

MCC and Indonesia: Investing in Innovation for Sustainable Economic Growth

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FINE: I want to welcome everybody. Thank you for joining us this morning to hear about and discuss what is we consider our most exciting new program.

Before I begin, I'd like to welcome His Excellency, Patti Dino Djalal, Ambassador of Indonesia. Patti Dino, thank you do much for joining us this morning. We're so excited about the partnership we have with your country.

Now at that the ASEAN conference last November, we signed a \$600 million compact with Indonesia. It focuses on investments in clean energy, combating chronic malnutrition and improving child health and procurement reform.

It's one of the largest compacts that MCC has ever signed and we worked hand-in-hand with our partners in Indonesia over almost three years to design, develop and launch this program.

The size and the scope of the program over the next five to six years makes it an essential part of the U.S. comprehensive partnership with Indonesia, which is another reason why we're so excited to be part of this.

Now it's my privilege to introduce Indonesia's Ambassador to the United States, Patti Dino.

Patti Dino is one of the most creative, dynamic ambassadors that Washington has seen in a long time. There is no other ambassador in the history of the United States who has organized an event that got into the Guinness Book of World Records.

Patti Dino is a best-selling author in Indonesia and his book on leadership is really worth reading and everybody should read, because it's an inspirational piece.

If you're not already following him on Twitter, then you should sign up to follow him. He's got thousands of followers, he's—I don't think you're competing with Lady Gaga yet, but you're moving in that direction.

This angklung (ph) is a traditional Indonesian instrument and this is what got into the Guinness Book of World Records. Patti Dino organized over five thousand people on the mall to play tunes with these instruments. It was a wonderful event. I—actually you should make it an annual event because it was so much fun.

And besides your creativity and your dynamism and just the wonder of who you are, you are the perfect bridge between your country and our country.

You were an exchange student in the U.S. You are able to interpret Indonesian society for us and interpret American society for your country, two diverse, complex complicated places and you're a wonderful bridge between those two places, and we are so fortunate to have you here as your country's Ambassador, and as our partner with MCC in the development of this compact—you were enormously helpful as we put this together.

Let me thank you again for being here and ask you to come up. I'll hand the floor over to you, Ambassador Djalal.

(APPLAUSE)

DJALAL: Patrick, dear friends, members of the Indonesia community.

I'm very glad to be here and I want to say how much we appreciate the work of the people at MCC for achieving what we have achieved with the compact agreement with Indonesia. \$600 million, that's a lot of money that can do a lot of good in Indonesia.

You know as well as I do, when I arrived here in, I think about 16 months ago, things were in big question about the deal. There was some issues, some problems. Things were not going in the direction that we had hoped for and we agreed that we would do all we can to fix it. You sent a very talented group of people, Martha and Troy, where are they now?

Where's Martha? Ask you to stand up, Martha, give them big hand.

(APPLAUSE)

DJALAL: Martha and Troy spent many months in Indonesia in Jakarta and their job was to make sure that on the ground there is good communication between our two sides. They worked very closely with the people at Bappenas, with the finance department with the Deplu (ph), with our Embassy, with everybody and to make sure that things are—everybody's on the same page.

And we built this brick by brick and the very unique thing about the compact program with MCC is that they really made sure that this is Indonesia-driven, that the ownership is with Indonesia, that this is programs that we design, that we formulated and that it's worthy of the funds that are available.

And I think we all agreed that as a result of that and as the result of the cooperation between us that we have three very innovative, very creative and very beneficial programs that we all very proud of and in fact it's one of the highlights of the meeting between President Barack Obama and President Susilo Bambang Yudhoyono recently that this program was announced and finalized.

So I want to give the big credit to the MCC people for your hard work. There's a lot of talk between you and I and also Daniel [Yohannes] on how to advance this and in the end, we're in a good place. There's still a lot of work to be done in the future and we just talked about that. I'm sure these are things that we can work together again.

Indonesia is in a good place now. We just receive word from Moody that we're now have reached investment grade and before that, Fitch has elevated Indonesia to investment grade and now we're waiting for Standards and Poors to make their announcement. In fact, when I heard that Moody receive—gave us, Indonesia investment grade, that you may have seen this in YouTube, I did the moonwalk in my first business speech because I promised my staff if that ever happened, I would do my moonwalk, but you're not getting that today. No, sorry. But only once is enough.

But I just got back from Indonesia a few days ago and you see a mood that is very upbeat in Indonesia. People tend to focus on the sensational stories, on political stories, political power plays in Indonesia, which reflects that democracy is alive and kicking in Indonesia.

But what is also true is that the economic confidence is very high. At a time when countries and banks and companies are being downgraded, we're being upgraded to investment grade.

Our growth last year was six and half percent and the third highest in Asia after China and India and we're aiming even greater growth this year, probably 6.7 percent and who knows, maybe even 7 percent.

We have the largest middle class in Southeast Asia. We have the largest economy in Southeast Asia. We have very vibrant and large pool of young people in Indonesia, something like more than 50 percent of Indonesians are below the age of 29-years-old and these are very progressive young people. We are the second largest user of Facebook in the world. And if I'm not mistaken the third largest Twitter user in the world and so on and so on.

The person who coined a brick, I don't know why the name escape me, he just wrote a book called "Growth Markets," and in that book, it's just out a few months ago. In that book, he argued that the term emerging markets probably no longer applies. It's no longer right for—to describe these economies and he described another term which is called growth markets.

And growth markets include not just brick countries, not just Brazil, Russia, India and China, but also other countries and Indonesia is included among the countries that he would recognize as growth markets. And these are countries that have large populations but also large potentials of productivity growth and these are countries that have more than 1 percent share of the world GDP and possibly reaching 5 percent share of world GDP.

And there's also another study by the Asian Development Bank, I would urge you look it up, it's called the "Asian Century," and it's very interesting because it tries to project where Asia would be in the next couple of decades until 2050 and it projects that Asia would definitely be the center of economic weight of the world. The GDP could possibly rise to combination—to a total of about \$160 trillion on a best scenario and about \$80 trillion on the lesser scenario.

But the projects are very high and are predicted that in Asia, there are only seven countries that would make up 90 percent of this Asian GDP, this tremendous growth, and Indonesia is included in the seven Asian countries that would comprise 90 percent or more of Asian growth.

So the story of economic growth is part of the Indonesian national identity and the new economic DNA. And Indonesia, the term entrepreneurship now has gained ground. But 10, 20 years ago, you hardly hear this term entrepreneurship. People talk about, you know, other concepts, other ideological concepts and they were somewhat anti-capitalistic.

The term capitalism is still a dirty word in Indonesia. But now the term entrepreneurship, which is essentially capitalism or market based approach is gaining ground, not just in the marketplace but in the educational institutions. Entrepreneurship education is part of many curriculum in schools throughout Indonesia which means the mindset are changing. The confidence is changing. And the way we see Indonesia and where it fits in the world are changing.

There's a recent report by Phon Dechaun (ph) politic—I don't know how to speak French, but it's a French think tank and it's one of the most interesting reports I've ever read because they did polling throughout the world and they found—polling of young people—and they asked young people what they think about globalization, what they think about the world, what they think about their future and so on and so on.

They found something very interesting. They found, for example, the highest number of young people who, not just like, but believe in globalization. You know where that is? China, 92 percent, right, next is India, 91 percent and surprisingly America is below that. It's about 70-something percent. They didn't do Indonesia but there is a very interesting phenomenon among young people outside the Western world today where—which used to see the world with anxiety and see globalization with nervousness and now they see as opportunity, like something that should extract from and something that correlates to the national growth and development.

And this is same thing that is happening in Indonesia. There's a recent poll in Indonesia that found, you know, of all the polls that have been taken in Indonesia, only one to me resonates until now. This is poll that found that 85 percent of Indonesians believe that their country is in the right direction.

No matter how they think of the president or the Parliament or the politicians, in fact in our country, the Parliament now is the popularity rating is about 20s, right, it's very low, you know. I don't know about your country. But Indonesia is—it's not that high, right, but no matter what they think about the politicians, they believe in democracy and the system is 85 percent and you can't ask any better than that because once people believe in the system, then you're in a good place, right.

So what I want to tell is that in Asia, especially in Indonesia, the prospects are very good. We're in a better place in terms of our mindset and our economic future. We have developed not just a stronger national identity, but also a stronger global identity because there's always two parts of identity, national and global.

And I want to congratulate MCC for being part of our progress and I want to thank the United States for this comprehensive partnership that we have built. It's a very special partnership for us.

I think if you ask me, we are at the peak of our relationship. In President Bush, we had been very fortunate to have one of the most pro-Indonesia American president's ever. Right? He was very, very pro-Indonesia and after he stepped down, we were even luckier because we found in President Obama a president who also believe in Indonesia and spoke behalf of Indonesia like our food and like our culture.

And under President Obama, we have signed this comprehensive partnership which turned the partnership from what was a single issue, uni-dimensional partnership before to a comprehensive partnership.

For decades that had been our—our complaint for a while, that the relationship felt as if it was crisis driven rather than opportunity driven. It felt as if it was stop-go rather than, what do you call it, continuous and consistent and it was single issue interest. There was a time when it just focused too much on democracy issues and human rights issues. Probably similar to the relationship with Egypt now, you know, where it is (inaudible) driven by democracy issues.

But now, it's a place where we discuss democracy and human rights, which remain important, but also education, innovation, trade, investment, environment and all the other issues. So it's a very good and strong relationship and I want to thank the U.S. government and we thank all our friends at MCC. I want to thank all of you for being part of that partnership.

Thank you very much.

(APPLAUSE)

FINE: Thank you Patti Dino, what a wonderful way to launch the discussion that we're going to have this morning.

Let me now introduce our Vice President for Congressional and Public Affairs, Chuck Cooper, who is going to moderate today's panel.

COOPER: Good morning everyone. Welcome again to MCC.

As you can tell, we're very excited about our compact with Indonesia and our partnership with Indonesia and what we wanted to is to have a conversation with all of you and it's my pleasure to introduce our two panelists for this morning, Martha Bowen and Loren Labovitch and before we get started, what I wanted to do is just give you a sense of the agenda for this morning.

First, I am going to introduce the speakers and they will each speak for about five to seven minutes and then I will kick off the conversation by asking them a few questions and then what we'd like to do is open up the conversation to all of you and take your questions.

So we'd like to get started.

Our first speaker is going to be Martha Bowen and Martha, as the ambassador said, Martha has been a critical part of the Indonesia team here at MCC. She's a program officer and she serves as the point of contact for the Indonesia team and she provides support for the entire MCC team here.

So with that, I will turn it over to Martha for her remarks.

BOWEN: Thank you, Chuck and Patti (inaudible), thank you.

Well good morning everybody, I'm actually very excited to have this opportunity to tell you about this program because as the Ambassador was just telling us, it really is part of a true partnership and it's—this compact has been developed during the development of the comprehensive partnership between our two countries and it is a pillar of that partnership, and as I tell you about the elements that are contained in this compact, I hope that you'll see it as something that has developed in the spirit of partnership and with a tremendous amount of ownership by Indonesia.

We're going to tell you about three projects today, the three projects that make up this compact and each of them emerged from an analysis of the country's critical development constraints, the MCC constraints analysis.

But each of them also builds on the government's own priorities and an existing momentum in each of the three areas for reforms related to improving public procurement, for improving land use practices and slowing environmental degradation and for improving social service delivery following decentralization.

Since we began this process which was over three years ago now, the government of Indonesia has been represented by a very credible high ranking steering committee that's been made up of government but as well made up of business and NGO partners as well as academia.

And each of these projects has really been informed by Indonesia's own plans and policies throughout civil society as well government.

Green prosperity has been informed by the National Plans on Climate Change, the National Greenhouse Gas Reduction Action Plan and regional special plans, stunting and nutrition, the second project that I'll tell you about is really emerged from the latest national development plan that focused on preventing stunting, not just treating it.

And of course, for procurement modernization as many of you are aware, there's been a demonstrated commitment to reform since 1999 and now with El Capepe (ph), the National Public Procurement Policy Agency, we see a central office dedicated to reforming this incredibly important public function.

Again, I'm telling you all of this because it really is—I really want to stress that this is partnership model. This is not a donor implemented project. The government of Indonesia is very used to those and this really has been something different.

The government itself will implement the program in accordance with the compact agreement. As many of you know, the compact agreement is available on our website and you can read it in its entirety.

You'll see that MCC has certain requirements for implementing this program, certain things that we have to adhere to for our law. But in the end, it really will be the government that implements this program and it really will reflect their own voice.

Loren's going to talk about green prosperity in a moment, which I know many of you are very interested in hearing about. I'm going to just briefly talk about the other two projects in the compact.

First of all the full name is "Community Based Nutrition and Help to Reduce Stunting" project, but we'll call it community based nutrition.

It's very alarming to realize that actually at the moment, about a third of Indonesia children under five are stunted, that means low height for age. After two years, the effects of stunting are pretty much irreversible and they'll have a lifelong impact on an individual's productivity.

Stunting leaves children at a higher risk of experiencing chronic disease, cognitive development delays, delayed enrollment in school, reductions in academic achievement and therefore, earnings potential.

We often like to say that it's very intuitive to think that delayed earning potential will result in an impact on economic growth, but we were able to conduct an economic analysis that really demonstrated this and that adhered to our economic analysis guidelines.

The good news about stunting, of course, is that we understand the causes and we understand the remedies. The issue, I think in Indonesia has really been a question of access, especially in places where they're most needed, communities often don't have access to these remedies.

So this project is targeted to those areas. It's targeted to the places that need remedies for nutritional problems the most. We think that where the need is greatest, the highest impacts will be felt on household incomes.

This is the first time that a program in Indonesia will be providing incentives to the health system to actually meet community demand for these remedies, which include, you know, nutritional supplements and immunizations and so on.

The project itself builds on a pilot that was implemented by the World Bank through the Pan Pan (ph) system which many of you may know about, it's called Pan Pan Generosi (ph), healthy and smart generation.

This next phase will be called Generosi (ph) plus where the focus is really going to be on nutrition and on getting the health system to meet community demand.

The fund for this program, by the way, will be administered through World Bank, a multi-donor trust fund that is set up in that's already being used for Generosi (ph).

We think that by using this sort of proven platform with these adjustments that will increase the focus on nutrition will be complementing the other donor efforts and actually helping to adhere to our own aide effectiveness principles in terms of donor coordination.

Second, the procurement modernization project, I know it's been of great interest to many people here in the U.S. The public procurement system in Indonesia controls the expenditure of about \$50 billion U.S. annually. And of course, it impacts the daily lives of all Indonesians.

A recent study that was done by the KPK, the Corruption Eradication Commission concluded that about 40 percent of procurement value is misused in Indonesia. Which if this is accurate, this means the equivalent of over \$15 billion annually is being lost in funds and in diminished quality of public services.

The government, you know, of course knows this and started a program of procurement reform and established the National Public Procurement Agency, or El Capape (ph) in 2007, but they felt a need to have to have trained professionals, real procurement professionals who can administer a system based on principles of transparency, openness and accountability.

The project that we're funding basically focuses on building that workforce, building a professional public procurement workforce and on institutionalizing good procurement practices across a range of entities, so we'll be working both in central ministries as well as local government units. We --we're trying to work in a range of procuring entities to see what will work where. And as of course you may know, there are over a thousand procuring—public procuring entities in Indonesia. We'll only be working in a subset of that. We won't go to all of them.

So this is another case where the government's already demonstrated political will to tackle these problems but—and they also, you know, recognize that more needs to be done and they welcome us to join in a partnership with them to try to accomplish these changes.

As part of the compact, the government will make the procurement profession a part of its civil service for the first time. Many of you may know this involves multiple ministries to get this done and it's a strong commitment. It's one of the reasons that we think this project's going to work.

And we've been building a fairly strong economic case for doing all of this, of course, the potential in savings is very, very high.

That is all I'll say about the first two projects, although of course, we're willing to take questions, but I'll turn it over to Loren now to talk about prosperity.

LABOVITCH: Thank you, Martha. Salem walicham (ph) everyone.

Like Martha, I'll spend just a couple minutes drawing out some of the highlights that—key elements to the Green Prosperity project that are stipulated in the compact.

I think as most in the room understand and appreciate natural capital constitutes one-quarter of Indonesia's total wealth and is being rapidly depleted. Almost half of Indonesia's land area is made up of forest, significant coastline and fisheries.

Climate change is having significant economic and social consequences in Indonesia, especially among the lowest income groups. And Indonesia is one of the world's largest emitters of greenhouse gases, mostly through deforestation and land use conversion.

The Green Prosperity project makes up more than half of the compact, it's a \$332 million project that's designed to support Indonesia's own commitment to a more sustainable and less carbon intensive future. Particularly with respect to their goal of reducing greenhouse gas emissions by 26 percent by 2020 and maintaining a target of 7 percent annual economic growth.

Increasing access to clean and reliable energy in rural areas and improving stewardship of natural assets are critical priorities to achieving this goal. The Green Prosperity project will provide a combination of technical and financial assistance to support rural economic development in a manner that reduces reliance of fossil fuels, improves land use management, protects natural capital and compliments Indonesia's efforts to reduce emissions and deforestation and environmental degradation.

The core objective of the project, consistent with MCC's mission is to increase productivity and household incomes by expanding renewable energy and improving management of land and natural resources, particularly in the agriculture and forestry sectors.

The project will also support participatory land use planning and knowledge management which are critical to empowering local Indonesians to manage their resources more efficiently and to build greater capacity to support low carbon development.

The centerpiece of the project is a funding facility that will provide two types of financing, commercial financing for commercial scale renewable energy investments and private sector investments in natural resource management and will also provide grants to support community based smaller scale renewable energy and sustainable land use projects.

All investments made through the Green Prosperity project will need to meet a minimum set of investment criteria that are spelled out very clearly in the compact. Among these criteria, investments must meet a minimum economic rate of return, which right now for MCC is 10 percent and that is, I think as most people know, a core criteria for us.

Investments must also improve environmental stewardship and contribute directly or indirectly to the reduction of greenhouse gas emissions.

Investments must ensure equal access to project benefits for women and other vulnerable segments of society and include appropriate safeguard measures to prevent or minimize adverse or unintended environmental and social impacts.

And for commercially viable projects, suitable risk allocations must be insured among the parties.

In addition to these minimum criteria, a set of sector specific investment and eligibility criteria will be developed to further define requirements specific to renewable energy, land use planning, agriculture, forestry, watershed management and other projects or sectors as agreed between the government and MCC.

Key implementing partners and project sponsors are expected to include local governments and institutions, private enterprises in the agriculture, forestry, water and energy sectors, financial institutions, small holder farmers and local and international civil society organizations.

Green Prosperity as has been discussed here today, is a locally driven development project that will target provinces and districts that have the highest potential for achieving poverty reduction and environmental objectives.

Districts selected for funding under Green Prosperity will be selected among 12 candidate provinces largely located on the islands of Sumatra, Kalimantan and Sulawesi.

The project will initially target two districts in each of the provinces Jambi (ph) and West Sulawesi, so these will be the starter provinces for the project.

And additional provinces and districts will be selected based on the results of the district readiness assessment that will evaluate a range of geographic, economic, environmental and social indicators including things like poverty levels, renewable energy potential, potential for economic growth, governance and forest and peat land cover.

To be selected, districts will need to have government approved special plans in place and agree to make land use information and licensing processes transparent and accessible.

A defining feature of Green Prosperity is its holistic approach to economic development. Investments will be geared towards supporting a mutually reinforcing set of objectives underpinned by the interdependencies at the community level between energy, productive uses of energy and protection of resources from which that energy is derived.

By improving both the availability and the reliability of renewable energy sources such as micro hydropower, bio-waste energy, we can open up opportunities for greater or higher value productivity that result in increased household incomes and improved standards of living for those who need it most.

Investment strategies will be anchored on spatial certainty to ensure projects are identified and developed based on accurate land use data and the most efficient use of critical ecosystem services.

Complementary investments in knowledge management in human capital will help improve the long-term effectiveness and sustainability of Green Prosperity investments and hopefully help create a model that will far outlast the compact itself.

As with any project, we know the success of Green Prosperity will depend on the quality of the people, the ideas and the partners that come forth to help implement it.

It's very good to see the interests and in everyone here today and we hope that interest will carry forth to real action on the ground in Indonesia.

Beginning in Jambi and West Sulawesi which is, again, where the program's going to roll out.

So thank you very much and we look forward to taking your questions.

COOPER: Thanks, Loren and thanks Martha.

An excellent overview of the compact. I wanted to ask a few questions before we opened it up to your questions.

And first is last month, the MCC celebrated its eighth anniversary and we've now signed 24 compacts. What's new and innovative about this compact, the Indonesia compact?

BOWEN: Well, as I hope you heard in what we've just been saying about the compact, there really is quite a lot of innovation; some for MCC institutionally and some sort of catching the wave of innovation that's happening within the government on Indonesia itself and the civil society and business community partners that we've been working with.

From that perspective, I'd say that the key things to understand by project are that Green Prosperity is really this idea of taking low-carbon development directly to the district level. It is a very, very important innovation. This is an agreement that we've made at the national level but as we know, the actions, the decisions about land use and energy mix are made at the district level and by working there, I think that's something that's newer for MCC and a very important step for the government of Indonesia as well.

As I mentioned the nutrition project is the first of its kind to provide incentives to the health system itself to prevent rather than just treat stunting, it's actually an important development within Indonesia. And also, its, you know, less usual for MCC to do health projects like this and I think that having an incredibly strong economic rationale for being able to make this investment, that's been a real innovation for us as an institution.

And then finally, I mean always feel slightly sophomoric saying it, but the procurement modernization project, I mean it's really based on the idea that there's some innovation going on. You know, there really is a lot of excitement about making a more level playing field, a better playing field in Indonesia for public procurements and I think there's a lot of excitement about that, and we really are sort of on the cutting edge of that and it's been very interesting, you know, working with the government of Indonesia on this project. Sometimes we struggle to keep up. I mean they really are—they are doing it, and we have worked with them to design a program that we think can be adapted and help them to do it over the coming years.

But when you look at the compact as a whole, you'll see a significant degree of sort of adaptability that we've built in basically because, you know, these things are changing. Laws are changing, regulations are changing and we want to be part of that for the next six years.

COOPER: Did you have anything to add?

LABOVITCH: No. No, nothing to add.

COOPER: Okay.

Mr. Ambassador had mentioned that there were some challenges during the course of the development of this compact. I'm interested to learn your perspectives on that.

What were the biggest challenges from the MCC perspective?

BOWEN: We always like to say it's been a unique engagement and a very rewarding one. But with any new type of engagement, there's been a huge learning curve for both of us, I think.

For us, just basically what I was saying like getting to know our partner, getting to know the momentum and the enthusiasm with which certain reforms and changes are being pursued. I think it took us some time to really just get used to the dynamism and the action that we're were seeing on the other side.

Conversely, you know, our Indonesian colleagues are a team that we work with in our working groups often say that they don't always enjoy the work, but they're glad we got them to do it. And it—for them, it really has been a different type of engagement, too, you know, donor implemented programs are very common on Indonesia. This type of program is not common and it's been a lot of work for them, a lot of work for people who don't normally do this type of work. I think they often tell us that they really feel that the country ownership model is something that they've come to truly, truly appreciate. And they'll contrast it with other experiences they've had.

This is a larger country than MCC usually works with. And I—it really does come back to what the Ambassador was saying and what Patrick was saying, about how it really has been a part of a partnership; and the more that we've seen it as part of a partnership, and understood that country ownership is critical, we can't just sort of dream up ideas in Washington and then go and say, 'Hey Government of Indonesia, what do you think about this idea?' You know, that's not going to work and it's been a great pillar of the comprehensive partnership over the last year and a half or so. But I think it's really been because we've both committed as partners.

DJALAL: Can I add to that a little bit? I think that the—I agree completely with what Martha is saying.

The biggest challenge is there are two things: what MCC is offering—what MCC wants—and what Indonesia wants.

And the challenge has been how to minimize the gap between these two things. And this is why the presence of Troy and Martha on the ground figuring out exactly what Indonesia wants and then matching that with what America's offering. That's the biggest challenge.

And the other one is making sure that the work that we've done together and—and the projects do climb up in terms of bureaucratic priorities in Indonesia. I think in the end, we have reached a stage whereby this reached presidential attention, this reached ministerial attention, (inaudible) was fully seized on this (inaudible) and she appointed the—the Vice Minister, Mr. Lukita (ph) to work on this.

So it climbed up drastically on the bureaucratic agenda and that's what made this program successful, but it didn't happen overnight and as with other parts of our partnership, it took a lot of back and forth, a lot of tussle, but all in good spirit and at the end what count is we all became better partners.

LABOVITCH: Well, yeah, let me add to that, too, that the part of what's been great for us is the capacity and the ambition of the Indonesians has really helped push us in a direction—and in an innovative direction, most importantly, that I think has been really special on this side.

For instance, with the Green Prosperity, there is a deep appreciation in Indonesia for the inter-relationships between poverty and the environment. And I think for MCC, not that we haven't done environmental programs before, we have. But we've never done anything, you know, quite this big and substantial with respect to its very core objective to address both of those issues, poverty and environment and that comes from the knowledge, the appreciation and the desire on behalf of the Indonesians to address these issues. And so it's been really good for us as well.

COOPER: Well, I just wanted to follow up about Green Prosperity.

If you're able to have the impact that we're seeking, and the facilities are working the way that you want them to, what's it going to mean? What are the stakes? What will it mean for low carbon development?

LABOVITCH: Great question.

Well, as I've talked about, I think what's really exciting for us is one, like I said, this is a cross sectorial project working at the nexus of poverty and development and that is very, very exciting.

Again, reinforcing things that have been said over and over, the focus is at the local and district level. This project really at the end of the day is about empowering local Indonesians to manage their own resources more effectively and more efficiently. That's very exciting.

And the emphasis on spatial planning. You know, I think this is a big part of what is going to drive the long term success of this program. The projects may be in renewable energy and agriculture and environment, but they have to be based on spatial plans, on spatial certainty so that we know we're making investment decisions based on accurate land use data and that we're building greater transparency to the land use licensing process.

Now if we get this right, which we're going to get this right, it will mean that the Indonesians have put in place a new and lasting model for conceiving financing and implementing green growth projects at the local level.

If we get this right, I think we will have catalyzed greater private sector investment in green growth strategies, spurred local entrepreneurship from emerging opportunities and renewal energy and innovative land use practices and built greater capacity and commitment among government, civil society and the private sector so the principles of sustainable development.

I think it will mean that we've taken meaningful steps to address the drivers of deforestation and environmental degradation and lastly, and most of all, it will mean greater and greener prosperity for many Indonesians.

COOPER: All right, and what's the timing for the creation of financing facility?

LABOVITCH: Well, right now, I think the goal is to have the financing facility launched as close to entry in the force as possible. I think it'll come—I don't think it will be at, I think it'll be a little bit after. But it depends a lot on the pace at which the Indonesians can set up the accountable entity and bring their core staff and their management team on board. So the project, again—the implementation is going to be based there and the Indonesians are going to drive it. So that's really a first step.

Once that happens, we'll be in a place to really accelerate the thinking on the facility, there's a lot of thinking that's going on right now. We are beginning to flesh out some of the details, but we really need to get the accountable entity on board first to finalize those details. So I think it'll be a little while.

COOPER: And how will the applications for the facility be evaluated by MCC?

LABOVITCH: Well, again, I think these are some of the details we're working out as far as the process, but the key thing will be the minimum investment criteria that I spoke of and that is, you know, very clearly spelled out in the compact.

And then I think at the end of the day, the, you know, the proposals in the investments that are going to make the most sense and I think going to be the most successful are again, those proposals that really build on and support those interdependencies between, you know, improving access to energy, helping people make economically productive use of that energy so that we can raise their standard of living and household incomes and then using that as an incentive to really highlight the importance of protecting the very environment that supports their livelihoods and the energy sources to being with.

And in doing so, our goal, I think, is to have good projects chasing money, not the other way around and so it'll take some time to flesh out the process for doing that, but that's the goal.

COOPER: Thanks.

Martha, what's the status of compact implementation right now?

BOWEN: Yes, Loren said the magic words, accountable entity or (inaudible) accountable.

So right now, what's happening is we are working with our colleagues in (inaudible) and in the Ministry of Finance to finalize three ministerial decrees, three (inaudible).

These are a follow up to a presidential decree that was issued late last year which established a form of organization called a trust fund. It's a trust fund under Indonesian law, it's not necessarily what we would understand to be a trust fund under U.S. law.

That provided the framework legislation and then—well it was the framework decree and then now we're working on decrees that would essentially rationalize the tax status of that type of organization, rationalize the tax status of the MCA trust, that's what it will be called, which it's the accountable entity and then finally, to create the trust itself.

Those of you who have worked in Indonesia may be smiling to yourselves right now, and yes, it's pretty complicated, but we're making very good progress—in particular the Ministry of Finance has been really moving ahead at a very impressive speed with preparing these.

We're just trying to make sure accountable entity is established in line with our own accountable entity guidelines which, as you may know, you can see on our website. Once it's established and once we have procurement and fiscal agents in place, the MCA will be able to, you know, sign contracts, make disbursement requests and behave like a normal MCA from MCC's perspective.

I just want to note that you will see in the compact or perhaps you've already read in the compact that the government of Indonesia has agreed to use MCC's program procurement guidelines for all procurements.

There's a slight exception to that which is those that will be done through Pan Pan (ph) block grants for the Genorosi (ph) piece of the nutrition program.

But in general, program procurement guidelines will be used and under these guidelines as you all know, no geographic preference, not for U.S. firms, not for Indonesian firms. And, of course, as many of you also know, the accountable entity will be required to put out a general procurement notice about semi-annually that will notify you of upcoming procurements. They're advertised as they come up both in country and here on the MCC website.

We can talk more about that if you have questions, but, yes, all eyes are on the ministerial decree right now.

COOPER: You touched on this, but how can companies and NGOs and individuals stay up to speed on developments in the compact and any potential opportunities?

BOWEN: The (inaudible) team that has been working with us does have a website up now which is for what they call the MCI team, Millennium Challenge Indonesia team, but once the MCI's established, it will have a website where you can stay up to date.

For Green Prosperity, I'm looking around the room and realizing that I've met about half of you personally to talk about this project. I know you're very interested. I think what we're going to do for Green Prosperity is to start to do maybe a series of roundtables here in Washington to keep you updated. We're just getting a little

overwhelmed with inquiries. And so if you would like to sign up to be part of these, please let Lorelle [Curry] know, who was standing in the corner, but is not there right now.

At any rate, you can give your e-mail address to me or to Lorelle, but I think we'll be doing that maybe every six weeks or so just to keep you up-to-date on the status of the program because it is evolving very quickly and, yeah, there'll be a lot to talk about.

COOPER: All right. Thanks Martha and Loren.

Now we'd like to open it up for your questions and please state your name and your affiliation and speak directly into the microphone when you ask your question.

QUESTION: Okay, I'm Hon Sing (ph) with the Michael Vaker (ph).

My question is, you know, since it's a partnership with MCC and Indonesia, the question is there got to be an identification and prioritization process in place with Indonesia to identify projects which are lifecycle cost effective and that will be supported through the O&M tale of these projects as well, their ability to sustain these projects long-term. And then also MCC probably has certain criteria that they would like to fuse into their process.

Could you talk about, you know, what is their process and how do you guys integrate it together, you know, with the process over?

COOPER: Martha, you want to take that one?

LABOVITCH: I'll start and Martha can jump in.

Okay, so this is a great question and, you know, it's one that it goes hand in hand with the work that's going to be done over the next year as far as really laying out the process.

But you're exactly right when you say that the selection of projects, speaking of Green Prosperity, the selection of projects will include, you know, kind of a lifecycle analysis like I said, looking at the integrated relationship between the various types of projects or sectors we want to work, and then, you know, combining that with our own selection criteria.

The selection criteria in the compact, the minimum criteria that's set out is really meant to just lay the ground-work for these are the must haves on that criteria. And then, you know, as the compact talks about additional criteria will be set up over the course of the next, you know, year or so to lay out more specific procedures and eligibility requirements for projects in the various sectors, you know, so projects around renewable energy will have a different, you know, a slightly different way in which we review the eligibility and the economic and social factors compared to those in agriculture, forestry, watershed management and so on and so forth. So we'll lay out some more detailed criteria.

That will all be integrated into an operations manual for the funding facility and so, the funding facility will be independently managed. MCA Indonesia will hire an independent manager, so it will be—it won't be directly in the hands of MCA Indonesia, but under their management, they'll be an independent institution that does it and that operations manual will establish the governing structure, the, again, kind of further hone and define the requirements and then establish the procedures by which project sponsors can bring proposals forward and know very clearly how they're going to be evaluated.

So I, you know, the bottom line is there's a lot of thinking to do. I think the roundtables that Martha referred to are going to be very, very important because we not only want to keep you informed as to the evolution of the

thinking on this, but I think it will be also very helpful for us to get feedback and ideas from you all to help make sure we design this in a good way.

And I'll add just lastly that I think we'll do these in Washington for sure. I also hope once MCA Indonesia is set up, we will do them in Jakarta and Jambi and West Sulawesi as well because that's really where, you know, the thrust and the ideas and partners are going to come from. So.

COOPER: Next question? Yes?

QUESTION: Hi, Michael Wolosin (ph) with Climate Advisors. Thank you guys for a great presentation and for all the work. Congratulations, very excited about the new compact.

I have two questions, one is an overarching question, in the Green Prosperity theme—both of them are related to Green Prosperity, so Loren, directed at you.

So you mentioned in describing the development of this plan and in terms of the national planning in Indonesia that lead to the Green Prosperity program, you talked about greenhouse gas emissions as front and center.

But—it's noticeable to me that in the list of criteria laid out for the Green Prosperity facility itself and for defining the monitoring and evaluation plan for Green Prosperity, greenhouse gas emissions is—is not amongst those criteria that will be estimated, counted and thought of as part of the evaluation framework for the success of this program. And to me that seems like a major oversight. And I'd like to hear a little bit about that and whether there's any exploration about including a greenhouse emissions criteria amongst the M&E plan.

The second question that I have is about the spatial delineation—and you focused several times on—on anchoring this program in spatial certainty and I applaud that very much. So I'd like to just ask whether during year zero whether the work on spatial delineation for the pilot districts will get to the point of completion such that any decisions that will be made when the investment facility is actually established, will already have that spatial certainty in hand.

I think it's very important that investment decisions are not made until the spatial planning work is done for those pilot products and I want to encourage and ask whether that's in the works.

Thank you.

LABOVITCH: Why is it not surprising that you have good questions, Michael.

Okay, so first—on the greenhouse gas emissions, well, two things to point out. One, you know again, the investment criteria does very specifically say that projects funded under Green Prosperity will either directly or indirectly reduce greenhouse gas emissions.

What you correctly note is that the indicators that we're going to use to do that M&E plan, monitoring and evaluation plan, have not been totally fleshed out. Now the monitoring and evaluation plan that's included in the compact in Appendix Annex III, is not finalized yet. It needs to be final before we enter in the force and it will be.

There are, I think, some leading indicators in there right now that speak to maintaining and protecting carbon sinks and other environmental indicators that can help demonstrate, you know, a reduction—or reducing the pressure on forests. But the specific indicator of, you know, a reduction in greenhouse gas emissions by "X" is not in there yet.

And frankly—I'm not going to sit here and tell you that it will or won't be. I think as you know very well, you know, measuring greenhouse gas emissions and incorporating global public goods into our economic model is

not something that we do as standard practice. I think it's something that we are very excited about working with our partners in Indonesia to think through and advance and I think that the objectives laid out in the compact very clearly point us in the direction of looking at how we might, you know, might assess that in the context of our core mission.

So that, I think the bottom line is—there's more thinking to do, and the M&E plan will be finalized, you know, before we enter into the force. So there's more input on the indicators that we're going to use.

On the second question around spatial certainty, so you're right. The whole idea is to ensure that projects are identified and developed based on accurate land use data. We want to make sure that the licensing procedures are transparent and that when projects get cited, you know, we know who's doing what where. Easy enough, easy said, right.

Now, I think on, you know, immediately, there will be some parallel work on this. We're not going to get all the spatial planning done that's laid in the compact in a year before we start making investment decisions. There's no way.

What we are going to do, though is provide early project preparation funding through the compact and through other agreements we have with the government to move forward on initial preparatory stages for the land use planning activity.

There's \$25 million allocated in compact for participatory land use planning. The objectives are really to establish administrative boundaries for villages to help update spatial plans and then incorporate that data into regional level plans and we will be moving forward on, for instance, establishing guidelines for—for a boundary setting at the village level and doing an initial high level needs assessment of kind of the critical land use issues in a given district or province very early on over the next year.

And so some of that, you know, that's the initial data that we want to have on the table before we start looking at projects, other data will proceed following that.

COOPER: Other questions? I'll take one over here.

QUESTION: Hi, I'm (inaudible) for the world (ph).

Based on the work you've done, you know, I can (inaudible) analysis, but I'm informed your relationship between nutrition, economic growth and productivity, do you foresee at this point whether in future compacts there'll be nutrition competence still included?

Thanks.

BOWEN: I know what I'd like the answer to be but—I don't know the answer to that question.

I think in Indonesia, we had a fantastic confluence of information and interest. The project that we're going to be funding was based on a pilot project that was rigorously evaluated by—well, the pilot was run by the World Bank and it was subject to a rigorous evaluation and the—the results were quite robust and they did point us in the direction of being able to really gauge what the impact of the nutrition interventions was going to be.

So we had that confidence, you know, we really were making a sort of results based decision on that one. I guess it's possible for other compacts and I'm not sure if it will happen, but I—I know I personally would like to see it happen.

COOPER: Next question?

QUESTION: Fred Still (ph) from (inaudible) institute and I was very happy that the spatial work is really in and I'm very happy that you will work on a district level, I think that's very unique and very interesting, but it also gives me a cause of question. A lot of history doesn't have full control of the area. There's the (inaudible), the forestry estates and so to do a good spatial planning, so it has to be coordinated with, you know, the national level, so my question is more like how is (inaudible) coordination work and I don't think the Ministry of Forestry, which is the big one in here is part of your inner circles and so I wonder how you're going to deal with those nice stuff?

BOWEN: Thanks, Fred.

They're definitely in some circles, I wouldn't necessarily say that the most inner circle and to just want to say something very quickly about that following up on the question that Michael asked.

In order to develop an economic rate of return for any potential project, I think that we would be very ill advised to even start that process without having a good idea of what the productive uses available were for energy, for land use and there's no way that we could have that understanding without having at least some of the participatory land use planning work done.

So just as a follow up on Michael's question, but I'll let Loren weigh into this.

It is contemplated that the MCA, the national level body that's responsible for administering the compact, would enter into Memorandum of Understanding, Memorandum of Agreement with individual districts as well as provinces. And those documents would be essentially the guiding lights for what that relationship would be.

So that's my short answer. I know Loren can expand on it.

LABOVITCH: Yeah and I'll just add too that as set forth in the compact it—the work at the local level with regard to spatial planning, boundary setting, updating land use inventory, incorporating that into the spatial plans is all meant to support and reinforce the national laws for doing that.

I think we've targeted the technical and financial assistance that we want to provide at the local level because, again, we think it's super important to be empowering people at that level to manage their resources, you know, more effectively.

And so we want to start, we want to kind of be the bottom up and the ground swell that helps, you know, meet what's going on on the ground with the national level priorities and the spatial plans.

There's a five year cycle to the spatial planning update and where that falls in any given province or district, you know, I don't know the answer to that, but the ideas that we're going to support the national level process. We're just going to do it by honing the capacity and commitment at the ground level instead of coming top down.

Fine (OFF MIKE): Chuck, I would just add that the selection of Jambi and West Sulawesi was based in part on the fact that they demonstrated commitment to the (inaudible) and they actually have gone quite some distance towards putting plans in place and moving this agenda along.

So and we've specifically said that that selection of future provinces will be based on their demonstrated capacity, commitment and that they already have, for example, plans in place.

So I would also add to that, we're not naive about the challenges that this represents but it—the selection of local partners who have demonstrated commitment is an important part of the discussions we've had.

COOPER: We have other questions?

QUESTION: Thank you very much.

I have a question on the nutrition work, it's very exciting, very much applaud these efforts. Could you please share a bit more about the incentives system and how specifically you'll be able to get to prevention?

It's wonderful news on that front, but a bit more on what you're planning there would be very helpful.

And how does the project overall plan to reach children especially in that 1000 day window that we know is so critical from pregnancy to age two?

And then finally the government of Indonesia is doing exciting work on this front with the first 1000 days for the country program and are there any linkages there either now or down the road?

Thank you so much.

BOWEN: That's a great question.

I heard a couple of weeks ago that Indonesia has now signed up to the scaling up nutrition movement which is very exciting news and I think it's going to be a great opportunity for Indonesia to, you know, have leading voice in some of these multilateral discussions about nutrition and specifically this 1000 days work.

There's really sort of two sets of incentives, if I can just over complicate things for a moment. The—on the community side, the work that Generosi (ph) originally did was enable communities to set their own targets for improving—they actually had a set of health and education indicators and they were things like number of times that a child has been weighed in the first six months of its life, number of visits by pregnant mothers to clinics.

Those community incentives worked very well, but one of the things that the rigorous evaluation that I mentioned earlier found was that they worked very, very well, but they were not able to always—the communities were not always get the services that they were asking for. 'I want my child to be weighed every,' you know, 'month, two months.' But the health system hadn't been able to necessarily provide that in the area where they were.

And so one of the findings was, you know, we need to sort of strengthen this nutrition provision side.

The incentive system on the community side is going to continue into Generosi (ph) plus but we've added a specific indicator for stunting, so height for age, not just weight for age.

It's a small addition when you think about the fact that you're already relying on women and health system connections for all these other things, but we really think it is going to be able to even measure it.

So on the community side, we've sort of strengthened those indicators. There are a couple of others, but really the height for age one is the most important from our perspective.

Then on the health system side, there's actually a lot of work, not quite as I speak because of the time difference, but we actually have a team working with a whole group of World Bank and multi-donor folks who are also interested in strengthening this health system incentives side.

The program had originally been designed to essentially provide almost results based financing for health system providers, but we're taking a very good look at it right now because we are working on the research questions for the impact evaluation for the Generosi (ph) plus side.

So I can't tell you exactly what's going to emerge from this week—this week and next week's discussions but I can tell you that there's a lot of interest in really making a rigorous results based financing set of decisions on the health system side.

As you know the health system was decentralized very quickly. It has had some problems in some areas and I think that strengthening that side is going to be very helpful.

We're working through the World Bank to do that as well. We're working with the Ministry of Health, but again, it's going to be part of this sort of larger multi-donor effort for this program.

COOPER: We have a question over here.

QUESTION: Al Laport (ph) of State Department Retired.

I hate to belabor the point on spatial planning, but it seems to me that there's an inbuilt conflict in what you're talking about for a locality based ground up land use planning system with the President Yudhoyono's decree on creating one map strategy which is controlled by the National Mapping Agency and that would indicate a top down method using geo-spatial and other techniques.

LABOVITCH: Thank you. That's, yeah, that's a very good question.

We're very aware of the one map initiative, and in fact we worked very closely with State Department on, you know, understanding and staying aware of where that initiative is going and the progress being made.

We are looking we are looking at one map all the time. It's not that it's not in our—in our thinking or lexicon to—to be envisioning a time at which those two will come together. I think my point, though, that I was trying to make is that to begin with, we are focusing on the capacity and the capabilities at a—at a more local level because I think it's important to, you know, to do that—I'm not going to say before you integrate always up to the national level, but I think both have to happen for the one map initiative to be successful and I think both have to happen for the type of, you know, green growth and environmentally responsible development that we want to see at the local and provincial level.

So we are certainly not ignoring that by any means. As a matter of fact, we're very much aware of it and there's other folks within the U.S. government that are really working on that.

And so another reason that we're not focusing on it right now is because we're just trying to make sure that we're not duplicating efforts or stepping on each other's toes.

Folks at State Department and USAID forestry, you know, so on and so forth are working with the Indonesians on that.

COOPER: Other questions?

QUESTION: I'm David Backs (ph) with Jacobs.

In many countries where there have been efforts to find alternative sources of energy, or green energy, there's been a move that has resulted in monoculture being practiced and by diversity being impacted to the detriment of those countries.

Can you just talk about some of the factors that you're put—that you put in place to maybe prevent this from happening or when you talk about an alternative energy, what types of energy sources you prioritized or practices?

LABOVITCH: Thanks, David.

Okay, so this is another very good question.

So let me speak to the types of energy first because we're well aware of this issue. This gets to the unintended consequences part of my point about having environmental safeguards in place. Right?

And we're well aware that by increasing incomes and productivity and all that, you may align incentives in the wrong direction, A, and B, that when it comes to, you know, biofuel, that the monoculture type of set ups can be more detrimental than useful.

But what you'll see in the compact is one, you know, the Indonesians are—have concentrated, you know, for a long time on the micro- and mini-hydropower, so we're definitely focused on hydropower at the small, you know, up to 10 megawatt level.

On the bio side, we're really focusing on biowaste and making use of biomass that's already there. We are not, you know, I don't think there's anything in the compact that points in the direction of monoculture biofuel type projects. It doesn't say it can't happen or anything like that, but—again the criteria that, with respect to environmental safeguards. And in the compact, you'll see we've adopted IFC environmental and social safeguards or performance standards. Sorry.

And those performance standards are meant to supplement our own environmental guidelines and provide much greater specificity and consistency around how we're going to address issues like protection of critical ecosystems.

And so through the safeguard requirements, through the—I think the model that I was talking about with respect to mutually reinforcing benefits and through very clear objectives that say, you know improved environmental stewardship is one of our objectives, I think we're going to be able to steer away from that.

But it's right here. Right? I mean it's one of those issues that kind of keeps you up at night. But we're well aware of it, we've had great conversations with our counterparts and we're working though how to point it in the right direction acknowledging that issue.

COOPER: I think we have time for one more question.

QUESTION: I'm Claude Appleton (ph), I'm with AEAI, we're an energy consulting firm. I'd like to have one question to Martha and then follow another question for Loren.

In terms of planning—in terms of—my focus is going to be procurement and that won't happen until the MCA compact is finalized and are we talking two weeks? Two months? Two years?

And then for Loren, the buzz word 'renewable' is used to cover a lot of things. (inaudible) title power, geothermal, solar, wind, biomass, hydro, things of that nature. How are you going to define renewables for this project?

And in terms of resources management, is things such as injecting carbon dioxide into coal seams or coal mines which is used as a carbon sink and then releases methane, which the country then could pipe and use for its industry development and reduce the burning of oil or coal. So those are the two focuses of my question.

Thank you.

BOWEN: I'm very anxious to not say anything that's going to make our management and office of general counsel representatives run out of the room.

But in terms of timeline, I expect that the MCA will come into existence as early as next month, probably by April and I'm guessing that it will be ready to make procurements in the second half of this calendar year. That's the timeline we're working with right now.

I'd like to say don't quote me, but this is being reported, so apologies in advance if that's the timeline set.

LABOVITCH: And on the renewable energy technology, the conversations we've had with the Indonesians—I was just there in December—have really been focused on micro- and mini-hydro, so taking advantage of the watersheds which—well, the natural wealth in general that Indonesia is endowed with.

At, you know, both on-grid/off-grid, and I think depending on the scale there's opportunity for both. We went into a particular village on our last trip where the off-grid opportunities of putting in place, you know, small scale renewable energy, and the economic uses that they could use from that are very clear in their heads. So they're thinking water. That's going to be a definite focus.

The biomass, as I said, is certainly a conversation that we're having but it's, again, it's biowaste and it's not—I don't think we've had any conversation around monoculture type biofuels.

There's been some discussion of solar and wind—but if it were to take place, I think it would be on a very limited basis or scale and, you know, and really that's it. That's where the conversation's been with our partners.

These other things, yes, they're—you could define them as renewable and what not, but that's not what's being asked of the U.S. government to support.

There's large geothermal potential in Indonesia as I think everyone knows. We've made, I think, a pretty conscious decision not to direct ourselves in that—in, you know, in that direction because other folks within the U.S. government are working with the Indonesians to support the development of that technology. It's of the scale and, you know, the development requirements with it are, I think kind of outstrip what we would be able to do in the time frame that we have with Green Prosperity, those kind of things.

So, you know, the short answer's really hydropower and biowaste to energy and then, you know, maybe some things around, you know, small solar or wind and that's really what we've been focused on.

COOPER: All right. Thanks, Loren. Thanks, Martha.

So that will conclude our program. I'd like to thank all of you for attending and we appreciate your participation.

I'd also like to mention that a video of this event will be posted on our website, mcc.gov.

Thank you.

(APPLAUSE)

END