID/Indonesia will use the design of NRM II to work closely with USAID/W and other Missions to re-engineer our NRM program management. Our expectation is that the design of NRM II will be undertaken in FY 95 concurrently with other USAID worldwide management changes, so that USAID/I will be able to focus more management resources on strategic program outcomes and that the NRM II will be the funding modality for implementing this new approach.

USAID/Indonesia's Country Program Strategy presents our vision of future USAID assistance to Indonesia and discusses how we propose to transition out of Indonesia. Although, the Mission presently foresees this transition taking ten years or more in the environmental sector, the NRM II Project, particularly in its later years, will begin laying a basis for the transition. This will include greater reliance on Indonesian private institutions (NGOs and businesses) for technical assistance, training, and other services in Indonesia and greater reliance on central and regional USAID mechanisms (Center for Environment and US-AEP) for procurement of technical assistance and other services needed from U.S. sources. Additional elements of a transition strategy will be identified as part of our re-engineering changes.

### **Program Innovations:**

#### **1. Managing for Results**

For the past two years, USAID/Indonesia has been analyzing development needs, opportunities and expected outcomes using the strategic objective framework, and we are revising our portfolio accordingly. During the design of NRM II, the Mission will continue to refocus implementation around program outcomes. The details of how such a management team would function need to be looked at in the context of putting in place an operational plan for NRM II.

## **2. Promoting Participation**

The Mission initiated customer surveys for the environmental sector during a "participation exercise" undertaken in December 1993 and coordinated by TDY assistance from USAID/W. Using guidance from USAID's *Strategies for Sustainable Development* and re-engineering precepts, USAID worked collaboratively with the World Resources Institute to prepare the country-level *Indonesia Environmental Assessment and Strategic Action Plan* using participatory methods. Mission plans are to build further on this experience and to better elaborate models for strengthening participation during the design and implementation of NRM II.

## **3. Bilateral/Regional/Global Coordination**

The Mission has developed an action plan for assistance to Indonesia from regional programs which was used by WRI in preparing the *Indonesia Environmental Assessment and Strategic Action Plan*. This laid the foundation for new modalities of cooperation with regional and global interests of USAID and of the USG more broadly. The Mission is executing agreements with the G Bureau Center for Environment and the ANE Bureau US-AEP to assure good program coordination. Extending this cooperation will be an objective of the design and implementation of NRM II.

## **4. Testing New Practices and Policies**

The USAID environmental program is built upon the complementarity of practical field work in testing new technologies and management approaches linked with local and national policy analysis and reform. With the design of NRM II, the successful approach linking policy implementation and field testing (initially started under the Mission's first Natural Resources Management Project--NRMP) will be built upon and expanded. The innovative aspects of NRM II will include a participatory design and implementation process, the development and use of performance indicators for monitoring its management, and the testing of strategic objective team management within USAID.

## **VI. STAKEHOLDERS AND PARTICIPATION PLAN**

To prepare the *Indonesia Environmental Assessment and Strategic Action Plan*, USAID/Indonesia worked collaboratively with the World Resources Institute and the Indonesia Sustainable Development Foundation through a participatory assessment and priority-setting process involving seven focus-groups (forestry, agriculture, marine, biodiversity, industry, energy, urban) and over 300 Indonesian stakeholders from government, non-government, PVO/NGOs, universities, and private businesses. USAID/Indonesia will continue to use these contacts to follow a participatory process for the design of NRM II. In addition, the design of NRM II will also include regional consultations in geographic focus areas. The participation plan for the project design will be completed in May 1995 as part of the Operational Plan for the Design of NRM II.

## VII. PROJECT PAPER PREPARATION

### Timetable:

The development of NRM II is planned to be completed during fourth quarter of FY 95 and first quarter of FY 96. The design will be primarily undertaken by direct hire USAID staff within USAID/Indonesia, working in a broadly participatory manner with Indonesians representing the spectrum of environmental groups and interests in Indonesia. The general timetable is presented below. However, it should be noted that this timetable may be modified as the process proceeds, particularly after the preparation of a Mission Operational Plan for the design of NRM II.

- \* May 31, 1995: Operational Plan for the Design of NRM II.
- \* Sept/Oct. 1995: Results Packages Analyses--Technical, Economic, and Social Soundness
- \* Oct./Nov. 1995: Institutional Coordination Linkes--Regional, Donor, GOI, NGO, etc.
- \* Oct/Nov. 1995: Participatory appraisal process
- \* January 1996: Project documentation completed.
- \* February 1996: Project Authorization

### Resources Required:

The Mission has not received FY 95 PD&S funds requested to design this Project. Consequently, the Mission has decided to transfer \$100,000 of its OYB to PD&S for in-country participatory field surveys, workshops, communications, etc. involving Indonesian expertise and to seek expatriate technical support through central and regional projects. The exact amount of funding needed and how it is to be used will be elaborated in the operational plan for the design of NRM II, which the Mission will complete by May 31, 1995.

The Mission requests assistance from USAID/Washington--the ANE, Global, PPC Bureaus--to work with us to develop an operational plan for this design in order to fully explore innovative ways of better coordinating and linking bilateral, regional and central resources to clear environmental objectives. USAID/I is extremely please with the excellent cooperation provided by all these offices during the preparation of the draft *Indonesia Environmental Assessment and Strategic Action Plan*. We are most eager to continue this collaborative relationship as an environmental reinvention workshop and thereby request a firm commitment from USAID/W to work with the Mission in clearly delineating new ways of operating. We hope that USAID/W will be able to provide not only contract, but also USDH assistance to prepare and carry out the design plan and to work closely on items such as new procurement mechanisms, and new and efficient ways of delivering resources, e.g., financial and technical assistance.

## **VIII. RECOMMENDATIONS**

It is recommended that the ANE Bureau approve this NAD and extend ad hoc authorization to USAID/Indonesia to design, authorize and implement the Natural Resources Management Project II (NRM II) with an eight year Life of Project and funding of \$50 million.

## **IX. APPENDICES**

Appendix A Objective Tree for Strategic Object 3 - Decentralized and Strengthened Natural Resources Management

**STRATEGIC OBJECTIVE 3:**

**DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT**

- 3.1. Policy implementation devolving to the local level.
- 3.2. Local communities actively participating in natural resources planning and management.
- 3.3. NGOs strengthened to promote improved natural resources management.
- 3.4. Natural resource-based industries using "best practices" for land-use management and production processes.

**PROGRAM OUTCOME 3.1.:** Greater stakeholder participation in decisions about the planning, management, use, and monitoring of natural resources.

- 3.1.1. Tested "traditional forest areas" and "integrated conservation and development" concepts for community management of forest and of coastal and marine resources.
- 3.1.2. Established models for enhancing community participation in management planning and implementation for selected national parks.
- 3.1.3. Determined the biological and technical feasibility of enterprise-oriented approaches to community-based sustainable management of forest and marine resources.
- 3.1.4. Expanded implementation of agricultural practices based on agroecosystems approaches fostered by IPM to address new problems and new areas.

**PROGRAM OUTCOME 3.2.:** Increased conservation and pollution reduction by natural resource-based industries.

- 3.2.1. Increased incentives for natural resource-based industries to adopt better land husbandry practices and to produce higher value, less polluting products.
- 3.2.2. Demonstrated technologies for efficient resources use under sustainable management.
- 3.2.3. Accelerated adoption of pollution prevention technologies among natural resource-based industries.

**PROGRAM OUTCOME 3.3.:** Improved policy development and implementation.

- 3.3.1. Strengthened networks for natural resources policy and law reform.
- 3.3.2. Strengthened partnerships among the GOI, the private sector, and communities for local and regional environmental impact planning and monitoring.
- 3.3.3. Increased participation of women in all aspects of natural resources management.
- 3.3.4. Improved information sharing on environmental issues.

**PROGRAM OUTCOME 3.4.:** Strengthened institutional capacity for biodiversity conservation.

- 3.4.1. Established sustainable support for private biodiversity institutions.
- 3.4.2. Strengthened environmental NGOs carrying out research, public awareness, policy studies and other activities to support biological diversity.

**Health Care Financing Enhanced Credit Project (HCF/ECP)**  
*New Activity Description (NAD)*

**I. PROJECT DATA**

Project Title: Health Care Financing Enhanced Credit Project  
(HCF/ECP)  
Project Number: 497-0389  
Initial Year of Obligation: FY 96  
LOP Funding: \$5.3 million (4.5 million in loan and .8 million in grant  
)Funding Source: FY 96: .8 million (DA)  
2.5 million (Loan)  
(G/EG/I/ECP)  
FY 97: 2.0 million (Loan)  
(G/EG/I/ECP)  
PACD: March 31, 1999

**II. POLICY CONTEXT AND OBJECTIVES**

Mission Strategic Objectives:

The Mission's program goal in Indonesia is broad-based and sustainable economic growth. This goal supports Indonesia's target of achieving a per capita income of \$1,000 by the year 2000. To achieve this goal, USAID has defined five strategic objectives which complement the GOI's 1994-99 development plan and the Agency's areas of strategic interest. These are:

- sustained economic growth in the transition from economic development assistance to development cooperation;
- improved health and reduced fertility;
- decentralized and strengthened natural resources management;
- strengthened urban environmental management;
- increased effectiveness of selected institutions which promote democracy.

Improved health status will provide Indonesians with better opportunities to increase their productivity, education and income, thus assisting Indonesia to sustain and improve its economic growth. The Health Care Financing Enhanced Credit Project (HCF/ECP) will assist the GOI in improving health status and reducing fertility in support of a more productive economy.

Specifically, the project will assist in maximizing scarce health sector resources through implementation of an appropriate and replicable model of integrated health care financing and delivery which will improve accessibility, equity and quality of health care delivery in the Klaten district, Central Java.

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### Background:

During the past twenty years, Indonesia has made significant progress in expanding its health care delivery system throughout the entire country. To ensure affordability of these health services to all economic levels of the community, health centers and hospitals are highly subsidized by the government. This has, over the years, created an increasingly heavy burden on the government budget, and discouraged local efforts to seek alternative means of finance. This activity addresses an important development constraint as Indonesia's economic growth continues and the creation of a financially viable national health care financing policy becomes increasingly important.

In response, the Ministry of Health (MOH) successfully developed several health care financing policies with USAID assistance under the Health Sector Financing (HSF) Project (1988-1995). Assistance under the HSF Project has resulted in: 1) **hospital reform** which shifts substantial hospital financial support from the government to the end users; 2) **pharmacy reform** which promotes the use of generic drugs and formulation of standards of therapy for more rational use of drugs; 3) **managed care insurance programs** which are based on social equity, basic benefits packages emphasizing preventive care and pre-paid or capitated payment systems for quality services provided through both the public and private sectors; and 4) **policy analysis capability to enable the GOI to undertake health financing and policy analysis** for improved decision making and improved resource allocation.

Based on the success of these policies, the GOI and USAID have undertaken the development of an integrated health financing system trial program in Klaten district, Central Java, which integrates the above policies and reforms. In addition to the policies addressed by the MOH through the HSF project, there is a national focus on social equity and poverty alleviation. The Klaten trial became operational in January 1995. USAID assistance to the Klaten trial is scheduled to end in March 1995, the PACD for the HSF Project, although a one-year extension is in process.

### Project Goal and Purpose:

The goal of HCF/ECP is to assist the Government of Indonesia to increase equitable access to quality health services in order to promote the health and economic well being of all Indonesians. The purpose of HCF/ECP is to facilitate the implementation of a financially sustainable and replicable model for integrated health sector reform in Klaten including universal coverage under a basic health benefits package linked with comprehensive, quality health care and cross subsidization of these services to those with lower incomes.

### Project Outputs:

The major outcomes of the HCF/ECP will be: 1) enrollment and coverage of 80% of the Klaten population in the managed care (JPKM) program; 2) empirical data from the field

trial which will enable the GOI to assess the advantages and limitations of managed health care prior to its implementation on a national scale; and 3) demonstrated cross-subsidization of, at least, 50% from the JPKM programs to the 15.6% of the Klaten population designated as impoverished. The following additional outputs are expected to be achieved in Klaten district by the end of project (EOP):

- a 60% reduction in MOH central budgetary requirements for Klaten hospital & district health office (60% total cost recovery);
- Implementation of the standards of care and rational drug use district-wide with demonstrated improved efficiency of 50%;
- An increase in births attended by trained health providers from 37.67% to 80%.
- An increase in pre-natal coverage from 69% to 90% (Tetanus Toxoid from 65% to 90%);
- An increase in childhood immunizations from 65% to 90%
- 90% coverage of the at risk population for AIDS with the AIDS prevention benefit;
- A fourfold increase in outpatient visits for hypertension & diabetes;
- A 35% reduction in outpatient visits for self-limiting upper respiratory infections;
- A 50% reduction inappropriate injections and antibiotic use;
- A 10% reduction in low birth weight infants;
- A 10% reduction in maternal mortality rates;
- A 15% reduction in infant mortality rates;
- A 20% reduction in mortality due to pneumonia;
- A 5% reduction in fertility rate.

Relationship to GOI priorities and other Donor activities:

The project is fully consistent with and supportive of the GOI's interest in pursuing a national program of managed health care to ensure equitable access to quality health care for all Indonesians. In fact, the HCF/ECP presents a timely opportunity for USAID to propel the GOI forward with a well-developed, finely-tuned model for managed health care which would be replicable on a nationwide basis by the GOI and other major loan donors. The completion of this HCF/ECP in 1999 would also leave behind a valuable body of empirical data which along with the replicable model for managed health care would be a tangible "useful development unit." It would bring to fulfillment USAID's important role in pioneering an innovative model for expanding access to quality health care for all Indonesians, including the poor, through a system of cross subsidization.

In September 1995, the GOI and the World Bank will begin implementing their \$250 million, five year Health Project IV (HP IV) in five provinces - West Sumatra, East Kalimantan, West Kalimantan, East Java, and West Nusa Tenggara. The MOH has indicated strong interest in replicating the integrated JPKM model and utilizing empirical data from the Klaten integrated trial in the five provinces covered by the HP IV. Similarly, ADB is interested in replicating the Klaten model in four provinces in Sumatra. It is, therefore, critical that USAID complete this "useful development unit" so that four years of empirical data on the

Klaten trial will be available to the GOI and other donors as they replicate the system nationwide.

### **III. INTERVENTIONS AND MANAGEMENT COSTS**

Interventions: The major interventions in the HCF/ECP will be:

- a. Expansion of the JPKM-DS managed care program in coordination with the other established managed care programs (Astek & Askes) and integration of the Health Card ("Kartu Sehat") financing program for the impoverished into the national managed care scheme to achieve universal coverage in the target District.
- b. Technical development of the central and district managed care regulatory systems to achieve a level of capability adequate to effectively regulate the integrated managed care system. This includes development of administrative and information systems as well as training and organizational systems.
- c. Improvement of the health care delivery system to provide the level of quality of care-needed by the managed care programs. This includes provider training, facility refurbishment, equipment procurement, and development of management systems.
- d. Incorporation of quality assurance, standards of care, accreditation, and rational drug use strategies of the MOH into the regulatory, managed care, and provider systems in a consistent, sustainable, and effective manner.

It is envisioned that the HCF/ECP will utilize \$4.5 million in loan funds to capitalize the expansion of the integrated health reform trial in Klaten for three years (April 1996 - March 1999). The funds will be available for four basic purposes:

1. Capital development loans to JPKM managed care companies.
2. District regulatory system development for the district government.
3. Central regulatory system development for the central Ministry of Health.
4. Capital development loans for marketing of the managed care system.

These loans can be used for technical assistance, training, marketing, operational expansion, facility improvement, equipment procurement, operational research, policy analysis, and/or organizational and systems development by any of the eligible parties.

Loan repayment will be effected either directly or indirectly from the premium or contribution revenues to the managed care programs by the public. The managed care programs will service their debt directly from revenues collected. Loans to the district government and central Ministry of Health will be repaid from budgetary savings realized through private financing of the managed care delivery system and through tax revenues. Health care provider loans can be repaid from revenues received by providers from the managed care programs.

The suggested nature of ECP assistance is in the form of credit enhancements, most likely letters of credit, with risk exposure shared equally between USAID and private banks. These would be, in effect, loan guarantees rather than direct loans. If issuers are able to make timely and complete debt service payments (interest and principal), the enhancement would not be effectuated, and no payments from USAID funds would be made.

Note that without the ECP guarantee, these local government borrowers would not be able to borrow for the purposes specified through normal market channels. Neither sovereign loan guarantees, nor general obligations of local governments would support these revenue-backed borrowing.

Total local government borrowing over a three-year project period would be approximately \$4.5 million. USAID credit exposure would be limited to a total subsidy value of approximately \$0.8 million, assuming a standard 15% risk exposure on the ECP-guaranteed 50% share of principal (\$2.25 million). Private banks would provide enhancement for the other 50% share of principal. In other words, a USAID commitment to spend \$0.8 million under a worst-case default scenario, would effectively leverage approximately \$4.5 million in capital for expansion of the integrated health care reform in Klaten.

#### Management Costs

The HCF/ECP will be managed by the Office of Human and Institutional Resource Development (HIRD) in coordination with Economic Policy Support Office (EPSO) and Program Project Support (PPS) with technical support from E/EG/I.

The present HIRD/H staff is sufficient to manage this project through March 1999. The present HSF project manager would continue to devote 100% of his time to this project and the Project Officer (HIRD/H Division Chief) would devote approximately 10-20% of her time to project management as well. OE costs for travel by Mission staff to Klaten in support of project management would be approximately \$4,500 over the LOP. Approximately three person weeks of technical assistance per year would be required from E/EG/I for project management.

#### **IV. POLICY AGENDA TO PURSUE**

##### Strategy to pursue the agenda:

The Mission has maintained an on-going dialogue with the MOH since the late 1980s in the broad area of health care financing and managed care. This policy agenda is currently being pursued by Mission HIRD/H staff and the technical advisors supported under the HSF project. The Mission has identified four major policy issues in Section V of this NAD which are being pursued in relation to the Klaten managed care trial. Under the HCF/ECP, this agenda would continue to evolve in support of those policy shifts required to achieve the end of project outcomes listed in Section II.

## **V. ELEMENTS TO INCLUDE IN THE PREPARATION OF THE PROJECT PAPER**

### **Design and Analytical Work:**

G/EG/I will prepare a "term sheet" and "loan agreement" for the proposed activity. A rate of return analysis will be prepared by a Mission economist. USAID/Jakarta will determine the most appropriate borrower in the GOI, likely the Ministry of Health. Preliminary discussions with the MOH and BAPPENAS will enable the Mission to make an assessment regarding loan repayment capability of the GOI.

### **Policy Issues:**

The project paper should include a comprehensive assessment of the GOI's current interest and intended time frame for expansion of managed health care throughout Indonesia. Four particular policy areas should be discussed and elaborated upon during project paper preparation:

- 1) shift in GOI's role from health care provider to health care systems regulator;
- 2) locality or nation-wide waiver to allow doctors and health care facilities to receive capitated payments;
- 3) acceptability of incorporating profit sharing among providers as an incentive to deliver appropriate services; and
- 4) GOI's willingness to cross subsidize those below the poverty line (approximately 15% population in Klaten) under the JPKM program, thus obviating the need for the "Kartu Sehat" (GOI system of providing free care for the poor upon presentation of a card which designates them as "poor").

### **Program Innovations:**

These would include the development of a marketing program to attract Klaten residents to voluntarily join the JPKM managed care program. It would also require development of an effective GOI regulatory system for monitoring equitable delivery of a comprehensive basic benefits package to all participants and a system for cross subsidizing services for the poor from premium payments.

## **VI. STAKEHOLDERS AND PARTICIPATION PLAN**

The key stakeholders, partners and beneficiaries would be the GOI and the people of Klaten. The GOI, particularly the MOH, will play a key role in formulating the new systems and procedures required for the managed care program. The people of Klaten will invest in the JPKM system either through mandatory payroll deductions (those employed by the GOI or formal private sector) or by voluntary monthly payments of Rp.1200-1500 per person covered. The GOI will benefit from the greatly reduced demand for public resources to support health care delivery systems in Klaten, and the participating population of Klaten will benefit by receiving affordable health care structured to promote prevention and early, more

effective treatment. This will particularly benefit the impoverished, women, infants and children since the basic benefits package implemented in Klaten will include family planning, immunizations, well baby visits, pre and post natal visits, nutrition supplementation and HIV/AIDS prevention information.

## **VII. PROJECT PAPER PREPARATION**

### Timetable:

The project paper should ideally be prepared in May 1995. This will allow for a timely review and approval process by October 1995 and obligation of funds not later than March 1996.

### Resources Required:

The Mission will require the services of a health economist (five person weeks), experienced with managed health care systems to assist the Mission in the design and preparation of the HCF/ECP project paper. At the same time, approximately 2-3 person weeks of technical assistance will be required from E/EG/I in developing the "term sheet" and "loan agreement". The HIRD/H project manager will also assist full time in developing the project paper with assistance from EPSO and PPS.

## **VIII. RECOMMENDATIONS**

### Review Procedures:

The Mission requests that the ANE Bureau review the Health Care Financing Enhanced Credit Project (HCF/ECP) NAD as a part of the Mission's Country Program Strategy (CPS) review scheduled for April 1995.

### Waivers:

No blanket waivers are foreseen as necessary.

### Project Authorization:

It is recommended that PP approval and project authorization be delegated to the USAID/Indonesia Mission Director pursuant to standard action plan guidance. Prior to project authorization, the PP will be reviewed and approved by the Mission's Executive Review Committee.

## **IX. APPENDICES**

Appendix A      Preliminary Logical Framework for the Health Care Financing Enhanced Credit Project

**PRELIMINARY LOGICAL FRAMEWORK**  
**HEALTH CARE FINANCING ENHANCED CREDIT PROJECT**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p style="text-align: center;"><b>PROJECT GOAL:</b></p> <p>1. To assist the Government of Indonesia to increase access to quality health services in order to promote the health and economic well being of all Indonesians.</p>	<p style="text-align: center;"><b>MEASURES OF ACHIEVEMENT:</b></p> <p>1.1. Increase to nearing universal coverage of the Klaten population in the managed care (JPKM) program.</p> <p>1.2. Reduction in fertility, infant and maternal mortality rates in the Klaten district.</p>	<p style="text-align: center;"><b>METHODS/SOURCES OF VERIFICATION:</b></p> <p>1.1. Monthly Regulatory Enrollment Reports</p> <p>1.2. District Health Office Monthly Profile Report; District BKKBN Office Monthly Family Planning Clinic Achievement Reports</p>	<p style="text-align: center;"><b>ASSUMPTIONS FOR SUCCESS:</b></p> <p>1. JPKM programs will successfully attract and enroll target market.</p> <p>2. Economy of Indonesia remains stable or growing.</p>
<p style="text-align: center;"><b>PROJECT PURPOSE:</b></p> <p>1. To facilitate the implementation of a financially sustainable and replicable model for integrated health sector reform in Klaten including universal health coverage under a basic benefit package linked with a comprehensive, quality health care and cross subsidization of these services to those with lower income.</p>	<p style="text-align: center;"><b>END OF PROJECT STATUS:</b></p> <p>1. A 60% reduction in MOH budgetary requirements for Klaten hospital and district health office.</p>	<p>1. External and internal review of the effectiveness of health reform integrated trial implementation.</p> <p>2. MOH/DHO Budget; JPKM Regulatory Reports</p> <p>3. Yearly JPKM Regulatory Reports</p>	<p>1. The GOI policy makers remain supportive of the Klaten model and its replication to other districts and provinces.</p> <p>2. Enrollment targets reached, basic premium set at &gt; Rp950/capita per month.</p> <p>3. Social marketing efforts successful.</p> <p>4. Economic condition in Klaten remains conducive.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p style="text-align: center;"><b>OUTPUTS:</b></p> <p>1. Enrollment of at least 80% of the Klaten Population in JPKM plans.</p> <p>2. Empirical data from the field trial which will enable the GOI/MOH to assess the advantages and limitations of managed health care prior to its implementation on a national scale.</p> <p>3. Demonstrated 50% cross subsidy from the JPKM programs to the 15.6% impoverished in Klaten.</p>	<p>1.1. A 75% increase in efficiency in health care providers</p> <p>1.2. A 50% reduction in inappropriate drug and antibiotic uses in hospitals and health centers</p> <p>1.3. Contracts entered with at least 35 private doctors, 17 health centers and two hospitals operational in support of JPKM basic benefit package.</p> <p>1.4. Increase in live births attended by medical trained personnel from 38% to 80%.</p> <p>1.5. Increase in pre-natal care (4 visits) from 69% to 90% (Tetanus Toxoid 63% to 90%).</p> <p>1.6. 10% decrease in low birth weight infants.</p> <p>1.7. 10% decrease in maternal mortality ratios.</p> <p>1.8. 15% reduction in infant mortality rates.</p> <p>1.9. Increase in child immunization coverage from 63% to 100%.</p> <p>1.10. 20% decrease in mortality due to pneumonia.</p> <p>1.11. 5% decrease in fertility rates.</p> <p>1.12. 90% coverage of at risk population with AIDS prevention benefits.</p> <p>2. A reliable JPKM-based health care financing system is ready for replication nationwide.</p> <p>3. Demonstrated self-sufficiency of all JPKM programs.</p>	<p>1.1. Regulatory Utilization Reports and Epidemiology Reports</p> <p>1.2. Regulatory Utilization Reports, District Health Office Health Profile Reports</p> <p>1.3. Monthly regulatory enrollment reports</p> <p>1.4. As in 1.2.</p> <p>1.5. As in 1.2.</p> <p>1.6. As in 1.2.</p> <p>1.7. As in 1.2.</p> <p>1.8. As in 1.2.</p> <p>1.9. As in 1.2.</p> <p>1.10. As in 1.2.</p> <p>1.11. As in 1.2.</p> <p>1.12. As in 1.2.</p> <p>2. Project Final Evaluation Report; MOH Report</p> <p>3. Regulatory Financial Reports</p>	<p>1. Compulsory compliance of standard of care, use of referral system and all providers receive QA training</p> <p>2. Lessons learned compiled and immediate remedial actions taken during the trial to ensure a reliable health care financing model developed.</p> <p>3. Revenues sufficient to cover operations and debt repayment; district government utilizes JPKM budgetary offsets to cover Kartu Sehat costs.</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS			MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p style="text-align: center;"><b>INPUTS:</b></p> <p><b>1. TECHNICAL ASSISTANCE, OPERATIONAL PROGRAMS, MONITORING/EVALUATIONS, SUB-AGREEMENTS</b></p> <p><u>USAID - HCF/ECP:</u>            1 LTA for 36 pm            4 STAs for 144 pm            1 Field Programs            Project Monitoring and Evaluation            Overhead and all Associated costs            Reimbursement for GOI-Managed Sub-Agreements via PIL</p> <p><u>GOI:</u>            Counterparts            Logistical Services and Audit</p>	<u>USAID-HSF/ECP</u> (\$000)	<u>GOI</u> (\$000)	<u>TOTAL :</u> (\$000)	<p>Project evaluation and monitoring report</p> <p>GOI Annual Budget (DIP).</p> <p>Records of sub-contracts of participants for training</p> <p>FIN Quarterly Financial Review, SAPIRS, PIRs</p>	<p>Financial resources arrive as planned.</p> <p>GOI funds committed.</p> <p>Inflation remains at 4% or less starting after 15 first months of project.</p>
<b>Total:</b>	3,500	670	4,170		
<p><b>2. PARTICIPANT TRAINING</b></p> <p><u>USAID-HSF/ECP:</u>            In-Country, Regional, Int'l Workshops            Seminars, and Observation Tours</p> <p><u>GOI:</u>            Participant Salaries            Participant Travel and Per Diem</p>	800	300	800		
<b>Total:</b>	800	300	1,100		
<p><b>3. COMMODITIES</b></p> <p><u>USAID-HCF/ECP:</u>            4 Computers, Software and Office Furnitures</p> <p><u>GOI:</u>            Counterparts Offices and Vehicles</p>	200	155	200		
<b>Total:</b>	200	155	355		
<p><b>4. INFLATION (4% per year)</b></p>	540	NA	540		
<b>Grand Total:</b>	5,040	1,125	6,165		

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**Transition Assistance for Growth Support (TAGS)**  
***New Activity Description (NAD)***

**I. PROJECT DATA**

Title:	Transition Assistance for Growth Support (TAGS)
Project Number:	497-0390
Initial Year of Obligation	FY 96
LOP Funding:	\$25 million
PACD:	2002

**II. POLICY CONTEXT AND OBJECTIVES**

Strategic Objectives being supported:

This entirely new strategic assistance activity will provide across the board support for the Mission's Strategic Objective 1: Sustained Economic Growth in the Transition from Economic Development Assistance to Development Cooperation. This activity will explicitly provide for re-engineered transition assistance in the area of economic growth. Strategic Objective 1 contributes directly to the realization of USAID's other strategic objectives in Population, Environment and Democracy as well as to the CPS Program Goal of Broad Based Sustainable Development in Indonesia.

The Development Challenge:

Indonesia has been hugely successful in promoting economic growth over the last 25 years. As a result of sound macro and sectoral growth policies and programs - and key assistance from USAID - the ruined economy of Indonesia in the mid sixties has been transformed into one of the miracles of east Asian economic growth. These achievements include: Self sufficiency in rice; sustained growth of jobs; increased participation of women; economic growth over 25 years averaging 6.9% per annum; universal primary education; deregulation and transformation of the economy away from excessive dependency on oil and gas (for both government revenues and foreign exchange); liberalization of banking and the development of financial markets; growth of decentralized municipal finance; the emergence of Indonesia as major and reliable trading partner for the United States; and Indonesia's unprecedented leadership in global trade deregulation through GATT and APEC. USAID has supported each of these (and many other) achievements in the Indonesian economic success story and remains not only one of Indonesia's oldest but also one of Indonesia's most respected development partners.

As a result of economic growth and of increased openness of the economy, Indonesia is now a major commercial opportunity for the United States. Past USAID assistance for economic growth has not only been good for Indonesia, it has been good for U.S. jobs and small businesses. As a consequence of the economic growth that USAID has helped engender in

Indonesia, U.S. private companies are now profitably engaged in the provision of municipal and urban infrastructure, in building power plants, in selling locomotive and telecommunications equipment and in many other commercial ventures in Indonesia. The potential for this market to grow is considerable. If Indonesia does sustain its phenomenal growth record for another quarter of a century it will, by the year 2020, be on the verge of NIC status with average income of \$2,500 and capable of finally eliminating poverty - and the Indonesian economy will be the fifth largest in the world.

However, sustained economic growth in Indonesia is not guaranteed. It will require careful and prudent economic management. As the recent debacle in Mexico has shown, the sustained work of years of efforts to promote economic growth can be quickly undone. The size of the Indonesia economy - already larger than Canada, South Korea or Thailand - creates enormous complexities and difficulties for the management of an ever deepening and ever more complex economy. As a result of vastly increased domestic finance capacity and expanded direct foreign investment USAID has a marginal role as a financier of development in Indonesia. However, our targeted assistance is making very significant and urgently needed contributions to Indonesian economic management. Moreover, Indonesia wants and needs continued access to the practical experience of the United States for necessary improvements in the management of its sustained economic growth.

Future economic growth assistance to Indonesia will be very different from the past. In the past we trained people, we created institutions, and we provided large numbers of expensive resident advisors. In the future, we must support the people we have trained and nurture the institutions we have built. The future - unlike the past - will be characterized not by the difference between Indonesian and the United States (one poor and the other rich) but by our shared common interests. For example, it is now in our common interest to support the development of APEC, to assist in the development of regulatory environments which open business opportunities in goods and services to the U.S. private sector and to promote both the growth of incomes and the wider participation of all Indonesians in the Indonesian economy.

What the United States has to offer Indonesia in the future is access to the best and brightest of our economic management institutions and to enable counterpart institutions in Indonesia and in the United States to collaborate in mutually beneficial and sustainable ways. For example, there is a need to connect the U.S. Customs service to the Indonesian Ministry of Finance to work on practical problems of joint concern in customs administration. There is a need to foster an expanding exchange of ideas and data between Bank Indonesia and the Federal Reserve System. There is a need to link municipal finance authorities with the finance systems of the United States and with our experience in the development of bonds, secondary financial markets and mortgage instruments to deliver better and vastly expanded services to the urban poor. There is a need to foster durable linkages between the American Bar Association and the Indonesian legal profession for the development of commercial law to protect Indonesian entrepreneurs and American investors. There is a need to encourage

the deepening of professional relations between the SEC and the Indonesian Stock Market as U.S. fund managers seek to place funds responsibly in Indonesia's emerging markets.

These and other linkages will sustain urgently needed improvements in economic management in Indonesia and provide further impetus for open economic growth. Sound Indonesian economic management will create employment, promote wider participation in the labor force (especially by women), and provide the stimulus to foster competitiveness in the Indonesian economy. It will also make Indonesia both more accessible and understandable to U.S. businesses and investors - to the benefit of our bilateral trade relationships.

The resources that USAID will have to support Economic Growth in Indonesia will be greatly reduced from those available in the past. In order to protect our past investments and to capture the future benefits of the evolving and maturing U.S.-Indonesian economic relations, we need to support economic growth in new and more cost effective ways. As we look down the road to the inevitable day when Indonesia will graduate from the USAID relationship, the linkages that exist between Indonesia and the United States will be the enduring monuments to the USAID economic growth program in Indonesia - and ones which will flourish and expand long after USAID has departed the scene. This Strategic Objective Activity is not only Indonesia's first effort to program by a strategic objective, it is therefore also the beginning of the re-engineering of USAID/I itself as we make the transition into a newer, different and more vital basis of mutual collaboration. This is the ambitious but exciting purpose of this activity.

Purpose Statement:

Purpose: to initiate the transition of U.S. assistance for economic growth in Indonesia from project based assistance to the development of mutual sustainable linkages between entities concerned with economic management in Indonesia and the United States.

Expected Results:

1. The Activity will phase out classic USAID development assistance in support of Economic Growth to Indonesia. The delivery of USAID strategic assistance to economic growth to Indonesia will be re-engineered and replaced with self-financing Development Cooperation.
2. Indonesian economic growth will be sustained through improved economic management and Indonesia will be more integrated into global and regional economy.
3. The Indonesia- American bilateral relation will have achieved greater maturity and Indonesia will be more significantly accessible to the advancement of U.S. commercial interests.

Relationship to Mission's Other Activities, Host Country Priorities and Other Donor Activities:

The Mission's Strategic Objective 1 is Sustained Economic Growth in the Transition from Economic Development to Development Cooperation. This objective is a critical component of the Mission's overall design to assist Indonesia and to achieve the Program Goal of Broad Based Sustainable Development. This strategic objective is also vital to the realization of the Mission's strategic objectives in population, environment and democracy. Without economic growth demand for family services and the decline in population growth will stagnate. Without economic growth, extractive natural resource depletion will accelerate and the deterioration of the urban environment will continue. Without growth Indonesia's tentative first steps to democracy will wither.

Assistance from the United States for Economic Growth is the declared highest priority for the Government of Indonesia and for most of our development partners in Indonesia. One of the results of the Mission's Participation exercise of 18 months ago was broad consensus on both the need to sustain economic growth in Indonesia and the need to expand and broaden U.S. assistance in the support of economic growth. Universities, private businesses, NGOs, trade associations and government agencies are universal in their desire to broaden their access to the ideas, creativity and learning opportunities related to economic management for which the United States is so widely admired by Indonesians.

Other development assistance agencies also acknowledge the preeminence of American technical assistance in economic management. Willingness to share our own development experience with Indonesia and collaborative work styles have been the hallmark of U.S. economic assistance in Indonesia. The World Bank and Asian Development Bank may have supplanted USAID as the major concessional financiers of Indonesian development but they continue to look to the United States for intellectual leadership and the development of new ideas, policies and institutions in key areas of economic management. As the USAID program has contracted, the World Bank and the Asian Development Bank have welcomed the opportunity to finance activities that we can no longer afford or to generalize pilots activities that we have developed and tested (e.g. private participation in power generation and provision of urban services; the privatization of state owned enterprises; the development of Indonesia's capital markets; and the expansion of microenterprise financing).

### **III. INTERVENTIONS AND MANAGEMENT COSTS**

The purpose of this activity is to make the transition from development assistance to development cooperation in the broad area of economic growth. In order to define the substance of how the TAGS activity will operate, we need to answer three questions related to this purpose: 1) Where are we now? 2) Where do we want to be? and 3) How do we get there?

### Where are we now?

The Mission's current development assistance to economic growth in Indonesia is based on DA-funded, technical long-term assistance, supported by short-term TA and limited non-degree participant training. In general only very minor amounts of commodity assistance are being funded, primarily personal computers. In most cases, the GOI or other assisted entities are making contributions in-kind but not in cash or in foreign currency. Under the current program, USAID-funded TA is engaged in policy analysis and advice (e.g. ARSSP, Municipal Finance), in institution building (e.g Higher Education Development Support, Agribusiness Development and ARSSP) and in the testing of innovative pilot schemes (e.g. health financing, microenterprise). We currently have more than half a dozen separate projects contributing to the improvement of economic management. This type of project portfolio has been highly effective in the past but it is also high cost. A full time resident advisor costs the U.S. tax payer about \$250,000 a year. The management of large numbers of separate projects is also demanding on USDH FTEs and OE resources. This kind of program cannot be sustained in a world of shrinking USAID resources.

More importantly, while USAID/I's current program is high performing and contributing in significant ways to important economic management issues in Indonesia, it is not fundamentally directed at preparing Indonesia for the progressive withdrawal of all direct USAID assistance to Indonesian economic management.

### Where do we want to be?

A successful transition in economic management will allow USAID to withdraw from direct financing of development assistance and to replace it, over the next five years, with a rich and diverse network of self-financing, mutually beneficial ongoing relationships between sister institutions in the United States and Indonesia. This is the meaning of development cooperation.

If we succeed, some of these linkages will be independently financed, such as commercial ventures and partnerships. Others will be financed by collective interests of trade association, chambers of commerce and professional associations. Others will be based on public-sector linkages, such as between universities and government agencies. Some will be under the framework of bilateral formal agreements and memoranda of understanding. Others will be less formal and unstructured. There will a large amount of information exchange between members of the network through Internet and E-Mail. Collaborating organizations will participate in seminars conferences and workshops to discuss problems of mutual interest. Researchers and analysts will work on common problems in Indonesia and the United States. Large numbers of junior, middle level and senior officials and professionals will be travelling between the United States and Indonesia. Some, but by no means all, of these activities may be under the aegis of a joint bilateral umbrella organization which we have entitled the "Indonesian-American Economic Commission" (see below).

Of course, many of these kinds of linkages and exchanges have already started. There are already numerous exchange agreements between Indonesia and the United States. Linkages between, for example, IRS and the Indonesian Dept. of Taxation and the Federal Reserve System and Bank Indonesia have already graduated from 100% dependence on USAID funding. The challenge for USAID is to find ways which will consolidate and expand these linkages so that a robust network of bilateral linkages is created to the mutual benefit of the United States and Indonesia.

This is our vision of where we want to be 5-7 years from now. While still uncertain in the details, the broad direction is clear. It is equally certain that the future will be a broad departure from the past.

### How do we get there?

The remaining question is therefore "How do we get there?" The classic approach in the past to USAID transition and termination has been to create an endowed Foundation (such as, in Korea or Portugal) which continues to support activities in the former USAID assisted countries. Endowed agencies were certainly successful in the Korean case (KDI and KIST). However, the resources for a USAID funded endowment are simply not available in today's constrained world. An alternative strategy is to "declare victory and walk away". USAID/I believes that such a strategy is neither responsible nor in the U.S. interest. In fact, USAID/I believes it is feasible with modest resources to implement an orderly transition which not only supports Indonesian economic growth but also puts in place key elements of sustainable development cooperation between the United States and Indonesia.

USAID/Indonesia will need some of the most creative thinking in the Agency in the design of TAGS and, although we will draw on Agency experience elsewhere, we do not believe that we are going to find a ready made model which we can simply copy in Indonesia. Rather we are going to have to design an activity appropriate to the specific need of Indonesia.

For example, we are aware of the Thailand Linkages Program and have discussed it at some length with its principal manager. Although the Thai program has many innovative elements that we will want to incorporate in TAGS, we are also aware that the preconditions in Indonesia are substantially different from those in Thailand. For example, the Thai program provides seed money to catalyze commercial ventures in fields related to environment and HIV. The success of the Thai program is measured by the financial success of these discrete commercial ventures. However, Indonesia will not reach the Thai per capita level of income for some 15 or more years, which considerably reduces the current scope for "deal making". Moreover, the level of development of the key institutions of economic management in Indonesia (such as in the Central Bank, the agencies responsible for financing of infrastructure, professional accounting and legal associations, chambers of commerce, trade associations etc.) are considerably behind those of Thailand. The Indonesia economy is also larger, more diverse and more geographically dispersed than Thailand.

All of these factors argue for focusing on developing linkages between institutions concerned with a broad range of economic management issues in Indonesia rather than concentrating on assisting specific commercial activities. Commercially viable ventures will certainly result from this activity but by a different route. The creation of multiple linkages to the wide array of Indonesian institutions which support economic management to sister organizations in the United States will create much greater efficiency, deregulation and transparency (the "level playing field") for U.S. commercial interests. It will also actively promote wider understanding of business conditions in Indonesia within the U.S. private sector and within the economic management institutions on which U.S. businesses rely e.g., in the banking system and among providers of financial services. These same considerations also argue strongly against trying to manage TAGS as a regional project or from Washington. On the ground, day to day contact with Indonesian institutions is going to be an indispensable key to the success of this activity.

Specific Activities to be funded under TAGS:

Over the life time of the activity, TAGS will wean Indonesia from traditional reliance on long-term technical assistance and promote a more sustainable institutional basis for economic collaboration between interested parties in the United States and Indonesia in which USAID has a declining financial and management burden. It will move our current broad array of economic growth assistance from long-term TA to short-term TA and from technical assistance to the development of self-sustaining linkages. The project will initially provide short-term technical assistance which will provide transitional assistance from our current portfolio of classic TA projects. This short-term assistance will "protect our past investments" by sustaining momentum in key policy areas in which USAID has an unfinished agenda and provide support for other resource programming, such as the HIG program. However, activity resources will increasingly be provided for the development of new programming mechanisms and for fostering self-declared interests in building sustainable linkages between U.S. and Indonesian organizations. These organization could include professional associations (e.g. Indonesian Economics Association, National Standards Institute, agribusiness associations) universities and research centers, NGOs, private sector and public sector organizations (e.g. Bank Indonesia, BAPEPAM). USAID will provide support assistance to the development of linkages in which USAID resources are facilitating and not sustaining. Support for travel, seminars, consultancies and the like will be provided to organizations which can identify development partners in the United States who have a mutual long term interest. TAGS will target key resources to "spark" the development of these new linkages between organizations and institutions in a growing network of Indonesian-American exchanges and linkage arrangements in the area of economic management. It will provide seed money - but not recurrent costs - for new and innovative activities.

TAGS will also finance the creation of a prototype Indonesian American Economic Commission which would provide a bilateral umbrella for those linkages that desire to come under it (as noted above, many may well opt to develop their own narrower relationships).

Such a commission might look a bit like a Fulbright Commission in that the commissioners will be substantive people, from both the United States and Indonesia, who share the vision of a maturing bilateral relationship and who would work for it on a *pro bono* basis. The commission would need to have broad representation from the private and NGO sector as well as from public sector organizations. The Commission would have the barest minimum of professional staff (initially funded by TAGS) until its activities expand to a point where larger permanent staff would be essential and could be financed by the Commission from its own resources. The Commission would also be the "lightning rod" to attract financing from the bilateral commercial community to sustain it into the future. These could include membership fees, fees-for-service (e.g., in organizing conferences, study tours etc), and grants and contracts as well as (non-USAID) endowments from major corporations, foundations, wealthy "alumni" and other sources. TAGS will support fund raising efforts to enable the Commission to mobilize these kinds of resources. There is already in existence an Indonesian American Friendship Association that might become interested in sustaining the work of the Commission. Numerous Indonesians and Americans as individuals or as business entities could be persuaded to contribute resources (cash, services, opportunities through their own businesses) to make the Commission a permanent and self-sustaining entity. In developing such a Commission the guiding principle should be that USAID will have no permanent financial or management role. Rather USAID resources will assist the Commission to innovate in new ways of promoting sustainable linkages between the United States and Indonesia on issues related to the design and management of economic growth in Indonesia.

A very key question for TAGS is: how will specific results packages be selected? There are obviously a large number of potential activities that could be undertaken. Although the details will be developed in the activity design we envision the following set of questions will be used to select activities to be financed:

1. Are there two or more partners from Indonesia and the United States with a clear and mutual interest to develop and sustain linkages?
2. Do they have a common interest in significant problems of economic management at the macro, sectoral, industry or firm level?
3. Is there a commitment by both parties to fund the bulk of future collaboration from resources that they have already identified or can reasonably be expected to identify?
4. Will USAID's financial role be limited to activities of a seminal, innovative nature which will foster and nurture emerging linkages in the broad field of economic management (i.e. not sustaining costs)?
5. Is there a clear and urgent need for short term funding to protect past investments or to bring institutions to the point at which they can participate in linkage arrangements on their own?

Finally, in terms of USAID's own management burden we anticipate that the TAGS Activity management team will include: (a) the USDH Strategic Objective Team Leader; (b) a USDH Project Officer and/or FSN for each component depending on the scope and complexity of the "results package;" and (c) legal, contracting, and financial support staff. In addition, an institutional contractor will be needed to manage the initial process of organizing and stimulating the development of linkages, to conduct fund raising activities and to provide the initial staff support for the Indonesian-American Economic Commission.

#### **IV. POLICY AGENDA TO PURSUE**

Through USAID support for improved management of fiscal and monetary policy, support for deepened financial markets and support for increased private financing of infrastructure, Indonesia turned in another sound growth performance in 1993/94 of 6.5% and laid the groundwork for even higher growth in 1994/5. In the area of increased participation in the global economy USAID contributed to Indonesia's active participation in the Uruguay Round agreement which resulted in its commitment to across-the-board tariff bindings on 95% of its tariffs line items, in addition to other significant reductions of tariff and non tariff barriers over the next 10 years. The Deregulation Package of June 1994 went beyond the GATT/WTO obligations in eliminating 108 tariff surcharges and reducing tariffs on 739 tariff line items. Indonesia was among the first countries to ratify the Uruguay Round GATT agreement and USAID technical assistance was instrumental in informing policy makers, legislators, and the public of the benefits of global trade liberalization. As last year's host of the APEC Ministerial and Leaders' Meeting, Indonesia promoted member economies' adoption of a bold agreement for regional trade liberalization.

#### **V. ELEMENTS TO INCLUDE IN THE PREPARATION OF THE PROJECT PAPER**

The Mission has gained very substantial experience with program-based rather than project based assistance in support of economic growth under the innovative Agricultural and Rural Sector Support Program (ARSSP) 1987-97. This program was originally designed as a cash transfer program in 1986/7 to respond to a short-term balance of payment crisis in Indonesia precipitated by the collapse of the world oil price. However, over the last decade the program has evolved into a broad-based policy support program which now provides modest technical assistance to policy analysis and staff development in such key institutions as Bank Indonesia, the Ministry of Finance, the Ministry of Trade, the Ministry of Education, and the Ministry of Agriculture. ARSSP has assisted Indonesia to carry out many of the structural adjustments than were identified in the crisis of 1986/7. In the course of the ARSSP program we have also gained major experience in matrix management within the Mission for managing a multidimensional, multi-activity program. The Mission has also had considerable experience, under US-AEP, IESC and in other areas of the Indonesia program, with a variety of linkage type activities. These experiences have contributed to our initial thinking about how to structure and design TAGS. The Mission also has a "full service" complement of Legal Advisor, Contracting Officer, Financial Office, and project design staff available for the task at hand.

These are a good basis for Activity Design but USAID/I has identified three major issues with which we anticipate needs for design assistance:

1. Design of an authorization mechanism and mechanism for approval and oversight of results packages within the overall Strategic Objective assistance program. The Agency is experimenting with new forms of obligation and management by Strategic Objective. This project will be another laboratory for these innovations. USAID/I will certainly want to draw on other Agency experience in this regard. TAGS is an opportunity to abandon the old way of providing project assistance and to experiment with new ways of leveraging reduced resources in a new programming mode. Nevertheless, the specifics of the obligation and commitment processes and of management of results packages will have to be developed, drawing on Agency "best practices".
2. Role of the management entity. A key requirement of the success of TAGS will be the establishment of a management entity (contractor) which is creative, entrepreneurial and nimble in promoting the linkage program. It will have to seek out new partners; suggest new ideas for matching interest and funding; be creative in fund raising for the Indonesian American Commission (from both sides of the Pacific); and above all skilled in networking, including with the U.S. Commercial Service and the American Business Center, with US-AEP, AmCham, businesses, government agencies, trade associations and professional organizations and with non-profit and research organizations. It will have to have the ability to organize seminars and conferences, coordinate schedules and make logistical arrangements for large numbers of TDYers and visitors. The management entity will be a creature of TAGS and will be designed to phase out as the network of linkages matures and USAID funding for its creation expires. In other words, it will be the principal vehicle for providing the necessary catalytic stimulus to the creation of the network of linkages between Indonesian and American institutions concerned with economic management. This is the indispensable core of our transition strategy. The details of the structure and operation of the Management entity will have to be specified during the design process.
3. Definition of the role and financing of the Indonesian American Economic Commission. As described above, we envision the establishment of an organization which we have tentatively labelled the "Indonesian American Economic Commission". The role of the Commission is to legitimize and foster the development of linkages between Indonesia and the United States. The activity design will need to address in detail the role of TAGS in supporting the sustainable emergence of the Commission.

In conclusion, there are many practical problems which will need to be addressed in the design of this transition activity. It will be important to design a process which allows for continued experimentation over the course of the activity. The development of new and innovative modes of sustaining linkages beyond the period of USAID financing is at the heart of this activity, and USAID/I will be breaking new ground for the entire Agency in this regard.

## **VI. STAKEHOLDERS AND PARTICIPATION PLAN**

The Mission will, during activity design, chair a series of discussion and focus groups to identify stakeholders and to solicit ideas and opinions. Since this project is aimed at nurturing sustainable linkages in broad areas of economic growth between Indonesia and the United States, participation will be a major component of the project and central to its ultimate success. We believe, based on our current contacts and discussions, that there will be enthusiastic support for this undertaking and that indeed the greatest problem will be limiting participation to activities which are most central to the achievement of activity purpose.

## **VII. PROJECT PAPER PREPARATION**

Once the NAD has been approved the Mission will initiate detailed activity design. The design schedule is as follows:

April 1995	ANE Bureau Approves NAD
June 1995	SOW for Design Assistance
September 1995	Design Team at Work
November 1995	Draft Design terminated
December. 1995	Consultations with GOI and other Parties on Draft Design
March 1996	Finalization of Design
June 1996	TAGS Activity authorized
August 1996	Activity Agreement Negotiated
	Activity Agreement Signed and First Obligation Made
November 1996	Implementation Contract Announced in CBD and SOW Released
February 1997	Implementation Contract Awarded
April 1997	Activities Start on first Results Packages

## **VIII. RECOMMENDATIONS**

That the ANE Bureau approves this NAD and extend ad hoc authorization to USAID/Indonesia to design, authorize and implement the Transition Assistance for Growth Support Activity with LOP funding not to exceed \$25 million and a PACD of 2002.

## **IX. APPENDICES**

Appendix A Preliminary Logical Framework for Transition Growth Support

Appendix B Objective Tree for Strategic Objective 1 - Sustained Economic Growth in the Transition from Economic Development Assistance to Economic Cooperation

**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

**Project Title & Number: Transition and Growth Support (TAGS)**

**LOP From: 5 years from FY 96 (4th. Quarter)**

**Total U.S. Funding: US\$25 million**

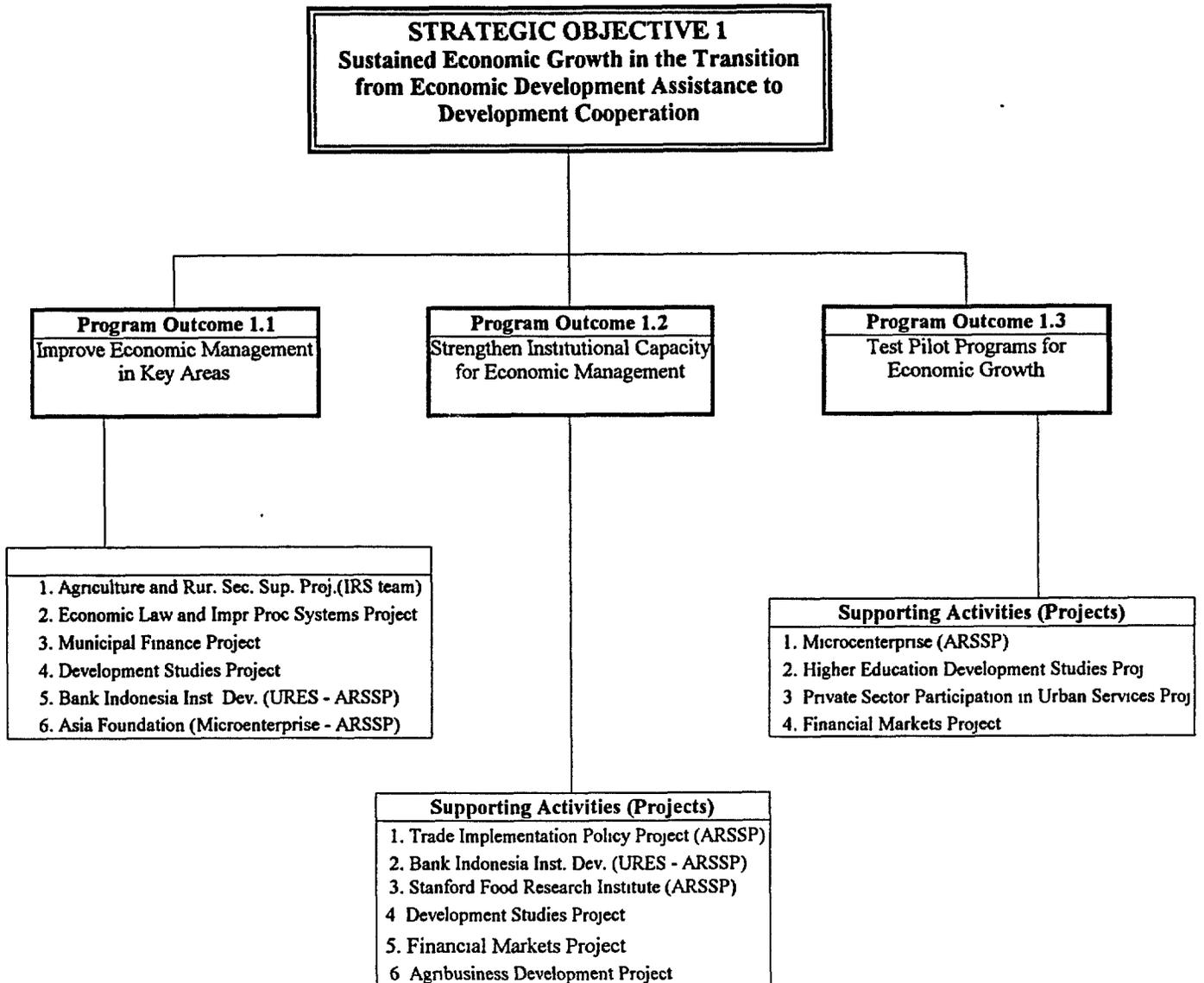
**Date Prepared: 3/7/95**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><b>Project Goal:</b></p> <p>Sustained Economic Growth in the transition from Economic Development Assistance to Development Cooperation</p> <p><b>Project Purpose:</b></p> <p>To make the transition of U.S. Assistance for Economic Growth in Indonesia from Project Based Assistance to the Development of Mutual Sustainable linkages between entities concerned with Economic Management in Indonesia and the United States.</p>	<p><b>Measures of Goal Achievement:</b></p> <ul style="list-style-type: none"> <li>● Economic Growth minimum 6.4%</li> <li>● Increased Value of Trade in Non-Oil Gas</li> <li>● U.S. Trade with Indonesia</li> </ul> <p><b>End of Project Status:</b></p> <ul style="list-style-type: none"> <li>● Classic Project Assistance for Economic Growth, entirely phased out</li> <li>● Indonesia Sustains Improved Economic Management in absence of Project Assistance</li> <li>● Indonesia-American bilateral relations with have achieved maturity greater and Indonesia significantly more accessible to U.S. commercial interests</li> </ul>	<p><b>Method/Sources of Verifications:</b></p> <p>GOI and USG data</p> <p><b>Method/Sources of Verifications:</b></p> <ul style="list-style-type: none"> <li>● USAID/I records and close out reports for ARSSP, ELIPS, MF, DSP, ADP, GPT II</li> <li>● GOI statistics</li> <li>● U.S. Business views on bilateral relations</li> </ul>	<p><b>Assumptions for Achieving Goal Targets:</b></p> <p>Indonesia remains committed to Growth and Trade Deregulation</p> <p><b>Assumptions for Achieving Purpose:</b></p> <ul style="list-style-type: none"> <li>● No major unexpected external shocks to the Indonesia's economy</li> <li>● Other donor assistance available to pick up .. and other activities from USAID</li> <li>● Policy Implementation and Economic Management can be effectively supported by TAGS approach</li> </ul>

<b>NARRATIVE SUMMARY</b>	<b>OBJECTIVELY VERIFIABLE INDICATORS</b>	<b>MEANS OF VERIFICATION</b>	<b>IMPORTANT ASSUMPTIONS</b>
<p><b>Project Outputs:</b></p> <ul style="list-style-type: none"><li>● Establishment of self financing linkages in Economic Management between Indonesia and The United States</li><li>● Establishment of Sustainable Indonesian-American Economic Commission</li><li>● Linkages, Economic Commission activities beneficial to U.S-Indonesia Trade</li></ul>	<p><b>Magnitude of Outputs:</b></p> <ul style="list-style-type: none"><li>● 100 linkages in broad areas of Economic Management between Indonesia and The United States</li><li>● \$2 million annual income of the Commission by 2002</li><li>● 200 U.S. businesses assisted by linkages</li></ul>	<p><b>Method/Sources of Verifications:</b></p> <ul style="list-style-type: none"><li>● Contractor Reports</li><li>● Contractor Reports Annual Report of Commission</li><li>● Surveys conducted by Implementing Contractor, Evaluations, Annual Reports of Commission</li></ul>	<p><b>Assumptions for Achieving Outputs:</b></p> <ul style="list-style-type: none"><li>● Continued Indonesian openness to the U.S. for expertise in Economic Management</li><li>● Funding support for Commission forthcoming from Government Agencies, Business and Non-Profits</li><li>● U.S. business remains open to enhanced Trade &amp; Investment with Indonesia</li></ul>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><b>Project Inputs:</b></p> <p>Implementing Contractor</p> <ul style="list-style-type: none"> <li>● TA</li> <li>● Seminal Grants/Awards for linkages</li> <li>● Support to Indonesia-American Economic Commission in organization &amp; fund raising</li> <li>● Conferences, Seminars</li> </ul>	<p><b>Implementation Target (Type and Quantity):</b></p> <ul style="list-style-type: none"> <li>● For long term TA to implement linkages</li> <li>● 100 Seminal Grants/Awards</li> <li>● Indonesian-American Economic Foundation established</li> <li>● 25 Conferences + Seminars</li> </ul>	<p><b>Method/Sources of Verifications:</b></p> <ul style="list-style-type: none"> <li>● USAID Reports</li> <li>● Contractor Reports</li> </ul>	<p><b>Assumptions for Providing Inputs:</b></p> <ul style="list-style-type: none"> <li>● Unearmarked USAID funds available for life of activity</li> <li>● GOI approval of TAGS and of new delivery modes</li> <li>● Results packages unencumbered by barnacles</li> </ul>

# STRATEGIC OBJECTIVE 1: PROGRAM ACTIVITY TREE



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**Coordinated Local Environmental Action Networks (CLEAN) Project**  
*New Activity Description (NAD)*

**I. PROJECT DATA**

Title:	Coordinated Local Environmental Networks (CLEAN)
Project Project Number:	497-0391
Initial Year of Obligation:	FY 96
LOP Funding:	\$35 million
Associated HG Funding:	\$100 million
PACD:	September 30, 2003

**II. POLICY CONTEXT AND OBJECTIVES**

Strategic Objective Supported: SO4: Strengthened Urban Environmental Management.

Purpose Statement:

The purpose of the CLEAN project is to provide an organizational and financial umbrella for technical assistance and training activities related to comprehensive management of the urban environment, including clean industrial and energy production, in selected cities and industrial sectors. CLEAN would effect a transition from successful USAID/I urban projects of the past to complete GOI ownership and management of programs to address urban environmental management at the local level.

Problem:

Indonesia's local governments are experiencing urban growth that is causing severe environmental damage and overwhelming the ability of local officials to provide a healthy and productive living and business environment. Impacts on the urban poor are especially harsh. The government estimates that by the year 2004, sixty percent of the entire population--about 155 million--will reside in urban areas. Much of that growth will occur in the largest cities. By 2004, the Jakarta metropolitan area is expected to have 35 million residents. By 2020, Indonesia expects to have at least 35 urban areas with over one million residents each.

Past efforts to respond to Indonesia's urban growth by strengthening critical urban services have focused on water supply, with large infrastructure projects planned and financed through direct donor involvement. Water supply will continue to be the favored target of opportunity for many donors, because it directly impacts health and economic development, offers cost recovery options, and is technologically straightforward. With the exception of bottled water, virtually all existing sources of water in Indonesia are already unsafe for drinking. Unsafe water is one of the major sources of disease in the country, and is a contributing factor in a majority of infant deaths. But efforts that focus only on water quality

and water supply target symptoms rather than the fundamental causes of urban environmental degradation, including human and solid waste, industrial pollution, and inefficient energy production. Effective management of these three sources of contamination is difficult, but fundamental to effective, total quality management of the urban environment, for the following reasons:

Human and Solid Waste. The principal sources of water contamination in Indonesia, human and solid waste, have not been addressed in Indonesia. The problem is already almost overwhelming in scope. Only a handful of Indonesian cities have central sewage treatment systems; these serve a tiny fraction of the total urban population. Most urban households rely on poorly maintained private septic tanks or dispose of human waste directly into rivers and canals. Indonesia's total annual spending on the management of human and solid waste is estimated to be less than 10% of the total annual expenditures needed over the next decade to deal with sewage alone.

Industrial Pollution. Industrial waste is a second important source of urban environmental degradation in Indonesia. Industrial waste production is growing exponentially and causing contamination that is increasingly untreatable by conventional means, as well as often hazardous. Traces of mercury and other chemical contaminants have been detected in some Jakarta well water samples since the early 1990s. Industrial waste makes up a growing percentage of the 40-50% of urban solid waste that is not collected at all in Indonesian cities--most of what is collected ends up in rivers or uncontrolled dump sites. Between now and 2020, Indonesia's industrial capacity is projected to grow seven fold. The resulting impacts of this growth on the urban environment will be devastating if the issue is not immediately incorporated into a broader framework for managing the urban environment in systematic, comprehensive fashion.

Inefficient Energy Production. Finally, lack of clean, renewable energy production is also contributing to significant urban environmental pollution affecting air quality, solid waste disposal (due to energy production by-products), and thermal water pollution. (The negative impacts of inefficient energy production on land use, forestry preservation, and green-house gas emissions are profound as well.) Per capita energy consumption will more than triple between now and 2020--the substantial growth in the Indonesian population between now and then will make the total environmental effects of energy production especially damaging. Energy issues often pose a challenging mix of environmental, technological, and policy concerns.

USAID, working with the World Resources Institute (WRI), as well as representatives of the Indonesian government, NGOs, and the private sector, has recently completed the *Indonesia Environmental Assessment and Strategic Action Plan*. This plan identifies the urban environment in Indonesia as a critical battlefield on which environmental issues must be addressed in systematic and comprehensive fashion. Key, recommended elements of the strategic approach to comprehensive urban environmental management include the following:

- **Community Involvement.** Sustainable management of the urban environment cannot be achieved without (1) community understanding of the nature, severity, and danger of the environmental contamination involved, and (2) community participation in planning, management, and financing of related infrastructure services.
- **Technological Innovation.** The management of the urban environment presents technological challenges more formidable than those associated with water supply alone. The emerging need to treat industrial contaminants presents one of these challenges. Others relate to the need to identify and successfully employ lowest-cost, appropriate treatment technology rather than expensive, conventional systems for water supply, sewage disposal, industrial emissions control, and efficient energy production.
- **Air Pollution.** Current USAID/I urban programs do not focus on air pollution, and the issue is not a central focus of new activities recommended as part of the Mission's strategic plan. But the issue is a critical one for urban areas, and it relates directly to other areas targeted for USAID/I intervention. For example, the burning of solid wastes is estimated to contribute as much as 40 percent of the extremely high levels of total suspended particulates and total hydrocarbons in large Indonesian cities. If the total urban environment in Indonesia is to be adequately addressed, the implications for urban air pollution must be identified and addressed as part of efforts to deal with human and solid waste, industrial pollution, and energy production.
- **Institutional and Policy Change.** Planning, management, and financing of urban environmental services can be carried out in a cost-effective manner only if the entire urban environment is addressed as a consolidated, integrated whole. For example, unless sewage can be linked to water supply (or some similar service for which charges are feasible), cost recovery issues cannot be adequately addressed. Municipalities also must be able to exercise the considerable administrative autonomy that central government is in the process of granting them, to set prices, retain staff, borrow funds, and generally provide environmental infrastructure services in a business-like fashion.
- **Transition to Full GOI Ownership.** The size and scale of the urban management challenge in Indonesia and the realities of the maturing relationship between USAID and the GOI suggest that Indonesia begin to take full ownership and control of critical urban management initiatives. Future efforts to assist the government in dealing with urban environmental issues must make this transition to full GOI ownership a central priority of technical assistance and training activities.

**Expected Results:**

CLEAN will provide technical assistance to local governments and communities to help them (1) understand the need to address urban environmental management in systematic, comprehensive fashion, and address the causes of environmental degradation (such as human, solid, and industrial waste), rather than focusing exclusively on effects (such a poor water

quality); (2) identify lowest-cost, appropriate technological approaches for the management of human and solid waste, the control of industrial emissions, and the production of clean energy; (3) identify institutional and policy changes necessary for local and community leaders to deal with the entire water cycle, the looming problem of industrial pollution, clean, renewable energy, as well as pricing and cost recovery issues; (4) identify specific management and financing strategies that allow solutions to be implemented by leaders of local government, residential and business communities.

The sustainability of improvements in policies, procedures, as well as physical infrastructure produced by CLEAN will depend precisely on the extent and quality of participation in planning and management activities by representatives of residential communities and local businesses. This kind of customer involvement has been shown to lead to continuing support for constructive change and, to some degree, successful cost recovery efforts.

Policies and procedures necessary for successful water-cycle management in the cities selected for participation in the CLEAN project will be replicated elsewhere in Indonesia via a "city sharing" program already successfully underway as part of a current USAID/I project, via local consultants and NGOs trained as part of CLEAN, as well as via a new central government program to assist cities across Indonesia in exercising recently-granted administrative autonomy.

Relationship to Mission's Other Activities, Host Country Priorities, Other Donor Activities:

The CLEAN project represents a concluding step in USAID/I's series of efforts to address problems associated with the urban environment in Indonesia. MFP and PURSE will push forward with the decentralization of government planning and finances, and will add to the growing list of financing alternatives for local officials who must strengthen urban environmental infrastructure services. US-AEP has opened productive channels to U.S. firms with expertise in key areas of environmental technology, and has underscored the importance and availability of innovative, appropriate technology for use in challenging areas such as the management of solid and human waste. The ICIP ammendment to NRMP has begun to demonstrate the savings possible for selected industrial sectors from waste minimization techniques and related training activities. Clean Energy activities have underscored the need for, and benefits from, clean, renewable energy production. KIP (kampung improvement project) activities, financed with HG funds, have demonstrated that community participation can be effective in planning and managing urban environmental infrastructure, even in the poorest urban areas.

CLEAN will bring these efforts to a meaningful conclusion by applying and institutionalizing the successful aspects of these approaches at local and community levels (particularly in poor areas), through a substantial technical assistance effort aimed at direct interaction with local environmental action networks composed of community, business, and local government leaders. CLEAN will continue USAID/I cooperation with US-AEP and the Global Bureau,

with regard to urban issues in Indonesia. CLEAN will incorporate on-going ICIP and Clean Energy activities as parts of its overall approach to technical assistance.

CLEAN also fully supports the GOI agenda for urban development, as set forth in Repelita VI and the current Urban Policy Action Plan. The government has just begun to target human and solid waste management as a critical urban issue, and is currently surveying these needs in 25 urban areas. The government has also just announced a new initiative to grant administrative autonomy to 26 cities, and has asked them to find ways of engaging community and business groups more directly in the planning and management of municipal services. CLEAN activities will be consistent with these and other new government initiatives to push forward with current decentralization programs, but the success of CLEAN is not dependent on the success of these government initiatives or programs.

Finally, CLEAN builds on work done by other donors, particularly the infrastructure strengthening activities of the Asian Development Bank, JICA, and the World Bank. As with past USAID urban programs, CLEAN will supply the policy and procedural framework within which this infrastructure must be planned and managed at local and community levels.

### **III. INTERVENTIONS AND MANAGEMENT COSTS**

#### **Types of Interventions Anticipated:**

Project interventions will be demand driven. Participating cities will be chosen from among candidate cities that propose to be involved, and will be selected partly on the basis of resources that cities can commit to project implementation.

Project outcomes will be achieved via the establishment of **local environmental action networks**, made up of representatives of local and community government, NGOs, community groups, local businesses, as well as technically trained local consultants. Local officials from neighboring communities may be recruited for these networks to help deal with cross-jurisdictional issues related to industrial pollution. These networks are associations of stakeholders and beneficiaries organized on the basis of common interest (rather than on the basis of political or professional affiliations). With advice on technology, finance, and management from CLEAN project consultants, these networks will address the need to develop community action plans, management systems, financing packages, local personnel training plans, all necessary for the design, construction, and on-going management of systems essential for effective, comprehensive urban environmental management.

Technical assistance interventions will come via technical assistance teams, which will help set up, advise, and facilitate the activities of the local environmental action networks. The TA teams will be led by resident advisors, but made up largely of local consultants, including experts in local community participation who can design and lead TA efforts in community education and mobilization. A number of local NGOs in Indonesia have

successfully carried out community mobilization activities as part of KIP program efforts. Other members of the TA team would advise the networks on water cycle management, financing, appropriate technology, as well as on issues related to industrial pollution and clean energy production.

CLEAN will not organize and finance new NGOs or other kinds of new, formal community organizations. CLEAN's "networks" will include local decision makers from government and business, as well as community representatives. The extent and nature of community participation will depend on the kind of problems being addressed, and on the extent to which community members view such participation as being in their self interest.

An example of a TA intervention would be a case in which a water-borne, off-site sewage system is necessary in a particular high-density urban area populated mostly by below median income families (the GOI estimates that 40% of urban areas will require water-borne systems). Technical assistance, perhaps in the form of a subcontracting NGO, would facilitate community education and participation in environmental action networks that would also include local and community government officials, businessmen, and other local experts. As with innovative programs in some other countries, it might be possible for the local government to finance and build primary trunk sewer lines, while community groups plan, finance, and ultimately manage secondary and tertiary lines. Networks designed to address problems related to industrial pollution or energy production would include representatives of businesses and local utility management, as well as community groups.

CLEAN activities will require on-going assessment of staffing needs, particularly as project activities diminish after the year 2000. Over the next three years, SO4 (with MFP, PURSE, and US-AEP activities continuing, and activities under CLEAN - including ICIP and Clean Energy accelerating will required a team consisting (a) the USDH Strategic Objective Team Leader; (b) a USDH Project Officer and/or FSN for each component depending on the scope and complexity of the "results package;" and (c) legal, contracting, and financial support staff. This team will oversee urban environmental activities in five subsectors involving six government ministries.

#### **IV. POLICY AGENDA TO PURSUE**

##### Strategy to Pursue the Agenda:

The objectives of the CLEAN Project will be incorporated into Local Environmental Action Plans (or LEAP documents) designed to focus on comprehensive urban environmental management issues in specific, selected urban areas. These will be specific, local government versions of the GOI's national-level Urban Policy Action Plan (UPAP) currently used to guide activities of the MFP and PURSE projects. The preparation of these LEAP plans will reflect the involvement and commitment of environmental action networks established in the urban areas selected for participation in the project, and will be

prerequisites for CLEAN activities in those cities. These action plans will help focus government and community attention on progress being made in key project activity areas.

CLEAN will also link a new HG borrowing program to policy change in a more direct way than has been attempted with past projects. Special priority for HG funding will be assigned to infrastructure projects designed by the networks established with the help of CLEAN's TA teams. HG funding will be disbursed through Regional Development Account (RDA), through discretionary Presidential Instruction (INPRES) grants, or via some other disbursement mechanism for use on projects designed by the environmental action networks to benefit below-median income urban groups. In the case of RDA disbursement, loans would be repaid from system revenues.

To strengthen this new link between HG borrowing and local level policy change, completed LEAP documents will be included as special annexes to the GOI's Urban Policy Action Plan (UPAP). The independent, outside verification of progress with regard to UPAP, which is now required for continuing authorizations of new HG borrowing, will include the LEAP plans within the scope of the progress assessment.

## V. ELEMENTS TO INCLUDE IN THE PREPARATION OF THE PROJECT PAPER

Selection of Participating Cities: The project needs an objective, competitive system for selecting cities that can contribute much needed resources to project activities, as well as satisfy GOI development priorities.

System for Earmarking HG Funds: The Project Paper should identify mechanisms through which funds can be earmarked and disbursed in support of infrastructure designed as part of the CLEAN network activities.

## VI. STAKEHOLDERS AND PARTICIPATION PLAN

Key stakeholders and beneficiaries will be identified and included as members of the environmental action networks to be established as part of the project. As noted above, they will include leaders of local and community government, community groups, NGOs, local technical experts, business leaders, and other urban residents. The purpose of the project is precisely to make use of these actors in producing project outputs.

Participation in PP preparation will come via focus group activities in a number of candidate cities.

## VII. PROJECT PAPER PREPARATION

May 1995	ANE Bureau Approves NAD
July 1995	SOW for Design Team
September 1995	Design Team Activity

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**PROGRAM OUTCOME 4.2: Wider Adoption of improved practices in urban environmental infrastructure service provision.**

1. Increased access by urban households to wastewater disposal and treatment facilities.

Measure: Number of households connected to sewer treatment facilities, in targeted urban areas.

2. Increased efficiency of local water utility management.

Measure: Percent of potable treated water lost during distribution, in targeted urban areas.

3. Strengthened ability of local governments to manage their affairs in a business-like fashion.

Measure: Proportion of total local government revenues from Own Source Revenues (OSR).

**PROGRAM OUTCOME 4.3: Adoption by government and industry of policies and procedures to reduce industrial damage to the environment and promote cost-effective use of clean, renewable energy.**

1. Wider adoption of clean industrial technology.

Measure: Number of firms implementing results of technology audits (of practices as well as investment) in selected sectors.

2. Strengthened skills of key personnel in clean industrial production.

Measure: Number of local consulting firms with key personnel trained in clean industrial production techniques.

3. Increased use of technologies and practices that promote efficient energy use.

Measure: Number of firms implementing results of energy audits (of practices as well as investment) in selected sectors.

4. Strengthened government policies and procedures for promoting efficient energy use.

Measure: Energy intensity (per capita energy use) in relation to GDP.

January 1996	Final Project Paper
February 1996	Project Paper Authorized
April 1996	Project Agreement Signed
July 1996	RFP Issued for TA
October 1996	TA Contract Awarded
December 1996	Project Activities Initiated

### **VIII. RECOMMENDATIONS**

It is recommended that the ANE Bureau approve this NAD and extend ad hoc authorization to USAID/I to design and implement the Coordinated Local Environmental Action Networks (CLEAN) Project, with a five year LOP and funding of \$35 million.

### **IX. APPENDICES**

Appendix A	Objective Tree for Strategic Objective 4 - Strengthened Urban Environmental Management
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Appendix A

**STRATEGIC OBJECTIVE 4:  
Strengthened Urban Environmental Management**

1. Increased access by urban populations to clean water.

Measure: Percent of total urban population served by local water treatment and piped distribution.

2. Reduced industrial pollution emissions.

Measure: Number of firms in targeted sectors whose industrial emissions meet or exceed government requirements for pollutant discharge.

3. Increase in the environmentally sound production and use of energy.

Measure: Installed electrical generating capacity, which makes use of renewable energy and cogeneration.

**PROGRAM OUTCOME 4.1: Adoption of new policies and practices to facilitate decentralized financing of urban environmental infrastructure.**

1. Increased access by local governments to grant funding from the central government.

Measure: Share of all SDO and INPRES grants received by local governments.

2. Increased access by local governments to development credit provided by or through central government intermediaries.

Measure: Total loan disbursements to local governments and local public utilities from SLAs, RDI, and RDA.

3. Policies and procedures in place that facilitate increased private sector participation in environmental infrastructure development and service delivery.

Measure: Value of selected urban services (water supply, waste water treatment, and solid waste management) provided by private enterprises in targeted sectors/regions.

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