



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$12,000,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of the Republic of Indonesia. We have included supplemental information summarizing the intended uses of these funds.

The attached notification is being sent to the Congress on November 19, 2010. Obligation of funds may be incurred on or after 15 days from the date of this notification.

Sincerely,

A handwritten signature in blue ink that reads 'T. Charles Cooper'.

T. Charles Cooper  
Vice President  
Congressional and Public Affairs

Enclosure:  
As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

November 19, 2010

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	FY 2011 Program Funds
OBLIGATION AMOUNT:	\$12,000,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010 (Pub. L. 111-117, Division F), as carried forward by the Continuing Appropriations Act, 2011 (Pub. L. 111-242), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$12,000,000 under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Government of the Republic of Indonesia.

MCC plans to fund project development and appraisal activities in three proposed areas: (1) green prosperity, focused on low carbon, environmentally sustainable and community-oriented development; (2) increasing access to economic opportunities, focused on health and education projects; and (3) good governance, focused on improvements to public procurement practices. The activities are being undertaken to mitigate project implementation risks, yield accurate cost estimates, and ensure adequate safeguards for proposed investments targeting the poorest areas of Indonesia in the event that a Compact is successfully concluded with Indonesia.

## **SUPPLEMENTAL INFORMATION**

### **MCC 609(g) Funding for Indonesia**

#### **Background**

MCC's Chief Executive Officer has approved funding under section 609(g) of the Millennium Challenge Act, as amended ("609(g) funding") for Indonesia in an amount not to exceed \$12 million to support compact development in Indonesia. The MCC Board of Directors selected Indonesia as eligible for compact assistance in December 2008.

The Asian Development Bank, International Labour Organization and Islamic Development Bank conducted an economic constraints analysis that identified infrastructure, governance and education as key constraints to Indonesia's economic growth and that stressed the need to mainstream environmental considerations into development planning in the country. In early 2010, the Government of Indonesia ("GOI") undertook regional and national public consultations regarding the results of this analysis, the MCC approach and possible project concepts. In June 2010, the GOI submitted 13 concept papers to MCC. In response, MCC initiated a review process and fact-finding mission. Following this mission, MCC and the GOI agreed to move forward with project development in three thematic areas: green prosperity, increasing access to economic opportunities, and good governance.

#### **Justification**

MCC's 609(g) funding to Indonesia will be provided to assist with project development and appraisal activities within the three thematic areas, beginning in December 2010. Specifically, MCC intends to fund:

- technical feasibility studies;
- analyses of institutional capacity, sector policies, and legal and regulatory issues;
- environmental and social assessments;
- detailed project design work; and
- the development of potential partnerships with other USG agencies, the private sector, NGOs, and others in fields such as entrepreneurship, applied science and technology, alternative energy, financial services (including those focused on underserved populations) and alternative livelihoods.

In addition, MCC expects to support accountable entity start-up, including the mobilization of the procurement and fiscal agents.

MCC's 609(g) funding is expected to influence the likelihood that: (a) MCC has adequate project cost estimates at the time of compact signature; (b) the period of time between compact signing and entry into force is reasonably short; (c) project implementation and disbursements can begin soon after entry into force; and (d) all projects will be completed within the term of the proposed compact.

## **Thematic Areas**

As noted above, MCC and the GOI have together identified areas for potential compact investment that focus on three broad themes: green prosperity, increasing access to economic opportunities, and governance. Projects within each of the themes will be designed to address critical constraints to economic growth in Indonesia and to support GOI's own development priorities. More specifically:

The **Green Prosperity** theme is anchored in the concept of low carbon, environmentally sustainable and community-oriented development. This component is currently envisioned to support activities in natural resource and renewable energy management that are consistent with the GOI's commitment to significantly reduce carbon emissions. 609(g) funding would explore opportunities to develop and enhance alternative livelihoods consistent with a low carbon, environmentally and socially sustainable growth strategy. Feasibility studies will look to leverage and complement climate change and development programs under the U.S.-Indonesia Comprehensive Partnership as well as support the Norway-Indonesia initiative and those of other donors.

The **Increasing Access to Economic Opportunities** theme aims to support priority projects in health, nutrition, and education. Projects would build upon existing community-driven development models in addition to exploring innovative partnerships with key Indonesian educational institutions. Specifically, this theme aims to target results in key areas of human capital development to ensure future potential for inclusive growth. A focus on results opens opportunities for utilizing proven and/or piloting new means of accomplishing objectives – including results-based financing models and private sector led human capital growth. With 609(g) funding, MCC intends to undertake further design work to bring the lessons learned from existing experience in nutrition, education and related fields in Indonesia into a proposed compact project.

The **Good Governance** theme aims to build upon the successes of MCC's threshold program focused in areas of eProcurement. The Good Governance theme is expected to support key institutional reforms in support of better public procurement practices. This theme emerged from the challenges faced by local governments with budgeting and financial management, areas of increasing responsibility for them since decentralization. Specific steps to be undertaken with 609(g) funding in the development of a potential program are anticipated to include feasibility studies to identify the localities that have the greatest demand for procurement reform and that have the required capacity to implement a proposed project, and to generate accurate cost estimates and to explore the possibility of a secondary grants program to incentivize local governments to follow best practices.