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MAIN REPORT

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INDONESIA PRIVATE SECTOR LANDSCAPE ASSESSMENT

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INDONESIA PRIVATE SECTOR LANDSCAPE ASSESSMENT (PSLA) MAIN REPORT

Indonesia Monitoring & Evaluation Support Project

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ACRONYMS

AFPI	Indonesian Fintech Lenders Association
AOR	Agreement Officer Representative
APBD	Local Government Budget
APIK	USAID/ Indonesia Climate Change Adaptation and Resilience Program
ASEAN	Association of Southeast Asian Nations
Bappenas	National Development Planning Agency
BKKBN	National Population and Family Planning Board
BLK	Public Vocational Technical Training Center
BNSP	National Body for Professional Certification
BOOT	Build-Own-Operate Transfer
BPJS	National Social Security Agency
BPJS-K	National Social Security Agency for Health
BPOM	Food and Drug Control Agency
CDCS	Country Development Cooperation Strategy
CDE	Community Development Enterprise
CDM	Clean Development Mechanism
CoE	Center of Excellence
COR	Contracting Officer Representative
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
DCA	Development Credit Authority
DCED	Donor Committee for Enterprise Development
DEWATS	Decentralized Wastewater Treatment Solutions
DHO	District / Municipality Health Office
DIB	Development Impact Bond
DJSN	National Social Security Board
DO	Development Outcomes
DRG	Diagnosis-Related Group
EMPEA	Emerging Market Private Equity Association
ESG	Environment Social and Governance
EU	European Union
FDI	Foreign Direct Investment
FI	Financial Institution
FKJP	Private Sector-led Communication Forums in the Provinces
G2G	Government-to-Government
GDA	Global Development Alliance
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GHSC-PSM	Global Health Supply Chain – Procurement and Supply Management
GIIN	Global Impact Investment Network

GIZ	German International Cooperation
GOI	Government of the Republic of Indonesia
HAKLI	Association of Environmental Health Experts Indonesia
HE	Higher Education
HEI	Higher Education Institution
HIV	Human Immunodeficiency Viruses
HSFMS	Health System and Financial Management Strengthening
HVHP	High-Value Horticultural Products
IBBS	Integrated Biological and Behavioral Surveillance
ICCTF	Indonesia Climate Change Trust Fund
ICED II	USAID/ Indonesia - Indonesia Clean Energy Development Project II
IDR	Indonesian Rupiah
IP	Implementing Partner
IPR	Intellectual Property Rights
JKN	National Health Insurance Program
LIFT	Landscape Investment and Finance Toolkit
LIN	Learning and Innovation Network
LPK	Private Vocational Training Centers
M&E	Monitoring & Evaluation
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MESP	Monitoring & Evaluation Support Project
MMT	Ministry of Manpower and Transmigration
MNC	Multinational Corporation
MNH	Maternal and Newborn Health
MNRM	Marine Natural Resources Management
MOEC	Ministry of Education and Culture
MOF	Ministry of Finance
MOH	Ministry of Health
MRTHE	Ministry of Research and Technology and Higher Education
MSC	Marine Stewardship Council
MSD	Market Systems Development Approach
NAP	National Action Plan
NDC	National Determined Contribution
NGO	Non-Governmental Organization
NHA	National AIDS Program
NPO	Non-Profit Organization
NRM	Natural Resources Management
OECD	Organization for Economic Co-operation and Development
OJK	Financial Services Authority
OOP	Out-of-Pocket
P2P	Peer-to-Peer

PbR	Payment by Results
PFI	Private Finance Institution
PHO	National Health Accounts
POLRI	National Police
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
PS	Private Sector
PSE	Private Sector Engagement
PSLA	Private Sector Landscape Assessment
R&D	Research & Development
RFA	Rainforest Alliance
RAN-API	National Adaptation Action Plan on Climate Change
RE	Renewable Energy
ROW	Rest of the World
RPJMD	Mid-Term Planning Document for Regency/Provincial Level
RPJMN	Mid-Term Planning Document for National Level
RWAP	Ready-to-Work Accelerator Program
SB	Social Business
SC	Social Cooperative
SCAA	Feed-the-Future Indonesia Sustainable Cooperative Agribusiness Alliance
SDG	Sustainable Development Goals
SHTI	Certificate for Catching Fishes
SIKDA	District-Level Health Information System
SIKNAS	National Health Information System
SME	Small-Medium Enterprise
SMK	Vocational High School
SOE	State-Owned Enterprise
SOW	Scope of Work
SRI	Socially Responsible Investing
STI	Sexually Transmitted Infection
TB	Tuberculosis
TNI	Republic of Indonesia Armed Forces
TNRM	Terrestrial Natural Resources Management
TPM	Team Planning Meeting
TVET	Technical and Vocational Education and Training
UNAIDS	Joint United Nations Program on HIV and AIDS
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
USD	United States Dollar
VC	Venture Capital
VHI	Voluntary Health Insurance
WASH	Water, Sanitation and Hygiene

WATSAN	Water and Sanitation
WEF	World Economic Forum
WFD	Work Force Development
WHO	World Health Organization
WSUP	Water & Sanitation for the Urban Poor

EXECUTIVE SUMMARY

The purpose of this assessment is to develop action-oriented recommendations for Private Sector Engagement (PSE) approaches in Indonesia. The recommendations will help to inform the development of USAID's new Country Development Cooperation Strategy (CDCS). The assessment is based on lessons learned from the Mission's current program portfolio, an Indonesia focused literature review, and insights gained from key stakeholders.

According to the Scope of Work for this PSLA, USAID/Indonesia PSE initiatives under the new CDCS will likely focus on three main sectors:

- Education: workforce development and higher education research;
- Environment: terrestrial and marine natural resource management, renewable energy, water and sanitation, high-value horticultural product value chains, and climate adaptation; and
- Health: maternal and child health, TB and HIV, and health system and financial management strengthening.

The PSLA consisted of a desk review and field research performed from June to September 2019. The PSLA team (the MESP team working together with two Alliance Builders from USAID's Human Capacity and Partnership Office) conducted 59 interviews in Jakarta, North Sumatra, South Sulawesi and East Java. Stakeholders interviewed were private sector companies, private finance institutions, business associations, implementing partners (IPs) of USAID/Indonesia projects and other stakeholders. Among the PSLA interviewees, 75 percent of the private sector companies interviewed had not previously collaborated with USAID, and 73 percent of the private finance institutions had no prior experience with USAID. Two online surveys were performed among USAID Contract and Agreement Officer Representatives and IPs of USAID/Indonesia projects. During a half-day workshop with AmCham members, the PSLA team conducted three focus group discussions.

Five ongoing USAID/Indonesia projects in the education, environment and health sectors were reviewed. The analytical framework for the review looked at different types of private sector contributions and their improvements to development outcomes in terms of an improved reach, improved efficiency, increased effectiveness and improved sustainability. The size of the five USAID projects ranges from several million dollars up to nearly US\$20 million and they generally operate over three- to five-year time periods. Even though private sector contributions increased activity reach, most projects reach a relatively small number of beneficiaries. Activities considered most effective in engaging the private sector have seen deep involvement by the IPs and a synergetic leverage of expertise by the different partners. Projects applying systematic approaches appear more effective and sustainable. Such approaches have focused on facilitating linkages between demand and supply, supporting value chain development, market systems development, and integrated landscape management.

Involving regional impact investors and the growing number of Indonesian social enterprises in the small and medium enterprise (SME) sector may be a key driver of successful PSE. This is an area that appears overlooked or underrepresented in USAID/Indonesia's portfolio of activity.

This assessment identified a significant number of potential opportunities to engage with the private sector. The PSE opportunities are matched with funding sources, programming modalities and business models, and highlight possible roles for USAID/Indonesia and private sector partners. These opportunities were identified by taking a top-down and bottom-up approach. In the top-down approach, the sub-sectors were reviewed and scored by looking at three stages of a development

pathway to sustainability. The scores indicate if building blocks on the pathway to sustainability are already in place and act as a driver in the sub-sector's development, or if there is a "drag on" service delivery in a particular building block that requires attention, or if the building block is inadequate and acts as a barrier to development. "Drag on" service delivery in a building block could be seen as an opportunity for USAID/Indonesia's attention. The bottom-up approach identified possible private sector partners with relevant partnership interest who are keen to work with USAID/Indonesia along the lines of the USAID PSE Policy in a private sector-led approach.

The business model that may provide the best opportunity for USAID PSE is for USAID/Indonesia to act as a facilitator of activities in which the private sector plays a leading implementation role. In line with the new USAID PSE Policy, USAID should focus its activities and assistance on addressing private sector constraints or risks. The engagements with the private sector should build on for-profit and market-based approaches and challenges. The role of USAID/Indonesia can be summarized as follows:

- In most sub-sectors there is demand for USAID/Indonesia to bring in a de-risking mechanism through its network (including a Development Credit Authority) for private equity participation by private finance firms, to help attract more investors and lenders for the scale-up of successful activities.
- There is strong demand in all sub-sectors for USAID/Indonesia's role as a facilitator. For example:
 - As a facilitator between potential investors and private sector companies that want to collaborate with USAID/Indonesia, for example, for the scale-up of an off-grid renewable energy project, or the financing of a wastewater treatment plant.
 - As a facilitator between US/international associations, Indonesian associations and companies, for example, to develop and implement set curricula with vocational institutions and ensure that certificates issued by the institutions will be recognized by industry.
 - As a facilitator supporting multi-stakeholder platforms, for example, for better coordination of supply chain stakeholders.
- There is demand for USAID/Indonesia to work with private sector companies or associations to develop business models for the scale-up of their existing initiatives, for example, the roll-out of a one-stop-shop model for sanitation management.
- There is demand for USAID/Indonesia to help with access, for example, access to markets, access to finance, access to energy and access to sanitation. USAID/Indonesia's role would be, for example, to de-risk private sector investments of companies that want to scale up their core business activities. USAID/Indonesia could work with private sector companies on developing a scale-up model for existing initiatives using systematic approaches (for example, value chain, market systems development and integrated landscape management approaches) to work with companies in their core business and through the system. USAID/Indonesia could also help to explore ways of supporting multi-stakeholder platforms and help with capacity building.
- There is demand for USAID/Indonesia to help with sectoral expertise, for example, high-quality market studies that are publicly accessible.
- There is demand for support to feasibility studies, the design of value propositions, and business models that can be part of the project preparation for blended finance and that would belong to the partnership, and not be publicly accessible.

- There is demand for USAID/Indonesia to help convene dialogue, for example, between medical associations and a digital health platform concerning continued medical education.
- There is demand for USAID/Indonesia to support advocacy efforts of the private sector, for example, through white papers to support the private sector in its advocacy efforts and work toward improving business enabling environments.
- Most of these opportunities can be private sector led, in the sense that USAID/Indonesia plays the role of facilitator, and its activities and assistance address private sector constraints or risks. The engagements should build on for-profit and market-based approaches, and challenges that are in line with the new USAID PSE Policy.

The new 2018 USAID PSE Policy is in place and provides a basis for USAID/Indonesia to implement its own robust PSE approach. USAID/Indonesia has started to transition toward a more strategic PSE approach. The 2018 USAID PSE Policy emphasizes the need for stronger PSE: “It [the private sector] is the driving force behind new innovations that solve problems. It brings expertise to building local markets that match local savings with investment opportunities and provides countries with the tools to finance their own development. The private sector has the scale and resources to match the complexity of challenges countries face on their Journey to Self-Reliance.” What is needed now at USAID/Indonesia are procedures, funding frameworks, adaptive roles of internal staff, building staff skills and bringing in new expertise, as well as implementing new ways of working. Human and financial resources are needed to support this transition. While this shift is ongoing, there are short- and medium-term steps recommended for USAID/Indonesia based on the PSLA, as follows:

Short-term steps:

- **Recommendation 1:** USAID/Indonesia launches its own Call for Partnership Concept Papers under the Global Development Alliance (GDA). In the short term, within the next one to two years, the GDA provides an existing mechanism for USAID/Indonesia to follow up on the many interests in collaboration that came up during the field research.
- **Recommendation 2:** Is USAID/Indonesia an advocate or business developer for PSE? Consider creating a dedicated business services support unit/competence center for PSE. This unit/competence center would need to be equipped with additional human and financial resources, and be mandated to: pro-actively pursue the private sector with value propositions and business models; pro-actively approach ongoing USAID projects’ IPs and work with them on more scalable private sector partnerships and identifying private finance; serve as a point of contact for PSE troubleshooting for technical offices and USAID/Indonesia projects; and serve with strategic orientation, for example, by helping technical offices and ongoing projects with a portfolio check.
- **Recommendation 3:** Actively engage with the private sector, while programming the CDCS FY2021-2025. The COR/AOR online survey and also the PSLA team recommended that USAID/Indonesia continue to keep in touch with the private sector, industry associations and chambers while programming the CDCS 2021-2025 to obtain feedback on: potential business models of new partnerships of USAID/Indonesia with the private sector, and the role of the private sector envisaged in the CDCS to address the SDGs; potential provision of financial and non-financial resources for a particular initiative; and feedback on how to make sure the private sector is engaged and remains committed.

Short- to medium-term steps:

- **Recommendation 4:** Equip staff from USAID/Indonesia’s technical offices with a better understanding of what PSE actually means. Given the low level of competence felt by

respondents in the CORs/AORs online survey, and the comments received, it is recommended that USAID/Indonesia develop practical guidelines to help CORs/AORs to play their role in PSE. The guidelines should be short and easy to understand; equip CORs/AORs with online and practical training sessions and send them into companies; and improve their understanding of market systems development approaches, different innovative finance models, and business model design—the top three interests expressed by respondents.

Medium-term steps:

- **Recommendation 5:** Allocate sufficient budget to socialize the private sector with USAID/Indonesia's CDCS, and begin to test approaches and build experience within the Mission for PSE implementation and management. USAID/Indonesia should increase its participation in the events of industry associations, chambers or marketplaces, for example, trade fairs, and directly engage with the private sector to raise awareness of what USAID/Indonesia can offer. These events should be used to identify potential private sector partners and will benefit from the establishment of a professional follow-up system to avoid raising expectations and then having communications drop-off.
- **Recommendation 6:** Consider having fewer, but larger-sized and longer-termed flagship projects with systematic approaches. For more strategic PSE, the next CDCS should consider projects with higher budget allocations and a longer duration than the five projects reviewed as part of this PSLA. Projects that aim for scale, enabling flexibility, allowing for more risk-taking and the acceptance of failure should be encouraged. This is to increase the scale of contributions to development outcomes, increase recognition of USAID/Indonesia and reduce the administrative effort for USAID/Indonesia compared with the effort needed when overseeing multiple small projects of various IPs.
- **Recommendation 7:** Make Requests for Proposals (RFPs) and contracts with IPs more flexible and include incentives/disincentives to performance. This could mean a requirement for enough PSE advisors/business consultants inside USAID/Indonesia and in projects. This will require people with strong business development backgrounds, and private sector and financing skills. It also requires people who are pro-active, agile and ready to persistently follow up with private sector partners. Key performance indicators (KPIs) capturing PSE in a more outcome-based manner should be incorporated into IP contracts.
- **Recommendation 8:** Fill the key gap in development-related finance. Only a few sources of finance can currently provide smaller investments with perceivably higher risk and with a long-time horizon until financial returns are achievable. This gap will have to be filled if USAID/Indonesia is to address some key investment needs in complex development collaborations.
- **Recommendation 9:** Consider engaging more with regional impact investors who are already investing in various social enterprise models in Indonesia to create better job opportunities that are relevant to the local context. This can be done in partnership with impact investors willing to invest patient equity finance to create a for-profit business with measurable social outcomes, and that intentionally and primarily addresses the social needs of the poor and marginalized.
- **Recommendation 10:** Clearly elucidate the five key value propositions that USAID/Indonesia has to offer, namely: (i) strong in-country networks and relationships; (ii) support to strengthen business enabling environments; (iii) sectoral expertise and knowledge; (iv) risk-mitigation and flexible authorities; and (v) reputation and credible convening power.

I. INTRODUCTION

Indonesia is a lower middle-income country with a robust private sector, which can serve as a key driver to increase inclusive economic growth. Indonesia's economic growth is estimated at 5.1 percent in 2019, higher than the global growth rate at 3.2 percent.¹ The country has abundant natural resources and a large young population. Income inequality remains persistent: nearly 20 percent of the richest Indonesians control 80 percent of the wealth, while half of the population earns less than US\$2 per day. Challenges to Indonesia's further development include labor productivity, educational quality, provision of critical infrastructure, and social and environmental protection. The Government of Indonesia (GOI) is working to address these challenges and realizes the important role of the private sector in improving national self-reliance. USAID/Indonesia aims to support Indonesia on its Journey to Self-Reliance through its five-year Country Cooperation and Development Strategies (CDCS) and related activities.

The 2018 USAID Private Sector Engagement (PSE) Policy emphasizes the need for stronger PSE: "It [the private sector] is the driving force behind new innovations that solve problems. It brings expertise to building local markets that match local savings with investment opportunities and provides countries with the tools to finance their own development. The private sector has the scale and resources to match the complexity of challenges countries face on their Journey to Self-Reliance."²

The purpose of the Private Sector Landscape Assessment (PSLA) is to inform the new USAID/Indonesia Country Cooperation and Development Strategy (CDCS) for fiscal years 2021-25 on action-oriented recommendations for PSE, based on lessons from the Mission's current program portfolio, an Indonesia focused literature review, and insights gained from key stakeholders.

According to the Scope of Work (SoW), USAID/Indonesia PSE initiatives under the new CDCS will likely focus on three main sectors:

- Education: workforce development, higher education, and research;
- Environment: terrestrial and marine habitat protection and natural resource management, renewable energy, water and sanitation, high-value horticultural product value chains, and climate adaptation; and
- Health: maternal and child health, TB and HIV, and health system and financial management strengthening.

The themes of anti-corruption and providing finance in fighting corruption will also be considered.³

The PSLA assignment was performed by a PSLA team from June to September 2019, and consisted of desk and field research. There are two outputs: the PSLA Desk Review Report (Output 1) and the PSLA Assessment Report (Output 2, this document).

¹ World Bank (2019): Indonesia Economic Quarterly (IEQ), June 2019: Oceans of opportunity, page 2; IMF (2019): World Economic Outlook. Update July 2019, page 1.

² USAID 2018: Private-Sector Engagement Policy, page 4.

³ Scope of Work for the USAID/ Indonesia Private Sector Landscape Assessment (PSLA), page 1. See also Annex I.

2. METHODOLOGY OF THE PSLA DESK REVIEW AND FIELD RESEARCH

The PSLA Scope of Work (SOW) can be found in Annex 1. The Work Plan and Methodology, together with the designed survey tools and interview guides, can be found in Annex 2. The PSLA consisted of desk and field research performed by the PSLA team of the Monitoring and Evaluation Support Program (MESP) from June to September 2019. There are two outputs:

Output 1: The PSLA Desk Review Report presents the findings from the desk review. It responds to the SOW assessment questions for Phases 1, 2 and 3 (Table 1). It was agreed that the review of USAID/Indonesia’s projects in the education, environment and health sectors would take a forward-looking perspective and investigate whether there is scale-up potential, and that there would be an equal focus on the finance deep dive (Phase 2). Recommendations (Phase 3) are addressed in Output 2 (this PSLA Report). The desk review presents findings from USAID literature (i.e., project evaluation report documents) and outside literature (ca. 40-50 percent of the literature reviewed) (Annex 3). It provides a broad overview of the three sectors and presents a range of opportunities for USAID to engage domestic and foreign private sector companies and private finance institutions operating in Indonesia for development-related projects. Output 1 also serves to prepare for, and to inform, the field research. The findings of the desk review and the proposed methodology for field research were presented to USAID/Indonesia at the beginning of the in-country mission of the PSLA team.

TABLE 1. PHASES AND QUESTIONS TO BE ADDRESSED IN THE PSLA

PHASE 1: PRIVATE SECTOR LANDSCAPE ANALYSIS	PHASE 2: PRIVATE FINANCE DEEP DIVE	PHASE 3: CONCLUSIONS AND RECOMMENDATIONS
<p>1. What is our experience? Based on a literature review of USAID/Indonesia programming, what USAID/Indonesia activities and respective private sector engagements have been most effective? Which modalities have not been satisfactory in terms of efficiency and development impact?</p> <p>2. What is out there? Based on a literature review, where does USAID have the most potential to partner with the private sector and in what types of activities within the focus sub-sectors?</p> <p>3. What are we missing? Based on a literature review, what sub-sectors has USAID/Indonesia overlooked or not sufficiently engaged in order to maximize private sector expertise for development initiatives?</p> <p>4. What are the legal/regulatory barriers and opportunities? Based on a literature review, what are the high-level legal/ regulatory barriers preventing private sector participation or growth in the focus sub-sectors? What legal/ regulatory issues (progressive government initiatives, investment incentives, government procurements) open opportunities to private sector participation in the focus sub-sectors? How does corruption impact private sector activities within focus sub-sectors?</p>	<p>5a. What private money is out there? Based on a literature review and bolstered by financial industry stakeholder interviews, what sources of financing exist in Indonesia that offer potential to increase USAID private sector engagement, including blue & green bonds, PT SMI, SDG Indonesia One, impact investment funds, and others?</p> <p>5b. Where is the money going? Based on a literature review and bolstered by financial industry stakeholder interviews, to what sectors and activities are private companies/financial institutions investing in?</p>	<p>6. Where can we most effectively engage? Within selected sub-sectors, as informed by the literature review and stakeholder interviews, where should USAID/Indonesia focus within the identified sub-sectors to most substantially maximize private sector expertise to support development programming? How can USAID/Indonesia align the CDCS within the flow of private financing to focus sub-sectors?</p> <p>7. How can we engage? After identifying priority focus engagements, what modalities and business models can USAID/Indonesia deploy to leverage and enable greater private sector investment? Programming opportunities should be analyzed against the possible sources of private funding identified during the desk review.</p> <p>8. Who can we cooperate with? Who are the key private sector stakeholders that USAID should engage within the priority focus engagements? What does USAID/Indonesia need to do to encourage private sector participation and what type of partnership models can support scalable private sector engagements?</p>

Source: PSLA SOW, pages 2 and 3.

Output 2: The PSLA Assessment Report (Main Report) synthesizes findings from the desk review. It is substantiated by the field research and covers the sections outlined in the SOW, Section 6:

- Summary information on PSE activities in Indonesia, major constraints, and challenges and opportunities that could support PSE initiatives.
- Indonesia’s private sector profile in each target sector, and legal/regulatory barriers and opportunities, including criteria that are likely critical for developing future PSE activities.
- Identification of PSE opportunities matched with funding sources and opportunities, and programming modalities and business models.
- Identification of possible private sector partners with relevant partnership interest and contact information.
- Implications for USAID programming, including strategic and programmatic recommendations.
- Annexes: Bibliography of sources consulted, including interviews, focus group discussions (FGDs), and others, quantitative data collected, including notes from informant interviews and FGDs.

It was agreed that USAID/Indonesia would like the focus of the report to be on *‘Identification of PSE opportunities matched with funding sources and opportunities and programming modalities and business models’* and *‘Implications for USAID Programming, including strategic and programmatic recommendations.’* It was also agreed to put *‘Identification of possible private sector partners with relevant partnership interest and contact information’* in the annex to avoid disclosing the names and contact data of potential cooperation partners.

The field research was performed over four weeks (July to the beginning of August 2019), consisting of:

- Out of 50-60 planned interviews, the PSLA team (the MESP team working together with two Alliance Builders from USAID’s Human Capacity and Partnership Office) conducted 59 interviews, most of them in Jakarta (38). During week 3, the team split in two groups and went to North Sumatra, South Sulawesi and East Java. Stakeholders interviewed were private sector companies (24), private finance institutions (11), business associations (4), IPs of USAID/Indonesia projects (8) and other stakeholders (12). It was agreed that 80 percent of the private sector companies interviewed should not have previously collaborated with USAID. The PSLA team achieved a share of 75 percent. It was also agreed that 70 percent of the private finance institutions should be institutions with no prior experience with USAID. The PSLA team achieved a share of 73 percent. Semi-structured interview guides were used. Interviews were performed by the PSLA team in-company with the two USAID Alliance Builders. Interviews were face-to-face or via phone/Skype. Annex 3 contains the itinerary with contact data. Annex 4 contains the meeting notes based on the recordings and the follow-up emails sent to the interviewees, summarizing potential collaboration opportunities and referring them to the USAID Alliance Builders for a further exchange of ideas.
- Two online surveys were performed: One online survey among USAID Contract and Agreement Officer Representatives (CORs/AORs) to which 13 of the 15 targeted CORs/AORs responded. A second online survey among IPs of USAID/Indonesia projects to which all the 15 targeted IPs responded. Annex 5 contains the automatically generated reports.
- Half-day workshop with 25 AmCham members with three FGDs (one per sector), facilitated by the PSLA team. Annex 6 contains the meeting summary and list of participants.

The PSLA team had a half-day work session at the end of the in-country mission to discuss the findings and recommendations.

3. FINDINGS

3.1. SUMMARY INFORMATION ON PSE ACTIVITIES IN INDONESIA, MAJOR CONSTRAINTS, CHALLENGES AND OPPORTUNITIES THAT COULD SUPPORT PSE INITIATIVES

SOW Question 1: What is our experience? Based on a literature of USAID/Indonesia programming, what USAID/Indonesia activities and respective PSE have been most effective? Which modalities have not been satisfactory in terms of efficiency and development impact?

Summary Finding: Among the five ongoing USAID/Indonesia projects in the education, environment and health sectors reviewed (RWAP, APIK, ICED II, SCAA, GHSC-PSM), activities considered most effective in engaging the private sector saw: deep involvement by the IPs through the practice of business development and applying systematic approaches to facilitating demand and supply; the facilitation of value chain and market systems development; and the promotion of integrated landscape management approaches. The sizes of the USAID projects range from a couple of million dollars up to nearly US\$20 million, and generally operate over three- to five-year time periods. The five PSE partnerships reviewed were suggested by USAID/Indonesia to the PSLA team.

- Education sector: RWAP⁴ (Education – vocational training).
- Environment sector: APIK⁵ (Environment – climate resiliency); ICED II⁶ (Environment – renewable energy), SCAA⁷ (Environment, economic growth – agribusiness).
- Health sector: GHSC-PSM⁸ (Health – procurement and supply management).

Table 2 summarizes those activities that appear to be most effective and those modalities that were unsatisfactory in terms of efficiency and development impact. Annex 7 presents a comparative view of the five projects.

⁴ RWAP website: www.edc.org/usaidindonesia-ready-work-accelerator-program-rwap

⁵ APIK website: www.apikindonesia.or.id

⁶ ICED website: www.iced.or.id

⁷ Project info: https://ncbaclusa.coop/images/CLUSA/Project_Profiles/Project-Profile_Indonesia-SCAA.pdf

⁸ GHSC-PSM website: www.ghsupplychain.org

TABLE 2. EFFECTIVE PSE ACTIVITIES AND MODALITIES THAT WERE NOT SATISFACTORY

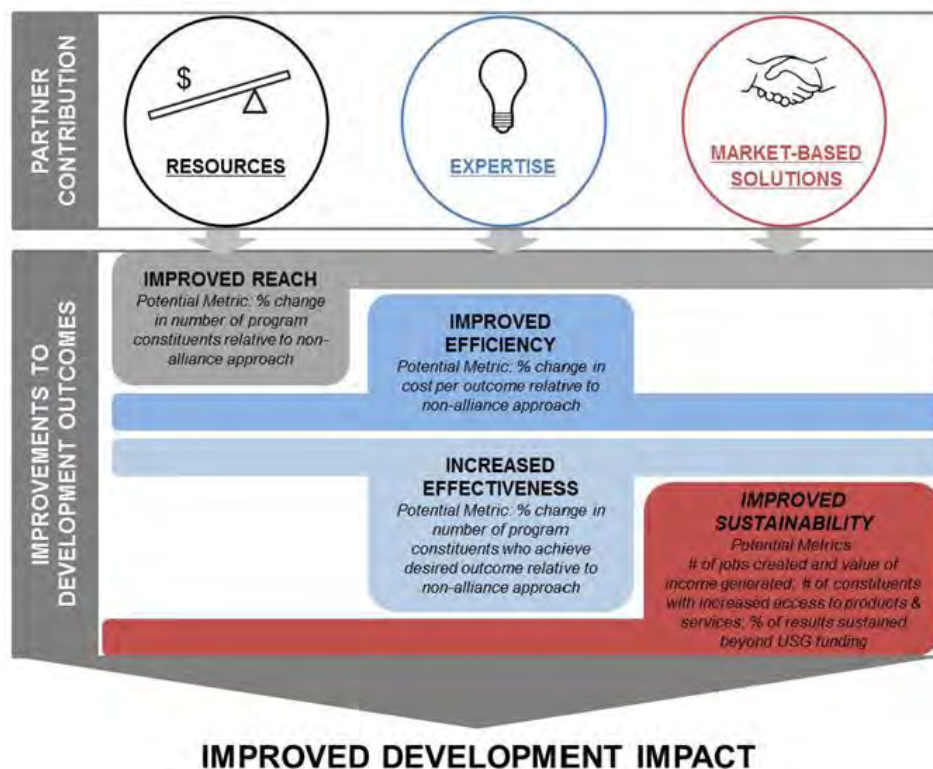
MOST EFFECTIVE ACTIVITIES AND PSE OF USAID/INDONESIA	MODALITIES <u>NOT</u> SATISFACTORY IN TERMS OF ...	
	... EFFICIENCY	... DEVELOPMENT IMPACT
<p>Leveraging private sector core business expertise and market presence:</p> <p>Project IPs combining complementary private sector partners' core business expertise and matching it with own competencies, thus creating value-added for project partners and beneficiaries.</p> <p>Projects applying systematic approaches appear more effective and sustainable, for example:</p> <p>Project as facilitator, coordinating demand and supply sides in technical education to match better (RWAP)</p> <p>Project applying an integrated landscape management approach working with the community and private sector to proactively manage climate change-related risks and build capacities through high quality analyses, maps, case studies and follow-up by well-trained local staff (APIK)</p> <p>Project applying a market systems development approach, already incorporated in the RFP, working through the system with government agencies, the national utility provider, private sector developers and suppliers, and financial institutions, opening the market for renewable energy projects (ICED II)</p> <p>Projects facilitating supply chains/ value chains with major value chain stakeholders present in the project partnership, with guaranteed access for smallholder farmers to US/international markets (SCAA) or with network of laboratories in the partnership to improve supply chain management of Indonesia's laboratories (GHSC-PSM)</p>	<p>Mostly small-sized projects (below US\$20 million of USAID obligations) with medium-term duration (3-5 years)</p> <p>Small number of beneficiaries in most projects</p> <p>Comparatively high administrative effort for USAID/Indonesia overseeing multiple small projects of various IPs</p> <p>No business enabling environment (BEE) function inside USAID/Indonesia leveraging the evidence from results and experience achieved from long-standing presence</p> <p>Individual projects do work on the business enabling environment. But USAID/Indonesia has no dedicated function for advocacy support to the private sector in policy dialogue, engaging with business networks, and platforms to focus on facilitating policy dialogue and reform of the business environment</p>	<p>Indicators measuring PSE are rarely outcome-based; difficult to understand how working with the private sector leads to better development outcomes</p> <p>Challenges to scale up and/or replicate business models:</p> <p>Even though projects engage private sector partners often in their core business functions (not as part of their CSR), it remains unclear to which extent projects are flexible enough and sufficiently enabled to work in win-win situations with the private sector, while achieving development outcomes at a greater scale, at the same time</p> <p>Constraints identified: fixed/ inflexible contracts of USAID with IPs, complicated reporting system, too long duration from idea to contract, constraints in PSE key personnel and financial resources, sector-geography limitations, lack of incentives/penalties for more PSE in existing contracts</p>

Source: PSLA desk review and interviews.

This section summarizes the challenges of PSE mentioned by the project IPs and USAID/Indonesia interview partners and identifies issues for USAID/Indonesia attention going forward.

The analytical framework is from a 2011 USAID Report,⁹ which undertook an in-depth analysis of 70 Global Development Alliances (GDAs)¹⁰ to identify three outcomes by which the value-added of PSE in USAID/Indonesia projects is analyzed. The five USAID/Indonesia projects were reviewed in terms of private sector contributions, and how these improved development outcomes in terms of enabling an increased reach, and improved effectiveness, efficiency and sustainability (Figure 1). Private sector contributions to improve development outcomes are categorized as: financial/product resources, expertise in terms of skills, capabilities or specialized assets, and market-based solutions. These contributions by the private sector partners are not mutually exclusive or exhaustive.¹¹

FIGURE 1. PRIVATE SECTOR CONTRIBUTIONS AND IMPROVEMENTS TO DEVELOPMENT OUTCOMES



Source: USAID (2011): Understanding Private Sector Value, page 14.

The online survey among the IPs sought to measure the three categories of private sector contributions. Policy adoption was added.

⁹ USAID (2011): Understanding Private Sector Value: An Assessment of How USAID Measures the Value of Its Partnerships (based on an in-depth analysis of 70 GDAs), pages 4-5, 11-14.

¹⁰ Ibid.

¹¹ Ibid, page 14 and in line with the findings from PSLA desk and field research.

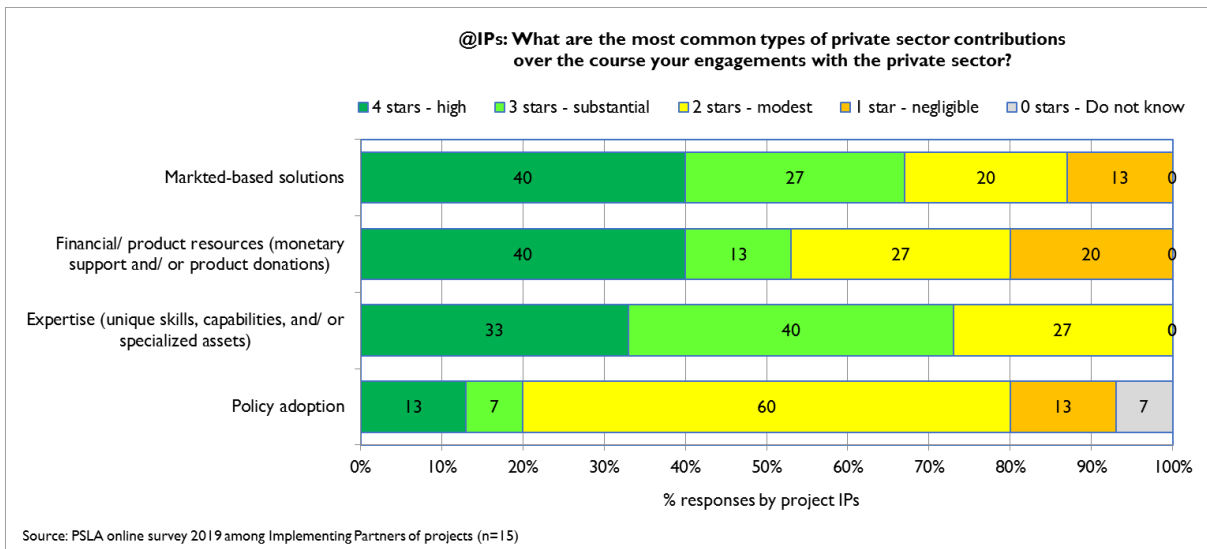


FIGURE 2. TYPES OF PRIVATE SECTOR CONTRIBUTIONS

Market-based solutions and financial/product resources are among the most common types of private sector contributions. Forty percent of the surveyed IPs gave a 4-star rating, indicating a high occurrence over the course of their engagements with the private sector. Expertise contributed by the private sector was rated by 73 percent of the IPs with either a 4-star or 3-star rating, indicating high and substantial occurrence.

The findings from the PSLA’s review of the five USAID projects and the field research match with the findings from the 2011 USAID Report.

Indicators measuring PSE are rarely outcome-based. Reviewing the project documents, the PSLA team discovered that the indicators captured were rarely outcome-based. USAID measures the input (leverage ratio) provided by the private sector. It is difficult to understand how working with the private sector leads to better development outcomes by improving project performance. Key performance indicators (KPIs) capturing PSE in a more outcome-based manner should be incorporated into IP contracts. The leverage ratio of private sector financing alone is considered to be an insufficient indicator by the PSLA team. It is recommended to look at the indicators proposed for measuring PSE in the USAID (2011) document “Understanding Private Sector Value: An Assessment of How USAID Measures the Value of Its Partnerships”.

(I) Improved reach

The interviews confirm that engagement with the private sector has expanded the reach of USAID’s development investments. IPs and USAID CORs/AORs mentioned that contributions from companies (in the form of financial or product contributions) enable projects to connect with more project beneficiaries through expanding the reach or the scope of activities. Interviews with private sector companies also confirm that they likewise would like to collaborate with USAID to scale up.

Comparing financial or product contributions for the reviewed projects, it appears that product resources are more likely contributed from private sector partners rather than financial resources (unless the partner is a financial institution):

- Only ICED II has high cash contributions from private sector partners (US\$756 million): The project was able to build on trusted relationships from its predecessor, ICED I. High demand for “green financing” (from the partnering financial institutions) by the renewable energy projects prepared under ICED II may have been another reason. ICED II aims to

provide access to energy for 5 million people. While exceeding all other indicator life-of-project targets, it had reached 1.4 million people with only eight months to go until the project's completion.

- Under RWAP, APIK, SCAA and GHSC-PSM, the private sector partners contribute, for example, product resources: equipment, agricultural inputs or insurance products.

Mostly small-sized projects with medium-term duration: The financial size of USAID obligations to the reviewed projects shows that they are relatively modest projects (under US\$20 million) with a medium-term duration of between three to five years—not counting if there was a predecessor project. When looking at the 2018 USAID Case Study Report,¹² the relatively modest size of projects, the leverage ratio (aside from ICED II), and the small number of beneficiaries reached were noticeable. Projects seem to be challenged to scale up and replicate business models.

Comparatively high administrative effort: For USAID/Indonesia, this means a high administrative effort in overseeing multiple relatively small projects of the various IPs. One interview partner mentioned that USAID had no flagship initiatives by which it can be recognized. Some representatives of private sector companies did not know what USAID was.

Going forward, the next CDCS should consider projects with higher budget allocations and a longer duration than the five projects reviewed as part of this PSLA. For example, it could incorporate project design in two phases of five years, with a smooth transition of the project to phase 2 if phase 1 proves successful. Projects should aim for scale, enable greater flexibility, and allow for more risk-taking and an acceptance of failure. This would help to increase the scale of contributions to development outcomes, increase recognition of USAID/Indonesia, and reduce the administrative effort for USAID/Indonesia compared with the effort needed when overseeing multiple small projects of various IPs.

(2) Improved efficiency, increased effectiveness

When the private sector provides a unique set of skills, technologies, or expertise that is not readily available within public or non-governmental organizations, there is usually an improvement in program effectiveness (achievement of intended results) and/or efficiency (reduction in the rate and/or cost of program delivery), as revealed by the 2011 USAID Report.

The five projects reviewed were already considered to be among the most effective/efficient ones in terms of PSE.

Leveraging private sector core business expertise and market presence: When project IPs combine the different private sector partners' unique expertise, this seems to contribute to effectiveness. This was especially the case when matched with the competencies of the project IP, thereby creating value-added for the project partners and beneficiaries alike. In the online survey among IPs, expertise contributed by the private sector was rated by 73 percent of the IPs with

¹² USAID (2018): Case studies: Best experiences of engaging the private sector. PSE Workshop.

either a 4-star or 3-star rating, indicating high (33 percent) and substantial (40 percent) occurrence (Figure 2). For example:

- APIK's private sector partners contribute their expertise in a combination of agricultural-related training on financial risk management to local communities. The project's field officers follow up to ensure that the people supported make use of the information and implement actions to improve their resilience to climate change. This was complemented by training of APIK's local field staff through APIK's PSE advisor, which appears to have considerably enhanced the quality of the follow-up by the local field staff in the way they interacted with private sector stakeholders and the community, as was revealed in the interview.
- Under ICED II, partnering financial institutions provide "green financing" to the clean energy sector. Through its network of experts, ICED II is helping to small-scale hydro power plants, solar PV, biomass and biogas, and wind power projects throughout Indonesia to become bankable and access the "green financing".
- Projects applying systematic approaches appear more effective and sustainable (see paragraph (3) Improved sustainability).

The reviewed projects engage with the private sector in their core business functions (i.e., not as part of CSR) matched by the project's contributions. However, it remains unclear to what extent projects are flexible enough and sufficiently enabled to work in parallel with the private sector in ways that advance companies' core business interests, while also achieving development outcomes at a greater scale.

During the field research, the PSLA team talked to some private sector companies that mentioned issues that seem to indicate a lack of systematic management of contacts with private sector companies from the IPs' side. For example:

- There was an initial contact from a USAID project with a manufacturer of food, flavor and fragrance ingredients. There was no follow-up from the IP's side, while the company was not informed for two years why the communication had stopped, despite the fact that the company had cooperation ideas with scale-up potential.
- An IP had been in touch with a manufacturer of sanitary products that wanted to expand its distribution to Eastern Indonesia. USAID/Indonesia made the company aware that a USAID project had a network of stakeholders in Eastern Indonesia that could be useful for the manufacturer as a distribution network. Although this idea was also communicated to the IP, no follow-up has yet occurred.

These are just two examples showing the challenges faced by IPs and USAID representatives interviewed by the PSLA team. These challenges should be addressed in the future through arrangements that provide USAID with more authority, resources and flexibility to engage with the private sector. A client relationship management system that is regularly kept updated could be a useful tool for IPs and USAID/Indonesia in engaging with the private sector.

Constraints identified in interviews with other IPs other than the five from the reviewed projects, are:

- Fixed/inflexible contracts for IPs with USAID;
- Excessively long duration from USAID concept to the execution of an implementing activity;
- Complicated reporting systems;
- The lack of sufficient and experienced PSE/Business Development staff as key personnel who can identify value propositions, develop business models and can make deals with the private sector;
- The slow speed in following up with the private sector;
- Limitations in flexibly combining sectors and geographies; and
- The lack of incentives and additional financial resources that can be flexibly applied to expand PSE initiatives under existing activities.

Going forward, these challenges need to be addressed for more effective and efficient PSE. In its 2018 Private Sector Engagement (PSE) Policy, USAID emphasizes that the private sector has the unique expertise to build local markets and the tools for financing: “The private sector has the scale and resources to match the complexity of challenges countries face on their Journey to Self-Reliance.”¹³ This means the scale, resources and competencies of the private sector need to be leveraged for USAID/Indonesia and the IPs through channels that provide flexibility to both. This can be in terms of allowing a flexible sectoral and geographic combination; a fixed share of project budget allocated for PSE, enabling the IP to follow up on potential collaboration opportunities arising at any point during the project; sufficient and experienced PSE staff in projects; and incorporating performance-based pay elements into IP contracts that incentivize them to pursue market-based, scalable opportunities with the private sector, with the awareness of risk and the potential for failure of some opportunities;

The current challenge for project IPs and staff of USAID/Indonesia seems to be that, apart from having sufficient staff with business development, private sector and financing skills, they also require the mandate, time and financial resources to prepare market studies and clear value propositions, and then to follow these up.

USAID/Indonesia currently has two Alliance Builders that advocate for PSE across the Mission and projects. However, the authority and resources for this role are very limited, and thus the unit’s influence over existing implementation activities is constrained. In short, there is no dedicated unit or competence center that can pro-actively pursue PSE opportunities with scale and leverage additional finance from the private sector.

USAID/Indonesia also has no dedicated function for advocacy support to the private sector in policy dialogue, engaging with business networks and platforms to focus on facilitating policy dialogue and reforms of the business environment. Instead, this business enabling environment work is left to individual projects, whereas USAID/Indonesia could leverage the evidence from results achieved from its long-standing presence in Indonesia and its convening role more systematically.

What also seems to be lacking is more social media communication in engaging with the private sector, business matching events, workshops on value proposition and business model design. Social

¹³ USAID 2018: Private-Sector Engagement Policy, page 4.

media communication is also needed to increase the presence of USAID/Indonesia and the projects at expos and fairs at which there can be an exchange with existing and potential private sector partners. A sales and marketing representative from an international company in the health sector had not heard about USAID before. She mentioned that it would be useful to have a single website with information on the range of opportunities available. As mentioned during a presentation to USAID/Indonesia staff, any efforts with the private sector need to manage expectations from the USAID side.

(3) Improved sustainability

The 2011 USAID Report found that when USAID projects enable private sector partners to offer core business functions and market presence, the partnerships provide better economic opportunities for the beneficiaries. This is also confirmed in the 2018 USAID PSE Policy. Partner companies that provide market-based solutions may act as: local employers and income generators; buyers, suppliers and/or distributors of goods, services and technology in local markets; or long-term investors in local public goods and/or economies. Thus, results achieved by a project are likely to be more sustainable beyond the project's end.

In the online survey among IPs, market-based solutions contributed by the private sector were rated by 67 percent of the IPs with either a 4-star or 3-star rating, indicating high (40 percent) and substantial (27 percent) occurrence (Figure 2). It appears that the five reviewed projects are more effective and more sustainable when they apply systematic approaches to foster market-based solutions, for example: facilitating a better match between demand and supply sides; applying an integrated landscape management approach; applying a market systems development approach; or facilitating supply chains/value chains.

- RWAP acts as a facilitator for technical training by encouraging public and private vocational training centers (BLKs, LPKs) and community colleges to coordinate the design of their training curricula with the demands of industry. RWAP set up Centers of Excellence (CoE) and Learning and Innovation Networks (LINs) as a proof of concept to demonstrate how the quality of technical education can be improved, while providing opportunities for poor and vulnerable students to enroll. For sustainability, scale-up and replication, it started to activate dormant private sector-led communication forums (FKJP) in provinces to ensure a continuity in coordination between education institutions and industry. It remains to be seen if the FKJPs will continue to be active once the project ends, and the extent to which financing from the GOI and the private sector sustains the established CoEs and LINs.
- APIK applies an integrated landscape management approach by working directly with communities and the private sector to proactively manage risks related to climate change, and improve the capacity of stakeholders to access, understand and communicate climate information. APIK works through the system and feeds it with high-quality analyses, maps, case studies and fact sheets (also accessible on its website). The quality of local staff intensively trained by the project IP's PSE Adviser appears to be one of the critical success factors for successful follow-up among local communities and a high adoption rate of climate adaptation measures. The integrated landscape management approach enables a high level of ownership by local communities and the private sector, which contributes to the sustainability of the results. If local project staff from APIK are absorbed by the private sector partners involved in the project after the completion of APIK, then this also contributes to sustainability.

- ICED II uses a market systems development approach that was already incorporated in the RFP. The project's IP works with government agencies at national and regional levels, the national power utility (PLN), private sector developers and suppliers, banks and other financial institutions in opening the market for renewable energy projects and technologies in Indonesia. ICED II has financial contributions from private sector partners amounting to US\$756 million and has so far leveraged investments into clean energy projects worth US\$1.54 billion. ICED's work on the business enabling environment is also strong. The project has prepared high-quality fact sheets that provide useful user references (accessible on its website). The work through the system has opened a new market and this contributes to sustainability.
- SCAA builds on high-value horticultural supply chains that have existed for decades. Indonesian smallholder farmers are integrated into supply chains with major US/international value-chain stakeholders present in the project's alliance, ranging from producers, processors, exporters to buyers of the high-value crops. The market demand for the crops is high and the functioning of the value chain has been proven over time. Thus, important criteria for sustainability beyond the project's end are met.
- GHSC-PSM works to improve supply chain management of Indonesia's laboratories to realize cost-savings, more efficient services, and have increased testing and treatment accessibility for more patients. The supply chain approach taken by the GDA project could be a good guarantee for the sustainability of the results beyond the project's completion if the network of private sector laboratories generated by the project can continue to realize cost savings.

Going forward, systematic approaches with market-based solutions that aim for scale, enable greater flexibility, and allow more risk-taking and an acceptance of failure are the ways forward for USAID/Indonesia. Annex 8 has a text box on how flexibility is incorporated in a market systems development approach. The largest market systems development program globally is implemented in Eastern Indonesia. It is one of the flagship projects of a donor¹⁴ and has a financial allocation of AUD 200 million for two phases over 10 years. It is globally the largest market systems development program. Its objective is to increase the net income of one million households in six provinces by 30 percent. As an interview partner from a PR company mentioned, USAID/Indonesia projects are of relatively modest size.

Figure 3 shows ratings from CORs/AORs and IPs' online surveys on why private sector companies want to work with USAID in a partnership. This helps to reveal where more work and communication with the private sector are needed to advance the private sector's core business, while at the same time achieving development outcomes at a greater scale—one of the goals of the 2018 USAID PSE Policy.

¹⁴ AIP-PRISMA is the Australia-Indonesia Partnership Promoting Rural Incomes through Support for Markets in Agriculture, in Eastern Indonesia, by DFAT. Budget allocation: AUD 200 million [AIP-Rural AUD 112 million (2013-18), PRISMA (2019-23) AUD 88 million]. Annex 8 contains an overview of why flexibility is needed in market systems development approaches.

For the CORs/AORs, the number one reason out of five is: “The private sector engages with USAID out of CSR or for philanthropy reasons” (38 percent of responses with a 4-star rating, indicating high relevance). This reason ranks fourth for IPs (7 percent of responses considering it a highly relevant reason). The new USAID PSE Policy states that: “While USAID welcomes all kinds of PSE for greater impact, this policy calls for prioritizing engagement with prospective partners’ core business for more transformational outcomes at scale.”¹⁵ CSR and philanthropy are more donor-led, with USAID as the driver. USAID wants to transition toward private sector-led types of engagement with market-based solutions and investments, with USAID acting as a facilitator, and its activities and assistance addressing private-sector constraints or risks.

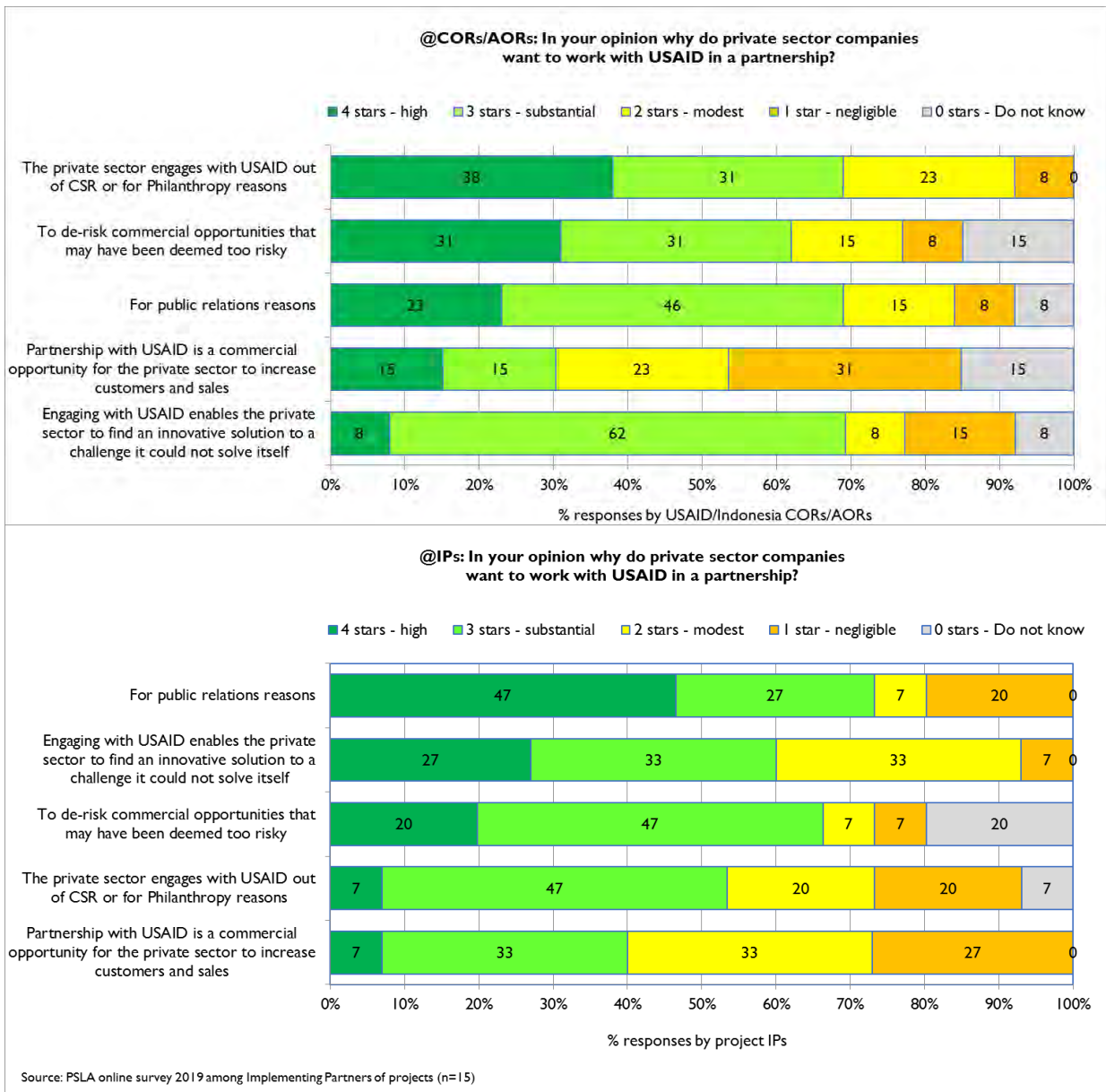
“Partnership with USAID is a commercial opportunity for the private sector to increase customers and sales” ranks fourth in the CORs/AORs survey (15 percent of responses considering it a highly relevant reason) and last in the IP survey (7 percent considering it a highly relevant reason). What can be derived from this is that it seems the private sector does not yet see engagement with USAID/Indonesia as the new USAID PSE Policy would like it to be seen by the private sector.

It can be interpreted positively that IPs mention as number two reason: “Engaging with USAID enables the private sector to find an innovative solution to a challenge it could not solve itself” (27 percent of responses considering it a highly relevant reason; 33 percent considering it a substantially relevant reason). For CORs/AORs, this reason ranks last (only 8 percent of responses considering it highly relevant; but 62 percent of CORs/AORs consider it substantially relevant). Being an enabler for innovative solutions is the direction in which USAID/Indonesia wants to move, in line with new USAID PSE Policy.

The number one reason for IPs as to why the private sector engages with USAID is: “For public relations reasons” (47 percent of responses considering it a highly relevant reason). This ranks third for CORs/AORs. This can be interpreted as companies liking to be associated with the name of USAID, which is considered positive.

¹⁵ USAID (2018): PSE Policy, page 6.

FIGURE 3. WHY PRIVATE SECTOR COMPANIES WANT TO WORK WITH USAID



Annex 7 contains a table of the comparative view of the selected projects, by categories of improvement to development outcomes and private sector contributions.

3.2. INDONESIA PRIVATE SECTOR PROFILE IN EACH TARGET SECTOR AND LEGAL/REGULATORY BARRIERS AND OPPORTUNITIES, INCLUDING CRITERIA THAT ARE LIKELY CRITICAL FOR FUTURE PSE ACTIVITIES

Answers to SOW Questions 2, 3 and 4.

3.2.1. WHAT IS OUT THERE AND WHAT ARE THE LEGAL/REGULATORY BARRIERS AND OPPORTUNITIES?

SOW Question 2: What is out there? Based on a literature review, where does USAID have the most potential to partner with the private sector and in what type of activity within the focus sub-sectors?

SOW Question 4: What are the legal/regulatory barriers and opportunities: Based on a literature review, what are the high-level legal/regulatory barriers preventing private sector participation or growth in the focus sub-sectors? What legal/regulatory issues (progressive government initiatives, investment incentives, government procurements) open opportunities to private sector participation in the focus sub-sectors? How does corruption impact private sector activities within focus sub-sectors?

Answers to SOW Questions 2 and 4 are summarized by sector and sub-sector in Sections 3.2.1-3.2.3. Each sub-sector has a table with an overview of legal/regulatory barriers and opportunities. Activities where USAID has the most potential to partner are indicated, while the specific opportunities are elaborated in later sections. SOW Question 3 is summarized in Section 3.2.2.

The sectors are analyzed in relation to PSE activities in Indonesia. The review follows a three-staged development pathway to sustainability to identify where USAID has the most potential to partner with the private sector. It does not attempt to do a deep-dive sector analysis.

The SOW required a review of the following three sectors and 11 sub-sectors:

- Education: workforce development and higher education research;
- Environment: terrestrial and marine natural resource management, renewable energy, water and sanitation, high-value horticultural product value chains, and climate adaptation; and
- Health: maternal and child health, TB and HIV, and health system and financial management strengthening.

Each sub-sector was reviewed by looking at the status of three functional stages of a development pathway to sustainability:

- **Enabling (Stage 1):** Building blocks referring to enabling conditions for putting development interventions (or initiatives) in place (policy development, enforcement of regulations, planning new undertakings, budgeting);
- **Developing (Stage 2):** Building blocks relating to developing the services (expenditure of funds, equity in use of funds, service/product output); and
- **Sustaining (Stage 3):** Building blocks relating to sustaining these services (facilities maintenance/uptake, expansion of infrastructure/markets, user of the services/products).

Annex 9 provides a matrix with color-coded scores for each sub-sector that indicate if the required building blocks are in place (green color), drag on (yellow color), are inadequate and act as barriers to development (red color), or if there was insufficient information available for the PSLA team to score it (grey color). “Drag on” building blocks should be seen as opportunities for USAID/Indonesia’s involvement. These opportunities are further elaborated in Section 3.3.2 and Annex 12 in terms of where and how USAID/Indonesia can most effectively engage.

General Issues

There are general legal and regulatory barriers and opportunities that are relevant for the three sectors—education, environment and health. These are listed in Table 3 below.

TABLE 3. GENERAL ISSUES – LEGAL/REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
Corruption legislation is poorly enforced and does not address facilitation payments. The ISO 37	Law on Eradication of Criminal Acts of Corruption criminalizes major acts of corruption, including active and passive bribery, abuse of office and extortion, and Indonesia’s Criminal Code forbids embezzlement and gifts to public officials.
ISO 37001 Anti-bribery management systems is not mandatory	Supreme Court Regulation for case handling of corporate crimes ISO 37001 Anti-bribery management systems
Foreign direct investment (minimum paid-up capital of IDR 10 billion)	Arrangement of Venture Capital Company Business (Reg. No. 35/POJK.05/2015)
Negative investment list (protected sectors)	Licensing and Organization of Venture Capital Companies (Reg. No. 34/POJK.05/2015)
SOEs crowding out private sector companies	Good Corporate Governance for Venture Capital Companies (Reg. 36/POJK.05/2015)
No good project finance funding for infrastructure development	Direct Inspection of Venture Capital Companies (Reg. 37/POJK.05/2015)
Overlapping regulation between national and district levels	
CSR legislation for SOEs are often irrelevant to corporate-shared values	

Source: PSLA desk review and interviews.

How corruption impacts private sector activities: The SOW question concerning how corruption impacts private sector activities within the focus sub-sectors will be addressed here in a general paragraph. The PSLA team did not find sufficient information on corruption specifically addressing the 11 sub-sectors. Indonesia ranks 89th out of 180 countries in the 2018 Transparency International Corruption Perception Index (CPI). It scores 38 out of 100 points.¹⁶ According to Transparency International, “there have been some noticeable improvements in some areas, and the majority of the population has a positive view of the government’s efforts to fight corruption. The stellar performance of the Anti-Corruption Commission and the reforms to the business environment have been credited for the country’s optimism regarding anti-corruption reforms.”¹⁷

The GAN Business Anti-Corruption Portal states: “Extensive bribery in Indonesia’s public service is a reason for concern for foreign investors: Corruption at the borders is cited by companies as a problem, and public officials often exploit ambiguous legislation to extort informal payments and bribes from companies in the process of registering a business, filing tax reports or obtaining permits

¹⁶ Source: Transparency International: www.transparency.org/country/IDN; the score for the perceived level of public sector corruption is measured on a scale from 0 (highly corrupt) to 100 (very clean).

¹⁷ <https://knowledgehub.transparency.org/helpdesk/indonesia-overview-of-corruption-and-anti-corruption>

and licenses. Corruption is also rampant in the natural resources sector owing to weak oversight. The Law on Eradication of Criminal Acts of Corruption criminalizes major acts of corruption—including active and passive bribery, abuse of office and extortion—and Indonesia’s Criminal Code forbids embezzlement and gifts to public officials. Corruption legislation is poorly enforced and does not address facilitation payments.”¹⁸

In terms of public procurement, GAN refers to documents from 2015-16 and states: “The public procurement sector carries high corruption risks for companies. Corruption and favoritism are pervasive. A third of companies indicate that they expect to give gifts in order to secure a government contract. Likewise, companies report that bribes and irregular payments are common in the awarding of public contracts and licenses. Companies report frequent diversion of public funds as well as favoritism in the decisions of government officials. Formally, foreign companies compete with state-owned enterprises (SOEs) under the same terms, but in practice, the government shows a strong preference for SOEs. A number of companies have been accused of colluding, including manipulating state tender processes. Corruption in procurement costs Indonesia’s government up to US\$4 billion per year.”¹⁹

3.2.1.1. EDUCATION

In accordance with the SOW, the education sector review consists of the following sub-sectors: workforce development and higher education research.

Workforce Development

Education and workforce development are key for sustaining productivity growth in Indonesia. In this context, the imbalance between the demand and supply of human capital is a major challenge. The quality, not the quantity, of education and relevance of skills training are critically important. According to the Asian Development Bank, Indonesia faces both old and new job challenges:²⁰

- Old: To create job opportunities for a large supply of low-wage workers in the informal and agriculture sectors.
- New: To adjust the quality and nature of jobs as the economy moves toward ‘Industry 4.0’ (including digital economy). Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).

Technical and vocational education and training (TVET) is an important investment in the skills needed for a new workforce toward ‘Industry 4.0’. Indonesia has succeeded in establishing a policy of 12 years of basic education, providing job training through vocational training centers, and promoting apprenticeship programs. The TVET system has a mismatch between skills that are taught and the needs of industry. Funding has also been a challenge, as the GOI is not always able to fully fund and manage TVET to meet the volume of technical workers that Indonesia needs to train.²¹

¹⁸ GAN Business Anti-Corruption Portal: Indonesia Corruption Report.

¹⁹ Ibid.

²⁰ ADB, Indonesia: Enhancing Productivity Through Quality Jobs, 2018.

²¹ <https://indonesiadevelopmentforum.com/2019>

- **Enabling:** The GOI is providing greater incentives for TVET in the form of a Super Deductible Tax, in which industries investing in vocational education may receive 200 percent tax relief. The GOI is also in the planning stage to better match “supply versus demand” for the right skillsets.
- **Developing:** Private sector companies are spending on public and private TVET, and some even have invested in private TVET institutions. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** Although the financial incentives are there, there needs to be a system to adopt international TVET standards that are recognized by industry players. Potential for USAID/Indonesia to partner with the private sector.

TABLE 4. WORKFORCE DEVELOPMENT - LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
<p>Law No.13/2003 on the Workforce is no longer relevant to the current development of domestic industry conditions.</p> <p>Provision of training programs is currently supported through a training levy on foreign workers, which requires their employers to pay US\$100 per month per foreign worker based in President Regulation No. 98/2000. This tax goes into a fund for training for Indonesian workers channeled into the vocational training system.</p>	<p>Amendment of Law No.13/2003 on the Workforce is considered very urgent.</p> <p>The GOI (06/2019) proposed up to 200 percent tax relief for industries that invest in vocational education (included in the priority strategy of the Making Indonesia 4.0 roadmap)</p>
<p>TVET in Indonesia comes down to a lack of sufficient correspondence between practical training and skills taught in TVET institutions and the labor market demands.</p> <p>Lack of technical certification in particular jobs because the GOI does not take it as mandatory. In Law No. 13/2003 on the Workforce, training is a right for workforce not an obligation.</p> <p>Indonesia’s Law No. 20/2003 on the National Education System has a nine-year obligatory education. This could contribute to the lack of secondary education graduates (High School/TVET). Since TVET has a minimum 12-year education.</p>	<p>Presidential Instruction No. 9/2016 encourages each ministry and local government together with the private sector to increase the capacity of teaching staff and the competence of vocational students.</p> <p>Human capacity development—one core focus of the GOI</p> <p>Law enforcement of training obligation.</p> <p>Law requiring 12-year obligatory education.</p>

Source: PSLA desk review and interviews.

Higher Education Research

- **Enabling:** The GOI is providing more incentives toward research and development (R&D) in the form of a Super Deductible Tax, in which industries may receive 300 percent tax relief. The GOI is also in the planning stage to better match “supply versus demand” for the right skillsets.
- **Developing:** One of the requirements is that the results of the research carried out by private sector players and industries must have a major impact on the national economy, such as increasing product competitiveness, spurring exports or increasing employment. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** The Ministry of Research and Technology and Higher Education (MRTHE) has publicized a more coordinated approach to commercializing research and providing financial incentives to researchers to ensure better remuneration for their work. The GOI’s role and the availability of state funding is limited, requiring the private sector to step in and make up the shortfall.

The MRTHE is expecting 11 to 15 of Indonesia’s top universities to join the world’s top 500 universities by 2020. Universities and scientific research bodies will need to take a more entrepreneurial and commercially minded approach to attract funding from the private sector in

order to develop solutions with applications that can accelerate Indonesia’s economic advancement.²²

While the output of Indonesian research in the higher education space lags behind its regional peers (Table 5), the MRTHE’s approach should facilitate improvements that enable opportunities to private sector players, international universities, business schools and scientific bodies to forge partnerships for collaboration on research and innovation in a number of areas.

TABLE 5. INDONESIA’S INNOVATION CAPABILITY, R&D EXPENDITURES AND MULTI-STAKEHOLDER COLLABORATION COMPARED WITH REGIONAL NEIGHBORS

	INNOVATION CAPABILITY	R&D EXPENDITURE	MULTI-STAKEHOLDER COLLABORATION
Cambodia	96 th	105 th	69 th
Indonesia	68 th	112 th	25 th
Malaysia	30 th	28 th	6 th
Philippines	67 th	99 th	28 th
Singapore	14 th	17 th	12 th
Thailand	51 st	54 th	44 th
Vietnam	82 nd	76 th	97 th

Source: World Economic Forum Global Competitiveness Report. 2018 Country Profiles. Ranking out of 140 economies.

The 2018 Global Competitiveness Report rates Indonesia’s innovation capability as limited (score of 37.1, or 68th out of 140 countries). “Research and development activities remain extremely limited, with R&D spending amounting to less than 0.1 percent of GDP (112th).”²³

TABLE 6. HIGHER EDUCATION RESEARCH – LEGAL/REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
Regulation that limits foreign professors to teach at HEIs in Indonesia as lecturers. Under discussion is a regulation easing visa processes for foreign lecturers.	Recognition of the importance of science and innovation as part of the country’s wider development and economic growth ambition
Counter-productive to encouraging research collaboration: “National system of S&T bill”, enacted Law No. 07/2019, allowing foreign researchers to be imprisoned for breaking rules. Foreign researchers need ethical clearance from RISTEK	Ministry proposed (No. 06/2019) up to 300 percent tax relief for those involved with R&D activities in order to create innovation (included in the priority strategy of the Making Indonesia 4.0 roadmap)
	Considerations by RISTEK to include “social impact” as KPI of HEI researchers

Source: PSLA desk review and interviews.

²² http://www.gbgingonesia.com/en/education/article/2015/opportunities_for_research_collaboration_in_indonesia_11224.php

²³ Source: World Economic Forum: Global Competitiveness Report, page 26.

3.2.1.2. ENVIRONMENT

In accordance with the SOW, the environment sector is reviewed by looking at the following sub-sectors: terrestrial and marine natural resource management, renewable energy, water and sanitation, high-value horticultural product value chains and climate-change adaptation.

Terrestrial Natural Resource Management

- **Enabling:** Political commitments should bring biodiversity conservation into sectoral planning by integrating protected areas and encouraging land use and agricultural policies that promote the regeneration of forests. Increased institutional capacity should emphasize biodiversity assessments to develop programs that achieve environmental management economic benefits.
- **Developing:** There are private sector prospects for the decentralization of natural resource sectors and environmental management (for example, management models for PAs, including financing from private organizations, conservation trust funds; and private sector engagement in access to sanitation and solid waste management).
- **Sustaining:** Smallholders can be a part of the ecosystem services²⁴ providers as a secondary income source. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).

Most of the attention on terrestrial natural resource management is directed toward forestry, biodiversity and mining, with an emphasis on the resource-rich regions off Java. Also, there are private sector prospects for the decentralization of natural resource sectors and environmental management.

TABLE 7. TERRESTRIAL NATURAL RESOURCE MANAGEMENT – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
The GOI prohibits the importation of hybrid seeds to Indonesia (they should be produced in Indonesia): The PUSLITBANG (= R&D center) can produce hybrid seeds only at a research scale, not on the industrial scale.	Law No. 29/2000 concerning Protection of Plant Varieties provides special protection and rights for breeders, including the private sector.
Outdated rural and forest land use maps from 1982: Discrepancies between these and what is the situation now. People in the former forest areas are excluded because of incorrect maps. Their agric. products cannot be called RFA or UTZ certified.	Regulations around peatlands and REDD: Focus for the government, given the commandments in the Nationally Determined Contribution (NDC) and realizing that peats is an easy option for reducing emission relatively quickly. Opportunity to scale up ecosystem services, replanting, rehabilitation or being able to recover degraded land.

²⁴ FAO definition of “terrestrial ecosystem services”: Benefits that the environment, of which humans are a part, obtains from ecosystems. There are four types of ecosystem services: 1. Provisioning services: are products obtained from ecosystems, such as food, fresh water and genetic resources. 2. Regulating services: are involved in climate regulation, disease control, erosion control, pollination and regulation of natural processes, such as floods and forest fires. 3. Cultural services: ecosystem services provide us with spiritual, recreational and cultural benefits (art, folklore, national symbols, architecture and even advertising). 4. Supporting services: services maintain the conditions for life on Earth. They are necessary to produce all other ecosystem services. Their impacts on people are either indirect or occur over a very long time. In contrast, changes in the other three categories have relatively direct and short-term impacts on people. Examples of supporting services are nutrient cycling, soil formation and retention and habitat provision.

What is the government action to respond to crop disease (for example, disease in rubber trees and cocoa)?	Regulations in the food industry and trade related to pest control provide opportunities for third-party or private participation
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Source: PSLA desk review and interviews.

Marine Natural Resource Management

- **Enabling:** There are overlapping sector policies and a lack of coordination among relevant ministries/agencies. Lack of integrated marine natural resources planning.
- **Developing:** At the level of biodiversity conservation there are difficulties in attracting the private sector to participate in marine ecosystem services.²⁵ Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** No information.

In the global context, Indonesia is one of the most important locations for ocean biodiversity.²⁶ Indonesia accounts for the world’s third-largest production of seafood by volume. Domestically, Indonesian fisheries are a critical source of food and about 20 million people rely directly or indirectly on the fishing industry for their basic livelihoods.²⁷

To sustain or increase the level of fish production for Indonesia’s food security and economy, national and local levels of government, universities, the private sector and communities need to work together. Their collaboration can help to increase ecosystem-based management of fisheries, especially in biologically significant marine areas.²⁸

Improved management of fisheries resources will require alignment between the national context and practical, local reforms. Both the GOI and the private sector need to have a clear understanding of each other, and of Indonesia’s realities of over-fishing/marine protection, and business models that will work.

TABLE 8. MARINE NATURAL RESOURCE MANAGEMENT – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
The GOI has no plan to achieve the MSC (marine stewardship council) standard; tries to approach the U.S. market by trying to impose the Indonesian standard on foreign markets. MSC will affect artisanal fishermen.	To have at least one area that is MSC certified through national fishery improvement program (90 percent of exports of Indonesian Demersal Fisheries Association (APDI) to the U.S. market). Presidential Regulation No. 3/2017 encourages increased private and public participation in accelerating the development of the fisheries sector.

²⁵ Oceanwealth definition of “marine ecosystem services”: Benefits natural ecosystems provide to people. The benefits nature provides are classed in three broad groups: 1. Provisioning services are those that provide tangible, harvestable goods—fish, shellfish and seaweed for food, but also mangroves timber, algae, minerals and health products. 2. Regulating services are the benefits ecosystems play in regulating our environment—coastal protection, prevention of erosion, water purification and carbon storage. 3. Cultural services are the many non-material benefits derived from nature—recreation, beauty, as well as spiritual, intellectual and cultural benefits. Source: oceanwealth.org/ecosystem-services.

²⁶ Packard Foundation, Indonesia Marine Strategy 2014-2020, 2018, page 3.

²⁷ Ibid, page 3.

²⁸ USAID SEA Fact Sheet, Marine Protected Areas Project, 2018.

<p>Catch Certificate (SHTI) for the EU: The GOI has not been able to resolve this up to now.</p> <p>Overlapping of Marine Regulations because of too many institutions (12) involved in marine issues.</p>	<p>The GOI is strengthening the regulation of environmental conservation, especially related to marine ecosystems as set out in the RPJMN 2020-2024.</p> <p>Improved fisheries management requires specific policy and management changes by relevant government agencies based on sound economic, political, and social analyses.</p>
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Source: PSLA desk review and interviews.

Renewable Energy

- **Enabling:** There is a lack of integrated and coordinated policy regarding VAT exemptions on capital expenditure on renewable energy. Regulations are mostly directed toward large investment projects in power generation (>10MW) and licensing procedures prevent SMEs from entering.
- **Developing:** Although 23 percent of electricity supply is targeted to come from renewable power generation by 2025, the actual realization was only 2 percent in 2017. Private sector companies are reluctant to invest in BOOT and PPA schemes²⁹ (e.g., because of price ceilings). There is a lack of dedicated rural electrification finance schemes that are attractive to the private sector. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** Although there are private sector companies already selling power to the GOI distribution network via long-term investment, the PPA negotiation process is often lengthy and hampers expansion.

UNDP estimates that in the next 10 years electricity demand will grow 6.8 percent annually, while about 30 million people do not have access to electricity (mostly in rural areas).³⁰ The GOI has identified renewable energy as one of the solutions in addressing growing electricity demand and a way of increasing access to electricity in remote and rural areas where the national electricity grid is not yet available. Private investment in renewable energy remains low.³¹

TABLE 9. RENEWABLE ENERGY – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
<p>Challenge to set a price with PLN: Ministry of Energy and Mineral Resources (MEMR) Regulation No. 50/2017: Feed in tariff scheme no longer applicable to renewable energy tariff. Tariff for electricity generation utilizing renewable energy sources will be based on electricity production costs of each region.</p> <p>Electricity generators in Indonesia that wish to sell their electricity to the grid require an electricity business supply license (IUPTL; Electricity Law 2009, articles 10 and 19). This is only available for operations that have a PPA/PJBL</p>	<p>Minister of Energy and Mineral Resources Decree No. 39.K /MEM/2019 targets the use of renewable energy in primary electricity supply by 23 percent to encourage the electricity industry to use renewable energy.</p> <p>Integrated or coordinated policy strategies are needed to ensure consistency and coherent policy goals across the sector and institutions that are directly and indirectly involved in the renewable energy industry.</p>

²⁹ BOOT: Build-Own-Operate-Transfer; PPA: Power Purchasing Agreement.

³⁰ UNDP Supporting Indonesia's Renewable Energy Development in Remote and Rural Areas through Innovative Funding, 2018.

³¹ UNDP Supporting Indonesia's Renewable Energy Development in Remote and Rural Areas through Innovative Funding, 2018.

<p>with PLN (Government Regulation No. 14/2012 article 13(4)).</p> <p>MEMR No. 50/2017 concerning PPA/PJBL (buy-sell agreement) creates a high level of risk for private investors, making it unbankable.</p>	
<p>MEMR No. 50/2017 explicitly requires the BOOT scheme (Build, Own, Operate, Transfer) to be applied for all resources with the exception on municipal waste. After about 25 years depending on negotiation, the power plant must be transferred to the GOI.</p>	<p>Private investment in rural electrification is the GOI's predominant focus on large scale renewable energy projects.</p>

Source: PSLA desk review and interviews.

Water and Sanitation

- **Enabling:** There are insufficient regulations governing the standardization of WASH in rural and urban areas due to a lack of local government capacity. Ad hoc and small-scale projects exist with limited budgets.
- **Developing:** There is no proven PSE in sizeable urban sanitation projects.
- **Sustaining:** There is no proven business model that will commercially benefit the private sector. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).

Population growth, urbanization and expanding agriculture are increasing pressures on resources and systems. Many Indonesian cities and districts have insufficient budgets to manage water and sanitation infrastructure, or to expand access to the poor and underserved. As a result, 63 percent of Indonesians in the poorest wealth quintile do not have access to safe drinking water and 34 percent do not have access to improved sanitation. Lack of access drives diarrheal disease, which causes 31 percent of mortality in infants under one year of age and 11 percent of mortality in children under five years of age.³²

Two key challenges have inhibited the conversation around the private sector and WASH to date:

- **Diversity of private sector organizations:** The interests and potential roles in relation to WASH have made it difficult to develop specific and actionable conversation based around PSE.
- **Ideology:** There is a long and polarized debate regarding the role of the private sector in delivering and supporting water supply, sanitation and hygiene services in Indonesia.

Areas of PSE that provide a useful framework for mapping the wide range of roles that the private sector could play for WASH:³³

- Finance
- Technology
- Capacity development

³² <https://www.globalwaters.org/WhereWeWork/Asia/Indonesia>

³³ ODI, Private Sector, and Water Supply, Sanitation and Hygiene, 2015.

- Trade policy and institutional coherence
- Multi-stakeholder partnerships
- Data, monitoring and accountability

TABLE 10. WATER AND SANITATION – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
<p>Currently no formal, comprehensive national policy on sanitation has been promulgated in Indonesia.</p> <p>Unclear legal framework.</p>	<p>An institutional framework for managing sanitation by local governments needs to be established to separate the roles of owner, service provider and regulator. This framework should cover all sanitation services associated with wastewater; DEWATS (Decentralized Wastewater Treatment Solutions), septage management and sewerage.</p>
<p>There is no regulation about desludging septic tank schedule.</p> <p>Decentralization in Indonesia has presented a challenge, as local governments, which manage sanitation through two to four departments, often lack awareness and the capacity to implement sanitation programs, or may even use national sanitation allocations for other departments.</p>	<p>There is a law requiring mandatory and scheduled desludging septic tank desludging. Law enforcement is a challenge for the implementation of septic tank desludging.</p> <p>The Ministry of Public Work’s budget for the cash-for-cash intensive work program (PKT) in 2019 increased 12 percent from the 2018 budget, one form of the PKT program includes the Community-Based Water Supply and Sanitation (PAMSIMAS) and Community-Based Sanitation (SANIMAS) programs.</p>
<p>MEMR Regulation No. 50/2017 explicitly requires the BOOT scheme (Build, Own, Operate, Transfer) to be applied for all resources with the exception on municipal waste. After about 25 years depending on negotiation the plant must be transferred to the GOI.</p>	<p>Solid waste/ wastewater treatment plants: Regulation is open for private sector.</p>

Source: PSLA desk review and interviews.

High-Value Horticultural Product Value Chains

- **Enabling:** Highly regulated imports of agricultural inputs (hybrid seeds, fertilizers) present barriers for local farmers to invest.
- **Developing:** The GOI and the private sector have yet to develop efficient strategies to improve smallholder access to high-value food chains and competitiveness. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** Most private sector companies only want to be offtakers and are not willing to invest in upstream activities. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).

Horticulture is important in Indonesia, and fresh fruit and vegetables are a significant feature of the Indonesian diet. Indonesia is experiencing an agri-food transformation, with rapidly growing demand for high-value agricultural products, including horticultural products such as fruit and vegetables. Although 40 percent of the country’s labor force is involved in agriculture, only 11 percent of agricultural workers are absorbed by horticulture. Indonesia depends heavily on imports to meet domestic demand.

There are opportunities for policymakers to support smallholder farmers to expand their adoption of horticultural crops.

TABLE 11. HIGH-VALUE HORTICULTURAL PRODUCT VALUE CHAINS – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
<p>The GOI prohibits the importation of hybrid seeds to Indonesia (they should be produced in Indonesia)</p> <p>A number of regulations discourage farmers from planting cocoa, such as the decision by the Supreme Court No. 70/P/HUM/2013 which revoked several articles in Government Regulation No. 31/2007. The decision has resulted in a reduction of farmers' incomes because they are now subject to 10 percent VAT.</p>	<p>Ministry of Agriculture Regulation No. 5/2019 still opens opportunities to permit the import of food crop seeds with terms and conditions that they include the results of the multi-location adaptation test.</p> <p>Traceable, transparent and responsible natural raw material sourcing</p>
<p>Ministry of Agriculture Regulation No. 67/2014 concerning Quality and Marketing Requirements for Cocoa Beans also hampers local cocoa industry because of cocoa bean certification and local farmers' obligation to ferment their cocoa beans before selling their harvest in order to generate added value.</p>	<p>The role of the GOI in deciding the trade system for cocoa sales is urgently needed. Ministry of Agriculture Regulation No. 67/2014 requiring farmers to ferment their cocoa must be supported by the policy/regulation of setting a higher price for fermented cocoa compared with non-fermented cocoa.</p>

Source: PSLA desk review and interviews.

Climate Adaptation

- **Enabling:** There are several policies set by various ministries/agencies but the coordination between agencies and sub-national jurisdictions is still relatively weak. The National Action Plan (NAP) on Climate Change Adaptation has varying degrees of implementation depending on the sub-sectors based on a budget of IDR 120 trillion (US\$80 million) in 2018.
- **Developing:** The private sector is responding by spending on its own mitigation activities along the value chain. Some private sector companies in agriculture have started to adopt risk-management mechanisms to protect their assets (for example, crop insurance), as part of their business continuity plans. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** This is a cross-cutting topic and no general statement can be made.

A 2014 World Bank analysis³⁴ ranked Indonesia 12th out of 35 countries that face high mortality risks due to multiple hazards, including tsunamis, floods, landslides, droughts and earthquakes. About 40 percent of Indonesia's population is at risk of such hazards and this share will increase under climate change, which is likely to exacerbate droughts on southern islands, floods and cyclone intensity across the country, and raise sea levels in coastal areas.

Among Indonesia's populations most vulnerable to climate are small-scale farmers, due to their strong dependence on natural resources, including land and water, and their limited access to improved technologies and inputs, together with a lack of alternative livelihood options. In general, inhabitants of rural areas (58 percent of Indonesia's total population) have limited access to

³⁴ World Bank (2014): Indonesia Risk Profile.

appropriate climate-smart agricultural information, technologies and finance that could increase their adaptive capacity.³⁵

In recent years, there have been important developments in Indonesia on climate-change mitigation and adaptation. While planning for mitigation is advancing, planning for adaptation is still in process.

3.2.1.3. HEALTH

In accordance with the SOW, the health sector review addresses the sub-sectors: maternal and child health, TB and HIV, and health system and financial management strengthening. Pharmaceuticals has been added by the PSLA team.

Pharmaceuticals

Pharmaceuticals has been added as a sub-sector because of two regulatory barriers that influence the quality of medication available to Indonesians. There is potential for USAID to support the private sector by advocating a White Paper on the scientific side of *halal* certification, which requires all medicines to obtain *halal* certificates (elaborated in Sections 3.3 and 3.4).

TABLE 12. PHARMACEUTICALS – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
Mandatory <i>halal</i> certification: Indonesian Ulama Council (MUI) as per October 17, 2019, all products that enter, circulated and traded in Indonesia must be <i>halal</i> certified. All food, medicine and cosmetics manufacturers must obtain <i>halal</i> certificates.	
Local content regulation (MOI, BPOM = Indonesian Food and Drug Agency is more concerned with food safety) is for government procurement. If the GOI wants to procure a product, it has to have a higher local content, i.e., a higher position in the government procurement list. This is unfair for MNCs that have patented products. It limits the access of Indonesians to medicines. If the IPR protection in Indonesia were strong enough, MNCs would set up an R&D station; but there needs to also be R&D staff in biotech and biochemistry; the business enabling environment for this is not yet there.	
Compulsory license regulation (Regulation signed 2018): In the case of the outbreak of a disease, the GOI can take the patent rights from a company. This happened in India and is a major concern for MNCs, making them wary of investing in Indonesia.	

Source: PSLA desk review and interviews.

³⁵ Indonesian Ministry of Foreign Affairs, Climate Change Profile Indonesia, 2018, page 6.

TB and HIV

- **Enabling:** Although policies are in effect to improve the surveillance and reporting of cases, there is a lack of public knowledge regarding TB and HIV symptoms, together with where to go for examination, diagnosis and quality guaranteed treatment. There is also limited involvement of patients, former patients and families, and the wider community in disease control activities. The National HIV/AIDS Strategy recognizes that stigma, discrimination and human rights violations are common, and that many aspects of HIV prevention are not adequately supported by legislation.
- **Developing:** Private sector players are testing the market with the latest technological application for TB diagnostic tools and labs, but with slow market acceptance. The private sector needs more enabling investments from donors to scale up its reach. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** No information.

The Ministry of Health (MOH) has set a National Strategic Plan 2016-2020 toward the elimination of tuberculosis in Indonesia by 2030. Among the steps recommended to be taken in the plan³⁶ are activities for private sector investment:

- Improving access to the quality TB services;
- Enhancing TB partnerships through a coordination forum; and
- Strengthening the health system.

TABLE 13. TB AND HIV – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
<p>Complicated reporting system on TB cases: Indonesia is the third highest in TB mortality globally (1.5 million).</p> <p>Missing cases coming from private sector: need to incentivize clinics/ private doctors to report the TB cases; help patient to take TB medication regularly.</p>	
<p>The regulation from the GOI/MOH regarding the TB diagnostic process is complicated. The diagnostic process flow is too long, especially for BPJS patients.</p>	
<p>Inconsistent guidelines and policy directives regarding HIV/AIDS. Amendments to Law No. 22 (on decentralization) were under debate in the national parliament. With rapid decentralization, national, provincial, and district authorities still lack clarity about the extent to which they have authority to make policy and guidelines, and how local efforts should be funded and implemented.</p>	<p>There is a need for a cross-cutting analysis of all sectors to ensure that the regulations and priorities of different sectors are aligned with the country's HIV prevention, treatment and care goals. Regulations devised through one legislative instrument or ministry pertaining to most at-risk populations, for example, may hinder the health sector's ability to prevent HIV transmission among these groups.</p>

Source: PSLA desk review and interviews.

³⁶ https://www.who.int/tb/features_archive/indonesia_11apr18.pdf?ua=1

Maternal and Child Health

- **Enabling:** New policies are in effect to improve service standards, albeit with a lack of enforcement capacity in the GOI. Development planning and policies are still concentrated on the island of Java and big cities off Java, and there is low accessibility in remote areas, especially off Java. Most midwifery education institutions are located in urban areas. Meanwhile, most midwives practice in rural areas.³⁷
- **Developing:** The private sector can successfully scale private facilities to improve access, develop technical solutions to improve communications for service delivery, develop transportation solutions, improve the quality of midwifery care through private sector training institutions, and tailor financial products for maternal and newborn health. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).
- **Sustaining:** There is a need to establish co-creation platforms to ensure sustainable results by using a whole-of-market and systemic approach to reach the poorest and most vulnerable people. Potential for USAID/Indonesia to partner with the private sector (elaborated in Sections 3.3 and 3.4).

SDG 3: In the area of health targets for maternal and newborn health, it is noted that Indonesia's maternal mortality ratio remained high in 2015.³⁸ The 2018 Global Competitiveness Report mentions "one area of specific concern is public health. A newborn in Indonesia can expect to live only 62 years in good health, one of the lowest figures outside sub-Saharan Africa."³⁹

The need for improved maternal and newborn health, and an increasing market in Indonesia, are an opportunity for private stakeholders to invest:⁴⁰

- Scale successful private facilities to improve access:
 - Invest in high-quality midwife clinics; and
 - Expand the scope and reach of established health service companies.
- Develop tech solutions to improve communication for service delivery:
 - Increase access to information and improve knowledge-sharing;
 - Expand the reach of providers; and
 - Improve the collection and distribution of available data.
- Develop transportation solutions:
 - Use existing networks to provide scheduled and emergency transportation.
- Improve quality of midwifery care through private sector training institutions:
 - Expand education institutions outside of the urban market into peri-urban areas;
 - Grow access points for continued medical education; and
 - Tailor financial products for maternal and newborn health (offer specialized loans for healthcare providers; introduce banking products tailored to improving access to healthcare for women; and offer supplemental insurance for maternal health).

³⁷ United Nations Population Fund, The State of the World's Midwifery 2014.

³⁸ 2018 Health SDG Profile: Indonesia.

³⁹ World Economic Forum: Global Competitiveness Report 2018, page 27.

⁴⁰ Re-envisioning Maternal and Newborn Health in Indonesia: How the Private Sector and Civil Society Can Ignite Change. Washington, DC: Palladium, Health Policy Plus, 2016, page vii.

TABLE 14. MATERNAL AND CHILD HEALTH – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
<p>Indonesia’s regulation regarding planning family and birth (KB) contradicts the fertility program in hospitals.</p> <p>Maternal health in Indonesia’s law is mostly concerned with the prevention of the mothers’ mortality, while there is no major concern for post-partum health or neo-natal health.</p> <p>In the Law on Child Health, there is no focus concerning child health, the regulation is too broad.</p> <p>Under Indonesia’s Law on Marriage the legal age to marry is 16 for women and 19 for men. Legal child marriage is one of main causes of maternal and child mortality.</p>	<p>The GOI needs to pass regulations on a fertility program.</p> <p>Enforcement on post-partum and neo-natal health.</p> <p>Law focusing on child health.</p> <p>The GOI should act to end legal child marriage by amending the Law on Marriage.</p>
<p>The majority of Puskesmas in Indonesia not yet accredited: Currently, only 1 percent of Puskesmas are accredited at the highest level (Paripurna) and 9 percent of Puskesmas are accredited at the second-highest level (Utama).</p>	<p>The GOI aims that by 2020 all 9,000 Puskesmas should be accredited to be able to access to BPJS.</p>

Source: PSLA desk review and interviews.

Health System and Financial Management Strengthening

- Enabling:** Since 2004, the GOI’s budget for public health has increased significantly as a result of a shift in government health financing policy to focus more on reducing the financial risk of health-care spending, particularly for the poor. However, national health expenditure in Indonesia has been subject to considerable errors and inconsistencies in the past, owing to the lack of a systematic approach to comprehensively and consistently track spending, together with the fragmentary nature of data on spending in the public sector.
- Developing:** As a result of a low GOI contribution to health financing, with a public share of only 37.8 percent of total health expenditure, private, primarily out-of-pocket (OOP) payments contribute 62.2 percent. Higher OOP expenditure has resulted in an increased risk of catastrophic health expenditure for households. Challenges remain in the continuing high proportion of OOP expenditure, a complex system of funding channels and payments from national to subnational levels, expanding coverage to include the informal sector, and ensuring improvements in the supply of services to enable equitable access to services across all regions of Indonesia.⁴¹
- Sustaining:** No information.

There is a range of private providers, including networks of hospitals and clinics managed by not-for-profit and charitable organizations, for-profit providers, and individual doctors and midwives who engage in dual practice (i.e., have a private clinic, as well as a public facility role).

⁴¹ <https://apps.who.int/iris/bitstream/handle/10665/254716/9789290225164-eng.pdf>

While Indonesia has established a national information system (SIKNAS) that links to district-level health information systems (SIKDA), communication between the systems has been weakened by decentralization, and by multiple separate reporting systems.

The adoption and use of information technology (IT) in the Indonesian health system is still limited and uncoordinated. Responsibilities for procurement and design are fragmented, and interoperability of systems is a significant challenge.

Electronic medical records are starting to be adopted in Indonesian hospitals, but expansion is slow.

TABLE 15. HEALTH SYSTEM AND FINANCIAL MANAGEMENT – LEGAL/ REGULATORY BARRIERS AND OPPORTUNITIES

BARRIERS	OPPORTUNITIES
Digital health: Diagnostic tele-medicine is not allowed by the MOH. Misperception on regulating digital health (through an IT platform) (Law on Medical Practices, Law on Medical Education, etc.). Misperception that tele-medicine would create competition between online vs off-line doctors, while it is meant to be complementary.	
E-catalogue registration in national health system's procurement catalogue.	
Billing payment delays because of late BPJS payment.	

Source: PSLA desk review and interviews.

3.2.2. WHAT ARE WE MISSING?

SOW Question 3: What are we missing? Based on a literature review, what sub-sectors has USAID/Indonesia overlooked or not sufficiently engaged in to maximize private sector expertise for development initiatives?

Summary Finding: It is important to note that involving regional impact investors and the growing number of Indonesian social enterprises in the SME sector may be a key driver to successful PSE. This may have been overlooked or not sufficiently engaged in by USAID/Indonesia.

For the past seven decades, the GOI's main approach in tackling economic development challenges has been government-to-government (G2G) aid. In relation to the USAID PSE Policy to transition engagement toward private sector-led market solutions and investments for development initiatives, the case for social impact investors and their role in helping Indonesian social enterprises and SMEs should be considered.⁴² Supporting the SME sector should be the next step for USAID/Indonesia.

⁴² Transformational Business Network, Social Impact Investing: New Agenda in Fighting Poverty, 2017: Indonesian social enterprises are categorized into four types: 1. "Entrepreneurial Non-Profit Organization (NPO)" model, 2. "Social Cooperative" (SC) model, 3. "Community Development Enterprise" (CDE) model, 4. "Social Business" (SB) model.

This can be done in partnership with impact investors willing to invest equity finance to create a for-profit business with measurable social outcomes that intentionally and primarily address the social needs of the poor and marginalized. Impact investors are not a part of corporate social responsibility (CSR), socially responsible investing (SRI), or environment social and governance (ESG). Any environmental impact is an additional bonus.⁴³

USAID/Indonesia may consider engaging regional impact investors who are already investing in various social enterprise models in Indonesia to create better job opportunities that are relevant to the local contexts. For instance, SMEs can help “poor and productive” Indonesians to transition from the informal into the formal economy. Social enterprises build businesses that can help the poor to build asset-based capital, empower them through skills training (TVET education), and give them access to pensions and other social security systems. Annex 14 contains a table of impact investors interviewed by the PSLA team who are interested in collaborating with USAID/Indonesia.

In combination with engaging more impact investors, more activities with the Development Credit Authority (DCA) are also needed to provide loan guarantee schemes to encourage local banks to lend to SMEs. This could be up to about US\$5 million per ticket size to allow municipal banks to serve SMEs better. Most PSE opportunities identified through interviews with potential private sector partners, summarized in Section 3.4 and Annexes 12 and 13, see the role of USAID/Indonesia as de-risking their investments. One of the five USAID key value propositions in the USAID PSE Policy is “USAID offers risk-mitigation and flexible authorities.” According to the two PSLA online surveys, only 15 percent of CORs/AORs and 13 percent of IPs consider this to be a key value proposition where private sector partners see high value-added in engaging with USAID in partnerships. More than 50 percent of responses from CORs/AORs and IPs rated that the private sector partners see only modest or negligible value-added in the risk-mitigation and flexible authorities offered by USAID, or they do not know how the private sector views it. This appears to be an underdeveloped key value proposition that needs further attention from USAID/Indonesia (Figure 8, Section 3.3).

3.3. IDENTIFICATION OF PSE OPPORTUNITIES MATCHED WITH FUNDING SOURCES AND PARTNERSHIPS, PROGRAMMING MODALITIES AND BUSINESS MODELS

Answers to SOW Questions 5, 6 and 7.

⁴³ Transformational Business Network, Social Impact Investing: New Agenda in Fighting Poverty, 2017; Social impact investments are based on the following criteria: 1. Profitable: Impact investors want commercially sustainable and profitable businesses. Depending on the investors, different levels of financial returns are acceptable. 2. Intentional: Social impact investments which are specifically designed to tackle livelihood, WASH, education and wellbeing issues. Tackling social issues is their core business: impact is part of the means. 3. Local: They operate in less-developed urban and rural areas where poor and productive people live. 4. Direct: The enterprise shall have a direct social impact in their locality. 5. Accountable: Apart from standard financial reporting, these businesses report against simple and agreed social metrics.

3.3.1. WHAT PRIVATE MONEY IS OUT THERE?

Summary Finding: There are many sources of public and private funds, as well as mechanisms that

SOW Question 5: What private money is out there? Based on a literature review and bolstered by financial industry stakeholder interviews, what sources of financing exist in Indonesia that offer potential to increase USAID private sector engagement, including blue and green bonds, PT SMI, SDG Indonesia One, impact investment funds, and others?

may be used in combination with USAID enabling investments. Such funds can be categorized into different levels of perceived risk, time frames before they will receive a return or desired outcome, and sizes. Some commonly found constraints in development finance also need to be understood.

Exploring two fundamental investment categories—asset investments and enabling investments—helps to sharpen our understanding of the complex need for investments in development projects with the private sector (Table 16, Figure 4). Asset investments seek to preserve the financial asset and/or to provide financial returns for investors. Engaging private sector actors to join development-related projects is usually complex. Private investors in particular look for certain conditions that help them feel reasonably confident of positive financial outcomes. For this, project owners need to create or improve these conditions in development-related projects if they hope to encourage asset investments. This is where enabling investments can play a role.

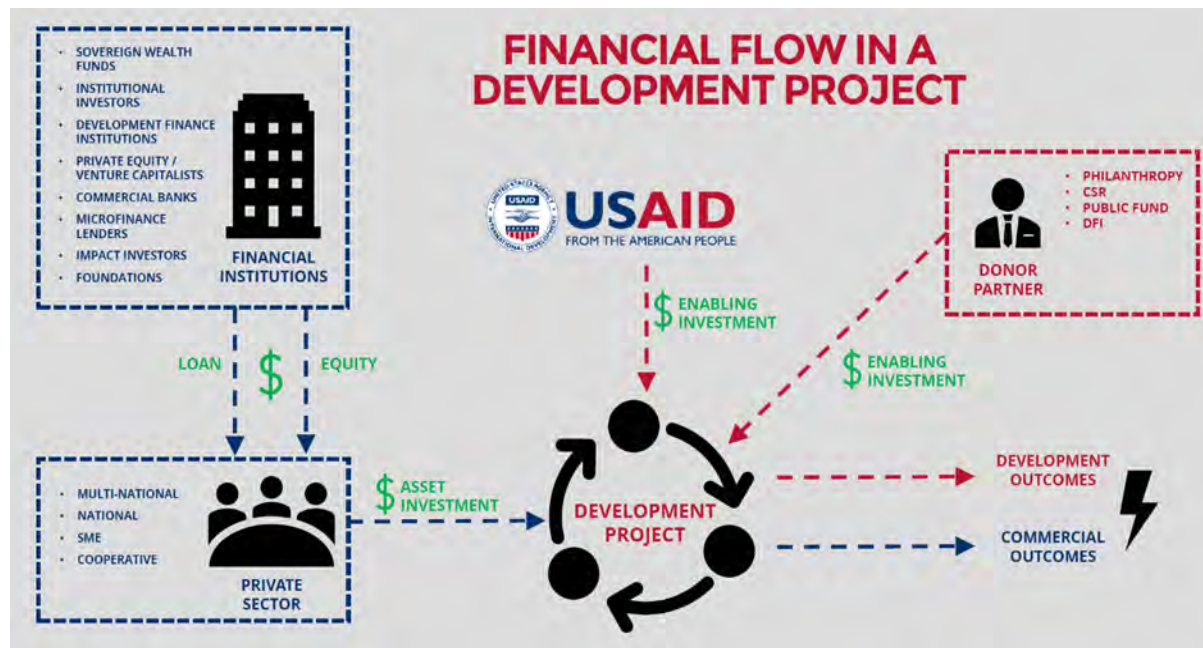
TABLE 16. ASSET INVESTMENTS AND ENABLING INVESTMENTS IN DEVELOPMENT PROJECTS

ASSET INVESTMENTS	ENABLING INVESTMENTS
<p>Tangible: Investing in things, aimed at directly improving production, the ecosystem or generating additional income.</p> <p>Commonality: Seek to preserve the financial asset and/or to provide financial returns for the investors.</p> <p>Examples:</p> <p>Investments in productivity facilities and/or equipment while some can be large scale investments, such as dams, roads, ports and irrigation channels.</p> <p>Investments in management systems, such as: supply chain management, forest and landscape restoration (i.e., ecosystem services) or improved crop or forest management, and even conservation activities.</p>	<p>Less tangible (less related to ‘things’) and more related to people and governance processes</p> <p>Commonality:</p> <p>Provide the foundations for asset investments to come in and are focused on stimulating and supporting stakeholder engagement in the collaboration.</p> <p>Can help the forming of stakeholder platforms and its relevant coordination activities.</p> <p>May provide for capacity building through training or education.</p> <p>Facilitate the design and implementation of enabling policies, legislation and supportive institutions.</p> <p>Intended to stimulate positive changes in the behavior of the beneficiaries, not to earn money.</p> <p>Delivered by the public and civic sectors, as well as philanthropic individuals and organizations.</p>

Source: PSLA desk review and interviews.

To coordinate this alignment between enabling and asset investments, an important role has emerged in the industry sector, namely the role of an **investment facilitator**. This can be an organization or a platform that helps plan and prioritize investments.

FIGURE 4. FINANCIAL FLOWS IN A DEVELOPMENT PROJECT: ASSET AND ENABLING INVESTMENTS



Funding Sources

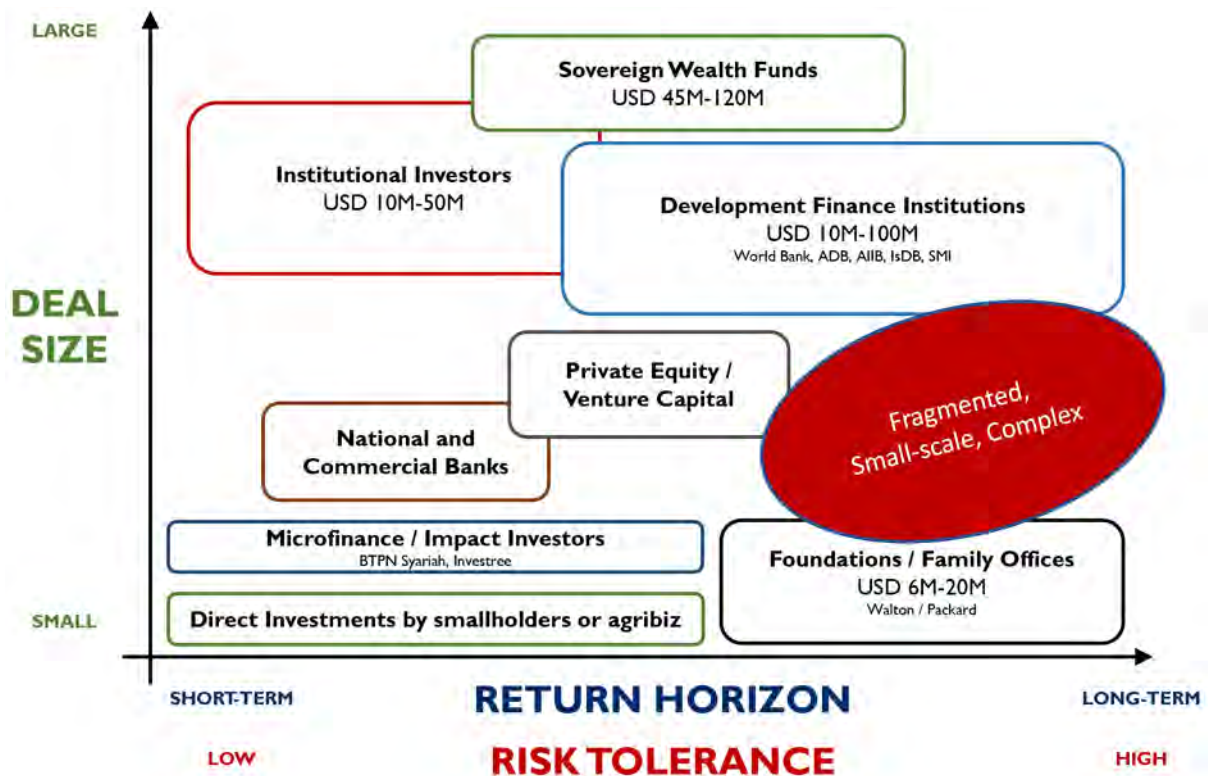
There is a wide array of public, private and civic sources of capital potentially available for development-related investments in Indonesia, originating and operating from the local to the global level. The PSLA team categorized these by type of organizations (including private equity, venture capital companies, impact investors, private philanthropy funders and banks). The PSLA team managed to interview 11 out of 36 identified finance institutions. Most interviewed finance institutions had not yet worked with USAID.

The major challenge is enabling the right mechanisms to use this capital in USAID projects, and preferably toward PSE. It is therefore important for USAID/Indonesia to stay informed about the dynamic financing environment and be prepared to capitalize on these opportunities.⁴⁴

⁴⁴ The Landscape Investment and Finance Toolkit (LIFT) Primer - Box 3 - page 10, December 2017.

Figure 5 is adapted with some names of finance institutions mapped during this PSLA. In combination with Annex 14, it helps to provide an inventory of financial institutions and where the funds are flowing.

FIGURE 5. FINANCE INSTITUTIONS MAPPED BY DEAL SIZE, RISK TOLERANCE AND TIME HORIZON



Source: LIFT Primer, version December 2017, page 17.
Adapted with names of financial institutions identified as part of the PSLA for Indonesia.

The above figure shows how certain sources of finance are aligned with development-related investment needs. On the horizontal axis is return horizon and risk tolerance for a given deal, and on the vertical axis is the deal size. For example, the deal size for international institutional investors is usually larger than national or commercial banks. Usually, venture capital funds (VCs) can take on more risk than institutional investors. Private foundations can act as a ‘patient investor’ that does not need to recoup its investment quickly. It is important to note that the oval-shaped space represents a key gap in development-related finance and is highly relevant to USAID. Only a few sources of finance can currently provide smaller investments with perceivably higher risk and with a long-time horizon until financial returns are achievable. This gap will have to be filled if USAID is to address some key investment needs in complex development collaborations.

For investments in development-related projects, it is critical to have a local financial sector that understands the risks of the investments, and effectively mobilizes funds to the right activities and actors that contribute to the outcomes intended by stakeholders.

In Indonesia, the financial sector usually consists of a combination of formal and informal institutions, from banks and companies across the supply chain to members of social networks and family members.

Financial Mechanisms:

Debt Finance

Many investments in the development-related projects go through loans. For many stakeholders, who are actually investors in their own right, loans have become the key mechanism to obtain the capital they need. In the context of a typical business lifecycle, debt can be used at any stage.

- Commonly in the context of development-related projects, short-term loans provide working capital to farmers, cooperatives and companies for sustainable land management practices, cash flow management or income smoothing, while awaiting a pay-off from longer-term investments.
- Medium- and long-term loans provide financing to bridge this temporary gap and begin to be accessible as a business matures. For example, medium-term loans are those that need to be paid back in the range of 18 months to 10 years. These loans can be used to finance assets that lose value over a longer period of time, such as machinery and production equipment.
- Longer-term loans of up to 30 years tend to be for the purchase of land or larger fixed assets.

Loans for development-related project investments also present challenges for lenders. As a consequence, the risk remains high and lenders will not, or cannot, offer debt products.

Sources of Debt Finance

Debt mechanisms by Indonesian local/national banks are the key source of loans for smallholder farmers and SMEs and can be used for development-related investments in USAID/Indonesia projects. These banks can either be commercial or state-owned banks that operate with local branches, such as Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI) and Bank Mandiri, etc. Regardless of the ownership and structure of banks, their key to success for development-related investments is a commitment to establish sustainable local development in the area.

Given the limited accessibility, many smallholders and other underserved groups often need to source debt elsewhere. Some turn to informal sources for loans that come with far higher interest rates. There are other more accessible but formal sources that exist to prevent smallholders from having to access risky debt, such as microfinance institutions, community lending agencies, saving and credit cooperatives, and rural banks. These are specifically designed to provide debt products to those that cannot access commercial banking products.⁴⁵

To respond to the challenge of bankability of small businesses, peer-to-peer (P2P) lending has now emerged in Indonesia. The PSLA team has met with the Indonesian Fintech Lenders Association (AFPI) that is accredited by the Financial Services Authority (OJK) and focuses on providing risk management certification, public education campaigns and a compulsory code of conduct.

Equity Investments

In terms of the PSLA team's thinking on development-related investments, four different types of equity are important (Table 17, adopted containing names of some of the interviewed investors).

⁴⁵ <https://www.ojk.go.id/en/kanal/perbankan/data-dan-statistik/statistik-perbankan-indonesia/default.aspx>

Impact investors are searching for social and/or environmental returns on their investments, in addition to the financial returns sought by typical investors. Sometimes, investors prefer to place their capital in the hands of a fund. This is what is known as a Private Equity Fund (PE Fund), essentially a pool of capital that is used by its managers to buy parts of businesses.

TABLE 17. TYPICAL IMPACT INVESTMENT CATEGORIES

	Finance First	Balanced Growth	Balanced Early	Impact First
	<i>Implicit, growth, market rate</i>	<i>Explicit, early/growth, market rate</i>	<i>Explicit, early/seed, market rate</i>	<i>Explicit, early/seed, concessionary</i>
Impact Focus	Economic development, SMEs focused on growing middle class, adherence to ESG standards	BOP, environmental impact	BOP, environmental impact	BOP, environmental impact
Average Ticket Size	\$1 M to \$15M	\$500k to \$5M	\$250k to \$2M	\$10k to \$1M
Target Returns (IRR)	12% - 25%	7% - 20%	5% - 15%	<5%
Fund Size	\$25M to \$200M	\$25M to \$100M	\$10M to \$30M	\$2M to \$6.5M
Geography	Multi-region	Multi-region	Regional and national	Regional and national
Degree of Innovation Supported	Invest in proven sectors Fund managers with track record and established reputation	Invest in proven sectors Fund managers with some track record	Invest in more pioneering and new/untested impact theses and sectors Can be new fund managers	Invest in the most pioneering and untested impact theses and sectors Usually new fund managers
Access to Capital	High	Medium	Low	Low
Target SMEs	Growth stage SMEs with track record and validated business model	Growth stage impact focused SMEs with a validated business model	Early stage impact focused SMEs that have limited access to investment capital	Seed stage impact SMEs that have the most limited access to investment capital
Ability to Leverage Private Capital	Sufficiently de-risked to attract private commercial capital Raise largest amount of private capital	Sufficiently derisked to attract private investors seeking impact Raise largest amount of private capital of the explicit impact funds	Higher level of risk than Finance First and Balanced Growth funds, too high for many commercial investors Blended capital used to de-risk funds	LPs are able to accept concessionary financial return (foundations, philanthropists, etc) No private commercial investment capital interested in the funds
Companies Interviewed by PSLA	KV Asia Capital	Aavishkar Frontier Fund, Garden Impact Investments	Insitor Asset Management	Walton Foundation, David and Lucile Packard Foundation, Mercy Corps Social Venture Fund

Source: The Impact Investment Market in South and Southeast Asia - February 2017 by Palladium. Adapted. Added are financial institutions mapped during the PSLA.

Some examples of companies that are working in the above categories are:

- Finance First: KV Asia Capital, Development Finance Institutions exclusively, including Norfund, Swiss Investment Fund for Emerging Markets DEG, the Dutch Good Growth Fund, FMO, BIO, OeEB, IFC and the Asian Development Bank’s PSOD.
- Balanced Growth: Aavishkar Frontier Fund, Garden Impact Investments.
- Balanced Early: Insitor Asset Management.
- Impact First: Mercy Corps Social Venture Fund.

The impact investment market in Indonesia is relatively new and needs further development. As large global funds invest only a very small proportion of their portfolios in Southeast Asia, fund managers located in the region stressed the opportunistic nature of development-related investment projects and the need for more support to would-be founders of such projects, including incubation support and mentorship.

In the global sustainable development space, private equity impact investment funds are an emerging force. Sources of capital for these funds can be a mix of both private and public investors, and they

can employ multiple mechanisms, not just equity investments. One leading example of these is the Althelia Climate Fund.⁴⁶ Their focus can be a particular geographic area, with locally embedded fund managers or facilitators who give them an ability to source local investment opportunities efficiently. Alternatively, the focus could be the development of a specific value chain for smallholder farmers or sustainable forestry in a district.

Innovative Finance Mechanism

Annex 10 provides an illustration of key concepts for leveraging private finance and contested issues.⁴⁷ Increasingly, financial investors are seeking to work together to add value to each other's investments through blended finance. The nature of this lies in the complementary use of asset investments or enabling investments, from public, civic or private sources, for shared objectives.

Added benefits for development initiatives: From the perspective of private investors who seek a profit, blended finance offers some added security. The motivation of public or civic stakeholders to want to blend their investments with private sources is usually due to their tight or limited budgets. By working with private investors, they blend in large pools of capital that they otherwise may not have access to.

There are different types and levels of blended finance for raising additional funds.⁴⁸

- Blending finance from different sources (public or private), i.e., guarantees, political risk insurance, currency hedging.
- Blending of different types of finance, using a variety of blending instruments (grant/non-grant).
- Blending of finance with different purposes (development profits).

There is a convergence between blended finance and impact investing. Traditionally, blended finance focuses on large infrastructure investment projects, whereas impact investing generally focuses on smaller investments in SMEs that benefit the poor as consumers, producers or employees. The convergence occurs in these areas:

- Blended finance is used to mobilize impact investments by channeling additional finance into projects as part of a strategy that combines capital with different levels of risk to target market-rate-seeking capital into impact investments.
- In order to leverage additional finance, impact investors blend guarantees, equity or concessional loans to encourage financial providers to cater to underserved communities.

In Indonesia, more effort is needed to understand the actual development results of impact investment, given that the evidence on outcomes is limited.

Payment by Results (PbR), or Results-based Finance, refers to an investment arrangement in which investors pay an implementing entity upon the accomplishment of results rather than efforts

⁴⁶ <https://althelia.com/>

⁴⁷ DCED (2018): Donor engagement in innovative finance. Opportunities and obstacles, page 5.

⁴⁸ Ibid.

to accomplish those results. This mechanism is increasingly applied to development-related projects, but remains unpopular in the Indonesian context.

Based on a report by DFID in 2015, there are three categories of PbR instruments:

- Payment to a service provider, through Results-based Finance.
- Payment to a partner government, through Results-based Aid.
- Payment to a private investor, through Development Impact Bonds (DIBs): investors provide upfront capital for the delivery of services by a service provider. They are then repaid with a premium, if successful, by an outcome payer upon the achievement of results and verification by an independent evaluator. It is important to note that DIBs are technically not bonds.

The format of payments: USAID in 2018 distinguishes various formats that involve PbR instruments to an organization or entity. In addition to development impact bonds, they include:

- **Performance-based contracts**, which are grant agreements between funders and implementers, or funders and governments, that subcontract a service provider. They can include public-private partnership contracts.
- **Prizes**, or financial rewards, that are given to competitors after successfully accomplishing a pre-defined result.
- **Advance market commitments**, which are agreements to guarantee a price or market for a product after its development. Traditionally, these have been used in the health sector, for example to promote the development of vaccines.

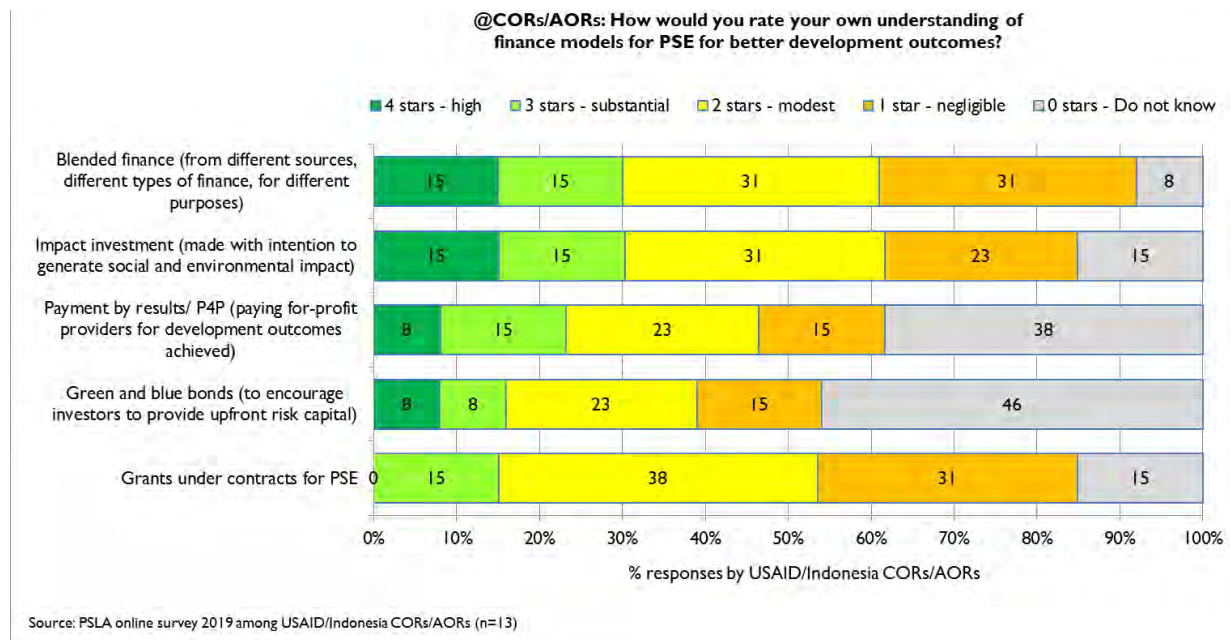
In 2018, the GOI launched SDG Indonesia One. It is a platform which is relevant for infrastructure development financing with an orientation to support the sustainable development goal (SDGs) agenda. The state-owned financing company, PT Sarana Multi Infrastruktur (SMI), has been appointed to establish and manage the platform.⁴⁹

Innovation funds are a format to support early-stage, high-risk ventures (i.e., Proof of Concepts in start-ups). New funding mechanisms offer different types of financial support, including non-grant instruments. Some have also set up mechanisms to diversify their funding income and invest it in more flexible ways, such as for capacity building and preparatory discussions with the private sector.

⁴⁹ <https://www.thejakartapost.com/news/2018/10/05/indonesia-launches-platform-to-support-sgds-achievement.html>

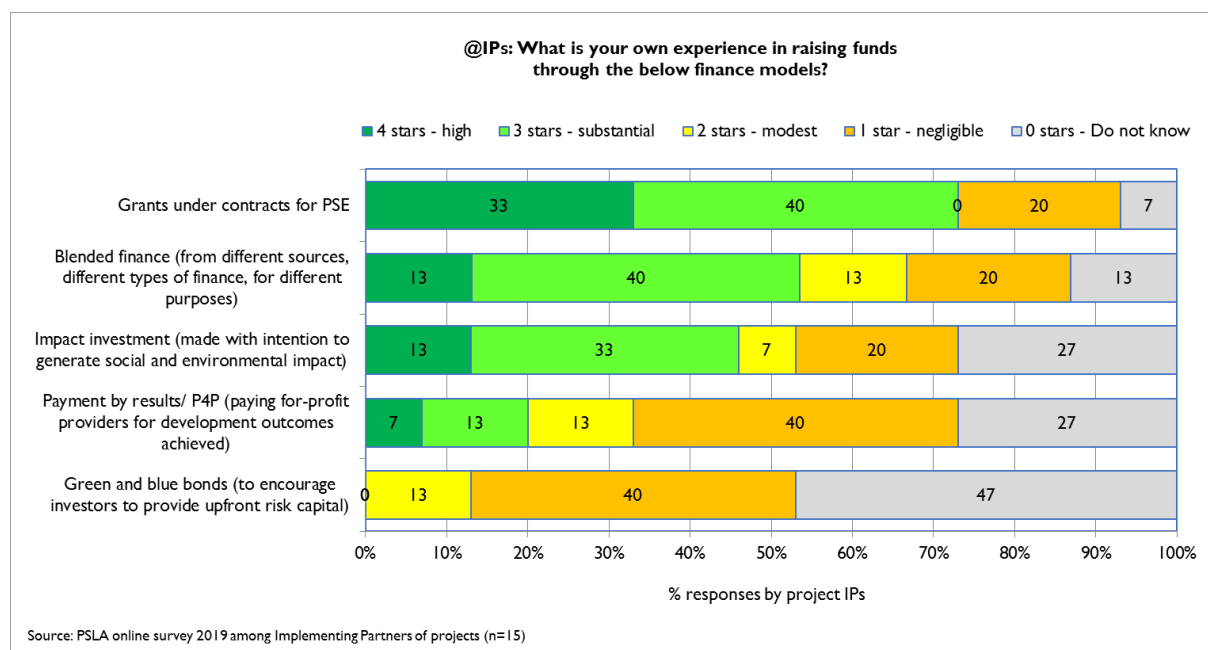
Understanding of innovative finance mechanisms by USAID CORs/AORs (Figure 6): In the CORs/AORs online survey, most CORs/AORs rate their understanding of innovative finance mechanisms as modest or negligible.

FIGURE 6. CORs/AORs UNDERSTANDING OF FINANCE MODELS FOR PSE



Experience of USAID/Indonesia Project IPs with Innovative Finance (Figure 7): In the IP online survey, most IPs rate their experience in raising funds through grants under contracts for PSE as high or substantial (77 percent). The share of IPs that has experience with blended finance is lower (53 percent), as is the share of IPs that has experience with impact investments (46 percent). Experience with payment by results, and green and blue bonds is rated by the majority as negligible or modest.

FIGURE 7. IMPLEMENTING PARTNERS' EXPERIENCE WITH FINANCE MODELS



3.3.2. WHERE CAN WE MOST EFFECTIVELY ENGAGE AND HOW?

Note: Answers to the SOW Questions 6 and 7 are provided in Annex 12. Annexes 13 and 14 have

SOW Question 6: Where can we most effectively engage? Within selected sub-sectors, as informed by the literature review and stakeholder interviews, where should USAID/Indonesia focus within the identified sub-sectors to most substantially maximize private sector expertise to support development programming? How can USAID/Indonesia align the CDCS within the flow of private financing to focus sub-sectors?

SOW Question 7: How can we engage? After identifying priority focus engagements, what modalities and business models can USAID/Indonesia deploy to leverage and enable greater private sector investment? Programming opportunities should be analyzed against the possible sources of private funding identified during the desk review.

tables with specific opportunities and potential private sector funding sources with names and contact details.

Annex 12 specifies by sector/sub-sector where USAID/Indonesia can engage most effectively (column 1), the modalities and business models it can deploy for greater private sector investment (column 2), and the funding sources and specific opportunities (column 3). These opportunities are based on the interviews with private sector companies and private finance institutions that have in most cases not yet worked with USAID/Indonesia. The opportunities are aggregated at the sub-sector level to help inform the CDCS 2021-2025. Funding sources in column 3 refer to concrete private financial institutions with a code (for example, PFI-01). These could be potential collaboration partners of USAID/Indonesia, for example, for blended finance. The funding opportunities are also mentioned with a code (for example, if an opportunity relates to workforce development, the code would be: WFD-01). Annexes 13 and 14 contain the specific opportunities and funding sources with names and contact details that are required for Section 3.4. The PSLA team recommends that Annexes 13 and 14 are not publicly disclosed.

The SOW Questions 6 and 7 inquire into how USAID/Indonesia can most substantially maximize private sector expertise to support development programming, and which modalities and business models USAID/Indonesia can deploy to leverage and enable greater private sector investment. The key value propositions of USAID and how it is viewed by the private sector in a potential collaboration, help to answer this question. The answer is informed by the private sector's feedback during the interviews on the value-added of working with USAID in a potential collaboration and what USAID can do that the private sector is unable to do itself. It is also informed by a question in both online surveys among CORs/AORs and IPs in which they were requested to rate where private sector partners see the value-added of engaging with USAID/Indonesia in PSE partnerships (Figure 6).

In the 2018 USAID PSE Policy, USAID defined key value propositions it can bring when working with the private sector “to leverage comparative advantages of USAID and the private sector to deliver more effective and sustainable outcomes.”⁵⁰ (Table 18.)

TABLE 18. KEY VALUE PROPOSITIONS OF USAID AND PRIVATE SECTOR ENTITIES

USAID OFFERS	PRIVATE SECTOR OFFERS
Strong in-country networks and relationships	Scale, sustainability and reach
Support to strengthen enabling environments	Ability to influence policy
Sectoral expertise and knowledge	Innovation, expertise and capabilities
Risk-mitigation and flexible authorities	Flexibility and pace
Reputation and credible convening power	Efficiency and effectiveness

Source: USAID (2018): PSE policy, page 15.

The online surveys among CORs/AORs and IPs picked up the five key value propositions that USAID/Indonesia offers. Comparing the responses from both surveys (Figure 8), answers on the value-added for the private sector have almost the same ranking order. Thus, opinions of CORs/AORs and IPs on how key value propositions may be rated by the private sector are closely aligned. Only the number one and number two key value propositions have interchanged positions in the two online surveys.

For CORs/AORs, number one is: USAID offers reputation and credible convening power (50 percent of responses giving a 4-star rating, indicating high value-added for the private sector). For the IPs, this is key value proposition number two, with nearly as many survey respondents (47 percent of responses considering this to be high value-added).

For IPs, number one is: USAID offers support to strengthen the enabling environments (BEE) (50 percent of responses considering it high value-added for the private sector). For CORs/AORs, this is reason number two (38 percent of responses considering this to be high value-added). This is a key area where USAID/Indonesia should leverage the evidence from results and experience of its long-standing presence in Indonesia to address one of the modalities considered to be unsatisfactory in terms of efficiency in Section 3.1. In Section 3.1, it was identified that there is no business enabling environment function inside USAID/Indonesia for advocacy support to the private sector in policy dialogue, engaging with business networks and platforms. Currently, projects work individually on BEE, instead of USAID/Indonesia using its reputation and credible convening power to support the strengthening of the BEE for PSE.

The bottom ranked key value proposition in both online surveys is: USAID offers risk-mitigation and flexible authorities (15 percent of responses from CORs/AORs and 13 percent of IPs consider this to be high value-added for the private sector). This is an underdeveloped key value proposition and deserves considerably more attention from USAID/Indonesia, especially given that most of the interviewed private sector partners and private finance institutions that have identified a clear

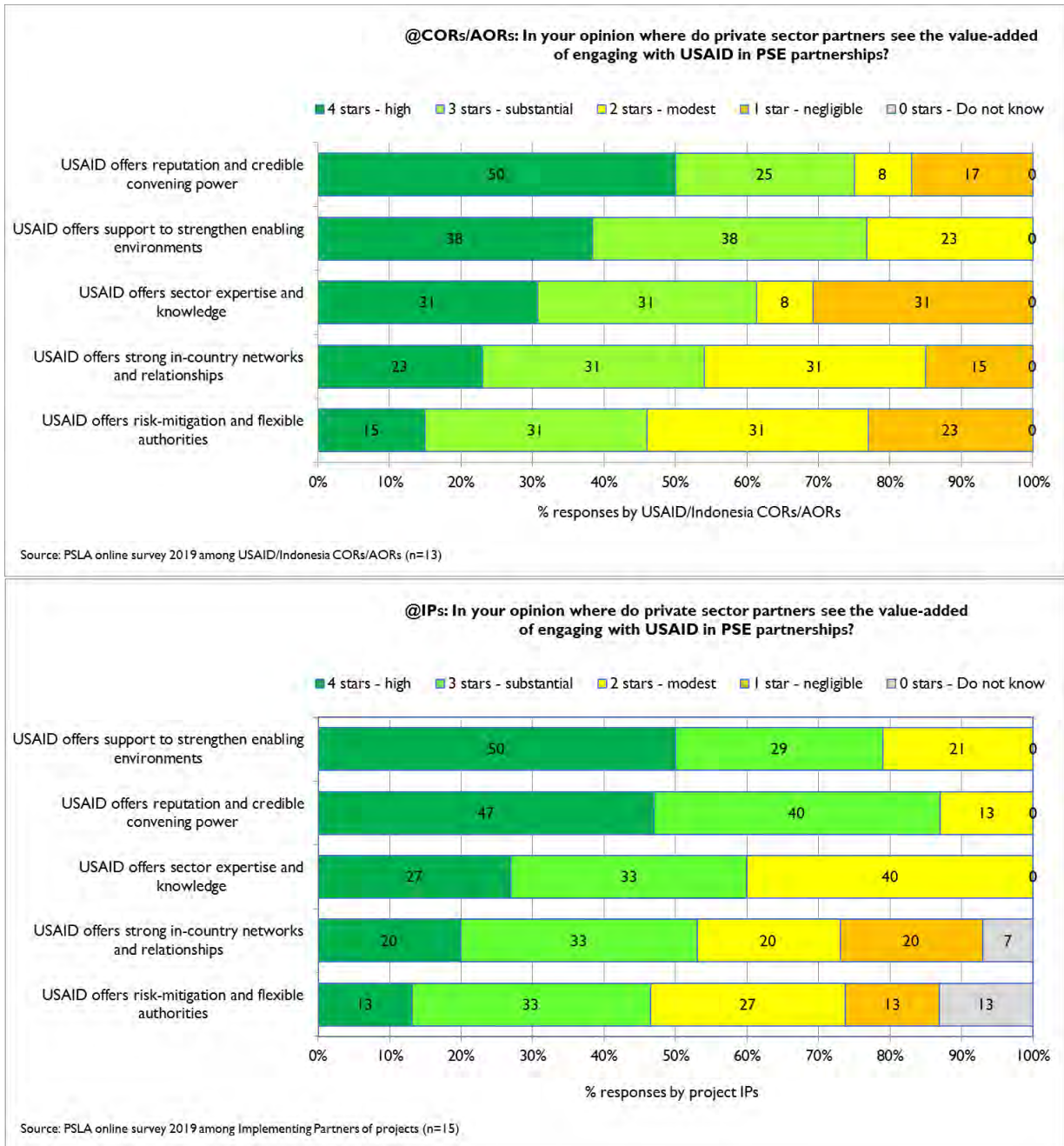
⁵⁰ USAID (2018): PSE Policy, page 15.

interest in working with USAID (Annexes 13 and 14) mentioned that one of the key roles of USAID/Indonesia should be the de-risking of their investments.

Two of the key value propositions that are essential for the facilitator role of USAID/Indonesia in the transition to prioritizing engagements with prospective partners' core business for more transformational outcomes at scale also appear to be underdeveloped: (i) USAID offers sector expertise and knowledge (31 percent of responses from CORs/AORs and 27 percent of IPs consider this to be high value-added); and (ii) USAID offers strong in-country networks and relationships (23 percent of responses from CORs/AORs and 20 percent of IPs consider this to be high value-added).

Given the fact that USAID/Indonesia implements its projects through IPs, the IPs are better positioned to provide sector expertise and knowledge, and to conduct in-country networking. It was identified in Section 3.1 that USAID/Indonesia does not have a dedicated unit or competence center for PSE/business support and has only two Alliance Builders with an advocacy role. USAID/Indonesia needs to increase its capacities in sector expertise and knowledge, not as technical specialists, but from a strong PSE perspective (with high-quality market studies, appointed staff with business development skills, and approaching the private sector with clear value propositions and business cases). It also needs to improve its presence in existing in-country networks. It requires dedicated effort to build and develop relationships with private sector partners. Otherwise, it may be challenging for USAID/Indonesia to optimally leverage the reputation and credible convening power that it has as a top-ranked value proposition.

FIGURE 8. VALUE-ADDED FOR THE PRIVATE SECTOR IN ENGAGING WITH USAID



Summarizing the modalities and business models from the PSE opportunities identified during the PSLA (Annex 12), it can be seen that:

- In most sub-sectors there is demand for USAID/Indonesia to bring in a de-risking mechanism through its network (including DCA) for private equity participation by private finance firms, to help attract more investors and lenders to contribute to achieving development outcomes.
- There is strong demand in all sub-sectors for USAID/Indonesia as a facilitator:
 - A facilitator between potential investors and private sector companies that want to collaborate with USAID/Indonesia, for example, for the scale-up of an off-grid renewable energy project or the financing of a wastewater treatment plant.

- A facilitator between U.S./international associations, Indonesian associations and companies, for example, to develop and implement set curricula with vocational institutions and ensure that certificates issued by the institutions will be recognized by industry.
- A facilitator supporting multi-stakeholder platforms, for example, for better coordination of supply chain stakeholders.
- There is demand for USAID/Indonesia to work with private sector companies or associations to develop business models for the scale-up of their existing initiatives, for example, the roll-out of a one-stop-shop model for sanitation management.
- There is demand for USAID/Indonesia to help with access, for example, access to markets, access to finance, access to energy and access to sanitation. The role of USAID/Indonesia would be, for example, to de-risk private sector investments of companies that want to scale up their core business activities. USAID/Indonesia could work with private sector companies on developing a scale-up model for existing initiatives using systematic approaches (for example, value chain, market systems development and integrated landscape management approaches) to work with private sector companies in their core business and through the system. USAID/Indonesia could also help to explore ways to support multi-stakeholder platforms and help with capacity building.
- There is demand for USAID/Indonesia to help with sectoral expertise, for example, high-quality market studies that are publicly accessible.
- There is demand for support to feasibility studies, design of value propositions and business models that can be part of the project preparation for blended finance, and that would belong to the partnership and not be publicly accessible.
- There is demand for USAID/Indonesia to help convene dialogue, for example, between medical associations and a digital health platform concerning continued medical education.
- There is demand for USAID/Indonesia to support advocacy efforts of the private sector, for example, through white papers to support the private sector in its advocacy efforts and work toward improving the business enabling environments.
- Most of the opportunities can be private-sector led, in the sense that USAID/Indonesia plays the role of the facilitator, and its activities and assistance address private sector constraints or risks, while engagements build on for-profit and market-based approaches and challenges that are in line with the new USAID PSE Policy.

Annex 12 contains a table of private sector engagement opportunities matched with funding sources and potential programming modalities by sub-sectors.

3.4. IDENTIFICATION OF POSSIBLE PRIVATE SECTOR PARTNERS WITH RELEVANT PARTNERSHIP INTEREST AND CONTACT INFORMATION

SOW Question 8: Who can we cooperate with? Who are the key private sector stakeholders that USAID should engage within the priority focus engagements? What does USAID/Indonesia need to do to encourage private sector participation and what type of partnership models can support scalable PSE?

Annex 13 provides a matrix with details on private sector companies with a partnership interest, the type of partnership model for USAID/Indonesia and contact data. Annex 14 provides the same for private sector finance institutions. The codes referred to in Annex 12, Section 3.3 under funding

sources and specific opportunities correspond to the codes in Annexes 13 and 14. The PSLA team recommends that the specific opportunities with names of potential private sector partners and contact data should not be disclosed in the public version of this PSLA Report.

4. IMPLICATIONS FOR USAID PROGRAMMING, INCLUDING STRATEGIC AND PROGRAMMATIC RECOMMENDATIONS

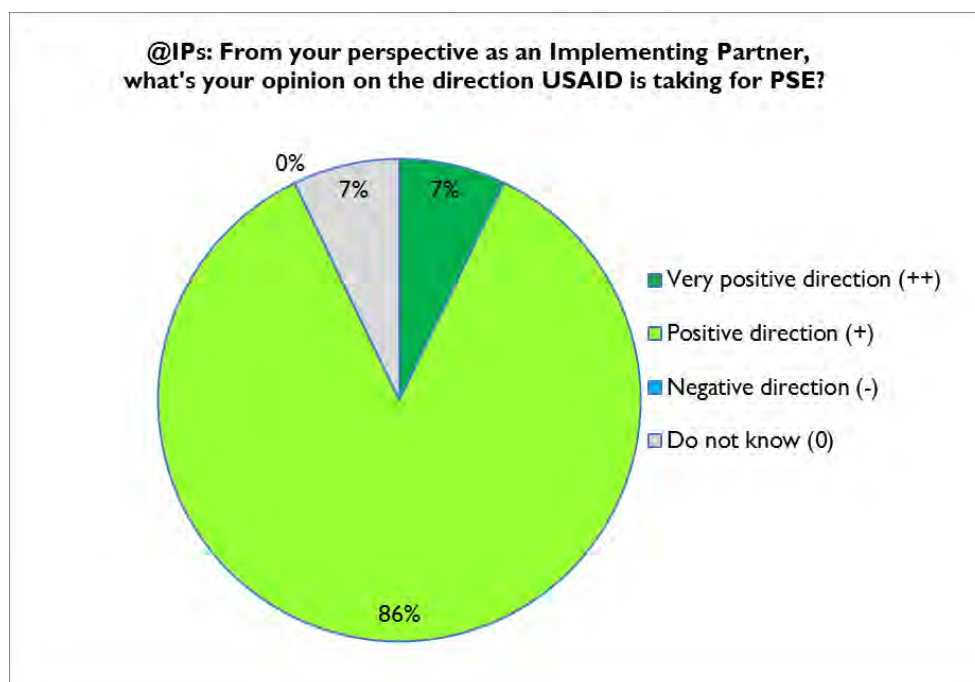
Summary Finding: USAID/Indonesia has started to transition toward more strategic PSE. The new 2018 USAID PSE Policy is in place. This PSLA, which will inform the CDCS, is another step on the way to putting PSE into practice by USAID/Indonesia. What needs to follow are procedures, funding frameworks, creating or adapting roles of internal staff, building staff skills and bringing in new expertise, as well as new ways of working. While this shift is ongoing, there are short- and medium-term steps recommended to USAID/Indonesia based on the PSLA.

This section contains short- and medium-term recommendations for USAID/Indonesia. These are addressed in Sections 4.1 and 4.2. Implications are derived from desk and field research, including the AmCham workshop and a de-briefing work session at the end of the in-country mission.

Most IPs from the online survey stated that the PSE direction that USAID/Indonesia was taking is positive (Figure 9).

Source: PSLA online survey 2019 among IPs of projects (n=15).

FIGURE 9. FEEDBACK FROM IPS ON THE DIRECTION USAID IS TAKING FOR PSE



4.1. SHORT-TERM STEPS RECOMMENDED TO USAID/INDONESIA

Recommendation 1: USAID/ Indonesia launches a Call for Partnership Concept Papers under GDA

Private sector partners interviewed during the PSLA were very keen to follow up on concrete ideas for cooperation with the USAID/Indonesia PSE team as soon as possible. “Within eight months, the situation in our sector can change completely,” said one interviewed company representative, being concerned about the time from idea to contract when working with development partners. The lengthy, time-consuming procedures were a concern for private sector stakeholders that had already worked with development partners and regarding future collaboration opportunities with USAID/Indonesia. They are keen to cooperate, but as businesses they need to move quickly.

In this respect, USAID already has an established mechanism for alliances with the private sector: The Global Development Alliance (GDA) mechanism enables USAID to give feedback on a concept paper by the private sector within 45 days, if it wishes to engage in more in-depth alliance development discussions (Figure 10). This is considered a fast and easy process, satisfying competition requirements, while a country office does not have to go through a lengthy procurement process. Concept papers are submitted globally to one email address and then forwarded by the USAID office in Washington DC to the relevant mission.

At USAID/Indonesia, the Office of Human Capital and Partnerships is the point of contact for reviewing the concept papers and managing the award process and award agreements. The GDA Annual Program Statement (APS) is open for the types of private sector stakeholders interviewed during the PSLA, for example, private-for-profit entities, private equity or private financial institutions, including investment firms, mutual funds, or insurance companies, and industry associations.

Concept papers need to have value propositions that are replicable and scalable, leveraging financial and human resources to generate sustainable solutions and be market-based, market-driven or market-oriented. The private sector financing needs to match at least 1:1 with USAID’s award. The GDA APS does not have own funds. Thus, funding for a proposed alliance to USAID/Indonesia would require that the Mission mobilizes funding in the coming months.

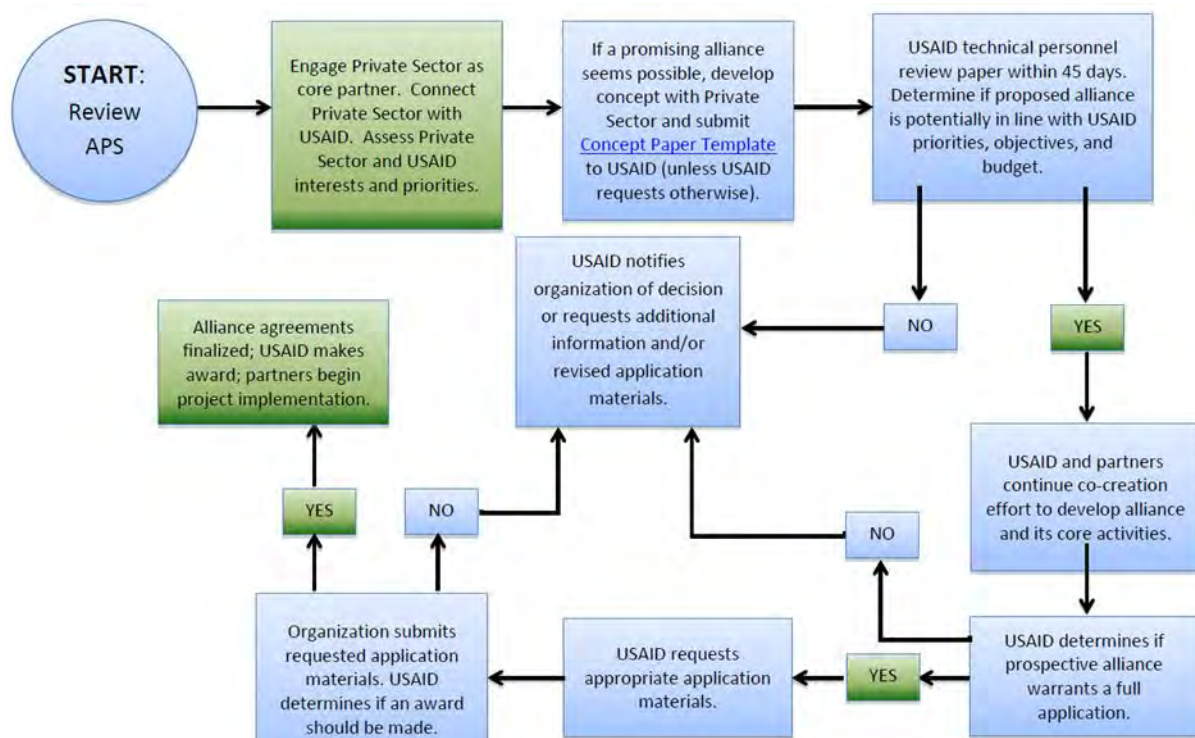
In the short term—meaning within the next one to two years—the GDA can be used as an existing mechanism for USAID/Indonesia to follow up on the many interests in collaboration that came up during the field research. In addition, there is a second way under the GDA enabling USAID/Indonesia to launch its own Call for Partnership Concept Papers. The PSLA team recommends this be done through an Addendum under the GDA Annual Program Statement⁵¹ posted on the GDA USAID/Indonesia website, which could specifically address win-win topics raised by the private sector during the interviews.

⁵¹ The 2016-18 GDA-APS has been extended until November 2019. Currently, there is no USAID mission on the GDA website: www.usaid.gov/gda/global-development-alliance-annual-program that uses the opportunity to have an addendum to the APS. The most recent one was from USAID/Peru, which launched a call for partnership concept papers to promote green growth for up to US\$10 million for one award for a performance period of five years.

To avoid missing the opportunities for more intense alignment with the private sector between now and the start of the new CDCS 2021-2025 in 24 months, USAID/Indonesia may wish to consider the following steps:

- To mobilize money, for example, funds that have not been utilized before the end of the fiscal year, or funds from the technical offices inside USAID/Indonesia could be used to enable USAID/Indonesia to launch an own Addendum to the GDA-APS. It may be worth considering a requirement that technical offices allocate a fixed amount from their annual budgets to the GDA-APS Addendum for more PSE, and that USAID/Indonesia IPs allocate a fixed amount of their project budgets for the GDA. This will ensure that resources are available to initiate and create PSE, and also provide technical offices and IPs with an incentive to actively cooperate in the development of PSE.
- To launch the Addendum as soon as possible with the topics raised by the private sector.
- To provide the Alliance Builders’ team with a quick mechanism and financial resources to enable it to follow up with the private sector companies (see also the next section).

FIGURE 10. DIAGRAM OF GDA APS APPLICATION AND REVIEW PROCESS



Source: USAID GDA APS: USAID and the Private Sector: Partnering for impact, page 47.

Recommendation 2: Consider a dedicated business services support unit or competence center for PSE

USAID/Indonesia has two Alliance Builders to advocate for PSE inside USAID and with the projects. The technical offices have the mandate and financial resources to decide on their sector’s PSE. IPs have fixed contracts with USAID that define PSE in the terms of reference/scope of work (SOW). Some of the USAID/Indonesia projects interviewed—for example, ICED II or JALIN—have already incorporated into their SOW a market systems development approach requiring clear PSE. It was mentioned (Section 3.1) that the five USAID PSE projects reviewed by the PSLA team seem to be relatively small. There seems to be untapped potential for scale-up or replication where the projects may benefit from support from experienced private sector/business development specialists and

USAID in-house support from the Alliance Builders team. The meetings with USAID CORs/AORs and representatives from IPs of ongoing USAID PSE projects showed that even though they already engage with the private sector, it may be useful for them to:

- Have a point of contact that can help them to sort out which of the private sector requests they receive are worth following up on; and/or
- Work with them on value propositions and business models to pro-actively seek collaboration with private sector stakeholders

A strategic decision on the future role of the Alliance Builders within USAID/Indonesia is recommended on whether they should maintain their advocacy role or take on a business developer role. Given the size of the country, the intensity of USAID/Indonesia's engagement, and the opportunities for USAID/Indonesia and the private sector seeking to achieve development outcomes and core business advancement, USAID/Indonesia would benefit from having a dedicated business services support unit or competence center for PSE. This unit/competence center would need to be equipped with additional human and financial resources, and be mandated to:

- Pro-actively pursue the private sector with value propositions and business models;
- Pro-actively approach ongoing USAID projects' IPs and work with them on more scalable private sector partnerships and identifying private finance;
- Serve as a point of contact for PSE troubleshooting for technical offices and USAID/Indonesia projects; and
- Serve with strategic orientation, for example, by helping technical offices and ongoing projects with a portfolio check.

USAID/Indonesia may wish to consider the following steps:

- **Within the next 6 months:** Equip the current Alliance Builders team with the financial resources (US\$2-3 million) and the mandate to pro-actively pursue PSE, including with a focus on developing value propositions and business models, and pro-actively approaching USAID IPs to work with them on more scalable private sector partnerships and identifying private finance. An experienced private sector/business development/finance specialist could be made available to IPs to coach them and augment the team's capabilities.
- **Within the next 6-12 months:** Take a strategic decision on whether a unit/competence center will be established and allocate the required human and financial resources to it. It will be important for this unit/competence center to be agile and able to attract experienced private sector/business development/finance specialists as part of the team. These specialists should have credibility with the private sector and also be able to help train USAID staff.

Recommendation 3: Actively engage with the private sector, while programming the CDCS 2021-2025

The half-day AmCham workshop that was part of the PSLA field research showed benefits beyond data collection. The focus group discussions (FGDs) on the three sectors—education, environment and health—and the panel discussion enabled representatives from the private sector, USAID/Indonesia projects and representatives of USAID/Indonesia to directly clarify expectations on what would be the role(s) of a private sector partners, and the role of USAID/Indonesia in market-based approaches to address development challenges.

It was among the recommendations in the COR/AOR online survey and also a recommendation from the PSLA team that USAID/Indonesia continues to keep in touch and holds a couple of FGDs with the private sector, industry associations and chambers while programming the CDCS 2021-2025 to obtain feedback on:

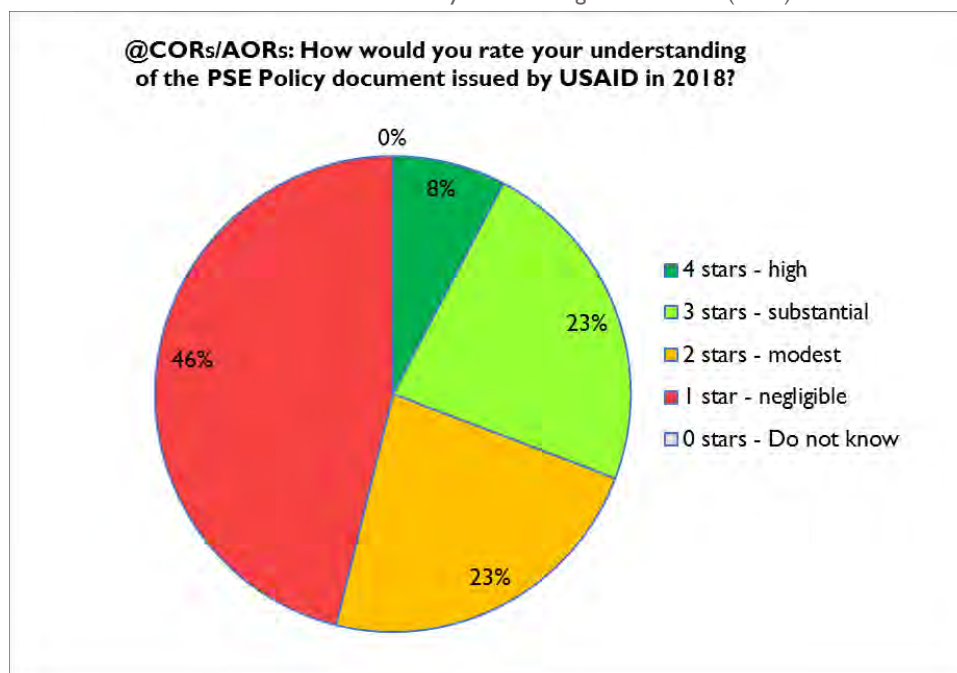
- Potential business models of new partnerships of USAID/Indonesia with the private sector, and the role of the private sector envisaged in the CDCS to address the SDGs;
- Potential provision of financial and non-financial resources for a particular initiative; and
- What is in it for the private sector? How to make sure the private sector is engaged and remains committed?

4.2. SHORT- TO MEDIUM-TERM RECOMMENDATIONS

Recommendation 4: Equip staff from USAID/Indonesia (technical offices) in what PSE actually means

FIGURE 11. HOW CORs/AORs RATE THEIR UNDERSTANDING OF THE 2018 USAID PSE POLICY

Source: PSLA online survey 2019 among CORs/AORs (n=13)

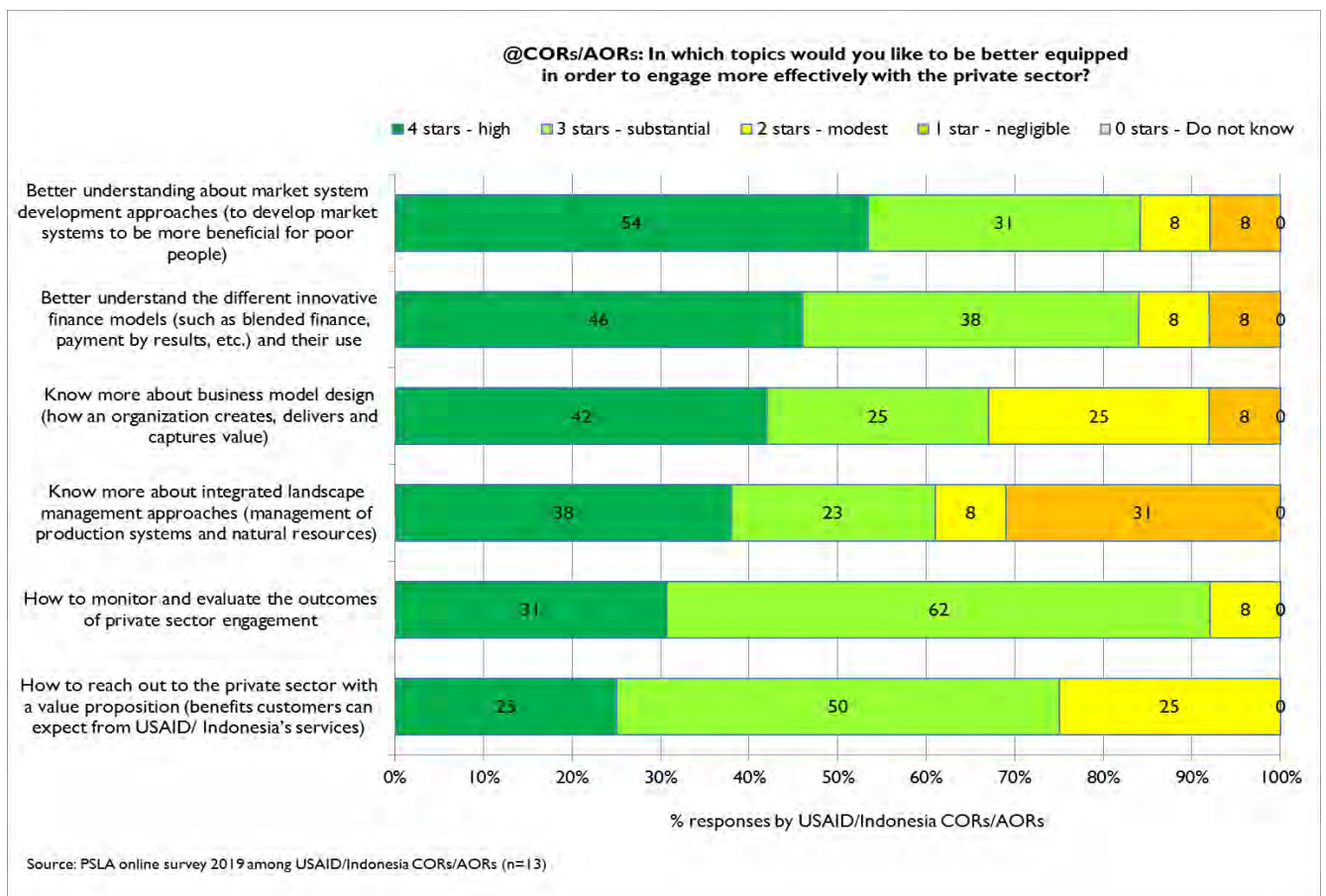


In the CORs/AORs online survey, 85 percent of respondents rated their competence in PSE as modest or negligible. Sixty-nine percent rated their understanding of the 2018 USAID PSE Policy as modest or negligible (Figure 11). The next steps are recommended based on comments received and those topics in which respondents would like to be better equipped.

- To have practical guidelines to help them as CORs/AORs to play their role in PSE. The guidelines should be short and easy to understand. It is recommended to work with a communication specialist.
- To equip CORs/AORs with online and practical training sessions and send them into companies:

- Online modules to be prepared at own pace prior to practical training.
 - Presentations and practical training with practitioners in business development/market systems development⁵² and innovative finance.⁵³
 - Sending CORs/AORs at regular intervals (for example, twice a year for two weeks) into companies and private financial institutions to understand their core business issues around business development, sustainability and achieving impact.
- Topics they are most interested in are ranked in Figure 12. Most of the topics meet a high or substantial interest by the CORs/AORs. The top three are to have a better understanding of: (i) market systems development approaches; (ii) different innovative finance models; and (iii) business model design. The topic “How to monitor and evaluate the outcomes of PSE?” has the highest share of “substantial” and “high interest” ratings combined, at 92 percent.

FIGURE 12. TOPICS IN WHICH CORs/AORs WOULD LIKE TO BE BETTER EQUIPPED FOR PSE



⁵² For example, from one of the USAID projects reviewed during this PSLA: Hidayat Al Banjari, PSE Advisor from USAID APIK project; Goetz Ebbecke, General Manager of AIP-PRISMA on market systems development.

⁵³ For example, contacts from the private finance institutions interviewed during the PSLA; Gottfried Odamtten-Sowah, former head of the Financial Sector Support Unit from USAID FinGAP, Ghana, on pay-for-performance grants to FIs and business advisory service providers to incentivize agricultural value chain financing.

4.3. MEDIUM-TERM RECOMMENDATIONS

Recommendation 5: Allocate budget resources to socialize the private sector with USAID/Indonesia's CDCS

Private sector stakeholders that had not yet worked with USAID interviewed during the PSLA were often not familiar with USAID. There was a suggestion in the online survey to socialize USAID/Indonesia's CDCS and activities to the private sector.

Once the new CDCS is prepared, it is recommended that USAID/Indonesia increases its participation in the events of industry associations, chambers or marketplaces, for example, trade fairs, and for USAID/Indonesia to directly engage with the private sector to raise awareness of what USAID/Indonesia can offer. These events should be used to identify potential private sector partners with which USAID/Indonesia can engage. Such an effort, however, will require that a professional follow-up system is put in place to avoid raising expectations with no serious follow up.

There should also be more social media communication in engaging with the private sector, business matching events, workshops on value proposition and business model design with the private sector.

Recommendation 6: Consider having fewer, but larger-sized and longer-termed flagship projects with systematic approaches

For a more strategic PSE, the next CDCS should consider projects with higher budget allocations and longer durations than the five projects reviewed as part of this PSLA. For example, this could be incorporated into project design with two phases each of five years' duration, with a smooth transition to phase 2 if phase 1 proves successful. Consideration should be given to having fewer, but larger-sized flagship projects (Annex 8 has an example). Systematic approaches with market-based solutions that aim for scale, enabling flexibility, allowing for more risk-taking and the acceptance of failure, are recommended for USAID/Indonesia. This is to increase the scale of contributions to development outcomes, increase recognition of USAID/Indonesia and reduce the administrative effort for USAID/Indonesia compared with the effort needed when overseeing multiple small projects of various IPs. For example, based on local political economies, this could mean facilitating a better match between demand and supply sides, applying an integrated landscape management approach and applying a market systems development approach or facilitating supply chains/value chains.

Recommendation 7: Make Requests for Proposals (RFPs) and contracts with IPs more flexible and include incentives/disincentives

USAID/Indonesia's PSE is mostly through the IPs of USAID projects. PSE needs flexibility on the side of the IP and the donor (Annex 7 has an example of how flexibility can be incorporated into project design). Scale, resources and competencies of the private sector need to be leveraged for USAID/Indonesia and the IPs through channels that provide flexibility to both. This can be in terms of: allowing a flexible sector and geography combination; a fixed share of project budget allocated for PSE, enabling the IP to follow up on potential collaboration opportunities arising at any point during the project; sufficient and experienced PSE staff in projects; and incorporating performance-based pay elements into IP contracts that incentivize them to pursue market-based, scalable opportunities with the private sector, with the awareness of risk and the potential of failure in some opportunities.

For USAID/Indonesia and future Requests for Proposals (RFPs), this could mean a requirement for enough PSE advisors/business consultants as key personnel inside USAID/Indonesia and in projects. This will require people who have a strong business development background, and private sector

and financing skills. It also requires people who are pro-active, agile and ready to persistently follow up with private sector partners, and potential new partners that have clear value propositions and have business cases that are based on high-quality market studies prepared by USAID/Indonesia and/or the project themselves.

Key performance indicators (KPIs) capturing PSE in a more outcome-based manner should be incorporated into IP contracts.

Recommendation 8: Focus on filling the key gap in development-related finance

USAID/Indonesia should work with public and private finance institutions on blended finance mechanisms. These should aim to fill the key gap in development-related finance that was displayed in Section 3.3.1 for smaller investments with perceivably higher risk and a long-term horizon until financial returns are achievable. This gap will need to be filled if USAID/Indonesia is to address some key investment needs in complex development collaborations.

Recommendation 9: Engage with regional impact investors

In relation to the USAID PSE Policy to transition engagement toward private sector-led market solutions and investments for development initiatives, the case for social impact investors and their role in helping Indonesian social enterprises and SMEs should be considered.⁵⁴ Supporting SMEs should be the next step for USAID/Indonesia. This can be done in partnership with impact investors willing to invest patient equity finance to create a for-profit business with measurable social outcomes, and that intentionally and primarily addresses the social needs of the poor and marginalized. USAID/Indonesia may consider engaging regional impact investors that are already investing in various social enterprise models in Indonesia to create better job opportunities that are relevant to the local context.

In combination with engaging more impact investors, more activities with the Development Credit Authority (DCA) are also needed to provide loan guarantee schemes to encourage local banks to lend to SMEs. These could be up to about US\$5 million per ticket size to allow municipal banks to serve SMEs better.

Recommendation 10: Clearly elucidate five key value propositions that USAID offers

The five key value propositions that USAID offers are: (i) strong in-country networks and relationships; (ii) support to strengthen enabling environments; (iii) sectoral expertise and knowledge; (iv) risk-mitigation and flexible authorities; and (v) reputation and credible convening power.

One of the five key value propositions, “USAID offers support to strengthen the enabling environments,” is a key area in which it is recommended that USAID/Indonesia plays a stronger role. There should be a business enabling environment function inside USAID/Indonesia for advocacy

⁵⁴ Transformational Business Network, Social Impact Investing: New Agenda in Fighting Poverty, 2017: Indonesian social enterprises are categorized into four types: 1. Entrepreneurial Non-Profit Organization (NPO)” model, 2. “Social Cooperative” (SC) model, 3. “Community Development Enterprise” (CDE) model, 4. “Social Business” (SB) model.

support to the private sector in policy dialogue, and engaging with business networks and platforms, instead of leaving this work to the individual projects. (This is connected to Recommendation 2.)

Another key value proposition that USAID/Indonesia is recommended to work on is “USAID offers sector risk mitigation and flexible authorities.” De-risking of investments is one of the key roles in potential collaboration opportunities identified during the field research.

It is also recommended that USAID/Indonesia increases capacities in sector expertise and knowledge, not from a technical specialist’s perspective but from a PSE perspective, for example, with high-quality market studies, and approaching the private sector with clear value propositions and business cases.

It is recommended that USAID/Indonesia improves its presence in existing in-country networks relevant for advocacy support to the private sector. (This is connected to Recommendation 5.)

ANNEX I: PSLA SCOPE OF WORK

I. INTRODUCTION

Indonesia is a lower middle-income country with robust private sector potential to increase inclusive economic growth across all major sectors of the economy. While blessed with an abundance of natural resources and a large young population, Indonesia's labor productivity, educational quality, provision of critical infrastructure and social services, environmental protection, and corruption, challenge the nation's further development. The Government of Indonesia (GOI) is working to address a number of these challenges and realizes that the private sector has a significant role to play to improve national self-reliance.

USAID/Indonesia has numerous Private Sector Engagements (PSE) and public-private alliance experience in selected sectors (e.g. education, health, terrestrial and marine natural resource management, renewable energy, water and sanitation, high-value horticultural product value chains). The Mission is looking to leverage this experience by implementing the new Agency PSE Policy to develop a PSE-focused action plan that catalyzes market-based solutions that will result in long-term development impact in Indonesia.

2. ASSESSMENT PURPOSE AND INTENDED USE

The purpose of the PSLA is to inform the new USAID/Indonesia CDCS (FYs 2021-2025) on action-oriented recommendations for PSE approaches/activities in the new CDCS based on lessons learned from the Mission's current program portfolio, an Indonesia focused literature review, and insights gained from key stakeholders.

Although USAID/Indonesia has been engaging the private sector in a variety of activities, a better understanding of the overarching business climate for domestic and foreign enterprises operating in selected focus sectors and determining where USAID has a comparative advantage for fostering private sector growth, will bolster the Mission's future strategy and activity design. Therefore, the Mission will conduct a Private Sector Landscape Assessment (PSLA) to provide a foundation for incorporating PSE into the forthcoming Mission Country Development Country Strategy (CDCS) and to help fuel Indonesia's journey to self-reliance.

USAID/Indonesia PSE initiatives for FYs 2021-2025 will be cross-sectoral and likely focus on three main sectors, Education (higher education research and workforce development), Environment (WASH, advanced energy, marine & terrestrial management, climate adaptation), and Health (maternal and child health, TB & HIV, health system & financial management strengthening). In addition to these sectors, the Mission will delve into two main themes on anti-corruption and financing to define private sector roles to fight corruption as well as private sources of finance to fuel development initiatives.

The Mission is engaging the private sector to build self-reliance at strategic and tactical levels to support Indonesia's future growth. Through USAID's efforts to de-risk, scale and crowd in private sector support to development programming, it is hoped that USAID support will tip the scale towards sustainable market-based solutions that may not have been possible without USAID's strategic assistance. Thus, the PSLA will be designed to identify both macro and micro level insights and sources of private non-USG financing that USAID/Indonesia will use to ensure that PSE approaches and opportunities are mainstreamed in the new CDCS.

3. ASSESSMENT QUESTIONS

The following questions should be answered by the assessment:

Phase I: Private Sector Landscape Analysis

1. **What is our experience?** Based on a literature of USAID/Indonesia programming, what USAID/Indonesia activities and respective private sector engagements have been most effective? Which modalities have not been satisfactory in terms of efficiency and development impact?
2. **What is out there?**⁵⁵ Based on a literature review, where does USAID have the most potential to partner with the private sector and in what type of activity within the focus sub-sectors?
3. **What are we missing?** Based on a literature review, what sub-sectors has USAID/Indonesia overlooked or not sufficiently engaged in order to maximize private sector expertise for development initiatives?
4. **What are the legal/regulatory barriers and opportunities?** Based on a literature review, what are the high-level legal/regulatory barriers preventing private sector participation or growth in the focus sub-sectors? What legal/regulatory issues (progressive government initiatives, investment incentives, government procurements) open opportunities to private sector participation in the focus sub-sectors? How does corruption impact private sector activities within focus sub-sectors?

Phase II: Private Finance Deep Dive

5. **What private money is out there?** Based on a literature review and bolstered by financial industry stakeholder interviews, what sources of financing exist in Indonesia that offer potential to increase USAID private sector engagement, including blue & green bonds, PT SMI, SDG Indonesia One, impact investment funds, and others?

Phase III: Conclusions and Recommendations

6. **Where can we most effectively engage?** Within selected sub-sectors, as informed by the literature review and stakeholder interviews, where should USAID/Indonesia focus within the identified sub-sectors to most substantially maximize private sector expertise to support development programming? How can USAID/Indonesia align the CDCS within the flow of private financing to focus sub-sectors?
7. **How can we engage?** After identifying priority focus engagements, what modalities and business models can USAID/Indonesia deploy to leverage and enable greater private sector investment? Programming opportunities should be analyzed against the possible sources of private funding identified during the desk review.
8. **Who can we cooperate with?** Who are the key private sector stakeholders that USAID should engage within the priority focus engagements? What does USAID/Indonesia need to do

⁵⁵ Questions 2, 3 and 4 will be based mostly on a literature review, but should be supplemented by later stakeholder interviews

to encourage private sector participation and what type of partnership models can support scalable private sector engagements?

Questions that may help to focus the assessment's research methodology are included in Annex A.

4. ANALYSIS METHODOLOGY

Over the first two weeks following the launch of this Assessment, the team will hold initial briefings with the USAID PSE Team and complete a Team Planning Meeting (TPM) process, at the end of which the team will submit a detailed work plan for completing this SOW, answering the questions detailed above, and confirming how the implementation team will cooperate with the USAID PSE representatives. The work plan will include the assessment methodology, analytical framework, implementation timeline, and list of information sources and interview targets at the national and subnational levels. The work plan, to be developed within two weeks of assessment's launch, will include the following components and implementation steps:

- Catalogue the sources of information (including analyses, surveys, project reports, et al.) that the team expects will inform the assessment. USAID will assist the team in obtaining studies and reports prepared by USAID, its relevant implementing partners (IPs), and other donors.
- Conduct a literature review of pertinent documents. This should include an inventory of USAID/Indonesia's experience in private sector engagement and the lessons learned from this experience, including the private sector case studies produced by IPs (2018).
- Inventory private funding sources and modalities in Indonesia that can be used to support private sector engagement.
- Conduct a survey of a select group of USAID AORs/CORs and IPs to identify PSE engagement opportunities and constraints.
- Develop a list of interviews to be held with key private sector companies, associations and stakeholders in Jakarta and other provinces. Interviews should be very focused on the private sector or related to private sector engagements. Interviews with GOI, think tanks, research institutes, other donors and multilateral organizations may be acceptable, but they should not be the focus of this study. The PSLA team will be expected to develop a list of key contacts and provide the list to USAID/Indonesia.
 - Interviews with private finance organizations in the areas of blue & green bonds, impact investment, and PT SMI on SDG Indonesia One will be critical to this study.
- Develop a detailed itinerary and management plan for visits to provinces and districts outside Jakarta.
- Create detailed questionnaires/interview protocols for stakeholder interviews.
- Meet with USAID implementing partners (contractors, grantees, private sector partners) and cooperate with USAID PSE Team. The USAID PSE Team will assist with identifying necessary partner contacts.
- Hold discussions in Jakarta and selected provincial/district sites with identified key stakeholders, combining one-on-one interviews and group discussions, as appropriate.
- Conduct analysis and present to USAID in a workshop discussion format
- Develop recommendations.

The work plan analytical framework will identify sources of information (documents, partner contacts, stakeholder contact, site visits, et al.), that the Assessment team requires in order to complete the analysis. USAID will help furnish relevant USAID/Indonesia documents and facilitate some contacts. The consulting team should suggest other documents and contacts for the literature review and stakeholder interviews.

5. ASSESSMENT SCHEDULING AND TIMELINE

The PSLA is tentatively scheduled to take place starting in o/a June 2019, contingent on availability of team members. An illustrative implementation timeline is presented in the table below. A final timeline will be included in the Work Plan to be submitted to USAID.

Illustrative PSLA Timeline

Task / Deliverable	Week																
	1	2	3	4	5	6	7	8	9	10	11	12	15	16	17		
Launch; TPM, Work Plan development; desk research	X																
Desk research: document review and interviews w/ USAID and Jakarta sources	X	X	X	X													
TPM: Present desk review & refine methodology and focus fieldwork based on desk review (Jakarta)				X	X												
Key informant interviews and field visits selected					X	X	X	X	X								
Findings consolidation & analysis; Out-brief presentation									X	X							
Draft report – produce and submit (2 weeks for USAID review)											X	X	X				
Revision and submission of Final Report, based on USAID inputs														X	X		

6. DELIVERABLES

Required deliverables under this SOW, including estimated due dates, are presented below.

Deliverable	Estimated Completion Date
1. Initial PSLA Work Plan, including analytical framework and a focus on desk review structure	End of week 2
2. A desk review research document that presents USAID PSE and highlights lessons.	Week 4/5
3. Presentation of PSLA desk review research findings and refinement of methodology and assignment work plan	Week 5/6
4. Presentation of major findings following completion of field work and stakeholder interviews	Week 9/12
5. Draft PSLA Report	Week 10
6. Final PSLA Report	Week 17

PSLA Desk Review. The report will contain the following main sections answering the Assessment Questions: a) Private Sector Landscape Assessment; b) Private Finance Deep Dive; and c) Conclusions and Recommendations.

Information will be collected through a desk study review, through an on-line survey administered to USAID CORs and AORs and select IP staff, and bolstered by stakeholder interviews.

PSLA Assessment Report. The Assessment team will submit to USAID a Private Sector Landscape Assessment Report in no more than 50 pages, not including annexes and including an Executive Summary. The Assessment Report will compile findings from the document review, key informant interviews and group discussions in Jakarta and the provinces, and discussions with USAID, IPs, and other PSE stakeholders.

A draft of the report and PowerPoint slides from any requested presentations will be submitted to USAID/Indonesia for internal reviews prior to delivery, per the implementation timeline in the Work Plan. The USAID PSE Team and USAID MESP COR will review drafts within five working days and provide comments to the team, which will then finalize the report and briefing materials per the Work Plan schedule.

In order to be deemed acceptable, the draft and final assessment reports must include the elements listed below. In addition, the Assessment team must adequately address all significant comments raised by USAID/Indonesia during review of the draft report. The final approved Assessment Report will be a public document to be submitted to the Development Experience Clearinghouse (www.dec.org) (DEC) following the required format provided by USAID.

The Private Sector Landscape Assessment Report will include the following general sections:

- Summary information on PSE activities in Indonesia, major constraints, challenges and opportunities that could support PSE initiatives
- Indonesia Private Sector profile in each target sector and legal/regulatory barriers and opportunities, including criteria that are likely critical for developing future PSE activities.
- Identification of private sector engagement opportunities matched with funding sources and opportunities and programming modalities and business models
- Identification of possible private sector partners with relevant partnership interest and contact information.
- Implications for USAID Programming, including strategic and programmatic recommendations.
- Annex: Bibliography of sources consulted, including interviews, focus groups, and others.
- Annex: Quantitative data collected, including notes from informant interviews and FGDs.

The PSL Assessment Report and all deliverables will be drafted and submitted in English. All deliverables will be provided electronically to USAID no later than the dates indicated in the approved Work Plan. Any debriefs will include a formal presentation with slides delivered both electronically and in hard copy for all attendees.

7. ASSESSMENT TEAM COMPOSITION

To conduct this Assessment, MESP will provide a team of two experts, as below:

- Team Leader, international
- PSE specialists or Economist (1), Indonesian
- Research Assistant

The Team Leader and PS Specialists should possess significant knowledge of the private sector dynamics in Indonesia, an understanding of private financing for development trends, and have skills in private sector development, economics, and/or sectors relevant to USAID’s priority objectives in Indonesia. They should also have strong presentation and writing skills. All team members must have the ability to translate analysis into actionable strategic and operational recommendations, consistent with USAID policies and processes for country-level strategic planning. These team members will be expected to establish a working relationship and coordination process with the Mission PSE Team.

The Team Leader should possess the following specific qualifications:

- A Master’s degree in economics, business administration, economic policy, finance, trade, import and export, private sector development, international development, or a related field.
- At least 10 years of relevant professional experience in coordinating economic development, private sector development, finance or business is required.
- Prior working experience with international organizations or donor agency is required.
- Demonstrated record of working on private sector assessment or other economic growth-related assessments for USAID covering national and subnational levels, with prior experience in Indonesia strongly preferred.
- Expertise in one or more of the core technical areas of the USAID/Indonesia portfolio: Education, Environment, and Health.
- Excellent English writing and editing skills and communication/interview skills for the presentation and stakeholder discussions, as well as an ability to take information from a wide variety of sources and draft clear, succinct, high-level analysis and reports for general dissemination.

8. MANAGEMENT

The PSL Assessment will be led by the Team Leader provided through MESP, working hand-in-hand with other team members, and in full coordination with the USAID PSE Team.

Throughout information collection and report writing, the assigned MESP PSLA manager will be the main client contact for MESP consultants. In this role, the MESP PSLA manager will provide strategic and material advice, arrange meetings with USAID/Indonesia staff and relevant IPs, and forward relevant contacts for private sector stakeholder interviews. The MESP PSLA manager may accompany the Assessment team on site visits and interviews, as available and appropriate.

MESP PSLA Manager will work with USAID PSE Team to schedule an in-briefing to the Mission prior to commencing the work and will provide debriefings on a schedule determined by the PSLA Manager and incorporated into the Assessment Work Plan. MESP will keep USAID apprised of changes or developments that necessitate any significant decision-making or modification of the Assessment SOW or Work Plan.

The USAID PSE Team will provide USAID documents and background materials for review. This document review and the Assessment Report drafting at the end of the SOW period can be done off-site as appropriate. The Indonesia-based Assessment team members must be available for a half-day presentation of preliminary or final findings and recommendations as requested by USAID.

MESP will support the Assessment team members with setting and confirming meetings, arranging travel and accommodations, and other general facility and logistic support.

9. BUDGET

A summary budget will be submitted to USAID for review following agreement of this SOW.

ANNEX A: QUESTIONS TO GUIDE RESEARCH

The PSLA will explore the following three sectors and two general themes aimed at helping discern how PSE can complement or enhance USAID/Indonesia CDCS:

The PSLA aims to achieve the following sub-objectives:

- Review and summarize relevant USAID/Indonesia private sector engagements, with a focus on what worked well and what did not work well.
- Analyze the current private sector landscape and market activity in each target sector, building on existing assessments and the Mission's PSE Strategy and exploring themes such as key business interests, strategies, operations, and challenges/constraints.
- Identify aligned interests between USAID/Indonesia and private sector actors, and explore whether and how private sector networks, technical expertise, and resources (financial, operational, and human capital) might enhance the development impact of the Mission's programming.
- Identify private sector entities (associations, companies, investors, private foundations and philanthropies) likely to prove critical for developing future PSE activities, and propose preferred engagement models. This will focus on a wide range of potential private sector partners, including multinational corporations, American and Indonesian companies, SMEs, social enterprises, financial institutions, investment funds, impact investors, and NGOs with potential to transition their service provision towards social enterprise models.
- Identify key GOI entry points and/or platforms for PSE.
- Identify private non-USG sources of financing and provide suggestions on how to leverage.
- Determine in which specific industrial or service sub-sectors USAID support would most positively impact female workers.
- Prioritize collaboration opportunities with relevant actors based on potential impact, feasibility, aligned interests, and the degree to which the collaboration will involve a market-based approach and/or enterprise-led solution.
- Develop recommendations for potential partnership models/approaches that USAID/Indonesia may consider with a broader strategic lens, as well as recommendations on pursuing specific, concrete opportunities.

To accomplish the objectives detailed above, the PSLA will answer the following core questions:

1. How has USAID/Indonesia previously approached PSE? What has been or can be learned from those approaches? What opportunities exist to deepen, expand, and/or take different approaches in the future?
2. Where do private sector interests (i.e. objectives, challenges, operations) align with Mission objectives, especially within the latter's target sectors and geographies?
3. Why would targeted industries/actors want to partner with USAID and/or develop strategic relationships that move beyond ad hoc/'one-off' partnerships?
4. To what degree do these aligned interests present opportunities for enterprise-led solutions to key development challenges?
5. What is the appetite of private sector for committing financial resources and/or in-kind commitments of resources to collaborative efforts that address development challenges?
6. What roles could USAID/Indonesia play in unlocking the potential of the private sector to contribute to development objectives within these areas of opportunity?
7. What types of PSE strategies, interventions, and approaches might the Mission wish to consider deploying within its CDCS and subsequent programs to de-risk, incentivize, and scale private sector investment and action in these areas?

8. What opportunities exist for shared value and/or collective impact partnerships at the Mission or project level? What steps may the Mission take to move these opportunities forward?
9. Where should USAID/Indonesia focus its development objectives in light of what is learned about the private sector's interests, assets, and potential for collaborating around market-based solutions to fuel the nation's journey to self-reliance?
10. Which companies, both local and foreign, in Indonesia share similar values or objectives to USAID focus areas of engagement? Which companies have expressed interest in shared value with development organizations like USAID? Who are the company champions? Who can we learn from? Who is approaching us?
11. What policies support or hinder private sector investment or participation in development activities in Indonesia?
12. Which sectors can USAID support to most positively impact female workers? Which USAID efforts would most significantly contribute to reaching the Women's Global Development and Prosperity initiative goal of improving the lives of 50 million women globally?
13. What private sector sources of financing can be leveraged to further development objectives?
14. How can the private sector leverage GOI and/or other non-USG development financing to address market-based challenges?

In answering the above questions, the PSLA team will assess domestic and foreign enterprises operating at the national and subnational levels, with a focus on companies active in Education, Environment and Health sectors.

ANNEX 2: METHODOLOGY PAPER (SEPERATE DOCUMENT)

ANNEX 3: SOURCE OF INFORMATION

LIST OF KEY INFORMANT INTERVIEWS AND INTERVIEW SCHEDULE

DATE	NAME OF KEY PERSON	POSITION / INSTITUTION
20 Jun 2019	Ella Hoxha	Chief of Party/ USAID Jalin Project
	Kemal Soeriawidjaja	Partnership Director/USAID Jalin Project
	Robin Young	Principal Global Practice Specialist Technical Services/ DAI
	Susan Scribner	Vice President Health System Solutions/ DAI
21 Jun 2019	Sandeep Meharwal	PSM/ Chemonics
24 Jun 2019	Astari Sutjiningtyas	External Relations Manager/ Amcham Indonesia
	Patricia	Office Manager/ Amcham Indonesia
25 Jun 2019	Paul Jeffrey	Chief of Party/ USAID APIK
	Agus Hernadi	Deputy Chief of Party/ USAID APIK
	Hidayatullah Al Banjari	Private Sector Engagement Advisor/ USAID APIK Project
	Yusak Oppusunggu	COR for USAID APIK Project/ USAID Indonesia
28 Jun 2019	Gary Swisher	NCBA - SCAA
1 Jul 2019	Amir Amirrudin	Co-founder/ Investree
	Dickie Widjaja	Chief Information Officer/ Investree
8 Jul 2019	Toto Purwanto	USAID RWAP
	Rolly Damayanti	USAIDYEP
	Heri Haerudin	USAID Mitra Kunci
	Agung Binantoro	USAID Mitra Kunci
	Anugraha D	USAID Mitra Kunci
	Vini	USAID Mitra Kunci
	Devi Roswita	USAID JAPRI
	Nino R.	USAID JAPRI
8 Jul 2019	Ester Manurung	USAID Indonesia
	Vijai Karthik Karunakaran	Director/ Olam Indonesia
	Ramakrishna Prasad	Country Head/ Olam Indonesia
9 Jul 2019	Ir. Imam Suharto, M.Sc	Head of Cocoa Sustainability/ Olam Indonesia
	Justin Snyder	Senior Knowledge Manager/ USAID CEGAH
	Abu Hanifah	Winteq Technical Training Program Lead/ PT Astra Otoparts Tbk – WINTEQ Division
	Luthfi	PT Astra Otoparts Tbk – WINTEQ Division
10 Jul 2019	Adi Sudewa	Aavishkar
	Arladi Mahadi	Director/ KV Asia Capital
	Tantri	Edelman
	Chadd McLisky	Edelman
	Muhammad David	Edelman
11 Jul 2019	Kemal Azis Stamboel	President Commissioner/ BTPN Syariah
	Indira	Private Sector Engagement Specialist/ USAID LESTARI
15 Jul 2019	Stevia	Co-founder/ FeelWell Ceramics
	Tiene Gunawan	Deputy Chief of Party/ USAID SEA

	dr Fajar Wibowo	Chief Operating Officer of Link Medis & Link Sehat/ Awal Bros Hospital Group
	Prof Yos Susanto	Founder/ Awal Bros Hospital Group
16 Jul 2019	Yuana Leksana	Agronomy & NCSE Lead/ Corteva
	Sertac Yeltekin	Chief Operating Officer/ Insitor Partners Pte Ltd
	Valerian Fauvel	Partner/ Insitor Partners Pte Ltd
	Andri Kusandri	Market Access and Government Affairs Director/ Merck Group
17 Jul 2019	Zulfitra Agusta	Senior Manager, Business Development & Innovative Finance/ IDH Trade
	Syerli Neldia	Cargill
	Moenedji Soedargo	Chairman/ GAPKINDO
	Erwin Tunas	Executive Director/ GAPKINDO
18 Jul 2019	Iswandi	Inna Group
	Panca	Masata
	Arianto Mulyadi	General Manager, Corporate Communication & New Business Development/ Indesso
	Stephanie Paquin-Jaloux	Global Lead for Biodiversity/ Firmenich
19 Jul 2019	Laksmi Prasvita	Head of Communication and Public Affairs/ PT Bayer Indonesia and Indonesia; and Indonesia Council for Sustainable Business Development (ICSBD)
	David Dovan	Investment Specialist , Infrastructure Finance Division 2, Private Sector Operations Department/ Asian Development Bank (ADB)
21 Jul 2019	Dr. Surip Mawardi	Head of Agronomist and General Manager/ Starbucks Farmers Support Center
	Tovan	Agronomist/ Starbucks Farmers Support Center
22 Jul 2019	Dr. Surip Mawardi	Head of Agronomist and General Manager/ Starbucks Farmers Support Center
	Tovan	Agronomist/ Starbucks Farmers Support Center
	Nafan	Training Assistant/ Starbucks Farmers Support Center
	Hari	Regional Manager of North Sumatera/ USAID Jalin
	Koen Irianto Uripin	Founder/ PT Naga Kencana
	Moch Moenir	Engineer, President Director/ PT Kampuh Welding School for shipbuilding, heavy industry, steele structure, Surabaya
	Edhie Soedjatmiko	Engineer, Director/ PT Kampuh Welding School for shipbuilding, heavy industry, steele structure, Surabaya
23 Jul 2019	Joko Prabowo	Director/ PT Sumatera Specialty Coffee (SSC)
	Arif Hasibuan	Yayasan Ekosistem Lestari (YEL)
	Hinsa Lamsuhar Lumbantobing	Midwife/ POSKESDES Huta Bulu, Siborongborong
	Helmi Lubis	Head of Operation/ Bank of North Sumatera
	Die Isnawaty	PT. HUMBAHAS BUMI ENERGI. Medan
	Togu Simorangkir	Chairman/ Yayasan Alusi Tao Toba (Boat Learning Center – Kapal Belajar, Farmers Development Center)
	Lenny Danuseputro	Management Director/ PT Intan Seafood/ PT Inti Lautan Fajar Abadi, Pasuruan
	Geerry Kosasih	Director – Processing Plant/ PT Intan Seafood/ PT Inti Lautan Fajar Abadi, Pasuruan
	Eko Budi Agus	Principal/ SMK 3 Buduran, Sidoarjo

	Hery Aprianto	Deputy Principal for HR, Industrial Relations/ SMK 3 Buduran, Sidoarjo
	Ir. Eddy S. Soedjono, Dipl. SE, MSc, PhD	Head of Department/ Institut Teknologi Sepuluh Nopember, Department of Environmental Engineering, Faculty of Civil Engineering and Planning, Surabaya
	Koen Irianto Uripin	Director/ APPSANI
24 Jul 2019	Jumadi Mappanganro	Redaktur/ Tribun Timur News
	Ilul	Journalist/ Tribun Timur News
	Siar Mayasara	Business Development/ Tribun Timur News
	Goetz Ebbecke	CEO/ AIP-PRISMA
25 Jul 2019	Jeami Gumilarsjah	Manager Telokm Multimedia Indonesia/ Makassar Digital Valley
	Aryn	General Manager/ Makassar Digital Valley
	Rini	Public Relations/ Makassar Digital Valley
	dr. Pinka Wijaya	Quality Manager/ RS Awal Bros, Makassar
	dr. Titien Sapang	RS Awal Bros, Makassar
	Mohamad Zuhair	Director/ Kalla Foundation (Yayasan Hadji Kalla)
	Abdul Hakim	Program Division/ Kalla Foundation (Yayasan Hadji Kalla)
	Fahdil Akbar Kurniawan	Project Development Coordinator/ Cargill Cocoa & Chocolate
	Talitha Wibisono	Sustainability Program Manager/ Cargill Cocoa & Chocolate
	Samuel Erikson	Sustainability Monitoring and Evaluation/ Cargill Cocoa & Chocolate
	Priambudi	Communication Unit/ TNP2K
Agi Panjaitan	Private Sector Partnership Coordinator/ TNP2K	
26 Jul 2019	William J. Parente	Chief of Party/ USAID IUWASH PLUS
	Alifah Sri Lestari	Deputy Chief of Party for Programs/ USAID IUWASH PLUS
	Lina Damayanti	Advocacy and Communication Advisor/ Component 4 Team Lead/ USAID IUWASH PLUS
	Benny Djumhana	Water/Sanitation Financing Advisor/ USAID IUWASH PLUS
	Trigeany Linggoatmodjo	COR for USAID IUWASH PLUS Project/ USAID Indonesia
	Endah Sofiani	AOR for USAID IUWASH PLUS Project / USAID Indonesia
	Megan Willis	Sustainability Lead, Asia Pacific/ Cargill Cocoa & Chocolate
29 Jul 2019	Ratri Wuryandari	Head CSR Regional Manager for East Asia & Japan Zone/ Schneider Electric
	Karen Chua	Partnership Manager/ Yara Asia Pte Ltd.
	Kim Huat Low	Regional Director, Emerging Markets/ Yara Asia Pte Ltd.
30 Jul 2019	Afrizal Gindow	Marketing Director/ East West Seed Indonesia
31 Jul 2019	Farida Malawi	Communication and Government Affairs Director/ GSK PT Glaxo Wellcome Indonesia
	Fay Fay Choo	PT Effem (MARS)
2 Aug 2019	Bill Meade	Chief of Party/ USAID ICED II
	Raymond Bona	Deputy Chief of Party/ USAID ICED II
	Dhiah Karsiwulan	Sustainable Finance Program Manager/ USAID ICED II
6 Aug 2019	Mason Tan	CEO/ Garden Impact Investment
8 Aug 2019	Anouj Mehta	Principal Financial Management Specialist/ Asian Development Bank
	Camille Bautista-Laguda	Consultant at ASEAN Infrastructure Fund Ltd/ Asian Development Bank

	Ronell A Bequillo	Consultant/ Asian Development Bank
29 Aug 2019	Ashadi Rawang	Vice President, Team Leader of Loan Syndication and Advisory Division/ PT Sarana Multi Infrastruktur (Persero)
	Ranggasatya Akbar	Senior Manager Structured Finance and Advisory Division/ PT Sarana Multi Infrastruktur (Persero)

DOCUMENTS REVIEWED

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World Bank (2018): Strengthening Competitiveness. Indonesia Economic Quarterly.

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**ANNEX 4: MEETING SUMMARIES FROM INTERVIEWS
(SEPERATE DOCUMENT)**

**ANNEX 5: ONLINE REPORTS FROM COR/AOR AND IP SURVEY
(SEPERATE DOCUMENT)**

**ANNEX 6: MEETING SUMMARY NOTES FROM AMCHAM
WORKSHOP (SEPERATE DOCUMENT)**

ANNEX 7: COMPARATIVE VIEW OF THE SELECTED PROJECTS, BY CATEGORIES OF IMPROVEMENT TO DEVELOPMENT OUTCOMES AND PRIVATE SECTOR CONTRIBUTIONS

	RWAP	APIK	ICED II	SCAA	GHSC – PSM
Full name of USAID project	Ready-to-Work Accelerator Program	Climate Change Adaption and Resilience Program	Indonesia Clean Energy Development Project II	Feed-the-Future Indonesia Sustainable Cooperative Agribusiness Alliance	GDA: Global Health Supply Chain – Procurement and Supply Management (for Indonesia)
Objective	To improve the quality of technical education available to Indonesian students by establishing Centers of Excellence (COEs) and Learning and Innovation Networks (LINs)	To strengthen climate and disaster resilience, adopting an integrated, place-based approach to engage stakeholders from the national, regional, and community levels	To improve the governance of clean energy development in Indonesia, with an emphasis on establishing an effective policy, regulatory and incentive environment for low-emission growth in the energy sector	To improve long-term and sustainable small farmer livelihood opportunities in Eastern Indonesia – focusing on community conservation, local farmer participation and improved rural livelihoods	To improve in strengthening HIV and tuberculosis (TB) commodity supply chains to ensure they are reliable, cost-effective, and meet patient community needs
<i>Improvement to development outcomes</i>	<i>Education sector</i>	<i>Environment sector</i>	<i>Environment sector</i>	<i>Environment sector</i>	<i>Health sector</i>
1. Increased outreach	Product resources: PS partner provided training equipment for vocational facilities	Financial resources: PS partner provides funding Product resources: PS partners provide insurance products, corn seeds, other ag. Inputs	Financial resources: PS partner provides funding	Financial resources from PS for procurement and processing; Product resources: PS partner provided access for farmers to multiple commodities using high-value inputs (seedlings)	Product resources: PS partner purchases and delivers health commodities
2. Improved effectiveness / efficiency	Unique expertise: PS partner designed and developed customized technical curriculum and adding soft skills, and implemented	Unique expertise: PS partners delivered trainings for farm, financial and risk management (crop insurance);	Unique expertise: Partner banks and financial institutions provide “green financing” to the clean energy sector	Unique expertise: PS partners deliver trainings for farm, financial and post-harvest management	Unique expertise: In Indonesia, PS partner provides laboratory supply chain and operational management expertise;
3. Increased sustainability	Market-based solutions: Activated communications forums (FKJP) led by private sectors to match vocational education training curricula with private sector needs; encourage BLKs, LPKs, and community colleges to coordinate their efforts with	Applies landscape approach, APIK works directly with communities and private sector to proactively manage risks, and improve capacity of stakeholders to access, understand and communicate climate information. APIK provides high-quality studies, fact sheets, maps	Applies MSD approach: Works with national and regional government agencies, the national utility (PLN), private sector project developers and suppliers, banks and financial institutions, and other stakeholders in opening the market for renewable energy	Applies value chain approach: The alliance represents major producers, processors, exporters and buyers of high-value crops such as coffee and spices – provides market for beneficiary production; created jobs, benefitting from high-	Market-based solutions: Activated laboratory supply business. Laboratory Network Approach to improve supply chain management of Indonesia’s laboratory networks to realize cost-savings, more efficient and effective

	RWAP	APIK	ICED II	SCAA	GHSC – PSM
	government and industry to improve career prospects of poor and vulnerable youth	as a project to the PS; very committed and well-trained field officers who consistently follow-up with companies.	projects and technologies in Indonesia	value horticultural supply chains existing for decades	services, and have increased testing and treatment accessibility for more patients.
Start-end	03/2017 – 07/2020 (40 months)	12/2017 – 11/2020 (36 months)	05/2015 – 05/2020 (60 months)	01/2017 – 01/2020 (37 months)	01/2017 - ? (ongoing)
Cash contribution of PS (US\$)	not found	12.8 million	756 million (1.54 billion investment leveraged (status 08/2019))	2.05 million (FY 2018)	not found
USAID obligations to PPP (US\$)	2.4 million	5.98 million	17.3 million	2.0 million	not found for overall GHSC-PSM or GHSC-PSM in Indonesia
Beneficiaries (life-of-project target)	6,000 poor and vulnerable youth enrolled in CoE training centers 5,000 poor and vulnerable youth graduated from CoE training centers 1,500 poor and vulnerable youth report increased self-efficacy at the conclusion of USG-assisted training/programming	30,000 people supported to adapt to the effects of climate change or be more resilient to natural disasters 4,000 people using climate information or implementing risk-reducing actions to improve resilience to climate change or natural disasters	5 million people with access to clean energy	Works with over 5,000 smallholder farmers	No targets set for number of people trained (measures, for example, service delivery point stockouts and reporting rates for HIV/AIDS medication)
IP	RTI International	DAI	Tetra Tech ES, Inc	National Cooperative Business Alliance (NCBA CLUSA)	Chemonics International
PS partners	Microsoft Indonesia, Alana Hotel Surakarta, APITU Jawa Tengah, BBI Group, BTPN Syariah Jawa Tengah, Luwes Group, Novotel Surakarta, PT APAC Inti Corpora, PT Panasonic, Yayasan Yatim Mandiri	PT Syngenta, PT ACA Insurance, PT Bank Sultra, PT Cargill Indonesia, Paguyuban Peternak Rakyat Nasional, PT Pertamina TBBM Wayame, PT Pertamina	Clean energy industry, banks and financial institutions, industry associations and professional societies	PT Agri Spice Indonesia, Cooperative Business International (CBI Global), PT CBI Indonesia, McCormick & Company	Arbola Inc., Axios International Inc., IDA Foundation, IBM, IntraHealth International, Kuehne + Nagel Inc., McKinsey & Company, Panagora Group, Population Services International, SGS Nederland B.V., and University Research Co., LLC

ANNEX 8: THE IMPORTANCE OF FLEXIBILITY IN MARKET SYSTEMS DEVELOPMENT APPROACHES

The Australia-Indonesia Partnership Promoting Rural Incomes through Support for Markets in Agriculture (AIP-PRISMA) in Eastern Indonesia is supported by DFAT. Globally it is the largest market systems development program.

Budget allocation: AUD 200 million [AIP-Rural AUD 112 million (2013-18), PRISMA (2019-23) AUD 88 million].

Objective: One million households in six provinces achieve a 30 percent net income increase. This net income increase is defined as coming from a specific activity related to PRISMA.

Importance of flexibility: DFAT has three to four staff who deal only with PRISMA. When PRISMA started, not everybody believed in its market systems development approach. Internal lobbying within the donor organization about the PSE approach is important. Flexibility is required from a donor when having a market system development program such as PRISMA, in terms of **accepting a 20 to 30 percent failure rate of interventions, flexible budgeting, freedom in terms of travel/team size/sectors** that PRISMA wants to address. The market system development approach was already defined in the design document.⁵⁶ Even though PRISMA is limited to the six provinces that both governments have agreed upon, there are ways to reach beyond this, using PRISMA to influence the GOI with its results measurement data.

Adequate team size and competitive salaries as implementation costs: The team has 140-150 people, of which about 100 have business backgrounds and cover six portfolios. The results measurement unit has 15 people and an annual allocation of AUD 1-1.5 million. PRISMA considers salaries to be an implementation cost. Staff receive competitive salaries ranging between development partners-Mercedes-Siemens salaries. PRISMA compares its salaries with a benchmark of about 25 reputed employers in Indonesia.

Adequate training of business consultants: PRISMA business consultants are trained for five weeks through classroom induction. The first batch in 2014 was trained for six to seven months on the job. Staff are trained in how to do market research, business case development, deal making and partnership management.⁵⁷

Success factors of AIP PRISMA's engagement with the private sector:

- The business consultants are not development experts, but instead have business backgrounds.
- Winning trust from the partner, which takes time.
- Understanding the private sector company's pain points through intense market research and showing them business cases in which they can earn money. Initial market research is done by

⁵⁶ AIP-PRISMA Design document (2017): <https://dfat.gov.au/about-us/business-opportunities/Pages/design-document-prisma-2-indonesia.aspx>

⁵⁷ AIP-PRISMA Manual on deal making and relationship management with the private sector (2017). Available on: <https://aip-prisma.or.id>

staff and can only be part of the program. It takes on average between five and nine months until there is a partnership.

- The intermediary business role that PRISMA takes in finding business for private sector companies. PRISMA tries to avoid funding permanent market functions and instead works through the system. PRISMA tries to avoid paying grants to the private sector.

MOUs and partnership agreements with the private sector: PRISMA has MOUs (more administration intensive) and partnership agreements with private sector companies. PRISMA can prepare a contract within two weeks and has staff who do nothing other than deal with the contracts with partners.

Importance of a fast tender process: A fast tender process (ideally, nine months from idea to contract) should occur when a donor wants to work with an implementing partner. There can be a longer process, but if a donor starts working with the private sector this creates expectations of collaboration. Then there should be no gap between the donor's and the implementing partner's work. Ideally, there should no interruption and no new tender between phases of a program. Once there is a contact with the private sector partner, a quick follow-up needs to occur.

Pressure to achieve outreach can undermine programs that strive for market systems development.

Source: Interview with General Manager of AIP-PRISMA, Goetz Ebbecke, July 24, 2019, PSLA. <https://aip-prisma.or.id/en>

ANNEX 9: MATRIX WITH COLOR-CODES FOR FUNCTIONAL STAGES FOR SUSTAINABLE DEVELOPMENT PATHWAYS RELATING TO PSE FOR ALL SUB-SECTORS

Sub-Sector	STAGE 1: ENABLING Enabling Investment from Govt and Donors				STAGE 2: DEVELOPING Asset Investment from Private Sector			STAGE 3: SUSTAINING Continuity of Market-Driven Solutions		
	Policy <i>Legal & Regulatory Framework by GOI</i>	Enforcement <i>Ensuring adherence to Law</i>	Planning <i>Strategic outlook/ planning activities by GOI</i>	Budget <i>Spending by GOI on enabling activities</i>	Expenditure <i>Business development costs</i>	Equity <i>Capital expenditure costs (long-term)</i>	Output <i>for PS entities (more sales /customers/ products)</i>	Maintenance/ Market Driven Solutions <i>Transactions between providers and customers</i>	Expansion/ Uptake <i>Scaling up / replication</i>	User Outcomes <i>Beneficiaries of Interventions</i>
Education	Rp. 492,5 T (20%)									
Workforce Development	200% tax relief for industries that invest in vocational education as part of super deductible tax policy (Industry 4.0 agenda)	No general statement possible	No evidence in planning but Ad Hoc matchmaking between Public TVET and PS is happening	Rp. 16,8 T for vocational education	PS is spending in Public and Private TVET	PS is ready to invest in Private TVET but needs to see Scale-Up potential	TVET graduates with skills mismatch	Need to adopt international vocational skill standards recognized by industry players	Lack of strategic and financial capabilities of Private TVET to scale up	Low readiness level of TVET graduates to work
Higher Education Research	300% tax relief for industries that invest in R&D as part of super deductible tax policy (Industry 4.0 agenda)	No general statement possible	No general statement possible	Rp. 1.0 T	No general statement possible	No general statement possible	No general statement possible	No general statement possible	No general statement possible	No general statement possible

	Already in place, acting as a driver in sector development.
	Drag-on service delivery that require attention.
	Inadequate, acting as barrier to development and a priority for reform.
	Not adequate information to conclude

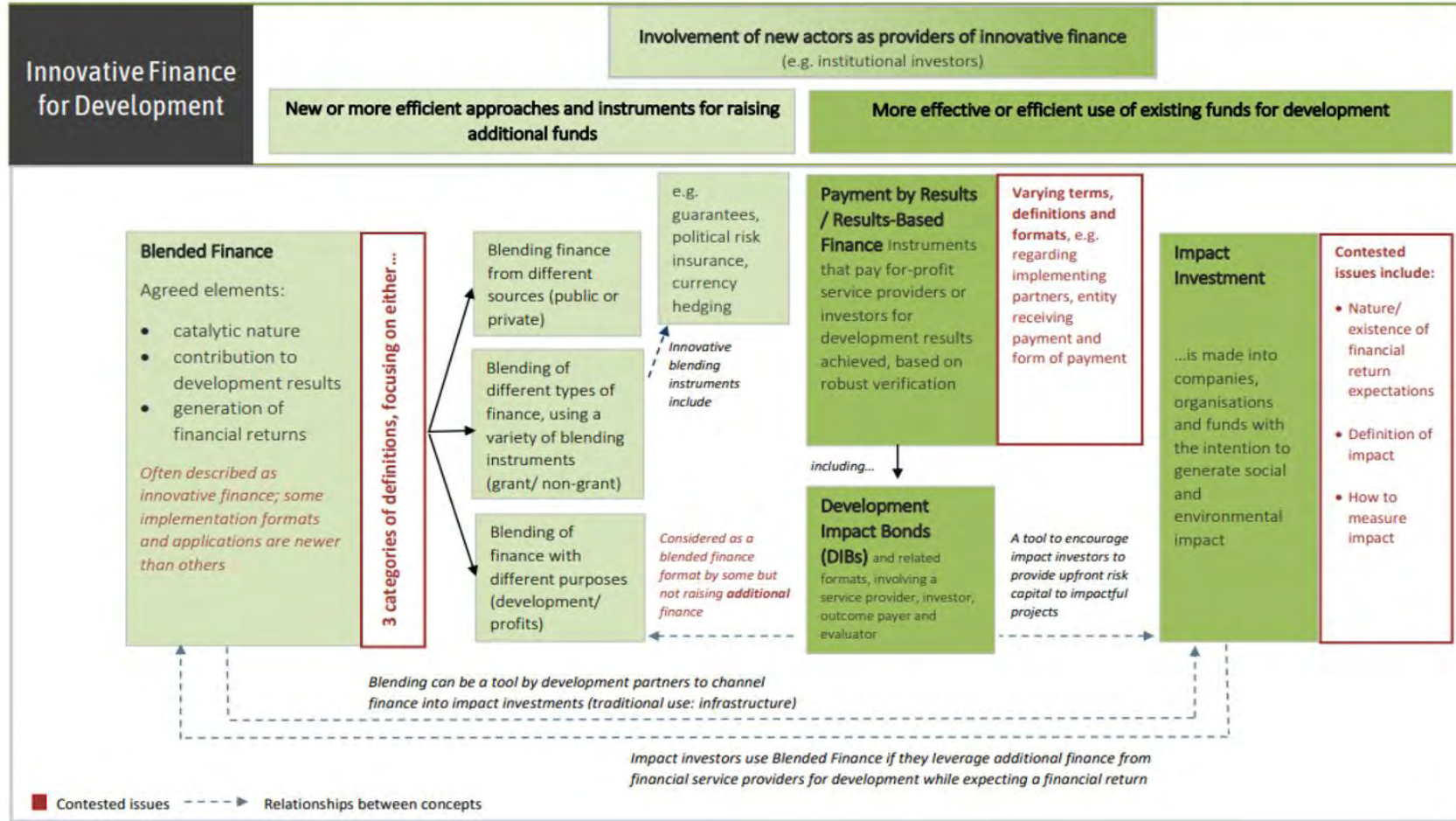
Sub-Sector	STAGE 1: ENABLING Enabling Investment from Govt and Donors				STAGE 2: DEVELOPING Asset Investment from Private Sector			STAGE 3: SUSTAINING Continuity of Market-Driven Solutions		
	Policy	Enforcement	Planning	Budget	Expenditure	Equity	Output	Maintenance/ Market Driven Solutions	Expansion/ Uptake	User Outcomes
Environment	Legal & Regulatory Framework by GOI	Ensuring adherence to Law	Strategic outlook / planning activities by GOI	Spending by GOI on enabling activities	Business development costs	Capital expenditure costs (long-term)	for PS entities (more sales /customers/products)	Transactions between providers and customers	Scaling up / replication	Beneficiaries of interventions
Water, Sanitation and Hygiene (WASH)	No sufficient regulations.	Lack of capacity at local government level and for rural areas	Ad hoc small projects by GOI	Rp. 2.0T (\$140M) for water and Rp. 3.0T (\$210M) for sanitation. Reluctance by GOI to borrow from DFI (repayment). GOI needs to spend more than PS	No general statement possible	There is no proven business model for PS to participate in Sanitation in poor-urban and rural areas	No general statement possible	There is no proven business model for PS to participate in Sanitation in poor-urban and rural areas	Needs access to finance	No general statement possible
Advanced / Renewable Energy	Lack of integrated and coordinated policy. VAT Exemptions on Capex on Renewable Energy. Regulations are mostly directed towards large investment projects in power generation (>10MW) and licensing procedures prevent SMEs to enter.	No general statement possible	23% of electricity supply targeted to come from renewable power generation by 2025. Actual 2% in 2017	Rp. 59.3T (\$4B) . GOI should invest in power distribution network (PLN). GOI spends a lot of fuel subsidy for conventional power generation	VAT Exemptions not clear for PS investors	PS are reluctant to invest in BOOT & PPA schemes (ie. Price ceiling). Lack of dedicated rural electrification finance scheme that is attractive for PS	No general statement possible.	Selling power to the GOI distribution network because of long-term investment	PPA negotiation process is often lengthy and hampers expansion	Rural electrification away from coastal areas
Marine NRM	Overlapping sector policies	Lack of coordination	Lack of integrated marine natural resources planning (Payment for Ecosystem services)	Rp. 0.9T (\$60M). GOI should spend more compared to PS. Financial priority given to TVET in marine and fisheries	Nobody wants to invest in developing Ecosystem services. Expecting PS to bridge the gap	Nobody wants to invest in developing Ecosystem services. Expecting PS to bridge the gap	Not happening. PFES providers and buyers are not there yet	No general statement possible	No general statement possible	No general statement possible
Terrestrial NRM	Overlapping policies between local and central govt.	Lack of capacity and coordination in restoration activities	One Map Policy is not in effect, still using conflicting and outdated maps	Rp. 0.5T (\$35M). GOI should spend more compared to PS	PS only wants to be offtakers and not to invest in agriculture / cultivation. Only want to invest in post-harvest processing for exports	PS unwilling to spend money on developing large commercial agriculture near forests	Stagnant production output in agriculture, which are in high demand globally	Competition by global giants to secure supply from the limited numbers of smallholder farmers	Not happening due to lack of development	Smallholders can be part of Ecosystem service providers and generate income from it

Sub-Sector	STAGE 1: ENABLING Enabling Investment from Govt and Donors				STAGE 2: DEVELOPING Asset Investment from Private Sector			STAGE 3: SUSTAINING Continuity of Market-Driven Solutions		
	Policy <i>Legal & Regulatory Framework by GOI</i>	Enforcement <i>Ensuring adherence to Law</i>	Planning <i>Strategic outlook / planning activities by GOI</i>	Budget <i>Spending by GOI on enabling activities</i>	Expenditure <i>Business development costs</i>	Equity <i>Capital expenditure costs (long-term)</i>	Output <i>for PS entities (more sales /customers/products)</i>	Maintenance/ Market Driven Solutions <i>Transactions between providers and customers</i>	Expansion/ Uptake <i>Scaling up / replication</i>	User Outcomes <i>Beneficiaries of Interventions</i>
High-value Horticultural Product Value Chain	Highly regulated import of agricultural inputs (hybrid seeds, fertilizers). Regulations hampering local farmers to invest. New proposed regulations to attract PS investment.	Import regulations being enforced at Ports of Entry	Smart Farming being planned.	Rp. 29,5T (\$2B) for fertilizer subsidy. Existing GOI agri research centers no longer receive GOI funding	Willing to invest in TVET so that smallholders can grow better crops	PS unwilling to spend money on developing large commercial agriculture near forests	Stagnant production output in horticulture, which are in high demand globally	Competition by global buyers to secure supply from the limited numbers of smallholder farmers	Not happening due to lack of development. Need multi-stakeholder collaboration for scaling up	Smallholders need to diversify income to sustain
Climate Adaptation & Resilience	Several policies by various Ministries / Agencies	Weak coordination between agencies and sub-national jurisdictions	National Action Plan on Climate Change Adaptation	Varies depending on the Sub-Sector. Rp. 120T (\$80M) in 2018*. No clear info about allocation	PS is responding by spending on mitigation activities	PS is setting up mechanism to protect their assets (ie. Crop insurance)	PS expects business continuity	A cross-cutting topic and no general statement can be made	No general statement possible	No general statement possible
Health										
Maternal & Child Health	Policy is in effect to improve service standards	Lack of capacity to enforce	Concentrated in Java and major cities.	Rp. 19.8T(\$1.4B)	The use of online marketplace in relation to midwifery is still in Proof of Concept stage	No general statement possible	No general statement possible	The use of online marketplace in relation to midwifery is still in Proof of Concept stage	No general statement possible	No general statement possible
TB & HIV	Policy is in effect to improve reporting of outbreak but low on treatment	Fastest diagnostic technologies are not used to help enforce the treatment	No planning for national intervention by GOI for TB.	Rp. 2.5T (\$175M) for HIV and Rp. 1.7T (\$120M) for TB. 1 million infected for TB and 4 million infected for HIV p.a.	PS is testing the market with latest tech for TB	PS is testing the market with latest tech for TB	Latest product testing in market is accepted (ie. Diagnostics and treatment methods for TB)	Not happening due to lack of budget allocation to enable market system in TB eradication	Not happening due to lack of budget allocation to enable market system in TB eradication	TB as the highest cause of mortality in Indonesia (1.6 million deaths in 2017)
Health Financial Management System	No information about reform	BPJS mandatory contribution is enforceable only at formal sector	Major cashflow deficit alters planning nationally at Rp. 28T (\$2B). Govt is not keen to use telemedicine to screen patients	Revenue is less than spending by BPJS	Scaling up in second-tier cities. Digitalization	Scaling up in second-tier cities. Digitalization	More customers served in second-tier cities	Govt is not using latest tech innovation to administer public health system	Scaling up in second-tier cities. Digitalization	More effective access to healthcare services

Source: PSLA desk and field research.

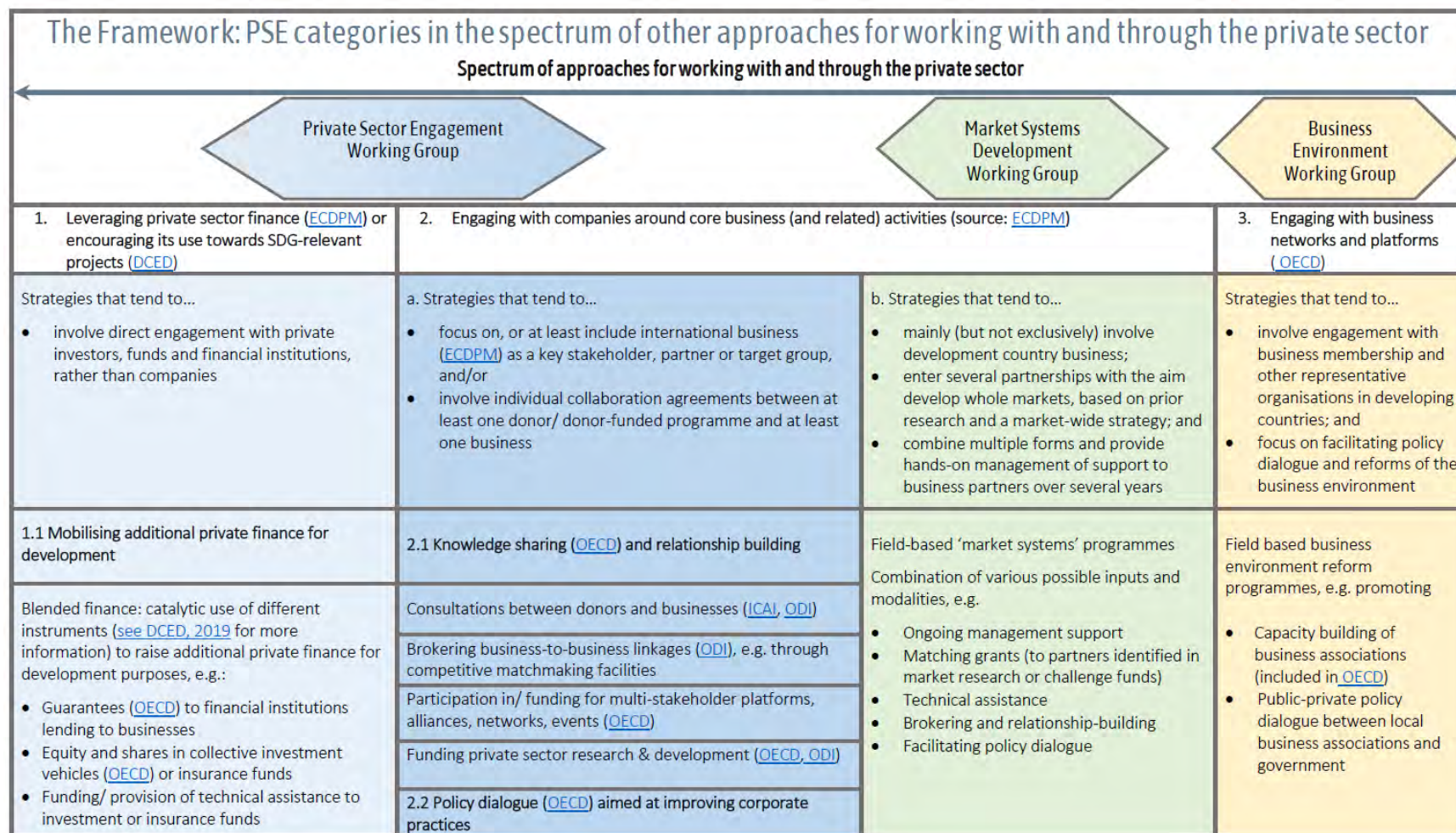
ANNEX 10: DCED SUMMARY GRAPHIC: LEVERAGING PRIVATE FINANCE – ILLUSTRATION OF KEY CONCEPTS AND CONTESTED ISSUES

Note: This graphic illustrates various definitions and contested issues around innovative finance concepts in a simplified way. It is not inclusive of all existing definitions.



Source: DCED (2018): Donor engagement in innovative finance. Opportunities and obstacles, page 5.

ANNEX II: PRIVATE SECTOR ENGAGEMENT CATEGORIES IN THE SPECTRUM OF OTHER APPROACHES OF WORKING WITH AND THROUGH THE PRIVATE SECTOR



Private Sector Engagement Working Group	Market Systems Development Working Group	Business Environment Working Group
	Participation in/ funding of standard-setting multi-stakeholder platforms, cross-sector roundtables etc (OECD) Participation in/ funding of advocacy initiatives (ODI) 2.3 Capacity-building (OECD) Fund/ implement training of company staff to help modify business operations (OECD)	
1.2 Encouraging the use of private finance for SDG-relevant projects	2.4 Technical assistance (OECD) at the pre-investment and investment stage	
Development Impact Bonds and other Payment for Results initiatives that mobilise private pre-financing for SDG-relevant projects, and repay private investors in full upon achievement of results	Matching grants for feasibility studies (OECD), e.g. <ul style="list-style-type: none"> via challenge funds/ competitive facilities; or after co-creation workshops/ consultations with business Funding/ provision of technical assistance (OECD) for the implementation of SDG-relevant projects, e.g. <ul style="list-style-type: none"> via challenge funds/ competitive facilities; or after co-creation workshops/ consultations with business 2.5 Grant funding (OECD) for investment implementation Matching grants/ co-funding for SDG-relevant projects, e.g. <ul style="list-style-type: none"> via challenge funds/ competitive facilities after co-creation workshops/ consultations with business Jointly designed and resourced projects involving one donor, one international business and an implementing partner (sometimes also a local business partner) Jointly designed and resourced programmes with several donors, businesses and one or several implementing organisations, e.g. to develop a commodity or value chain 2.6 Non-grant funding (OECD) for investment implementation Loans (OECD) to businesses, e.g. via challenge funds/ competitive facilities Equity investments (OECD) into businesses, e.g. via challenge funds/ competitive facilities	

Source: Donor Committee for Enterprise Development (DCED) – Private Sector Engagement Working Group (2018): A categorization of private sector engagement strategies and comparison with other approaches for working with and through the private sector.

ANNEX 12: IDENTIFICATION OF PRIVATE SECTOR ENGAGEMENT OPPORTUNITIES MATCHED WITH FUNDING SOURCES AND OPPORTUNITIES AND PROGRAMMING MODALITIES AND BUSINESS MODELS

Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
I. EDUCATION SECTOR		
I.1 WORKFORCE DEVELOPMENT (WFD)		
<p>Private sector demand for skilled workforce in growth industries (for example, shipbuilding) and in what people consume daily (electricity, post-harvest, food processing, food and beverage producing companies)</p> <p>Push for combined, value added skills that fit industry 4.0 (for example, workforce trained in industrial automation/robotics; combined technical and hygiene standards on fish processing)</p> <p>Activities:</p> <p>Scale up of private job training institute (LPKS) and private technical training centers in industry 4.0 for example in shipbuilding and automation</p> <p>Replicate training center for teachers of electricity vocational high schools (SMKs) in electricity, renewable energy and industrial automation</p> <p>Upgrade curriculum of public vocational training centers (BLK) in electricity trades and replication of a renewable energy laboratory where electricity trades can be practiced with new equipment</p> <p>Replicate collaboration model of private sector with SMK in workforce development in post - harvesting and seed planting</p> <p>Financial solution for distributors of off-grid solutions in rural areas</p>	<p>USAID:</p> <p>De-risking mechanism through USAID network for private equity participation in education/ workforce development to help attract more investors and lenders to invest in scaling-up of private TVET providers</p> <p>Supports market studies that are publicly accessible (for example, a market study to identify the need for welders in shipbuilding and to which extent existing TVET institutions in shipbuilding can meet the demand in Indonesia)</p> <p>Supports feasibility studies and business model design that is part of the project preparation for blended finance and belong to the project partners (for example, a feasibility to explore the potential for scale up a private job training institute, the possible locations and the type of specifications the training centers corresponding to the needs of the local shipbuilding industry in that location)</p> <p>Facilitates contact between potential investors interested in investing in scale up of private TVET providers and private TVET providers</p> <p>Facilitates contact of TVET providers with US/ international associations and Indonesian associations to develop and implement set curricula and recognize the certificates issued by the TVET providers (for example, for new welding-related vocations such as welding supervisors, welding inspectors, welding engineers)</p> <p>Facilitates contact of TVET providers with US/ international associations to getting access to testing equipment for the training in the new welding-related vocations</p> <p>Advocacy on standardized prescription for customized electronic control systems, and advocacy for funding for (teacher) training and equipment;</p>	<p>Funding sources:</p> <p>Private equity participation for 5-7 years (PFI-01, 04), for 7-10 years (PFI-03) and for 10+ years (PFI-02) with some de-risking mechanism through USAID network to help attract more investors and lenders</p> <p>Private sector companies contribute their own certified trainers from their private training centers and share their expertise in curriculum setting</p> <p>US/ international associations provide experts/ certified trainers and mobilize equipment for training purposes</p> <p>Indonesian associations collaborate on setting curricula and agreeing on the certificates</p> <p>Companies: provide practical training for the students</p> <p>The GOI runs the SMKs and BLKs</p> <p>Specific opportunities:</p> <p>WFD-01, -02, -03, -04, HVHP-01</p>

Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
	<p>Facilitates that associations set curricula and recognize graduates' certificates from SMKs and BLKs</p> <p>Facilitates that distributors of off-grid solutions in rural areas and financial investors work out a financial solution to finance off-grid solutions</p>	
1.2 HIGHER EDUCATION RESEARCH (HE)		
<p>Push for combined, value added skills that fit industry 4.0 in polytechnics (vocational HEIs)</p> <p>Higher education institutions (HEIs) capacity for innovation and collaboration with private sector</p> <p>It is under discussion to have a key performance indicator (KPI) for researchers from HEIs on the “(social) impact” of their work</p> <p>Activities:</p> <p>Replicate program of a private-sector led vocational higher education institution in other vocational higher education institutions (for example, in public polytechnics in precision tool making technology, manufacturing technology and building construction technology)</p> <p>Replicate centers for collaboration with private sector in knowledge and technology transfer and innovation. There are 80 research HEIs in Indonesia which could replicate a pilot model.</p>	<p>USAID:</p> <p>De-risking mechanism through USAID network for private equity participation in education/ workforce development to help attract more investors and lenders to invest in replication of private vocational HEI model</p> <p>Facilitates contact with US/ International Associations to make sure that recognized international standards are applied in the replication of the training program to public vocational HEIs related to industry 4.0 (for example, in precision tool making technology, manufacturing technology and building construction technology)</p> <p>Facilitates exchange of expertise of HEIs from the United States with successful centers for technology transfer and innovation with Indonesian research HEIs. Technical and financial support to replication.</p>	<p>Funding sources:</p> <p>Private equity participation for 5-7 years (PFI-01, 04), for 7-10 years (PFI-03) and for 10+ years (PFI-02) with some de-risking mechanism through USAID network to help attract more investors and lenders to invest in replication of private vocational HEI</p> <p>Private vocational HEI works with other polytechnics to replicate its program and provide its certified trainers</p> <p>Companies: provide practical training for the students</p> <p>Associations/chambers: Provide theoretical training</p> <p>No funding sources identified for the replication of centers for knowledge and technology transfer and innovation at HEIs.</p> <p>Specific opportunities:</p> <p>HE-01, -02</p>
2. ENVIRONMENT SECTOR		
2.1 TERRESTRIAL NATURAL RESOURCE MANAGEMENT (TNRM)		
<p>Traceable, transparent and responsible natural raw material sourcing</p> <p>Inclusive business through digitalizing of supply chain end-to-end</p>	<p>USAID:</p> <p>De-risking mechanism for individual private sector investments and for multi-stakeholder platforms through USAID network</p>	<p>Funding sources:</p> <p>Private sector companies' investments which want to scale up their core business activities</p>

Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
<p>Securing sustainable supply</p> <p>Activities:</p> <p>Scale up success models of sustainable development (for example, rejuvenation of cocoa plants, nursery business) with smallholder farmers/ micro-collectors</p> <p>Scale up engagement with smallholder farmers of aromatic plants which can be in mixed agro - forestry systems (for example, patchouli, vanilla, citronella)</p> <p>Support cluster development/ multi-stakeholder platforms</p> <p>Promote inclusive business through digitalizing of supply chain end-to-end</p> <p>Adoption of mitigation and community reliance model to address climate change</p> <p>Provide access to agri-inputs, especially fertilizer and planting materials</p> <p>Diversify incomes and support to access other markets for other products</p> <p>Provide access to credit for smallholders and micro-collectors</p>	<p>Works with private sector companies on developing a scale-up model for the existing initiatives using <u>systematic approaches</u> (for example, value chain, market systems development and integrated landscape management approaches) to work with the private sector companies in their core business and through the system</p> <p>Helps explore ways to support multi-stakeholder platforms for sustainable agriculture which organize farmers in clusters, provide training for them and continued assistance.</p> <p>Helps with supporting diversification of farmer revenue through access to markets for other commodities</p> <p>Helps with capacity building in good agriculture practice (GAP)</p> <p>Helps with access to credit for smallholders and micro-collectors</p>	<p>and which do already have existing initiatives which can be scaled up</p> <p>Sustainability linked loan from consortium of financial institutions with interest rates linked to environmental, social and governance metrics</p> <p>Mixture of loan and grant participation for 3-5 years with some de-risking mechanism through USAID network (PFI-09)</p> <p>Specific opportunities:</p> <p>TNRM-01, -02; HVHP-01, -02</p>
<p>2.2 MARINE NATURAL RESOURCE MANAGEMENT (MNRM)</p>		
<p>To have at least one area in Indonesia that is MSC certified through national fishery improvement program</p> <p>MSC price does not match with commercial price</p> <p>Activities:</p> <p>Obtain MSC certification</p> <p>Support cluster development/ multi-stakeholder platforms to enable better coordination with supply chain players</p> <p>Train workforce in combined technical and hygiene standards skills on fish processing (industry 4.0 relevant) (see also workforce development (WFD), in this table)</p>	<p>USAID:</p> <p>Helps with funding for MSC pre-assessment which will be a publicly accessible report, beneficial for all fishery related associations</p> <p>Supports preparation of a marketing research/ strategy to educate US/ international food services/ retailers on buying bigger sized fish from Indonesian exporters</p> <p>Facilitates contact with US/ international associations in food services and retail toward eco-friendly label and work with them toward more sustainable products</p> <p>Helps explore ways to support multi-stakeholder platforms</p>	<p>Funding sources:</p> <p>Private sector companies' own investments</p> <p>Equity participation for 10+ years with some de-risking mechanism through USAID network (PFI-02) to help attract more investors and lenders for a multi-stakeholder platform</p> <p>Indonesian associations collaborate on MSC certification, and setting training curricula and agreeing on the certificates, and collaborate with foreign associations</p>

Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
	<p>De-risking mechanism through USAID network for private equity participation in setting up multi-stakeholder platforms</p> <p>Facilitates knowledge exchange between Indonesian fishery-related associations and Thai and Vietnamese counterparts about food technologies in seafood</p> <p>Facilitates that associations set curricula and recognize certificates</p>	<p>US/ International associations on customer awareness and knowledge exchange about food technologies in seafood</p> <p>Specific opportunities: MNRM-01, WFD-04</p>
2.3 RENEWABLE ENERGY (REN)		
<p>Off-grid renewable energy for the poor and how to accelerate private sector finance into off-grid renewable energy</p> <p>Linking carbon financing and poverty alleviation</p> <p>Activities:</p> <p>Looking for private sector finance to scale up its Renewable Energy Project (off-grid energy for the poor in NTT, NTB, Maluku and Papua)</p> <p>Develop a framework/ business model to convince the private sector to participate in a mechanism linking carbon financing and poverty</p> <p>Replicate training center for teachers of electricity SMKs (Centers of Excellence) in electricity, renewable energy and industrial automation, as well as upgrade of curriculum of BLKs in electricity trades and replicate Renewable Energy Lab (see also workforce development (WFD), in this table)</p>	<p>USAID:</p> <p>Facilitates contact of private investor with TNP2K to scale up its Renewable Energy Project</p> <p>Helps to develop a business model for a mechanism that links carbon financing and poverty alleviation which is attractive to the private sector to participate</p> <p>Facilitates contact with private sector investors in off-grid renewable energy for TNP2K to scale up its Renewable Energy Project</p> <p>Facilitates that distributors of off-grid solutions in rural areas and financial investors work out a financial solution to finance off-grid solutions</p> <p>Advocacy on standardized prescription for customized electronic control systems, and advocacy for funding for (teacher) training and equipment;</p> <p>Facilitates that associations set curricula and recognize graduate certificates from SMKs and BLKs</p>	<p>Funding sources:</p> <p>To be identified. None of the PFIs in Annex 14 covers this.</p> <p>TNP2K, the National Team for the Acceleration of Poverty Reduction, is a public body which wants to develop a business model for a mechanism that links carbon financing and poverty alleviation which is attractive to the private sector to participate.</p> <p>Village fund putting aside own funding for solar energy project of TNP2K.</p> <p>Specific opportunities: REN-01, -02; WFD-03</p>
2.4 WATER AND SANITATION (WATSAN)		
<p>Access to (micro-) credit for construction of latrine systems with septic tanks for community customers. Still 80 - 85 percent of the population are going to have the latrine systems with septic tanks for the next 10-15 years, especially among poor community customers.</p> <p>Law enforcement is a challenge for the implementation of septic tank desludging regulation</p>	<p>USAID:</p> <p>Supports with studies on the sanitation situation in the different locations which are publicly accessible to all WATSAN-related associations</p> <p>Works with association in roll out of one-stop shop model for sanitation management to East Java</p>	<p>Funding sources:</p> <p>Equity participation for 5-7 years (PFI-04) for WASH sub-sector in rural areas and small towns of Indonesia with some de-risking mechanism through USAID network to help attract more investors and lenders</p>

Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
<p>Provision of clean water as the most challenging part of eradicating stunting, because it requires building infrastructure; Access to finance to financing the devices (coming from Indonesian companies)</p> <p>Activities:</p> <p>Scale up/ Roll out of one-stop shop model for latrine systems and sanitation management in East Java</p> <p>Scale up clean water project through private sector finance</p> <p>Build wastewater treatment plants benchmarked with Qatar’s WWTP.</p>	<p>Helps with advocacy among local governments/ health offices on becoming “open-defecation-free districts”</p> <p>Facilitates contact with a private financial institution which provides sanitation loans to poor community customers of association member companies</p> <p>Facilitates contact with private sector investors in access to clean water for villages to finance purchase of devices from companies</p> <p>De-risking mechanism through USAID network for private equity participation</p> <p>Facilitates contact with potential private sector investors in wastewater treatment plants</p>	<p>Association(s) and their member companies roll out the one-stop shop model, based on the sanitation management model and sanitation training</p> <p>TNP2K is looking for private sector finance to scale up its clean water project</p> <p>Village fund putting aside own funding for clean water project of TNP2K</p> <p>A Bank is financing the clean water devices (coming from Indonesian companies) for clean water project of TNP2K</p> <p>Specific opportunities: WATSAN-01, -02, 03</p>

2.5 HIGH-VALUE HORTICULTURAL PRODUCT VALUE CHAINS (HVHP)

<p>Traceable, transparent and responsible natural raw material sourcing</p> <p>Inclusive business through digitalizing of supply chain end-to-end</p> <p>Securing sustainable supply</p> <p>Activities:</p> <p>Scale up success models of sustainable development (for example, rejuvenation of cocoa plants, nursery business) with smallholder farmers/ micro-collectors</p> <p>Scale up engagement with smallholder farmers of aromatic plants which can be in mixed agro - forestry systems (for example, patchouli, vanilla, citronella)</p> <p>Support cluster development/ multi-stakeholder platforms</p> <p>Promote inclusive business through digitalizing of supply chain end-to-end</p> <p>Adoption of mitigation and community reliance model to address climate change</p>	<p>USAID:</p> <p>De-risking mechanism for individual private sector investments and for multi-stakeholder platforms through USAID network</p> <p>Works with private sector companies on developing a scale up model for the existing initiatives using <u>systematic approaches</u> (for example, value chain, market systems development and integrated landscape management approaches) to work with the private sector companies in their core business and through the system</p> <p>Helps explore ways to support multi-stakeholder platforms for sustainable agriculture which organize farmers in clusters, provide training for them and continued assistance</p> <p>Helps with supporting diversification of farmer revenue through access to markets for other commodities</p> <p>Helps with capacity building in good agriculture practice (GAP)</p> <p>Helps with access to credit for smallholders and micro-collectors</p>	<p>Funding sources:</p> <p>Private sector companies’ investments which want to scale up their core business activities and which do already have existing initiatives which can be scaled up</p> <p>Sustainability linked loan from consortium of financial institutions with interest rates linked to environmental, social and governance metrics</p> <p>Mixture of loan and grant participation for 3-5 years with some de-risking mechanism through USAID network (PFI-09)</p> <p>Specific opportunities:</p> <p>HVHP-01, -02; TNRM-01, -02;</p>
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Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
<p>Provide access to agri-inputs, especially fertilizer and planting materials</p> <p>Diversify incomes and support to access other markets for other products</p> <p>Provide access to credit for smallholders and micro-collectors</p>		
3. HEALTH SECTOR		
3.1 PHARMACEUTICALS (PH)		
<p>Mandatory halal certification: Indonesian Ulema Council (MU) as per Oct. 17, 2019, all products which enter, are circulated and traded in Indonesia must be halal certified.</p> <p>90 percent of raw material are still imported from all over the world. – Impact of this halal regulation on people’s access to medicine.</p> <p>The implementation guideline for the industry is still not published yet.</p>	<p>USAID:</p> <p>Advocates through support with White Paper. Have an independent agency write about this issue and voice it to the Government (responsible: Ministry of Law and Human Rights)</p>	<p>Funding sources:</p> <p>Associations and pharmaceutical companies</p> <p>Specific opportunities:</p> <p>PH-01</p>
3.2 TB & HIV		
<p>Activity:</p> <p>Aggregate online content for continuing Medical Education (CME) on TB & HIV, maternal and child health, vaccinology, for medical doctors, nurses, midwives on digital health platform (see <i>health system and financial management below (HSFM)</i>)</p>	<p>USAID:</p> <p>Helps with the development of TOR for content aggregation for the digital health platform for CME contents</p> <p>Helps convene dialogue between digital health platform and associations that CME credit points for online courses are recognized as CME for medical doctors and nurses</p>	<p>Funding sources:</p> <p>USAID funds the TOR for content aggregation for CME</p> <p>Private sector companies provide access to their online-training contents</p> <p>Specific opportunities: HSFM-01</p>
3.3 MATERNAL AND CHILD HEALTH (MCH)		
<p>Activities:</p> <p>Access to finance for midwives</p> <p>Provide early screening for pre-mature baby device</p>	<p>USAID:</p> <p>Facilitates access to finance for midwives</p> <p>Helps to convene between the associations of doctors for newborn health, hospitals, etc. on the availability of the early screening for pre-mature babies</p>	<p>Funding sources:</p> <p>Two private finance institutions are interested to channel USAID funding via their system (PFI-05, -06)</p>

Where can USAID/Indonesia most effectively engage?	Modalities and business models USAID/Indonesia can deploy for greater private sector investment	Funding sources and opportunities (Annexes 13, 14)
<p>Provide access to rota vaccination to reduce mortality rate among newborn</p> <p>Aggregate online content for continuing Medical Education (CME) on TB & HIV, maternal and child health, vaccinology, for medical doctors, nurses, midwives on digital health platform (see <i>health system and financial management below (HSFM)</i>)</p>	<p>Helps to convene between MOH, MOF and Bappenas to have rota vaccine in their priorities, so vaccine can reach the newborn quicker</p> <p>Helps with the development of TOR for content aggregation for the digital health platform for CME contents</p> <p>Helps convene dialogue between digital health platform and associations that CME credit points for online courses are recognized as CME for medical doctors and nurses</p>	<p>Private sector company provides device for early screening for pre-mature babies and could send medical doctors and nurses for training to its competence centers.</p> <p>Private sector companies provide access to their online-training contents</p> <p>USAID funds the TOR for content aggregation for CME</p> <p>Specific opportunities: MCH-01, -02, HSFM-01</p>
3.4 HEALTH SYSTEM & FINANCIAL MANAGEMENT (HSFM)		
<p>Transition to value-based healthcare (VBHC) to improve patient outcomes while reducing costs.</p> <p>Digital health: Diagnostic tele-medicine not allowed by MOH. Very restrictive area for the business to expand farther.</p> <p>Digital health system to make universal health care coverage (BPJS) more efficient</p> <p>Activities:</p> <p>Aggregate online content for Continuing Medical Education (CME) on TB and HIV, maternal and child health, vaccinology, for medical doctors, nurses, midwives on digital health platform</p> <p>Recognize diagnostic tele-medicine on digital health platform for certain diagnostics</p>	<p>USAID:</p> <p>Sets up one info point for USAID health sector where private sector companies which are keen to engage along with development partners can get information what they can do</p> <p>Helps with the development of TOR for content aggregation for the digital health platform for CME contents</p> <p>Helps convene dialogue between digital health platform and associations that CME credit points for online courses are recognized as CME for medical doctors and nurses</p> <p>Supports association advocating for telemedicine with a study on which types of diagnostics can be performed via telemedicine/telenursing model. In the United States, there is a list of diagnostics that can be done via tele-diagnostic.</p>	<p>Funding sources:</p> <p>USAID funds the TOR for content aggregation for CME and for the study on diagnostics via telemedicine/ telenursing model</p> <p>Specific opportunities:</p> <p>HSFM-01</p>

Source: PSLA Desk Review and Interviews.

ANNEX 13: POSSIBLE PRIVATE SECTOR PARTNERS WITH PARTNERSHIP INTEREST AND TYPE OF PARTNERSHIP MODEL FOR USAID/INDONESIA AND CONTACT DATA (NON-PUBLIC VERSION)

ANNEX 14: INVENTORY OF PRIVATE FINANCE INSTITUTIONS WHICH COULD BE POSSIBLE PARTNERS WITH PARTNERSHIP INTEREST AND TYPE OF PARTNERSHIP MODEL FOR USAID/INDONESIA AND CONTACT DATA (NON-PUBLIC VERSION)

ANNEX 15: DCED ON TRANSITION TO STRATEGIC PSE AND USAID PSE POLICY (NON-PUBLIC VERSION)

ANNEX 16: DISCLOSURES OF CONFLICT OF INTEREST

Disclosure of Real or Potential Conflict of Interest for USAID Evaluations

Instructions:

Evaluations of USAID projects will be undertaken so that they are not subject to the perception or reality of biased measurement or reporting due to conflict of interest.⁵⁸ For external evaluations, all evaluation team members will provide a signed statement attesting to a lack of conflict of interest or describing an existing conflict of interest relative to the project being evaluated.⁵⁹

Evaluators of USAID projects have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by third parties. Evaluators and evaluation team members are to disclose all relevant facts regarding real or potential conflicts of interest that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the evaluator or evaluation team member is not able to maintain independence and, thus, is not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting the work.

Operating Unit leadership, in close consultation with the Contracting Officer, will determine whether the real or potential conflict of interest is one that should disqualify an individual from the evaluation team or require recusal by that individual from evaluating certain aspects of the project(s).

In addition, if evaluation team members gain access to proprietary information of other companies in the process of conducting the evaluation, then they must agree with the other companies to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.⁶⁰

Real or potential conflicts of interest may include, but are not limited to:

1. Immediate family or close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.
2. Financial interest that is direct, or is significant/material though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.
3. Current or previous direct or significant/material though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.
4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.
5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.
6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.

⁵⁸ USAID Evaluation Policy (p. 8); USAID Contract Information Bulletin 99-17; and Federal Acquisition Regulations (FAR) Part 9.5, Organizational Conflicts of Interest, and Subpart 3.10, Contractor Code of Business Ethics and Conduct.

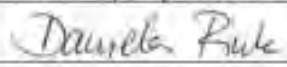
⁵⁹ USAID Evaluation Policy (p. 11)

⁶⁰ FAR 9.505-4(b)

Disclosure of Conflict of Interest for USAID Evaluation Team Members

Name	Daniela Rink
Title	
Organization	Daniela Rink, Rink-Consult, contracted by Management Systems International (MSI)
Evaluation Position?	<input checked="" type="checkbox"/> Team Leader <input type="checkbox"/> Team member
Evaluation Award Number (contract or other instrument)	USAID Contract No. AID-497-C-16-00006, Indonesia Monitoring & Evaluation Support (MESF)
USAID Project(s) Evaluated (Include project name(s), implementer name(s) and award number(s), if applicable)	Indonesia Private Sector Landscape Assessment (PSLA)
I have real or potential conflicts of interest to disclose.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If yes answered above, I disclose the following facts: <i>Real or potential conflicts of interest may include, but are not limited to:</i>	
<ol style="list-style-type: none"> 1. Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated. 2. Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation. 3. Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project. 4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated. 5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated. 6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation. 	

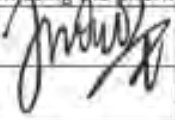
I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	
Date	October 10, 2019

Disclosure of Conflict of Interest for USAID Evaluation Team Members

Name	INDRADI SOEMARDJAN
Title	Private Sector Specialist/Economist
Organization	MESP
Evaluation Position?	<input type="checkbox"/> Team Leader <input checked="" type="checkbox"/> Team member
Evaluation Award Number (contract or other instrument)	INDONESIA M&E SUPPORT (Project No. 216-6109-01-500-03-15)
USAID Project(s) Evaluated (Include project name(s), implementer name(s) and award number(s), if applicable)	
I have real or potential conflicts of interest to disclose.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If yes answered above, I disclose the following facts: <i>Real or potential conflicts of interest may include, but are not limited to:</i> <ol style="list-style-type: none"> 1. Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated. 2. Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation. 3. Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project. 4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated. 5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated. 6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation. 	


I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	 INDRADI SOEMARDJAN
Date	31 May 2019

Disclosure of Conflict of Interest for USAID Evaluation Team Members

Name	Uzla Riyadhhoti Candora
Title	Research Analyst
Organization	MESP
Evaluation Position?	<input type="checkbox"/> Team Leader <input checked="" type="checkbox"/> Team member
Evaluation Award Number (contract or other instrument)	
USAID Project(s) Evaluated (Include project name(s), implementer name(s) and award number(s), if applicable)	
I have real or potential conflicts of interest to disclose.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<p>If yes answered above, I disclose the following facts: <i>Real or potential conflicts of interest may include, but are not limited to:</i></p> <ol style="list-style-type: none"> 1. Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated. 2. Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation. 3. Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project. 4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated. 5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated. 6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation. 	

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	
Date	18 June 2019

ANNEX 17: SUMMARY QUALIFICATION OF EVALUATION TEAM

Daniela Rink – Team Leader

Daniela Rink has 17 years of experience in private sector development, business-academia collaboration and providing technical support to strengthen the enabling environment for private enterprise development. Daniela holds an advanced German university degree in Geography, Economics and Legal Studies. She has a demonstrated record of private sector and economic growth assessments, including a stakeholder engagement strategy and perception survey of a large five-year Indonesian market systems development program that operated between 2013-2018 (now Phase II, Australia-Indonesia Partnership for Rural Economic Development (AIP-Rural), funded by DFAT). She also has knowledge and first-hand experience with numerous innovative development financing products, especially public-private partnerships, pay-for-performance grants, grants for innovation and the World Bank's principal lending instruments, both as team leader and innovation policy expert and as innovation process consultant.

Furthermore, Ms. Rink has a working knowledge of the core technical areas of USAID's program in Indonesia: such as education, health sector and environment. She worked as M&E Consultant for the World Bank Global Practice on Environment and Natural Resources. As part of these assignments, she conducted a meta-analysis of the 5-year portfolio of 72 projects. She facilitated value proposition design workshops with the private sector and scientific organizations on green economy product ideas in Germany. In the health sector, she facilitated participatory consultation processes among stakeholders of the National Poverty Reduction Strategy in Liberia as part of her M&E Consultancy.

Indradi Soemardjan – Private Sector Specialist

Indradi Soemardjan is an innovative and highly accomplished regional business developer with a strong background in sustainable agriculture, engineering, sports and arts. He is an active and well-connected Senior Executive in the ASEAN and New Zealand business communities, with proven experience in sales, marketing, product & brand development, managerial accounting, operational management, sustainable agriculture supply chain management, engineering and project management. Mr. Indradi has many years of experience in convening various stakeholders to achieve sustainable trade development in agriculture. His key strength is well-suited for private sector engagement (PSE) approaches and activities. As an Indonesian professional, he has the experience to de-risk, scale and crown-in private sector support to development programming in the region.

Mr. Indradi's work experience is backed academic qualification, with an MBA and a BSc from the University of Memphis, USA. He recently completed the design and implementation of Monitoring and Evaluation project funded by the New Zealand Embassy in Jakarta. As the USAID/Indonesia PSE initiatives for FYs 2021-2025 will be cross-sectoral and focus on three main sectors, Indradi has the experience to assist the assessment in the areas of education (rural/agriculture workforce development) and environment (climate change adaptation in agriculture).

Uzla Candora – Research Assistant

Uzla Candora is experience in doing monitoring & evaluation for some projects, especially for technical and vocational education and training (TVET) project. She holds a university degree in Public Administration and Finance & Banking Administration.