

Transition to a Prospering and Democratic Indonesia

COUNTRY STRATEGY PAPER



USAID/Indonesia

May 30, 2000

PARAMETERS CABLE

/tel1/.00/05/03/648528m

UNCLASSIFIED

PAGE 01 STATE 083436 031718Z
ORIGIN AID-00

ACTION OFFICE(S): !WID
INFO OFFICE(S): AANE AAXA ACIS ANESA ANMS ANOR ANSE BHTI
FFP GCAN GCBHR GENR JBRAUSE MB MBBS OFDA
OFDAOPS OPA OPE OPOD OPTC PDSP POP PPCE
TOKEEFE

INFO LOG-00 AGRE-00 UTED-00 TEDE-00 SAS-00 /000R

083436

SOURCE: AIDUNC.004949

DRAFTED BY: AID/ANE/RPM:DROBINSON:AA:INDON.CBL -- 5/2/2000

712

APPROVED BY: AID/DAA/ANE:KTURNER AID4949

AID/ANE/SEA:JBRESLAR (DRAFT) AID/ANE/ESA:GGEORGE (DRAFT)

AID/ANE/ESA:RNAVIN (DRAFT) AID/ANE/ESA:GANDERSON (DRAFT)

AID/G/PHN:IKOEK (DRAFT) AID/BHR/FFP:RNEWBERG (DRAFT)

AID/G/DG:GHANSEN (DRAFT) AUD/ANE/AMS:GOVERTON (DRAFT)

AID/BHR/OTI:CPHILLIPS

AID/G/PDSP:RWHITAKER

AID/PPC:DPRINDLE (DRAFT)

AID/M/B:BDARKINS (DRAFT)

AID/ANE/ORA:SHUDEC (DRAFT)

AID/GC:EHSIEH (DRAFT)

-----52AC67 031720Z /38

O 031718Z MAY 00

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA IMMEDIATE

UNCLAS STATE 083436

ADM AID G/WID, LPA, G/ENV

E.O. 12958: N/A

TAGS:

SUBJECT: CORRECTED COPY - INDONESIA PARAMETERS STATE

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 083436 031718Z
081597

1. SUMMARY. USAID/W MET ON APRIL 11 TO REVIEW
USAID/JAKARTA#S CONCEPT PAPER FOR ITS NEW STRATEGY AND
TO DISCUSS PARAMETERS FOR THAT STRATEGY. AA/ANE BOB
RANDOLPH CHAIRED THE MEETING, AND USAID/JAKARTA
MISSION DIRECTOR TERRY MYERS PRESENTED THE MISSION#S
PROPOSAL FOR BUILDING A PROSPERING AND DEMOCRATIC
INDONESIA. THE MISSION WAS PRAISED FOR THE CONCEPT

PAPER#S COMPREHENSIVENESS AND QUALITY, WHICH ESTABLISHES A SOUND FOUNDATION FOR THE COMPLETE STRATEGY. CONCERNING PARAMETERS FOR THE STRATEGY, THE MISSION AND USAID/W AGREED TO WORK WITH A PLANNED OYB OF 130 DOLS MILLION PER YEAR FROM ALL SPIGOTS (BUT NOT INCLUDING FOOD AID) FOR EACH OF THE FIRST THREE YEARS AND AN INCREASE OF THREE ADDITIONAL USDH POSITIONS. THE STRATEGY WILL SUPPORT INDONESIA#S TRANSITION AND WILL COVER A FIVE-YEAR PERIOD, WHOSE END COINCIDES WITH THE NEXT NATIONAL ELECTIONS, WITH THE FOCUS BEING ON THE FIRST THREE YEARS. THE STRATEGY SHOULD INCLUDE AT LEAST ONE GUIDING PRINCIPLE THAT PROVIDES A RATIONALE FOR ALL OF THE OBJECTIVES DURING THE

STRATEGY PERIOD. END SUMMARY.

2. AA/ANE BOB RANDOLPH SET THE TONE FOR THE REVIEW BY CALLING THE INDONESIA PROGRAM ONE OF THE TWO MOST IMPORTANT IN THE BUREAU. HE AGREED WITH THE MISSION THAT WE NOW HAVE A GOVERNMENT WE CAN WORK WITH AND MUST DO ALL WE CAN TO SUPPORT THE REFORMERS. IN PARTICULAR, USAID CAN PROVIDE USEFUL ASSISTANCE AS THE

UNCLASSIFIED

PAGE 03 STATE 083436 031718Z
GOI DEVELOPS ITS APPROACH TO DECENTRALIZATION, WHERE PUBLIC RHETORIC MAY BE AHEAD OF WHAT IS ACTUALLY POSSIBLE. USAID MUST ALSO SUPPORT EFFORTS IN ECONOMIC GROWTH, DG, THE ENVIRONMENT, AND PHN, ALL OF WHICH ARE CRITICAL FOR INDONESIA#S SUCCESS. FINALLY, USAID MAY WANT TO CONSIDER MORE WORK IN CLEAN ENERGY IN INDONESIA.

3. USAID DIRECTOR TERRY MYERS EMPHASIZED THE FUNDAMENTAL CHANGES THAT HAVE TAKEN PLACE IN INDONESIA ESPECIALLY IN CIVIL SOCIETY AND IN THE GOVERNMENT SINCE OCTOBER 1999. THERE IS AN ENTIRELY NEW GOVERNMENT OF INDONESIA, AND MANY OF THE NEW OFFICIALS ARE FORMER USAID COUNTERPART MEMBERS OF CIVIL SOCIETY ORGANIZATIONS. ALTHOUGH THEY ARE COMMITTED REFORMERS, MANY OF THEM HAVE LITTLE EXPERIENCE IN THE PUBLIC SECTOR, AND NO EXPERIENCE WITH DEMOCRATIC GOVERNANCE. MYERS ALSO ENDORSED THE LIEF REPORT#S EMPHASIS ON LINKING ECONOMIC GROWTH AND DEMOCRATIC REFORM OUR ASSISTANCE HAS TO CONSIDER THE TWO TOGETHER. AND HE STRESSED THE IMPORTANCE OF JUDICIOUS USAID SUPPORT FOR THE DECENTRALIZATION MOVEMENT THAT IS SWEEPING THE COUNTRY. MYERS CONCLUDED BY SAYING THAT THE CHANGES IN INDONESIA COMBINED WITH THE DRAMATIC INCREASE IN AVAILABLE RESOURCES FOR USAID JUSTIFY THE NEED FOR A NEW STRATEGY.

4. TYPE OF STRATEGY.

A. USAID/W AND THE MISSION AGREE THAT THE FUNDAMENTAL

AND RAPID CHANGES SWEEPING INDONESIA REQUIRE A
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 083436 031718Z
STRATEGY THAT IS NOT BUSINESS AS USUAL. IT MAY BE
NECESSARY TO MAKE RADICAL CHANGES FROM WHAT WOULD BE
NEEDED IN MORE NORMAL CIRCUMSTANCES. THUS THE
STRATEGY SHOULD CONCENTRATE ON HELPING THE TRANSITION
RATHER THAN FOCUS ON LONGER-TERM SUSTAINABLE
DEVELOPMENT RESULTS. THE STRATEGY PERIOD WILL BE
FIVE YEARS, WITH MORE SPECIFICITY APPLIED TO THE
OBJECTIVES AND PLANNED ACTIVITIES FOR THE FIRST THREE
YEARS. USAID/W AND THE MISSION FURTHER AGREE TO
FOLLOW THE REVISED DRAFT ADS, WHICH PROVIDES GUIDANCE

ON TRANSITIONAL STRATEGIES AT SECTION 201-3-3.3.

B. THE STRATEGY DESIGN SHOULD GIVE PRIORITY TO
ARTICULATING AND REFINING BIG PICTURE OBJECTIVES.
THEREFORE IT SHOULD INCLUDE SO-LEVEL INDICATORS, ALONG
WITH PROJECTED ORDER-OF-MAGNITUDE CHANGES, BUT IT DOES
NOT NEED TO DEFINE A FULL SET OF INDICATORS FOR ALL
INTERMEDIATE RESULTS. THOSE CAN BE PART OF THE
MISSION'S PERFORMANCE MONITORING PLAN, WHICH CAN BE
DEVELOPED AFTER THE STRATEGY IS APPROVED. THE BUREAU
WOULD, HOWEVER, BE INTERESTED IN SEEING SOME
BENCHMARKS FOR THE FIRST YEAR'S ACCOMPLISHMENTS. SUCH
BENCHMARKS MAY BE DESCRIPTIVE OR QUALITATIVE, AND THEY
SHOULD INDICATE PROGRESS THAT IS CONSISTENT WITH THE
STRATEGY'S GUIDING PRINCIPLE(S). FINALLY, THE MISSION
IS ENCOURAGED TO DEFINE TRIGGER POINTS FOR EACH
STRATEGIC OR SPECIAL OBJECTIVE THAT WILL SIGNAL THE
END OF THE OBJECTIVE, SOME OTHER PHASE OF TRANSITION,
OR THE OBJECTIVE'S CONVERSION TO A MORE RIGOROUS
SUSTAINABLE DEVELOPMENT OBJECTIVE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 05 STATE 083436 031718Z

5. GUIDING PRINCIPLES. ALTHOUGH USAID/W APPRECIATES
THE MISSION'S THREE PROGRAMMATIC PRIORITIES, WE ALSO
SEE THE NEED FOR ESTABLISHING ONE OR MORE GUIDING
PRINCIPLES THAT WILL ARTICULATE THE STRATEGY'S LOGIC
AND PROVIDE A FOCUS FOR THE STRATEGY'S OBJECTIVES,
ACTIVITIES, AND GEOGRAPHIC AREAS OF CONCENTRATION
DURING THE STRATEGY PERIOD. TWO EXAMPLES OF A GUIDING
PRINCIPLE ARE HELP MAINTAIN THE VIABILITY OF THE
CURRENT REFORM-ORIENTED GOVERNMENT, OR HELP MAINTAIN A
STABLE ENVIRONMENT FOR A REFORM-MINDED GOVERNMENT.
THE PRINCIPLE SERVES AS THE HOOK ON WHICH ALL OF THE
SOS HANG. IT WILL PROVIDE A TOOL FOR MAKING STRATEGIC
CHOICES AND ALSO HELP THE AGENCY EXPLAIN THE STRATEGY
TO INTERESTED STAKEHOLDERS INSIDE AND OUTSIDE THE US

GOVERNMENT. THE MISSION MAY WANT TO FORMULATE ONE GUIDING PRINCIPLE FOR THE FIRST YEAR OR TWO AND ANOTHER FOR THE LATTER YEARS OF THE STRATEGY. THE MISSION COULD THEN SPECIFY WHICH PROGRAMS OR ACTIVITIES ARE CRITICAL (AS OPPOSED TO IMPORTANT OR USEFUL) FOR CONSISTENCY WITH THE GUIDING PRINCIPLE.

6. PROGRAMMATIC PRIORITIES. USAID/W AGREES WITH THE PROPOSAL TO INCORPORATE THREE PROGRAMMATIC PRIORITIES: ECONOMIC AND POLITICAL REFORM, LOCAL PARTICIPATION IN THE MANAGEMENT OF RESOURCES AND SERVICES, AND RESPONDING RAPIDLY TO CONFLICTS AND CRISES. THE MISSION HAS FORMED SPECIAL TEAMS TO SUPPORT THESE PRIORITIES. THE STRATEGY NEEDS TO DESCRIBE HOW THESE

TEAMS WILL ADD VALUE TO THE PROGRAM, AND SUPPORT THE
UNCLASSIFIED

UNCLASSIFIED

PAGE 06 STATE 083436 031718Z
GUIDING PRINCIPLE, WITHOUT CREATING AN ADDITIONAL
MANAGEMENT BURDEN FOR THE MISSION.

7. REGIONAL FOCUS.

A. USAID/W AGREES IN PRINCIPLE WITH THE PROPOSAL TO CONCENTRATE SOME OF THE NEW PROGRAM IN A FEW GEOGRAPHIC REGIONS, PERHAPS STARTING WITH TWO AND THEN EXPANDING IF NEEDED. WE WOULD LIKE TO SEE ARTICULATED A LIST OF CRITERIA TO USE FOR CHOOSING THE REGIONS OF CONCENTRATION. FOR EXAMPLE, A REGION MAY TAKE ADVANTAGE OF SYNERGIES AMONG SEVERAL OBJECTIVES, SERVE TO DEMONSTRATE AN APPROACH THAT CAN BE REPLICATED ELSEWHERE, RESPOND TO A PARTICULAR SET OF CIRCUMSTANCES THAT REQUIRE SPECIAL TREATMENT, TAKE ACCOUNT OF SPECIAL POLITICAL DYNAMICS, OR TAKE ADVANTAGE OF ASSETS THE MISSION HAS IN PLACE.

B. USAID/W RECOGNIZES THAT THE MISSION HAS ASSETS LOCATED THROUGHOUT THE COUNTRY, BUT ALSO UNDERSTANDS THAT THEY MIGHT HAVE TO BE MOVED TO RESPOND TO SPECIAL REGIONAL NEEDS OR TO THE GUIDING PRINCIPLE. THE MISSION MAY WANT TO PROPOSE SCENARIOS FOR DIFFERENT COMBINATIONS OF GEOGRAPHIC CONCENTRATION, OR TO THEIR PHASING, AND DISCUSS TRADE-OFFS AND OPTIONS ASSOCIATED WITH THEM. THE SCENARIOS WOULD CLEARLY DESCRIBE THE CRITERIA THE MISSION PROPOSES FOR THE GEOGRAPHIC CONCENTRATION, THE RATIONALE BEHIND THEM, AND THE COST AND MANAGEMENT IMPLICATIONS OF THIS KIND OF CONCENTRATION. ONE WAY OF FORMULATING THE SCENARIOS IS TO USE TWO STAGES. STAGE 1 WOULD EMPHASIZE
UNCLASSIFIED

UNCLASSIFIED

PAGE 07 STATE 083436 031718Z

SELECTION OF CANDIDATE AREAS ACCORDING TO POLITICAL/STABILITY CRITERIA. STAGE 2 WOULD TAKE THE UNIVERSE OF AREAS DEVELOPED IN STAGE 1 AND APPLY MORE PROGRAMMATIC CRITERIA, SUCH AS WHETHER USAID HAS ACTIVITIES ON-GOING AND THE LIKE. THE BUREAU IS PREPARED TO CONTEMPLATE MOVING INTO NEW AREAS.

8. RESOURCES. THE STRATEGY WILL USE A LEVEL OF 130 MILLION DOLLARS FOR ITS PLANNED OYB FOR EACH OF THE FIRST THREE YEARS FROM ALL SPIGOTS EXCEPT FOR FOOD AID. PLANNED NON-EMERGENCY TITLE II FOOD AID LEVELS SHOULD BE WORKED OUT IN CONSULTATION WITH BHR/FFP OVER THE NEXT SEVERAL WEEKS. THE MISSION WILL USE A NO WALLS APPROACH FOR PROGRAMMING THESE RESOURCES, I.E., REQUEST A MIX OF SPIGOTS THAT FIT THE SITUATION IN INDONESIA WITHOUT WORRYING FOR THE MOMENT ABOUT WHETHER FUNDS ARE DISCRETIONARY OR NOT. THE MISSION

WILL ESTIMATE THE INCREMENTAL COSTS FOR A 500 MILLION DOLLAR PROGRAM CONSISTENT WITH THE INTERAGENCY ASSESSMENT TEAM'S RECOMMENDATION TO CONVERT A CERTAIN AMOUNT OF PROGRAM FUNDS TO OE OR TO SEEK A SUPPLEMENTAL OE APPROPRIATION. STATE AND USAID WILL NEED TO SEEK OMB AND CONGRESSIONAL AUTHORITY FOR THE NECESSARY OE RESOURCES. STAFFING NEEDS SHOULD FOLLOW THE EXISTING CONTROLS (TWO ADDITIONAL USDH IN FY 00, ONE ADDITIONAL IN FY 01) AND THE ESTIMATED TWO ADDITIONAL IN FY 02. NOTE THAT ANE SENIOR MANAGEMENT IS CONCERNED ABOUT HOW 130 MILLION DOLLARS CAN BE PRODUCTIVELY SPENT (NOT MERELY OBLIGATED) DURING EACH OF THE STRATEGY'S FIRST THREE YEARS. THE MISSION

UNCLASSIFIED

UNCLASSIFIED

PAGE 08 STATE 083436 031718Z
SHOULD INCLUDE AN ANALYSIS OF HOW THIS WILL BE DONE.

9. MANAGEMENT ISSUES. USAID/W UNDERSTANDS THAT THE STRATEGY IN INDONESIA NEEDS TO RESPOND TO A COMPLEX AND RAPIDLY CHANGING SET OF CONDITIONS. THE CHALLENGE IS TO FORMULATE A STRATEGY THAT RESPONDS TO THE COMPLEXITY WHILE STILL BEING MANAGEABLE. THE STRATEGY PAPER MUST CLEARLY EXPLAIN THE MISSION'S PLAN FOR KEEPING THE NUMBER OF MANAGEMENT UNITS MANAGEABLE.

10. DESIGN TEAM. USAID/W AND THE MISSION HAVE AGREED TO SEND A SPECIAL STRATEGY DESIGN TEAM TO JAKARTA FOR 10-14 CALENDAR DAYS. IN ADDITION TO THE TEAM LEADER, WHO HAS OVERALL RESPONSIBILITY FOR THE TEAM'S WORK, THE TEAM WILL CONSIST OF SPECIALISTS IN DG (1), PHN (1), ENERGY (1), AND ENV (1).

11. THE STRATEGY DOCUMENT. THE MISSION SHOULD LIMIT THE DOCUMENT TO NOT MORE THAN 40 PAGES. DISCUSSIONS OF SOS AND SPOS SHOULD INCLUDE ILLUSTRATIVE INDICATORS AT THE OBJECTIVE LEVEL AND A DISCUSSION OF

ILLUSTRATIVE ACTIVITIES THE MISSION PLANS IN SUPPORT OF THE OBJECTIVES DURING THE FIRST YEAR. THE DOCUMENT SHOULD DISCUSS THE ROLE OF THE EMBASSY AND OTHER USG AGENCIES. AND SINCE THIS IS AN AGENCY STRATEGY, IT SHOULD INCLUDE ALL FUNDING SOURCES (ANE#S REGIONAL INITIATIVES; GLOBAL#S, FFP#S, AND OTI#S PROGRAMS) IN ADDITION TO DA, CSD, AND ESF. THE STRATEGY DOCUMENT SHOULD REFER TO IMPORTANT INPUT FROM OTHER USG SOURCES SUCH AS THE LIEF REPORT AND THE INTERAGENCY JUSTICE REPORT. THE MISSION SHOULD DISCUSS USAID#S ROLE AND

UNCLASSIFIED

UNCLASSIFIED

PAGE 09 STATE 083436 031718Z
INFLUENCE IN RELATION TO OTHER USG AGENCIES (SUCH AS TREASURY AND JUSTICE) THAT MAY BE INVOLVED IN ASSISTING INDONESIA#S TRANSITION. SIMILARLY THE MISSION SHOULD DISCUSS ROLES OF OTHER MAJOR DONORS AND HOW THEY AFFECT USAID#S STRATEGIC CHOICES. THE

STRATEGY SHOULD FOCUS ON A SINGLE SCENARIO, BASED ON THE MISSION#S BEST ASSESSMENT OF CONDITIONS IN INDONESIA DURING THE STRATEGY PERIOD, BUT THERE SHOULD ALSO BE ENOUGH DISCUSSION OF PROGRAMMATIC ALTERNATIVES TO DEMONSTRATE THAT THE MISSION HAS PREPARED FOR CONTINGENCIES. TO DEMONSTRATE THE STRATEGY'S FOCUS, THE PAPER SHOULD BRIEFLY DISCUSS OPTIONS CONSIDERED BUT NOT CHOSEN FOR SUPPORT. THE ONLY REQUIRED ANNEX IS FOR AN FAA 118/119 ANALYSIS.

12. THE MISSION SHOULD SUBMIT THE STRATEGY PAPER TO USAID/W BY MAY 29. USAID/W WILL REVIEW THE DOCUMENT DURING THE WEEK OF JUNE 26.
ALBRIGHT

UNCLASSIFIED

NNNN

**USAID/Indonesia
COUNTRY STRATEGY PAPER**

TABLE OF CONTENTS

	<u>Page</u>
Parameters Cable	i-vi
Executive Summary	3
I. Introduction	4
A. The Challenges of Transition.....	4
B. The Parameters for USAID's Strategy Development.....	5
C. Positive and Negative "Triggers" for Shifts in the Strategy.....	7
D. Proposed Geographic Regions of Emphasis	8
II. Strategic Objectives	9
Democratic Reforms Sustained and Deepened.....	9
Decentralized and Participatory Local Government.....	16
Foundations Set for Rapid, Sustainable, and Equitable Economic Growth	22
Energy Sector Governance Strengthened	27
Decentralized and Strengthened Natural Resources Management	30
Health of Women and Children Improved	35
Impact of Conflicts and Crises Reduced.....	39
III. Programming Scenarios	43
IV. Management Plan	44
Annex A: Gender Integration	48
Annex B: Biodiversity and Tropical Forests	56
Annex C: OYB Budget Scenarios	72

Executive Summary

Indonesia is in the midst of multiple transitions – constructing new political and economic systems and reconstructing social relationships to ensure greater equity across regions and between classes. The first democratically elected government in 45 years is in power and pursuing a reform agenda. People are asserting their rights. After a sharp decline, the economy has stabilized and is showing modest signs of improvement. Dangerous and potentially contagious sectarian and political violence has displaced large numbers of people and threatens Indonesia's fragile social balance. Concerns over corruption and judicial performance are receiving heightened attention. Political and fiscal power is being dispersed to sub-national units of government, to districts and cities. The economic crisis forced many people into near-poverty and cut access to social services, especially for women and children. Natural resources and the environment are under relentless pressure. The economic crisis and the spread of sectarian conflict have increased threats to women's security, political status, and basic rights.

In this context, U.S. Government has established two foreign policy goals: the institutionalization of democracy and the resumption of economic growth. The US Government is also committed to the preservation of territorial integrity and the unity of Indonesia. Two basic principles have guided the mission in its strategy development:

- The need to provide timely support for those leading or advocating reform in order to sustain and broaden Indonesia's political and economic transition.
- The need to strengthen the capacity of key institutions so that they can meet the priority needs and expectations of the Indonesian people.

USAID/Indonesia's guiding principles have led it to focus directly on supporting key processes of political and economic reform, mitigating violent conflicts, and improving maternal and child health services and environmental management. New to the strategy and judged as being particularly critical to Indonesia's political future is USAID's support across strategic objectives for decentralization. The mission has chosen to present its strategic emphases in the form of seven objectives:

- Democratic Reforms Sustained and Deepened
- Decentralized and Participatory Local Government
- Foundations Set for Rapid, Sustainable, and Equitable Economic Growth
- Energy Sector Governance Strengthened
- Decentralized and Strengthened Natural Resources Management
- Health of Women and Children Improved
- Impact of Conflicts and Crises Reduced

New in this strategy are greater emphasis on justice, decentralized governance and gender; greater geographic focus of program elements where appropriate; and new objectives in energy and conflict mitigation. The strategy posits funding of \$130 million for FYs 2001 and 2002 and \$100 million for FYs 2003 and 2004. Given the enormous scale and the potential intractability of key issues, like all bilateral donors USAID faces a resource constraint. The Agency alone cannot leverage reform. The strongest role USAID can play is to provide intellectual leadership and behind-the-scenes coordination among fellow bilateral donors so that our Indonesian partners are properly supported with technical assistance and advice as they consider the difficult choices ahead. USAID programming decisions will be affected by a changing political situation. If the government falls in August, for example, when Gus Dur's continuation in power must be approved by the legislature, there might be reason to expect a fairly stable government but one that is less committed to reform. Progress may be slowed. The mission would then look at shifting more resources to civil society to permit it to engage the new government on key reform questions. It may prove possible to continue in a full-fledged manner with local governments, which could be relatively lightly affected by the change.

I. Introduction

A. The Challenges of Transition

Indonesia is in the midst of multiple transitions – constructing new political and economic systems and reconstructing social relationships to ensure greater equity across regions and between classes. We know from the experience of the states of the former Soviet Union that managing so many processes of change at once, with constant questions about sequencing and trade-offs, is a huge challenge, and one that we do not understand very well. Reform is taking place but the results can be thin, uneven, subject to competing interpretations and contested. While there are new opportunities for progress, there are also strong possibilities of backsliding. The process of change will not be linear. If completed, however, Indonesia's transition will constitute a remarkable shift in the shape and texture of Indonesian political and economic governance. That transition is currently marked by:

- *The first democratically elected government in 45 years is in power and pursuing a reform agenda ---* While President Abdurrahman Wahid's government is legitimate, it is formed of an unstable coalition of parties. There are deep divisions in this government – over policies, religious issues, the spoils of office, and in other areas. It may have difficulty in marshaling a consensus around key reforms. The new government is inexperienced and lacks capacity. It rests on top of a deeply entrenched and ossified bureaucracy that often has little interest in reform. Yet population expectations of what this government can deliver are very high. A further complicating factor is that the President's health is uncertain. Should he become disabled or his cabinet fall apart under the pressures of partisan strife, the reform agenda could falter.
- *People are asserting their rights ---* Political discourse has flowered, through both the media and civil society organizations. Ordinary people, including women, are increasingly vocal in expressing their interests. While NGOs have multiplied, civil society generally remains weak, a legacy of the restrictions suffered under the Soeharto government. This is particularly the case outside of Jakarta. Civil society has an important role to play in shaping and sustaining the reform process and in providing services.
- *After a sharp decline, the economy has stabilized and is showing modest signs of improvement ---* However, much work needs to be done to create a free, fair, and competitive market that can attract investment and provide the level of economic growth necessary to reduce poverty. It is likely to take three years to reach levels of activity that prevailed before the crisis and at least five to achieve pre-crisis per capita income. Growth is required to satisfy popular expectations, and the challenges of economic policy making and implementation will be many.
- *Dangerous and potentially contagious sectarian and political violence has displaced large numbers of people and threatens Indonesia's fragile social balance –* Declining central authority, new opportunities to recast relationships between the center and the periphery and between groups, and the lack of channels for resolving long-standing grievances have contributed to unprecedented sectarian and political conflict. Vast numbers of people have been displaced and local economic activity damaged or put on hold. The government needs assistance both in addressing the roots of conflict and in providing humanitarian and reconstruction assistance to help victims get their lives back on track.
- *Concerns over corruption and judicial performance are receiving heightened attention –* While expectations remain high that the government's reform agenda will be able to address these problems, the reality is that change will be incremental. Judicial restructuring will require from five years to a generation. Corruption is systemic rather than sporadic, which suggests the need for sustained political will within the bureaucracy and civil society. Indonesians expect more immediate changes. This contributes to a broader array of tensions manifested in the delicate balance between the Indonesian state and society.

- *Political and fiscal power is being dispersed to sub-national units of government, to districts and cities ---* Rejecting centralized control from Jakarta, citizens across Indonesia are demanding local control of local affairs. In response, political leaders have enacted laws that will devolve a sweeping set of functions to local governments. This is a key government strategy for trying to diminish separatist sentiment. Because of strong citizen pressure, the timetable for turning over authority is very compressed and permits little room for adequate preparation. Many local governments are unequipped to assume new authorities. While decentralization represents an opportunity to restructure relations between the periphery and the center in a more equitable manner, it presents serious risks – services could decline and living conditions deteriorate, conflict in mixed sectarian areas heighten, local oligarchies come to power, and local government expenditures and taxation could threaten financial recovery.
- *The economic crisis forced many people into near-poverty and cut access to social services, especially for women and children ---* The economic crisis pushed many into poverty and caused a decline in social welfare. Lowered incomes have made health services unaffordable, and budget constraints reduced the government's ability to provide services. Families now delay health care, increasing morbidity and mortality. Increased poverty has significantly worsened nutritional status and health of vulnerable groups, particularly women and children. HIV/AIDS has a foothold in Indonesia and the potential to spread rapidly due to migration patterns and the growing numbers of women and men engaging in commercial sex. Poorly managed decentralization threatens a decline in access to and quality of services. In addition, those who have experienced a decline in living standards are more susceptible to political appeals based on religious and sectarian sentiment.
- *Natural resources and the environment are under relentless pressure—*Deforestation, which has already resulted in the loss of 72 percent of Indonesia's primary tropical forests, is increasing beyond a rate of 1.6 million hectares per year. These tropical rain forests, which are second only to the Amazon basin in abundance, could be gone in 25 years. A loss of habitat of this magnitude could result in the extinction of orangutans, tigers, elephants, rhinos and exotic birds. Indonesia has lost 70 percent of its coral reefs from its 81,000-kilometer coastline, leaving marine life and the 30 million Indonesians who depend on the sea for survival very vulnerable if this destructive trend continues. Conflicts among loggers, fishermen, government and local communities are on the rise as Indonesians attempt to determine ownership and management of natural resources while government is decentralize rapidly. These conflicts are increasing the rate of environmental degradation
- *The economic crisis and the spread of sectarian conflict have significantly increased threats to women's security, political status, and basic rights ---* As Indonesia reshapes itself, the roles and rights of women appear unclear. In the reform era, women are having more difficulty being heard. Only a handful of women sit in the national and local parliaments and play leadership roles in the new political parties. Women bear the brunt of lost household income and receive the least from social safety net programs. Assistance is needed that focuses directly on gender issues to create an environment that encourages equality and empowers women, families, and communities in decision-making.

B. The Parameters for USAID's Strategy Development

In considering the challenges Indonesia faces in making a simultaneous economic and political transition, the U.S. Government has set out for itself two foreign policy goals: the institutionalization of democracy and the resumption of economic growth. In addition, the US Government is committed to the preservation of territorial integrity and the unity of Indonesia. Encapsulating these priorities, the mission has established the following goal for its 2000-2004 strategy:

“Transition to a Prospering and Democratic Indonesia.”

In discussion with the ANE Bureau, the mission has focused on two specific periods within this five year strategy: a shorter term period of three years (2000-2002) and a follow-on period of two years (2003-2004). The expectation is that USAID efforts in the early period will concentrate heavily on needed legal, policy, regulatory and institutional reforms to sustain democracy and establish a functioning market economy based on a predictable set of rules. It will also emphasize assistance to vulnerable populations, particularly but not exclusively in the conflict zones. Finally, it focuses on trying to bring under control the accelerating destruction of the country’s natural resource base. In the early years of the strategy, great flexibility will be needed. The political environment is very fluid. The mission will need “room” to direct resources to reform areas where there is new progress or perhaps in some cases, to where there has been no progress or backsliding. The approaches to surmounting reform obstacles may be varied, depending on each circumstance.

In the final two years of the strategy period, the hope is that the political situation will have stabilized – that sufficient progress will have occurred in achieving reform and in reconciling violent conflicts that greater amounts of assistance can be devoted to developing the institutional capacity of national and local governments and civil society groups. Support for civil society groups is expected to be a constant throughout the strategy period, ranging from assistance in shaping needed reforms in the early years to ensuring that reforms are implemented and that there is no backsliding in the later ones.

From its analysis of the challenges facing Indonesia during this transition, USAID/I has derived two imperatives, which it believes must be met if democracy is to be strengthened and a free economy established. These two imperatives have functioned as basic principles that have guided the mission in its strategy development:

- The need to provide timely support for those leading or advocating reform in order to sustain and broaden Indonesia’s political and economic transition.
- The need to strengthen the capacity of key institutions so that they can meet the priority needs and expectations of the Indonesian people.

These principles are consistent with the findings of the December 1999 U.S. Government’s Inter-Agency assessment team, which laid great emphasis on supporting the political and economic reform process. This report also pointed to the potential gap between popular expectations and the government’s ability to meet those expectations, leading the team to propose a focus on interventions that would help the new government succeed. In addition, because civil society remains weak and vested interests powerful and threatening, USAID believes that it remains vital to enhance and enlarge channels for the expression of citizen interests. In each component of its strategy, USAID has sought to balance support for government performance with assistance for citizen participation.

USAID/Indonesia’s guiding principles have led it to focus directly on supporting key processes of political and economic reform, mitigating violent conflicts, and improving maternal and child health services and environmental management. New to the strategy and judged as being particularly critical to Indonesia’s political future is USAID’s support across strategic objectives for decentralization, both to minimize the risks of unfortunate outcomes and to enhance the possibility that it can deliver the benefits that the population expects of it. The mission will mainstream gender and the needs of people with disabilities in its programs and policies.

USAID has also heightened its support in conflict mitigation, by crafting a new SPO. This SPO can be ‘inflated’ or ‘deflated’ as conflicts occur, spin out of control or are settled. The mission believes that the choice of a special objective gives it the flexibility it will need in managing this program. The mission has also chosen to expand its energy restructuring program, given the importance of reforms in this area to the government’s budget. Efforts to restrain and limit corruption are woven into all mission sectoral strategies.

During the course of the mission's strategic planning effort, very specific synergies have been identified across S.O.s. OTI efforts have, for example, been woven into both the DG and conflict mitigation S.O.s. Concrete agreements have been forged for specific S.O. teams to deliver particular and complementary forms of assistance. One instance of this collaboration is that while S.O. 10 (Decentralization) will support core processes of decentralization at the national level and with target local governments (administrations and legislatures), S.O. 7 (DG) will provide critical support to target districts vis-à-vis the following:

- The internal workings of local legislatures and their interaction with the executive branch and with citizens;
- structural support for civil society building to enable citizens to monitor local government and formulate and represent their interests; and
- More broadly gauged support for local media.

The mission's new strategy is consistent with meeting the challenges facing the new government. These include rooting out corruption, decentralizing fiscal and managerial authorities, reforming the judiciary, bringing back prosperity, resolving regional differences peaceably, providing essential public health services, and preserving natural resources for posterity. Many of these reform priorities reflect public demand while others are tied directly to compliance with its IMF restructuring package. Many of the IMF-demanded reforms are socially painful and politically risky. If the GOI does not implement these critical reforms, stopgap measures and short-term remedies will not restore investor confidence and the economy will have a prolonged recovery or - worse - will stagnate.

C. Positive and Negative "Triggers" for Shifts in the Strategy:

With Indonesia undergoing transitions on several levels, and with the Mission's strategy addressing a range of challenges inherent in these multiple transitions, it is difficult to identify a small or specific set of developments that would "trigger" a shift by the Mission from a "transition" to an "institutional development" strategy. In general, the broad areas that would suggest that such a shift would be possible include:

- The stability of the national government is established and it is able to engage in more coherent policymaking.
- Key political elites on the national and local levels accept and practice non-violent, pluralistic, and rule-based political competition.
- The economy recovers to pre-crisis level of activity and key economic institutions function effectively.
- The military is marginalized as a major force in politics and governance.
- A significant share of provincial and local governments begin to demonstrate their capacity to undertake planning, manage budgets and deliver services in democratic and accountable ways.
- A significant number of civil society groups demonstrate their ability to participate effectively in decision making at the national and local levels.
- The prospects increase for finding peaceful solutions to sectarian violence and armed separatism.

At the same time, because of the fragility of Indonesia's transitions, there are also a number of "negative triggers" that would make it significantly more difficult to achieve all or some of the Mission's SOs. While these developments may not be likely, the possibility exists that they may occur. These negative developments include:

- A change in the leadership or composition of the national government that causes it to become a serious obstacle to reform.
- An increase in the military's role in policymaking with a more repressive approach to national security.
- Another crisis of leadership leading to a significant decline in donor/investor confidence.
- The imposition of undemocratic restrictions on the media and civil society.
- A significant increase in political and/or religious polarization and violence.

- An increase in corruption and illegal natural resource exploitation and the failure to initiate reform of the judicial system.

D. Proposed Geographic Regions of Emphasis

The preponderance of programs under each SO work in particular geographical areas selected on technical criteria: where can USAID have the greatest impact on a particular sectoral problem. In addition, the mission has attempted to concentrate in selected areas based also on political criteria. In all cases, mission management is alert for possible synergies among S.O. teams. An ecumenical approach is necessary because of the nature of the mission's strategic objectives and the need to maintain flexibility to respond to rapidly evolving political circumstances.

A continuing emphasis will remain on the heavily populated areas of **East and West Java**, home to 40% of Indonesians. Discontent and alienation in key urban centers in Java pose a greater threat to the stability of the governing coalition than almost anything that happens on the outer islands. Java was an important area of focus during the previous emergency transition strategy, and it is the view of the mission that it must remain an emphasis area. Rising expectations and the government's ability to meet them constitute a particular concern.

Two further geographic areas have been selected for some added program emphasis: **West Papua** and **Aceh**. They have been selected because they are resource rich and provide enormous revenues to the national budget. If a proportion of the proceeds from these regions' rich natural resources returns to the provincial governments, they will be very wealthy, but they have very low capacity to spend such huge proceeds. In addition, they are also violence-prone. They suffered greatly under Soeharto-era government repression and at least some portion of their populations would prefer independence to continued inclusion in the Indonesian body politic.

Separatist sentiment in these two areas is at different stages, but in different ways could prove contagious and could threaten Indonesian unity. While the new government is committed to peaceful resolution, the issues are complex and the legacy of resentment is strong. **West Papua** has not yet reached the stage of active armed insurgency and the GOI is actively seeking to forestall that possibility. As Indonesia's farther flung province, West Papua has received relatively less attention in foreign donor and GOI development programs. Given its linguistic and cultural diversity, as well as its inaccessibility and limited communications and transport facilities, West Papua presents special challenges to political integration and economic development.

A "humanitarian pause" agreement recently signed for **Aceh** may open new opportunities to provide assistance, but continuing violence in the province makes prospects for enlarged programs uncertain. On the assumption that satisfactory arrangements short of independence can be derived in these two areas, it will be important to make those arrangements work.

The mission also plans on a continued and somewhat expanded emphasis in **North Sulawesi**. The province is resource-rich and possesses a local government very interested in decentralization. It is currently under serious political strain with the presence of 30,000 Christian refugees in a mixed Christian-Muslim area. There is a high potential for escalating tensions. If resources permit, USAID over time may look to an additional emphasis in **East Kalimantan**, another area with considerable natural wealth, a small population, and an abiding resentment that only outsiders have benefited from indigenous resources. Decentralization is likely to be an acceptable political solution to this area's grievances. In fact, given the way the fiscal decentralization law is structured, East Kalimantan, with its extensive forests, is likely to be one of the biggest "winners" from decentralization.

II. Strategic Objectives

The mission has chosen to present its strategic emphases in the form of six strategic objectives and one special objective. Some of these programs existed in some guise in the past; they have been expanded and redirected to meet new reform needs. Others are new. Most address the opportunity (and the threat) that dramatic plans for decentralization entail. Gender is a crosscutting concern for the mission. Please see Annex B for more details.

Strategic Objective: Democratic Reforms Sustained and Deepened (SO 7)

1. Problem Statement: Despite the success of last year's election and some important initial progress made by the new government, Indonesia's transition to full democracy is far from complete and vulnerable to reversal. After more than 30 years of authoritarian rule, the foundations for democracy are weak; and after three years of economic and political crisis, the expectations placed on government at both the national and local level are great. For Indonesia's democratic experiment to succeed, reforms must be sustained and they must begin to yield meaningful results.

The Wahid government, while legitimate, rests on a fragile and increasingly fractious political coalition. While the president and others in the new government are committed to democratic reforms, the government is constrained by internal divisions as well as by the resistance of groups far less supportive of reform, including elements of the military and bureaucracy, cronies and rent-seeking businesses, and some religious groups. At the same time, government institutions and non-governmental organizations (NGOs) at both the national and subnational levels are grappling with the dual challenges of democratization and decentralization. This requires changing decades-old patterns of top-down decision-making, corruption and patronage. At the national and local levels Indonesia's elected representatives face the daunting challenge of making government respond to rising popular expectations for economic recovery, the restoration of security and inter-group harmony, and an increase in social justice and equity. If these leaders and institutions fail, or if there is a return to old patterns of corruption and impunity, the prospects for the consolidation of democracy in Indonesia will dim considerably.

Thus, the environment USAID faces in Indonesia is characterized by a mix of unprecedented opportunities and huge challenges. The transition to democracy is highly complex, uneven and evolving in ways that are difficult to predict. The prospects for the Wahid government are uncertain. Lurking below the surface of formal politics are contentious issues of civil-military relations, religion, regionalism and patronage. While generally open to foreign ideas and assistance, Indonesians are wary of anything that appears to be promoting a Western and particularly American agenda.

As the Lief report recognizes, the fluidity of the political environment in Indonesia and the magnitude of the nation's challenges require a DG program that is both flexible and broad in scope for the next three years. Flexibility is required to respond to new and often unforeseen opportunities and crises and to shift resources in the event that the requisite will for reform is found to be lacking. A relatively broad scope is required because the size and complexity of Indonesia's needs necessitate that USAID work simultaneously on a variety of fronts. For the most part, sequencing of interventions is not an option. The capacities of government and civil society must be developed in tandem. Key national-level needs must be met at the same time that critical needs generated by decentralization are also addressed. There are urgent short-term requirements as well as huge, longer-term institutional development needs.

While the menu of DG activities planned by the mission is diverse, some preliminary choices have been made and programmatic focus will increase as the political situation evolves. The DG program has chosen to concentrate on a range of short- to medium term needs that must be met over the next two to three years so that the transition to democracy will be sustained and deepened. This includes increasing the capacity of key government bodies, strengthening civilian authority over the military, building civil society and laying the foundation for reform of the justice sector. Excluded from the strategy are longer-term programs such as formal

civic education, large-scale training of judges, and civil service reform. These choices are driven by consideration of the areas where USAID has a comparative advantage and can have significant impact. These choices also take into account the recommendations of the Lief and Justice Sector reports, the need to concentrate resources and build synergies, the work of other donors, and the still-limited absorptive capacity of many Indonesian organizations.

2. Statement of the Strategic Objective: Democratic Reforms Sustained and Deepened: The term “democratic reforms” refers to laws, policies and practices that support democratic government and political processes. The democratic reforms of greatest concern to the DG program include:

- Establishing a democratic legal framework
- Increasing civilian authority over the military
- Making key government institutions at the national and local levels more responsive, capable and accountable
- Increasing the impact civil society has on governance and politics at the national and local level
- Initiating meaningful reform of the justice system in order to make it more honest, accountable and technically capable.

While significant initial progress has been made in most of these areas, much more remains to be done and the reform process remains vulnerable to diminution or reversal. Hence the need to sustain reforms. These reforms must be deepened – that is, given greater substance -- so that they are not piece meal or cosmetic. Sustaining and deepening these reforms requires building effective constituencies for reform (both within and outside government) and increasing the technical ability of reformers to design, gain acceptance for and then implement reforms.

Progress at the SO level will be measured using indicators and qualitative analysis that measure (a) changes in the level of CSO participation in decision making and (b) the degree of progress made by government in developing and implementing key reforms. Measurable SO level indicators will include:

- Progress in implementing a democratic electoral framework.
- Increase in the level of participation in legislative processes.
- Increase in the efforts of elected officials, academic experts and civil society groups to influence policies regarding military and national security affairs.
- Increase in the number of political parties and/or party branches that develop issue-oriented programs and advocate these issues at the national and/or subnational levels.
- Increase in the frequency with which CSOs have a measurable impact on the formulation and/or implementation of government policies.
- Progress in developing and implementing an Indonesian action plan for justice sector reform.

The DG strategic objective represents a balance between work that will strengthen government capacity to design and implement key reforms and work that will ensure civil society’s ability to engage government through analysis, advocacy, and monitoring. To a degree unheard of just two years ago, elected leaders and other government officials now look to civil society organizations (CSOs) and universities for their advice and input. The DG program supports this engagement and the building of government-CSO partnerships. And because CSOs often become involved in addressing emerging issues before government agencies, the DG program also supports the role of CSOs as catalysts for government action.

The DG strategy is conceptually and operationally linked to SO 10, which focuses on the core processes essential for effective local government. These linkages manifest themselves in decisions regarding site selection and joint SO team planning. Collaboration is rooted in the understanding that technical processes

alone cannot ensure active engagement by citizens. The DG program will open local government to active citizen participation through DPRD's, vital CSOs and a responsible media. Some of this work will be carried out in collaboration with OTI.

The DG strategy also will have significant, but less formalized links to ECG and NRM programs. DG will coordinate with EG on programs working with the DPR, the use of the media for public dialogue on economic reform issues, training for political party leaders on economic reform issues, and selected aspects of justice sector reform. DG will work with NRM in the areas of strengthening of CSOs and media training.

3. Intermediate Results: Three conceptually linked intermediate results (IRs) will provide the results framework for achieving the DG strategic objective and addressing many of the needs identified by the Indonesia Assessment Team and the Justice Sector Assessment Team. The DG Intermediate Results are as follows:

- 1) Key national and local level government institutions made more responsive and effective
- 2) Increased citizen participation in governance
- 3) Capacity and support for justice sector reform increased

Each intermediate result contains components that adhere to the mission's overall strategy to concentrate some of its resources in selected geographic areas. Over the life of the five-year strategy, as the needs of governance on the national and subnational levels become better defined, the DG program will adjust the mix of activities on the national and subnational levels. Similarly, over the life of the strategy, the DG program will increasingly concentrate its subnational level activities in selected geographic areas in order to develop synergies and maximize impact.

These intermediate results reflect the need to focus on those activities that are short-term (1-3 years), rapid response and can increase the likelihood of a successful transition (such as legislative strengthening, legal and constitutional reform, and civil society advocacy and monitoring). The IRs also include some components that are of a longer-term developmental nature (such as electoral reform, political party strengthening and justice sector reform). These will assist in establishing the foundation for a sustainable democracy. The approach depicted in the democracy strategy is operationally linked to other mission SOs, particularly local government and decentralization.

There are several cross cutting themes common to all three intermediate results. One is an emphasis on fostering constructive interaction between government and civil society. A second is an emphasis on increasing participation and transparency as a means of reducing corruption and abuse of power. The third is an emphasis on promoting the participation of women.

IR1: Key national and local government institutions made more responsive and effective

Key government institutions include elements of the executive branch and independent commissions, the national parliament, selected subnational assemblies, political parties, and in the out-years, election administration bodies. (The judiciary is included under IR3.) Responsiveness refers to the ability of these institutions to respond to the needs of citizens and constituents in ways that are transparent and subject to accountability. Effectiveness refers to the ability of these institutions to formulate sound laws and policies in a timely fashion and to ensure that these decisions are implemented.

Illustrative activities and approach for the executive and legislative branches: After more than forty years of highly personalized, military-backed authoritarian rule, the two governments that have succeeded Soeharto's have had considerable difficulty developing coherent policies, coordinating and implementing programs, and communicating effectively. The challenges facing the executive branch will only continue to grow as the

legislative branch gains more experience and as decentralization proceeds. While being careful to avoid supporting the over-concentration of power in the presidency, USAID will be responsive to the legitimate needs of key reformist entities within the executive branch. Examples might include providing technical assistance for the reorganization of the executive branch and developing new communications strategies as well as providing short-term training and study tours to increase expertise on issues critical to the effective functioning of the executive branch. This assistance will be contingent upon the involvement of reformers within the government with the authority and commitment to ensure that it is used effectively and in a non-partisan fashion.

Indonesia's representative bodies (the DPR/MPR and the DPRD I and II) also face the huge challenge of reforming themselves so that they function democratically and effectively. On the national and subnational levels, legislatures need to develop new internal procedures and capacities, exercise oversight of the executive branch, and strengthen their links to constituents and the public. While the needs are great at all levels, they are greatest at the DPRD I and II levels.

The DG program will support the strengthening of the national parliament (DPR) and selected provincial and district assemblies (DPRD I and II). In the first three years of the strategy, the program will focus on strengthening the expertise and legislative skills of representatives and legislative staff and supporting participatory lawmaking. (Support will be provided to CSOs and the media to monitor the performance of legislatures.) Particular attention will be paid to constitutional reform, civil-military relations, decentralization, the electoral framework, and judicial restructuring. Members and staff will receive skills training that will familiarize them with their roles and responsibilities. Over the five-year period, legislative activities will be aimed at broader systemic change, including the provision of research and analysis, legal drafting, effective channels for communication with citizens, and making standing committees effectual.

At the sub-national level, the DG program will focus on 8 to 10 legislatures (at either the provincial or the district level) in the mission's chosen areas of geographic focus. USAID will support improving legislative research and drafting skills, strengthening parliamentary procedures and codes of conduct, increasing transparency and outreach, and training on gender issues, including gender-based budgeting. This work will be conducted in coordination with the UNDP-World Bank Partnership for Governance Reform, which will also support legislative strengthening.

Illustrative activities and approach for political parties and elections: Indonesia's political parties are critical to effective governance because of the coalitional nature of the national government and the importance given to party-based "factions" in national and subnational legislatures. Indonesia's parties are in a state of transition as most move from a concern with election-related party formation and mass mobilization to participating in government; as they face the opportunities and challenges of decentralization; and as internal factionalism becomes more pronounced. In this context, the major needs of Indonesia's new and reforming political parties are: 1) moving away from personality- and identity-based politics to more issue-oriented programs; 2) improving party structures to foster internal democracy and establish better linkages with constituents; and 3) reducing their reliance on "money politics" and patronage.

The DG program supports the organizational development of political parties by strengthening the capacity of local party organizations, increasing the ability of parties to communicate with members and constituents, and increasing the participation of women in parties. Activities take the form of one-on-one consultations, seminars and conferences and study tours. These activities target party leaders, elected representatives and candidates from the entire range of democratic political parties. In the year prior to the next elections, the focus of support will shift to issue-oriented and non-violent campaigning and party pollworker training

Barring unforeseeable political developments, the next national elections will be held in the first half of 2004. The DG program will continue to support groups advocating reform of the existing, highly flawed election law. In the event that independent and credible election administration and adjudication bodies are formed, the DG

program will provide technical assistance. In the immediate pre-election period DG will provide support as appropriate and needed for public opinion surveying, voter education, poll worker training and public information. If, as expected, there is a need for independent monitoring of the elections, DG will support the organizational development and planning of domestic election monitoring groups.

IR2: Increased citizen participation in governance

The greatest impetus for reform in Indonesia is still coming from civil society, particularly the media, NGOs, trade unions, and universities. Civil society groups are generating new ideas and approaches, organizing and mobilizing citizens, exposing corrupt practices, and responding to urgent needs that the government sometimes is unwilling or unable to meet. However, with a few important exceptions (most notably Indonesia's mass-based Muslim social organizations), most civil society organizations are new and inexperienced. Their weaknesses include limited advocacy and management skills, insufficient human and financial resources and a dependency on foreign funding.

Illustrative approach and activities for strengthening CSO participation in governance: The DG program will support a range of national and local civil society organizations. Grants and training will be provided to NGOs so that they can play four essential roles:

- As independent analysts of key reform issues
- As effective advocates of reform
- As constructive partners with government to collaboratively address key reform issues
- As independent watchdogs of government

Support will be provided to monitor and analyze the performance of national and local government, increase public awareness of and debate on key policy issues, strengthen and protect rights, promote gender awareness and the participation of women, and support the development of networks and coalitions of NGOs. (Support for CSOs concerned with the justice sector is included in IR3 and support for conflict resolution groups is included in SpO 9.) Grants and training will also be provided to strengthen CSO and union management, advocacy skills, and financial sustainability. Over time an increasing share of support to civil society groups will be channeled so as to encourage synergy with DG legislative support activities and the local governance programs under SO 10.

Illustrative approach and activities for the media as a source of information and a force for transparency: Given the depths of both the economic and political crises facing Indonesia over the last two years, the transformation of the national media has been remarkable. The major national newspapers and privately owned broadcast media now operate with few constraints and little interference from government authorities. However, a much different situation exists in many places outside of Jakarta for journalists and for the consumers of the media. The role of the media at the sub-national level takes on growing significance as the process of decentralization promises to devolve power and resources to local authorities. At the same time, the development of the media must go hand in hand with the cultivation of a greater understanding of the (sometimes controversial) role of the media in a democratic society.

DG assistance to the print and electronic media supports the establishment of vibrant and professional media, particularly at the increasingly important sub-national levels. DG supports in depth skills and ethics training, the protection of journalists and the development of journalists' associations. While the program emphasizes the development of radio as a source of news and information, support will also be given to explore the possibility of creating a public television station. Finally, the DG program also supports the development of linkages between the media and other civil society actors. DG supports the efforts of CSOs to use the media to

communicate important information and messages in order to increase public awareness and understanding regarding critical reform issues, corruption, and sectarian conflict.

Assuming there are no major reversals with regard to press freedom, DG envisions reducing the level of its support for the media after FY2002. However, it is anticipated that USAID will continue to work with the media at a reduced level in support of other IRs such as conflict resolution and holding fair elections in 2004.

Illustrative activities and approach for analysis and dialogue on civil-military affairs: The Indonesian military has long used the concept of *dwifungsi* (dual function) to justify its extensive role in both national security and government and politics. Since the fall of Soeharto, the exposure of the military's deep involvement in human rights abuses, partisan politics and corruption has damaged the military's legitimacy and seriously compromised its credibility. As a result, the influence of the military has declined significantly and the military leadership has shown a degree of willingness to reduce the military's role in politics and government. However, the pace and extent of this reduction will depend on many factors, one of which is the ability of civilian leaders to (a) demonstrate their competence in national security affairs and (b) work with the military to redefine its role.

In keeping with the recommendations of the Inter-Agency Assessment Team, USAID will continue to support efforts to strengthen civilian oversight of the military and to foster a new consensus regarding the role of the military in a democratic Indonesia. OTI and DG will support dialogue on civil-military relations, the training of civilian leaders and journalists, and research and monitoring by leading universities, think tanks and NGOs.

IR3: Capacity and support for justice sector reform increased

The Indonesian judicial system – including its courts, the Attorney General's office and the police -- is plagued by widespread corruption, politicization and incompetence. The weakness of the system has significant negative consequences for the economy, for constitutionalism and the rule of law, for the fight against corruption and for the protection of human rights. Fortunately, there now appears to be the requisite political will to pursue reform of the justice sector. The appointment of a widely respected figure as Attorney General is one indication of the new government's commitment. A second is the formation of a National Law Commission to advise the president on legal reform issues and the creation of an Ombudsman. It is hoped that the appointment of a new Chief Justice later this year will trigger reform within the Supreme Court.

But even with the requisite political will, justice sector reform in Indonesia is a huge and complex challenge requiring a large and long-term investment. It may be possible, in the short-term, to initiate some high-profile "confidence building measures" (e.g., successfully prosecuting selected human rights violators and/or corruption cases), but for these to have any lasting impact, they must be combined with major systemic changes. At this point in time it appears that the government has opted for long-term, gradual reform rather than a rapid and radical "house-cleaning."

There is significant interest in justice sector reform on the part of many donors, and particularly the World Bank, the ADB and UNDP. While the resources that USAID can devote to this issue are small by comparison, this is an area in which USAID has considerable experience and expertise upon which it can draw, ranging from the American Bar Association to the Asia Foundation. Moreover, with the World Bank, UNDP and other donors likely to focus on judicial training and administration, USAID is well placed to provide timely and targeted technical assistance and support to NGOs and universities concerned with justice reform.

Illustrative approach and activities for justice and human rights: The changed political environment creates new opportunities to support justice sector reform. However, the potential scope and significance of these opportunities is still very uncertain. USAID, in close coordination with the Embassy, will increase its work in this area consistent with the findings of the Justice Sector Assessment Team. But for the duration of FY2000 its

approach will emphasize relatively small, opportunity-driven interventions. These will include support and/or technical assistance to government or quasi-government entities such as the National Law Commission, the Ombudsman's Office, the Ministry of Human Rights and the Human Rights Commission. Support will also be provided to professional associations and NGOs that are advocates for justice sector reform. USAID will also support a national public survey of attitudes regarding justice and the judicial system. Relatively small-scale support might also be provided to selected law schools for analysis of the judiciary and pilot programs on legal curriculum reform.

During this period, USAID will gain a better understanding of the prospects for meaningful reform of the justice sector, it will hire a PSC to work in this area, and it will develop a three-year sub-sector strategy that incorporates many of the recommendations of the Justice Sector Assessment. Possible future work the mission may undertake includes publication of judicial decisions, building strong civil society coalitions for legal reform, media training on judicial issues and promoting alternative mechanisms for dispute resolution.

The DG program also will continue to support human rights organizations. For more than a decade USAID has supported the efforts of Indonesian human rights NGOs to promote social justice and combat the abuses of power. The mission continues to support human rights NGOs to ensure fair trials and the consistent enforcement of existing laws.

4. Priorities and triggers: Should the mission not receive the requested annual budget for its DG program, a decision has been made on trade-offs to reduce or eliminate those activities related to the media and conflict resolution. In FY2002 DG would begin to scale back and eventually eliminate its media program. Although conflict resolution is represented under SO9, a sizable portion of the SO9 budget is allocated from and managed by the DG program. Should more drastic cuts be required, the DG program will reduce or eliminate its conflict-related activities.

The compromises related to cuts in both of these critical areas are worth noting. For the media, activities to bolster and protect the profession indirectly enhance reform efforts across the board. While there is good reason to begin planning a phase out of institutional media programs, there is still a need over at least the next two years to continue with such activities. The absence of funding for conflict resolution activities would mean the mission would not be able to address the pressing need to build more sustainable capacities for conflict resolution and reconciliation. The OTI program, on the other hand, is based on short-term, rapid response activities to reduce the immediate impact of violent conflict.

Triggers: The DG strategy is primarily focused on sustaining Indonesia's transition to democracy over the next three years, with some components relating to longer-term needs. Other than holding successful elections in 2004, there is no single "trigger" that can be used to signal the shift from a transitional program to one that is more oriented to longer-term institutional-development. A variety of potential "triggers" can be identified, but they must be viewed together rather than individually. These triggers include:

- There is a significant increase in the stability and coherence of the national government.
- Key political elites on the national and local levels demonstrate their commitment to non-violent, pluralistic, and rule-based political competition.
- The military abandons or significantly redefines *dwifungsi*.
- A significant number of provincial and local governments demonstrate their capacity to govern in participatory, transparent and accountable ways.
- A significant number of civil society groups demonstrate their ability to participate effectively in decision making at the national and local levels.
- The prospects increase for finding peaceful solutions to sectarian violence and armed separatism.

There are also a number of "negative triggers" that would make it significantly more difficult to achieve all or some of the DG IRs presented in this strategy. These negative triggers include:

- A change in the leadership or composition of the national government that causes it to become an obstacle to reform.
- An increase in the military's role in policymaking accompanied by a more repressive approach to national security.
- An unwillingness on the part of key leaders to pursue meaningful reform of the judicial system.
- The imposition of undemocratic restrictions on the media and civil society.
- A significant increase in political and/or religious polarization and violence.

5. Donor Coordination: There is a growing number of donors supporting DG activities, but most of them provide relatively small-scale or one-off support. The increased number of donors, combined with the limited absorptive capacity of many Indonesian organizations, necessitates effective donor coordination. Donor coordination began prior to the 1999 elections, when USAID worked closely with the UNDP and other bilateral donors, and it continues to the present time.

USAID works closely with the range of donors active in the DG area. The most significant of these is the UNDP/World Bank "Partnership for Governance Reform," which will coordinate donor support in the areas of judicial reform, decentralization, legislative strengthening, civil service reform, and civil society strengthening. It should be noted that the Partnership is expected to place more emphasis on government bodies than on civil society. In the area of justice sector reform, the most active donors are the World Bank, the ADB, the Dutch, the Australians and OSI. Donors active in the area of decentralization include the World Bank, GTZ, the Ford Foundation and the German Stiftungs. In addition to the UNDP, DFID and JICA are expected to provide support for legislative strengthening. Donors supporting the development of civil society include the Australians, Canadians, Ford and FNS. UNESCO, the BBC, FNS and the Dutch support the strengthening of the media.

6. Critical Assumptions: The DG strategy is based on the following critical assumptions:

- A reformist government remains in power and has the ability to pursue a reform agenda.
- A separation of powers exists between the legislative and executive branches at the national and sub-national levels.
- Controls are not reimposed on civil society and the media.
- Decentralization and/or separatist movements don't trigger massive center-region conflicts and dislocations.
- Indonesian reformers will continue to be receptive to the United States as a major source of political, technical and funding support to shape the democratic transition.

Strategic Objective: Decentralized and Participatory Local Government (SO 10)

1. Problem Statement: Indonesia is moving rapidly from years of tight central control to a far more decentralized and autonomous system of local government. The legal framework for local autonomy was initiated in May 1999 with enactment of Law 22/1999, on local administration, and Law 25/1999, on fiscal balance. The two laws were part of the package of electoral reforms enacted after the collapse of the Soeharto regime to create the basis for national and local democratic governance. The new government of President Wahid is committed to implementing the laws and has created a state ministry to facilitate the transition.

The thrust of Law 22/1999 is to assign to central government only key national functions such as defense, judiciary, foreign relations, and the monetary and fiscal system, while devolving most authorities directly to local governments (city and district). The roles of provinces were minimized, restricted largely to inter-district

functions and governance and manager of deconcentrated central government functions. Law 22/1999 gives local government great autonomy over most of the functions that affect people most directly, including urban services, primary and secondary education, public and basic health services, environmental management, planning, and local economic development. It also wholly reverses the previous practice of central control of most decisions, creating new opportunities for democratic control of local affairs.

Local administrations are now accountable to elected local councils (DPRDs, elected in 1999), rather than to the Ministry of Home Affairs. Within five years, all heads of local government will be elected (about 20% already are). Implementing capacities of central government are now to be merged into local governments. Local governments will have full control of personnel and organization structures. Overall, Law 22/1999 created an administrative framework that can lead to the development of democratic, participatory local government. However, its simplicity of approach to assigning functions to local government, as well as the breadth of functions devolved, has led to intense debate over the exact extent and nature of the functions of local government, and particularly to confusion over the roles of provinces. Many ministries are re-organizing in keeping with decentralization, in which their roles shift from supervisor and provider of services to facilitator. Other ministries, including those with natural resource portfolios, are resisting the reduction in their authorities.

Law 25/1999, which provides the fiscal framework for local government, emphasizes local financial decision-making. However, it does not provide an adequate basis for local revenue generation, but leaves local governments largely dependent on transfers from the center. The law mandates that a minimum of 25% of domestic revenues be transferred to local governments, together with specified percentages of the property tax and increased levels of retention of natural resource revenue by regions in which the revenue originated. It mandates great increase in block grants, with local government in full control over uses of the funds. There is concern that high levels of mandated transfers to local government could be macro-economically destabilizing, and it is unclear that a “match” exists between functions and funding. The law leaves the issue of horizontal equalization of finances to a Secretariat on Fiscal Balance, now being created in the Ministry of Finance to devise formulas for transparent and effective fiscal decentralization.

The decentralization laws are now being amplified through a series of implementing regulations. In mid-May, regulations detailing the authorities of central and provincial governments were issued and initial regulations for Law 25 are expected in September, 2000.. Debate over these was and remains a forum for resolving some of the many issues of devolving power and functions. However, the regulations do not spell out the functions of local government. Rather, they assert that all functions not specifically assigned to the central or provincial administrations are the autonomous functions of local government. It can be expected that even after approval of the initial set of regulations, additional revisions and clarifications will be forthcoming in response to specific problems that arise in both the political and fiscal arenas. Extensive work will be needed to assist cities and districts to understand their authorities, to re-shape their structures to match their new roles and functions, and to effectively manage far greater levels of block-type funding.

The re-shaping of intergovernmental relations is a complex task, particularly given Indonesia’s legacy of central authoritarian rule. While the new laws and regulations create a basic framework for local self-government, it will take much work to refine them into an appropriate framework that enables effective local government in both the political and fiscal arenas. At the same time, local governments have little experience with participatory self-rule, and will need assistance to create adequate mechanisms for participation, transparency, and accountability. They also have limited technical capacities, particularly to perform functions that have been provided by central agencies, and they will need assistance to demonstrate to citizens that autonomy does lead to improvements in services and the environment. Particular attention will be paid to ensure women’s participation and concerns are included at all levels.

Other Donor Activities: For the past decade, USAID has led donor technical assistance related to Indonesia’s urban policy reform agenda, which has been funded primarily by the World Bank and the Asian Development

Bank. Among donors, GTZ and, to a lesser extent, AusAID and CIDA have played roles in the new developments in decentralization. Donors acknowledge USAID's strengths in administrative and fiscal decentralization, municipal finance and planning, and in association development, the key areas for SO 10. Geographically, World Bank funding has focused on Java and ADB funding on Sumatra, while GTZ and AusAID focus assistance on Indonesia's eastern islands and the UNDP on Central Sulawesi.

Statement of the Strategic Objective: Decentralized and Participatory Local Government Strengthened

USAID will assist the GOI to establish a legal, regulatory, and fiscal environment that enables local government to be effective and help local governments to develop the capacities needed to manage resources and services effectively and to develop skills needed to engage citizen participation. It will assist independent associations of local governments and officials to become sustainable sources of ideas, best practices, and advocacy for the continued strengthening of effective, participatory local government. SO 10 will continue work with central government and strengthen assistance to local governments in East and West Java and North Sulawesi. Under this objective USAID will initiate work with two local governments in West Papua and two in South Sulawesi, and with local governments in Aceh as feasible and in East Kalimantan as appropriate. If additional resources are available, efforts will expand in Papua, Aceh and East Kalimantan.

Performance will be measured using indicators that relate service quality and participation to strengthened local government, as follows: 1) Number of new water connections (plus an estimate of the population served by using an average size of household per connection); 2) average citizen rating of water quality on the customer satisfaction index (gender disaggregated); 3) number of citizen-recommended projects that are incorporated into local government plans; 4) number of target local governments producing citizen-accessible budgets.

Relationship to Other Mission SOs: SO 10 will address the core processes of decentralization and the development of participatory local government. Unless local governments become effective managers of core budget and financial management processes, they are unlikely to deliver effective services in critical areas such as health, or to wisely manage resources. To make local government work effectively, it is necessary that local civil society be strengthened through assistance to local elected councils, NGOs, and the press. Close cooperation with health, democracy, and natural resource SOs is anticipated. S.O. 10 also expects that the EG team will provide some level of support to SME advocacy in districts where S.O. 10 is working. Providing an appropriate climate for business development is an important role for local government. Finally, OTI is also expected to provide some support to local legislatures in key districts.

Relationship to Inter-Agency Assessment: The inter-agency assessment report underscored the importance of decentralization. SO 10 directly supports the report's recommendations, especially the key areas of fiscal decentralization (an economic governance issue in the assessment), local government strengthening (a democratic governance issue in the assessment), and local capacity building (an environmental governance issue in the assessment). The total SO 10 program is envisioned as slightly larger than the specific recommendations in the assessment. This reflects that substantial progress and clarification has occurred in decentralization since the assessment. Most SO 10 activities directly match the assessment's recommendations; variances are limited to minor issues such as greater reliance on training in Indonesia rather than the Philippines, the use of US cities as models, and embracing sustainability through association development.

Strategy to Achieve SO: SO10 is the principal SO through which the core processes of decentralization and the development of participatory local government will be addressed over the period of this Mission strategy. Achievement of the SO will be pursued through four linked results: establishing an enabling legal and fiscal environment, developing local capacity to effectively deliver services, developing mechanisms and practices that enable local participation, and developing sustainable and independent associations that advocate for continual improvement of local governance.

Targets and Triggers: Refer to the Intermediate Results below. Each has illustrative targets for Years 1, 3, and 5, and a description of circumstances that would “trigger” re-orientation of resources from transition activities toward a focus on sustainable development.

IR 1: Appropriate Environment Established to Enable Effective Local Government.

It is critical that the legal, regulatory, and fiscal environment enable local government rather than create an authority-curtailing web of procedures. Most of the activities associated with creating an enabling environment will take place with four central government entities: the Ministry of Home Affairs; the State Ministry for Regional Autonomy; the Ministry of Finance, and the inter-ministerial Coordinating Board for Regional Autonomy (DPOD), which includes these ministries, six additional ministries, and representatives of provincial and local governments.

It can be expected that the greatest need for assistance to strengthen the legal, regulatory, and fiscal environment for local government will occur over the next two years, as definition is given to the re-shaping of intergovernmental relations, and basic agreement is reached on revenue sharing. However, it can be expected that refinement of fiscal relations will require several additional years of assistance while capacity is built in the Ministry of Finance to analyze the impact of fiscal decentralization, refine funding mechanisms, and propose solutions to issues that arise. Activities under IR 1 include:

Ministry of Home Affairs (MOHA): assistance on regulations on local government budget and financial management procedures, procurement, civil service, local government enterprise operation, and the roles of the local council (DPRP) vis-à-vis the administration. In addition, MOHA will be the source of the legal framework for independent associations of local government and local officials. MOHA will also need assistance to re-structure itself to become a facilitator and monitor of local government, since MOHA will become the main body by which local governments report annually to central government.

Ministry of Regional Autonomy (MNOD): assistance on regulations to govern central government policy-making authorities; to govern provincial-local relations and inter-regional cooperation; to guide policy implementation; to phase in full decentralization of functions to local government; to guide development of local government structure and operations; and to govern specific issues, such as natural resource and coastal management.

Ministry of Finance (MOF): assistance to develop transparent mechanisms for general allocations, special allocations, and fiscal equalization. Assistance to develop capacity to analyze fiscal decentralization and develop refined formulas and mechanisms to improve intergovernmental finance and continuously improve local service delivery while ensuring macroeconomic stability. Assistance to create a stable revenue base for local governments while ensuring that local governments do not create barriers to trade or economic growth through local taxes, fees, or procedures.

To the DPOD: assistance to analyze local government capacity, clarify roles and functions, train local officials, and implement decentralization measures. An emphasis of assistance, which will flow through MOHA, MNOD, and MOF, will be on public discussion.

Targets: Year 1: Regulations for Laws 22 and 25 in place; GOI 2001 budget reflects initial mechanisms and formulas for fiscal decentralization. Year 3: GOI 2003 budget reasonably matches expenditures to local functions through improved mechanisms and formulas for revenue sharing, general allocations, and special allocations. Some authority for local government to raise increased share of own revenues. Year 5: Environment for local government own source revenues strengthened to provide reasonable stable revenue base; further improvement of intergovernmental financial mechanisms and formulas.

Trigger: When at least several local governments manage most services effectively, the environment for local government can be asserted to be reasonably enabling. Resources may then be re-oriented to activities that directly strengthen local government capacities.

IR 2: Local Government Capacity Strengthened to Deliver Effective Services.

Few of Indonesia's 320 local governments have significant capacity to deliver services effectively. In many instances, skills and technical resources are available, but poorly managed. The emphasis of assistance will be on strengthening core governance processes, particularly those related to budgeting, financial management, and medium-term planning. Each of these areas of assistance require both technical and "soft" skill strengthening, so that accurate information becomes available to both decision-makers and the public about costs, efficiency, community priorities, and performance. Specific activities will include:

Core Budget and Financial Management Capacities: the budget is the key tool for local government management. Assistance will be targeted to at least six cities/kabupaten initially, and another six incrementally, including two in each geographic focus area, to improve local government budget and financial management capacities. Work will be at the level of policy decision-making (the DPRD, mayors/regents) and administration staff (at the department head level, with finance officers the focal point). Activities will emphasize on-site consultancies and intense workshops on priority-setting and efficient resource allocation, budgeting for all sectors, and analysis of operations to determine performance and efficiency. The goal of initial work will be to understand and implement the basics of good budgeting and financial management, with emphasis on performance-oriented processes. As such processes are improved, greater emphasis will be placed on more technical areas such as cost accounting, forecasting, revenue generation, and steps to produce a sound local fiscal basis for obtaining credit for urban infrastructure expansion.

Water Sector Service Improvement: emphasis will be given to improving water service delivery in each of the target cities/kabupaten. Water is an essential basic service that is now poorly managed in Indonesia. This activity will demonstrate that strengthened local government capacities will result in improved services. The emphasis of assistance will be on corporatization of water authorities, privatization, professionalization of staff, creation of an appropriate local regulatory framework that engages customer inputs, and development of sources of credit.

Targets: Year 1: Program of budget and financial management assistance in place in six cities and/or districts. Year 3: At least 12 cities using improved budgeting and financial management systems, including citizen-accessible budgets. Year 5: Improved budget and financial management models used by at least 50 cities and districts; some cities and districts initiating innovative financing of infrastructure, services, and local economic development.

Trigger: When progress on core processes of budgeting and finance is made in initial cities, resources will be re-oriented to strengthening capabilities in particular sectors, such as infrastructure finance, credit, local economic development, and procurement.

IR 3: Participation Increased in Local Government Decision-Making.

Participation by citizens, business, and NGOs in local government is poorly developed in Indonesia. Decentralization and increasing autonomy will require that local governments become the focal point for setting community priorities, developing investment plans, and resolving conflicts. Local government will need to become open and transparent. It will be necessary that local governments develop mechanisms for enabling and engaging participation through open hearings, citizen-accessible budgets and procurement information, and participation in planning. Activities in this area will rely extensively on cooperation with other Strategic

Objectives, such as democracy, to support development of local civil society. Specific activities to be carried out by SO 10 will include:

Participatory Medium-Term Planning: improved techniques for local government medium term planning has been developed by USAID. These emphasize community-level planning, needs assessments, and priority-determination, with strong roles for local NGOs and CBOs. The mechanism for preparing medium-term plans enables community priorities to be incorporated in medium-term plans for all sectors, ensuring that the voice of the community is included in investment decisions. This activity will be continued in East Java, and expanded to additional cities/kabupaten in West Java, North and South Sulawesi, and Papua, to include at least 20 localities, including all areas involved with local government capacity strengthening. This activity will be strengthened to include a mechanism for monitoring participation by women and women's groups.

City Forums and Local Government Training in Participation: SO 10 will provide training for local government officials and community leaders in the implementation of participation methodologies, and in documenting and disseminating these approaches. The techniques for participation training have been developed by USAID and will be expanded to include at least 20 localities, including all areas involved with local government capacity strengthening. USAID has also developed City Forums that bring together a variety of community leaders who can be effective voices for the broader interests of local stakeholders, including NGOs, universities, and the business community. Support for City Forums will expand to include at least 20 localities, including all areas involved with local government capacity strengthening.

Customer Satisfaction Surveys: USAID has pioneered the use of customer satisfaction surveys to provide a voice for citizens in regard to the quality of water service. USAID will work to institutionalize the use of surveys to improve water and other services, and further refine the surveys to directly measure the satisfaction of women with water quality, and to ensure that survey findings are incorporated into water authority improvement.

Targets: Year 1: 10 cities and districts preparing participatory medium-term plans. Year 3: 30 cities and districts preparing/rolling over participatory medium-term plans. Year 5: Participatory medium-term planning is the norm for cities and the urban centers of district government (one-half of all cities; one-quarter of all urban centers of district government).

Trigger: when initial cities have adopted participatory medium-term planning, as demonstrated by appropriate levels of community-generated projects embraced by adopted plans, resources may be re-oriented to additional cities and to strengthening specific sector planning capacities.

IR 4: Associations of Local Governments and Officials Established as Advocates.

The sustainable strengthening of local government will depend on continuing informed revision of the legal and fiscal framework within which local governments operate, and on the input of new ideas, best practices, and performance benchmarks. It is necessary to develop a set of independent associations of local governments and local government officials that create and disseminate ideas and improved models for performance and that lobby provincial and central legislators to improve the environment for local government. The GOI is now creating a legal basis for independent associations. In late May, mayors voted to establish an independent association, and it is expected that similar associations will be established by heads of districts and by governors. Activities to be undertaken include:

Support for the establishment and development of independent associations, including regional and national associations of cities, kabupaten, and local officials, especially local government finance officers. USAID assistance will emphasize building demand-driven associations that foster improved performance through

creation and dissemination of concepts, models, best practices, and performance benchmarks, and that lobby provincial and central governments on behalf of their members.

Create a network of an initial six USAID Resource Cities in Indonesia, to be followed by addition of up to another six Resource Cities. The USAID Resource Cities program will link cities in the US to cities in Indonesia for the purpose of technical exchange, providing a rich base for the growth of models, best practices, and performance benchmarking. This exchange will support the development of tools for individual cities and for associations. It will also create a capacity by Indonesian cities to search for and identify models and concepts from outside Indonesia.

Targets: Year 1: Network of six Resource Cities initiated; three independent associations (city, district, province) being created. Year 3: Network of 12 Resource Cities in place; association of local government finance officers created; all four associations providing services to members and conducting some advocacy activities; members adopting best practices advocated by associations. Year 5: All four associations working on a sustainable basis delivering member services and advocacy.

Trigger: When associations of cities, districts, and local government finance officers are operating on a sustainable basis delivering member services and advocacy, resources may be re-oriented to a grant basis delivered through a US association or may cease.

Critical Assumptions: It is apparent that local governments will gain significant autonomy during decentralization. It is not clear, however, that powerful local elites will permit local democracy to become effective, or that central ministries will not seek to re-assert authority over local administrations. The continuing economic crisis limits the GOI's ability to finance local government, and this ability may be further decreased by lack of agreement to reasonably equalize revenues among all regions. It is not clear that, at least in the next two to three years, a legal framework can be created for stable revenue sources controlled by local governments, or that effective mechanisms can be put in place to enable local government borrowing.

Strategic Objective: Foundations Set for Rapid, Sustainable, and Equitable Economic Growth (SO 11)

1. Problem Statement: Indonesia is facing the dual challenge of recovering from its worst economic crisis in 35 years and achieving a development path that promotes wide prosperity and democracy. After decades of averaging 6.9 percent per annum in economic growth and substantially reducing poverty, Indonesia experienced an acute economic crisis starting in 1997. Progress in growth and poverty reduction were not sustainable because they occurred in an environment where the rules and institutions of the game were rigged in favor of a selected group of individuals who used excessive power to extract huge rents. After a 14 percent decline, Indonesia's economy has stabilized – i.e. the economic situation is no longer getting worse.

Before the economic crisis, 55% of the labor force was women. Women provided a primary means by which the Indonesian economy initially responded to changes in global demand. An ESCAP study showed that a 1% increase in GDP was associated with a 1.96% increase in women's non-agricultural employment. Women's participation and gender concerns need to be integrated into economic policy formulation to ensure this group benefits from economic growth.

Based on guidelines issued by the People's Consultative Assembly (MPR), the new Government of the Republic of Indonesia (GOI) has adopted a comprehensive economic reform program that identifies operational strategies for maintaining macroeconomic stability, restructuring key economic sectors, rebuilding economic institutions and improving natural resource management in the broad context of decentralization. Elements of this economic reform program were incorporated in the Letter of Intent, which the GOI signed, with the IMF in

January 2000. Friends of Indonesia at the Consultative Group Indonesia Meeting held in Jakarta in February 2000 committed to provide up to \$ 4.7 billion to support this reform and restructuring program.

2. Definition of Strategic Objective (SO) and Expected Achievements: Having identified a credible comprehensive economic reform program, the challenge facing the GOI is to implement this complex program and to strengthen for the longer term weak economic institutions. Under the “*foundations set for rapid, sustainable, and equitable economic growth*” SO, USAID will work closely with donors to assist the GOI to implement its economic reform program and to build effective institutions. A sound foundation to ensure rapid and sustainable economic growth that will generate jobs and widely shared benefits in Indonesia is defined as having the following characteristics:

- a) sound economic policy administered by strong institutions of the GOI Executive Branch;
- b) investment-friendly legal and regulatory framework - including sound corporate governance and impartial and expeditious resolution of property rights and contract disputes – enforced by Independent Regulatory Commissions (whose members are selected by Parliament);
- c) open access to the opportunities created by a growing economy to all Indonesians, especially the poor, women, and those in isolated areas, to foster an equitable distribution of the benefits; and
- d) knowledgeable participation by the intended beneficiaries, legislators and government officials to provide legitimacy and support to restructuring and growth-enhancing policies.

To the extent that items a) – d) are accomplished, the mission would expect to see change on the following SO indicators:

1. Indonesia Non-Oil Trade (US\$ billions) - This is the sum of US\$ value of Indonesia’s non-oil and gas exports and imports for the calendar year:

1999 (base): \$72.4 2000: \$77 2002: \$85 2004: \$100

2. Value of Real Credit (Trillions of Rupiah) - level of real outstanding credit at the end of the calendar year:

1999 (base): 251.3 2000: 259 2001: 285 2004: 342
(June 1999)

In the first year USAID hopes to see substantial progress in corporate debt restructuring by JITF, asset recovery by IBRA, and better policies in the food area.

3. Strategy to Reach SO, Illustrative Activities and IR Causal Links: Working within the framework of the GOI economic reform program and in collaboration with donors, USAID will assist the GOI to establish the sound foundation defined above through the provision of critical technical assistance on a timely basis to a number of key institutions of the GOI Executive and Legislative Branches, such as Ministry of Finance, Ministry of Industry and Trade (MOIT), Ministry of Law and Legislation, Bank Indonesia, State Minister for Cooperatives and Small Business, Bank Rakyat Indonesia (BRI), National Development Planning Agency (BAPPENAS), the national and local parliaments, the National Council of Economic Advisors (DEN), IBRA (Indonesian Bank Restructuring Agency), and JITF (Jakarta Initiative Task Force, as well as Independent Regulatory Commissions and civil societies. Under this SO, the four Intermediate Results (IRs) are:

IR1 - Sound Economic Policy and Institutions

Sound policy stimulates private investment, efficiency, and growth. Its timely and continued implementation requires transparent, accountable and efficient institutions of the GOI Executive Branch. The appropriateness and stability of the policy environment lowers the cost of adjustment and inspires investors’ confidence. USAID TA will focus on assisting and strengthening institutions of the GOI Executive Branch to analyze, draft, propose, and implement the following policies:

Macro Policies to Promote Recovery, Quality Growth and Poverty Alleviation: Recovery from the worst crisis in 35 years depends on bank and corporate restructuring, achieving fiscal sustainability and maintaining appropriate monetary and exchange rate policies. In the past, certain trade, industry and credit policies favored inefficient investments (e.g., the national car program) and selected firms, including the creation of protected monopolies (wheat flour, cloves) that resulted in high costs to other sectors and economic players (e.g., clove farmers). Although Indonesia achieved high growth rates, it was not “quality growth” for it did not have the desired effects of maximizing employment, incomes, and poverty alleviation. These policies had high opportunity costs because the same resources could have been used elsewhere more productively. In addition to the economic recovery work with IBRA and JITF, USAID TA will also promote the “quality of growth” approach in the work with Bank Indonesia, Ministry of Finance, and BAPPENAS. Efforts to improve needed economic data with the Central Body for Statistics will continue.

Sector Policies to Liberalize Domestic Economy: The GOI strategy explicitly states its preference for growth based on its advantages in natural and human resources, and its commitment to an open trade regime. However, many constraints remain embedded in the structure of Indonesia’s economy. Many sectors are on a negative investment list and closed to foreign investment. Many exports and imports remain restricted and regulated through bans, approval requirements for importers or exporters, and taxes and tariffs. Restrictive trading practices imposed through central government fiats are not compatible with the decentralization of decision making and devolution of central government authority that are sweeping across the country. In addition, the restructuring and liberalization of the domestic economy are expected to yield short-term increases in efficiency and welfare – politically valuable outcomes to support the current economic reform program. Within the context of decentralization, USAID proposes to focus the current policy advisory team within the Ministry of Industry and Trade on the provision of advice to enhance domestic competition and competitiveness.

Policy Environment for Micro, Small and Medium Enterprise (MSME) Development. The current policy environment is not conducive to the development of MSMEs. The Mission will continue current TA in MOIT, Bank Indonesia, Cooperatives, and BAPPENAS. This TA focuses on sound economic policies and promoting open access to economic opportunities for all groups, particularly women, including a more MSME-friendly policy environment.

Food Policy: Creating food security at both the micro and macro levels is a complicated task. Food policy analysis links the macro economy with the rural economy and then traces the impact of changes in both sectors on the poor, mediated through changes in food production and consumption. A concern for Indonesia’s food security, whether at the household level or in national food markets, must incorporate this macro perspective on the food economy in order to achieve good policy design and effective implementation. Three topics – rapid growth in the macro economy, poverty alleviation, and the stability of the food system – must be coordinated and dealt with within the broad context of decentralization. A new “architecture” for macro food policy to address these issues is being proposed. The Mission proposes to provide analytical expertise that includes a gender focus to assist the newly created Bureau of Food, Agriculture and Irrigation of BAPPENAS in building a new unit to analyze, plan, coordinate, and monitor the vast array of policies that have an impact on food security and poverty alleviation.

IR2 - A Conducive Legal and Regulatory Framework

A clearly-defined sound legal and regulatory environment enforced by Independent Regulatory Commissions reduces business uncertainty, lowers the hidden cost of doing business, and promotes investment and growth. USAID TA will be focussed on assisting the Ministry of Law and Legislation, law schools, professional associations, related NGOs, parliaments, and Independent Regulatory Commissions in the drafting, promoting, passing, understanding and implementing of laws, decrees, and administrative orders and decisions to:

- liberalize the domestic economy;

- reform administrative procedures of GOI agencies;
- improve corporate governance;
- strengthen the enforceability of contracts and lower transaction cost;
- facilitate the impartial and expeditious resolution of property rights and contract disputes; and
- implement the anti-monopoly, anti-corruption, and consumer protection laws.

In addition support will be given to develop regulatory commissions, law schools - their curriculums and staffs - and professional associations.

IR3 - Open Access to Economic Opportunity

In the past economic growth and poverty reduction were not sustainable because they occurred in an environment in which the rules and institutions were rigged in favor of a selected group of individuals. To avoid a repeat of the past, the playing field should be leveled for all economic agents, regardless of size of operations, gender or geographical location. The incentive regimes and public expenditures must be improved to encourage access for all Indonesians to worker education, training and health services; to business friendly environments, commercial credit for investment, and commercial support services for creation, sustained operation, and expansion of business activities; and, to appropriately priced public transport, services, and utilities. USAID will work more with civil societies by expanding its current program to:

- advocate for governments to be more MSME friendly. Specifics include streamlining and simplifying licensing procedures; simplifying the administration of taxes; making more open and transparent GOI procurement; improving access to publicly owned natural resources; and facilitating access to market information and technology.
- improve MSME access to commercial credit for purpose of investment;
- improve commercial business services for purpose of helping MSMEs sustain and expand operations;
- promote within the contexts of decentralization the encouragement of MSMEs and the avoidance of local government practices that are “unfair” to MSMEs such as excessive restrictions and taxes;
- encourage improvements in social safety arrangements, such as unemployment insurance;
- promote understanding of and involvement on issues of gender, poverty and regional access;
- research and promote discussions on issues related to budget expenditures for social services to encourage that adequate funds are directed to health, education and public transport.

IR4 - Knowledgeable Public Participation in Economic Decision Making

The sustainability of economic decisions is strengthened when legislators, government officials and intended beneficiaries have ownership, i.e., good comprehension and acceptance of, active advocacy for and a role in shaping economic policies. At the same time, USAID is working with government bodies in the issuance and implementation of sound policies, legal and regulatory frameworks and access-enhancing programs, USAID proposes to assist legislators and civil societies to gain better understanding of and advocacy for economic laws and policies. Means of assistance include the promotion of analyses and public hearings on economic policy and legislation; private sector membership in economic decision making bodies (e.g., National Task Force for the Development of Small and Medium Enterprises and Cooperatives); and strengthened media analysis and reporting

The above four IRs represent a complementary and holistic approach toward achieving results under this SO. The first IR deals with the supply side of sound policy and institutions of the GOI Executive Branch while the second one addresses supply issues of sound legal and regulatory frameworks enforced by Independent Regulatory Commissions. The third and fourth IRs deal with equitable distribution of economic benefits among Indonesians of different social/economic strata, regions, ethnic groups and gender and ownership or demand side of economic decisions. Together, activities under the third and fourth IRs will increase the likelihood that appropriate activities will be carried out under the first and second IRs and that they will be sustainable.

4. Relationships to Agency Objectives, MPP, Lief Report and other SOs: SO11 supports the achievement of the USAID Objective to achieve broad-based economic growth. It fits within the Mission Performance Plan of the US Embassy in Indonesia. It provides the means to implement many of the detailed recommendations of the Lief report as well as support its overall aims. SO11 will work closely with the other SOs, especially on issues of decentralization, energy policy and regulation, parliaments and NGOs, management of natural resources, and access to opportunities, including for health. In decentralization, it is anticipated that many of the MSME and policy activities will include focus on the selected geographical areas.

5. Priorities and Triggers within SO11: The priorities for this SO are premised on the recognition that emphasis over the next three years must be on the policies and institutions which are essential for recovering from the current crisis and restoring sustainable growth in Indonesia. This clearly includes assistance to IBRA, JITF, Bank Indonesia, Ministry of Finance and BAPPENAS on bank and corporate restructuring, monetary and fiscal policy, and tax administration, and to Ministry of Law and Legislation and regulatory commissions on a supportive legal and regulatory framework. In the medium term, i.e., the following 2 years, increased emphasis will be placed on the institutional development side of policy making. The key trigger between transition and sustainable growth will be the economy recovering to its pre-crisis level of total activity and key economic institutions functioning effectively.

In the event that the availability of funds is less than anticipated, the following areas will be reduced or cut out entirely. The Mission will attempt to preserve activities in areas essential to a successful transition to sustainable growth. Activities dealing with the equity, distributive or institutional building aspects will receive relatively less weight since we believe that it is critical to increase opportunities through growth in the immediate future. Under IR1, activities with institutional building as its focus will be reduced or cut – i.e., training and study tours. Under IR2, legal profession development will be reduced or eliminated. The approach to opening access IR3 can be conveniently divided into productive and distributive activities. Activities with a distributive emphasis will be reduced or cancelled. These include work related to social safety programs, social security insurance, and unemployment insurance for formal sector workers. Under IR4, advocacy and participation will be confined to only policies and issues with a national relevance.

Depending on the severity of the shortfall, cuts can also be made with respect to the number of counterpart ministries, the areas of involvement in supporting law development, and the number of independent regulatory bodies. We would also consider the effectiveness in how technical assistance is being used in deciding cuts.

6. Donor Coordination and Donor Contributions: The International Financial Institutions (IFIs) - IMF, World Bank and the ADB - have the lead in formal negotiations and review with the GOI on the reform program. USAID/ECG's role has been to influence, assist in the implementation, and to communicate the policy changes required for the reform program. As a result we work closely with the IFIs and all major donors to ensure coordination for effective results and to avoid duplication. The fact remains however, that Indonesia is so large a country that often a single donor's efforts in any one area are not sufficient.

Total assistance commitments to Indonesia for 2000 amounts to \$ 4.7 billion in which USAID's share will be about \$ 130 million in grants. Indonesia is in the first year of a three-year IMF program and there is preliminary mention of a second three-year program. It is clear that a recovery program is still necessary. Thus, we can expect that the IFIs will continue to be involved and supply balance of payments support (IMF), reinforce social safety net programs, help to restore the financial sector and to strengthen public institutions (World Bank), support improved corporate governance, help restructure the regional development banks, and support improved capital markets (ADB).

JICA is the largest bilateral donor and offers a combination of cash support and assistance in agriculture, human resource development in the trade sector, and in the population census. AUSAID is assisting the Financial and Development Supervisory Board (BPKP) to develop and implement a master plan to improve public sector

financial management. It is also helping in the area of public sector reform and human resources development by offering university scholarships. GTZ is involved in establishing the commission for business supervision, socialization of the anti-monopoly law, and in the MSME sector. The Dutch are supporting improvement of corporate governance and in training and education. CIDA is providing assistance for the development of pension fund reform, working with the actuarial association, and have partnered with KADIN on SME development.

7. Critical Assumptions: For the GOI to be successful in its daunting economic restructuring, the following set of conditions has to exist:

- GOI “maintains the course” and remains committed to the timely implementation of its economic reform program in spite of political pressure to revert to the past status quo;
- IFIs and the Friends of Indonesia continue to disburse funds needed by GOI to cover budget and foreign exchange shortfalls and support implementation;
- GOI proceeds with civil service reform to address issues of performance and compensation for civil servants and re-allocation of GOI human and physical resources to local public entities under decentralization; and
- Fiscal stability and the national market are preserved under decentralization.

The absence of any one of the assumptions listed above will negatively impact the implementation and, thus, outcome of the GOI economic reform program.

Strategic Objective: Energy Sector Governance Strengthened (SO 13)

1. Problem Statement: The current government-owned and vertically-integrated structure for running the energy sector in Indonesia is highly inefficient and causes GOI coffers to hemorrhage at least \$5 billion annually that could otherwise be spent on social sectors such as health and education. Experience elsewhere has shown that this is not necessary, because unlike in the social sectors, the private sector is keen to invest in the energy sector and is capable of running the sector very efficiently. In this model, there remains a role for government as a regulator. With the completion of *energy sector reform*¹ in Indonesia, a process that is underway in over 60 countries worldwide, a very different future could be possible – one in which the energy sector contributes billions of dollars in taxes and other revenues annually. A significant improvement in the quality of life for the citizens of Indonesia could be expected as a result of greater access to reliable, affordable, and quality energy services in the industrial, commercial, transport and residential sectors of the economy. Also, greater revenues coming from the nation’s natural resources could enhance funding for higher quality education and health services.

The intention to reform the energy sector has been stated by the President and is included in half of the International Monetary Fund (IMF) articles of conditionality. However, there is only nascent political will to travel down the reform road. The few vested interests benefiting from the present inefficient structure and lack of transparency in the sector can be expected to strongly oppose reform. The reduction of corruption is necessary to lessen the impact of moving from heavily subsidized prices to market prices for the poor. Subsidy removal will decrease the potential for political volatility springing from energy price increases. Carefully targeted subsidies, such as lifeline rates for electricity, will be needed to cushion the transition to market prices. It is essential to gradually create broader-based and more knowledgeable participation in sector reform. It may also be necessary to find creative approaches to generating peer pressure in international forums, such as gatherings of Asia Pacific Energy Cooperation (APEC) and Association of South East Asian Nations (ASEAN) Energy Ministers, to jump-start a more serious reform process in Indonesia.

¹ *Energy sector reform* includes design and implementation of a policy, legal and regulatory platform for restructuring (disaggregation or unbundling of the sub-sectors, the introduction of competition, protection of public goods such as basic services for the poor, environmental protection, safety) and privatization.

2. Statement of the Strategic Objective: The strategic objective of strengthening *governance* of the energy sector will result over the longer-term in a more efficient and equitable sector. This will minimize the role of government as a regulator, maximize the role of the private sector as an owner and operator, maximize the benefit of energy natural resources for the nation, increase access to reliable and quality energy services and products at affordable prices, and internalize the “polluter pays” principle into energy pricing. Since the use of resources, willingness to pay and the impact of price increases impacts women and men differently, this strategy will include promoting the development of disaggregated data based on gender as well as use of this data for policy-making.

SO13 is responsive to the January 2000 USG Interagency Assessment Team recommendations for strengthened economic governance and decentralization. SO13 is directly linked to the Strategic Agency Framework Objectives of broad-based economic growth, democracy and good governance strengthened, and the world’s environment protected for long-term sustainability, and to the Mission Program Plan (MPP) Environment, Economic Development, and Democracy goals.

3. Relationship to USAID Experience, Comparative Advantage, Assets: Over the past decade, USAID has supported energy sector reform efforts in more than 15 countries in Eastern Europe and several of the former republics of the USSR, Latin America and Asia. USAID has been the primary bilateral donor, with Japan showing interest more recently. USAID has developed a close and complementary working relationship with the Multilateral Development Banks (MDBs), with USAID’s early-on grant funds leveraging larger tranches of MDB assistance on a loan basis.

SO13 will directly contribute to economic recovery , political stability and a cleaner environment by increasing the contribution of the energy sector to the economy, and reducing corruption and conflicts stemming from competing interests to control sector assets. Customers who will be directly influenced by this strategy are the following:

- 1) Government parties responsible for the execution of energy sector reforms;
- 2) Constituencies such as local government units, NGOs and the media who are eager to understand the nature of energy sector reform and ensure that the benefits of the nation’s natural resource endowment and the provision of energy services will be more broadly-shared than in the past; and
- 3) Investors, managers and neighbors of cleaner energy systems who place a value on the human health and environmental benefits of these systems.
- 4) Indirectly the benefits of reform and reduced environmental impact from energy systems will accrue more broadly to the nation, and to the world in terms of reduced emissions of greenhouse gases from support for clean energy systems.

SO13 Indicators and Anticipated Level of Change: Three broad-based indicators at the SO Level/Energy Sector Governance Strengthened, are expected to improve

- 1) US\$ in energy sector subsidies decreased;
- 2) US\$ in private sector investment in the energy sector increased; and
- 3) Increase in number of emission units avoided (greenhouse gases, lead)

Strategic Approach: The three-pronged strategy to strengthen energy sector governance balances Economic Growth (EG), Democracy and Governance (DG), and Environment (ENV) approaches, respectively.

IR13.1: Energy Sector Reform Implemented

The first prong targets responsible government parties, especially in the Ministry of Mines and Energy (MME), and State-Owned Enterprises (SOEs) such as the electricity utility (PLN), the gas distributor (PGN), and the oil

and gas producer (Pertamina); legislators. Once independent regulatory bodies have been created as a result of the reform process, regulators will also be targeted. Sub-sectors which will be targeted for energy sector reform are electricity, oil and gas, and transport activities including technical assistance, training and partnerships to support integrated sector policy reform and policy analysis capability. Indicators are the following:

- a) No. of advances along the policy and enabling indices (per sub-sector);
- b) No. of US\$ leveraged in support from other donors for policy reform

IR13.2: Broader and More Knowledgeable Participation in Energy Sector Reform

The second prong, targets assistance to NGOs, local government units and the media to support participation in and advocacy for energy sector reform. Broad and informed support from below will put steady pressure on the top to sustain sector reforms. Illustrative activities include training, workshops, study tours, and partnership-building activities which use a broad array of media tools developed to support stakeholder review processes, policy analysis capability, advocacy skill-building, and pilot studies to explore options for decentralization in the management of energy resources and services. Indicators are the following:

- a) Number of USAID-supported constituencies engaged in energy sector reform (NGOs, local government units, media)
- b) Number of publications, articles, audio-visual materials documenting energy sector reform
- c) Mean score on constituency group understanding index (tentative)

IR13.3: Environmentally-Friendly Investment In and Management Of the Energy Sector Increased

The third prong targets the transfer of clean and efficient energy technologies and best practices to Indonesia, especially from U.S. private sector firms. This transfer will be accelerated by incorporating market signals and regulations in the reform process for environmentally friendly options and leveling the playing field for all investors to do the right thing for the environment (while maximizing profits). Illustrative activities include clean energy trade missions, workshops, conferences, study tours, partnerships with U.S. trade organizations, technical assistance to increase energy efficiency, and support for the improvement of air quality and reduced greenhouse gas emissions. USAID will support the efforts of other USG agencies, such as the Departments of Commerce, Energy and State, the Environmental Protection Agency and the U.S. Asia Environmental Partnership (USAEP), to match local demand and U.S. supply of clean energy technologies and services. Specific examples are USAID support for Department of Commerce Clean Energy Trade Missions and for USAEP clean technology and cleaner production initiatives targeted at urban air improvement and higher fuel standards. Indicators include:

- a) US\$ leveraged in clean energy investments; and
- b) Kwh avoided from increased energy efficiency

Assuming continued political will from the top to proceed with sector reform and steady capacity-building efforts with government and civil society to support getting the job done, reasonable expectations for achievements within one, three and five-year benchmarks are the following:

One Year: Policy analysis capacity strengthened. Increased rationalization of energy pricing policies and initial measures implemented. Overall sector reform policies for the electricity, oil and gas, and transport sub-sectors clarified;

Three Years: Several pieces of legislation to liberalize and privatize the various sub-sectors passed, including an oil and gas bill and an electricity bill. Independent regulatory bodies for the electricity and oil and gas sub-sectors created;

Five Years: Electricity, oil and gas sub-sectors unbundled and initial competition introduced. Regulatory bodies operational and strengthened, designing and implementing rules and regulations for a grid code, a

distribution code, an independent system operator, pool market rules, a financial clearinghouse for spot market transactions, and enforcement of environmental and safety measures.

Relationship to other SOs: There are strong linkages between SO13 and SO11 (EG), SO7 (DG), and SO10 (decentralization). There are weaker linkages to SO12 (NRM) and SO8 (PHN). It will be important in the implementation of SO13 activities for the SO13 Team to coordinate closely with the other S.O. teams.

Resource Priorities: The highest priority activities under SO13 will be the mutually supporting activities under IR13.1 and IR13.2. Although the sector reform activities are “transitional” in nature, experience in other countries suggests that the reform process as a whole will take more than five years to complete. The policy and enabling indices will include “triggers”, such as the passage of laws and the creation of independent regulatory bodies (see milestones above).

Donor Coordination: USAID has worked closely with the World Bank (WB) and the Asian Development Bank (ADB) since 1996 on power sector reform, and more recently in the oil and gas and transportation sub-sectors, leveraging a \$20 million ADB loan to MME and \$2 million of WB TA to PLN for corporate financial restructuring. Japan is the only other bilateral donor involved in energy policy reform. Multiple donors support energy efficiency and renewable energy projects.

Critical Assumptions: It will be critical to the successful implementation of SO13 activities that the political will at the top to undertake energy sector reform is sustained over the duration of the SO. If there is clear evidence that this political will is no longer present, the Mission will need to consider the reallocation of a portion of SO13 funds to other investment areas where political will is sufficiently strong to enable the accomplishment of stated objectives.

Strategic Objective: Decentralized and Strengthened Natural Resources Management (SO 12)

1. Problem Statement

While Indonesia ranks first in the world in abundance of plant and marine biodiversity and second to the Amazon Basin in area of tropical forests, the destruction of these natural treasures is increasing at a relentless pace. From these same seas and forests came the fish, timber, oil, gas, coal, gold and other economic plants and minerals that fueled Indonesia’s rapid economic expansion during the Suharto era. During the past three decades, the natural resource capital of the nation was “mined” at a highly unsustainable rate as a result of GOI policy, crony capitalism and ignorance. During the past 15 years, Indonesia’s tropical forests have disappeared at a rate of 1.6 million hectares per year. Seventy-two percent of primary tropical forests have already been lost. If deforestation continues at its current pace, primary forests will be virtually gone in about 25 years. Loss of forest habitat will also mean that charismatic species such as orangutans, tigers, wild elephants, rhinos and exotic birds will disappear from the wild. Indonesia has lost 70 percent of its coral reefs from its 81,000-kilometer coastline. This jeopardizes the livelihoods of the 14 percent of the population working in the marine sector, as well as the survival of marine fishes and animals throughout the archipelago.

When the economic crisis began, its impact natural resource management and on the rate of environmental degradation was unclear. It is now clear that coupled with the ongoing redistribution of power between the center, the regions and other elements of society, the crisis has produced an overall loss of government authority, with pockets of near anarchy beyond Java. During this transitional period, natural resource degradation is increasing. In many regions “tragedy-of-the-commons” scenarios are being acted out as local governments, private companies, local communities, and illegal loggers and fishermen aggressively compete to harvest natural resources.

2. Statement of the Strategic Objective: Decentralized and Strengthened Natural Resources Management

This Objective promotes more transparent, accountable, inclusive and empirically based natural resource related decision-making. The strategic objective's three intermediate results are: (1) roles and responsibilities for natural resources decision-making and management clarified; (2) capacity of local stakeholders to manage natural resources improved; and, (3) broader and more knowledgeable public demand for sustainable natural resources management established.

Resolving many of the outstanding issues will require iterative processes that play out over the next few years. To do this, the Mission program has moved from a sectoral approach with relatively independent activities in forestry, coastal resources, and protected area management to a more integrated strategy that responds directly to the current evolving national policy process as it relates to management of these same resources. Best practices will be viewed through the new lens of decentralization. For the first time the acceptability and application of best practices can be determined by local communities. Therefore, the building of their capacity will be key. Annex A, "Analysis of Action to Conserve Tropical Forests and Biological Diversity," documents the increasing severity of natural resources degradation and identifies the approaches of this Strategy Objective.

SO12 incorporates the findings of a May 1999 assessment of USAID's decade-long experience in this sector in Indonesia, as well as the recommendations of the January 2000 US Government Interagency Assessment Team. It is also responsive to the strategic analyses described in Annex A. SO12 is directly linked to the Strategic Agency Framework Objectives of Natural Resources Management and of Biological Diversity Conservation and to the Mission Program Plan (MPP) Environment Goal. It also has strong secondary links to Agency objectives of accountable Government institutions, global climate change, politically active civil society, impact of crises reduced, and technical/managerial capacity expanded, as well as to the MPP Goal of Democracy and Human Rights.

The SO customers are the estimated 80 million Indonesian who depend directly on the continued productivity of renewable natural resources for their livelihood, as well as the wider domestic and international stakeholders with economic and environmental interests in conserving the rich biological legacy of Indonesia's forests and coastal zones.

Progress at the SO level will be monitored through the number of hectares where conditions of natural resources are stable or improving with baseline and targets that are shown below.

Performance Measure	Baseline (1999)	2000	2001	2002
Number of hectares where conditions of NR are stable or improving	400,000	600,000	900,000	1,200,000

The first-year SO12 program benchmark will be program activities fully underway in all focus areas. The third-year benchmark will be the increasing application of improved resources management approaches by stakeholders stemming from the more transparent and accountable institutions and an inclusive and empirically based policy process.

3. Strategy to achieve SO12: The SO12 program will concentrate its activities in three of Indonesia's most resource-rich provinces--East Kalimantan, North Sulawesi, and West Papua. All three provinces have expansive forests, coral reefs and other coastal resources, and contain immense biological diversity and large protected areas. They were chosen as focus sites because of the political sensitivities raised by competition for these resources from mixed indigenous and migrant populations, volatile ethnic and religious differences, and histories of dissatisfaction with centralized rule from Jakarta. Yet, they are presently calm and open enough for USAID to deliver assistance that will show quick results. This geographic focus facilitates critical integration,

coordination, and networking for all program partners and key collaborating organizations including government, NGO's, private sector, and academic organizations. A smaller presence will be maintained in West Kalimantan, Central Sulawesi, and Lampung where the Mission has invested in a limited number of opportunities promising high programmatic returns. Assistance at the national-level will be focused on decentralization of responsibilities and authorities to provincial and local governments, and networking and sharing of lessons learned among the field programs. The SO's three intermediate results are discussed below.

IR1 - Roles and responsibilities of stakeholders for natural resource decision-making and management clarified.

The rapid change of Indonesia's political economy has altered power relationships across the natural resources sector. For example, large business interests that could previously invoke their central government contacts to pressure local stakeholders now increasingly find themselves being called to account by local governments and populations. At the national level, the SO12 program will ensure execution of implementing regulations related to the new decentralization laws to provide authority to local assemblies (DPRD's), government officials, and communities with regard to forests, protected areas, mines, and coastal zones. SO12 assistance will also ensure that local stakeholders (e.g. communities, NGO's, private firms) influence policies on natural resource management issues. At the local level, the program will ensure that elected DPRD members, local officials and communities understand their roles and responsibilities for natural resource policy, planning, implementation and monitoring. In sum, US assistance will:

- Ensure local parliaments, administrators, NGO's and communities understand the new "rules of the game" regarding who will be responsible for tackling pressing natural resource issues;
- Provide a vision for decentralization of key natural resources ministries through a performance-based process;
- Ensure the involvement of local government and non-government representatives in the deliberation and drafting of related legal and regulatory undertakings; and
- Encourage implementation of natural resource decentralization, while building local management capacity.

Progress at the Intermediate Result (IR1) level will be monitored through (a) the number of policy advances along the policy and enabling condition index and (b) the number of site-specific management plans/agreements between stakeholders that are GOI recognized and under implementation, with baseline and targets that are shown below.

Performance Measure	Baseline (1999)	2000	2001	2002
(a) Number of policy advances along policy and enabling condition index.	493	500	550	600
(b) Number of site-specific management plans/agreements between stakeholders that are GOI recognized and under implementation.	78	92	131	150

IR2 - Capacity of local stakeholders to manage natural resources improved.

A basic assumption of the NRM program is that local control of natural resource management leads to a more sustainable resource use. However, adequate training and capacity building must accompany the delegation of authority over natural resource decision-making for those who receive these incoming responsibilities. The NRM program will build the capacity of a range of stakeholders to sustainably manage their forests, coastal zones and protected areas. The program will ensure elected DPRD members, local officials, NGOs, communities and private companies are capable of identifying and prioritizing pressing natural resource management issues and of implementing best NRM practices. The stakeholders also require strengthened

negotiation and conflict resolution skills, the ability to enlist the assistance of outside parties to help analyze alternative natural resource policy options, and the ability to incorporate lessons drawn from Indonesia’s own empirical experience. US assistance will:

- Establish transparent, accountable and inclusive processes to serve as “conservation checks” in public expenditure and land use planning, the permitting of private investment, and the regulatory compliance monitoring of natural resources concessions;
- Strengthen community mapping capabilities to improve land use and coastal use planning and management and to expedite the appearance of more secure tenure arrangements;
- Strengthen non-governmental and community based organizations to play more effective roles in land and coastal resources governance.
- Refine and disseminate successful approaches for land and coastal resources management and for biodiversity conservation; and,
- Strengthen the technical expertise and expand funding sources for protected area management.

Progress at the Intermediate Result (IR2) level will be monitored as follows:

Performance Measure	Baseline (1999)	2000	2001	2002
(a) Number of target institutions exceeding 2.5 on the Institutional Development Framework (IDF).	40	45	50	60
(b) Number of hectares with implementation of NRM “best practices appropriate to site.	130,000	250,000	450,000	700,000

IR3 - Broader and more knowledgeable public demand for sustainable natural resources management formed.

The SO12 program will help to develop strong public constituencies who value the resources in their natural state and who can influence official policy and implement resource practices in the field. Combining effective land, forestry, coastal, and biodiversity conservation management knowledge with the popular voice of civil society groups will improve the development and implementation of environmentally beneficial practices. Care will be taken to ensure that potentially underrepresented constituencies, e.g. women and the poor, are given the opportunity to participate in natural resource-related dialogues and decision-making. US assistance will:

- Promote broad public understanding of the multiple value of forests, coastal zones and protected areas, particularly in their natural state;
- Promote the expectation that local officials will employ transparent, accountable, inclusive and empirically based methods in handling natural resource issues;
- Ensure broad access to lessons learned regarding the sustainable management of local forests, coastal zones and protected areas to inform decision-making and advocacy;
- Encourage concerned members of the public to participate in and attempt to influence the local natural resource decision-making processes; and
- Increase local understanding of how and where to resolve natural resource conflicts.

Progress at the Intermediate Result (IR3) level will be monitored through the mean score on the constituency group understanding index. This new indicator is under development with program partners.

4. Relationships to program priorities and other activities: The SO12 program will directly contribute to economic recovery and political stability by maintaining the productivity of natural assets and by reducing conflicts stemming from competing interests to control these assets. Activities in the geographic focus areas

will stress close coordination with the activities of other SOs in order to facilitate synergies enhancing the achievement of SO results in line with USAID's crosscutting themes and guiding strategic principles. Examples include: cooperation with SO1 in promoting changes in industrial policies regulating Indonesia's forest sector that has been expanded far beyond the production capacities of its forests; cooperation with SO2 in strengthening local parliaments and ensuring responsive local bureaucracies capable of resolving long-standing natural resource disputes which often lie at the heart of what often appears to be ethnic conflicts; cooperation with SO4 in enhancing local government land use, infrastructure and budgetary planning and permitting skills, and in instituting appropriate local checks and balances to discourage corrupt practices; and cooperation with SO4 for local governance reform to comprehensively address environmental problems like water quality which involves watersheds and water sources, urban water delivery, wastewater processing, and downstream aquatic and coastal resource management. The NRM program is also making a special effort to ensure opportunities for women to participate in environmental decision-making at all levels.

The SO12 program will also cooperate closely with central and regional environmental programs like the East Asia and Pacific Environmental Initiative (EAPEI), and with the Department of State and other USG agencies on activities like State's Common Agenda for the Environment and the Environmental Diplomacy Fund, and on activities related to forest fire and haze reduction.

5. Priorities within SO12: The highest priorities within SO12 are the comprehensive programs in the three focus provinces of East Kalimantan, North Sulawesi, and West Papua. If funds are 25 % less than anticipated, activities in the secondary provinces (West Kalimantan, Central Sulawesi, and Lampung) will be reduced and ended early. If resources were reduced by 50%, the program would also drop one of the focus provinces and possibly reduce presence in another.

6. Donor Coordination: The SO12 will pursue extensive donor coordination through (a) sub-sector donor coordination mechanisms that exist for forestry, coastal resources management, and biodiversity conservation, (b) activity-specific coordination with individual donors like the US-Japan Common Agenda for Biodiversity Conservation, and the Asian Development Bank integrated conservation and development project in Central Sulawesi, and (c) expand provincial and local government-based coordination in focus provinces with many donors. SO12 will work closely with its government and local and international NGO partners and fully involve them in these donor coordination efforts as both groups are providing substantial financial resources for SO12 related activities.

7. Critical Assumptions: The eventual political scope of Indonesia's decentralization initiative is not known, and the willingness of key ministries, like Forestry, to devolve its authorities for managing the country's natural resources are uncertain. The entire process will require close monitoring and constant program adjustment as events unfold.

Likewise, the implications of the continuing economic crisis on the GOI budget and its ability to provide corollary and sustaining resources are far from clear. Established ministries, such as forestry, are contemplating significant reorganization and downsizing, while others, like the new ministries of regional autonomy and of marine exploration, are only beginning to staff up. The related question of whether key organizations, like national parks, can develop new funding mechanisms and increase institutional capacity adequate for their management responsibilities will also require continuing monitoring and program adjustment.

Finally, the predisposition of newly elected or empowered local government officials to conserve or rapaciously exploit resources under their control is essentially unplumbed. Early evidence indicates there will be a range of responses across Indonesia's 400 plus local government units. The SO3 program assumes that at least some within the three focal provinces are amenable to influence.

Strategic Objective: Health of Women and Children Improved (SO 8)

Problem Statement: A healthy population is a critical pre-requisite for building a democratic and prosperous Indonesia. Studies suggest that infant mortality, a good indicator of the overall quality of life, correlates strongly with political instability and slow socioeconomic development. In Indonesia, long-standing progress made in improving health has been severely undermined by the economic crisis. New political imperatives, such as decentralization, threaten the ability of the GOI to ensure that the health needs of its growing population are met.

Indonesia has achieved tremendous progress in reducing population growth and child mortality since the late 1970s. This progress was in large part due to strong, centralized, political commitment to reducing fertility and under-five child mortality. Nevertheless, the population is still growing at a rate of 1.7 percent year, and maternal and neonatal mortality rates are among the highest in the region. Under the new decentralization laws, 249 regencies and 65 municipalities will absorb responsibility for planning, financing and managing health and family planning programs. USAID assistance will provide critical assistance to the new government in this process: to clarify responsibilities at central, provincial, and district levels; to garner commitment of local governments to invest in primary health care; and to develop standards for accountability and sustainability. The new era of civic participation provides an opportunity for the enhanced involvement of families and communities to take responsibility for improving their own health.

Poor women and children face the greatest threats to their health and typically have the smallest voice in health care decision making. High levels of malnutrition and micronutrient deficiencies threaten their survival and the intellectual development of an entire generation. Throughout Indonesia women are dying in childbirth from having too many children, too closely spaced, and from lack of access to trained birth attendants. The unacceptably high maternal and neonatal mortality rates are indicative of the low status of women and serious capacity problems within the health system. HIV/AIDS prevalence remains low, but transmission is increasing steadily among high-risk populations in large cities, port areas, and highly traveled routes. Tuberculosis (TB) is one of the leading causes of mortality. Indonesia ranks third among countries with the highest burden of TB worldwide. TB threatens the most vulnerable and undermines progress against poverty by taking lives in their prime earning years. Investments in preventive health care for family planning, maternal/child health and nutrition, HIV/AIDS and TB have large payoffs in reducing excess morbidity and mortality. Health is a central feature of any poverty alleviation program, and is a crucial building block for a productive population, a robust economy, and an equitable society. The ability of the GOI to meet the health care needs, demands and expectations of its population is an imperative for improved health status. It is also a fundamental step in realizing the legitimacy of the new government.

Statement of the Strategic Objective: Health of Women and Children Improved.

As a result of USAID assistance, family planning services will be of higher quality, increasingly acceptable to the population, and consistently used. Women will be less likely to die in childbirth, and infant mortality will be reduced. Severe micronutrient deficiencies among women and children will be reduced. The further transmission of HIV and other sexually transmitted infectious will be reduced. Finally, efforts by the GOI and NGOs to implement TB control programs will be expanded. These changes will be measured by: sustained rates of contraceptive prevalence; an increased in the proportion of births attended by trained providers; reduced infant mortality rates; increased condom use among target populations; and compliance with the Directly Observed Therapy, Short Course (DOTS) Strategy for TB.

USAID's family planning efforts will be focused in Jakarta and six provinces (the three on Java, North Sumatra, South Sumatra and Lampung). Together these contain a population of 150 million (70% of the total) and high levels of unmet need. Maternal and child health efforts will be focused on the province of West Java, which contains 42 million people (20% of the total), and selected districts in East and Central Java. A new program to re-establish and maintain a decentralized preventive health outreach system among families returning home will

be initiated in Aceh. HIV/AIDS efforts will be focused in 10 urban centers throughout Indonesia; special emphasis will be placed in Papua, where HIV/AIDS is growing most rapidly. An initiative to improve the health and wellbeing of street children will be located in four major urban areas.

USAID/Indonesia's strategy for health and population is directly linked to the Agency's population and health goal. As the fourth most populous country in the world (estimated at 210 million in 1999), progress in Indonesia on protecting human health and stabilizing population growth has considerable implications for USAID's overall program goals in health. It is also directly linked to the Mission Program Plan areas of global population and health.

This strategy builds on work undertaken in response to the economic and political crises. Over the past two years, the program was concerned with establishing surveillance systems to monitor the effects of the crisis on nutrition and health, and on preserving the delivery of essential preventive health services to the most vulnerable women and children. As Indonesia recovers from the economic crisis and as democratization takes root, USAID's health strategy will evolve into a three-pronged approach that supports the supply and demand aspects of health within the context of decentralization. First, the strategy will improve the enabling environment in accordance with health reforms underway. Second, the strategy will strengthen capacity and commitment of the GOI and the private sector, particularly at the district level, to meet the needs of the people. It is at this level that family planning and health services will be delivered or not, where quality standards will be achieved or not, and where clients will decide to use these services or not. Third, the strategy will help individuals and communities to participate more fully in building a healthy Indonesia – by deciding what quality health care means to them, by learning to demand these services from locally elected representatives, and by improving their own behaviors. The Interagency Assessment highlighted the need for capacity building, the need to bridge the gap between popular expectations and the ability of the government to meet those expectations, and the need to facilitate the process of decentralization. USAID's health strategy directly addresses each of those needs. To achieve the strategic objective, USAID will focus on three intermediate results:

IR1: Policy Environment for Reproductive and Child Health Improved.

Political and economic reforms create tremendous opportunities for improving the health of women and children, but they also present potential threats. Highly centralized systems used in the past to implement local programs may no longer exist. It will be critically important to ensure that financial and human resources at the local level are available for basic preventive health services, and that local authorities support the need for family planning, maternal/child health and nutrition, and HIV/AIDS. As the Indonesian society and government increasingly recognize the rights of women, family planning must be repositioned from a top-down, demographically-driven imperative, into a broader framework of women's health and women's empowerment. At the same time, attention must be focused on reducing the threats to a woman's survival in childbirth.

Illustrative activities to achieve this IR address all technical elements of USAID's health program, and include:

- Advocacy to senior decision-makers at national, provincial and district levels to maintain commitment to *family planning, maternal/child health and nutrition, HIV/AIDS* and other primary health care services at the local level.
- Addressing *contraceptive self-sufficiency* and other program sustainability issues.
- Developing *national health quality standards* and improving compliance at the district levels.
- Ensure that quality and informed choice are instituted as hallmarks of the national *family planning* program, and implemented within a framework of women's empowerment
- Ensure policies to improve access to *family planning and HIV/AIDS information and services for adolescents*, a growing cohort which comprise over 34% of the population.
- Support the development of appropriate national and local intravenous drug use policies to reduce the spread of *HIV/AIDS*.
- Increase awareness of the value of the girl-child and responsible parenting in urban communities to prevent school dropouts and reduce the numbers of street children.

IR2: Health service systems strengthened to improve access, quality and sustainability.

Improvement in the health status of women and children is dependent on the availability and use of high quality primary health care services. This will require strengthening capacity at the local level to finance and implement these services. It will require correction of problems in key health systems, including clinical training, supervision, use of data for decision making, and logistics management. The capacity of the NGOs and private sector must also be further strengthened to promote program sustainability. USAID will support the following activities:

- Improve technical capacity at local levels (including midwives, public sector officials and NGOs) to deliver an integrated package of interventions: *maternal nutrition and iron supplementation, management of pregnancy and delivery, infection prevention, tetanus toxoid immunization, post natal care for mothers and newborns, hepatitis B vaccination in the first week of life, counseling on breast feeding, immunization, hygiene and diarrhea prevention.*
- Improve *micronutrient* status of children through vitamin A supplementation for infants 6-11 months and children 12-59 months in focal urban areas.
- Improve *nutritional status* of vulnerable infants 6-12 months through targeted infant feeding and strengthening use of the integrated village health post.
- Ensure that health, nutrition, disease, and HIV/AIDS *surveillance systems* are functioning at all levels, and local authorities for planning and management are using that data.
- Implement the DOTS Strategy for *TB control.*
- Improve *clinical training systems and interpersonal communication & counseling* for family planning and maternal health.
- Improve *logistics management and delivery systems* for contraceptives and essential drugs.
- Strengthen quality, accessibility and utilization of *HIV/STI* prevention services and develop local capacity to adapt *HIV/AIDS* universal precaution and infection control practices.
- Strengthen capacity of NGOs and local governments to plan and manage programs serving the special needs of *urban street children.*

In conjunction with *humanitarian relief* efforts in provinces which have been affected by violent conflict, the health program is providing support for selected emergency health and child survival activities implemented through international PVOs with FY 99 funding provided from the Accelerating Economic Reform in Asia (AERA) program. Current programs include infant feeding activities in West Kalimantan and Malukus, as well as re-establishment of primary health care services in West Timor and Aceh.

IR3: Women, families and communities empowered to take responsibility for improving health.

Effective communication and media are needed at all levels to advocate for sustained improvements in health of women and children. Individuals and communities need information about appropriate healthy behaviors. And they need to be empowered to demand higher quality primary health care services. Fundamental changes in public health behavior, perceptions of health care services, and awareness that maternal and child survival is a human right, will be addressed through building community action for these issues. Mass media and other forms of communication will be used to inform the public. USAID has been asked by the Minister of Health to develop a communications and advocacy program for decentralizing the *Healthy Indonesia 2010* paradigm. This new paradigm shifts the health program from a highly centralized program focused on curative care to a decentralized one based on prevention. Illustrative activities for this IR include:

- Establish a Health Alliance consisting of NGOs, local health boards, and advocacy groups to develop a public information and media program in support of *Healthy Indonesia 2010.*
- Increase participation of women's community groups in defining health needs and in advocating for high quality, responsive *family planning, and maternal/neonatal health programs.*
- Increase knowledge and utilization of micronutrient rich foods to improve *nutrition.*

- Mobilize *care seeking behavior for maternal and child survival.*
- Mobilize *care-seeking behavior for STIs to prevent HIV/AIDS.*

First year achievements. USAID will put in place three major new agreements to improve the quality and consistent use of family planning, to expand HIV/AIDS/STI prevention initiatives in new high risk areas, and to address the priority needs of street children in four urban areas. Relationships at the district level will be firmly established, and activities to build local capacity will be well underway. In selected districts and at the provincial level in West Java, decentralized workplans and budgets for delivery of family planning as well as the essential package of maternal and neonatal health services will be developed. An HIV/AIDS surveillance system will be introduced in new districts. Vitamin A supplementation programs will reach vulnerable infants in four large urban centers. Complementary feeding for infants 6-12 months will reach thousands of beneficiaries in five provinces and selected conflict areas.

Relationships to other SOs: USAID's health and family planning efforts are closely linked to other SOs. The Health and Food for Peace teams have been collaborating closely on food aid for the urban poor as well as on emergency health programs for internally displaced persons (IDPs). The assistance that SO10 is providing to local governments in 14 cities to implement decentralization laws will be helpful in assuring adequate local financing for health services. Potential areas of collaboration also exist with SO10 on water quality and sanitation, which are critical for addressing diarrhea, one of the leading causes of child mortality. There are direct links with EG in food policy and rice pricing issues; accessibility and affordability of rice has a direct impact on nutritional and micronutrient status. Information gathered in the USAID-supported Nutrition and Health Surveillance System is being used by the EG team on food policy, as well as by Food for Peace to monitor the impact of USAID's Title II food programs. The health team also collaborates with SO12 (NRM) on population and biodiversity synergies through community groups and NGOs. Finally, there are important connections between the work SO 7 (DG) is doing to improve the rights of women and children and issues of violence against women.

Resource priorities: USAID/Indonesia's health program is supported by resources from DA/Population funding, and the directives within the Child Survival and Disease account, including HIV/AIDS, Child Survival, and Infectious Diseases. The sources of funding are not fungible so resource priority choices will depend on the type of resources increased or decreased.

- Population funding is being used to support both family planning and select maternal health activities. Significant increases or decreases would affect the number of beneficiaries and the number of districts where the program could have a significant impact.
- Within the CSD account, the highest priority is to strengthen capacity at the local level to implement an integrated maternal and child survival package of services. With reduced funding, USAID/I would be unable to continue surveillance efforts, and vitamin A supplementation for children 12-59 months would have to be reduced.
- The TB/DOTS program is entirely dependent on available infectious disease directive resources. If infectious disease funding were reduced, USAID/I would eliminate support for TB.
- If vulnerable populations--either urban poor or IDPs--increase significantly over the next several years, then increased health resources will be required to address their needs. If economic recovery continues and people move out of poverty, and the IDP population does not expand significantly, then CSD resources would be directed to sustainable development health programs.

Donor coordination/donor contributions: USAID/Indonesia is one of the leading bilateral health donors and has a close working relationship with all of the major donors. USAID is a member of the Partners in Health Working Group, a high level advisory group to the Minister of Health, led by the World Bank, UNICEF, ADB, and WHO. The World Bank and the ADB have significant investments in the health Social Safety Net program, and apply health tools and approaches developed by USAID. WHO is supporting reproductive health policy, and the national application of Integrated Management of Childhood Illness, a protocol for case

management of child health that is an effective complement to USAID's work at the district and provincial level. USAID is contributing to UNICEF/GOI's infant feeding programs at the community level and to UNICEF/GOI's program on iodine deficiency. UNICEF is also supporting immunization, water and sanitation, and child rights. UNFPA is focused on adolescent and reproductive health and addressing violence against women and gender equity. AusAID is the only other bilateral donor working on HIV/AIDS, and also has a comprehensive women's health and family welfare program in the eastern islands. JICA is supporting an effort in South Sulawesi aimed at improving service delivery and health administration. Other major donors and foundations in the health sector include the Gates Foundation, the Turner Foundation, the European Union, UNAIDS, and KfW.

Critical assumptions:

- Essential drugs and contraceptives will continue to be available.
- Private sector will continue to be a viable provider of health, including family planning, services.
- NGOs will continue to be able to flourish, and function independently.
- Religious fundamentalism does not interfere with the family planning program, STI disease prevention, or women's empowerment efforts.
- The free health services supported by the Social Safety Net program will not have a long-term impact on the population's willingness to pay for primary health care services.
- The struggle to control scarce government resources will not undermine long-term investments in health.

Special Objective: Impact of Conflicts and Crises Reduced (SO 9)

Problem Statement: The continuing tension related to ethnic and sectarian strife, evolving civil/military relations, past human rights abuses, declining central authority, and a lack of tangible progress in poverty alleviation and economic recovery threatens Indonesia's transition to free market democracy. Potentially contagious sectarian and political violence has left 600,000 people internally displaced and weakened the government's capacity to respond to future emergencies. Separatist sentiment remains strong in a number of provinces, notably Aceh and Papua. The decentralization of governance and fiscal authorities could increase the potential for conflict and crisis, particularly in some of the outer provinces, which see an opportunity for increased autonomy and power. Rivalries for control of natural resource wealth are a key factor behind the conflict currently plaguing a number of regions rich in natural resources. A failure on the part of newly-empowered local authorities to deliver adequate public services could result in a health-related crisis or social unrest to go along with ethnic and religious conflict.

Providing humanitarian assistance and addressing the roots of these conflicts during this transition period are critical to maintaining a stable environment in which the government can concentrate on key economic and political reforms. Indonesia's capacity, however, in the area of conflict resolution is limited. Successful solutions to Indonesia's complex conflicts require reconciliation tools and resources. In the short term, this means capitalizing on windows of opportunity to contain conflicts in specific geographic "hot spots." In the long term, national and local institutions must develop the capacity to address and prevent conflicts in the future.

Statement of the Strategic Objective: Threat of Conflicts and Crises Reduced

USAID will ensure that critical humanitarian needs are met in response to disasters and crises. It will also support rapid quick-impact interventions to alleviate existing and emerging conflicts, particularly in Aceh and Papua, as well as help develop local capacity to advance preventive policies and practices that will mitigate the impact of future conflicts. The special objective's three Intermediate Results (IR) are discussed below. These are: (IR1) improved welfare of populations affected by natural or man-made disasters; (IR2) food security for vulnerable populations improved; and, (IR3) indigenous efforts and capacity to resolve conflict and promote reconciliation strengthened.

SpO9 reflects the recommendations of the January 2000 Interagency Assessment report regarding the importance of preventing and containing outbreaks of sectarian and ethnic violence. SpO9 is directly linked to the Strategic Agency Framework Objective of 6.1 Impact of Crisis Reduced and to the Mission Program Plan (MPP) Humanitarian Assistance Goal. It also has strong secondary links to Agency objectives of Urgent Needs in Time of Crisis Met, Agriculture Development/ Food Security, Economic Opportunity for the Poor, Infant/Child Health/Nutrition, and Program Effectiveness Improved, as well as to the MPP goal of Democracy and Human Rights.

The current dynamic nature of Indonesia makes it difficult to develop precise performance indicators at the SpO level. Adjustments in response to changes in the implementation environment will have to be made more frequently than in a more traditional strategy. At this point, progress at the SpO level will be measured by (a) the nutritional status of vulnerable populations; and, (b) a qualitative review of the conflict situation in target geographic zones and an analysis of USAID efforts.

Although the Mission will need to retain the capacity to respond to emergency humanitarian crises throughout the period of this strategy, it will reevaluate the need for the other components of SpO9 after three years. At that point, it is anticipated that non-emergency food security needs will have been met. The Office of Transition Initiatives (OTI) is expected to have successfully fulfilled its catalytic mandate by the three-year mark. Trigger points for OTI's phaseout would be when Indonesia no longer needs short-term political development assistance, or when the Mission has incorporated a similar quick impact tool to address critical conflict issues in "hot spots." As appropriate, OTI's network of local partners could be integrated into the overall Mission portfolio. Should opportunities emerge for more integrated and systemic conflict resolution programming, such as a broad truth and reconciliation effort, short-term activities promoting local efforts and capacity for conflict resolution in geographic hot spots would be shifted to SO7.

3. Strategy to Reach the Strategic Objective: The situation in Indonesia remains fluid, with quickly evolving crises often being matched by equally sudden opportunities. USAID must retain a high degree of management and resource flexibility to respond effectively to these challenges. To do this, the Mission has established SpO9 as a mechanism for bringing together the necessary management and resources to deal with emergency situations, mitigate and contain the effects of conflict in specific geographic areas, and promote recovery. The SpO9 team will coordinate across the Mission's assistance portfolio drawing on resources (DA, ESF, ANE regional funds, Global, FFP, OFDA, and OTI) as appropriate. Key illustrative activities would include food distribution, food for work programs, emergency healthcare, assistance for displaced persons, and short and long-term approaches to conflict prevention and resolution. Each of these activities will be developed with particular concern for gender equity. USAID will continue to work closely with Embassy task forces on "hot spots" providing guidance and timely information to facilitate the Embassy's foreign policy agenda.

An essential component of SpO9's conflict mitigation focus is the efforts of OTI to provide rapid and flexible assistance addressing urgent transitional needs that often cannot be funded by other USG mechanisms. OTI reevaluates its strategy every six months to ensure that its programs are meeting the most pressing needs. Rolling impact evaluations and capacity monitoring of local grantees identify models and effective implementing partners for longer term funding by other elements of USAID, other donors, and/or the private sector. OTI has begun to focus its resources (approximately 70% in FY 2000) on addressing conflicts in "hot spot" areas.

SpO9 offers a variety of rapid response mechanisms which can be activated to harness the eruption of sectarian and ethnic strife before it reaches a national scale that would be too large to contain, or react to a humanitarian crisis. For example, emergency needs related to a natural or man-made disaster would trigger immediate interventions such as OFDA humanitarian assistance, Food for Peace aid, relief for displaced families, and emergency health assistance. The emergence or escalation of a geographic conflict would mobilize OTI's short-term, quick-impact conflict mitigation activities to promote stability. SpO9, in support of the SO7 team, will

also help communities prevent conflict by starting a dialogue on contentious issues before actual conflict or violence flares. It will build foundations for indigenous capacity to promote conflict resolution, reconciliation, tolerance, and diversity (including the rights of women).

IR1 - Improved Welfare of Populations Affected by Natural or Man-Made Disasters

The SpO9 program will ensure that food and life-saving assistance is provided to areas severely affected by a conflict and humanitarian relief is targeted to populations whose safety, health or livelihood are threatened. In the event of a complex natural or human-induced disaster, USAID would call upon P.L.-480 food resources as needed. Currently, in collaboration with OFDA, the Mission's PHN Office, the World Food Program (WFP), and NGOs, food and other emergency assistance will continue to be provided to internally displaced populations in West Kalimantan, West Timor, and the Maluku. SO5 is also responding to health and psychosocial needs at the community level in conflict-torn Aceh.

Progress at the Intermediate Result (IR1) level will be measured by (a) the number of tons of commodities delivered and (b) the number of beneficiaries.

IR 2 - Food Security for Vulnerable Populations Improved

The availability and affordability of basic foodstuffs is central to stability in Indonesia. Inflation, growing poverty, and disruption of the normal food distribution and marketing systems have reduced people's ability to access food, making the food problem in Indonesia one of access rather than supply. In response to the changing nature of Indonesia's food crisis during this transition period, USAID has refocused its Food for Peace P.L.-480 Title II non-emergency resources to urban and semi-urban areas hit hardest by the economic crisis, especially on Java. In FY 2000, the Mission expects to provide commodities valued at \$9.6 million to benefit approximately 900,000 people. Food for Work programs are targeted to address the needs of the urban poor in order to improve living conditions, ease social tensions, and mitigate the risk of political instability in urban areas. Complementary activities under SO5 are ensuring that the health needs of urban poor are being addressed, including infant nutrition programs.

Progress at the Intermediate Result (IR2) level will be measured by (a) the number of person days of employment generated and (b) the number of beneficiaries.

IR3 - Indigenous Efforts and Capacity to Resolve Conflict and Promote Reconciliation Strengthened

Indonesians face a momentous task in achieving lasting solutions to a wide range of conflicts. Politically motivated violence, religious strife, ethnic discord, separatist disputes and military abuses of power are all manifestations of Indonesia's fraying social fabric. Civil society will play a crucial role in ensuring that conflicts are resolved in a peaceful, fair and sustainable manner.

SpO9 will coordinate the efforts of the Mission's Democracy team, OTI, and Food for Peace to support analysis, training, dialogue, mediation, truth and reconciliation mechanisms and institution building for conflict resolution to help reconcile communities in conflict. It will support the short-term efforts of local institutions to resolve conflicts in specific geographic areas and strengthen indigenous capacity to conduct conflict resolution programs on a broader scale. It will not hesitate to work with emerging civil society groups who may not have the institutional capacity to carry out long-term activities, but who have the energy and creativity to initiate positive change. It will encourage civic organizations to address conflict before the military or police are asked to intervene.

Short-term conflict resolution assistance in specific geographic conflict areas will:

- facilitate communication by supporting objective and less inflammatory media coverage;
- conduct apolitical projects to promote dialogue among dissenting parties and communities, such as rebuilding community structures destroyed by conflict;

- launch public information campaigns addressing key issues such as decentralization and overall messages of reconciliation based on local community needs;
- support efforts to conduct human rights investigations;
- help civic organizations play a mediation role in conflict situations.

Longer-term conflict resolution assistance to prevent conflict will:

- improve analysis skills and understanding of conflict resolution approaches;
- improve the technical capacity for conflict resolution and the national and local level;
- support truth and reconciliation efforts;
- promote inter-faith religious dialogue and tolerance at the national and local level;

Progress at the Intermediate Result (IR3) level will be measured by (a) the number of interventions by geographic zone and national level; (b) the number of local NGOs and CBOs involved; and (c) other statistical inputs available from OTI's project database. The SO7 team will need to develop specific indicators as a longer-term conflict resolution program emerges.

Relationships to Mission's Other Strategic Objectives: By reducing the threat of conflicts and crises, SpO9 helps create a stable environment for the Mission's other strategic objectives supporting political, social and economic reform. Activities under SpO9 will require careful coordination of the strong linkages with other SOs. Under SO11, USAID is providing food policy support to the GOI that will impact on SpO9 food security activities. Conflict resolution activities under SpO9 will contribute to efforts under SO7 to increase civil society participation and strengthen the media's role as a provider of objective news and information on issues critical to Indonesia's transition to democracy. Cooperation with SO7 on support for truth and reconciliation activities will also bolster efforts to address justice sector reform. SpO9 will contribute to efforts under S10 by promoting public discourse on the resolution of conflicts resulting from decentralization. SpO9 emergency assistance is complementary to health and nutrition programs under SO8.

SpO9 Resource Priorities: Resource needs for SpO9 will have to be based on a number of factors, including the scale of internal social and ethnic conflicts and the severity of future disasters or emergencies. In the present situation, funding levels for emergency and non-emergency food assistance and emergency health and nutrition assistance under SpO9 are considered sufficient. Funding for short-term interventions in geographic conflict zones is sufficient to allow comprehensive work in Aceh and Papua. Reductions in funding would result in a rolling back of the longer-term conflict resolution capacity building under IR3.

Donor Coordination: In complex emergencies, USAID works closely with other donors to target assistance to those most in need. The World Food Program has approved a Protracted Relief and Recovery Operation (PRRO) to continue food assistance in urban areas and for internally displaced persons, also supported by USG food assistance. Other donors, principally Canada, Australia and Japan have indicated a willingness to continue food assistance. USAID, in association with the World Bank, the International Monetary Fund (IMF), and other donors, have collaborated to strengthen GOI food policy.

Critical Assumptions: SpO9 is designed to operate in a difficult conflict or crisis environment. Emergency disaster assistance will be provided in almost any situation. In responding to specific conflict zones, the assumption is that there will be room to maneuver as the government negotiates a peaceful without resorting to crackdowns or military intervention to quell separatist movements.

III. Programming Scenarios

Given the enormous scale and the potential intractability of key issues, USAID - like all bilateral donors - faces a resource constraint. The Agency alone cannot “leverage” reform. The strongest role USAID can play is to provide intellectual leadership and behind-the-scenes coordination among fellow bilateral donors so that our Indonesian partners are properly supported with technical assistance and advice as they face the difficult decisions ahead.

USAID has planned its strategy with an expected resource level of \$130 million per annum in mind for the first three years. The mission expects ESF resources to drop sharply in the final two years of the strategy and has planned on the basis of a combined total of \$100 million per year for years 4 and 5. In this section, the mission would like to share its thinking about programming alternatives should the mission receive only \$115 million per year in years two and three of the strategy, rather than the assumed \$130 million. With a \$15 million dollar shortfall for each of the two years, the Mission would in general move away from longer-term commitments to capacity and institutional building and would instead focus on the achievement of particular reforms. For example, USAID/Indonesia would reduce EG (S.O. 11) institution-building efforts and defer most microenterprise activities. The mission would also take a careful look at institutional strengthening efforts planned under the DG strategy and cut the HPN program allocations for TB and surveillance, on the assumption that by then the GOI would be in a better position to cover these costs. Less would be done under Energy intermediate result 3: *Environmentally-Friendly Investment In and Management of the Energy Sector Increased*. S.O.s 10 (decentralization) and 12 (NRM) are already thinly funded so that the mission proposes to “wall” those strategies off from any cuts. DG has allocated substantial sums to longer-term efforts in building the capacity for conflict resolution. Cuts could be made here, and other donors asked to supply any shortfall. Finally, we are matching SO pipelines to burn rates carefully to ensure they are maintained within Agency guidelines.

By years 4 and 5, USAID/Indonesia hopes that the country has stabilized and that it can contract or eliminate SpO 9 (conflict/crisis mitigation). This might save approximately \$11 per annum million, between OTI conflict resolution and funds allocated for food. In addition, longer-term conflict resolution monies would continue to be trimmed, by \$4 million in each year. DG’s media program will be phased out and another \$2 million per annum can be gained. We anticipate that by Years 4 and 5 the EG strategy will require fewer advisors placed in key economic ministries (and perhaps fewer grantees) because Indonesia will be well along its economic reform trajectory. Finally, we would look at reducing expenditures on the TB program and surveillance and requesting ANE to provide more discretionary funds in place of the HPN earmarked funds.

In years 4 and 5, we anticipate that the DG S.O. team may need to shift resources internally toward elections, since the next general election is scheduled in 2004, the final year of the strategy. It is possible that more ESF might be forthcoming for elections, but this may depend on a number of factors. Resources for S.O. 12 (natural resources management) will remain stable, although if local governments do begin to exploit resources at higher and less sustainable levels than has the national government, the mission may need to look at increased efforts to counter the problem. While the current thinking is also that resources for S.O. 10 (decentralization) would also stay stable in the final two years of the strategy, there may be reason to look at increased funding (possibly beginning in Year 3) to permit that team to expand the number of geographic foci, particularly in Papua and Aceh. If a need is determined, the mission will attempt to identify substantive areas where it is not achieving results, and will transfer those resources to S.O. 10.

Programming will also be affected by a changing political situation. Political uncertainties make forecasting future developments an imprecise exercise. Nevertheless, a number of scenarios can be identified which may require the mission to adjust programming emphases. The first is that Gus Dur stays in power, hampered by a narrow support base, but continuing with a modest reform agenda. The second is that Gus Dur is removed through an impeachment process, to be replaced most likely by Vice-President Megawati who may be far less committed to reforms, but who might be able to govern with some political stability. In both these cases, the

mission will need to balance promoting demand for reform with government capacity to meet such demands. If the latter scenario develops, however, there may be a need to shift more resources to civil society to permit it to engage the new government on key reform issues.

The third scenario that can be anticipated is one in which a potentially chaotic political environment develops. This could occur in a number of ways. If Gus Dur's health deteriorates and he is incapacitated, a struggle for power could emerge. This would likely result in the renewal of large-scale street protests and political rallies. Mass protests would also follow if a new president, presumably Megawati, were to be installed only for her to be challenged by competing parties, most probably hard-line Islamic parties. This would lead to a spiral of political instability and a polarization of the political environment along religious lines. In the event of endemic instability developing, the mission would look first and foremost at efforts to help the country solve its political dilemma and get a stable and legitimate government back in power. The mission would also look at shifting resources to SpO 9 for conflict and crisis mitigation to reduce the impact of the likely escalation of violence across the country.

IV. Management Plan

Overview: This strategy is designed to respond to a complex and rapidly changing environment. As such, it poses some significant management challenges for the Mission. Foremost among these is the need for flexibility in responding to changes in the political and economic environment as well as unanticipated opportunities. Second, the successful expansion of the program into areas, such as justice sector reform, decentralization, gender mainstreaming, and the establishment of new partnerships with national and local governments, parliaments, courts, and political parties requires better coordination and communication among teams. Third, the strategy represents a dramatic increase in the level of program resources allocated to Indonesia. Stringent budget controls and program monitoring systems will be needed to ensure funds are expeditiously and wisely spent. To meet the above challenges, the Mission will create special task forces, designate subject and geographic area coordinators, improve information technology, strengthen budget and program monitoring, and identify and address staffing deficiencies. The goal is to create a Mission structure and operating norms that promote synergy within and amongst teams, facilitate informed and timely decision-making, and produce significant program impact.

Program Responsiveness: To ensure maximum programming flexibility, all teams have begun to put into place umbrella contracts, task orders or grants that are capable of achieving the targeted results through rapid responses to program opportunities and challenges. The Economic SO Team, for example, plans to replace the current Partnership for Economic Growth (PEG) contract with an umbrella type contract which clusters a number of activities. The contractor will also award and administer grants and provide in-kind support to grantees (very much like the existing OTI SWIFT contract mechanism). Similarly, the Democracy SO team currently has a contract with Chemonics for technical assistance, monitoring, evaluation and grant making. The Chemonics contract primarily supports the team's civil society and institution strengthening efforts. The contractor has the capacity to conduct rapid reviews and awards of grant proposals and provide quick, in-kind support to assist government agencies or other entities. Given the fact that other SO teams will be engaged in institution building, it is envisioned that Chemonics might also work with the Economic, Decentralization and Natural Resources teams on civil society capacity building. Such cross-fertilization will enhance team coordination, information sharing and avoid duplication of effort.

Program Coordination: Successful expansion of the program into new areas and the development of productive relationships with new counterparts requires improved team coordination and communication. This is particularly important since it is envisioned that teams will work with some of the same partners on different components of the strategy. To avoid duplication of effort, over-taxing counterparts and sending mixed messages, we will appoint and empower subject and geographic area coordinators to oversee these interventions.

Subject and Geographic Area Coordinators: The Mission will hire specialists in the areas of justice sector reform, decentralization, and conflict resolution to oversee activity implementation and serve as the primary coordinators for the Mission. The Mission will also appoint officers as part-time Geographic Area Coordinators who (1) explore and recommend ways the SO teams can maximize results in each geographic area; and (2) conduct periodic monitoring site visits and reviews of the geographic area interventions. The Subject Area Coordinators will report to the sector specific SO team leaders and the Geographic Area Coordinators will report to the Deputy and Mission Directors.

Gender: Given the importance of gender to the success of this strategy, the Mission will appoint an officer in the Program Office to serve as the Women-in-Development/Gender Officer to ensure that gender receives the attention required in program development and implementation. This will also enable the Mission to mainstream gender within the Mission's overall program management and policies. To further support gender mainstreaming, the Mission will hire a FSN gender specialist.

Office of Transition Initiatives (OTI): OTI's country program is being redesigned to address primarily those issues affecting "hotspots"(Aceh, Papua, Maluku and others as they arise). Consequently, most of OTI's program will be conducted under the Crisis Reduction SpO. The rest is under the Democracy SO in areas of governance, civil society strengthening and civil-military relations. OTI officers will serve on both the Democracy and Crisis Reduction Teams. Significant interface and coordination will occur with all other teams as well. In light of the fact that OTI may phase out of Indonesia by the end of FY 2001, the Democracy team and OTI have already begun to identify and transfer OTI grantees and activities that have potential for sustainable development partnering to the Mission's Democracy Team. Internews is an example of one former OTI grantee that will be fully funded and managed by the Democracy Team in FY00.

Strengthening Management Efficiency: As recommended in the Management Assessment Report, dated 4 February 2000, the Mission will take the following steps to strengthen financial management and improve information technology:

To manage the multi-fold increase in the Mission's level of funding, the Mission will establish a central budget control and analysis unit in the Program Office. This unit will track and report, on a quarterly basis, budget expenditures to ensure that all SO pipelines are well within the Agency standards. Early warning systems will be instituted to provide Mission Management the opportunity to make adjustments and redirect resources.

The Program Office is also being established as the pivotal point of strategy coordination, impact monitoring, and information gathering and dissemination in the Mission. Recruitment of a USDH Project Development Officer and a local expatriate PSC Information Specialist is underway. Skills of existing staff will be enhanced through formal training in program monitoring and budget analysis.

The Mission will re-institute semi-annual program achievement reviews to assess performance more frequently, identify issues requiring resolution and share best practices for program implementation.

The Mission will hire a Systems Administrator to maximize use of computer systems and facilitate inter- and intra-team communications, data and information gathering.

New skills will be needed to accomplish this strategy. Deficiencies in specific technical areas will be addressed by hiring experts from outside the mission (e.g. justice sector, information specialists). In areas where training of existing staff will fill a void, the Mission will provide both formal and on-the-job training. The Mission will host regional contract, communications & records and management courses to ensure that the maximum numbers of staff are trained in these key areas. English language courses will be re-instituted for existing staff

and new hires will be screened against higher English language test standards. A career development and training plan will be developed for each employee and monitored by the personnel office.

Special Considerations: There are two teams that merit special mention in this section – the Energy SO team and the Crises Reduction SpO team – because they are newly formed.

The Energy SO Team currently has two officers – a senior FSN and a US PSC energy expert. Two program funded FSN positions will be added to the team in FY00 – a secretary and a program specialist. The team has six contract partners, including a technical assistance expert located in the Ministry of Mines. In FY2002, a USDH energy officer may be added to the team if the complexity and/or level of the program warrant additional staffing. Meanwhile, the Energy SO team leader will be a senior FSN who has aptly managed the energy portfolio for several years.

The Crisis Reduction SpO is composed of members from the Office of Transition Initiatives (OTI), Office of Disaster Assistance (OFDA), Food for Peace (FFP), Health SO and Democracy SO teams. The Food for Peace (FFP) Officer will be responsible for overall SpO coordination, tracking and reporting. However, each Results Package (RP) team will have a separate leader. The Mission's Disaster Officer will lead RP team 1 (IR1). A full-time OFDA funded PSC will serve on this RP team for 12-18 months along with part-time disaster specialists from other teams. The FFP Officer will lead RP team 2 (IR2) with a staff of two experts and one secretary. The OTI Country Director will lead RP team 3 (IR3) working closely with the Democracy team.

Resource Requirements: The new strategy will require an increase in the workforce and more operating expense (OE) funding. In light of the Agency's declining levels of OE resources, the Mission will undertake, amongst others, the following measures to reduce the demands for additional OE requirements.

USAID/Indonesia's workforce level will increase from 130 in FY1999 to 156 in FY2000 to 173 in FY2002. Most of these new hires will be program-funded. However, to reduce the pressures on OE, the Mission will convert more than 21 professional FSN positions currently funded by OE budget to program funds and explore the possibility of program funding currently OE funded expatriate PSCs such as the senior Contracts Specialist. The hiring of additional staff will increase our FY2000 ICASS costs. We have estimated a 10% increase over FY99 costs -- straight-lined in subsequent years. To ensure full recovery of OE costs from program funded PSCs, we have instituted a system of recovering non-ICASS administrative costs from affected contracts.

Although the Rupiah has lost 60 percent of its value since 1997, the GOI's Trust Fund contributions have not increased. As a result, the percentage of TF contribution to our total OE budget has dropped from 18% in FY1999 to 14% in FY2000. We will continue to seek reasonably higher Trust Fund contributions from GOI.

We will examine ways to reduce costs in the areas of (1) travel --by combining trips and reducing conferences, (2) training -- by hosting in-country, regional workshops rather sending staff abroad, and (3) residential lease expenses --by the purchasing of property which will save substantial amounts of OE over the long-term.

OPERATING EXPENSE BUDGET

EXPENSE CATEGORY	BUDGET 2000	BUDGET 2001	BUDGET 2002	BUDGET 2003	BUDGET 2004
US DIRECT HIRE	746,532	598,315	750,270	858,081	1,120,000
FN DIRECT HIRE	249,462	303,335	311,110	357,777	411,443
CONTR. PERSONNEL	1,016,408	1,060,382	1,147,285	1,201,167	1,207,633
HOUSING	737,385	789,770	876,035	880,075	880,862
OFFICE OPERATIONS	1,397,750	1,497,090	1,539,070	1,540,645	1,546,036
N X P PROCUREMENT	686,250	662,200	313,250	583,044	584,088
Total Budget	4,833,787	4,911,092	4,937,020	5,420,789	5,750,062

Total MOB	<u>4,833,787</u>	<u>4,911,092</u>	<u>4,937,020</u>	<u>5,420,789</u>	<u>5,750,062</u>
Dollar OE	4,313,787	4,261,092	4,237,020	4,685,789	4,980,062
Trust Funds	520,000	650,000	700,000	735,000	770,000

Assumptions: FY2001 and Outyears	2000	2001	2002	2003	2004
(a) USDH FTE	18	19	21	21	21
(b) FSNDH FTE	19	19	19	19	19
(c) FSN/TCNPSC - OE	89	74	74	74	74
(In 2001 added 14 new pos, converted 29 to Prog)					
(d) In FY 2003 & 2004 USDH costs will increased due to employee rotation	^	-	-	x	x
(e) Med & Emergency travels - straightlined at 50K	50K	50K	50K	50K	50K
(f) COLA restored at 10% - straightlined at 50K	50K	50K	50K	50K	50K
(g) ICASS straightlined at 10% annual increase					
(h) GOI T/Fund deposits straightlined at 5% annual increase					
(i) Note: 29 FSNPSCs converted from OE to Program in FY 2001					

Annex A: GENDER INTEGRATION

Overview

Earlier this year, USAID/Indonesia prepared the *USAID/Indonesia: Gender and Women in Development Initiatives* report which highlights WID/GAD activities being undertaken by each of the SpOs, challenges faced in the operating environment and program areas for possible future funding. Since this was the first formal attempt to document the USAID/Indonesia's WID/GAD activities, it is encouraging to note that each SO has made a firm commitment to gender/WID and each is committed to continue efforts in this important area.

Recognizing that women have limited opportunities to participate in the political transition and are disproportionately affected by economic crisis and conflict situations, gender has been identified as a cross-cutting issue in USAID/Indonesia's draft strategy paper for 2000-2004. USAID/Indonesia will focus its strategic attention and assistance on creating an enabling environment and on developing the capacity of its staff and partners to analyze issues through a gender lens, have a voice and to advocate for change.

What follows is a sector by sector summary of the urgent need for increased gender responsive programming, proposed activities and anticipated outcomes.

Democratic Reforms Sustained and Deepened

Problem Statement

Following the resignation of President Suharto in May 1998, Indonesia experienced a sense of political opening and much of the military-enforced government control that existed in the past was loosened. For the first time women began to openly form their own organizations, making their own choices on a variety of issues in all sectors. At the same time, the economic and political crisis that began in late 1997 has led to increasing attacks on women and increasing violence within Indonesian society.

There is a wide range of attitudes towards women's political participation in Indonesian society, region to region and ethnic group to ethnic group. Interpretations of religious texts, depending on the cultural background of the individual reading the text, may encourage or limit women's participation in the greater society. According to a number of NGOs, limitations on women's rights to organize and participate politically are more a function of cultural rather than of religious values.

Proposed Activities

1. Training national and local legislators in parliamentary rules and responsibilities emphasizing knowledge, skills, and attitudes associated with political consciousness, constituency building, gender-based budgeting and advocacy to help legislators develop powerful vertical linkages with grassroots organizations and people as well as across party lines.
2. Education, skills and strategies for women's civil society organizations to better understand the relationship of gender to democracy and governance.
3. Promote understanding and respect for women's human rights and combating violence against women.
4. Gender training for journalists and radio campaigns on women and democracy.

Anticipated Results

- More women organizations and stakeholders better understand the legislative and political processes
- Stronger linkages between parliament and civil society organizations (CSOs), particularly women CSOs

- Gender sensitive budgeting, analysis and advocacy by legislators and CSOs
- Better CSO understanding of political concepts and tools of analysis, such as gender, enabling CSOs to understand their political context, the problems they face and the strategies they need
- Stronger CSO commitment and capacity to serve and mobilize communities and constituencies, leading to broader participation in the reform process
- Effective and strategic women's human rights advocacy initiatives, and stronger coalitions addressing violence against women
- Increased public advocacy and support for anti-domestic violence legislation and programs
- Greater nationwide awareness of women's rights and legal issues
- Increase awareness, sensitivity and balance of women's rights, roles and responsibilities
- Improved coverage of women's roles in public and private life

Foundations Set for Rapid, Sustainable and Equitable Economic Growth

Problem Statement

Before the monetary crisis, 55% of the labor force working in the formal and informal sectors were women. In fact, the female labor force provided a primary means through which the Indonesian economy initially responded to changes in the global demand. A study by ESCAP showed that a one percent increase per annum in GDP was associated with a 1.96% increase in women's participation in non-agricultural employment.

As the GOI carries out its comprehensive economic reform program, it is vital that women's concerns and interests are represented in economic decision making processes and institutions. This is essential if Indonesia is to set the foundations for rapid, sustainable, and equitable economic growth. Women's participation and gender concerns need to be integrated in the policy formulation and implementation process that define the terms and set the goals of new economic policies.

Proposed Activities

1. Improve economic data on women and men
2. Support TA to focus on gender appropriate economic policies for micro, small and medium enterprise (MSME) development
3. Improve MSME access to commercial credit for women
4. Promote an understanding of and involvement on issues of gender, poverty and regional access
5. Promote women's participation in public hearings on economic policy and legislation
6. Strengthen media analysis and reporting of gender issues

Anticipated Results

- Better information upon which to base policy decisions
- Improved policies for women's involvement in micro, small and medium enterprise development
- Heightened awareness of women's critical role in economic development

Decentralized and Strengthened Natural Resources Management

Problem Statement

Women remain largely absent at all levels of policy formulation and decision-making in natural resource and environmental management; their experience and skills in advocacy for and monitoring of proper natural resource management too often remain marginalized in policy-making and decision-making bodies, as well as in educational institutions and environment-related agencies.

However, women's contributions to environmental management, including through grass-roots and youth campaigns to protect the environment, have often taken place at the local level. As the GOI implements the decentralization policies, women's action on environmental issues should be recognized and encouraged as they will be critical to the management and preservation of Indonesia's natural resource base.

Proposed Activities

1. Facilitate and increase women's access to information and education, including in the areas of science, technology and economics, thus enhancing their knowledge, skills and opportunities for participation in environmental decisions.
2. Train women to ensure opportunities for women, including indigenous women, to participate in environmental decision-making at all levels, including as managers, designers and planners, and as implementors and evaluators of environmental projects.
3. Include women in decisions with local parliaments, administrators, NGOs and communities.
4. Foster women's participation in processes of conflict resolution in natural resource management.

Anticipated Results

- Increased knowledge base on natural resources and higher opportunities for participation in environmental decision-making
- More women's organizations and stakeholders better understand the legislative and political process
- Gender issues will be incorporated in environmental decision-making as managers, designers and planners, implementors, and evaluators of environmental projects
- Increased local understanding of how to peacefully resolve natural resource conflicts

Decentralized and Participatory Local Government

Problem Statement

It is anticipated that decentralized, participatory local government will bring decision-making closer to people and improve service delivery. To become responsive to citizen needs, local government must put in place policies and mechanisms that enable and ensure that women's priorities are included in the decision-making process. Far more than men, women are affected by the quality and quantity of public services, especially basic services such as water, energy for cooking, washing, and bathing, and lighting and transportation. Similarly, women and children are more affected by poor environmental services, especially inadequate drainage, inadequate sewerage, and high levels of air pollution.

Indonesia's economic crisis resulted in high unemployment, especially in major urban areas, and especially among women. While the impact of unemployment has decreased in general, particularly as men move into alternative and often informal employment, social safety net employment generation programs were not designed to employ women.

Proposed Activities

1. Continue to support the services of a gender advisor to the BAPPENAS Secretariat for Productive Employment, to help design improved employment programs, especially in the area of micro-enterprise.
2. Strengthen local capacity to engage community participation in budgeting and planning decisions, so that investments are made in sectors and projects of greatest priority to citizens. Emphasis will be given to planning mechanisms that clearly identify and bring forward the priorities expressed by women and women's groups.
3. Improve the quality and quantity of water service, a basic and essential function now directly controlled by local government, through the use of customer satisfaction surveys to provide a voice for citizens in regard to the quality of water. Data disaggregated by gender shows that women, most often in charge of household water procurement and use, are more critical of water quality than men, and less willing to pay for inadequate service than are men.
4. Expand work with water companies to institutionalize the use of customer satisfaction surveys as a tool to guide corporate planning for improving water supply, and emphasize the role played by women as consumers of this basic service.
5. Establish a method to identify, motivate, and assist local women's groups to conduct public education campaigns as advocates for clean water.

Anticipated Results

- Improved data and the identification of more efficient ways to reach and work with women and women's groups for greater interaction with local governments based on family roles.
- Increase the number of community projects brought forward by women and women's groups, and the number formally incorporated in local medium-term plans and subsequently funded.

Energy Sector Governance Strengthened

Problem Statement

In rural areas, women, unlike men, spend a large amount of their time gathering fuel-wood for cooking. When electricity is available in these areas, men and women use it differently. Many other tasks such as washing and bathing children, which do not currently benefit from heated water, are traditionally performed by women.

Women and children are uniquely affected by air and noise pollution resulting from energy use. Leaded gasoline, still the primary transportation fuel in Indonesia, disproportionately impacts poor women and their children, who often spend days, if not begging on the streets, then traveling the streets to shop and do other errands, where they are constantly exposed to lead. Also, women do not have access to appropriate low-cost transportation options to carry out their household chores.

Proposed Activities

1. Gender incorporation into energy policy - usage and prices USAID is currently funding TA for capacity-building on the Minister of Mines and Energy's policy analysis office. As part of that effort, the staff is conducting a comprehensive study of the social and economic aspects of price increases on households, business and industry (due to subsidy removals). The model will specifically incorporate gender disaggregated data, or, if this is not possible, will conduct a case study of the impact of the price increases on women. Also, studies will be conducted on the impact of usage patterns on future demand for energy. Gender disaggregated data will also be sought for these studies.
2. Incorporate women's issues into unleaded gasoline promotion. A consortium of NGOs is currently promoting unleaded gasoline with government ministries and the DPR. Funds will be used to contribute to

this effort, including adding specific workshops or sections of workshops related to the impact of leaded gasoline on women and children.

3. Incorporate women's issues into Transportation and Clean Air Actions Plans. USAID has provided funds for the Sustainable Transportation Conference to be held in May 2000. An action planning process will be developed subsequent to the conference. Efforts will be made to incorporate gender-specific issues into the action plan development and implementation.

Results Anticipated

- Incorporation of gender issues into energy policy-making
- Incorporation of gender issues into transportation and air quality policy-making

Health of Women and Children Improved

Problem Statement

The rapid decline in income of Indonesian households, in the context of declining government resources, specifically for the provision of health services, imperils the health status of Indonesian families. Pregnant women, infants and young children, who traditionally received most of their preventive care from community health posts, are increasingly turning to informal alternative services, including traditional medicines, self treatment or simply delaying treatment. Likewise, large numbers of urban families are no longer able to afford basic foodstuffs, directly impacting the nutritional status of both mothers and their young children.

USAID/Indonesia and its partners are currently working to implement activities to protect the health and nutritional status of Indonesia's most vulnerable citizens -- women, infants and children. Priority assistance includes the preservation of: (1) essential, primary and reproductive health care service delivery services for wives, mothers, infants and children; (2) crisis and disease/nutritional surveillance monitoring to ensure the planning, financing and management of basic community health delivery systems; as well as (3) supportive behavioral initiatives to ensure that women (including husbands/fathers) are adequately informed and motivated to protect personal and family health and nutrition.

The USAID/Indonesia health SO places key initiatives at strategic "opportunities" in a woman's life cycle. Beginning at birth, through infancy, into childhood, onto adolescence, into marriage and pregnancy, and through to a new delivery -- health and nutrition services, behaviors, and ultimately, practices, will be strengthened. As Indonesia begins a new era of decentralization, its health sector will be challenged in terms of resources, institutional integration and standardization. One of Indonesia's most critical challenges will be to ensure that basic health needs of its most basic resource -- its citizens -- are not overshadowed by competing national priorities.

Proposed Activities

1. New Vitamin A supplementation coverage to infants aged 6-11 months, expanded Vitamin A supplementation to young children 12-59 months, and to new mothers and infants during illness as part of a mother-targeted effort to improve child and maternal health in key low-income urban and rural neighborhoods.
2. The integration of key maternal and child health strategies to promote improved child health care practices by new wives and husbands during pregnancy and following delivery to ensure optimal birth and infant care preparedness, effective decision-making and husband-wife communications.
3. Improved family planning information, choice, quality and service options provided to young families,

husbands and wives, in seven provinces.

4. Expanded behavior change and disease prevention initiatives targeting women and men at highest risk of infection of HIV/STIs in the archipelago's most vulnerable urban and port communities.
5. Assist local government public health officials to conduct, interpret and disseminate key nutrition, disease and behavioral surveillance affecting critical population groups.
6. Assistance to national and local organizations to improve the care and to protect the future of young children and adolescents, particularly girls, living in urban street environments.

Anticipated Results

- Essential health and family planning services preserved and utilized by young husbands, wives and their families.
- Behavior, disease and nutrition surveillance data obtained and utilized in planning community health responses.
- Increased preventive health seeking behavior documented and demand for improved quality, local health services actualized by women and their families in key urban and rural communities.

Impacts of Conflicts and Crisis

Problem Statement

During the past year and a half, Indonesia has been beset with drought, economic crisis and political uncertainty. Indonesia's problems have inflamed old wounds and unearthed unresolved conflicts resulting in approximately 650,000 internally displaced people (IDPs). The prolonged economic crisis has drastically reduced purchasing power as food prices have skyrocketed while millions have lost their jobs. As a consequence, many, particularly urban dwellers, cannot afford to purchase food, and the nutritional status of mothers and children has suffered.

Another outcome of the economic crisis is that of increased violence against women. As in many crisis situations, women and children in Indonesia are suffering disproportionately to men. Domestic violence has increased dramatically and public violence against women, including rape, attacks on and harassment, particularly in the conflict areas of Papua (Irian Jaya), Maluku, and Aceh, is also on the rise. Throughout Indonesia, women report that violence and the threat of violence is the most pervasive and serious problem they face. Reducing violence against women is a critical factor for Indonesia and serves as a unifying factor around which women's organizations can coalesce.

Proposed activities

1. Provide both food and health assistance in the IDP camps in West Kalimantan. This serves over 14,000 vulnerable persons, mainly pregnant, postpartum women, and children. Activities include provision of supplementary feeding, therapeutic feeding for the severely malnourished and health education activities.
2. Improve food accessibility for the most vulnerable. In FY98, emergency food assistance was used to support food for work, direct distribution, and vulnerable group feeding programs. As the drought eased this past year and crops improved, many of USAID/I's partners moved or initiated programs in urban slum areas to assist urban families hard hit by the economic crisis.
3. Foster women's participation in the processes of conflict resolution, conflict management and peace building in Aceh, Papua, and Maluku.

Anticipated Results

- Increase the food security of the urban poor impacted by the economic crisis and the tens of thousands who remain displaced as a result of sectarian and ethnic conflict
- Decrease the vulnerability of women to abuse in conflict areas

Office of Transition Initiatives

Problem Statement

The issue of gender is a new concept for many in Indonesia. The idea that, in a democracy, women can participate on an equal footing in political activities, particularly those requiring a leadership role, takes time and training. Women themselves are often uncertain about taking on this role. Men and women often do not see the benefits of equal participation in decision-making. The challenges of increasing women's participation in the political process were highlighted during Indonesia's 1999 free and fair parliamentary elections, which resulted in fewer women holding office than during the Soeharto era.

OTI's primary approach to addressing issues of gender in its programming is by ensuring that women's perspectives are included in the development, implementation, and impact of all programs. OTI also supports targeted efforts to improve women's understanding of Indonesia's transition and their involvement in the political process. OTI has institutionalized the requirement that gender is a cross-cutting theme by requiring that all grantees report on the number and/or substance of women's involvement in OTI-funded activities. Further, all potential grantees are asked to ensure that beneficiaries are selected without gender discrimination. Grantees are told about the requirements in advance, and are often encouraged to find creative ways of incorporating women into their programs.

Proposed Activities

Given OTI's flexibility in programming and funding, OTI will continue to fund programs and campaigns on women's human rights and political rights. Additional workshops on gender and empowerment issues could be developed, along with educational materials such as bulletins, newsletters and seminars focused on building networks and developing strategic planning to formulate a vision and mission to raise the gender awareness of all sectors of society.

Anticipated Results

- An increased awareness of gender in programming
- A larger cadre of local trainers throughout Indonesia who specialize in gender sensitivity and women's empowerment training for grassroots men and women
- A greater understanding among Indonesians regarding the benefits of women's equal participation in decision making
- A greater understanding of women's issues in Indonesia (including childcare, healthcare, education, violence against women, women's participation in decision-making, etc)
- A more truly democratic Indonesia that incorporates the issues, ideas and aspirations of both genders

Management of Future Gender Mainstreaming Initiatives

Though USAID/Indonesia has made significant progress in the integration of gender into a number of activities, a more strategic and holistic approach needs to be adopted to mainstream gender into its programs and policies. In order to demonstrate commitment and to systematically mainstream gender,

USAID/Indonesia proposes the establishment and funding of a program support objective (PSO), or some other mechanism, which will support activities that cut across all SOs.

Building on the work already underway, over the next five years gender will be systematically integrated into USAID/Indonesia by:

- building capacity (knowledge and skills) in gender awareness and sensitivity
- developing systems and tools that integrate gender concerns, analysis, objectives and indicators, and
- establishing mechanisms to monitor, evaluate learning and document results

Benchmarks and indicators for these activities need to be developed.

In addition, USAID/Indonesia will help establish a gender advocacy network of key women leaders from the donor and NGO communities, women's study centers, universities, and grassroots activists. The purpose of the network will be to influence national and provincial level policies and programs that impact women. Worldwide, women's networks have grown rapidly since the conferences held in Beijing and Cairo and, increasingly, women's empowerment through networking has proven to be an effective strategy to build women's confidence and to share ideas, issues and to advocate for change.

At the national level, USAID/Indonesia will collaborate with the Ministry of Women's Empowerment to develop their capacity and identify other possible areas of support.

At the local level, gender will be mainstreamed through NGO and GOI partners via support for capacity building activities. To accomplish this, each SO and SpO will develop and fund specific gender activities as integral components of on-going/future projects.

On an annual basis, USAID/Indonesia will also fund five to seven cross-cutting and innovative pilot projects. These projects will be identified by the SOs and, where possible, be implemented in geographic areas where two or more SOs can collaborate. At the end of the first project year, each project will be evaluated, and lessons learned documented and disseminated. Results will enable USAID/I to refine its strategy and further gender mainstreaming efforts.

As discussed throughout this paper, gender issues are core factors to a successful democratic and economic transition. Many of USAID/Indonesia's development partners - the government, the private sector, and NGOs - have taken initial steps toward identifying critical gender dimensions to their work, articulating their commitment to gender concerns and to implement strategies to address them. Accordingly, there are powerful incentives for USAID to redouble its efforts to ensure that its activities and processes also adequately address gender considerations, and that it is both receptive and responsive to the local environment.

Annex B

Analysis of USAID Actions to Conserve Biological Diversity and Tropical Forests in Indonesia

I. Background

- A. Indonesia Environmental Threats Assessment and the Economic Crisis
- B. Natural Resources Management Strategic Objective (1996 – 2003)

II. Updated Analysis: Environmental Threats and Opportunities

- A. Main Results of the Study
- B. Natural Resource Impacts Identified
- C. Sectoral Analysis
- D. Natural Resource Sectors
- E. Provincial Analysis
- F. Forestry and Wood Processing Sector
- G. Plantation Crops and Land Use
- H. Protected Areas
- I. Summary of Issues Raised by the Analysis
- J. Opportunities Coming from the Crisis

III. Proposed Actions for the Transition to a Prospering and Democratic Indonesia

- A. Rationale for continuation of environmental management activities
- B. Improved forest resources management
- C. Improved coastal resources management
- D. Improved protected areas resources management
- E. Other Opportunities Not Taken

Analysis of USAID Actions to Conserve Biological Diversity and Tropical Forests in Indonesia

I. Background

A. Indonesia Environmental Threats Assessment and the Economic Crisis

The *USAID/Indonesia Environmental Threats Assessment* was conducted during the period January to February 1995. The objective was to develop the information base needed to recommend environmental program development options to support the most strategic use of USAID's scarce financial and staff resources. The World Resources Institute (WRI) worked with the Indonesia Sustainable Development Foundation (YPB) and a group of Indonesian sector specialists to complete the task.

The analysis concluded that the Indonesian Government has recognized that its past role as the sole agent of development is quickly being matched by the contribution of the private sector. Economic development in remote areas, particularly in the Eastern part of the country, will largely be private sector driven, as they invest capital for industrial plans or resource extraction operations and infrastructure to support those activities. Hence, the private sector's behavior towards the environment and natural resource base will become every more important. Their role in preventing and controlling pollution, and in conserving biological diversity and resource stocks will greatly determine the fate of Indonesia's environment.

Likewise, the study also concluded that the citizens of Indonesia needed to play a bigger role in environmental management. Where government scrutiny is lacking, and where private sector actions are damaging to the environment and the general public, citizens must be more proactive in protecting the common interest, and local communities must take more responsibility for participating in the solution to environmental problems. Absent this, current trends will lead to continuing environmental degradation, loss of forest and biodiversity, social conflict over natural resource allocation, and growing urban congestion and pollution.

Since early 1997, Indonesia has been experiencing economic shocks, civil strife, and political transformation on a scale that would have been unimaginable several years ago. These changes will undoubtedly have a profound influence on the forest sector and on land use in general. In addition, in late 1997 and early 1998, the entire Indonesian archipelago suffered from serious drought that resulted in unprecedented widespread fires that burned more than 9 million hectares of land. Smoke and haze from these fires blanketed Southeast Asia affecting the lives and health of 75 million people including areas as far away as Singapore and Kuala Lumpur. The global climate gas emissions far in excess of annual amount emitted by West Europe's power stations and cars. The political crisis weakened regulatory enforcement, and illegal logging and mineral extraction became rampant, as well as crop production in officially designated conservation areas. Nature conservation efforts suffered from major setbacks as budgets were slashed and enforcement weakened. The weaker enforcement was confounded by increased economic and social welfare needs of local populations. The result was widespread degradation of most natural resources. As the crisis unfolded, it became more complicated. There is no easy

way to summarize the crisis except to say that it is complex and that its complexity has created more uncertainties and that within those uncertainties there exist great risks and real opportunities.

The assessments suggested an environmental program strategic objective of decentralized and strengthened natural resources management and environmental problem solving capability for local communities, NGOs, industry and municipal administrations.

B. Natural Resources Management Strategic Objective (1996 – 2003)

Strategic Objective 12: Decentralized and Strengthened Natural Resources Management focused on impacts in the areas identified by the Assessment, where there were constraints to effective action that could be addressed by the resources and tools available to USAID. The Mission defined four program outcomes that established a clear impact focus, and also emphasized its principal client groups: local communities, private businesses, the government, and non-governmental organizations. These were: 1) greater stakeholder participation in decisions about the planning, management, and monitoring of natural resources; 2) increased conservation and pollution reduction by natural resource-based industries; 3) improved policy development and implementation; and 4) strengthened institutional capacity for biodiversity conservation.

To implement this environmental strategy (SO12), the Mission designed a new package of activities that were agreed to with the Government of Indonesia under the Natural Resources Management Strategic Objective (NRMSO) Agreement (1996 – 2003). USAID funds for tropical forestry and for biodiversity conservation have been obligated under this agreement since FY 1996 and activities have been monitored for results according to the NRM Program Performance Plan in accordance with the Government of Indonesia. These agreements have subsequently been adjusted by USAID and the Government of Indonesia to reflect reduced USAID funding and program experience, but continues as the strategic framework and the operational bilateral agreement for USAID/Indonesia's environment program.

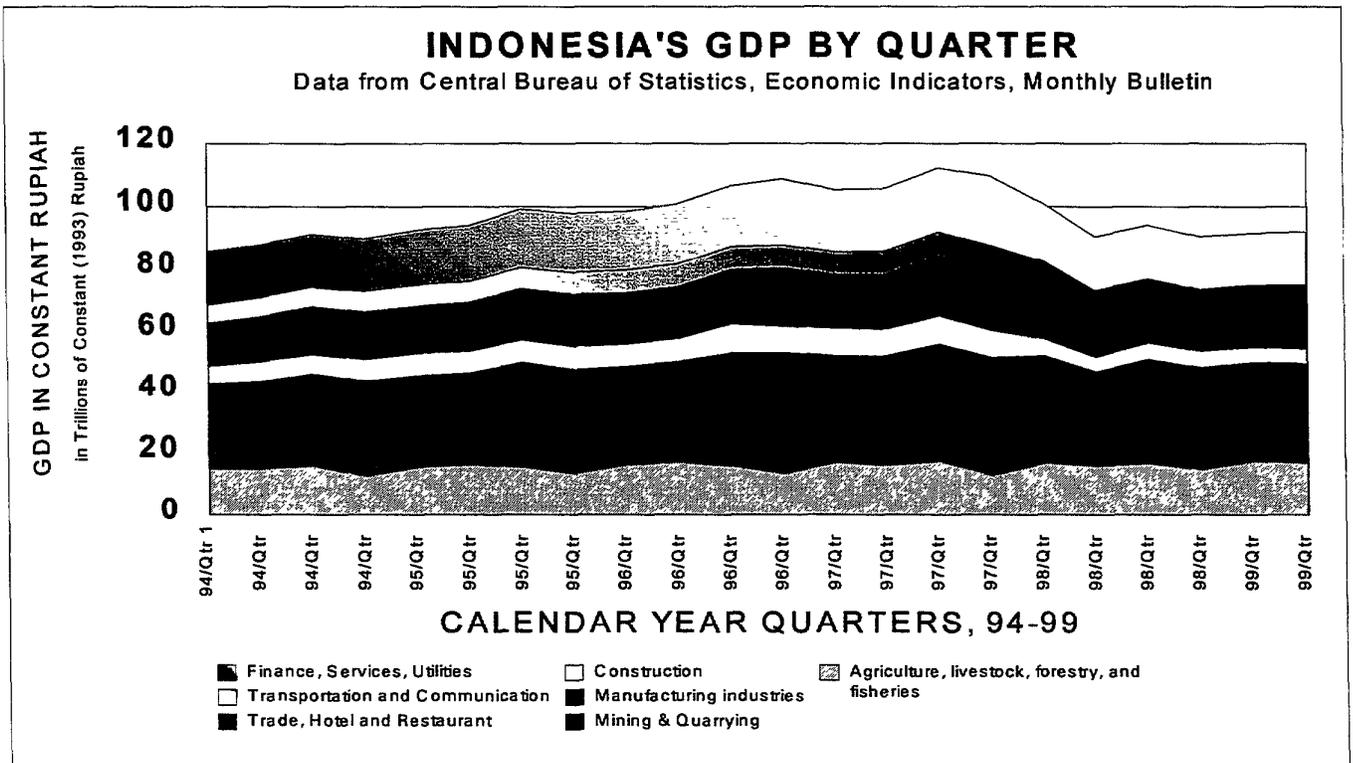
II. Updated Analysis –Environmental Threats and Opportunities

A. Main Results of Study

Late in 1998, USAID/Indonesia undertook a study including fieldwork in several provinces to try to better understand the impact on natural resource resulting from Indonesia's political and economic crisis. This study was initiated by a request from the Indonesia National Planning Commission (BAPPENAS), the principal Indonesian government partner for USAID's environment program. *The Natural Resource Impacts of Indonesia's Financial Crisis* provided the updated analysis that USAID/Indonesia needed to comply with USAID strategic planning guidance in accordance with Section 118/119 of the Foreign Assistance Act.

The main results of the *Natural Resource Impacts* study were:

- Indonesia's crisis has highly variable impacts across provinces and sectors.
- Overall economic activity declined by 15 percent in first three quarters of 1998.
- Recession is deep and widespread, despite some pockets of some success.
- Disparities will increase between resource-rich provinces and others (eastern).
- Imbalances in economic activity will impede recovery and growth.
- Inflation and recession are lower in the east, which was poorer at the start.



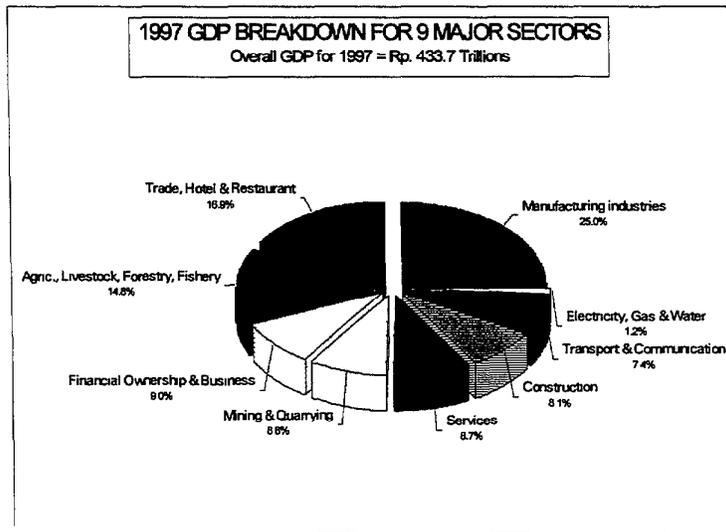
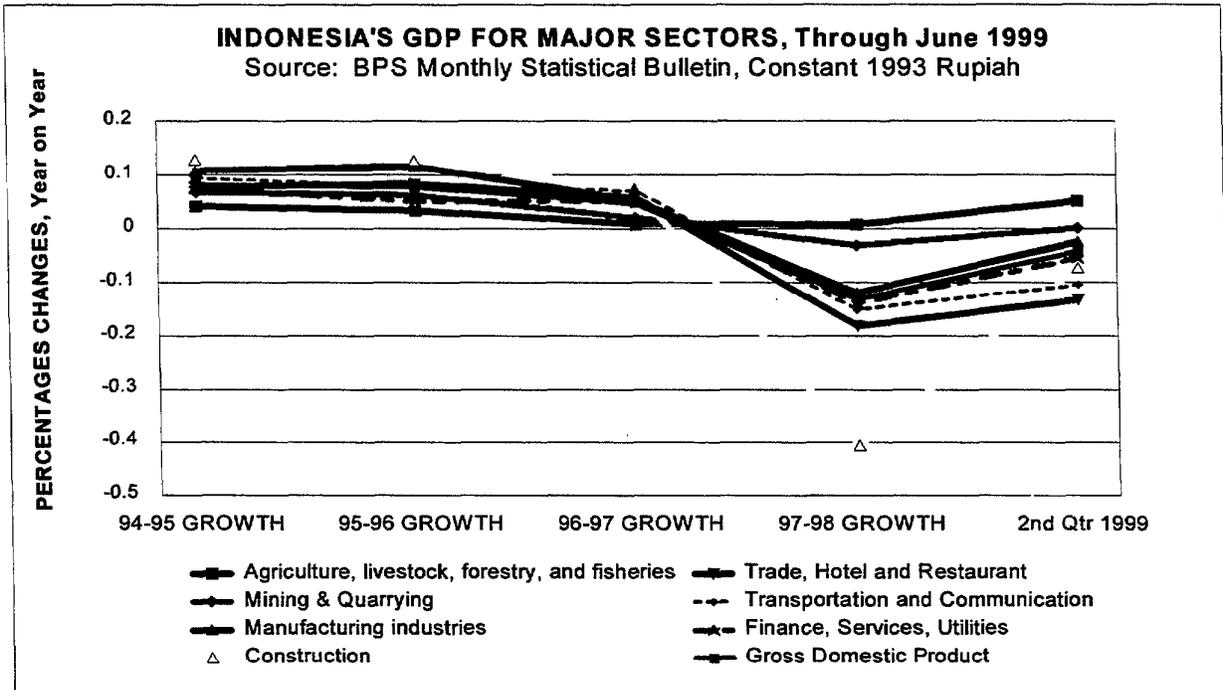
B. Natural Resource Impacts Identified

- Natural resource sectors are maintaining some growth, or at least stability
- Forestry earnings and logging are increasing as of the third quarter of 1998
- "Plantation crops" sub-sector is growing rapidly, profitability is increasing due export demand to Rupiah devaluation
- "Fisheries" earnings are also rising, indicating pressure on coastal resources
- Pressure in intensifying on forest and land resources, continuing a 5 year trend of increasing degradation
- Forest (land) conversion is increasing annually.

C. Sectoral Analysis

Indonesia's financial crisis has highly variable impacts across economic sectors:

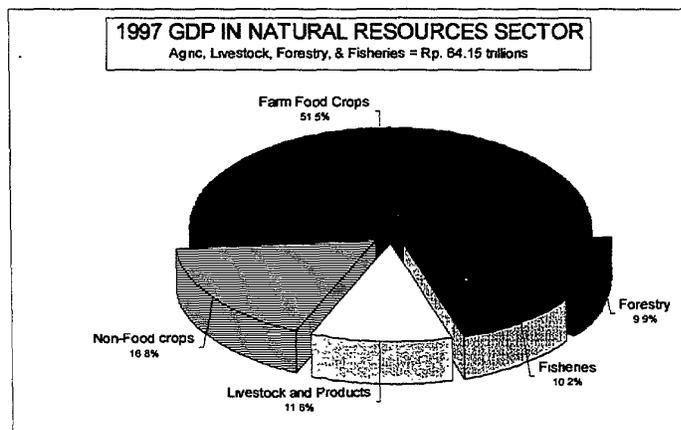
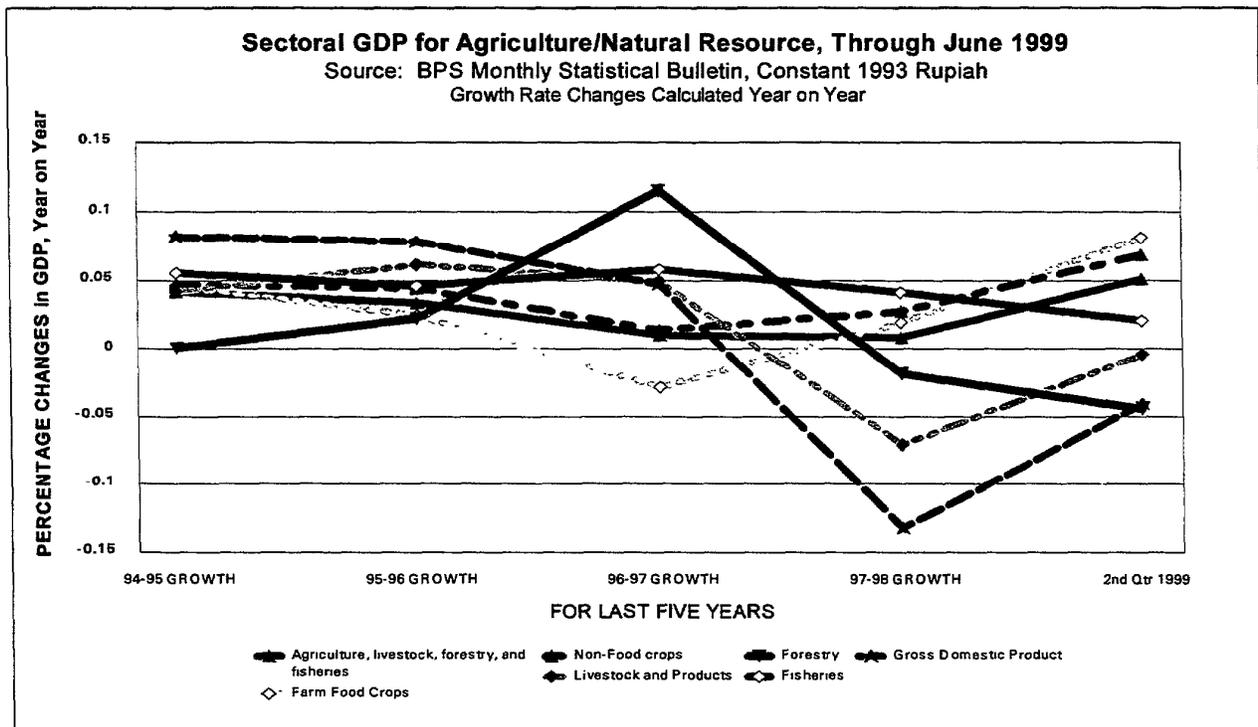
- After 1997, most sectors are in steep decline.
- Construction, financial services, and trade/hotels had drops of 20 to 40 percent.
- Manufacturing (about a quarter of economic activity) declined by 15 percent.
- Natural resource sectors (green) stand out as maintaining some growth.
- Mining value added is down by about 5 percent in the post crisis period.



D. Natural Resource Sectors

Relative to the rest of the economy, agriculture and natural resource sectors are maintaining some growth, or at least stability, during the crisis period.

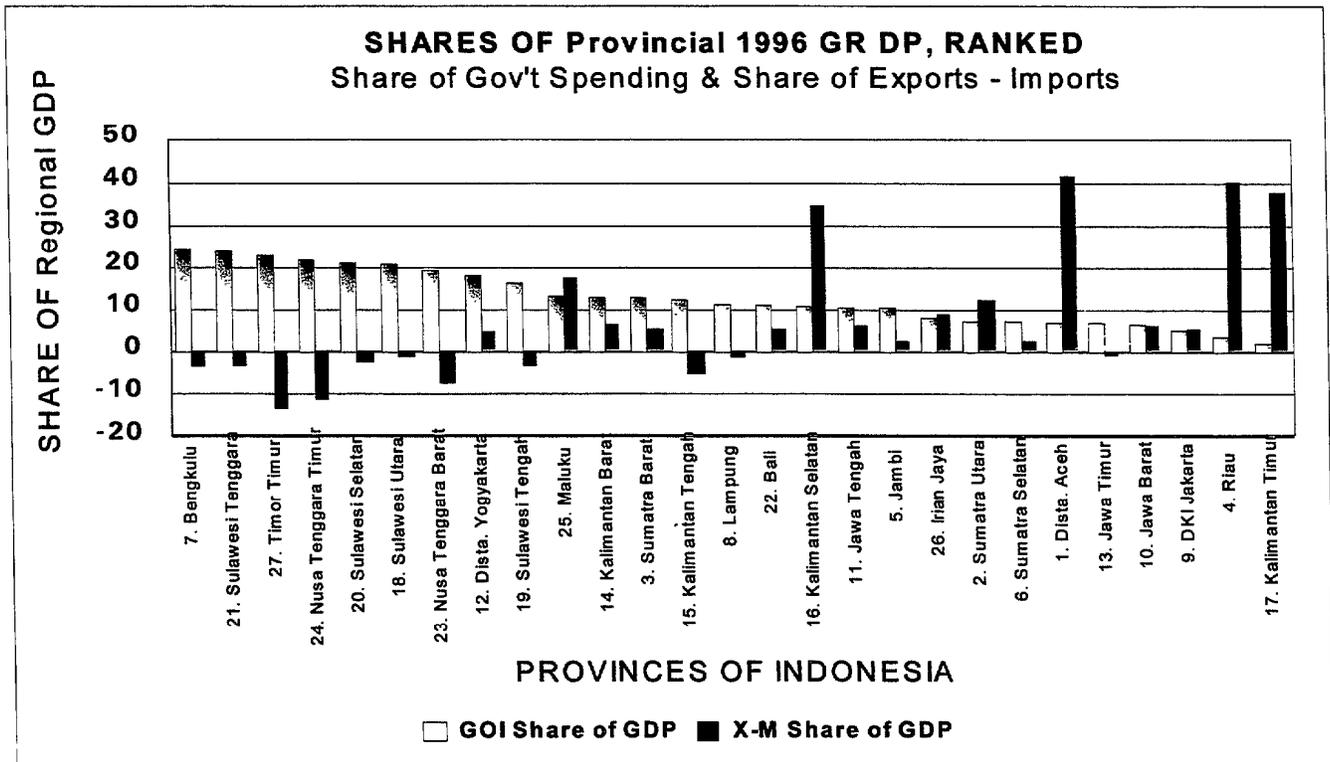
- Five main sub-sectors: food crops, non-food crops, livestock, fisheries, & forestry .
- The non-food crops sub-sector is growing rapidly (up over 7% since 1997), and includes coconut (copra), oil palm, coffee, tea, cocoa, etc.
- Fisheries sub-sector also grew by more than 7 percent annually since 1997.
- The value of production in Forestry was up by more than 12 percent.
- Forestry earnings are increasing and the extraction of timber from forest lands is increasing.
- All of these export commodity sectors are benefiting from the Rupiah devaluation.



E. Provincial Analysis

The crisis has highly variable impacts across Indonesia's provinces.

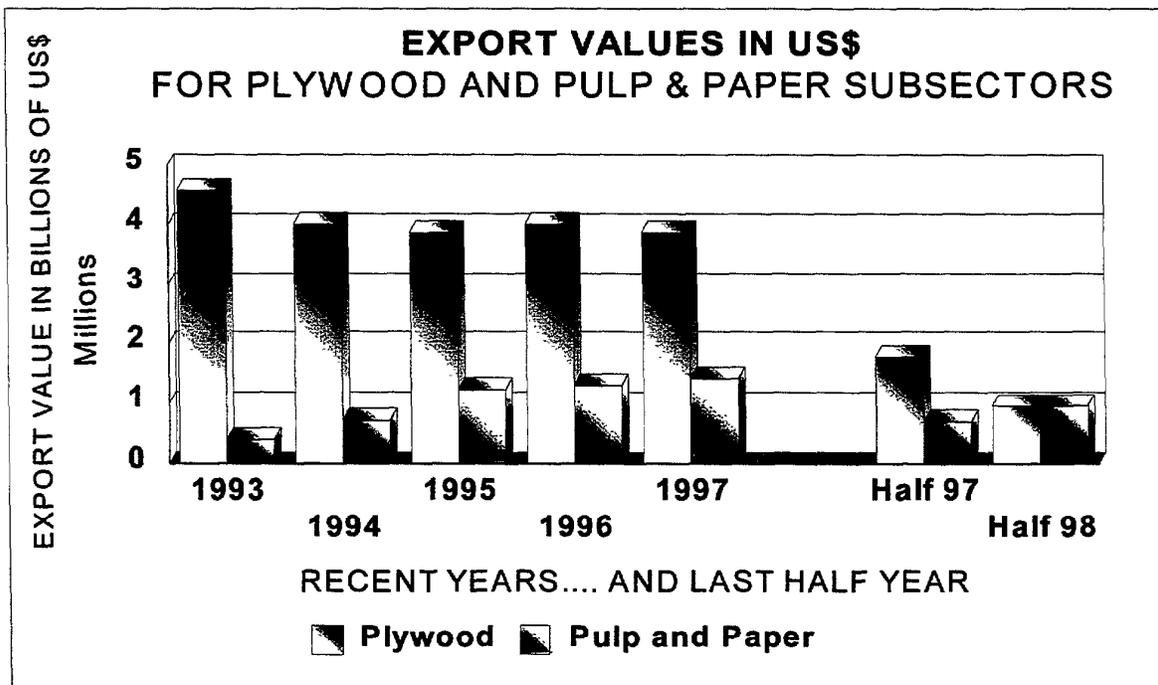
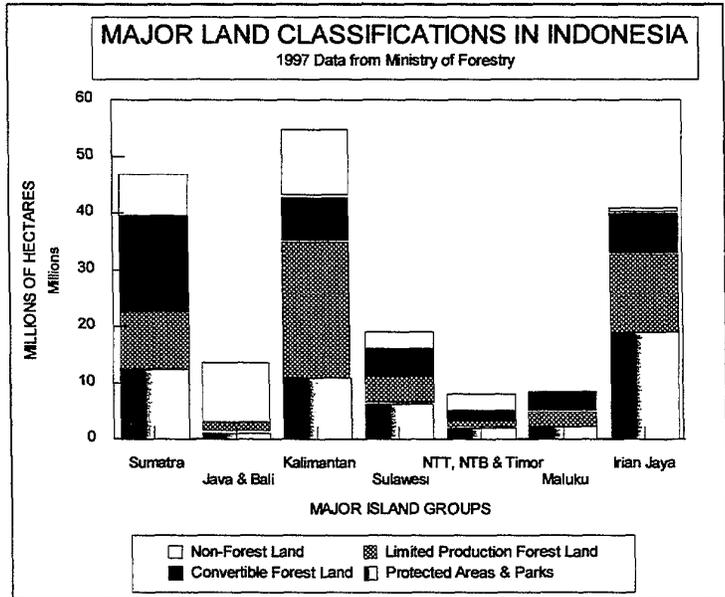
- Inflation is lower in the east than the west, but quite high everywhere.
- Proportion of poor people is higher and GDRP/capita is lower in the east.
- In absolute terms, Java has the most poor people.
- Export earning provinces are in the resource rich islands of the Western part of Indonesia.
- Government spending makes up a larger share of development budgets in the poorer eastern provinces.
- Natural resource exporters are earning greater profits due to Rupiah devaluation.
- Government has fewer resources to maintain development spending.
- The crisis has tended to make the rich provinces richer and the poor poorer.



F. Forestry and Wood Processing Sector

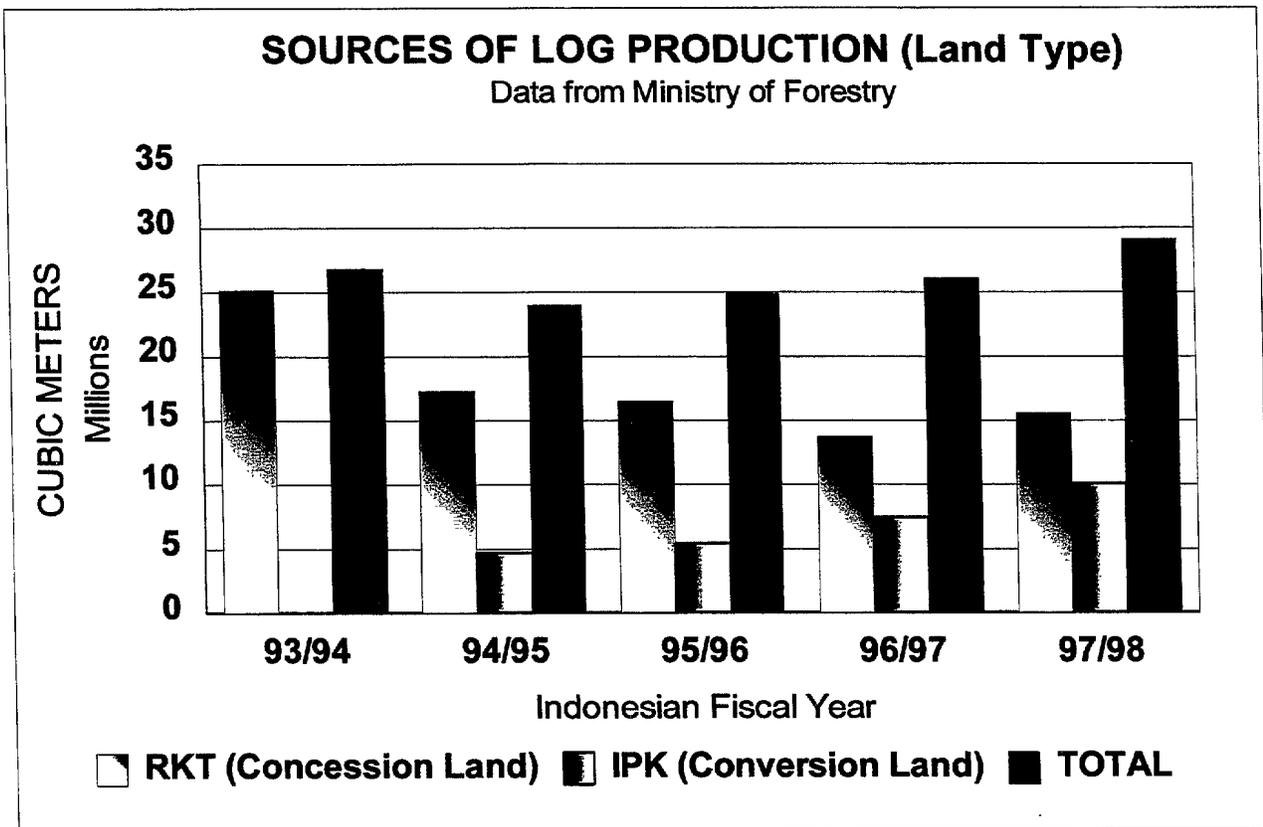
Management of Forest Land continues to be a high priority in the post crisis period, because financial pressure for log extraction is increasing.

- Most land in Indonesia is administered by the Ministry of Forestry and Estate Crops, as much as 80% to 90% for some provinces.
- Export values for plywood and sawn timber are down in dollar terms, following a five year trend – but increasing in *Rupiah terms* due to devaluation. So the incentive to extract and export remains but at lower levels.
- The Pulp and paper sub-sector is a major exception, exports are up in dollar terms in the post crisis period
- Activity in the sub-sector has increased by about 30 percent per year, doubling in value since 1993.



The physical pressure on forest resources -- log extraction -- is also increasing in the post crisis period.

- Total log extraction has been increasing since 1994 at about 5% per year.
- In 97/98 log extraction was up by about 10 % (more than 3 million cubic meters) .
- Much of the increase in log extraction comes from pulp and paper expansion.
- Wood use in this industry segment is increasing at about 21% per year.
- Since 1994/95 log extraction in this segment has doubled. In contrast, Log extraction from concessions (mainly for solid wood products, not pulp) has been on a flat or downward trend.



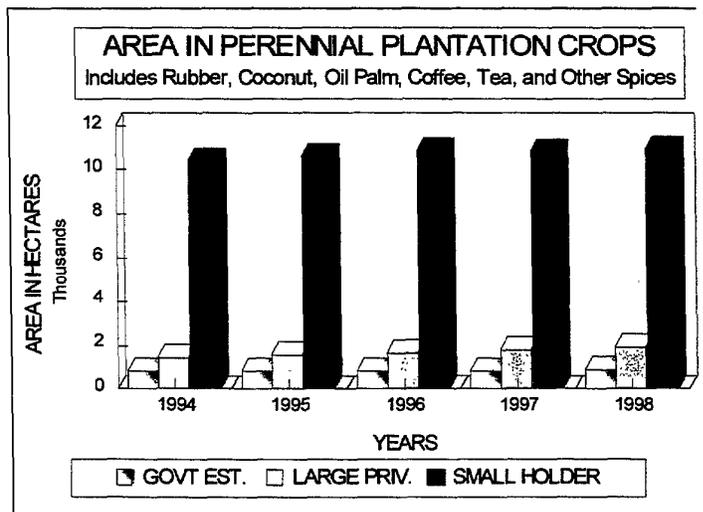
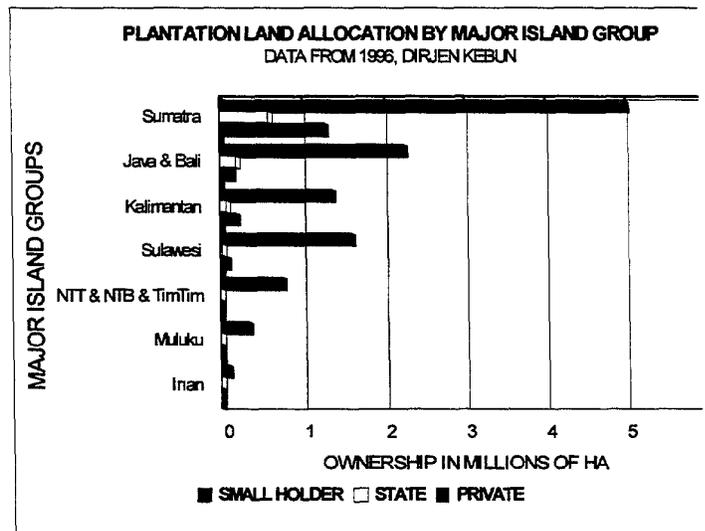
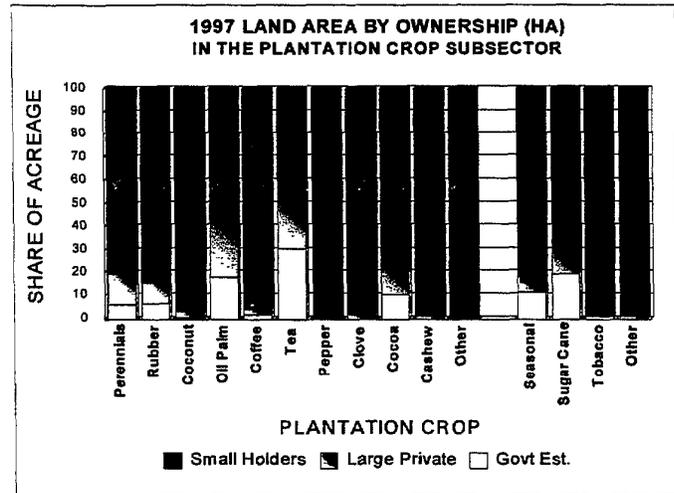
G. Plantation Crops and Land Use

The plantation sector (non-food crops) is an important area of stability and growth in the post-crisis period.

- Land allocated to this sector is mainly in the hands of small holders for all crops
- Small holders represent more than 70 percent of land in plantation crops in all major island groups
- Small holders dominate land area and production in all crops except oil palm and tea
- Large holders produce more per unit area than small holders in most cases.

A large part of the population (more than half) is engaged in plantation crop agriculture.

- Access to land for food crop agriculture and cash plantation crops forms an important element of the social safety net.
- Small holder production and land use have remained relatively constant over time
- Large private estates have been growing slowly as a share of overall production and land use
- Oil palm is the crop showing the most growth over time
- Other crops are relatively flat over time in production and land allocation.



H. Protected Areas

The economic crisis has resulted in increased pressure on parks and protected areas.

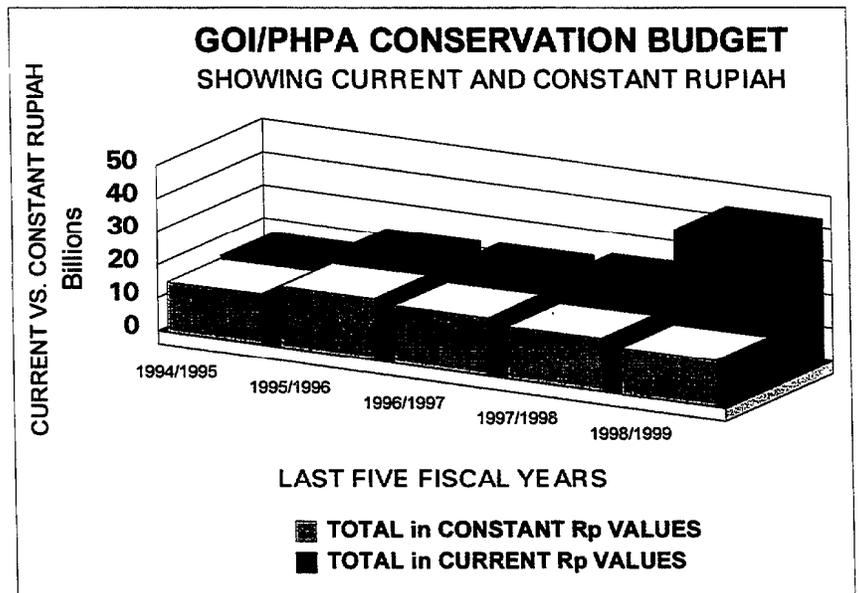
1. Reports from USAID/NRM-Assisted Parks

- Increased land clearing to grow export commodities like cocoa and coffee, in Lore Lindu National Park, Central Sulawesi
- Increased illegal logging activities to meet local market demand for wood, in Kutai NP, E. Kalimantan, and Lore Lindu NP, C. Sulawesi
- Increased fishing to meet demand of export-oriented live fish trade, in Bunaken National Park, North Sulawesi
- Increased pressure by mining companies to obtain exploration/mining rights in mineral-rich protected areas, e.g., Kutai NP, E. Kalimantan
- Reduced government funding has resulted in reduced enforcement and patrolling, as reported from all national parks

2. Results from NRM-PHPA Conservation Finance Database

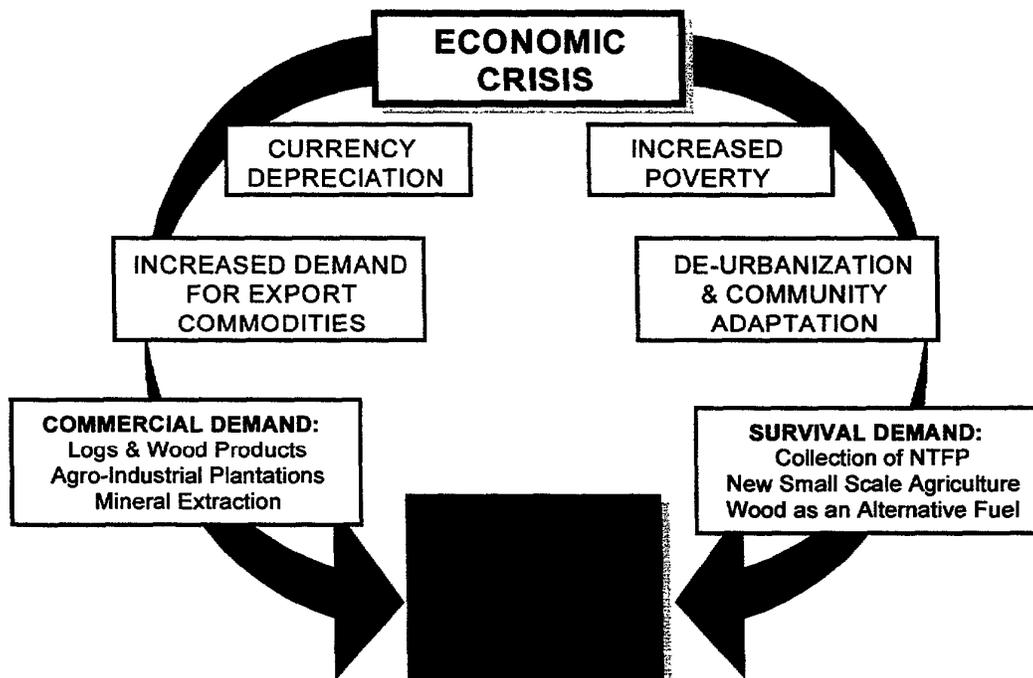
Budgetary aspects of the crisis are another important factor in natural resource protection.

- Real spending (constant 1993 rupiah) on protected areas management is declining, just when threats are increasing.
- Real purchasing power (pink) is eroded by inflation and represents fewer resources for conservation than even five years ago.



I. Summary of Issues Raised by the Analysis

- Agriculture/plantation sector growth could help with recovery, but is dominated by small holders with limited access to land, credit, management skills, markets, and little tenure security.
- Crisis is increasing both economic and political uncertainty. This may result in short-term management approaches -- more environmentally harmful resource management practices.
- Decentralization: Economics will push the political process of decentralization of control of resource earnings.
- Concentration: Urban poor and working classes will be hardest hit by the crisis. This raises concerns about distribution of resources and equity.



J. Opportunities Resulting from the Crisis

- Plantation Crops managed by small holders contributes to social safety net
- Chance to advance and reform policies to export-oriented agricultural sub-sectors.
- Chance to stabilize land tenure and consider land reallocation and reform.
- Opportunity to combine land reform, safety net, and conservation measures.
- Opportunity to restructure forest-based industry towards management-based outcome and greater efficiency.

III. Proposed Actions for the Transition to a Prospering and Democratic Indonesia

A. Rationale for continuation of environmental management activities

The economic crisis has brought new pressures on natural resources and the environment. Desperation among the rural poor has provoked rising conflict over access to land and other natural resources. In urban areas, increasing costs of energy and deteriorating urban infrastructure have added to the misery of the newly unemployed. But the crisis has opened doors to democratic discussion, and ushered in a wealth of opportunities for debate on policy and regulatory issues with broad implications for Indonesia's economic recovery and the future of its environment.

During Phase 1 of the transition to a prospering and democratic Indonesia, USAID should continue its focus on strengthening local capacity to manage natural resources. The program should focus on decentralizing and democratizing management of natural resources through extensive NGO work on community-based management and support for policy and regulatory reform that has been established under the NRMSO Agreement. At the same time the program will continue to respond to global concerns about biodiversity, global climate change, and coral reefs, by supporting a network of key government technocrats and NGO activists. The existing level of resources, 8 to 10 million dollars annually will be required during this period.

This work will serve as a foundation for a broader Phase II effort by USAID to preserve Indonesia's biodiversity and reduce the generation of greenhouse gases. These activities are complementary to and supportive of the other objectives of the USAID/Indonesia, and USAID/Indonesia should actively exploit synergies between these environmental activities and other components of the portfolio.

B. Improved forest resources management

Indonesia has the opportunity to replace its closed and generally corrupt system of allocating and exploiting forest resources with one more open, decentralized and accountable, making decisions about the use and conservation of resources in a more transparent and democratic manner. Such a system will restore income and economic stability to many of Indonesia's poorest and most politically repressed households.

USAID/Indonesia should continue the existing program of assisting indigenous NGOs and local and national governments with the following illustrative type of activities:

- help local communities and local government map, assert, recognize and protect traditional land (and sea) use claims from corporate encroachment;
- play a major role in shaping the local political agenda and educating voters accordingly;

- identify, articulate, arbitrate and resolve local resource conflicts in five of Indonesia's most resource-rich provinces;
- develop and monitor IMF-sanctioned forest sector reforms, which include important measures to reform the previous corrupt, concentrated, inefficient and destructive industrial structure;
- complete land valuations that incorporate the benefits of conservation and traditional uses before alienating new tracts of forest land for plantation development;
- rewrite Indonesia's basic forest and trade laws, national regulations, and provincial policies to remove their bias towards large scale, heavily capitalized but not particularly efficient extraction and processing.

C. Improved coastal resources management

While the overall economy has contracted sharply, the low value of the rupiah has opened new opportunities for those exploiting Indonesia's natural resource base. The private sector has moved rapidly to increase the export of coastal and marine products including fish, shrimp, and seaweed. Poor management of these resources along Asia's longest coastline could seriously undercut Indonesia's longer-term development prospects and threaten long-term interests in biodiversity conservation. Determining who is responsible for addressing this threat is changing significantly. A September 1997 presidential decree gave local governments authority to decide whether certain activities can be located or take place in their territorial waters. This provides USAID new opportunities to work for more effective coastal resource management at a local level.

USAID should continue to work with local communities, NGOs, and local governments to:

- establish enforceable local ordinances and agreements that acknowledge and protect community marine use rights;
- develop alternative income sources in coastal areas hardest hit by economic recession and climate change, such as micro-enterprise initiatives on seaweed processing, eco-tourism, prawn aqua-culture rehabilitation, aquarium fish collection and the adoption of non-destructive fishing practices;
- ensure that new investments are properly designed, located and managed to ensure long term sustainability.

D. Improved protected areas resources management

Ten percent of Indonesia's terrestrial area has been formally set aside as national parks and protected areas: an important step for conserving Indonesia's unique biological heritage. However, even before the crisis, the traditional top-down approach and the chronic shortfall in financial resources have infuriated local stakeholders and left the parks exceedingly vulnerable to encroachment, unauthorized resource extraction and neglect.

This inauspicious situation is exacerbated by the economic crisis, which has effectively eliminated all government resources for national parks and protected areas. In addition, just as corporate interests are turning to the primary

must find ways to improve land management so the lands can remain resilient enough to accommodate significantly greater pressure than ever before.

USAID should institute new public-private partnerships that would:

- engage local communities and business groups and the supplementary resources they can mobilize in protected area governance;
- explore the feasibility of debt-for-nature swaps to supplement financial and management resources and drive substantive changes in protected area governance;
- work with government, NGO and private sector partners to explore innovative ways to increase management capacities for protected areas.

E. Other Opportunities Not Taken

The *Natural Resource Impacts* study identified five opportunities that were summarized in Section II.J., above. USAID/Indonesia has chosen to focus on two of these-- (1) the opportunity to combine land reform, safety net, and conservation measures and (2) the opportunity to restructure forest-based industry toward outcome based management, greater efficiency.

The Mission chose not to engage, or to engage in a limited manner, in the other three areas that deal with plantation crops, export-oriented agriculture sub-sectors, and land tenure reallocation. This decision appears mainly driven by the level and type of resources available to the Mission and by the higher priority given to political and economic versus environmental issues. Although beyond the current scope, progress in these areas is fundamental to the sustainability of Indonesia's development.

It should be noted that poor policies for plantation crops and export-oriented agriculture, and the lack of clear land tenure and allocation arrangements have been identified as principal causes of the fire and haze crisis that preceded the economic and political crisis. Through regional activities, USAID committed \$4.8 million in FY 1998 to better understand these problems and to strengthen Indonesian and regional capacities to deal with them. A continuing regional program for the East Asia and the Pacific Region will commit \$4 million in FY 1999 and \$10 million is planned for FY 2000 for activities in (1) forestry and land use, (2) coastal resources management, and (3) climate change. The ANE Bureau and the Mission need to work out how to undertake these activities collaboratively with USAID/Indonesia.

A final note is that the threats and strategy recommendations covering natural-resource-based industries (a broad category including estate and export crops, as well as tourism and mining) were included in the *USAID/Indonesia Environmental Threats Assessment* of 1995, and were also included within the Natural Resources Management Strategic Objective (NRMSO) Agreement (1996 – 2003) that continues as the bilateral program agreement for USAID's environmental program. Consequently, this analysis recommends that if additional resources were to become available for environmental activities, USAID/Indonesia should consider further activities to increase conservation and pollution reduction by natural resource-based industries as planned under NRMSO. If responsibility for estate crops stays within the Ministry of Forestry, as it is with the current government, the NRMSO program could expand the analytic and policy scope of its work without having to forge new relationships with another Ministry.

ANNEX C

1
2
3
4
5
6
7
8
9
10
11
12

Estimated FY 2000 - FY 2004 Funding Requirements (\$000) - DRAFT

Revised 5/17/2000

Scenario #1: FY 2001 & FY 2002 at \$130 million

Mission New Strategic Objectives FY 2000-FY 2004	FY 2000										FY 2001					FY 2002	FY 2003	FY 2004
	DA	CSD	OTI	AERA	USAEP	Env tvtl	ESF	RUDO	Total		DA	CSD	OTI	ESF	Total	Total	Total	Total
SO7 - Democratic Reforms Sustained and Deepened	14,000		3,500				10,000	1/	27,500		13,500		4,000	17,000	34,500	34,500	26,000	28,000
SO8 - Health of Women & Children Improved	8,000	20,232	2/						28,282		10,000	18,925	3/		28,925	28,925	26,925	26,925
SpO9 - Impact of Conflicts & Crisis Reduced	3,000		5,000						8,000		3,000		3,000	5,000	11,000	11,000	-	-
SO 10- Decentralized and Participatory Local Government	9,700				400			209	10,309		9,500			4,000	13,500	13,500	13,500	13,500
SO 11- Foundations Set for Rapid, Sustainable, and Equitable Economic Growth	4,350			7,000			13,299		24,649		9,575			17,000	26,575	26,575	18,600	16,600
SO 12- Decentralized and Strengthened Natural Resources Management	10,500					8			10,508		10,500				10,500	10,500	10,500	10,500
SO 13- Energy Sector Governance Strengthened	3,500								3,500		5,000				5,000	5,000	4,475	4,475
Total all SOs & SpO	53,050	20,232	8,500	7,000	400	8	23,299	209	112,748	5/	61,075	18,925	7,000	43,000	130,000	130,000	100,000	100,000

1/ Include \$0.3 million FY 99 ESF

2/ Includes \$2.332 million DCOF (\$1.0 million NOA and \$1.332 million FY 99 funds)

3/ Approximately \$0.5 million to \$1 million could be reprogrammed for SpO 9 depending on needs. The \$18.925 million does not include approximately \$0.7 million DCOF

4/ Includes USAEP and RUDO funds

5/ Mission intends to allocate some funds for cross-cutting issues, including WID, the amount and mechanism for which are to be determined

BEST AVAILABLE COPY

Estimated FY 2000 - FY 2004 Funding Requirements (\$000) - DRAFT

Revised 5/17/2000

Mission New Strategic Objectives FY 2000-FY 2004	FY 2000										FY 2001					FY 2002	FY 2003	FY 2004
	DA	CSD	OTI	AERA	USAEP	Env trvl	ESF	RUDO	Total	DA	CSD	OTI	ESF	Total	Total	Total	Total	
SO7 - Democratic Reforms Sustained and Deepened	14,000		3,500				10,000	1/	27,500	14,500		4,000	9,500	28,000	28,000	28,000	28,000	
SO8 - Health of Women & Children Improved	8,000	20,282	2/						28,282	10,000	17,925	3/		27,925	27,925	26,925	26,925	
SpO9 - Impact of Conflicts & Cnsis Reduced	3,000		5,000						8,000	3,000		3,000	4,000	10,000	10,000	-	-	
SO 10- Decentralized and Participatory Local Government	9,700			400				209	10,309	9,500			4,000	13,500	13,500	13,500	13,500	
SO 11- Foundations Set for Rapid, Sustainable, and Equitable Economic Growth	4,350			7,000			13,299		24,649	10,075			10,500	20,575	20,575	18,600	16,600	
SO 12- Decentralized and Strengthened Natural Resources Management	10,500					8			10,508	10,500				10,500	10,500	10,500	10,500	
SO 13- Energy Sector Governance Strengthened	3,500								3,500	4,500				4,500	4,500	4,475	4,475	
Total all SOs & SpO	53,050	20,282	8,500	7,000	400	8	23,299	209	112,748	62,075	17,925	7,000	28,000	115,000	115,000	100,000	100,000	

1/ Include \$0.3 million FY 99 ESF

2/ Includes \$2.332 million DCOF (\$1.0 million NOA and \$1.332 million FY 99 funds)

3/ Approximately \$0.5 million to \$1 million could be reprogrammed for SpO 9 depending on needs. The \$17.925 million does not include approximately \$0.7 million DCOF.

4/ Includes USAEP and RUDO funds

5/ Mission intends to allocate some funds for cross-cutting issues, including WID, the amount and mechanism for which are to be determined

p:\pps\0004bud1.xls - May 17, 2000

BEST AVAILABLE COPY

74