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Madame Chairman, members of the sub-committee, thank you for inviting us to testify today on U.S.-Indonesia relations and, more specifically, on U.S. Agency for International Development (USAID) programs there and in other tsunami-affected countries. I will address why Indonesia is important to U.S. foreign policy, its major development challenges, and what the USAID is doing to help the Government of Indonesia (GOI) meet these challenges. Among those challenges is, of course, the havoc wrought by the tsunami of December 2004 which affected several countries within the region. I will summarize the broader USAID tsunami response and its impact.

Indonesia is strategically important to the United States. With the world's fourth largest population and the largest Muslim population, it is also the third largest democracy. Last year, Susilo Bambang Yudhoyono, the democratically elected President, successfully campaigned on a pro-jobs and anti-corruption platform. This year, local elections continue throughout the archipelago with local government leaders directly elected by their constituents for the first time in Indonesian history. Indonesia has embarked on major changes in democratic governance and decentralization. It has vast energy and mineral resources, a location astride some of the globe's most important ocean routes, and large expanses of rainforest and coral reef. It is in U. S. interests to support Indonesia's future as an independent, stable democracy, prosperous and at peace with its neighbors. And U.S. interests support an Indonesia with diminished potential as a source and victim of terrorism, crime, fewer internally displaced persons, less disease prevalence, fewer trafficked persons, and less narcotics trafficking

Indonesia's challenges are immense. Lack of a democratic tradition has meant a lack of experienced political leadership in democratic governance. Despite progress, economic growth remains too low to accommodate the growing labor force. Serious rule of law deficiencies and widespread corruption and bureaucratic obstacles discourage job-generating foreign investment. High levels of poverty, foreign radical religious influences, and a poor education system work against our goal of Indonesia as a stable, democratic state and foster conditions that potentially create an operating and recruiting environment for violent Islamic groups.

There are also encouraging signs. The GOI has taken bold steps to improve governance including transferring about two million employees, approximately two-thirds of the central government workforce to local governments. Since 1998, GOI efforts have reduced inflation from 80% to below 6% and growth is set to expand by approximately 5.7% this year. There are substantial challenges that could derail this transition. The education system is in crisis. Democratic reforms are fragile after years of authoritarian government and most local governments are ill-equipped to assume planning, budgeting, and management responsibilities. The current rate of GDP growth, while much improved, will still not absorb the 2.5 million new entrants into the job market each year. Net foreign investment has declined over the last five years, although there is some hope that it is turning around. Sectarian and separatist conflicts continue.

USAID programs are an integral part of an integrated USG strategy to combat terrorism, promote democracy and good governance, provide education reform, assure a better life for the people of Indonesia, and support Indonesia's economic prosperity. Another key component is post-tsunami reconstruction.

The USAID five year strategy in Indonesia (FY 2004-2008), focuses on five key strategic directions, with cross cutting themes that focus on working at the local level, fighting corruption, and developing public-private partnerships that support all of our program objectives. These five strategic directions are: 1) improving the quality of decentralized basic education, 2) improving the delivery of basic human services such as health care and clean water, 3) advancing democratic, decentralized governance, 4) strengthening economic growth and promoting job creation and, of course, 5) providing critical post-Tsunami reconstruction assistance.

- **Basic Education**



To improve the quality of decentralized basic education, this Administration committed to provide at least \$157 million [from FY 2004 - 2009] to improve management and governance in the education system, improve teaching and learning in public and private schools, and provide relevant life and work skills to students. This program is coordinated closely with the Embassy public affairs section, which provides scholarships, exchange programs, English teacher development, and university exchanges. Our education programs contribute to countering extremism and terrorism. Education is the foundation for effective citizen participation in a democracy. Education helps secure economic opportunities for disadvantaged or marginalized populations. Increased quality of teaching and learning in public and private schools provides an alternative to the more extremist, radical schools. Livelihood programs help out-of-school youth learn essential skills for jobs. Education programs diminish the underlying conditions that terrorists seek to exploit. We are promoting moderation, tolerance, and support for pluralism by developing critical thinking skills. These same skills are also essential to finding and keeping good jobs and effectively participating in Indonesia's democratic system, modern society, and the world economy. We are also increasing access to education opportunities for vulnerable or marginalized populations.

USAID basic education programs are already working in 200 schools, including 40 madrassahs, and are reaching 70,000 students. New and expanded programs are expected to directly reach 4,500 public and private schools, four million students, 55,000 educators and one million out-of-school youth over the life of the programs. Concrete results are already being achieved. Active learning methodologies are being effectively applied and community and parental involvement is on the rise. School committees are actively managing 80% of the schools currently involved in our programs. Local governments in other parts of Indonesia have introduced best practices developed in USAID partner schools to 900 additional schools using their own resources. Most importantly, student performance in key subjects such as math and science is improving.

- **Healthcare, Clean Water and Environment**

To improve basic human services, the USG is providing assistance to improve access to higher quality basic human services, using an integrated approach that combines support for health care at the community level, food and nutrition, and access to clean water and sanitation. Health care programs are focusing on maternal and neonatal health; reproductive health; child health and nutrition; prevention of HIV/AIDS, tuberculosis and malaria; decentralization of health care service delivery; and improved hygiene to prevent diarrhea. In fiscal years 2004 and 2005, the USG provided \$64.7 million for these activities. USAID food assistance programs will target poor communities and directly impact women and children. Environmental services programs will support better health through improved water resources management and expanded access to clean water and sanitation services. These integrated programs will also promote biodiversity conservation, forest management, land-use planning, and reforestation activities, which provide a sustainable source of clean water. Activities will introduce sustainable approaches to providing safe drinking water at the point of use.

HIV/AIDS prevention activities have directly reached over one million members of high risk group. USAID has worked with three hundred private sector midwives from six provinces to improve the quality of the services they provide. We have worked with the GOI and international agencies to plan and implement essential National Immunization Days to halt the spread of the life-threatening wild polio virus, which has recently been reintroduced to Indonesia, and are working with the GOI and other USG agencies on response programs to control the risk of avian influenza in Indonesia. Programs have enabled local authorities to provide 18 million pre-school children with Vitamin A capsules to strengthen their immune systems and prevent blindness. USAID assistance has helped local authorities to place an additional 2.2 million hectares of forest and coastal areas under better management and protection.

- **Economic Growth**

To strengthen economic growth and employment creation, and in a direct response to one of President Yudhoyono's highest priorities, the USG is providing assistance to assist both the government and the private sector in improving the business and investment climate, combating corruption, increasing competitiveness in key sectors and improving the safety and soundness of the financial system. Efforts to promote a transparent and predictable legal and regulatory climate for business will reduce the hidden costs of doing

business, reduce business uncertainty, and promote trade, investment and job creation. USAID support will help the GOI to improve the oversight of bank and non-bank financial intermediaries in assuring safety and soundness in the financial system and to improve transparency and governance. Programs in this area will assist in the detection and prevention of financial crimes and terrorist financing. Anti-corruption efforts will include support to the Commercial Court and the Anti-Corruption Court. As a result of GOI commitment and USAID technical assistance, Indonesia was removed from the international watch-list of Non-Cooperating Countries and Territories on February 11, 2005,

USAID successfully advised the GOI on Indonesia's Deposit Insurance Law, and is now assisting in the creation of a new deposit insurance agency that will better protect depositors and the banking system. In an important public-private alliance, USAID launched the "Success Alliance" to promote and improve the quality of Indonesia's cocoa, under which more than 60,000 farmers have been trained. Our industry partners have invested several million dollars in research and marketing and have committed to purchasing more than \$150 million in Indonesian cocoa.

- **Democracy and Governance**

To advance democratic decentralized governance, the USG is providing assistance, to help Indonesia build effective and accountable local governance, to address conflict and improve pluralism, and to consolidate the democratic reform agenda. USAID will work with 100 local governments to strengthen the local legislative process, to engage citizens in planning and strategic decision-making, and to link participatory planning, performance budgeting and improved financial management support to improve local government ability to effectively deliver basic services. Programs will advance and safeguard key democratic reforms, including the rule of law, freedom of information, justice sector reform, free and fair elections and decentralization. USAID support will help local organizations address violent conflict across Indonesia, promote pluralism, reach out to Islamic mass-based and other civil society organizations, and will provide immediate support to the implementation of the peace accord agreed to by the GOI and the Free Aceh Movement (GAM).

In 2004, USAID was the largest bilateral donor to the nationwide legislative elections and to the first ever direct Presidential elections. With 155 million registered voters and more than 575,000 polling stations, the Indonesia elections were the largest single-day elections in the world. USAID assistance helped the Supreme Court establish and implement its blueprint for comprehensive reforms, which includes reducing the backlog of cases, improving the quality and integrity of judges, publishing court decisions and modernizing the court information systems. In support of Indonesia's decentralization process, USAID has been a leading donor, providing direct capacity-building support to local governments. USAID helped the GOI develop and implement revenue-sharing formulas and techniques that have assured funding continuity for local governments. With USAID assistance, local governments are implementing measures to address corruption at the local level.

USAID in a partnership with The Asia Foundation (TAF) successfully administers the Islam and Civil Society Program (ICS). Over the past seven years, The Asia Foundation's ICS program has played a crucial role in fostering, consolidating and strengthening the pro-democracy movement in Indonesia by engaging mass-based organizations that have strong nation-wide networks, as well as on-the-ground credibility and legitimacy. USAID and TAF have created a network of over thirty pro-democracy and mass-based organizations addressing issues such as women's human rights, the integration of democracy themes into mainstream media, and cooperation among civic education providers at higher education institutions.

USAID and TAF have supported innovative civic education curriculum development programs in three Islamic education systems nationwide, providing teacher training and textbooks on democracy education and active learning pedagogy to over 550 education providers and 120,000 students in 2004 alone. TAF support has enabled Indonesian partner organizations to provide training on human rights and gender issues within over 1,000 pesantren (Islamic boarding schools) and introduce civic education and active learning methods to pesantren and madras (Islamic day schools), the sector of Indonesia's education system in most need of reform. The People's Voter Education Network (JPPR) was established by TAF, with USAID financing, in 1998 and has provided large scale voter education and election day monitoring in the 1999 and 2004 elections. The JPPR, composed of long-term ICS partners, mass-based Muslim organizations, combined with mass-based Christian and inter-faith groups, deployed over 140,000 community-based voter education and election day monitoring volunteers, and produced and distributed over a million pieces of voter education materials in 350 districts. USAID and TAF have supported the creation and continued production of one of the largest radio talk shows in Asia, reaching three million listeners, called "Religion and Tolerance." In addition to the above-mentioned media programs, TAF has opened a dialogue with more than twenty Islamic youth groups (including hard line groups) on university campuses in four cities.

- **Tsunami Relief – Indonesia**

The Indian Ocean tsunami struck on December 26, 2004. The provinces of Aceh and North Sumatra, on the island of Sumatra, were the closest bodies of land in the direct path of the killer tsunami waves. American individuals, families, non-profit organizations, and private corporations donated hundreds of millions of dollars to help relieve the suffering and begin the reconstruction. The U.S. Congress responded to the President's request with a supplemental budget package that is currently providing approximately \$400 million for relief and reconstruction in Indonesia.

The funding provided by the federal government enabled USAID/Indonesia to immediately assist over 580,000 people. USAID supplied food, water, and hygiene kits and provided cash-for work to clean up and rebuild damaged infrastructure. In the aftermath, USAID is building roads, supporting reconstruction programs that are identified by the affected communities themselves, strengthening the community governance and political infrastructure, and helping to establish early warning prevention systems for future catastrophes. USAID has also partnered with the private sector to help channel resources to assist with the reconstruction. We have developed five Global

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Development Alliances, or public/private partnerships, providing tangible assistance to Acehese citizens.

The compassion of ordinary American citizens and the private sector, combined with prompt government action, has significantly changed the way Indonesians view the USA. According to post-Tsunami polls conducted by Terror Free Tomorrow, a non-profit/non-partisan organization represented by Senator John McCain, Lee H. Hamilton, and many other distinguished professionals, 65% of Indonesians are now “more favorable” to the United States because of the American response to the tsunami, with the highest percentage among people under 30. A separate poll conducted by the Pew Global Attitudes Project in Indonesia reports that nearly 80% of Indonesians say that the donations gave them a more favorable view of the United States. This measurable progress on “winning hearts and minds” and gaining allies in the Global War on Terrorism is a major blow to Al Qaeda and other terrorists.

After only two months in office, President Yudhoyono was faced with the tsunami disaster. Dealing with the immediate aftermath was far beyond the capability of any single government. While the massive damage resulting from the tsunami cannot be undone overnight, the GOI in partnership with international donors such as the U.S. Government has taken several important steps forward over the past nine months. USAID has played a vital role in that process.

USAID moved quickly to put to good use the funds that were provided by the U.S. Congress. \$48 million was immediately obligated for emergency relief and recovery programs. USAID cooperated closely with both civilian and military authorities. Our Office of Foreign Disaster Assistance (OFDA) and the Asia Near East Bureau worked closely with the military, planning the initial relief effort. The USAID Tsunami point person traveled to the region with Deputy Secretary of Defense Wolfowitz to ensure a seamless transition from initial relief to reconstruction. As the Navy sailed away from Aceh, we were already announcing new grants to rebuild lives and communities. In June, the USG and the GOI signed an agreement to defer and reschedule debt payments falling due to the USG this year in order to free GOI resources for tsunami victims. Approximately \$21 million was obligated for the budget subsidy cost of this rescheduling consistent with the Federal Credit Reform Act.

On July 7, 2005 USAID signed a new agreement with the GOI, committing \$332 million (of FY 2005 Tsunami supplemental funding) for reconstruction programs. On August 25, USAID launched a \$13.5 million contract with an Indonesian construction company and started work on the first phase of road reconstruction in Aceh. USAID has committed to reconstructing the 240-kilometer road from Banda Aceh to Meulaboh in its entirety. The road is the economic backbone of the region, connecting Aceh Province with the rest of North Sumatra and Indonesia. The overall road project, which will total \$245 million, will provide mobility, improve communication, create local jobs, and serve as the lifeline for economic growth in the tsunami-devastated region. The first (or “phase one” contract) phase will repair enough of the road surface and bridges to reopen the first 80 kilometers of the road leading from Banda Aceh to Lamno. A second contract will be

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awarded for Architecture and Engineering (A&E) services for the design of the remaining road sections and overall construction supervision. A third contract will be awarded to resurface, rehabilitate, and reconstruct the road from Lamno to Meulaboh as these sections are not covered by the first contract.

I should mention that USAID is assuring that our contractors hire employees from all parts of Aceh and North Sumatra. Young men from diverse communities and backgrounds will have the opportunity to work together rebuilding their nation, and develop respect for each other at the same time. A significant factor in evaluating the phase one road project proposals was the quality of plans to “utilize local resources both personnel and material”, and the demonstrated ability of the contractor to “integrate local Acehnese subcontractors”. The contractor has a management plan in place and estimates that between 300 and 400 full-time Acehnese personnel will be hired to support the project. Tenders for the large road project will also include a plan for recruiting, training and hiring Indonesian personnel for all other phases of the construction project.

Second, to ensure proper oversight and success of this project and all of our projects in Aceh, we have established a USAID satellite office in the city of Banda Aceh. From there our staff continues to monitor the successful culmination of relief and recovery activities, such as water and sanitation and cash-for-work programs, as well as manage implementation of our reconstruction work. Over 580,000 people have already benefited from these efforts.

The GOI has established its Aceh Rehabilitation and Reconstruction Agency, referred to as the BRR. Its director, Dr. Kuntoro, has requested technical assistance and USAID has been able to quickly provide the necessary expertise in the areas of audit and financial management, spatial planning, information and communications technology.

We are particularly proud of the communities participating in our Community Based Recovery Initiative. They have moved from temporary employment activities, such as debris clean up, to implementation of small-scale reconstruction projects, such as meeting houses and health posts. Community members work together democratically to set their priorities. In order to rebuild, residents need to agree on land boundaries. USAID is providing important expertise on community mapping to help families establish proper land claims and to help communities map out the proper locations of schools, commercial areas, parks, and other public infrastructure.

In the wake of the tsunami, there is new hope in Indonesia. After 30 years of conflict, the Free Aceh Movement has signed peace accords with the Government of Indonesia. This unprecedented progress deserves U.S. Government support. USAID has already started funding public information campaigns to assure that all ex-combatants and communities understand the terms of the peace agreement, including their roles. Deputy Secretary Zoellick is making available \$10.5 million for confidence building measures such as public information campaigns on the content of the peace accord, and reintegration efforts such as community-based recovery in former high-conflict areas and areas with the highest numbers of reintegrated former combatants and released prisoners. These

efforts may be followed by longer-term reintegration support in areas such as vocational training and microfinance support. Such programs are crucial to solidifying the early months of peace and to the long-term success of our larger reconstruction programs in Aceh and North Sumatra.

- **Tsunami Relief – Regional**

In Sri Lanka, where over 30,000 people lost their lives and over half a million were rendered homeless, the USAID team moved quickly to reestablish a means of livelihood for the victims. Over 300,000 people were put to work on construction activities, and we are pleased to report that over 1500 businesses have been started or restarted.

Some 24,230 people have received grants and training to start up new employment. We have paid special attention to restoring and rebuilding critical services, and to date have rebuilt 74 schools (benefiting over 181,000 students), 21 clinics and three hospitals, and other community structures such as market places, bathing enclosures, and small roads. In keeping with our desire to improve disaster preparedness at the local level, 37 communities have received equipment to enable them to join the national emergency alert system. Also in Sri Lanka, USAID has built vocational education centers to help diversify a workforce that was overly reliant on fishing. Another effort was the construction of playgrounds, to try to help children cope with returning to communities near the sea.

I am pleased to note that the Sri Lanka mission has just signed a contract with a U.S. firm for several major construction projects in the east and south of the country. Over the coming two to three years, USAID will rebuild a major bridge washed away in the southeast, repair three fishing harbors, and construct or repair up to fourteen vocational and technical centers where people can go to learn a marketable skill. Work on these important projects is beginning this month. You are aware of the tragic civil war that has gripped the island for decades. Wherever possible, our USAID mission uses such projects to bring together people from diverse communities to work together for the common good. We are proud of the collaborative work among Mission Teams and with the Office of Foreign Disaster Assistance to provide not only immediate relief, but early on to incorporate longer term options for rehabilitation and reconstruction. We believe Sri Lanka can serve as a model for future collaboration and programming

In India, state and municipal governments responded well and are coordinating a number of vital reconstruction activities, such as moving people into permanent housing. Soon after the tsunami hit, USAID provided temporary employment to 17,280 people. We are now moving to help provide longer-term employment opportunities, and have given out over \$100,000 in micro-credit to over 86 self-help groups, serving a total of about 1,500 people. Further to getting people back to work, we have repaired over 200 boats. Over the next two years USAID will finance skills training and job placement services for thousands of vulnerable women and youth. USAID financed the construction of 1,500 temporary shelters, established or restored 1,300 water points, and built over 5,500 latrines. To ensure that villagers are better prepared for any further disasters, USAID trained over 400 communities in disaster preparedness, including actual drills simulating

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an emergency. By September 2007, USAID will have financed such training in over 22,000 Indian villages.

In Thailand, USAID is working with communities to diversify livelihood opportunities, better manage community-based resources and effective disaster management systems. The targeted communities encompass 5 rural fishing communities in Ranong Province on the Andaman Sea that were severely affected by the tsunami. USAID's implementing partners, the University of Rhode Island's Coastal Resources Center and Thailand's Asian Institute of Technology, have helped villagers to identify and prioritize their needs for assistance, fostering participatory decision making processes. The \$3 million project has replaced fishing boats, provided micro-credit and small business training to twenty-one micro-enterprises, started 20 new businesses, and provided 941 person days of cash-for-work in mangrove rehabilitation for tsunami affected families. The integrated coastal management strategies of this demonstration will provide lessons and good practices for the nation and other tsunami affected countries.

In the Maldives, USAID provided three airlifts. These provided 250 rolls of plastic sheeting which provided temporary shelter for 750 people. Three water bladders, 9,600 water containers which provided safe drinking water for approximately 24,000 people, and 2,000 hygiene kits that served 10,000 people. USAID also provided \$1,200,000 for health, nutrition, water, and sanitation. Combined humanitarian assistance from the U.S. Government to the Maldives totaled \$1,363,000 with a possible \$ 8.7 million in additional funding being negotiated by the Department of State. Currently, all USG funds allocated for the Maldives are managed by the U.S. Embassy in Sri Lanka.

In an effort to mitigate the effects of further disasters, USAID is coordinating the US Government's Indian Ocean Tsunami Warning System (IOTWS) program. This \$16.6 million, multi-agency effort to develop early warning capabilities for tsunamis and other hazards will monitor changes in the ocean floor and also connect local communities to a warning system. USAID is working together with U.S. technical agencies such as the National Oceanic and Atmospheric Association, the U.S. Geological Survey, the US Forest Service, and the US Trade and Development Agency to bring targeted expertise to both national and regional efforts. USG funding will also support the International Oceanographic Commission as it takes the lead role in developing an international warning system with data sharing for over 26 countries.

The USAID Global Development Alliance (GDA) works to enhance development impact by mobilizing the ideas, efforts and resources of the public sector with those of the private sector and non-governmental organizations. USAID, through the GDA, has formed 18 partnerships with the private sector in Tsunami affected countries leveraged more than \$17,200,000 in private sector funds for the Tsunami. USAID current and prospective partners in post- tsunami reconstruction include: Mars, Chevron, Microsoft, Coca-Cola, Prudential, Deutsche Bank, IBM, Hilton, 3M, Conoco-Phillips and the Mellon Foundation

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In conclusion, I would like to thank the Committee for this opportunity to report on tangible progress in achieving USG foreign policy goals in Indonesia as well as the early results of USAID programs addressing the Tsunami. Our USAID staff at the Missions in Sri Lanka, Indonesia, India and Thailand have made a tremendous effort to get things moving quickly, using existing contracts and grants and expedited procedures wherever possible, to restore living conditions and economic security to the victims of this disaster. As we have moved out of the relief effort and into longer term reconstruction, USAID continues to place emphasis on helping people get back to work, training men and women for new types of employment, and providing the infrastructure they need for better living conditions, as well as economic security.