



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation intends to provide assistance to the Government of Indonesia to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss this assistance, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

The attached notification is being sent to the Congress on October 22, 2021. The assistance may be provided and funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned assistance.

Sincerely,

/s/

Aysha House  
Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

October 22, 2021

PROGRAM: Eligible Countries

APPROPRIATIONS CATEGORY: Fiscal Years 2021 and 2022 Program Funds

OBLIGATION AMOUNT: \$12,000,000

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation of the Consolidated Appropriations Act, 2021; , and as carried forward by the Continuing Appropriations Act, 2021; and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$12,000,000 under section 609(g) of the Act to provide assistance to the Government of Indonesia for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with MCC.

The funds are expected to finance compact development activities, including but not limited to assessing the expected impact of the proposed compact; furthering data collection, study, and design activities; and developing guidance documents and implementation strategies.

## **SUPPLEMENTAL INFORMATION - MCC 609(G) ACTIVITIES FOR INDONESIA**

### **Background**

Indonesia is the largest economy in Southeast Asia, spread across a sprawling archipelago of more than 17,000 islands. United by the national motto “Unity in Diversity,” the world’s largest Muslim-majority democracy and fourth most populous country is home to more than 270 million people from across 1,200 ethnic groups and subgroups. Indonesia has experienced steady rates of economic growth in recent decades—averaging 5.3 percent annually between 2000 and 2019—and has cut poverty by more than half over the same period, to 9.4 percent. However, beneath these positive trends lie persistent challenges and troubling disparities that may threaten continued growth and poverty reduction if not addressed.

While poverty rates have decreased, headcounts remain quite high—25 million Indonesians still live in poverty, and approximately 55 million are vulnerable to slipping back into poverty with incomes hovering slightly above the national poverty line. The benefits of growth have not been equitably shared, and disparities in income and opportunity persist between regions and population subgroups. These issues leave Indonesia vulnerable to shocks and have been exacerbated by the global COVID-19 pandemic.

### **Compact Eligibility and Constraints Analysis**

In December 2018, MCC’s Board of Directors selected Indonesia as eligible to develop a subsequent compact. The selection reflected the strong partnership MCC and Indonesia built during the prior compact, Indonesia’s commitment to ensuring the sustainability of that program, and the progress Indonesia has made on its policy performance.

MCC and the Government of Indonesia (Government) initiated the compact development process in early 2019. The Government appointed a panel of representatives from the government, civil society, academia, and the private sector to work alongside MCC in analyzing the country’s most binding constraints to medium- and long-term economic growth. The analysis revealed three primary constraints: i) barriers to export-oriented competitiveness, ii) barriers to the productivity and innovation of non-tradable sector firms, and iii) costly and underdeveloped financial intermediation. MCC and the Government approved these findings in late 2019 and began work to identify the root causes of these problem areas. The Government also established and began staffing a professional compact development team to work closely with MCC throughout the remaining phases of program design.

In February and March 2020, MCC and the Government held a series of root cause analysis workshops and stakeholder consultations to diagnose and delineate the problems that contribute to the binding constraints. The Government also conducted a data-driven process—using metrics such as propensity for reform and impact on growth and poverty reduction—to evaluate and rank Indonesia’s provinces and select potential locations for the proposed program. While delayed due to COVID-19, the Government submitted a concept note in July 2020 that proposed two intervention areas that would address root causes of the financial intermediation constraint: (i) access to finance for infrastructure, particularly transport and logistics infrastructure, and (ii) access to finance for micro-, small-, and medium-sized enterprises (“MSMEs”), particularly

those owned by women. In August 2020, MCC approved the development of full Project Proposals based on these two concepts.

MCC and the Government initiated project development immediately following the approval of the aforementioned concepts. Throughout the initial phases of compact development, MCC stressed to the Government the importance of ensuring high-level, broad-based support for the proposed compact and the scope of its activities. In response, in January 2021, the Government established a Steering Committee to help guide Indonesia's compact development efforts. The Steering Committee provided critical input into, and approval of, the Government's Project Proposals, which were submitted to MCC in July 2021. The Proposals included two projects: 1) Improving project planning and preparation capacity, and innovative financing for infrastructure and 2) Improving Micro, Small, & Medium Enterprises' (MSME) access to finance for increased productivity and inclusive growth. Both proposals have a geographical focus in five priority provinces— Bali, North Sulawesi, Riau, Riau Islands, and South Sumatra.

MCC will work closely with the Government over the coming months to further develop a compact to address the root cause of Indonesia's binding constraint of costly and underdeveloped financial intermediation.

### **Summary of Proposed Project Interventions**

The Government's proposal aims to address the binding constraint of costly and underdeveloped financial intermediation through two projects:

- **Strengthened Financial Intermediation for Transport and Logistics Infrastructure** to improve public planning and investment processes and increase commercially oriented capital in infrastructure financing. Project activities include (i) the development of Public Investment Management Guidelines, (ii) the design and operationalization of a Project Preparation Facility to support sub-national governments, (iii) strengthening financial intermediation (supply side) for infrastructure, and (iv) constructing Demonstration Projects in selected target provinces.
- **Strengthened Financial Intermediation for MSMEs, especially those owned by women** to increase financing to MSMEs, especially those owned by women in target industries in Indonesia, particularly in the targeted provinces of Riau, South Sumatra, North Sulawesi, Riau Islands and Bali.

### **Assistance to Develop the Compact Proposal**

In order to assist Indonesia to further develop the proposed compact, MCC intends to fund preparatory activities for each of the proposed project interventions listed above. Specifically, 609(g) funds would be used to conduct additional technical and feasibility studies and related assessments, transaction advisory services, and program administration support for the start-up of an accountable entity and preparation for entry into force. This includes but is not limited to data collection, continued stakeholder liaison and consultation, identification of areas of reform, preliminary facility design, project identification and preparation activities, and the development of project implementation strategies. Funding these activities reflects MCC's commitment to

preparing projects in a comprehensive manner, prior to Compact signing, to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

### **Update on and Sustainability of the 2011 Indonesia Compact**

The 2011 Indonesia Compact was designed to reduce poverty through economic growth by supporting three of the Government's growth and development priorities: better health and nutrition, procurement modernization, and sustainable energy and resource management. The compact included three projects in these priority areas and was designed and implemented with a focus on community ownership and innovative, scalable models that would allow for emerging opportunities.

Despite challenges, by the end of the 2011 Indonesia Compact, MCC and the Government achieved many successful outcomes through this partnership and will incorporate key lessons learned into the design of the new compact program. For example, learning from the 2011 compact program—which was both geographically and sectorally diverse, covering 17 provinces and four major sectors—MCC and the Government are working to develop a more focused subsequent compact to streamline implementation and ensure greatest impact.

**Community-Based Health and Nutrition to Reduce Stunting Project.** The \$120 million Nutrition Project was designed to reduce and prevent low birth weight, childhood stunting, and malnourishment of children in project areas within 11 provinces, and to increase household income through cost savings, productivity growth, and higher lifetime earnings. When MCC's partnership with Indonesia began, more than one-third of Indonesian children under the age of five were chronically malnourished, stunting their physical and cognitive growth and causing lasting effects on their potential for learning and earning later in life. The Nutrition Project built upon a pre-existing Government initiative to combine interventions in health, sanitation, and nutrition, and targeted approximately 5,400 villages across 11 of Indonesia's 34 provinces where rates of stunted growth and low birth weight were higher than national averages. The Nutrition Project trained over 17,500 service providers on proper feeding for pregnant mothers and infants, distributed over 35 million iron tablets for pregnant women, and conducted over 4,200 community sanitation behavior change meetings across 64 districts. Fighting stunting is now a national priority in Indonesia, and policy frameworks are in place to carry gains forward in the areas of infant and young child feeding, growth monitoring, and the integration of sanitation into nutrition efforts.

**Procurement Modernization Project.** The \$69 million Procurement Modernization Project was designed to assist the Government in achieving significant government expenditure savings while maintaining or increasing the quality of procured goods and services. Efficient and effective public procurement is a fundamental component of good governance. Before the compact, procurement was not recognized as a professional function for civil servants in Indonesia. Goods and services for government institutions were purchased by ad hoc committees of government employees with no relevant expertise, creating opportunities for error, misuse of funds, and diminished quality of goods, works, and public services. The Procurement Modernization Project trained over 1,000 individuals from national and local governments—24 percent of whom were women—in modern procurement and management skills to improve

procurement practices, and established a modern e-procurement system. This organizational development program received strong support throughout the Government, and the Indonesian National Public Procurement Agency will maintain an online platform with training guides and materials to reach all Procurement Service Units in Indonesia. By working to reduce the misuse of government funds and promoting transparent, systematic procurements, the project aimed to unlock investment in infrastructure and public services that will directly benefit Indonesians, and foster a level playing field for businesses competing for public procurements.

Green Prosperity Project. The \$228 million Green Prosperity Project was designed to increase productivity and reduce reliance on fossil fuels by expanding renewable energy, and to increase productivity and reduce land-based greenhouse gas emissions by improving land use practices and management of natural resources within 13 provinces. The majority of Indonesia's poor live in rural areas that are rich in natural resources but have generated low returns due to over-extraction and improper management of natural resources. The Green Prosperity Project was designed to promote sustainable management of these natural resources in order to help the Indonesian people unlock higher economic returns. The project established a market-responsive Green Prosperity Facility that provided grant funding to 66 grantees and leveraged an additional \$28 million in private sector investment, allowing grantees to pilot and scale up alternative approaches in on- and off-grid renewable energy, peatland restoration, sustainable agriculture, and improved natural resource management. Through these grants, the Green Prosperity Facility helped to install 12.73 megawatts of new renewable energy generation capacity; train over 127,000 farmers, including over 43,000 women, in climate-smart agriculture and natural resource management; and scale up sustainable production practices among nearly 74,000 cocoa-growing households and 12,000 independent palm oil farmers. The Green Prosperity Project also provided funding for updated land use inventories and enhanced spatial plans to empower communities to make informed decisions about how best to manage natural resources.