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Fact Sheet

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Green Prosperity: Reducing Poverty by Supporting Indonesia's Commitment to Low-Carbon Economic Growth

The Millennium Challenge Corporation's five-year, \$600 million compact with Indonesia is designed to reduce poverty by promoting economic growth through three projects: the Green Prosperity Project; the Community-Based Nutrition to Prevent Stunting Project; and the Procurement Modernization Project.

The majority of Indonesia's poor live in rural areas that are rich in natural resources, but high-impact and illegal logging, land conversion for agriculture and mining, and other unsustainable land use practices threaten the country's ability to sustain economic growth and reduce poverty. Lack of clarity about land and natural resource use licensing and the jurisdictional boundaries of villages deters investment and impedes the Government of Indonesia's ability to effectively manage critical natural resources.

Green Prosperity, the largest project of the Indonesia Compact, seeks to address these critical constraints to economic growth while supporting the Government of Indonesia's commitment to a more sustainable, less carbon-intensive future. An ambitious and focused project, Green Prosperity seeks to address some of Indonesia's most critical development priorities, including increasing access to clean and reliable energy in rural areas and improving stewardship of natural assets.

What is the Green Prosperity Project?

Despite the Government of Indonesia's efforts to address the problem, Indonesia remains among the world's top emitters of greenhouse gases. The majority of greenhouse gas emissions result from deforestation, loss of peatlands, and other land use changes—but emissions from energy and industrial sources are growing rapidly. Many Indonesians, especially in remote rural areas, suffer from a lack of reliable electricity or depend on expensive and unreliable diesel generation.

In an effort to increase incomes of Indonesia's poor in targeted districts, the MCC-funded \$332.5 million Green Prosperity Project will provide commercial and grant financing to help mobilize greater private sector investment in renewable energy and sustainable land use practices. The project will also provide technical assistance to support project preparation, improve land use planning, and strengthen local and regional capacity to pursue low carbon development.

Green Prosperity Project investments will support a number of mutually-reinforcing, community-based objectives (see figure below) that promote productive use of energy, and protect watersheds and other renewable resources from which energy can be derived.

Eligible districts will receive assistance in updating spatial plans and land use inventories to ensure that projects funded by Green Prosperity are identified and developed based on accurate, transparent land use data and efficient use of critical ecosystem services. Complementary investments in capacity building and knowledge management, or “green knowledge,” are intended to improve the project’s long-term effectiveness and sustainability.

Conceptual model



Who is involved in the Green Prosperity Project?

Key stakeholders and potential project sponsors are expected to include local governments and institutions; private enterprises in the renewable energy, agriculture, forestry, and water sectors; financial institutions; smallholder farmers; and local and international non-governmental organizations.

For example, the Green Prosperity Project aims to work with project developers and technology providers to make innovative renewable energy solutions available to underserved rural areas. The project also intends to work with industry leaders in sustainable agriculture and forestry to help smallholder farmers improve productivity and implement more environmentally responsible land use practices. This activity will increase incomes while reducing pressure on Indonesia's forests and peatlands and protecting watersheds.

How will the Green Prosperity Project be implemented?

The Green Prosperity Project consists of four core activities: an investment facility, participatory land-use planning, technical assistance and oversight, and "green knowledge" capacity-building.

The investment facility, known as the Green Prosperity Facility, is the project's centerpiece activity and will provide commercial and grant financing to support economic development projects in two thematic areas:

- ★ **Renewable energy**, including small operations (less than 10 megawatts), hydropower, and bio-waste (agricultural waste) to energy, biogas, and solar.
- ★ **Sustainable land use and natural resource management**, including sustainable agriculture, forestry, fisheries, and watershed management.

All projects funded by the Green Prosperity Facility must meet the investment criteria outlined in the Indonesia Compact, including MCC's principal requirement that projects increase the income of Indonesians in targeted areas and demonstrate an economic rate of return of at least 10 percent.

Green Prosperity-funded projects must also include appropriate environmental and social safeguard measures consistent with MCC's Environmental Guidelines and Gender Policy, relevant Indonesian regulations and standards, and international best practice. MCC intends to develop additional investment criteria prior to the launch of the Green Prosperity Facility.

The Government of Indonesia, through Millennium Challenge Account-Indonesia, the accountable entity responsible for administering the compact, will hire an independent facility manager to oversee the Green Prosperity Facility and monitor the performance of all loans and grants. The Green Prosperity Facility manager will establish an investment committee to review and approve funding applications through a competitive and transparent process.

Where will the Green Prosperity Project be implemented?

The Green Prosperity Project will concentrate in provinces and districts that have high potential for achieving poverty alleviation and environmental objectives. Candidate provinces include Riau, Jambi, West Sumatra, South Sumatra, Bengkulu, West Sulawesi, South Sulawesi, Southeast Sulawesi, West Kalimantan, East Kalimantan, West Nusatenggara and East Nusatenggara.

These provinces were selected based on a range of social, economic, environmental, and institutional indicators, including poverty levels, renewable energy potential, economic growth potential, governance, significant forest cover, and peatlands under threat of degradation or destruction.

MCC and the Government of Indonesia have agreed to initiate the Green Prosperity Project in two “starter” districts in Jambi and West Sulawesi. Consistent with a river basin management approach, the starter districts will include one upland and one lowland district in each province, as follows:

Starter Provinces and Districts		
Province	Upland District	Lowland District
Jambi	Merangin	Muaro Jambi
West Sulawesi	Mamasa	Mamuju

Inclusion of other provinces and districts in the Green Prosperity Project is subject to mutual agreement between MCC and the Government of Indonesia based on the results of a district readiness assessment. To be selected, districts must have government-approved spatial plans in place. They must also agree to make land-use information and licensing processes transparent and accessible to MCC, relevant government planning and service agencies, and the general public.

Green Prosperity is an innovative project to fight poverty that supports Indonesia’s economic and environmental priorities, with the intent of establishing a new and lasting model for developing, financing, and implementing green growth projects at the local level. The project will help catalyze greater private sector investment in low-carbon growth strategies for Indonesia, spur local entrepreneurship through emerging opportunities in renewable energy and innovative land use practices, and build greater capacity and commitment among government, civil society, and the private sector to the principles of sustainable development.

For More Information

Please visit www.mcc.gov/indonesia.