

USAID/Indonesia

Annual Report

FY 2005

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Indonesia

Performance:

Background: Seven years into a comprehensive political and economic transition, Indonesia has made significant progress in consolidating democratic reforms, moving rapidly from one of the world's most centralized countries to one of the most decentralized, and at the same time, directing the country's economy back on a growth path. It is beginning to tackle the causes of conflict and terrorism.

Indonesia has taken important steps in embracing democratic reform. In 2004, Indonesia successfully conducted the largest and most complex single day elections ever held in the world, and demonstrated the compatibility of democracy and Islam. The country has also introduced fundamental constitutional and electoral reforms, including: a presidential system of government, with direct elections of the President and Vice President and a corresponding system of checks and balances; elimination of non-elected seats held by the military and police in the national legislature and the introduction of greater regional representation through a new second Parliamentary chamber.

The democratic and peaceful presidential election and advent of a new reform-oriented government have been widely applauded in Indonesia and abroad. Standard and Poors rewarded the country by bumping up Indonesia's sovereign debt rating to B+, the Rupiah appreciated modestly, and fueled by foreign investment, the Jakarta Stock Exchange (JSE) vaulted past the 1000 mark to an all-time high. According to a leading researcher the Consumer Confidence Index (CCI) and the Consumer Confidence in Government Index (CCGI), each increased by more than 6% to 36 month highs following the election. Full-year GDP growth forecasts for 2004 have been revised upward to 5%, reflecting optimism regarding the government's reform agenda and for economic development. In the trade sector non-oil exports increased steadily in the second half of 2004, and have pushed Indonesia's aggregate year-to-date trade surplus towards US\$20 billion. In a positive turn signaling increased fixed asset investment, capital goods rose as a proportion of imports, though the lion's share was still comprised of consumption goods.

Two Indonesian decentralization laws (Law 22/1999 and Law 25/1999) were enacted in mid-1999. On January 1, 2001, approximately two million employees, almost two-thirds of the central government workforce, were transferred to local governments. Contrary to predictions of a national breakdown, the transfer of authority has been relatively successful. The central government apparatus of control and service delivery is being rapidly dismantled and handed over to local governments. Local governments are now responding positively to their new authorities and attempting to provide a range of key services.

Over the last 40 years, Indonesia has made tremendous progress in improving the health status of its citizens. Infant mortality rates have dropped dramatically and life expectancy has increased to 68 years. Indonesia's Total Fertility Rate declined from 5-6 children in 1971 to 2.6 in 2003. In the same time period, the Contraceptive Prevalence Rate (CPR) increased from less than 10% to 56.7%. From 1997 to 2002 the CPR showed continued improvements, despite the East Asian economic crisis, increasing from 54.7% to 56.7%. These are clear signs that Indonesian families remain committed to using modern family planning methods, even while financial hardships impact household spending.

Challenges: Despite many successes, serious challenges continued to impede Indonesia's progress toward becoming a moderate, stable and productive country.

Indonesia is still struggling to overcome deeply entrenched legacies of authoritarian rule. Democratic reform continues to be challenged by weak government institutions that lack transparency. Corruption is endemic and the political will to implement sustainable reforms remains uncertain. As a result of weak legal institutions, businesses as well as individuals have continued to suffer through arbitrary court

judgments, which affect both commercial and civil proceedings.

Indonesia's recovery from the economic crisis lagged behind nearly all Southeast Asian countries and performance in many areas continues to trail the region. With more than 9.5 million of the 100.3 million labor force unemployed in early 2004, job creation remains a core economic and policy issue. Over the first half of 2004 workforce data improved, but the challenge to absorb more than two million new job-seekers each year remains daunting. The World Bank and others estimate that growth must register at least 6% in order to appreciably reduce unemployment.

Local governments have assumed responsibility for the management and delivery of eleven key services and, by default, any residual responsibilities not explicitly covered in the decentralization laws. Most local governments are ill-prepared to address the challenges of planning, budgeting, and managing the provision of services in an effective, transparent and accountable manner.

Indonesia continues to struggle against terrorism and, sectarian, interethnic and separatist conflicts. In September, a terrorist bombing in front of the Australian Embassy demonstrated the continued threat extremists pose in the country. Many areas in Central Sulawesi and the Maluku, which have been wracked by Muslim-Christian infighting, have passed through a phase of relative stability. In late 2003, however, flare-ups were again reported in Central Sulawesi and neighboring areas. The breakdown of the Aceh peace process resulted in the declaration of martial law in May of 2003, and then Civil Emergency Law in May 2004. The Indonesian Army has blocked foreign humanitarian aid workers from entering the province while the death toll of this separatist conflict continues to mount. There were also increasing reports of sporadic fighting between local militias and the Indonesian military in Papua.

U.S. Interests and Goals: As the world's fourth most populous nation and the largest Muslim majority country, the outcome of Indonesia's democratic transition has profound implications for U.S. strategic interests. USAID assistance works to achieve U.S. goals in preserving regional stability in Asia, fighting terrorism, strengthening democratic principles, the rule of law and respect for human rights, and expanding access for U.S. exports.

Key Achievements: USAID/Indonesia's 2000-2004 "transition strategy" built on the priorities established in response to the crisis period pursued programs of institutionalizing policy reforms and supporting GOI efforts to emerge from the aftermath of the crisis. In its final year, significant results were achieved.

Strengthening the institutions of democratic and local governance: USAID was the largest grant donor, providing \$25.2 million in direct support for Indonesia's 2004 elections, including technical support for both national and sub-national election authorities, voter education, civil society monitoring and post election training. With USAID assistance, the Supreme Court established and implemented its blueprint for comprehensive reforms, including a reduction in the backlog of cases, improving the quality and integrity of judges, publishing court decisions and modernizing the court information system. USAID assistance successfully reached out to Indonesia's Muslim majority population in the development of democracy and civil society. For example, a weekly broadcast on religion and tolerance reached 2.5 million people. USAID has partnered with more than 130 local governments, working cooperatively to build sustainable, performance-oriented local governance capacities. As a result, more than 80 local governments are using a modern participatory approach to planning. Fifty-six local governments are using performance budgeting practices with some now reporting 10% to 20% gains in efficiency.

Economic Growth: In 2004, USAID contributed to further macro-economic stabilization through progress in bank resolution and the reorganization of the Ministry of Finance, including the design of a Fiscal Policy Unit. These and other efforts led to a successful \$1 billion bond issue, and stable interest and exchange rate regimes. Numerous laws were ratified, creating important institutions, such as the Anti-Money Laundering Commission and the Deposit Insurance agency, which are critical to fighting corruption and building confidence.

Health: In 2004, USAID assistance continued to improve healthy reproductive behavior. In geographic areas covered by USAID family planning activities, there has been significant progress in improving the

quality of care, especially in the areas of infection prevention (19.6% compliance in 2002 to 65.1% in 2004) and client provider interaction (61% compliance in 2002 to 85.6% in 2004). USAID helped the GOI establish essential minimum health service standards, which are being used by all district health officers to plan, manage, budget and improve the quality of services. In areas where USAID works, the number of births attended by a trained midwife increased to 48% of births from 31% in 1997. As a result of USAID assistance, the case detection rate for TB at the national level increased from 13% in 2001 to 29% in 2003. There is also a steady increase in the proportion of TB patients successfully treated (cured or converted), bringing the total close to the national target of 85%. Malaria diagnostic and treatment guidance has been developed and implemented, increasing laboratory detection from 54% to 74%. Successful HIV/AIDS behavior change interventions, including outreach and peer-led activities, were organized for all major high-risk groups. The assistance reached over 51,000 female sex workers, 516,000 prospective clients, over 19,000 men who have sex with men, and 8,000 injecting drug users. As a result of collaboration with 105 private sector firms, HIV prevention programs in the workplace reached over 450,000 employees, utilizing the firms' own resources. Condom use among all target groups increased significantly and in most cases the increases are proportionate to program coverage of at risk populations. In a random survey, 90% of transvestites reported contact with an outreach worker, 81% reported condom use during most recent sex (up from 43% in 2002). Sixty percent of male sex workers reported contact with an outreach worker and 84% of them reported condom use (up from 56% in 2002).

Reducing conflicts and mitigating crisis: Over the past year, USAID assistance provided more than 10 million person-days of employment and training to unemployed or underemployed persons. As a result, families with limited incomes had new opportunities to meet daily food needs and maintain or reduce debt loads while developing marketable skills for employment. Since January 2003, USAID assistance has provided rapid life-saving assistance to drought impacted communities in West Timor. The emergency program provided food to approximately 2,000 children every month, with efforts effectively reducing the global acute malnutrition rate from 26% to 4% and saving thousands of lives in the process. USAID assistance demonstrated its ability to rapidly and flexibly respond to the impact of conflicts throughout the country. Despite a civil emergency decree and restricted access in Aceh, USAID medical assistance reached more than 500,000 people in the region. After the September terrorist bombing in front of the Australian Embassy USAID was one of the first responders and provided \$100,000 through international and local organizations to aid survivors of the bombing.

Natural Resource Management: In 2004 alone, USAID natural resource management assistance resulted in approximately 2,200,000 hectares of additional forest and coastline being placed under better management and protection. North Sulawesi's Bunaken National Marine Park reached full financial sustainability and re-growth of hard coral increased from less than 35% in 1997 to an average of 60% in 2004. By using a USAID GDA, 1,500,000 hectares of forest concessions are being placed under 3rd-party verification of reduced-impact logging and legal logging practices. USAID's Orangutan Habitat Protection program has garnered broad-based support from local villages, governments, and forest concessionaires resulting in the protection of an additional 305,000 hectares of prime orangutan habitat in Berau, East Kalimantan which is home to more than 2,000 wild orangutans. In Tanjung Puting National Park in Central Kalimantan, USAID's implementing partners have expanded community-based patrolling to cover more than 30% or 124,800 hectares of the park's most critically important habitat for more than 2,500 wild orangutans.

Results Framework

497-007 Democratic Reforms Sustained and Deepened

SO Level Indicator(s):

Citizen Satisfaction with Democracy

Citizen Satisfaction with Key Institutions

Key Legislative/Policy Breakthroughs as a Result of Civil Society Advocacy

7.1 Key National and Local Level Government Institutions Made More Responsive and Effective

7.1.1 National Policy Making Processes Made More Responsive and Effective

7.1.2 Local Legislatures in Selected Areas Made More Responsive and Effective

7.1.3 Political Parties at National Level and in Selected Localities Made More Responsive and

Effective

7.2 Increased Citizen Participation in Governance

7.2.1 Civil Society Organizations' Impact on Policy Making and Implementation Increased

7.2.2 Civil Society Organizations' Ability to Increase Citizen Participation in Governance Increased

7.2.3 Increase Capacity of the Media to Inform Citizens About Key National and Local Issues

7.3 Capacity and Support for Justice Sector Reform Increased

7.3.1 Constituencies for Justice Sector Reform Expanded and Strengthened

7.3.2 Use of Legal Mechanisms to Redress Abuses of Power Increased

497-008 Health of Women and Children Improved

SO Level Indicator(s):

Contraceptive Prevalence Rate (%)

Proportion of Births Attended by a Skilled Provider (%)

Vitamin A Capsule (VAC) Coverage (%)

8.1 Policy Environment for Reproductive and Child Health Improved

8.2 Health Service Strengthened to Improve Access, Quality and Sustainability

8.3 Women, Families and Communities Empowered to Take Responsibility for Improving Health

497-009 Impact of Conflicts and Crises Reduced

SO Level Indicator(s):

Beneficiaries of Feeding Programs

Commodities Distributed

Person Days of Labor

9.1 Improved Welfare of Populations Affected by Natural or Man-made Disasters

9.2 Food Security for Vulnerable Populations Improved

9.3 Indigenous Efforts and Capacity to Resolve Conflict and Promote Reconciliation Strengthened

497-010 Decentralized and Participatory Local Government

SO Level Indicator(s):

Number of Local Governments Using Improved Management Tools and Practices

Number of Local Governments Using Participatory Medium-Term Planning

Policy Reform Index

10.1 Appropriate Environment Established to Enable Effective Local Government

10.2 Local Government Capacity Strengthened to Deliver Effective Services

10.3 Participation Increased in Local Government Decision-making

10.4 Associations of Local Government and Officials Established as Advocates

497-011 Foundation Set for Rapid, Sustainable, and Equitable Economic Growth

SO Level Indicator(s):

Cumulative Assets Sold under Bank Restructuring Agency (IBRA) (trillion Rp)

Cumulative Number of Substantial Policy Engagements with Government or Parliament

Non Oil and Gas Revenue from International Trade (billion US\$)

Outstanding Loans by BR Village Unit (# of borrowers)

- 11.1 Sound Economic Policy and Institutions
- 11.2 A Conducive Legal and Regulatory Framework
- 11.3 Open Access to Economic Opportunity
- 11.4 Knowledgeable Public Participation in Economic Decision-making

497-012 Strengthened and Decentralized Natural Resources Management

SO Level Indicator(s):

Number of Participants in USAID-assisted Trainings and Workshops
 Number of Publications Documenting Natural Resource Management Lessons Learned that Promote Replication

- Number of Site-specific Management Plans
- Number on Policy Advance Index

12.1 Roles and Responsibilities of Stakeholders for Natural Resource Decision-making and Management Clarified

12.2 Capacity of Local Stakeholders to Manage Natural Resource Improved

12.3 Broader and More Knowledgeable Public Demand for Sustainable Natural Resource Management Formed

497-013 Energy Sector Governance Strengthened

SO Level Indicator(s):

- Actual Emission Unit Reductions (million ton)
- Net Contribution to the Government of Indonesia from Energy Sector (million US\$)
- Number of Advances along the Policy Development and Enabling Regulation Index

13.1 Energy Sector Reform Implemented

13.2 Broader and More Knowledgeable Participation in Energy Sector Reform

13.3 Environmentally Friendly Investment in Management of the Energy Sector Increased

497-018 Improved Quality of Decentralized Basic Education

18.1 More Effective Decentralized Management and Governance of Schools

18.2 Improved Quality of Teaching and Learning

18.3 Increased Education Relevance and Workforce Skills for Youth

497-019 Higher Quality Basic Human Services Utilized

19.1 Governments, Community Organizations and the Private Sector Mobilized to Advocate for Higher Quality Basic Health Services

19.2 Basic Human Services Delivered Effectively at the Local Level

19.3 Improved Practices and Behaviors Adopted at the Community and Household Levels

497-020 Effective Democratic and Decentralized Governance

20.1 Consolidating the Reform Agenda

20.2 Expanding Participatory, Effective and Accountable Local Governance

20.3 Addressing Conflict and Encouraging Pluralism

497-021 Economic Growth Strengthened and Employment Created

21.1 Financial Sector Safety and Soundness Improved

21.2 Business Climate Improved for Enterprise Development and Job Creation

497-022 Maintaining Healthy Ecosystems

22.1 Governments, Community Organizations and the Private Sector Mobilized to Advocate for Maintaining Healthy Ecosystems

22.2 Healthy Ecosystems Are Maintained Effectively at the Local Level

22.3 Improved Practices and Behaviors in Maintaining Healthy Ecosystems Adopted at the Community Level

497-XXX State Dept & BHR Funds

497-YYY 498-009 U.S. - Asia Environmental Partnership (US-AEP)

497-ZZZ Improved Quality of Decentralized Basic Education