



Sebastian Lindstorm for USAID

# USAID/Indonesia Country Development Cooperation Strategy

Indonesia is an Advanced, Just, Prosperous, and Self-Reliant Indo-Pacific Partner

September 2, 2020 - September 30, 2025

## TABLE OF CONTENTS

TABLE OF CONTENTS.....	2
ABBREVIATIONS AND ACRONYMS.....	3
COUNTRY PROFILE - INDONESIA.....	5
I. EXECUTIVE SUMMARY.....	1
II. COUNTRY CONTEXT.....	5
<i>A. Salient Factors in Country Context</i> .....	5
<i>B. Indonesia’s Priorities</i> .....	7
<i>C. Country Roadmap Analysis</i> .....	8
<i>D. Transition Planning</i> .....	10
IV. RESULTS FRAMEWORK.....	14
<i>A. Goal Statement</i> .....	14
<i>B. DO 1: Effective, Democratic Governance Strengthened</i> .....	15
<i>C. DO 2: Inclusive Economic Growth Increased</i> .....	18
<i>D. DO 3: Environmental Sustainability Improved</i> .....	25
<i>E. DO 4: Priority Health Outcomes Improved</i> .....	29
V. MONITORING, EVALUATION AND LEARNING (MEL).....	33
VI. PROGRAM BUDGET RESOURCES AND PRIORITIES.....	Error! Bookmark not defined.
VII. MANAGEMENT RESOURCES AND STRUCTURE.....	Error! Bookmark not defined.
VIII. REQUIRED ANNEXES.....	34
<i>Annex 1 Journey to Self-Reliance Indonesia Country Roadmap (FY 2020)</i> .....	34
<i>Annex 2 Budget Tables</i> .....	Error! Bookmark not defined.
<i>Annex 3 ICS-JSP-CDCS-NSS Crosswalk</i> .....	34
<i>Annex 4 Index of Existing and Planned Projects</i> .....	34
<i>Annex 5 Results Framework Matrix (submitted in Phase 2)</i> .....	34
<i>Annex 6 Climate Change Analysis</i> .....	34
IX. LIST OF KEY CDACS ANALYSES AND ASSESSMENTS.....	34
X. REFERENCES.....	34
XI. ADDENDUM: USAID Climate Change Strategy (2022-2030).....	34

## ABBREVIATIONS AND ACRONYMS

A&A	Acquisition and Assistance
A&O	Administration and Oversight
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFC	Asian Financial Crisis
ALS	Alternative Learning System
ASEAN	Association of Southeast Asian Nations
BAPPENAS	Government of Indonesia National Planning and Development Agency
BRI	Belt and Road Initiative
CDC	Centers for Disease Control and Prevention
CDCS	Country Development Cooperation Strategy
CER	Country Economic Review
CLA	Collaborating, Learning and Adapting
COVID-19	Coronavirus Disease 2019
CSO	Civil Society Organization
CVE	Countering Violent Extremism
DFAT	Department of Foreign Affairs and Trade (Government of Australia)
DFC	U.S. International Development Finance Corporation
DO	Development Objective
DOC	Development Outreach and Communications
DP	Development Partner
DPR	Dewan Perwakilan Rakyat (Government of Indonesia House of Representatives)
EDGE	USAID Asia Enhancing Development and Growth through Energy
EG	Economic Growth
EPPR	Effective Partnering and Procurement Reform
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FSN	Foreign Service National
FSR	Financing Self-Reliance
FY	Fiscal Year
G20	Group of Twenty
GBV	Gender-based Violence
GDA	Global Development Alliance
GDP	Gross Domestic Product
GET	Government Engagement Team
GHSA	Global Health Security Agenda
GIS	Geographic Information System
GIZ	German Agency for International Cooperation
GNI	Gross National Income
GOI	Government of Indonesia
GWS	U.S. Global Water Strategy
HCI	Human Capacity Index
HIV	Human Immunodeficiency Virus
ICS	Integrated Country Strategy
IFC	International Finance Corporation
IMF	International Monetary Fund
IPS	Indo-Pacific Strategy
IPTI	Indo-Pacific Transparency Initiative
IR	Intermediate Result
IUU	Illegal, Unreported and Unregulated Fishing
J2SR	Journey to Self-Reliance
JICA	Japan International Cooperation Agency
JKN	Jaminan Kesehatan Nasional (the GOI's national health insurance system)
JSP	Joint Strategic Plan
LPDP	Lembaga Pengelola Dana Pendidikan (Indonesia Endowment Fund for Education)
MCC	Millennium Challenge Corporation

MCRH	Maternal, Child and Reproductive Health
MDB	Multilateral Development Bank
MEL	Monitoring, Evaluation and Learning
MGI	McKinsey Global Institute
MMR	Maternal Mortality Rate
MPA	Marine-Protected Area
NCD	Non-communicable Disease
NGO	Non-governmental Organization
NMR	Neonatal Mortality Rate
NPI	New Partnerships Initiative
NRM	Natural Resources Management
NRSS	Natural Resources Safeguards and Security
NSS	National Security Strategy
NUPs	New and Underutilized Partners
OECD	Organization for Economic Cooperation and Development
OFDA	Office of U.S. Foreign Disaster Assistance
PAD	Project Appraisal Document
PEA	Political Economy Analysis
PEPFAR	The President's Emergency Plan For AIDS Relief
PFM	Public Financial Management
PIOET	Pandemic Influenza and Other Emerging Threats
PMP	Performance Management Plan
PPP	Public-Private Partnership
PSE	Private Sector Engagement
RF	Results Framework
RPJMN	Government of Indonesia National Medium-Term Development Plan
RPJPN	Government of Indonesia National Long-Term Development Plan
SDGs	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
SOO	Statement of Objectives
SSN	Sources Sought Notice
STEM	Science, Technology, Engineering, Mathematics
Sub-IR	Sub-Intermediate Result
TB	Tuberculosis (MDR-TB is multidrug resistant TB)
TVET	Technical and Vocational Education and Training
UN	United Nations
UHC	Universal Health Coverage
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
USDH	U.S. Direct Hire
USG	U.S. Government
SOEs	State-owned Enterprises
WEF	World Economic Forum
W-GDP	Women's Global Development and Prosperity Initiative
WASH	Safe Drinking Water, Safely Managed Sanitation, and Hygiene
WHO	World Health Organization

# Country Profile

USAID Data Services

## INDONESIA

JANUARY 2020

Subregion: East Asia  
Income Group: Lower Middle Income Country (World Bank Classification)

### People

Population (millions) <sup>12</sup>	273.5	(2020)	299.2	(2030)
Urban <sup>13</sup>	56.6%	(2020)	62.8%	(2030)
Rural <sup>13</sup>	43.4%	(2020)	37.2%	(2030)
Age 0-14 <sup>12</sup>	25.9%	(2020)	23.1%	(2030)
Age 15-64 <sup>12</sup>	67.8%	(2020)	67.7%	(2030)
Age 65+ <sup>12</sup>	6.3%	(2020)	9.2%	(2030)
Population growth (annual) <sup>12</sup>	1.0%	(2020)	0.8%	(2030)
Human Development Index <sup>11</sup>	Ranked 116/188 (Medium human development)			
Languages <sup>2</sup>	Bahasa Indonesia (official, modified form of Malay), English, Dutch, local dialects (of which the most widely spoken is Javanese).			
Religions <sup>1</sup>	Muslim 87.2%, Protestant 7%, Roman Catholic 2.9%, Hindu 1.7%, other 0.9% (includes Buddhist and Confucian), unspecified 0.4%. (2010 est.)			
Ethnic Composition <sup>1</sup>	Javanese 40.1%, Sundanese 15.5%, Malay 3.7%, Batak 3.6%, Madurese 3%, Betawi 2.9%, Minangkabau 2.7%, Buginese 2.7%, Bantenese 2%, Banjarese 1.7%, Balinese 1.7%, Acehese 1.4%, Dayak 1.4%, Sasak 1.3%, Chinese 1.2%, other 15%. (2010 est.)			

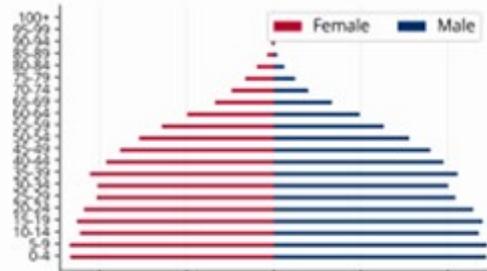
### Government

Capital <sup>1</sup>	Jakarta
Government Type <sup>1</sup>	presidential republic
Head of State/Government <sup>1</sup>	President Joko WIDODO (since 20 October 2014)
Legislature <sup>1</sup>	bicameral People's Consultative Assembly or Majelis Permusyawaratan Rakyat consists of: Regional Representative Council or Dewan Perwakilan Daerah
Females in parliament (%) <sup>14</sup>	19% (2018)
Corruption Perception Index <sup>7</sup>	Ranked 89/180 (2018)
Land area (sq km) <sup>14</sup>	1,811,570 (3X the size of Texas)

### Official Development Assistance

From all donors (US\$, net) <sup>14</sup>	233,570,000	(2017)
as % of income <sup>14</sup>	0.0%	(2017)
per capita (US\$) <sup>14</sup>	0.9	(2017)
From U.S. (US\$, bilateral) <sup>4</sup>	414,162,471	(2017)

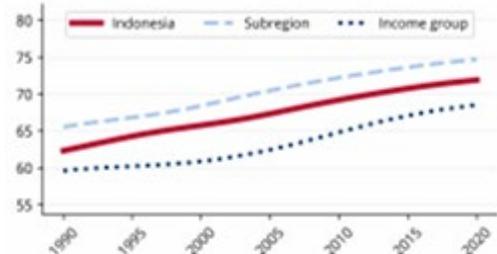
### 2019 Population



### 2030 Population

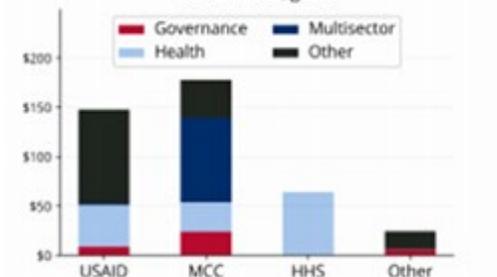


### Life expectancy at birth (years)



### U.S. bilateral ODA by agency and sector, 2017

US\$ millions, gross



Prepared by USAID Data Services with data from the International Data and Economic Analysis website, <https://idea.usaid.gov/>.  
DISCLAIMER: The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.

# Country Profile

USAID Data Services

## INDONESIA

JANUARY 2020

### Education

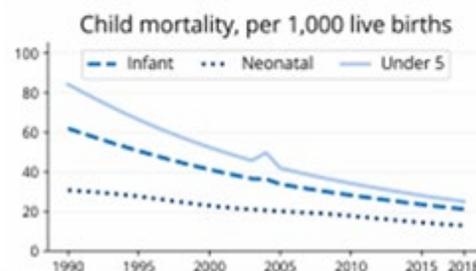
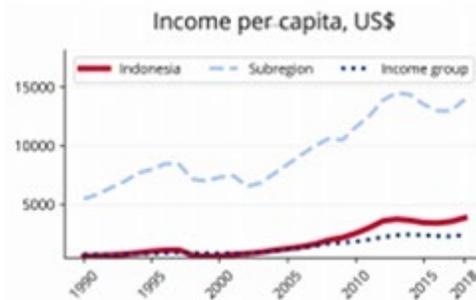
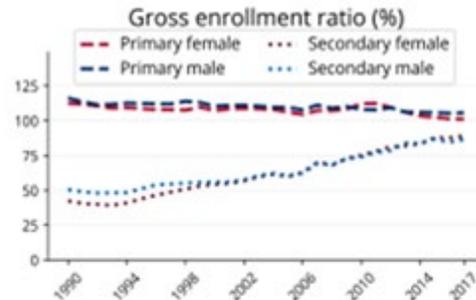
Completion rate, primary <sup>18</sup>	102.3%	(2018)
Female <sup>18</sup>	101.6%	(2018)
Male <sup>18</sup>	103.0%	(2018)
Pupil-teacher ratio, primary <sup>20</sup>	16	(2017)
Pupil-teacher ratio, secondary <sup>20</sup>	15	(2017)
Public education expenditure (% of GDP) <sup>10</sup>	3.6%	(2015)
Literacy rate (ages 15-24) <sup>16</sup>	99.7%	(2018)
Children out of school, primary <sup>18</sup>	1,555,014	(2018)
Of which, female <sup>18</sup>	1,073,003	(2018)
Of which, male <sup>18</sup>	482,011	(2018)

### Economy

GDP (US\$ millions) <sup>14</sup>	1,042,173	(2018)
GDP growth (annual %) <sup>14</sup>	5.2%	(2018)
10 year average <sup>14</sup>	5.4%	(2018)
Merchandise exports (US\$ millions) <sup>3</sup>	180,195	(2018)
Merchandise imports (US\$ millions) <sup>3</sup>	192,266	(2018)
Percent of population living under \$1.90/day <sup>14</sup>	5.7%	(2017)
Share of income held by the poorest 20% <sup>14</sup>	6.8%	(2017)
Share of income held by the richest 20% <sup>14</sup>	45.2%	(2017)
Youth unemployment (ages 15-24) <sup>14</sup>	16.1%	(2019)
Annual inflation <sup>4</sup>	3.3%	(2020)

### Health

Prevalence of HIV (ages 15-49) <sup>5</sup>	0.4%	(2017)
Antiretroviral coverage (% of adults 15+) <sup>14</sup>	17.0%	(2018)
Incidence of TB (per 100,000 population) <sup>18</sup>	319	(2017)
Deaths from malaria (total) <sup>19</sup>	2,680	(2017)
Prevalence of stunting (% of children under 5) <sup>2</sup>	n/a	
DPT3 immunization rate (children aged one) <sup>2</sup>	72.0%	(2012)
Fertility rate (children per woman) <sup>2</sup>	2.6	(2012)
Modern contraceptive prevalence (%) <sup>20</sup>	58.8%	(2017)
Maternal mortality ratio (per 100,000 live births) <sup>21</sup>	177	(2017)
Births attended by a skilled health worker <sup>2</sup>	83.1%	(2012)
At least basic water source (% of population) <sup>14</sup>	89.3%	(2017)
Public health expenditure (% of GDP) <sup>17</sup>	1.3%	(2015)



Sources: 1. CIA, World Factbook; 2. Demographic Health Surveys; 3. IMF, Direction of Trade Statistics; 4. IMF, World Economic Outlook Database; 5. Mo Ibrahim Foundation, Index of African Governance; 6. OECD/DAC, Creditor Reporting System (CRS+); 7. Transparency International, Corruption Perceptions Index and Bribe Payers Index; 8. UN Inter-agency Group for Child Mortality Estimation, Child Mortality Estimates; 9. UNAIDS, Epidemiological Estimates (EPI) Database; 10. UNESCO, Institute for Statistics (UIS) Database; 11. United Nations Development Program (UNDP), Human Development Report; 12. United Nations, World Population Prospects; 13. United Nations, World Urbanization Prospects; 14. WHO/UNICEF, Joint Monitoring Programme (JMP) for Water Supply, Sanitation, and Hygiene; 15. World Bank, Country and Lending Groups; 16. World Bank, World Development Indicators (WDI); 17. World Health Organization (WHO), Global Health Expenditure Database; 18. World Health Organization (WHO), Global Tuberculosis Database; 19. World Health Organization (WHO), World Health Statistics; 20. UN Population Division, World Contraceptive Use; 21. World Health Organization (WHO), Maternal Mortality

## I. EXECUTIVE SUMMARY

**USAID’s Country Development Cooperation Strategy (CDCS) goal is: “Indonesia is an advanced, just, prosperous, and self-reliant Indo-Pacific partner.”** The CDCS goal is based on the Government of Indonesia (GOI) medium-term development plan (RPJMN 2020-2024) goal. By using the GOI’s own language in the CDCS goal, USAID sends a clear signal of support and alignment with Indonesia’s development objectives, as well as highlighting partnership and Indonesian ownership. The goal also underpins USAID’s Policy Framework that places the Journey to Self-Reliance (J2SR) at the forefront of our development cooperation by reorienting our work around fostering country capacity and commitment across all levels.

**Indonesia’s performance on the J2SR Country Roadmap is further along the path to self-reliance compared to peer countries.** Indonesia is above the low- and middle-income country average for 14 of 17 Self-Reliance Indicators. Within ASEAN, Indonesia is ranked near the top for both capacity and commitment. However, underlying weaknesses and vulnerabilities may impede J2SR progress in some areas. The J2SR Country Roadmap has inherent limitations for a large country like Indonesia. As such, it masks some capacity/commitment weaknesses and vulnerabilities, subnational disparities, and urban-rural differences.

**To advance its self-reliance goal, the GOI has identified four priority areas for USAID support: government effectiveness; human capital (education and health); inclusive economic growth; and, environmental sustainability.** Based on these areas, USAID will advance the CDCS goal through four Development Objectives (DOs):

***DO 1: Effective democratic governance strengthened.*** DO 1 will focus on three areas: (i) governance reforms and improved policy implementation; (ii) more informed and active public participation; and, (iii) improved rights and tolerance. DO 1 is at the core of the CDCS approach. Effective democratic governance is critical to increasing access to, and expanding economic opportunity for all Indonesians, as well as improved education, environmental, and health conditions.

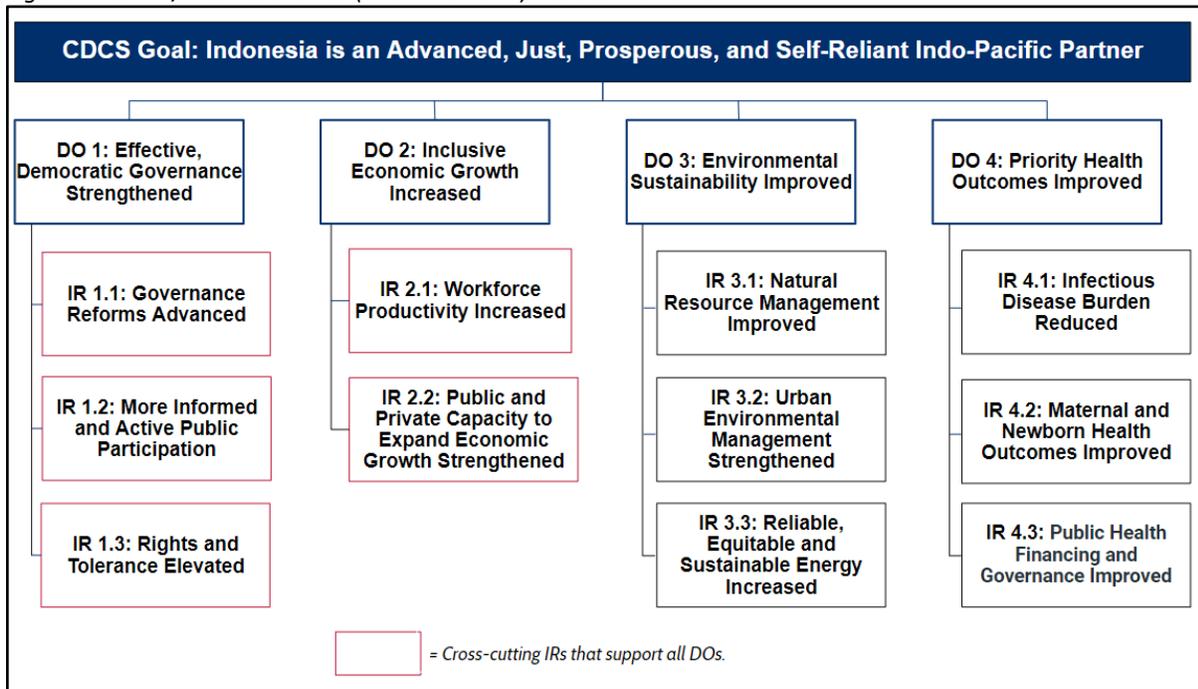
***DO 2: Inclusive economic growth increased.*** DO 2 addresses two critical constraints that limit Indonesia’s economic growth potential: (i) the relative low productivity of the Indonesian workforce; and, (ii) a challenging private sector enabling environment. The GOI has committed to an ambitious economic reform agenda to address these constraints.

***DO 3: Environmental sustainability improved.*** DO 3 recognizes that sustainable economic growth that incorporates the responsible use of natural resources and applies environmental safeguards proactively is critical to Indonesia’s J2SR. Under DO3, USAID will focus its work in three areas: (i) terrestrial and marine natural resources management (NRM); (ii) urban environmental issues and resilience; and, (iii) energy services.

***DO 4: Priority health outcomes improved.*** DO 4 will focus on three areas: (i) reducing the burden of infectious diseases, including tuberculosis (TB) and HIV; (ii) improving maternal and newborn health; and, (iii) strengthening health sector financing and governance. USAID will also support the generation and utilization of quality data to improve health care services planning and delivery. Finally, the Mission is factoring in the impact of COVID-19 on the health sector.

**The strategic rationale for selecting these four sector-based DOs is to ensure clearer alignment with GOI development priorities and counterpart ministry/agency responsibilities.** The CDCS Results Framework (RF) with the four DOs and related Intermediate Results (IRs) is presented in Figure 1.

Figure 1: USAID/Indonesia CDCS (FYs 2020-2024) Results Framework



**USAID’s Country Development Cooperation Strategy (CDCS) goal: Indonesia is an advanced, just, prosperous, and self-reliant Indo-Pacific partner.**

**DO 1: Effective Democratic Governance Strengthened**

- IR 1.1 Governance Reforms Advanced\*
- IR 1.2 More Informed and Active Public Participation\*
- IR 1.3 Rights and Tolerance Elevated\*

**DO 2: Inclusive Economic Growth Increased**

- IR 2.1 Workforce Productivity Increase\*
- IR 2.2 Public and Private Capacity to Expand Economic Growth Strengthened\*

**DO 3: Environmental Sustainability Improved**

- IR 3.1 Natural Resource Management Improved
- IR 3.2 Urban Environmental Management Strengthened
- IR 3.3 Reliable, Equitable and Sustainable Energy Increased

**DO 4: Priority Health Outcomes Improved**

- IR 4.1 Infectious disease burden reduced
- IR 4.2 Maternal and newborn health Outcomes Improved
- IR 4.3 Public health Financing and Governance Improved

\*Cross-cutting IRs that support all DOs.

**The CDCS has five cross-cutting enablers and implementing modalities for all the DOs.** These include the five IRs outlined in red above in Figure 1: (i) governance reforms; (ii) more informed and active public participation; (iii) rights and tolerance elevated; (iv) workforce productivity increased; and, (v) public and private capacity to expand economic growth strengthened, with an emphasis on private sector engagement.

**The CDCS is organized around the GOI's development plan and will help implement Indonesia policy priorities at both the national and subnational levels.** USAID will deliver targeted advisory support to address nationwide policy/regulatory reform issues and systemic sectoral constraints. Despite Indonesia's high levels of commitment and capacity at the national level, chronic challenges remain at the subnational level that hamper Indonesia's self-reliance. The Mission plans to focus its subnational work in eight priority provinces with a total population of 96.5 million.<sup>1</sup> Using USAID's Country Roadmap methodology, the Mission has developed provincial roadmaps to gain a more granular understanding of commitment and capacity metrics across Indonesia's 34 provinces. These roadmaps will ensure that USAID's interventions offer more tailored approaches, explicitly addressing those challenges at the local level that impede self-reliance.

**In making strategic choices for this CDCS, USAID has been guided by lessons learned from the previous strategy and the intersection of USAID and GOI development priorities.**

A key lesson learned from the previous CDCS was the need to better align USAID's work with GOI development plans, systems, and organizational structures. Due to the massive size of Indonesia and the variance of development by islands, geographic targeting is important for achieving measurable outcomes. It is also important to bolster GOI engagement in the program cycle and build a deeper and more focused partnership throughout design and implementation phases. Governance needs to be integrated with all programs. Likewise, subnational governance activities need to be better aligned geographically and integrated with other USAID interventions, particularly for environment/NRM and health programs. The Mission's private sector engagement approach needs to evolve to also look at systemic bottlenecks at the sub-sector level. Finally, USAID's approach to addressing gender inequalities has not been consistent across all sectors and activities. USAID will strengthen efforts to address gender inequality, as well as challenges faced by disadvantaged and vulnerable populations.

**The CDCS directly supports broader U.S. Government (USG) national security interests as reflected in the Indo-Pacific Strategy (IPS).**<sup>2</sup> USG foreign assistance seeks to support Indonesia to realize its full potential as a democratic, prosperous, and environmentally sustainable nation, as well as address shared challenges around pandemic threats, intolerance and violent extremism. USAID's support for education and health are important for strengthening the foundation for Indonesia's long-term inclusive prosperity in a free and open Indo-Pacific region. This is particularly true as the country and region take stock of and emerge from the COVID-19 pandemic. The CDCS, starting from its goal statement, contributes to the IPS vision for a free and open Indo-Pacific and the three IPS pillars: governance, economic and security. USAID will:

- **Strengthen democratic systems.** Mirroring Indonesia's own goal of being "just", the CDCS goal reinforces the IPS principles of "free" and "open." Under DO 1, USAID will contribute to the Indo-Pacific Transparency Initiative (IPTI) through project activity efforts to improve open and accountable governance, fight corruption, strengthen civil society, protect human rights, address democratic backsliding, and counter violent extremism and intolerance. DO 1 governance activities also have implicit cross-cutting linkages to support DOs 2, 3 and 4 work in economic governance, education, environment/NRM, and health.
- **Foster private sector-led growth.** By advancing Indonesia's goal of being "advanced" and "prosperous," the CDCS is closely aligned with IPS principles of a "free and open" economy by leveling the playing field for trade and investment and improving competitiveness. Under DO 2, work on the private sector enabling environment will improve economic governance and

---

<sup>1</sup> "The Mission" in this CDCS document refers to USAID/Indonesia, U.S. Embassy Jakarta.

<sup>2</sup> See [USAID'S Strategic Approach to Advancing the Indo-Pacific Strategy, February 2020](#).

address a challenging regulatory environment, now made more complicated as businesses must cope with the impacts of COVID-19. DO 2 also includes a private sector engagement accelerator platform as well as attention to digital development, both of which will drive private sector opportunities across all the DOs.

- **Improve the management of natural resources.** The ability of Indonesia to become a “self-reliant Indo-Pacific partner” hinges on sustainability. DO 3 supports programs that: (i) strengthen NRM and enforcement of environmental safeguards; (ii) accelerate energy transformation; (iii) improve access to Safe Drinking Water, Safely Managed Sanitation, and Hygiene (WASH) services; and, (iv) combat transnational environmental crimes (e.g., illegal and unreported fishing, wildlife poaching and trafficking, illegal logging). DO 3 project activities support the IPS Asia Enhancing Development and Growth through Energy (EDGE) initiative and the Natural Resources Safeguards and Security (NRSS) focus area.

**Re-engaging in the economic growth (EG) sector at the request of the GOI, other stakeholders and in support of the IPS is new to this CDCS.** The Mission’s approach is pragmatic, considering that USAID has not been active in this sector since 2013, however, there are investments upon which to build. For example, USAID supported development of Indonesia’s national broadband strategy (2014-2019) and recognizes the importance of ICT on economic growth, workforce productivity, and inclusion and the role of ICT across sectors. The Mission recognizes the need to be selective and build on the comparative advantages of the USG interagency related to policy advocacy, such as in digital connectivity, 5G, and cyber security, or in concert with the U.S. International Development Finance Corporation (DFC). The U.S. has the most innovative and vibrant private sector in the world. Indonesia looks to the U.S. as a partner of choice when it comes to private sector engagement. As such, USAID can advance private sector-friendly development in Indonesia that, in turn, supports inclusive economic growth.

**USAID is factoring in the emerging impacts of the COVID-19 pandemic.** USAID recognizes the need for flexibility in responding to COVID-19 impacts, especially as Indonesia may well face a prolonged and uneven recovery period. USAID will review strategic assumptions early in the strategy period through project appraisals and designs. In that regard, the strategy provides enough flexibility to pivot and make programmatic adjustments. By way of context, as of June 1, 2020 the total funding mobilized by the GOI for COVID-19 policy measures is \$59 billion, which translates into nearly 6 percent of GDP.<sup>3</sup> Meanwhile, USAID has mobilized \$12 million for COVID-19, to date, the bulk of which is for health sector support. However, it is also critical to ensure the resilience of Indonesia’s health sector financing, systems, and services over the short- and medium-term. It is important not to lose sight of the remaining agenda in addressing HIV, TB, and maternal and newborn health challenges. Beyond the health sector, there will be second order effects that will have a major impact on the poor and vulnerable, workers, public sector service delivery, human rights, security, and businesses, especially small and medium enterprises (SMEs). Finally, the economic impact will be significant. Depending upon the trajectory and severity of the pandemic, Indonesia may face additional fiscal and external risks over the next two years under what the GOI now calls a “new normal.” USAID is engaging with GOI counterparts, including the Ministry of Finance (MOF), on how to best support efforts to address second order effects. This includes participating as a member of the MOF’s task force to determine the policy and action plan for reopening Indonesia’s economy. In coping with the pandemic and its impacts, the role of ICT policy and industry engagement to support better, more affordable, and secure broadband has become more critical than ever.

---

<sup>3</sup> Source: [ADB COVID-19 Policy Database](#)

**USAID will support efforts to promote religious freedom and protect the rights of ethnic minorities.**

CDCS programming will be guided by the U.S. Department of State Report on International Religious Freedom and will also take into account the U.S. Commission on International Religious Freedom's Annual Report.<sup>4</sup> Indonesia is not designated as a country of specific concern in the 2019 State Department Report on International Religious Freedom, but the report does highlight instances of intolerance directed at minority religious groups. Under DO 1, initiatives to promote tolerance and democratic rights and prevent backsliding are critical to addressing issues around religious and ethnic minorities and protecting the democratic foundation and diversity of Indonesia.

**USAID's assistance in Indonesia will support the Agency's broader Climate Change Strategy.** Approved and published after this CDCS, the USAID Climate Change Strategy (2022-2030) has been included as an addendum. It will be fully integrated into the CDCS itself during the mid-course stocktaking.

## **II. COUNTRY CONTEXT**

### **A. Salient Factors in Country Context**

**Indonesia is a vital strategic partner for the USG in advancing an open, transparent, and rules-based system in the Indo-Pacific.** U.S.-Indonesia bilateral relations have taken on increasing importance through the U.S.-Indonesia Strategic Partnership.<sup>5</sup> Indonesia is an emerging economic power with regional and global influence. The only Southeast Asian member of the G20 and home to the headquarters of ASEAN, Indonesia has the fourth largest population in the world. It is the world's third largest democracy, with the task of governing a population that is culturally, religiously, and linguistically diverse across a vast territory of 17,000 islands. Indonesia is the 16th largest economy in the world by nominal Gross Domestic Product (GDP) and the 7th largest GDP as measured in purchasing power parity. It is projected to be the fourth largest economy in 2050. Indonesia's growing middle class, strong domestic demand, large and youthful population, and need for new infrastructure makes it an important market for U.S. products, services, and investment. Geographically, Indonesia is a strategic gateway for the Indo-Pacific region making its sea-lanes and maritime choke-points critical pathways for global trade and security. Bordering the South China Sea, Indonesia is contiguous to the world's busiest sea lanes which carry an estimated one-third of global shipping every year.<sup>6</sup>

**Indonesia has made remarkable development progress and demonstrated political and economic resilience.** In the early-1970s, Indonesia was highly dependent on Official Development Assistance (ODA) to finance its development-related spending. Net ODA received as a percentage of Gross National Income (GNI) reached a high point of 6.4 percent in 1971. In 2018, it was only .09 percent.<sup>7</sup> In the aftermath of the economic and political turmoil that resulted from the Asian Financial Crisis (AFC) in 1998-2000, the country transitioned successfully from an authoritarian government to become a vibrant and stable democracy, while undertaking sweeping decentralization of governance. Twenty years later, Indonesia is still in the process of finding the right balance in the division of roles, authorities, and coordination between the central, provincial and district governments, as well as overcoming gaps in governance capacity. Emphasis on recovery after the AFC led to greater stability, economic growth, insulation from external shocks, and financial sector health. Inflation is now generally stable. Debt is sustainable. Indonesia's sovereign debt has maintained investment grade by all three major rating agencies since 2017. However, reliance on foreign portfolio inflows leaves Indonesia vulnerable to

---

<sup>4</sup> See [U.S. Department of State 2018 Report on International Religious Freedom: Indonesia](#) and [U.S. Commission on Religious Freedom: Indonesia Chapter - 2019 Annual Report](#).

<sup>5</sup> [U.S.-Indonesia Strategic Partnership: Joint Statement by the USG and the GOI](#)

<sup>6</sup> [CSIS, "How much trade transits the South China Sea?"](#)

<sup>7</sup> [World Bank DataBank](#)

sudden capital flow reversals. As such, most of the potential macroeconomic risks to Indonesia are due to global trends or external crises outside its control. Real GDP growth has averaged around 5 percent per year since 1990, supported by high commodity prices, favorable demographic trends, and a sound macroeconomic policy framework. As a result, GDP per capita increased six-fold between 1990 and 2018, while extreme poverty fell from 57 percent to just below 6 percent.<sup>8</sup>

**Decades of economic progress threatened by COVID-19 pandemic.** Indonesia's remarkable growth is now suddenly derailed by the global pandemic. In the June 2020 IMF World Economic Outlook<sup>9</sup> the Indonesian economy is forecasted to shrink in 2020 by 0.3 percent. Indonesia's newly announced nearly \$50 billion fiscal stimulus in response to COVID-19 is a robust 5 percent of national GDP, but spending has been marred by administrative delays. The World Bank estimates that *without* fiscal measures to mitigate the shock, the poverty rate may increase a total of 2 percent as a result of second order effects of COVID-19.<sup>10</sup> Indonesia must quickly control the spread of the pandemic and increase the efficiency and targeting of the government stimulus to avoid squandering decades of economic progress.

**Indonesia's impressive development achievements are now under stress.** Indonesia faces economic headwinds related to falling commodity prices, slowing growth in China, weakening global trade and investment trends, and the fallout of the COVID-19 pandemic. To its credit, the GOI is marshalling considerable resources against COVID effects as a result of the strong economic foundations built over the past three decades. Robust economic growth has substantially reduced poverty in Indonesia, yet the bottom 30 percent of households that are not officially poor could be pushed back into poverty by a relatively modest financial or non-financial shock.<sup>11</sup> Inequality overshadows Indonesia's economic growth success story. Within ASEAN, Indonesia has the third highest income inequality rate after Thailand and the Philippines.<sup>12</sup> Lagging human capital indicators for education and health limit Indonesia's ability to improve household welfare, move into higher-value-added activities and boost productivity. Creating quality jobs for the young and growing population to harness Indonesia's demographic dividend requires a stronger impetus to growth, which has been constrained by structural weaknesses, including low tax revenues, shallow financial markets, and labor and product market rigidities. Challenges to effective governance remain, for example: institutional performance; service delivery; accountability and transparency; corruption; and, intolerance. Gender inequality exacerbates other forms of social exclusion based on social class, ethnic and religious minority status, sexual identity, and disability status. This excludes many from contributing to, and benefiting from, national development. Land and marine natural resources degradation, along with the impacts of growing urbanization, present serious risks to sustainable economic growth, coupled with the fact that Indonesia is one of the world's most disaster-prone countries. Finally, poor enforcement of land use and industrial and vehicle emissions regulations, along with continued dependence on coal for power generation, hinder Indonesia's ability to meet its transboundary pollution reduction and greenhouse gas emissions goals.

---

<sup>8</sup> Based on World Bank threshold of percent of population living on less than \$1.90 per day. The GOI uses an expenditure-based methodology for calculating poverty. As of September 2019, the national poverty rate was 9.4% of the population. See [OECD, Social Protection System - Review of Indonesia, 2019](#).

<sup>9</sup> [World Economic Outlook Update, June 2020: A Crisis Like No Other. An Uncertain Recovery](#)

<sup>10</sup> [Indonesia Economic Prospects, July 2020: The long road to recovery](#)

<sup>11</sup> World Bank. ["Aspiring Indonesia – Expanding the Middle Class." 2019.](#)

<sup>12</sup> Gini index ranking among countries in Southeast Asia. [JP/Credit Suisse Research Institute Global Wealth Databook 2019.](#)

## B. Indonesia's Priorities

*"We must realize that we now live in a global environment that is ever-changing, dynamic, full of risks, complexities and surprises that are often far beyond our calculation. We must make our country more productive, more competitive, and more flexible to adapt to changes. I am sure all of us are committed to putting in place a civilized democracy, a democracy that will create an Indonesia with a strong personality, with dignity, an advanced, just and prosperous Indonesia. An advanced Indonesia is an Indonesia where no single person is left behind to achieve their goals. A democratic Indonesia should be enjoyed by all the people, every citizen should have the same rights before the law. We want an Indonesia with world-class technology and scientists, a stable and secure Indonesia in an increasingly competitive world."*

**Excerpts from President Joko "Jokowi" Widodo's Five-Point Vision Speech, July 2019**

**The GOI's development planning framework and cycle reflect Indonesia's long-term commitment to self-reliance. The CDCS aligns with this planning framework and cycle.** Long- and medium-term development planning, as well as annual development planning at both national and subnational levels, are regulated by the Law on the National Development Planning System. Development planning follows a 20-year national long-term development plan (RPJPN), the current one spanning from 2005 to 2025. The long-term plan is divided into four medium-term development plans (RPJMN), each with a span of five years. Because presidential and planning cycles are synchronized, every five years an incoming government prepares the RPJMN to set their own priorities within the framework of the longer-term RPJPN. This CDCS fully aligns with the GOI's current medium-term development plan (RPJMN 2020-2024).

**Key development constraints identified by the GOI: a difficult regulatory environment for labor, trade and investment; institutions; connectivity; and human capital.** Spearheaded by the Ministry of National Development Planning (Bappenas) and completed in 2019, the comprehensive "Indonesia Growth Diagnostics Study: Strategic Priority to Boost Indonesian Growth" is the cornerstone and main reference for the medium-term development plan. A complex public sector regulatory environment and weak institutions were found to be the most binding constraint to growth. Regulatory constraints cover three main areas: labor, investment, and trade. Public sector institutions lack strategic alignment and have overlapping responsibilities. Corruption and bureaucratic inefficiency issues are also cited. Low government revenue and inadequate connectivity infrastructure are also obstacles for the economy to grow at a higher rate. Finally, the study devotes special attention to human capital constraints in the aspects of education and health that have the potential to hamper long-term economic growth.

**GOI development priorities align with USAID development policy and objectives.** The GOI's national long-term development Plan (RPJPN 2005-2025) vision and mission is: "To establish a country that is developed and self-reliant, just and democratic, and peaceful and united." Under the current national medium-term development plan (RPJMN 2020-2024), the GOI's stated goal is an: "Indonesia that is self-reliant, advanced, just, and prosperous." This is further defined through President Widodo's five development priorities for his second term:

- 1. Infrastructure investment** is recognized as a tool to address subnational economic disparities, improve connectivity, and reduce inequality and poverty. Transport-related infrastructure is key, along with special economic zones, digital connectivity and ICT, and tourism infrastructure.
- 2. Human capital development.** The GOI will focus on ensuring strengthening the quality of formal and non-formal education and vocational training institutions, as well as improving health

outcomes, especially nutritional-related stunting in children and reducing maternal mortality and child mortality rates.

3. **Investment climate reforms.** The GOI will liberalize and open private sector investment opportunities to create higher-productivity jobs and increase Indonesia’s competitiveness. This will, in turn, support economic transformation from an unsustainable over-dependence on natural resources and commodities to more competitive manufacturing (including agro and food processing) and service sectors.
4. **Bureaucratic reform.** GOI agencies will be structurally reformed so they become simpler and act faster. This includes a “mindset change” and a vow to restructure or eliminate “problematic agencies.” “No one should be allergic to investment,” according to President Widodo. “Everything that hampers investment must be overhauled, including slow and complicated bureaucracy, and especially money politics.”
5. **More efficient dispersal of the state budget.** The GOI will focus on better targeting, quality, and efficiency of infrastructure and social sector investments, while improving public financial management institutions and systems, both at the national and subnational levels.

### C. Country Roadmap Analysis

**Indonesia’s performance on the Country Roadmap is further along the path to self-reliance compared to peer countries and near the top in ASEAN.** Indonesia is above the low- and middle-income country average for 14 of 17 Self-Reliance Indicators. (see Annex 1). Among the Self-Reliance indicators, Indonesia lags farthest behind other low- and middle-income countries in the ‘Tax Systems Effectiveness’ category. Within ASEAN, Indonesia is ranked near the top for both capacity and commitment.

**Underlying weaknesses and vulnerabilities in Indonesia’s commitment and capacity measures may impede J2SR progress in some areas.** While Indonesia’s Country Roadmap is a useful tool for capturing national-level performance, it has inherent limitations for a large country like Indonesia. As such, it masks substantial capacity/commitment weaknesses and vulnerabilities, subnational disparities, and urban-rural differences as shown in Table 1.

Commitment	Indicator	Weaknesses and Vulnerabilities
	<ul style="list-style-type: none"> <li>● Liberal Democracy (0.54) &amp; Open Government (0.45)</li> </ul>	<ul style="list-style-type: none"> <li>- Intolerance, respect for human rights, rule of law and corruption remain challenges, especially at the subnational level</li> </ul>
	<ul style="list-style-type: none"> <li>● Social Group Equality (0.70)</li> </ul>	<ul style="list-style-type: none"> <li>- Relative high level of income inequality: 3<sup>rd</sup> highest in ASEAN</li> </ul>
	<ul style="list-style-type: none"> <li>● Economic Gender Gap (0.60)</li> </ul>	<ul style="list-style-type: none"> <li>- Women’s economic activities contribute only 29 percent to the GDP</li> </ul>
	<ul style="list-style-type: none"> <li>● Business Environment (0.63)</li> </ul>	<ul style="list-style-type: none"> <li>- Despite improvements, significant challenges remain as reflected by assessments/studies; SOEs dominate major sectors and crowd out private sector investment in infrastructure (e.g., PPPs)</li> </ul>
	<ul style="list-style-type: none"> <li>● Trade Freedom (0.73)</li> </ul>	<ul style="list-style-type: none"> <li>- Past decade has seen increased barriers to trade</li> </ul>

	<ul style="list-style-type: none"> <li>• Biodiversity &amp; Habitat Protection (0.67)</li> </ul>	<ul style="list-style-type: none"> <li>- Good policies at national level, but subnational implementation/enforcement lag; vulnerability to natural disasters</li> </ul>
<b>Capacity</b>	<ul style="list-style-type: none"> <li>• Tax systems effectiveness (0.33)</li> <li>• Poverty gap (0.46)</li> <li>• Child health (0.80)</li> <li>• Export sophistication (0.49)</li> </ul>	<ul style="list-style-type: none"> <li>- Tax revenue of as a percentage of GDP significantly below peer group countries</li> <li>- Below average for peer group countries</li> <li>- Indicator does not reflect persistent health challenges: stunting, TB prevalence, and high maternal and newborn mortality rates</li> <li>- Export sophistication is on a downward trend; limited integration with global economy</li> </ul>

**In order to provide more granular Country Roadmap information on Indonesia’s J2SR, USAID/Indonesia has developed provincial-level roadmaps in collaboration with the GOI.** To support closer engagement with the GOI on self-reliance principles and metrics, the Mission has completed provincial roadmaps for all 34 provinces in Indonesia as a means towards building a USAID-GOI partnership for self-reliance over the next five years. Using the Agency’s methodology and publicly available Indonesian data for 52 of the 84 J2SR indicators, the Mission developed this new diagnostic tool with the Ministry of National Development Planning. A key finding of the provincial roadmaps is there is far more variation in capacity across provinces than there is commitment. By working with the Ministry, the Mission anticipates using the roadmaps/methodology to strengthen the new ‘Inclusive Economic Index’ the GOI is developing, and further assist the Ministry’s provincial diagnostic efforts in support of the government’s medium-term development plan and self-reliance goal.

**USAID is undertaking a “deep dive” for the eight priority provinces through a Political Economy Analysis (PEA) initiative.** This will allow the DO teams to gain a better understanding of the local context in these eight provinces, resulting in more tailored project activity designs. USAID has learned that political economy drivers in Indonesia, as much as technical constraints, impact the likelihood and direction of reform. Understanding these political economy drivers and the ability of interventions to influence them are important considerations in determining the scope of USAID support. In that regard, government ownership (including willingness to be accountable), commitment (including transparency), resources, and champions for reform agendas are major determinants of success. The ability to engage with the right level of government and a counterpart with the responsibility and accountability to deliver will be considered in DO-level project appraisal and designs.

**Implications of country and provincial roadmaps for CDCS programming.** The CDCS and DOs have been purposely designed to address lagging indicators, weaknesses, and vulnerabilities. In turn, using

evidence and data gained from the Provincial Roadmaps and PEA, this should result in more targeted project designs at the subnational level.

#### **D. Transition Planning**

The Mission has completed initial reviews for transition planning for all DOs that will be further refined over the first two years of the strategy. Notably, through a sequenced transition approach for higher education, the Mission anticipates that at the end of the CDCS, the GOI will have made significant progress in ensuring that Indonesian students and researchers have better access to U.S. universities and research institutions. This is also an area where PSE presents opportunities for facilitating science and technology partnerships between U.S. and Indonesian companies and private research institutions. The Mission will also consider transition of selected environment/NRM and health initiatives, based on evidence and lessons learned. More broadly, the Mission's subnational work provides an entry point for further analysis and dialogue with the GOI on the potential for transitioning some aspects of central government policy support.

### **III. STRATEGIC APPROACH**

**USAID's strategic approach in Indonesia reflects the dynamic trajectory of U.S.-Indonesia bilateral relations under the U.S.-Indonesia Strategic Partnership.** As two large democracies with decentralized governance structures, U.S. governance systems and experience are relevant to Indonesia, for example: local governance and finance; economic governance; environmental protection and NRM; modern energy systems; higher education; and, health sector systems and finance. Indonesia also recognizes the U.S. as a strategic partner for trade and investment, and a dynamic model for economic growth. Indonesia seeks access to U.S. business savvy, science and technology, and innovation through linkages involving U.S. companies, universities, and independent research institutions. These are areas where USAID is valued for its comparative advantage to access and facilitate U.S. expertise and capabilities, and are important enablers for all the DOs.

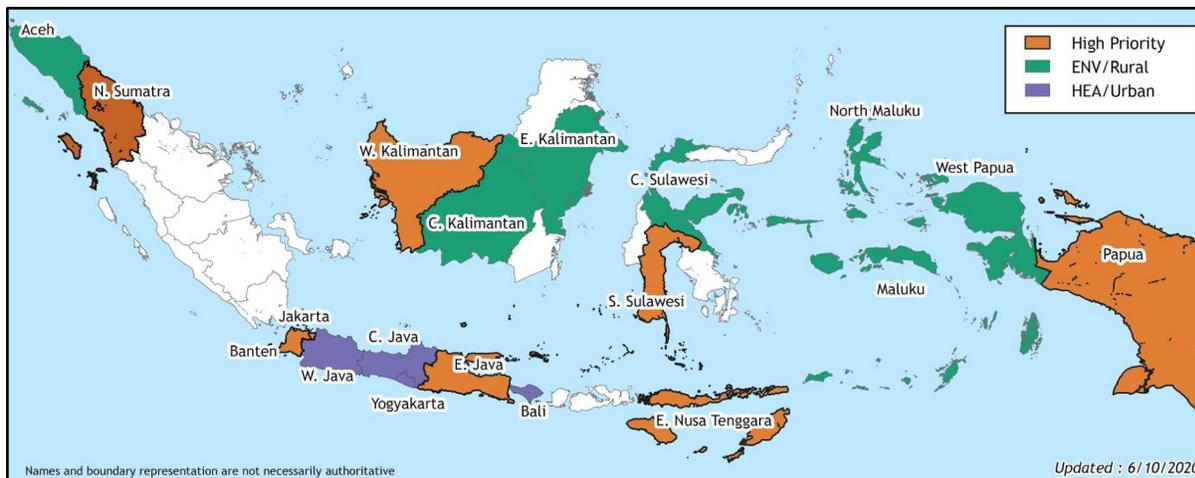
**Based on consultations with the GOI, USAID's strategy will focus on four areas that intersect with the GOI's medium-term development plan, President Widodo's five development priorities, and USG strategic interests:** (i) government effectiveness; (ii) human capital (education and health); (iii) inclusive economic growth; and, (iv) environmental sustainability. Within these four priorities, there are opportunities to build upon Indonesia's self-reliance strengths. However, these priorities also present a number of lingering challenges, weaknesses and vulnerabilities that need to be addressed to sustain Indonesia's J2SR.

**USAID is Redefining the Relationship (RDR) with the GOI by fostering and advancing Indonesian-led development outcomes.** USAID's development partner relationship with Indonesia is shifting to a focus on achieving Indonesia-owned and sustained results, helping mobilize public and private revenues, strengthening local capacities, and accelerating private sector-friendly development. For example, under DO 1, the ability of national and subnational institutions to lead good governance, anti-corruption and countering intolerance initiatives is key to sustained progress in these areas. Likewise, in the health sector, the financial viability of the national health insurance system is dependent on GOI funding and policy measures. Meanwhile, USAID is already transitioning to an advisory business model that builds upon the country's commitment and capacity. With a focus on better utilizing GOI approaches and systems, the objective is to make it easier for the government to take development results to scale. Through an advisory business model, USAID will deliver knowledge-based technical assistance solutions to: (i) address systemic policy/regulatory and institutional challenges (e.g., public financial management [PFM], investment regulations, information and communication technology (ICT) policy, energy grid

standards, health sector financing); and (ii) catalyze development-related investment by “crowding in” public sector finance, private sector investment and/or other development partner support.

**USAID will concentrate and integrate at least two-thirds of CDCS funding for national-level policy work and in eight priority provinces.** In a country as large and diverse as Indonesia, project activities have the best chance of impact when they are part of a broader systems and sector approach. Therefore, across DOs, USAID will combine national-level policy work with focused, tailored interventions at the provincial or district level to close the gap between policy and practice, and support the GOI’s ability to bring successful investments to scale. The eight high priority provinces for integrated programming include: Banten, East Java, East Nusa Tenggara, Jakarta Special District, North Sumatra, Papua, South Sulawesi, and West Kalimantan. These include the poorest in terms of socioeconomic indicators, while also including Jakarta (which has the largest potential impact from COVID-19). Taking into consideration anticipated USAID funding directives over the strategy period for environment and health, the CDCS will also implement sector-focused programs for: (i) rural/environment activities in Aceh, Central Kalimantan, Central Sulawesi, East Kalimantan, Maluku, North Maluku, and West Papua; (ii) urban/health activities in West Java, Yogyakarta, Central Java and Bali; and, (iii) countering violent extremism (CVE) activities in intolerance and extremist hotspots. Coupled with the evidence and data from the Provincial Roadmaps and PEA, this will allow a differentiated approach to activity-level design and implementation.

Figure 2: Geographic Focus: Eight High Priority Provinces and Rural/Environment and Urban/Health



The eight high priority provinces for integrated programming: Banten, East Java, East Nusa Tenggara, Jakarta Special District, North Sumatra, Papua, South Sulawesi, and West Kalimantan.

Rural/environment activities: Aceh, Central Kalimantan, Central Sulawesi, East Kalimantan, Maluku, North Maluku, and West Papua.

Urban/health activities: West Java, Yogyakarta, Central Java and Bali.

**Advancing governance reforms and effectiveness is a principle enabler across all the CDCS DOs and sectors.** Experience from the implementation of the previous CDCS makes clear that efforts to address governance challenges that impede development results and impact must be part of effective project activity design. This entails the effectiveness of public institutions’ service delivery, responsiveness, and accountability at the both the national and subnational levels. Similarly, good economic governance and quality of public sector institutions are needed for a vibrant private sector, from U.S. companies to Indonesian SMEs. In this regard, while PSE is a critical enabler for the CDCS, it is not sufficient or sustainable without complementary efforts to improve the policy/regulatory enabling environment for

businesses. Consistent with the GOI's priority on government effectiveness, the CDCS includes strong democratic and governance linkages. Finally, the CDCS utilizes Financing Self-Reliance (FSR) approaches, for example, through PFM and tax administration efforts under DO 1 and DO 2, leveraging GOI higher education investments under DO2, blended finance under DO 3, and improving financial sustainability of the national health insurance system under DO 4.

**Civil society is an important and active partner for the CDCS across all DOs and sectors to ensure more informed and active public participation in development planning and implementation.** The main CDCS linkage with civil society will be through DO 1. In addition, CSOs are important stakeholders and/or partners for DOs 2, 3, and 4. CSOs play a vital role in influencing government policies and practices to make them more pro-poor, pro-vulnerable and disadvantaged, pro-environment, and pro-inclusive growth. Despite the visibility of many Indonesian CSOs, they are overwhelmingly dependent on funding from government or international donors, so USAID plans to build the institutional capacity and financial viability of CSOs and the sector to promote self-reliance. Given the risks of declining trust in the government, promoting citizen participation in public policy dialogue is important to all DOs.

**USAID recognizes that intolerance and gradual erosion of democratic and social norms can threaten the achievement of Indonesia's economic goals and the country's political and social stability.** USAID will engage with under-utilized and new partners to protect human rights and promote tolerance. This will include efforts to combat intolerance and violent extremism and build community resilience against ideologies that threaten Indonesia's democratic systems, values, and norms. It will also strengthen access for and protection of vulnerable populations and marginalized groups, including religious minorities.

**Private Sector Engagement (PSE) is a key programming modality for the CDCS.** The Mission has a detailed PSE Implementation Plan to ensure that PSE is mainstreamed across DOs. Under DO2, USAID anticipates the development of a PSE platform approach to ensure a more disciplined and market-driven approach to take PSE to scale across the entire Mission portfolio. This could include early-stage transaction advisory support to help catalyze and de-risk private sector investment (e.g., USAID Global Development Alliance [GDA] structures, credit enhancements through the DFC, blended finance, various public-private alliances, and PPPs). However, the Mission recognizes that PSE alone is insufficient to foster sustained economic growth. Hence, DO 2 will include support for market-friendly economic policy and regulatory reforms, with an emphasis on improving the private sector enabling environment, (e.g., economic governance, ease of doing business, trade and investment, women's economic empowerment, ICT).

**USAID will ensure that CDCS project activity designs address gender inequalities.** Despite legal frameworks and policies in place to protect women's and girls' rights, there are wide gaps in effective implementation, as well as continued reports of gender-based violence (GBV). Beyond these legal protections and rights issues, and as illustrated by the Country Roadmap, Indonesian women contribute to the overall labor force at a much lower rate than men. Women's economic activities contribute only 29 percent to the GDP. By improving gender equality and access to economic opportunities, the McKinsey Global Institute estimates that Indonesia could add \$135 billion a year to annual GDP by 2025 (or 9 percent above business as usual).<sup>13</sup> All three drivers of additional economic value make similar contributions: higher female labor-force participation; a higher share of women working full time rather than part time; and, more women working in higher productivity sectors such as manufacturing. USAID will ensure that CDCS project activity designs include strong commitments to mainstream gender equality.

---

<sup>13</sup> [MGI: The Power of Parity: Advancing Women's Equality in Indonesia. August 2018.](#)

**Rapid expansion of the digital sector has poised Indonesia to drive innovation and deliver improved services.** Indonesia is emerging as a leading country in Southeast Asia for digital innovation in fintech, education, energy, health, SME and transportation solutions, among others. The GOI is currently focused on connecting rural communities and building 4G infrastructure, while also developing the policy framework for a future transition to 5G. Further, as illustrated in Indonesia’s relatively good ICT metrics, 5G will likely come to countries like Indonesia before others in the region, positioning Indonesia to be a regional leader. If the influx of competition and capital continue on trend, the digital sector could spark the development of a wider range of high-value services and even position Indonesia for a place in the international marketplace. Consistent with USAID’s Digital Strategy, DO project activities will seek opportunities to utilize digital technology in addressing development challenges and advancing science, technology, and innovation. The direction Indonesia takes on 5G will affect its long-term development.

**Indonesia’s vulnerability to climate change and geophysical hazards is a serious challenge for the country’s development trajectory.** The GOI’s medium-term development plan includes a focus on enhancing Indonesia’s resilience to climate change and related disasters. The drivers of climate risk in Indonesia have implications for all four DOs as detailed in Annex 6. Consistent with Agency policy, the Mission will apply a climate lens when developing project activity designs and utilize adaptive strategies for implementation.

**The CDCS contributes directly to USG interagency collaboration and priorities in Indonesia.** U.S. Embassy Jakarta works to deepen the strategic partnership with Indonesia by increasing economic engagement, building a strong security relationship, advancing shared policy priorities (e.g., in education, environment, health, science and technology), and promoting effective governance. USAID’s CDCS is an important platform for supporting priority USG national security interests. U.S. Embassy Jakarta interagency collaboration and USG foreign policy alignment are maintained through the Country Team and a number of thematic/sectoral working groups related to China, economics and trade, education, environment, health, and science and technology.<sup>14</sup> In turn, Embassy Jakarta’s Integrated Country Strategy (ICS) ensures a coherent “whole of government” approach to supporting the U.S.-Indonesia bilateral relationship. The CDCS and respective DOs/IRs support the ICS as follows:

- **ICS Goal 1 - Increase Economic Engagement and U.S. Prosperity:** Indonesia adopts international best practices and policies that foster sustainable economic growth, innovation, and improved market access for U.S. business (DO 2, IRs 2.1 and 2.2).
- **ICS Goal 2/Objective 2.2 - Strengthen Security:** Indonesia contributes to regional and international peace and security by countering terrorism and violent extremism (DO 1, IR 1.3).
- **ICS Goal 3/Objective 3.2 - Advance Global Priorities:** Indonesia assumes a greater global/regional role to protect the environment, promote modern and sustainable energy, improve public health, and other shared priorities (DO 3, IRs 3.1, 3.2, 3.3; DO 4, IR 4.1).
- **ICS Goal 4 - Improve Governance:** Indonesia is a strong and pluralistic democracy with effective institutions that support accountability, the rule of law, and the protection of human rights (DO 1, IRs 1.1, 1.2 and 1.3).

**What USAID is not doing in this CDCS.** The Mission will not be engaged with Rule of Law programming. This is an area where the GOI has taken on policy leadership and committed to increased funding. The

---

<sup>14</sup> Interagency partners at Embassy Jakarta include the Department of State (Economic, Political and Public Affairs sections), US Department of Agriculture, US Foreign Commercial Service, US Treasury, Millennium Challenge Corporation, Centers for Disease Control and Prevention, and US Development Finance Corporation.

Mission is transitioning from providing higher education scholarships to leveraging existing Indonesian scholarship funds, particularly through the government’s Indonesia Endowment Fund for Education (LPDP), to significantly increase the number of Indonesians studying in the U.S. and broaden linkages between U.S. and Indonesia higher education institutions. Finally, the CDCS will reorient national level programming through geographic targeting to maximize development impact and USAID’s manageable interests.

## IV. RESULTS FRAMEWORK

### A. Goal Statement

**USAID’s CDCS goal is: “Indonesia is an advanced, just, prosperous, and self-reliant Indo-Pacific partner.”** USAID’s CDCS goal centers on Indonesia’s own self-reliance goal for the GOI’s medium-term development plan (RPJMN 2020-2024): “Indonesia that is self-reliant, advanced, just, and prosperous.” This approach is appropriate for a relatively high capacity, high commitment country. The CDCS mirrors Indonesia’s goal to highlight strategic relevance, the U.S.-Indonesia partnership and Indonesian ownership. The goal also underpins USAID’S Policy Framework with an explicit CDCS focus on self-reliance. Moreover, in addition to including “Indo-Pacific partner” language at the goal level, the CDCS makes explicit its support for IPS/USAID objectives and links to the IPS as follows:

- *Advanced and Prosperous* relate to the IPS principles of a “free and open” economy and IPS/USAID Objective 2, “Foster Private Sector-Led Growth” and CDCS economic growth efforts. In addition, CDCS health and education programming contribute to strengthening human capital, which is critical to advancing inclusive economic growth.
- *Just* stands for the principles of “free” and “open” under IPS/USAID Objective 1, “Strengthen Democratic Systems,” and supported through CDCS democratic governance programs, including those defending an independent media, protecting human rights, and strengthening civil society.
- *Self-reliant* hinges on sustainability and IPS/USAID Objective 3, “Improve Management of Natural Resources,” and is linked to CDCS environment/NRM and energy programs. Likewise, all CDCS DOs have an explicit focus on self-reliance.

The CDCS DOs flow out of the CDCS goal and align with the four intersecting priorities identified through consultations with the GOI. **USAID will support the GOI priorities as follows:**

- **Government effectiveness** through DO 1: Effective, Democratic Governance Strengthened. In addition, governance and public sector service delivery are important enablers under DOs 2, 3 and 4.
- **Human capital** through DO 4, Priority Health Outcomes Improved; the workforce component of DO 2: Inclusive Economic Growth Increased; and WASH efforts under DO 3: Environmental Sustainability Improved.
- **Inclusive economic growth** through DO 2: Inclusive Economic Growth Increased. In addition, DOs 3 and 4 will also advance inclusive economic growth.
- **Environmental sustainability** through DO 3: Environmental Sustainability Improved.

## B. DO 1: Effective, Democratic Governance Strengthened

Indonesia has relatively high levels of J2SR commitment and capacity for open and accountable governance, central government capacity, and civil society capacity sub-dimensions. Nevertheless, ‘Tax System Effectiveness’ is one of the few indicators where Indonesia lags significantly, reflecting a systemic challenge for financing self-reliance (the GOI’s tax revenue to GDP ratio is less than 12%). Low tax revenue constrains government investments in social services and infrastructure.<sup>15</sup> At the subnational level, provincial indicators of tax effectiveness show that tax collection outside Jakarta and Java is typically below 10% of GDP, highlighting a major challenge for local financing of decentralization efforts. This is a priority reform area as Indonesia’s low level of subnational revenue mobilization further stresses the central government budget through transfers to local governments.

Additionally, capacity constraints exist at the subnational level that are not reflected in the data available for country-level analysis. There remain significant issues related to corruption, uneven governance, and unbalanced service delivery at the subnational level that have been shown to affect how citizens view government effectiveness and the use of tax revenues. Moreover, violent extremism, and rising religious and ethnic intolerance that risk democratic backsliding are highlighted in other indicators and USAID analyses.

In response to these challenges, USAID has three broad priorities for this DO: governance and anti-corruption efforts (IR 1.1: Governance Reforms Advanced); increased public participation in advocacy for reforms and government accountability (IR 1.2: More Informed and Active Public Participation); and, efforts to arrest democratic backsliding and growing intolerance, including countering violent extremism

Figure 3: Results Framework for DO 1

DO 1: Effective, Democratic Governance Strengthened
<p><b>IR 1.1: Governance Reforms Advanced</b></p> <ul style="list-style-type: none"> <li>● <u>1.1.1</u> Improved policy formulation, coordination, and implementation</li> <li>● <u>1.1.2</u> Strengthened subnational planning, financing, and execution capacity</li> <li>● <u>1.1.3</u> Increased accountability and integrity in public sector performance</li> </ul>
<p><b>IR 1.2 More Informed and Active Public Participation</b></p> <ul style="list-style-type: none"> <li>● <u>1.2.1</u> Improved access to quality information</li> <li>● <u>1.2.2</u> Improved channels for meaningful civic engagement</li> <li>● <u>1.2.3</u> Strengthened viability of civil society organizations</li> </ul>
<p><b>IR 1.3 Rights and Tolerance Elevated</b></p> <ul style="list-style-type: none"> <li>● <u>1.3.1</u> Strengthened resilience of democratic values and norms</li> <li>● <u>1.3.2</u> Improved protection of human rights</li> <li>● <u>1.3.3</u> Improved access for and social inclusion of marginalized groups and vulnerable populations</li> </ul>

(IR 1.3: Rights and Tolerance Promotion Elevated). In all three IRs, USAID anticipates working as an advisor to GOI institutions, subnational governments, and civil society organizations, building their capacity to plan, finance and implement their own development solutions to these democratic governance challenges. Under IR 1.1, the Mission will use provincial roadmaps to tailor subnational interventions based on the commitment and capacity of subnational government counterparts. The expectation is that a strong co-design process will produce a tailored focus that supports local governments with budget planning and execution.

Democratic governance is a cross-cutting issue across all the sectors, and there are extensive linkages with the other DOs, particularly in the eight priority provinces

where the Mission expects to implement integrated programming from all four DO teams. DO 1 also recognizes the value of engaging with Indonesia’s large youth population in advancing anticorruption, CVE, and civil society and media work. In addition, DO 1 plays a critical role in supporting IPS efforts to

<sup>15</sup> See [OECD Economic Surveys: Indonesia 2018](#).

improve open and accountable governance, fight corruption, strengthen civil society, protect human rights, and counter violent extremism and intolerance. Finally, DO 1 addresses issues around religious and ethnic minorities. Work in this area will occur in the context of USAID's efforts with other marginalized, disenfranchised, or socially excluded groups, and focus on maintaining and promoting inclusion and engagement in the democratic, social, governing, and economic life of Indonesia. These efforts will advance broader U.S. Embassy policy and engagement with all levels of the GOI and civil society on specific religious freedom issues consistent with the 2019 State Department International Religious Freedom Report.

**DO 1 Development Hypothesis** *If Indonesia implements a progressive reform agenda with accountability, transparency, public participation, and respect for rights, then Indonesia will govern democratically and effectively and achieve its vision of becoming self-reliant and just.*

The GOI has committed to improving bureaucratic performance by focusing on more responsive public service delivery and consolidation and simplification of national and subnational government operational and regulatory processes. This includes enhancing local capacity to reinforce stronger, more effective, and accountable governance and justice systems. Lack of human capacity within the government bureaucracy inhibits responsiveness and service provision. A recent World Bank Public Expenditure Review<sup>16</sup> points to an urgent need to increase domestic revenue mobilization, improve the quality of public spending, and borrow prudently at the national and subnational level. Thirty percent of total government expenditures are transfers to sub-national governments. These funds are only weakly tied to prioritized outcomes. The inability at the subnational level to identify and channel available resources to meet needs creates unnecessary gaps and calls into question the government's ability to respond, particularly in the areas of health, education, and NRM. The absence of accountability systems that engage the public weaken anti-corruption efforts, are exploited by anti-government and violent extremist elements, and can waste the limited public resources necessary to improve the lives of the Indonesian people. USAID's efforts to build human capacity and improve accountable bureaucratic effectiveness at the national and subnational level will enable the GOI to realize its development goals as an effective, stable, and functioning state.

Finally, the GOI is committed to promoting pluralism and countering religious and cultural extremism, which represent threats to a person's physical, mental, and political security (the ability to protect one's rights peacefully and democratically), but also to an individual's access to social support (including health and education), economic opportunity, and overall well-being. The following IRs and sub-IRs directly support these priorities:

**IR 1.1: Governance Reforms Advanced** includes three sub-IRs: (i) improved policy formulation; (ii) strengthened subnational planning, financing and execution capacity; and, (iii) increased accountability and integrity in public sector performance. IR 1.1 has been developed based on recent assessments that have highlighted a decline in perception of government legitimacy.<sup>17</sup> At the subnational level, the provincial roadmaps highlight significant differences in capacity and commitment across Indonesia. Under IR 1.1, USAID will provide demand-driven support for PFM, including work related to tax policy and improved tax systems effectiveness. Finally, corruption remains an issue that Indonesians regularly identify as a major challenge. This IR supports programming across the other DOs which will rely on functional and effective government counterparts to support Indonesia along its journey to self-reliance.

**IR 1.2: More Informed and Active Public Participation** includes three sub-IRs: (i) improved access to quality information; (ii) improved channels for meaningful civic engagement; and, (iii) strengthened

---

<sup>16</sup> <https://www.worldbank.org/en/country/indonesia/publication/indonesia-public-expenditure-review>

<sup>17</sup> See [Bertelsmann Stiftung BTI Transformation Index Country Report for Indonesia](#).

viability of civil society organizations. A recent USAID strategic assessment highlighted the risks posed by inflammatory and exclusionary messaging, from both traditional sources and social media, that could exacerbate intolerance and violence.<sup>18</sup> Despite the high capacity of many Indonesian CSOs, they are overwhelmingly dependent on funding from government or international donors, so USAID plans to build institutional capacity and financial viability of CSOs and the non-governmental sector to promote self-reliance.<sup>19</sup> Given the risks of declining trust in the government, public participation is an important enabler for all DOs.

**IR 1.3: Rights and Tolerance Elevated** includes three sub-IRs: (i) strengthened resilience of democratic and social norms; (ii) improved protection of human rights; and, (iii) improved access for and social inclusion of marginalized groups and vulnerable populations. This IR will include efforts to combat intolerance and violent extremism and build community resilience against extremist ideologies. GBV will be addressed through integration of women’s security concerns and related efforts to stem intolerance. It will also strengthen access for and protection of vulnerable populations and marginalized groups, including religious minorities.

DO 1 plays an important role in supporting the IPS/USAID Strengthen Democratic Systems objective. DO 1 will contribute to the Indo-Pacific Transparency Initiative (IPTI) through project activity efforts to improve open and accountable governance, fight corruption, strengthen civil society, protect human rights, and counter violent extremism and intolerance. DO 1 governance activities also have implicit cross-cutting linkages to support DOs 2, 3 and 4 work in economic governance, education, environment and NRM, and health.

*Table 2: DO 1 Approach to J2SR Components*

J2SR Component	DO 1 Approach
<b>Redefining the Relationship</b>	<ul style="list-style-type: none"> <li>• DO 1 jointly developed by GOI and USAID.</li> <li>• GOI national and subnational institutions are taking the lead on good governance, anti-corruption, and countering intolerance and violent extremism.</li> <li>• USAID’s role as a trusted advisor (IR 1.1 and IR 1.3) will advance priority policy and regulatory reforms.</li> <li>• GOI participation in design teams for new project activities; GOI counterparts to identify commitments and priorities in terms of staffing and financing to support activities.</li> </ul>
<b>Financing Self-Reliance</b>	<ul style="list-style-type: none"> <li>• CSO initiatives that increase their capacity to finance their own efforts, and advocate effectively for government accountability to the public.</li> <li>• Work to support enhanced budget allocation and execution; strengthened oversight of public resources to improve the efficiency and effectiveness of GOI funds.</li> </ul>
<b>Private Sector Engagement</b>	<ul style="list-style-type: none"> <li>• Private sector is an important stakeholder in local governance, anti-corruption, countering extremism, advocacy efforts, and service delivery. Private sector provision of service delivery and corporate social responsibility.</li> <li>• Mission PSE platform as a mechanism for incentivizing private sector participation in delivering improved government services.</li> </ul>
<b>Effective Partnering and Procurement Reform</b>	<ul style="list-style-type: none"> <li>• New local governance activities include conducting provincial PEAs to then co-create tailored programming with national and subnational governments and partners.</li> </ul>

<sup>18</sup> See USAID/Indonesia: [Indonesia CDCS Strategic Assessment/Conflict Assessment](#).

<sup>19</sup> See USAID/Indonesia: [Assessment Report: Civil Society Organizations in Indonesia](#).

	<ul style="list-style-type: none"> <li>● Co-creation and collaborative designs as a standard procurement technique. Proactive efforts to identify and use U.S. small businesses as implementing partners.</li> <li>● Under the New Partnerships Initiative (NPI), DO 1 will seek new and underutilized partners and build their organizational capacity to enhance their impact and long-term viability.</li> </ul>
--	---

USAID will coordinate DO 1 programming with the Governments of Australia, Canada, the Netherlands, and Germany, all who have robust governance, civil society, and anti-corruption programs in Indonesia. The Government of Australia is the largest player in supporting local governance and will be a key international partner going forward. The Mission is actively sharing information amongst development partners (DPs) and informing sectoral assessments in the civil society area, in particular, to ensure that DPs are best able to leverage resources and relationships for impact.

<i>Table 3: Key Assumptions and Risks for DO 1</i>	
Assumptions	Risks
<ul style="list-style-type: none"> <li>● COVID-19: corruption will increase and spread more broadly as the GOI makes significant resources available for recovery.</li> <li>● GOI remains committed to an open society with strong democratic norms.</li> <li>● Local governments committed to aligning with the national development plan.</li> <li>● GOI is willing to work with CSOs and accept public feedback and criticism.</li> <li>● CSOs have adequate capacity and funding.</li> <li>● USAID is committed to supporting a “whole of province governance” approach.</li> <li>● Adequate USG funding.</li> </ul>	<ul style="list-style-type: none"> <li>● COVID-19: intolerant/radical groups will try to capitalize on the crisis by spreading misinformation to generate opposition to the GOI, increase intolerance, and recruit extremists.</li> <li>● Democratic backsliding.</li> <li>● Intolerance threatens open governance and CSO partner organizations.</li> <li>● “Recentralization” by the national government negatively affects subnational governance reform and improvements; creates conflicts with subnational institutions.</li> <li>● GOI political-security policy changes could restrict USAID program and partner access in some geographic areas.</li> </ul>

**Response to COVID-19 related impact on intolerance and democratic resilience:** If intolerance continues to increase and actors advocating religiously extreme, anti-democratic, and/or counter-diversity views continue to gain influence, Indonesia’s democratic and inclusive character could be severely damaged. Violent extremists could attempt to use weaknesses in the GOI’s response to the COVID-19 pandemic to encourage anti-government sentiments or attempt to ramp up recruitment in areas hit particularly hard by COVID-19’s economic costs. Though analysis to date has not produced clear evidence of this concern, the risk remains. To mitigate this impact, USAID will more robustly engage in the media sector to counter misinformation campaigns, support government transparency and accountability in public sector COVID-19 response efforts, and monitor the relationship between the impact of the pandemic and the activities of extremist and intolerant groups. USAID will continue to monitor and work to prevent online recruitment by extremist groups. The Mission will continue to track second order impacts of COVID-19 and adapt civil society, accountability, media, and CVE programming based on data to address new challenges as they arise.

**C. DO 2: Inclusive Economic Growth Increased**

Indonesia was among Asia’s fastest growing economies pre-COVID 19. As detailed in a 2018 McKinsey Global Institute (MGI) report, Indonesia is one of only seven developing country “long-term outperformers” (along with China, Hong Kong, Malaysia, Singapore, South Korea, and Thailand) that

have achieved or exceeded real annual GDP growth of 3.5 percent over 50 years.<sup>20</sup> Domestic savings and capital accumulation were the main drivers of Indonesia’s growth. Indonesia underperformed in terms of increases in productivity, innovation, exports and MGI’s ‘Connectedness Index.’<sup>21</sup>

The GOI now faces the dual challenges of responding to a pandemic-induced economic downturn while maintaining its stated commitment to an ambitious economic reform agenda. How quickly Indonesia recovers, and how the GOI responds to the COVID-19 crisis, will determine if the nation can live up to its aspirations of becoming one of the world’s largest economies in the coming decades. Relatively high ratings in the ‘Economic Policy’ and ‘Capacity of the Economy’ sub-dimensions from the Country Roadmap reflect Indonesia’s strong macro-economic performance, with the GOI managing both stability and growth. While growth since the AFC has been resilient and impressive by global standards, it has not

been sufficient to drive productivity gains or mobilize the domestic resources needed to achieve sustained development outcomes.

Private sector enabling environment reforms have potential to accelerate inclusive economic growth. Indonesia’s business environment has improved in the past decade, but there is still much to be done, especially in easing trade and investment restrictions, streamlining labor legislation, and closing the economic gender gap. The existing regulatory environment deters foreign investment in the Indonesian economy

Figure 4: Results Framework for DO 2

<b>DO 2: Inclusive Economic Growth Increased</b>
<p><b>IR 2.1: Workforce Productivity Increased</b></p> <ul style="list-style-type: none"> <li>● <u>2.1.1</u> Access to quality, global standard universities increased</li> <li>● <u>2.1.2</u> Access to market-relevant vocational and technical training improved</li> </ul>
<p><b>IR 2.2 Public and Private Capacity to Expand Economic Growth Strengthened</b></p> <ul style="list-style-type: none"> <li>● <u>2.2.1</u> Economic policy and regulatory implementation improved</li> <li>● <u>2.2.2</u> Private sector engagement to achieve development outcome expanded</li> </ul>

through complex foreign direct investment (FDI) restrictions, foreign-equity limits, and special licensing requirements. Strict regulations also disincentivize domestic businesses from joining the formal sector, further exacerbating the financial gap and opportunities for SMEs and foreign investors, while reducing competition for large incumbent firms. As a large, resource-rich country in one of the most dynamic regions in the world, Indonesia is well-positioned to reap the benefits of growing domestic and regional markets. Indonesia’s participation in a number of bilateral and regional economic agreements provide opportunities to increase trade and investment and promote inclusive economic growth.

Under this DO, USAID is focused on two intermediate results: increasing workforce productivity through improved higher education and vocational training (IR 2.1: Workforce Productivity Increased); and, improving public and private sector capacity to support economic growth (IR 2.2 Public and Private Capacity to Expand Economic Growth Strengthened). Under the workforce productivity IR, the Mission will act in an advisory capacity to leverage existing GOI financing and policies focused on higher education institutions and vocational training, convene private sector actors to align education programs with the needs of Indonesian employers, and connect the private and public sectors to advance the use of science, technology, innovation, and research for long term economic growth. Increased access to quality vocational and work skills training that is relevant to private enterprises’ labor force needs will lead to more productive employees. By helping mobilize GOI education resources,

<sup>20</sup> MGI. “Outperformers Maintaining ASEAN Countries’ Exceptional Growth.” Produced for the Singapore Summit 2018.

<sup>21</sup> The MGI Connectedness Index provides a comprehensive analysis of how countries participate in inflows and outflows of goods, services, finance, people, and data.

the USAID will support increased self-reliance while leveraging broader and more lasting U.S.-Indonesia higher education partnerships.

Through the economic growth IR, USAID will: advise and strengthen the capacity of the GOI to develop and implement market-friendly economic policy and regulatory reforms aimed at improving the private sector enabling environment; support PFM efforts; and, provide support for actionable economic growth research studies and analytical work. The DO will focus on FSR by leveraging existing GOI resources for workforce development, advancing trade and investment initiatives, and supporting PFM and effective economic governance efforts. This DO will also place a strong emphasis on PSE with one sub-IR dedicated to working with the private sector to co-create enterprise-driven solutions and “crowd in” private sector participation and investments to address Indonesia’s development challenges.

This DO will rely heavily on DO 1 governance efforts. Private sector enabling environment reforms and PFM are linked to the governance programs at the national and subnational level. Within this DO, the sub-IR 2.2.2 is intended to serve as a private sector engagement accelerator for the other three DOs to access enterprise-driven solutions and investments to address the challenges in their specific technical sectors.

The DO directly supports the IPS. In line with the IPS Economic Growth Pillar and USAID’s strategic approach to advance the IPS, the DO will support a more attractive trade and investment environment for SMEs, women’s economic empowerment, and international investors, while improving competitiveness. Depending on targets of opportunity and funding availability, DO activities may also support improving the enabling environment for infrastructure investment and the digital economy.

Finally, the DO will seek opportunities for collaboration with USAID/ASEAN’s support for a more integrated and inclusive ASEAN Economic Community (AEC). Areas of specific relevance include ASEAN work on strengthening the enabling environment for cross-border trade, increasing SME access for digitally enabled services, and promoting conditions for gender equality and women’s participation in trade.

**DO 2 Development Hypothesis** *If the productivity of Indonesia’s workforce is improved and the enabling environment for doing business is strengthened, then Indonesia’s economy will be more inclusive, contributing to the country’s self-reliance.*

Indonesia’s transformation to upper-middle income status, as well as its long-range aspirations to become a high-income country by 2045, is constrained by relatively low labor productivity, a high degree of informal employment, and a challenging enabling environment for inclusive economic growth. Indonesia’s digital economy, the largest in Southeast Asia, is estimated at \$40 billion in 2019, and has quadrupled in size since 2015 at an average growth rate of 49% a year. It is projected to reach \$133 billion by 2025. Maintaining this growth trajectory will be crucial to help enable a rapid economic rebound when the pandemic threat is over, as well as to realize the GOI’s vision of an advanced Indonesia where no one is left behind.

In terms of regional disparities, there are substantial subnational disparities in economic opportunities, resulting in higher poverty rates in eastern Indonesia and rural areas. These constraints, in turn, limit Indonesia’s economic competitiveness, which the World Economic Forum (WEF) defines as “the set of institutions, policies and factors that determine the level of productivity of a country.” Data and evidence from the WEF show that the more competitive an economy is, the more likely it is to achieve inclusive and sustainable economic growth.<sup>22</sup> Similar evidence is presented by the OECD.<sup>23</sup> The GOI

---

<sup>22</sup> [World Economic Forum. 2019 Global Competitiveness Report](#)

<sup>23</sup> [OECD 2018. The Productivity-Inclusiveness Nexus](#)

recognizes the critical need to improve the quality of human capital and increase economic growth that is inclusive, sustainable and resilient. Based on Indonesia's medium-term development plan context and USAID's comparative advantage, DO 2 will emphasize two economic competitiveness areas: human capital and the enabling environment.

Re-engaging in the Economic Growth sector to advance IPS objectives creates an opportunity for Indonesia to engage with the interagency Digital Connectivity and Cybersecurity Partnership (DCCP). The DCCP's objectives partner with host governments in the development of a private enterprise-led model to develop communications infrastructure that promote transparent regulatory policies for open, competitive markets which complements the DO2 objectives. A new, digitally-minded workforce will need to be trained and empowered for work in the 4th industrial revolution. In addition, small and medium enterprises face multiple barriers to entry in e-commerce and cross-border trade in services that the Mission should be well positioned to respond to.

The GOI has committed to an ambitious economic reform agenda in the form of two omnibus economic-related legislative bills (Job Creation and Taxation) to attract more FDI and create jobs in emerging industries and SMEs.<sup>24</sup> Both bills harmonize overlapping licensing and permit procedures, create new fiscal facilities to promote President Widodo's second term priorities in research and human capital development, prioritize measures to improve labor productivity and competitiveness in Indonesia, and advance the GOI's tax reform effort. Prior to the COVID-19 pandemic, the GOI estimated that the bills will lead to 5.7 to 6.0 percent GDP growth, create 2.7 to 3.0 million new jobs, and increase annual investment growth to 6.6 to 7.0 percent. The omnibus economic bills are the clearest manifestation of President Jokowi's vision to structurally transform the Indonesian economy and to prevent Indonesia from falling into the "middle-income trap." As such, the USG has a timely opportunity to support the implementation of the GOI's economic reform and self-reliance goals through the following IRs and sub-IRs:

**IR 2.1: Workforce Productivity Increased** includes two sub-IRs: (i) access to quality, global standard universities increased; and, (ii) access to market-relevant vocational and technical training increased. Taken together, these efforts are aimed at supporting Indonesia's transformation into a more globally competitive economy and a shift into modern industry and services jobs. By their nature, workforce productivity efforts will focus primarily on youth and support the GOI's priority to improve human capital and take advantage of Indonesia's demographic dividend. IR 2.1 will also align with and support USAID's environment/NRM, energy, and health activities. Activities under this IR will also help to advance Indonesia's STEM capabilities, for example, by connecting private sector partners to universities to develop research and development partnerships or through vocational/technical training focused on the digital economy and in connection with IT companies. Activities will increase access to and quality of digital skills, to develop market-relevant job skills for Indonesia's digital economy.

**IR 2.2: Public and Private Capacity and Commitment to Expand Economic Growth Strengthened** includes two sub-IRs: (i) improving the development and implementation of market-friendly economic policy and regulatory reforms, with an emphasis on improving the private sector enabling environment (e.g., ease of doing business, trade and investment, women's economic empowerment, ICT), along with PFM, improved tax administration and action-oriented economics research/analytical support, depending on GOI requests and USAID available resources; and, (ii) mainstreaming PSE to achieve

---

<sup>24</sup> Proposed reforms to the GOI Labor Law (2003) included in the omnibus job creation bill were delayed as of September 2020. The bill has been recast with a focus on ease of doing business and investment climate reforms. The Jokowi administration has indicated its commitment to engaging with Indonesia's parliament (DPR) in moving forward with discussions related to the two draft bills.

development outcomes through a platform for driving PSE across the Mission’s entire portfolio (e.g., co-creation, crowding in private sector financing, blended finance).

*Table 4: DO 2 Approach to J2SR Components*

J2SR Component	DO 2 Approach
<b>Redefining the Relationship</b>	<ul style="list-style-type: none"> <li>The GOI is taking the lead on the economic reform agenda aimed at increasing workforce productivity, strengthening PFM, and improving the business enabling environment. USAID’s role is as a strategic advisor. (IR 2.1 and IR 2.2).</li> </ul>
<b>Financing Self-Reliance</b>	<ul style="list-style-type: none"> <li>Through targeted TA, USAID is leveraging large GOI investments in higher education, including university scholarships.</li> <li>The GOI is advancing a tax reform program to increase domestic resources for investing in development through improved tax administration and PFM.</li> <li>Increased FDI and domestic private sector investment will support inclusive economic growth.</li> </ul>
<b>Private Sector Engagement</b>	<ul style="list-style-type: none"> <li>IR 2.2 is a key enabler for the DO and a PSE platform for CDCS sector-based activities in governance, education, environment/NRM, energy, WASH, and health.</li> <li>Target higher education and vocational training institutions will engage in partnerships with the private sector to be more responsive to market needs.</li> </ul>
<b>Effective Partnering and Procurement Reform</b>	<ul style="list-style-type: none"> <li>Co-creation and collaborative designs as a standard procurement technique. Proactive efforts to identify and use U.S. small businesses as implementing partners.</li> <li>Under the NPI, DO 2 will seek new and underutilized partners and build their organizational capacity to enhance their impact and long-term viability.</li> <li>The planned PSE platform will help drive innovation, co-creation, and new partnerships for DO 2, inclusive of the ICT sector, and provide services to DOs 1, 3 and 4.</li> </ul>

For the human capital and productivity IR 2.1, the Mission will coordinate with: the German Agency for International Cooperation (GIZ) to anchor competency based vocational certification; the British Embassy to improve the affordability, quality, relevance and equity of higher education; and, the Government of Australia (DFAT) to offer short term courses to help boost training capacity in priority technical sectors. IR 2.1 will also leverage substantial resources from the GOI’s Indonesia Endowment Fund for Education (LPDP). LPDP provides full-ride scholarships from the Indonesian Ministry of Finance for all Indonesian citizens. LPDP has “a vision to be the best regional fund management institution to prepare future leaders and encourage innovation through the use of STEM for a prosperous, democratic and just Indonesia.” The LPDP service program consists of scholarships, research funding, along with funds management for an endowment that totals over US\$5 billion.

For the economic growth IR 2.2, key DPs will include the ADB, IFC, World Bank, and the Government of Australia (through DFAT), which have all provided substantial tax-related advisory and training support. As USAID has been absent from the EG sector in Indonesia since 2013, the Mission is carrying out a DP mapping effort to identify potential partnerships where results and impact can be amplified. Of particular interest is working more closely with the MDBs to leverage resources, particularly with respect to PFM and tax administration. In addition, given the large size (over \$500 million) of the DFAT EG portfolio, it will be important to ensure that USAID EG programming is not duplicative and working in a niche space where the Mission has a comparative advantage. Within the USG interagency, through the

U.S. Embassy Jakarta ICS USAID will ensure coordination with USG economic engagement priorities and also collaborate with the DFC for early stage transaction support and mobilizing private sector partnerships and financing. Finally, DO 2 will ensure close coordination with the MCC, which is in the process of developing a new Compact that is expected to address three binding constraints: (i) barriers to export-oriented competitiveness; (ii) barriers to the productivity and innovation of non-tradable sector firms (e.g. role of SOEs); and, (iii) inefficient financial intermediation.

*Table 5: Key Assumptions and Risks for DO 2*

Assumptions	Risks
<ul style="list-style-type: none"> <li>● COVID-19: there will be significant challenges to restarting economic growth.</li> <li>● GOI sustains commitment to economic reform agenda, increasing economic competitiveness and business climate improvement (primarily through two proposed omnibus bills and subsequent implementation).</li> <li>● Commitment of GOI to promote higher education quality through major transformation efforts.</li> <li>● Private sector interest and willingness to support development-related alliances and partnerships.</li> <li>● USAID capacity to ramp up EG programming and staffing.</li> </ul>	<ul style="list-style-type: none"> <li>● COVID-19 pandemic is prolonged, resulting in a severe and prolonged economic downturn.</li> <li>● GOI is unable to move forward with its ambitious reform agenda.</li> <li>● Poor coordination and implementation of GOI reform agenda.</li> <li>● Challenging global conditions for trade and investment.</li> <li>● Over-reliance on commodity exports.</li> <li>● Indonesia is vulnerable to capital outflows.</li> <li>● Weakened environmental/social safeguards, increasing potential for low-standard infrastructure investment.</li> <li>● Women’s economic empowerment efforts stall because of rising social conservatism.</li> </ul>

**USAID support for addressing the second order economic effects of the COVID 19 pandemic:** Annual GDP growth for Indonesia will be lower than anticipated; in the worst-case scenario, the Government of Indonesia (GOI) expects the economy to contract 0.4 percent. The Ministry of Finance has projected that 1.89 million to 4.89 million Indonesians could become poor as a result of the pandemic, while 3 million to 5.23 million could lose their jobs. However, recent World Bank analysis concludes that while the COVID impact will increase poverty by 2-3% over a counterfactual of no COVID-19, the Bank now estimates that the massive social assistance programs introduced by the Indonesian government will counteract this effect considerably and is expected to result in a decrease in poverty even under a severe impact scenario. There are concerns with the delays and targeting of these social assistance programs that the Bank and others are working to address. In-line with global projections and assuming no major resurgence of the pandemic, the ADB, IMF, OECD, and World Bank forecast the economy to recover modestly in early-2021, albeit a substantial downturn compared to the pre-pandemic trend. The economic impact is especially acute for the poor and vulnerable, informal sector workers and small and medium enterprises (SMEs). USAID will adjust its approach to economic growth to respond to changing conditions related to COVID-19.

In its favor, however, Indonesia entered the pandemic crisis with strong macroeconomic fundamentals. To support health spending and economic stimulus measures, the ceiling on the fiscal deficit of 3% of GDP has been suspended until 2023. To date, the GOI has mobilized approximately \$59 billion in resources (or 6% of GDP) for pandemic response through budget revisions, bond issuance and multilateral development bank (MDB) support. On June 3, the GOI launched a \$47.6 billion stimulus package to provide assistance for the healthcare system, social protection, and affected workers and businesses. In addition to providing technical assistance to the GOI’s National Task Force for COVID-19, through support to the National Disaster Management Agency (BNPB), the Mission has also been approached to serve on the MOF’s task force for reopening the Indonesian economy. Working together

with the DPs already active in the EG sector, the Mission is poised to provide targeted technical assistance to assist the MOF with developing the policy and action plan to re-open the economy. USAID will adapt its workforce development activities to counter the second order effects anticipated with respect to unemployment and the informal sector, particularly for women entrepreneurs. Moreover, the Mission is in discussions with DFC about possible loan guarantee programs that may target the credit crunch felt by SMEs and the private health care industry. Again, the Indonesian government has launched significant credit programs targeting SMEs and the Mission is assessing how to best put USAID resources to use.

Despite the very real risks that Indonesia faces with respect to the pandemic, the GOI entered this crisis with strong fundamentals and stands every chance of becoming stronger by weathering this storm. To date, the GOI is monitoring the economic impacts and is proactively updating approaches and policy actions. As a major sign of investor confidence, 72% of the \$5.7 billion of initial capital flight in early-March has returned to Indonesia, and the Rupiah to U.S. dollar exchange rate has nearly fully recovered from an initial 16% drop. USAID is monitoring the economic situation on a weekly basis, paying particular attention to how effectively the GOI deploys its key measures, including disbursement of social transfers for the poor and vulnerable, as well as tax cuts and loan payment relief for workers and businesses.<sup>25</sup> In addition to the support already being provided to the BNPB and MOF, USAID is ready to provide additional support through existing and new programs. This support will include a new loan guarantee program to provide financial liquidity options for hospitals, clinics, and pharmacies, as well as COVID response-related supply chains. The GOI's response to the economic impacts of the pandemic reinforces the importance of improving Indonesia's competitiveness and the private sector enabling environment. Leading Indonesian analysts believe that the Jokowi administration will use the sour economic predictions to tackle entrenched interests and push for a greater opening of the economy. This can be seen in the President's draft Omnibus Law on Job Creation, currently in parliament. These reforms and the ongoing stimulus measures are key to re-starting the economy and engendering confidence by the business community: areas where the GOI remains committed and the CDCS is positioned to support.

---

<sup>25</sup> Source: [IMF: Indonesia - Key Policy Responses for COVID-19](#)

## D. DO 3: Environmental Sustainability Improved

With its diverse archipelagic geography, Indonesia is blessed with natural resources and the greatest combined concentration of marine and terrestrial biodiversity on Earth. The above average ‘Biodiversity and Habitat Protections’ indicator reflects good GOI policies, but a look at cross-cutting secondary indicators highlight weaknesses in management of forest and biodiversity, energy systems, and for WASH-related services. Indonesia’s natural resources have fueled economic growth, resulting in massive land use change, deforestation, and unsustainable fishing practices that threaten sustained growth. Migration from rural areas is also accelerating urbanization, thereby increasing environmental pressures, and stressing public services and infrastructure in cities. Finally, Indonesia is profoundly vulnerable to natural disasters and the negative impacts are exacerbated by environmental degradation and growth of urbanization in vulnerable locations. The GOI has identified environmental sustainability as a priority.

In response to these challenges, USAID is focusing its efforts on: natural resources management (IR 3.1: Natural Resource Management Improved); urban environmental issues and resilience (IR 3.2: Urban Environmental Management Strengthened);

Figure 5: Results Framework for DO 3

DO 3: Environmental Sustainability Improved
<p><b>IR 3.1: Natural Resources Management Improved</b></p> <ul style="list-style-type: none"> <li>● <u>3.1.1</u> Protection of high priority natural areas improved</li> <li>● <u>3.1.2</u> Sustainable economic practices promoted in targeted areas</li> <li>● <u>3.1.3</u> Crime associated with natural resources reduced</li> </ul>
<p><b>IR 3.2 Urban Environmental Management Strengthened</b></p> <ul style="list-style-type: none"> <li>● <u>3.2.1</u> Access to safely managed drinking water services and sanitation improved</li> <li>● <u>3.2.2</u> Urban resilience to disaster increased</li> <li>● <u>3.2.3</u> Solid waste management improved</li> </ul>
<p><b>IR 3.3 Reliable, Equitable and Sustainable Energy Increased</b></p> <ul style="list-style-type: none"> <li>● <u>3.3.1</u> Deployment of advanced energy accelerated</li> <li>● <u>3.3.2</u> Performance of energy utilities improved</li> <li>● <u>3.3.3</u> Transparent best value procurement adopted</li> </ul>

and, improved energy services (IR 3.3: Reliable, Equitable and Sustainable Energy Increased). USAID’s activities under this DO include specialized technical assistance to build capacity of public and private sector actors to improve environmental sustainability. This DO will also align with ‘Financing Self-Reliance’ and ‘Private Sector Engagement’ in seeking to leverage public and private sector resources and solutions to address environmental challenges.

DO 3 will include linkages with DO 1 governance and civil society strengthening work. Addressing priority environmental challenges is dependent on execution of national level environmental policies at the subnational level and on capable civil society partners that can implement programming. In line with USAID’s Policy on Promoting the

Rights of Indigenous Peoples, DO 3 will help indigenous communities secure and uphold their legal right to manage customary land in a manner that protects forests and marine ecosystems, while contributing to local livelihoods. Under the previous strategy, there were successful linkages with the private sector, and USAID expects ongoing linkages with DO 2 efforts to identify enterprise-driven solutions and partnerships with the private sector. Given the linkages between wildlife markets and the potential for zoonotic disease spillovers, efforts to counter wildlife trafficking also support DO 4’s health work with respect to the GOI’s pandemic preparedness and monitoring and mitigation initiatives. Finally, work on urban environmental management, particularly WASH, is linked to DO 4’s health efforts to improve maternal and newborn health.

This DO is directly aligned with the Natural Resources Safeguards and Security focus area under the IPS, addressing transnational environmental crimes and sustainable economic practices. Moreover, the IR 3.3 work on energy falls under the Asia EDGE Initiative. The DO also supports USAID’s Environmental

and Natural Resource Management (ENRM) Framework which is focused on two priority areas: NRM for self-reliance and urban systems for a cleaner environment and enhanced human well-being. Finally, the WASH-related activities under IR 3.2 contribute to the US Global Water Strategy (GWS) and USAID Water Development Plan with linkages to the three GWS strategic objectives: (i) sustainable access to safe drinking water and sanitation services, and the adoption of key hygiene behaviors; (ii) sound management and protection of freshwater resources; and, (iii) strengthened water sector governance, financing, and institutions.

**DO 3: Development Hypothesis** *If Indonesia strengthens management of its biologically diverse natural resources, invests in cleaner, more resilient cities, and provides reliable, secure, and advanced energy, then Indonesia's ecosystems and the services they provide will be more sustainable and support long-term, self-reliant economic growth.*

Indonesia's economic growth and transition to an upper-middle income country, as well as its long-range vision to become a high-income country, depend on: the sustainable use of natural resources; improved access to safe drinking water and sanitation services with key hygiene behaviors; strengthening resilience to the impacts of frequent natural disasters; and, transformation to a more advanced and sustainable energy sector. Given the importance of sound environmental management to Indonesia's economic growth, the GOI's medium-term development plan includes a focus on environment and disaster and climate resilience. This DO addresses several critical challenges to environmental sustainability. This includes: threats to globally significant terrestrial and marine biodiversity; carbon emissions from deforestation and poor land management practices; increasing urban environmental challenges linked to rapid urbanization; the impacts of natural disasters; and, continued reliance on inefficient and unsustainable energy sources.

Indonesia's RPJMN 2020-2024 identifies seven national priorities for development. Three of these national priorities are in strong alignment with Development Objective 3, namely: Strengthening Economic Resilience for Quality Growth; Strengthening Infrastructure to Support Economic Development and Basic Services; and, Building the Environment, Enhancing Disaster Resilience, and Climate Change. The GOI has identified an ambitious agenda to address these priorities including: sustainable forest management; land restoration; marine resources management and marine spatial planning; coastal and marine low-carbon development; green industry development; and, strengthening institutions and law enforcement in natural resources and the environment. In addition, the GOI also focuses on the: urban environment, including access to WASH services; pollution prevention and management; waste management; disaster management; and, climate resilience. Finally, the GOI has identified advanced energy as a path for sustainable growth, including activities in new and renewable energy, and sustainable energy development. DO3 responds to the GOI's environment/NRM agenda through the following IRs and sub-IRs:

**IR 3.1: Natural Resource Management Improved** includes three sub-IRs: (i) improved protection of high priority natural areas in both marine and terrestrial landscapes; (ii) sustainable economic practices for NRM promoted in targeted areas; and, (iii) crimes associated with natural resources reduced. USAID will work with the GOI, civil society organizations and the private sector to develop effective NRM practices that support sustainable economic growth, protect marine and terrestrial biodiversity, and to deter transnational crimes, including illegal, unreported, and unregulated (IUU) fishing and wildlife trafficking. This will include collaboration with USAID regional programs. Efforts to counter wildlife trafficking are especially important due to the potential for the spillover of zoonotic diseases from wildlife markets, transmission to humans and the risk of pandemics. USAID will also reduce land-based emissions through productive forest management and restoration of high carbon value ecosystems to help Indonesia meet its stated goal "of reducing emissions by 41 percent by 2030 with international assistance." Where

practical, USAID will leverage nature-based solutions under IR 3.1 to address socio-environmental challenges linked to urbanization including water security, climate change, and disaster risk management.

**IR 3.2: Urban Environmental Management Strengthened** includes three sub-IRs: (i) access to safely managed drinking water services and sanitation improved; (ii) urban resilience to disaster increased; and, (iii) solid waste management increased. Declining opportunities in rural livelihoods are driving urbanization with 55% of Indonesia’s population now urban, up from 48% ten years ago. This growing urban population is both vulnerable to disasters and driving further urban environmental degradation. Given limited resources, USAID has prioritized resilience of urban and peri-urban areas for greater impact. USAID will work with the GOI, CSOs, and the private sector to improve access to safely managed drinking water and sanitation services. USAID will begin new activities to address urban solid waste, particularly waste that contributes to ocean plastic pollution. Finally, USAID will continue to work with the GOI and CSOs on disaster response and resilience for urban populations living in vulnerable areas. IR 3.2 project activities will be supplemented by collaborative programming with USAID’s Office of U.S. Foreign Disaster Assistance (OFDA). Mission staff coordinate closely with OFDA staff and have created IR 3.2 to drive program synergy with OFDA’s work on disaster preparedness and resilience.

**IR 3.3: Reliable, Equitable and Sustainable Energy Increased** includes three sub-IRs: (i) deployment of advanced energy accelerated; (ii) performance of energy utilities improved; and, (iii) transparent and best value procurement increased. USAID will support efforts to develop a more effective regulatory environment to modernize the energy sector, attract investment, and provide technical support to complete priority energy projects. The Mission will also work with the GOI, utility companies, the private sector, financial institutions and other stakeholders to meet Indonesia's National Energy Policy targets to increase the share of new and renewable energy in the national energy mix, from approximately 5 percent in 2014 to 23 percent in 2025. This will result in improved provision of equitable and reliable energy services to support sustainable economic growth. USAID will also provide technical advisory support to: improve operational and financial performance of utilities (e.g., grid management, efficiency standards); and, foster adoption of transparent, best value procurement practices that “level the playing field” and expand opportunities for U.S. energy sector companies.

DO 3 contributes to the IPS Asia Enhancing Development and Growth through Energy (EDGE) initiative and the Natural Resources Safeguards and Standards (NRSS) focus area.

J2SR Component	DO 3 Approach
<b>Redefining the Relationship</b>	<ul style="list-style-type: none"> <li>National and subnational government institutions are taking the lead on terrestrial and marine resources management, efforts to deter natural resource crimes, improve WASH and energy services, and prepare and respond to climate and disaster events.</li> <li>Activities under IR 3.1 and 3.2 will partner with companies to support their efforts to bring environmentally sustainable natural resource-based commodities to domestic and international markets.</li> <li>USAID’s role is as a strategic advisor.</li> </ul>
<b>Financing Self-Reliance</b>	<ul style="list-style-type: none"> <li>Leveraging of GOI and private sector resources to finance sustainable environmental management practices.</li> <li>Seek partnerships to promote blended finance to fill conservation financing gaps and sustainable NRM.</li> </ul>

	<ul style="list-style-type: none"> <li>• Transparent and best value procurement in the energy sector promotes fiscal transparency and accountability.</li> </ul>
<b>Private Sector Engagement</b>	<ul style="list-style-type: none"> <li>• Energy work under IR 3.3 represents a significant opportunity to structure/catalyze private sector investment in renewable energy and advanced energy systems.</li> <li>• Mission PSE platform for crowding in private sector solutions/investment and early-stage transaction support.</li> </ul>
<b>Effective Partnering and Procurement Reform</b>	<ul style="list-style-type: none"> <li>• Co-creation and collaborative designs as a standard procurement technique. Proactive efforts to identify and use U.S. small businesses as implementing partners.</li> <li>• Under the NPI, DO 3 will seek new and underutilized partners and build their organizational capacity to enhance their impact and long-term viability.</li> <li>• The planned PSE platform under DO 2 will help drive innovation, co-creation, and new partnerships for DO 3.</li> </ul>

Under DO 3, USAID will leverage existing relationships with development partners, foundations, and private sector entities to implement and scale environmental programming. For example, for safe drinking water and sanitation services, USAID will continue ongoing partnerships with the World Bank and the Swiss State Secretariat for Economic Affairs to improve the financial and technical performance of municipal water utilities. In terrestrial and marine biodiversity, USAID will build off relationships with the Government of Norway, the United Kingdom, and a number of prominent U.S. foundations including the Walton Family Foundation, and the David and Lucile Packard Foundation. The Mission will also strategically engage USG agencies, such as the U.S. Forest Service, the National Oceanographic and Atmospheric Administration, the Department of Interior, the Department of Commerce, the National Renewable Energy Laboratories, and others to provide selected technical expertise to Indonesian institutions to expand models to better safeguard natural resources and improve delivery of energy, and safe drinking water and sanitation services. In addition, the Mission will continue to collaborate on financing opportunities with the DFC (e.g., energy) and U.S. Treasury (debt for nature work).

<b>Assumptions</b>	<b>Risks</b>
<ul style="list-style-type: none"> <li>• COVID-19: sharp reduction in tourism revenue/fees for national parks and conservation areas containing high concentrations of biodiversity.</li> <li>• GOI commitment to and funding for environmental safeguards and improved natural resource management.</li> <li>• Continued urbanization trend.</li> <li>• Technical assistance leverages public and private funding.</li> <li>• Continued support for renewable energy investment and advanced energy services.</li> <li>• Limited private sector interest in safe drinking water and safely managed sanitation-related investment.</li> <li>• Adequate and consistent USG funding.</li> </ul>	<ul style="list-style-type: none"> <li>• COVID-19: pressure on natural resources will increase due to a reduction in government and community monitoring and enforcement.</li> <li>• Political economy changes at subnational level hinder support for reform agenda.</li> <li>• Conflicts between investment vs. environmental safeguards and sustainability.</li> <li>• Energy sector policy changes that constrain investments in renewables and advanced energy services</li> <li>• WASH-related economic governance challenges at the subnational level.</li> <li>• Increased restrictions on operations of environmental CSOs.</li> <li>• Increasing attention/cost of disaster-related response undermines other priorities.</li> </ul>

**USAID’s response to the impact of COVID-19 on NRM:** The onset of the COVID-19 pandemic in Indonesia coincided with an uptick in illegal activity in Indonesia’s forests and seas. These mounting

threats are emerging while state budgets, allocated to protect natural resources, are being slashed. In many ways the pandemic has underscored what we already know, namely that public resources, even in good times, are inadequate to conserve nature. In response, USAID will introduce innovative financing schemes to leverage private capital in pursuit of the protection and sustainable use of Indonesia’s rich natural resources. Specifically, the Mission will promote blended finance, payment for ecosystem services, and conservation endowments to help fill the funding gap for conservation. Simultaneously, USAID will introduce and apply new technologies including geospatial analysis, traceability systems, and blockchain to help key stakeholders, including investors, quantify the environmental impact of various interventions. At the community level, USAID will help scale successful conservation enterprise ventures by linking cooperatives and farmer groups to global markets and providing certification support where appropriate.

#### E. DO 4: Priority Health Outcomes Improved

Faced with the COVID-19 pandemic, USAID’s 50-year legacy of work in the health sector in Indonesia is more important now than ever. Against the backdrop of developing the CDCS, the Mission has already mobilized resources, through supplemental funding and reprogramming, to support the GOI and other

Figure 6: Results Framework for DO 4

DO 4: Priority Health Outcomes Improved
<p><b>IR 4.1: Infectious Disease Burden Reduced</b></p> <ul style="list-style-type: none"> <li>● <u>4.1.1</u> Increased treatment coverage</li> <li>● <u>4.1.2</u> Increased community and civil society engagement on health issues</li> <li>● <u>4.1.3</u> Mitigated global health security challenges</li> </ul>
<p><b>IR 4.2 Maternal and Newborn Health Outcomes Improved</b></p> <ul style="list-style-type: none"> <li>● <u>4.2.1</u> Improved MNH access and quality of care</li> <li>● <u>4.2.2</u> Strengthened accountability for improved MNH</li> <li>● <u>4.2.3</u> Improved maternal nutritional status</li> </ul>
<p><b>IR 4.3 Public Health Financing and Governance Improved</b></p> <ul style="list-style-type: none"> <li>● <u>4.3.1</u> Improved use of quality evidence for planning and policy making</li> <li>● <u>4.3.2</u> Increased domestic financing and spending efficiency for health priorities</li> <li>● <u>4.3.3</u> Optimized management of health workforce</li> </ul>

partners in addressing the most immediate and short-term impacts. COVID-19 has demonstrated that disease projections at the national and subnational levels in Indonesia are only as good as the availability of quality data, so that evidence can then inform policy and programmatic responses. As such, USAID has faced a challenge in finalizing this strategy in the midst of a pandemic, trying to balance the short-term needs while ensuring that the Mission does not lose sight as to how to move forward with overall health sector programming for the five-year strategy period. Hence, while this section describes USAID’s health sector approach over the medium-term, the Mission recognizes the possibility that it may need to rebalance health programming going forward, depending upon COVID-19 impacts.

Illustrative of its high commitment and capacity, the GOI launched a complex single payer national health insurance system in January 2014 called *Jaminan Kesehatan Nasional* (JKN) to achieve universal health coverage (UHC) by 2019. More than 224 million Indonesians (85% of Indonesians) have registered for JKN as of August 2019. Moreover, Indonesia scores above average for the Country Roadmap’s ‘Child Health Indicator’. However, these positive factors obscure chronic challenges in the health sector. Indonesia experiences high maternal mortality rates (MMR) and a high TB burden, particularly drug-resistant TB. Moreover, health disparities based on socioeconomic status, gender and other factors exist across the provinces. Finally, the JKN faces critical financing challenges.

Both the MMR and neonatal mortality rate (NMR) remain stubbornly high for a lower-middle income country, such as Indonesia. The TB epidemic in Indonesia affects all segments of society and has resulted in the third highest number of TB cases in the world. In the 2018 Global Report, the World Health

Organization (WHO) predicted 842,000 incident cases and 110,000 deaths due to TB annually. The 2018 Global Report estimated Multidrug resistant TB (MDR-TB) prevalence at 2.4% among new cases and 13% among retreatment cases. However, the National Prevalence Survey suggests that the MDR-TB burden is higher than previously assumed. Reforms in the health sector have led to an increase in health care utilization, including among the poorest populations. However, the readiness of healthcare suppliers, persistent inequality in coverage, financial sustainability, inefficient spending, and complex governance of the JKN remain challenges to realizing full health care utilization. Despite an increase in total health expenditures, Indonesia underspends on health overall as compared to regional and income peers, at only 3.3% of GDP.

Under this DO, USAID will focus on addressing infectious diseases, including HIV and TB (IR 4.1: Infectious Disease Burden Reduced); improving maternal and newborn health (IR 4.2: Maternal and Newborn Health Outcomes Improved); and, working on health finance and governance (IR 4.3: Public Health Financing and Governance Improved). A healthier population is critical to improving human capital to support Indonesia's RPJMN goal. In all three IRs, USAID will focus on serving as a trusted advisor to the GOI, subnational governments, and CSOs to address health challenges. There will be a significant focus on FSR throughout this DO, particularly under IR 4.3, which will improve financing for the JKN in order to improve equitable access to quality health care.<sup>26</sup> There are opportunities for USAID/Indonesia to transition/graduate health interventions under this DO as the public and private sector capacity to deliver health services improves. The Mission will use the provincial roadmaps to help guide decisions around transition through the use of provincial-level data. Any transition decisions would be evidence-based and consider lessons learned in the health sector. In this regard, USAID's graduation experience with family planning in Indonesia is informative.<sup>27</sup>

This DO has strong linkages to DO 1 as improved governance and accountability at the national and subnational levels are critical to improving health systems. Moreover, improved civil society capacity will be important to increase community engagement and advocacy around health. Health programming is also reliant on a skilled workforce and enterprise-driven solutions from the private sector that fall under DO 2. DO 3 work that addresses the risk of zoonotic spillovers from wildlife trafficking contributes to DO 4 efforts related to infectious diseases and the potential for epidemics and pandemics. Finally, DO 3 will also work on urban environmental issues around WASH-related services that have direct linkages to health outcomes.

USAID's health programs are important for strengthening the foundation for Indonesia's long-term inclusive prosperity and are critical to supporting the IPS. This is even more important in light of the impact of the COVID-19 on Indonesia's economic security. The Health DO also addresses a number of USG strategies including the Global Health Security Agenda, Preventing Maternal and Child Deaths, and the USAID Global Accelerator to End TB.

**DO 4: Development Hypothesis** *If Indonesia accelerates adoption of recognized best practices to strengthen health systems and governance, then Indonesia's healthier population will have improved capacity to accelerate the country's self-reliance and improved global health security.*

The GOI has prioritized quality and competitive human capital under its medium-term development plan. In this context, a healthy population is critically important as chronic health challenges threaten Indonesia's long-term prosperity and self-reliance. Though there are variations based on region and income levels, high rates in MMR and NMR indicate a pervasive deficiency in quality health services.

---

<sup>26</sup> USAID assessments that have informed the development of DO 4 include: [The Consolidated Report of Indonesia Health Sector Review 2018](#) and the [Indonesia Demographic and Health Survey](#)

<sup>27</sup> See [USAID, 2012, Graduation and Phase-out in the Health Sector: What Have We Learned?](#)

And as noted before, access to quality and sustainable health sector services is uneven, while health sector spending as a percentage of GDP is less than peer group countries.

DO 4 prioritizes increasing adoption of recognized best practices to improve treatment coverage and quality of care for Indonesia’s priority health areas, including TB, HIV/AIDs, and high rates of maternal and newborn mortality. USAID will also help strengthen the GOI’s national health insurance program and the generation and utilization of quality data to improve health care services and service delivery. Together, USAID’s support is expected to ensure improved access to life-saving medicines and quality health services, and increased adoption of internationally recognized best practices, resulting in better health outcomes, a healthier and more productive population, and a system better able to detect, prevent and respond to disease outbreaks, such as COVID-19.

Indonesia has the world’s third highest number of TB cases, one of the lowest HIV treatment coverage rates, a stunting rate of 37%, and is at the epicenter for infectious disease outbreaks. To address these chronic issues, as well as strengthen its national health insurance system (the world’s largest), as part of the medium-term development strategy, the GOI has identified the following priority areas in the health sector: Maternal, Child, and Reproductive Health (MCRH); Immunization; Nutrition; Non-Communicable Disease (NCD); HIV/AIDS; and, TB and Malaria. Within these, the government has set targets and indicators to measure progress annually. Indicators have been set not only for the specific disease areas, but also for health system strengthening and emerging pandemic threats. USAID’s proposed investments in the health sector closely align with these government priorities and will both capitalize on Indonesia’s commitment and improve capacity through the following IRs and sub-IRs:

**IR 4.1: Infectious Disease Burden Reduced** includes three sub-IRs: (i) increased treatment coverage, which will primarily address TB and HIV/AIDS; (ii) increased community, and civil society involvement in health issues as a means to broaden and deepen programmatic impact and sustainability; and, (iii) mitigating global health security risks, including anticipated support related to COVID-19. USAID will work with the GOI, civil society and the private sector to address these chronic challenges resulting in improved outcomes that support a healthier, more productive population.

**IR 4.2: Maternal and Newborn Health Outcomes Improved** includes three sub-IRs: (i) improved MNH access and quality of care; (ii) strengthened accountability for improved MNH and performance outcomes; and, (iii) improved maternal nutrition. USAID will work with the GOI, civil society, the private sector and other development partners to improve maternal and newborn health outcomes.

**IR 4.3: Public Health Financing and Governance Improved** includes three sub-IRs: (i) improved use of evidence for planning and health sector policies; (ii) increased domestic financing and spending efficiency for health priorities, with a focus on JKN (the JKN is a complex, decentralized system, and improving financing and management for health insurance) should significantly improve health care access and quality, particularly in marginalized and/or remote communities; and, (iii) optimized management of the health sector workforce by increasing private sector engagement and improving the knowledge and skills of health workers.

J2SR Component	DO 4 Approach
Redefining the Relationship	<ul style="list-style-type: none"> <li>National and subnational government institutions will plan, finance, and implement health activities. USAID’s role is as a strategic advisor, providing targeted technical expertise to leverage Indonesia’s high levels of commitment and capacity.</li> </ul>

<b>Financing Self-Reliance</b>	<ul style="list-style-type: none"> <li>● Technical assistance to the GOI and the private sector to improve the financing and management for the JKN, aimed at improving financial sustainability.</li> <li>● Support for domestic financing and spending efficiency for health priorities support domestic resource mobilization.</li> </ul>
<b>Private Sector Engagement</b>	<ul style="list-style-type: none"> <li>● Engage the private sector to identify enterprise-driven solutions to healthcare access, quality, and financing.</li> <li>● Mission PSE platform for crowding in private sector solutions/investment and early-stage transaction support.</li> </ul>
<b>Effective Partnering and Procurement Reform</b>	<ul style="list-style-type: none"> <li>● Co-creation and collaborative designs as a standard procurement technique. Proactive efforts to identify and use U.S. small businesses as implementing partners.</li> <li>● Under the NPI, DO 4 will seek new and underutilized partners and build their organizational capacity to enhance their impact and long-term viability.</li> <li>● Using new and underutilized partners and building organizational capacity of local partners (e.g., TB Local Organization Network).</li> <li>● The planned PSE platform will help drive innovation, co-creation, and new partnership for DO 4.</li> </ul>

USAID is the largest bilateral DP in the health sector in Indonesia, with decades of experience and deep technical expertise. DO 4 will work strategically with other DPs, many who receive significant funding from the USG. USAID’s health investments in Indonesia are designed to be complementary and leverage other USG investments via the Global Fund, the WHO, UNICEF, the World Bank, UNAIDS, and FAO, as well as bilateral coordination with JICA and DFAT. For example, USAID’s close partnership with the Global Fund expands the reach of testing and treatment for both HIV and TB. The COVID-19 pandemic (a zoonotic disease) demonstrates the necessity for working in animal health together with FAO. Efforts to improve maternal and newborn health outcomes by improving nutritional status are amplified by UNICEF, DFAT and the World Bank. These partnerships also provide opportunities for ensuring that the GOI delivers on stated program targets and outcomes, and for strengthening policy and other reforms at the national and subnational levels.

<b>Assumptions</b>	<b>Risks</b>
<ul style="list-style-type: none"> <li>● COVID-19 will have a major negative impact on the resilience of health sector systems and service delivery.</li> <li>● Research partnerships continue.</li> <li>● Despite COVID-19, GOI maintains high commitment to address priority health issues/initiatives (TB, HIV, MNH, JKN, GHSA) at national and subnational levels.</li> <li>● GOI willingness at multiple levels to address the need for efficiency improvements.</li> <li>● Geographic focus allows better collaboration with other sectors.</li> <li>● Strong capacity for CSO actors to engage in overseeing the progress of government.</li> </ul>	<ul style="list-style-type: none"> <li>● COVID-19 pandemic overwhelms the health sector.</li> <li>● Other pandemic disease outbreaks.</li> <li>● Large-scale natural disasters.</li> <li>● Corruption at point of service or procurement.</li> <li>● Frequent leadership and staff change at national and subnational levels</li> <li>● Lack of CSO capacity and/or funding.</li> </ul>

## **V. MONITORING, EVALUATION AND LEARNING (MEL)**

The Mission will undertake performance and context-monitoring, research, and evaluation efforts that will facilitate strategic learning and adaptive management of the CDCS. The Mission's evidence-based MEL system will be built around connected elements: establishing a Performance Management Framework to collect and store data; analyzing evidenced-based MEL information; using performance information to learn and influence decision-making and resource allocation; and, communicating results. Performance monitoring will be accomplished through a systematic collection of a compact set of standard, custom, and IPS performance indicators at the CDCS, project, and activity levels to track outcomes and impact. Context monitoring will improve the Mission's understanding of performance indicators within the Indonesian national and subnational operating environments, which is crucial for J2SR. The Mission will apply complexity-aware monitoring to dynamic situations across the target provinces as appropriate. This includes using remote monitoring for oversight and performance tracking of project activities during periods of a compromised operating environment.

The Mission will continue to leverage its existing and future MEL Platform(s) to: (i) establish a Mission MEL structure that draws upon a standardized Performance Management Plan (PMP), project, and activity MEL system and is supported by Geographic Information System (GIS) tools; (ii) independently investigate and verify the impact of interventions through performance, impact, meta-analysis, and developmental evaluations; (iii) generate evidence to inform CDCS implementation through research and studies such as PEAs, sectoral assessments, case studies, opinion polls, rapid appraisals; (iv) provide technical assistance across the CDCS' DOs as well as advisory support in building the Mission's relationship with the GOI; and, (iv) integrate gender, youth and minority groups into Program Cycle and results utilization.

The Mission will place emphasis on a Collaborating, Learning, and Adapting (CLA) Framework that will strengthen internal and external collaboration and coordination, fill knowledge gaps, improve use of existing evidence, and inform strategic and programmatic decision-making. The CLA Framework, led by the Mission's Community of Practice, will cultivate a culture of strategic collaboration and shared learning, mapping questions and learning needs to appropriate stages of the Program Cycle, and embedding a knowledge management approach that synthesizes evidence and facilitates adapting. The CLA approach will create an opportunity to strengthen USAID–GOI collaboration around provincial J2SR metrics. To further advance J2SR, the MEL Platform will serve as a vehicle for local capacity building by actively collaborating with local experts and organizations on evaluations, research, and assessments. This approach will utilize local organization's country knowledge, build their MEL capacity, and promote ownership of performance management processes and data.

The MEL approach will prioritize measures and questions through the main J2SR components: (i) Redefining the Relationship (RDR) e.g., level of GOI's ability to plan, finance, and implement health activities; (ii) Financing Self-Reliance (FSR) e.g., monitor GOI financing and incentives that promote FSR in the health and education sectors; subnational level ability to execute the budget and improved PFM; (iii) Private Sector Engagement (PSE) e.g., private sector solutions and level of private sector investment crowded in by project activities; and, (iv) Effective Partnering and Procurement Reform (EPPR) e.g., capacity building of GOI and local/underutilized organizations; and, improved use of data for local solutions.

## **VI. REQUIRED ANNEXES**

**Annex 1 Journey to Self-Reliance Indonesia Country Roadmap (FY 2020)**

**Annex 2 ICS-JSP-CDCS-NSS Crosswalk**

**Annex 3 Index of Existing and Planned Projects**

**Annex 4 Results Framework Matrix (submitted in Phase 2)**

**Annex 5 Climate Change Analysis**

## **IX. LIST OF KEY CDCS ANALYSES AND ASSESSMENTS**

## **X. REFERENCES**

**XI. ADDENDUM: [USAID Climate Change Strategy \(2022-2030\)](#)**