

**“The USAID Program in Indonesia:
Current Program and Future Directions”**

An Open Forum With

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Mr. Walter North, a distinguished senior career official with the United States Agency for International Development, is Director of USAID Indonesia. He assumed his post in September 2007. His prior posts include directing USAID in India and Zambia, working on Agency policy and budget issues, and leading programs in Asia and the Near East from Washington. He has an MPA from Harvard University, a JD from George Washington University, and a BA from Lawrence University.

Mr. North began the roundtable by giving a brief overview of USAID’s new country strategy for Indonesia. He noted that Indonesia is a country that deserves the attention the USINDO Roundtable gives it. However, Indonesia has for a long time “punched under its weight”, as an important place with important people, but that has had a hard time telling its story to the world. Moreover, Indonesia is not the same country it was 20 years ago; it is no longer a very poor country that needs assistance, but rather a middle income country with poverty traps that has not yet lived up to its

potential. This requires a different approach than 20 years ago. He continued by stating that Indonesia must be a part of any sustainable solution to the problems facing the world, from economics to energy and the environment, health and education.

USAID has historically been constrained by its business model: achieving its goals through the procurement process and by awarding of contracts and grants, instead of doing the work internally. This approach has both positive and negative aspects, but does not allow the agency to be very nimble and take up new ideas quickly.

Still, Mr. North and Indonesian Ambassador Hume both recognize that they had an incredible opportunity when they arrived in the country two years ago, as both Indonesia and the United States would have presidential elections. The question Mr. North and Ambassador Hume asked themselves was, how can we be ready to go when we have a new U.S. and Indonesian president? They began to brainstorm internally what type

of partnerships could arise with this new opportunity, and determined that it must be different than the other U.S. and Indonesian strategic partnerships. With one exception, development is the central theme of the proposed Comprehensive Partnership, which looks at the environment, health, education, trade and security. Even with security, an area least associated with development, had components of development.

Mr. North stated that the country budget will remain level, and is unlikely to change significantly from the current \$200 million per year. He then described in greater detail plans for the four priority areas for the mission: Health, Democracy and Governance, Environment, and Education.

Health: The discussion is currently on broad-based health collaboration, and the Minister of Health will be in Washington in September. USAID is focusing on infectious diseases, such as HIV/AIDS, H1N1, Avian Flu, and others where Indonesia is an epicenter, in cooperation with the Center for Disease Control and Prevention. Maternal/child health is also a priority, as Indonesia under-performs significantly. USAID is working with midwives in the private sector to reduce the rates of infant mortality.

Democracy/Corruption: USAID and the Millennium Challenge Corporation are managing an anti-corruption program. Current work is focused demand-side responses to corruption, such gender empowerment and post-conflict reconstruction. However, the size and scale of Indonesia, coupled with the process of decentralization, remain as

significant challenges to addressing corruption in the country. With over 500 units of government, demonstrating best practices becomes a serious challenge.

Environment: Much of the previous environment focus had been on the more than \$2 billion spent trying to “save” Indonesia’s forests. However, over the last decade, deforestation rates continued to increase at an alarming rate, which led to a different approach to addressing environmental issues, such as the decision to engage on climate change with a focus on energy, adaptation and mitigation. The Coral Triangle Initiative, the World Oceans Conference, and biodiversity are also important aspects of the new strategy.

Economic Growth: In addition to addressing the fallout from the global economic downturn, USAID is developing a program to promote high-value agriculture. However, economic growth funds are scarce, limiting what USAID can do in this area.

Education: Previously, primary education was the main development focus. While these programs were successful, the success was mitigated by the lack of similar achievement at the middle and high school levels. Thus, the new focus will be on secondary education and higher education. Secretary of State Clinton recently committed to increasing the number of Indonesian students studying in the United States. Mr. North noted that currently, there are only 7,000 PhDs in the country, and many more are needed if the country is to achieve long-term economic growth.

Finally, Mr. North stated that USAID committed to developing a space for new ideas, tentatively known as the Innovation Fund.

Following the presentation, Mr. North took several questions from the participants.

Q: Where are the high-risk groups for HIV/AIDS?

A: In Papua, infection rates are approaching 6 percent of the population, which indicates widespread infection beyond the high risk groups. This has been caused in part by the influx of income from the mining sector, which accounts for 4-5 percent of overall GDP.

Q: Will there be more funding available for Aceh?

A: Aceh will continue to be a major focus, both in terms of the peace process and in terms of economic development and reconstruction.

Q: Do you see particular provinces that will be a priority for dedicated programs?

A: Given the size and scale of Indonesia, apart from Aceh and Papua, which have area-specific activities, it's difficult to be prescriptive about which locations will receive attention versus which focus areas. It also depends in part on the problem, and what the Indonesian government wants.

Q: How do you see the U.S. working with Indonesia to take leadership over the next five years on the Coral Triangle Initiative?

A: In Indonesia, it is not about resources, but about our ability to help them do what they want and need to do. There will continue to be work on the Coral Triangle Initiative, particularly with regards to food security and a focus on sustainable fisheries.

Q: Where do you see the U.S. Public-Private Partnership resources moving?

A: There is a renewed focus on public-private partnerships under the current administration, and USAID is trying to facilitate their development. For example, the USAID program in Papua includes a very successful Public-Private Partnership with Freeport-McMoRan Copper and Gold, and both parties are in discussion to continue and possibly expand the project.

Q: What is your view on coordination with other donor activity, such as Australia?

A: Donor coordination is not as critical in Indonesia, given that only about 5-6 percent of GDP comes from donors. But, Indonesians want to know that the investments will have a catalytic capacity. Thus, there are a few instances of coordinated efforts, such as with HIV/AIDS programming, though it is not yet a normal practice.

Q: Is there any possibility of a change in U.S. foreign policy to place more focus on Indonesia versus China, for example, with infrastructure development?

A: The response has so far been limited, and disappointing, given the

Infrastructure Conference Indonesia held a few years ago. But, there is hope that with a new government with a more technocratic focus, there may be new opportunities. For example, in the air sector, we were recently able to work with the government to revise an air law so that Ex-Im financing could be reintroduced to the air market, which is a growing sector. Non-bank financing and the ability to develop asset classes also need to be developed.

Q: What are your views intellectual property rights, on engaging Indonesians to lift market access restrictions and focusing on rule of law and judicial reform?

A: Indonesia is a case where the glass is half full, half empty. The country has made progress with intellectual property rights, and has a growing creative industry with products it wants to protect. Thus, there is incentive to generate domestic demand to protect intellectual property. Rule of Law is an important issue for USAID, and we are working with the judiciary closely. The judiciary recently started publishing decisions online. However, there is a lot of work still to be done on a basic level, such as the rather painstaking work on job descriptions, which are the building blocks by which reform can be sustained. We have begun to see the results of these efforts, but the overall climate still needs a lot of improvement.

Q: What is the strategy to address climate change?

A: Climate change is a huge, complex challenge. Previous efforts focused on the supply side – protecting forests, for example. But, this does not work well in

a decentralized system. Thus, we have to also focus on the demand side. The Lacey Act Amendment, for example, will improve certification and best practices to reduce illegal logging. We are also working at the local level with groups who want to do the right thing for climate change, like the governors of Aceh and Papua. There also needs to be reform at the Forestry Ministry, but that is a subject for Indonesians. Ultimately, a mix of policies will be used, and we have to find out what works best.

Q: What is being done to coordinate policies on health and biotechnology?

A: Coordination on a country level has historically been a challenge. USAID has done work on biotechnology and food products in the past, and may continue to do so in the future, with a focus on how to think about them in an integrated way.

Q: Economic growth is critical, but most of the funding for this area comes from the MCC – can you provide any insight into where the MCC Compact development process is going?

A: I can't speak for MCC, but MCC is well on its way to putting into place a development process to choose an area of focus. For Indonesians, the actual money, while large, is less important than the stamp of approval on various developmental criteria that an MCC compact gives the country.

A representative from MCC was present at the discussion, and offered a brief comment: Indonesia is about to begin the public consultation, and MCC is part of the team that will work with the

Indonesians to determine the general criteria the country will focus on, such as poverty reduction through economic growth, but will not dictate the specifics.

Universities are also developing linkages and partnerships with U.S. institutions.

Q: USAID has historically been constrained by its business model, which focuses on procurements and granting contracts. What has the influx of new Foreign Service Officers done to this model?

A: USAID Jakarta will have an influx of new staff to its mission, and if the process of new hiring continues, we can begin to re-think the business model, but this will take time. However, having Foreign Service officers able to get out and talk to people in the field is a worthy vision, and given the current constraints USAID is working to develop hybrid solutions.

Q: What is the water and sanitation strategy for Indonesia?

A: Water and sanitation issues pose a major development constraint if Indonesia is to meet its Millennium Challenge goals, and are areas of major investment. Flooding devastates many communities every year, and access to clean water and sanitation in poor communities is sorely lacking. USAID is working on increasing access to clean water and sanitation, and it is a possible area for MCC focus.

Q: How does developing capacity at the higher education level fit into the USAID strategy?

A: The higher education sector is being reformed, and Indonesia is asking for assistance in developing best practices.