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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**AND**

**INTERNATIONAL FINANCE CORPORATION**

**AND**

**MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP STRATEGY**

**FOR**

**THE REPUBLIC OF INDONESIA**

**FOR THE PERIOD FY13 - 15**

**December 13, 2012**

**Indonesia Country Management Unit, World Bank  
East Asia and Pacific Region**

**The International Finance Corporation  
East Asia and Pacific Region**

**Multilateral Investment Guarantee Agency**

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US\$1.00 = Rp 9,628

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(January 1 to December 31)

**ABBREVIATIONS AND ACRONYMS**

AAA	Analytic and Advisory Activities	FIRM	Financial Sector and Investment Climate Reform and Modernization
ADB	Asian Development Bank	FREDDI	Fund for REDD in Indonesia
AfD	Agence Francaise de Developpement	FSAP	Financial Sector Assessment Program
AFEP	Aceh Forest and Environment Project	FY	Fiscal Year
AGO	Attorney General's Office	G20	Group of Twenty Financial Ministries and Central Bank Governors
APEC	Asia-Pacific Economic Cooperation	GDP	Gross Domestic Product
ASEAN	Association of Southeast Asian Nations	GEF	Global Environment Facility
AusAID	Australian Aid Agency	GFDRR	Global Facility for Disaster Reduction and Recovery
BAPPENAS	State Ministry of Development Planning	GFMRAP	Government Financial Management and Revenue Administration Project (German Aid Agency)
BEC	Basic Education Capacity Trust Fund	GIZ	Global Partnership on Output-based Aid
BERMUTU	Better Education through Reformed Management and Universal Teacher Upgrading Project	GPOBA	Global Partnership for Social Accountability
BII	<i>Bank Internasional Indonesia</i>	GPSA	Global Partnership for Social Accountability
BKPM	Investment Coordinating Board	GTI	Global Tiger Initiative
BNPB	National Disaster Management Agency	HIV/AIDS	Human immunodeficiency virus infection /acquired immunodeficiency syndrome
BOS	Government's School Operational Assistance	HPEQ	Health Professional Education Quality
BOS-KITA	Knowledge Improvement for Transparency and Accountability Project	HRH	Health Human resources
BPBD	Local Disaster Management Agencies	IBBS	Integrated Bio-Behavioral Survey
BPJS	National Social Security Administrators Law	IBRD	International Bank for Reconstruction and Development
BPK	Supreme Audit Institution	ICT	Information and Communication Technology
BTPN	Bank <i>Tabungan Pensiunan Nasional Tbk</i>	IFC	International Finance Corporation
Cat-DDO	Catastrophe Deferred Drawdown Option	IFF	Indonesia Infrastructure Finance Facility
CCT	Conditional Cash Transfer	IMDFF-DR	Multi Donor Funding Facility for Disaster Recovery
CDD	Community Driven Development	INSTANSI	Institutional, Tax Administration, Social and Investment DPL
CIDA	Canadian International Development Agency	ISSDP	Indonesia Sanitation Sector Development Program
COP	Conference of the Parties	IT	Information Technology
COREMAP	Coral Reef Rehabilitation and Management Project	IWSFF	Indonesian Water and Sanitation Financing Facility
COSO	Committee of Sponsoring Organizations	JBIC	Japan Bank for International Cooperation
CPS	Country Partnership Strategy	JICA	Japan International Cooperation Agency
DAK	Special Allocation Fund	JICT	Jakarta International Container Terminal
DBM	Double Burden of Malnutrition	JUFMP	Jakarta Urgent Flood Mitigation Project (German Development Bank)
DGH	Directorate General of Highways	KfW	Anti-Corruption Commission
DPL	Development Policy Loan	KPK	<i>Kredit Usaha Rakyat</i>
DPL-DDO	Deferred Drawdown Option	KUR	Local Government
DRM	Disaster Risk Management	LG	Local Government Capacity Development
EC	European Commission	LGCD	Local Government Capacity Development
EITI	Extractive Industries Transparency Initiative	LPNK	Public Research Institutes
ESW	Economic and Sector Work		
EU	European Union		
FCPF	Forest Carbon Partnership Facility		
FDI	Foreign Direct Investment		
FIP	Forest Investment Program		

M&E	Monitoring & Evaluation	RIA	Regulatory Impact Assessment
MCC	Millennium Challenge Corporation	RISSET	Research and Innovation in Science & Technology Project
MDFTIC	Multi Donor Facility for Trade and Investment Climate	RPJMN	Medium-Term Development Plan
MDG	Millennium Development Goals	SBL	Single Borrower Limit
MEMR	Ministry of Energy and Mineral Resources	SBY	President S.B. Yudhoyono
MIGA	Multilateral Investment Guarantee Agency	SECO	Swiss State Secretariat for Economic Affairs
MIS	Management Information System	SJSN	National Social Security System Law
MoF	Ministry of Finance	SMART-D	Sustainable Management of Agricultural Research and Technology Dissemination Project
MoH	Ministry of Health		
MoHA	Ministry of Home Affairs	SME	Small- Medium Sized Enterprise
MoLHR	Ministry of Law and Human Rights	SNDB	Sub National Doing Business Survey
MP3EI	Master Plan for “Acceleration and Expansion of Indonesia’s Economic Development 2011-2025”	SOE	State-owned enterprises
		SPADA	Support for Disadvantaged Areas
MSME	Micro, Small, and Medium Enterprises	SPAN	Automated budget and treasury system
MTEF	Mid Term Expenditure Framework	SPIRIT	Scholarship Program for Strengthening Reforming Institutions Project
NGO	Non-Governmental Organization		
NZ	New Zealand	STATCAP-	Statistical Capacity Building
OECD	Organisation for Economic Co-operation and Development	CERDAS	– Change and Reform for the Development of Statistics
OGP	Open Government Partnership	STBM	Community-Led Total Sanitation Strategy
OJK	Otoritas Jasa Keuangan (Indonesia Financial Services Authority)	SUN	Scaling Up Nutrition
		TA	Technical Assistance
PAMSIMAS	Rural Water and Sanitation Program	TF	Trust Fund
PBB	Performance-based Budgeting	TSA	Treasury Single Account
PDAM	<i>Perusahaan Daerah Air Minum</i> (Local Water Utility)	TSSM	Total Sanitation and Sanitation Marketing
PDNA	Post-Disaster Needs Assessment	UHC	Universal Health Coverage
PEACH	Public Expenditure Analysis and Capacity Harmonization	UK	United Kingdom
PER	Public Expenditure Review	UKP4	Presidential Delivery Unit
PERISAI	Program for Economic Resilience, Investment and Social Assistance in Indonesia	UNAIDS	Joint United Nations Program on HIV and AIDS
		UNDP	United Nations Development Program
PFM	Public Financial Management	UNICEF	United Nations Children’s Fund
PINTAR	Project for Indonesian Tax Administration Reform	USA	United States of America
		USAID	United States Agency for International Development
PLN	Perusahaan Listrik Negara (State-Owned Electricity Utility)	USDRP	Urban Sector Development and Reform Project
PNPM	National Program for Community Empowerment	UWSSP	Urban Water Supply and Sanitation Project
PPIAF	Public-Private Infrastructure Advisory Facility	VGF	Viability Gap Funding
PPP	Public-Private Partnership	WBG	World Bank Group
PT	Perseroan Terbatas (Limited Company)	WBI	World Bank Institute
R&D	Research and Development	WDR	World Development Report
RAPP	Road Asset Preservation Project	WHO	World Health Organization
REDD+	Reducing Emissions from Deforestation and Forest Degradation	WINRIP	Western Indonesia National Road Improvement Project
REKOMPAK	Community-based housing and settlement reconstruction program	WSP	Water and Sanitation Program

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**FY2013 – 2015 COUNTRY PARTNERSHIP STRATEGY  
FOR INDONESIA**

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## I. INTRODUCTION

1. **The Joint IBRD/IFC/MIGA Country Partnership Strategy (CPS) with Indonesia for FY13-15 bridges the final two years of the administration of President Susilo Bambang Yudhoyono (SBY).** Since 2004, Indonesia emerged as a vibrant and stable democracy and as a self-assured middle-income economy with a fast-growing private sector, and global and regional influence. Building on six decades of partnership, the World Bank Group's engagement with Indonesia continues to move forward on the path developed by the previous CPS FY09-12, supporting Indonesia's development agenda by enabling local capacity to implement and deliver and by strengthening economic competitiveness of the private sector. The CPS is aligned with the country's Master Plan for "Acceleration and Expansion of Indonesia's Economic Development 2011-2025", which seeks to accelerate development through a pro-growth, pro-jobs, pro-poor and pro-green strategy. The Government will take a strong position not only as the regulator, but also as the facilitator and function as "a catalyst for growth" for the private sector. The CPS takes into account changing global and domestic market conditions and the lessons learned from the assessment of the CPS for FY09-12, in consultation with the Government of Indonesia (GoI), private sector, civil society, development partners and other major stakeholders.

## II. DEVELOPMENT CHALLENGES

2. **Indonesia's strong economic growth has supported gains in poverty reduction and contributed to a growing middle class.** The country has successfully emerged from the severe economic turmoil of the 1998 Asian Financial Crisis, and the difficult political transition from authoritarianism to democracy. Indonesia's development has made remarkable progress in lifting millions of people out of poverty and in improving social indicators. Prudent economic management has resulted in low budget deficits, a much reduced public debt-to-GDP ratio, and manageable inflation. The past decade has also seen a robust economic growth even through the more recent global financial crisis. In addition, Indonesia has benefited from a boom in commodity exports, increasing investor confidence and substantial capital inflows, as well as a strong demographic dividend. Rapid urbanization has also contributed by shifting demand patterns towards consumer durables and services. Output growth has averaged 5.5 percent per year during 2002 to 2011, on the back of strong domestic consumption and generally sustainable external surpluses. Although financial markets remain vulnerable to changes in international investor sentiment, imbalances declined rapidly as corporate and financial sector balance sheets were repaired. Revenue growth, combined with restrained expenditures, has contributed to low fiscal deficits.

3. **At the same time, development challenges and weak institutional capacity and other constraints need to be addressed in order for Indonesia to reach its full potential.** Building the capacity of Indonesia's institutions to effectively formulate and implement public policy and programs remains a significant task. Despite sustained economic growth and poverty reduction, Indonesia still has a large poor population (30 million live below the national poverty line, which is just below PPP\$1.25 a day) and the pace of poverty reduction is slowing. An additional 65 million people live above the poverty line but are highly vulnerable to falling back into poverty, and inequality is growing. Although poverty rates of female-headed households (FHH) remain lower than male-headed households (MHH), the former remain more vulnerable to shocks. Human development indicators, job creation and infrastructure investment lag behind the needs of an increasingly urbanized, young population. Public service delivery needs to be strengthened through improved coordination and greater transparency. The private sector needs to also be able to operate in a transparent, rules based environment, with fair competition and adequate access to capital. Substantial increases in education expenditures have not yet translated into commensurate

improvements in the quality of education necessary to supplying the mix of skills required by a growing economy. Cities are hard pressed to keep up with rapid urbanization, and pronounced regional differences remain. Public investment is lagging behind its historical levels and a severe lack of infrastructure will increasingly hold Indonesia back from reaching its potential in terms of economic growth and prosperity. Fuel subsidies absorb much of the budget that would otherwise be available for infrastructure and social protection. Private sector participation in important sectors such as infrastructure, logistics, healthcare and education services, amongst others, need to be scaled up, and improving regulations for small and medium enterprises could lead to additional job growth. Deforestation, flooding and other environmental concerns have highlighted the importance of adapting and mitigating to climate change and managing natural resources in a sustainable manner. Increasingly, Indonesian society and a free press are demanding stronger accountability in institutions, better governance in businesses and are not tolerating corruption.

### III. THE GOVERNMENT'S DEVELOPMENT PROGRAM

4. **A series of five-year development plans have provided the framework for reinforcing economic stability and initiating structural reforms.** Within the first five years after the 1998 crisis, both economic and political stability were largely in place. When President Yudhoyono came to power in late 2004, plans for macroeconomic and fiscal consolidation and a series of structural reforms to restore confidence in the Indonesian economy were included into the National Long-Term Development Plan for 2005-2025. In SBY's second term, the Government adopted Indonesia's Medium-Term Development Plan (RPJMN) 2010-2014, with responsibility for monitoring progress assigned to the newly established Presidential Delivery Unit (UKP4). With the target of increasing economic growth to 7 percent and reducing the poverty rate to 8-10 percent by 2014, the RPJMN highlights the need for growth with equity and a range of cross-cutting policies to ensure that development is both sustainable and inclusive. The RPJMN gives a special emphasis to increasing investments in infrastructure and strengthening the poverty agenda. Further, it commits the Government to a more equitable and inclusive development for, among others, women and children. The Ministry of Women Empowerment and Child Protection embodies this commitment.

5. **A new Master Plan for Economic Development seeks to accelerate growth and increase equity with a goal of becoming one of the 10 largest economies in the world by 2025.** In May 2011, GoI launched the Master Plan for "*Acceleration and Expansion of Indonesia's Economic Development 2011-2025*" (MP3EI) based on three strategies: (i) fostering centers of growth in each major island group by developing leading resource-based industrial clusters; (ii) building synergies between those centers of growth, including international connectivity for trade and tourism; and (iii), complementing connectivity by improving human resources capabilities and increasing investments in research and development. Under the plan, business enterprises have a central role in economic development, particularly in generating investments, creating employment opportunities and fostering innovation. The Government is responsible for creating conducive macro-economic and regulatory conditions for the acceleration and expansion of investments.

6. **The Government's approach to economic policy is based on its four strategic objectives of pro-growth, pro-jobs, pro-poor and pro-green development.** Equity remains a basic principle for balancing economic growth and development amongst large cities and smaller cities and more isolated parts of the country to deliver more even economic development in collaboration with the private sector and job creation across the country. It also includes a focus on reaching Indonesia's poorest. The Government concentrates on thirteen programs, which include education, health, poverty reduction, employment creation, infrastructure development, food security, energy, good governance, electoral reform, anti-corruption enforcement, inclusive and equitable development,

climate change and environmental protection, and cultural development. Collaboration with the private sector to complement Government's efforts through investments, job creation and innovation is prioritized. Reducing reliance on external finance and maintaining a low debt to GDP ratio is also a key priority of President SBY's administration. In some, but not all of these areas, the Government has sought assistance from the Bank Group as discussed in the sections below.

#### IV. RECENT ECONOMIC DEVELOPMENTS AND POLITICAL CONTEXT

##### *Current Economic Performance and Outlook*

7. **Indonesia managed to weather the global economic downturn of 2008-09 and regain its growth momentum.** GDP growth declined from 6 percent in 2008 to 4.6 percent in 2009, but subsequently recovered to 6.1 percent in 2010 and 6.5 percent in 2011. The social impact of the global crisis was also limited in Indonesia. There were few reports of layoffs, poverty and unemployment rates continued to decline and household spending was maintained in an environment of low inflation. This relatively robust performance was supported by solid public finances, healthy financial sector balance sheets and the strength of domestic demand. Indonesia's exports, focused on commodities, benefited from international commodity price increases and strong demand for raw materials from China and other emerging economies. Policymakers also took proactive measures during the crisis, including a fiscal stimulus package, supportive monetary policy and a significant contingent support package from development partners whilst managing to bring in a fiscal deficit that was below target in 2009-2011. Along with strong GDP growth, this contributed to a decrease in government debt to below 25 percent of GDP, healthy leveraging of the private sector balance sheets and sovereign ratings that are back to investment grade for the first time since 1997. At the same time, these improvements in creditworthiness, along with high relative yields and encouraging long-term prospects, have contributed to strong portfolio inflows, which could expose the economy to sudden reversals the face of continued global economic uncertainty.

8. **Recent economic performance has continued to be robust, though there are signs of spillovers from the deterioration in the global economy and financial markets.** In recent months the weakening in external demand and commodity prices has contributed to a narrowing of Indonesia's trade surplus. While financial market spillovers have been relatively muted, the weak global outlook and possible financial market turbulence present continued downside risks around the projected growth of 6.1 percent in 2012. Although Indonesia's solid fiscal position, its relatively limited direct trade exposure to the EU, and strong domestic drivers of growth make it relatively well-placed to handle a turbulent global economy, its reliance on commodities is a source of vulnerability. A downside scenario with a severe freezing-up of international finance, curtailed growth in China and declining commodity prices could slow growth to around 4 percent of GDP.

9. **Over the medium term, effective coordination, policy implementation and investment climate reforms are needed if growth is to accelerate to 7 percent or more and if improvements in social outcomes are to continue.** For increases in fiscal expenditures to lead to improvements in public services, Indonesia will need more effective and accountable institutions that can translate available resources into better development outcomes. The country will need to prioritize private sector-led competitive, innovative and sustainable growth. This will be particularly important as Indonesia focuses on its tremendous need for infrastructure, financial inclusion, better education, greater social protection and universal health coverage. Improvements in the investment climate, including regulatory consistency and certainty, are also necessary for employment creation and to sustaining high rates of foreign direct investment.

10. **World Bank analysis shows that in a baseline scenario of international financial market fragility combined with relatively weak external, but continued solid, domestic demand, growth of 6.1 percent is forecast for 2012, moving up to 6.3 percent in 2013.** The underlying macro assumptions for this baseline include a continued weakness in external demand with overall international commodity prices also projected to moderate.

**Table 1: Baseline Macroeconomic Outlook**

	2009	2010	2011	2012 (p)	2013 (p)	2014 (p)
<b>Growth</b>						
Real GDP (% change)	4.6	6.2	6.5	6.1	6.3	6.6
Real investment (% change)	3.3	8.5	8.8	12.3	11.2	10.5
Real private consumption (% change)	6.2	4.6	4.7	5.0	5.1	4.9
Real exports (% change)	-9.7	15.3	13.6	2.8	5.7	11.0
Real imports (% change)	-15.0	17.3	13.3	7.1	4.7	11.8
<b>Current account balance (% of GDP)</b>	1.9	0.7	0.2	-2.3	-1.6	-1.7
<b>Fiscal variables</b>						
Central government balance (% of GDP) <sup>1</sup>	-1.6	-0.7	-1.1	-2.2	-1.6	-1.4
Central government debt (% of GDP)	28.4	26.1	24.3	23.0	21.2	19.5
<b>Prices</b>						
GDP deflator (% change) <sup>2</sup>	8.3	8.1	8.4	6.5	7.9	8.7
CPI inflation (%) <sup>2</sup>	4.8	5.1	5.4	4.4	5.1	5.0

Note: <sup>1</sup> 2011 is actual audited, 2012 is revised Budget deficit and deficit from 2013 to 2014 is based on Government 2013 Budget Financial Note. <sup>2</sup> Period averages

11. **Under more adverse but plausible scenarios, growth in 2013 could decline to around 4 percent of GDP, the lowest in a decade.** Taking the above downside risks into account, different scenarios can be considered to simulate the impact of external shocks on Indonesia's economy (see Table below). The main impact would be felt in 2013 given the strong performance in 2012 to date. Under a scenario similar to 2009 which assumes a greater growth slowdown due to the real impact of the financial crisis and credit tightness, as well as a moderate decline in commodity prices, GDP growth is cut to 4.7 percent in 2013 (down 1.7 percentage points on the baseline scenario), reflecting lower investment and exports. If a financial crisis precipitates, or accompanies, coupled with a significant growth slowdown in emerging economies as well as a sharp drop in global commodity prices, growth could fall even further in 2012, down to just under 4 percent.

12. **The outlook for China is of particular importance for Indonesia.** China is an important direct trading partner (with a weight in Indonesia's exports of 11 percent in 2011) but the second round effects on Indonesia of a slowdown in China via global and regional trading partner growth would also be important. The baseline growth projection incorporates an assumed growth rate for China of around 8 percent, in line with the June 2012 GEP projections. Moving China's growth down to 7 percent would directly cut Indonesia's major trading partner growth by 0.17 pp (given a weight in Indonesia's exports of 11 percent in 2011). The second round effects via global and regional trading partner growth would also be important. However, the real concern with a relatively marked slowdown in growth would be if China's growth leads to a sharp fall in global commodity prices, particularly coal and minerals that form a sizeable share of Indonesia's exports. For example, the June 2011 IMF report on China Spillovers estimated that a 3 percent reduction in the growth rate of China's industrial output (1 standard deviation, or 1 percent of GDP) would result in international

price declines of 6 percent for oil and base metals; while the impact on other commodities is low. If significant commodity price declines were sustained then this would spill over to domestic consumption and investment, as household incomes and corporate investment, and fiscal revenues would also decline.

13. **Growth could also move substantially lower if the impact of adverse external shocks is amplified domestically.** Growth would still be above 4 percent in the international scenarios discussed in the previous paragraphs. This is similar to that seen in 2009, when growth dropped during the height of the global financial crisis but remained at 4.6 percent. However, it is important to note that these GDP projections combine the external scenarios with moderations in the underlying domestic drivers of growth, i.e. private consumption and investment. In the event that there was a major dislocation to these drivers, for example due to domestic policy miss-steps or problems in the domestic financial sector, then the downside risks to growth could be much greater.

### *Poverty*

14. **Despite strong economic growth and falling poverty in the last decade, inequality is rising and many households continue to live on the edge of poverty.** Indonesia's poverty rate, measured at the national poverty line, fell from 16.6 percent in March 2007 to 12.0 percent in March 2012, with little difference between male-headed and female-headed households. The 0.5 percentage point decline since March 2011 is the lowest drop in ten years, which reflects the slowing rate of poverty reduction and the increasing challenges of lifting the remaining poor out of poverty. With rapid urbanization, poverty will also become increasingly more urban. Despite the country's positive progress in reducing poverty, vulnerability remains high. Nearly 40 percent of Indonesians live on 1.5 times poverty-line expenditure (or less) and are highly vulnerable to shocks that can push them back below the poverty line. The gap between the poor and non-poor is also widening. The Gini coefficient has increased from 0.32 in 1999 to approximately 0.41 in 2011. Regional disparities also persist; eastern Indonesia lags behind other parts of the country.

15. **The reduction in poverty rate could have been faster if there were sufficient opportunities for poor workers to move into better jobs in the formal and non-agricultural sectors.** The Bank recently completed the *Indonesia Jobs Report*, a comprehensive overview of the labor market over the past 20 years. While overall formal employment grew at 1.2 percentage points per year from 2003 until 2007, formal employment for the poor increased by only 0.8 percentage points and remained roughly constant for the near-poor during that period. Going forward, reducing poverty and vulnerability will hinge on the pace of employment growth for the poor. The Government is also increasingly concerned about the rise in inequality. The Bank will work with the GoI in analyzing the factors behind the rising inequality. Preliminary analysis of the data shows a sharp contrast between the situation of skilled and highly skilled workers, who have seen a rapid increase in wages over the last decade, with that of the unskilled, working largely in informal sectors with little job security and slow wage growth. The analysis will examine the growth rate of economic sectors with different skill-intensity. A structural transformation often entails some inequality along the skill spectrum since different sectors with different skill-intensity grow at a different pace.

### *The Political Context*

16. **As a result of a decade of political and institutional reforms, Indonesia is a vibrant multi-party and decentralized democracy.** At the same time, the current environment – dominated by uncertainty over pending election outcomes, tensions amongst the legislative, judicial and executive branches of central government and a lack of clarity about decentralization – makes it more

difficult for Government to make tough policy choices and implement the changes necessary for better service delivery in the run-up to the 2014 elections.

17. **Over the medium term, Indonesia is expected to continue along a stable political path with a consensus-based approach to reform and pragmatic economic management.** Although political positioning is expected to dominate in 2013 and the first half of 2014 with no major ideological differences among the dominant political parties and potential presidential candidates, the election will likely be determined by candidates who appeal most to an increasingly demanding electorate seeking to sustain political stability and to keep corruption at bay.

## V. THE COUNTRY PARTNERSHIP STRATEGY

18. **The partnership between Indonesia and the World Bank Group has evolved over six decades to become one of our most significant in terms of lending, knowledge services and implementation support.** With a portfolio of 44 operations, US\$1.4 billion in trust funds commitments and a strong analytical and advisory program for the World Bank, and a committed portfolio of US\$1.2 billion and an innovative advisory services program totaling US\$23-25 million of annual expenditure for IFC, the Bank Group remains the largest provider of development finance and advice for Indonesia. The engagement is supported by the Bank Group's largest country office and a decentralized structure recently strengthened by additional sector management associated with span-of-control improvements. The depth of the engagement comes not only from more typical Bank lending, IFC financing and knowledge services but also from an unusually intensive advisory and implementation support made possible by third-party financing.

19. **At the same time, Indonesia has provided both a testing ground and inspiration for a range of innovations that have shaped the World Bank.** These notable 'firsts' include hosting one of the first decentralized offices, bringing into focus the need to systematically address environmental and social impacts of projects, ground-breaking initiatives in community-driven development, first-ever advisory services project for IFC, sustainable palm oil and forestry advisory services initiatives and provision of short and longer-term disaster response. Increasingly, Indonesia is not only receiving assistance, but is helping other members of the Bank Group by sharing its experience and becoming a leader amongst emerging middle income countries. Notable is Indonesia's leadership in calling for green development and in disaster management and recovery.

20. **To remain relevant and responsive to the needs of Indonesia, the Bank Group will continue to call on a broad range of instruments and knowledge services to respond to the challenges of each of the areas in which we engage.** In many cases, this means approaching each engagement area in a programmatic way that often cuts across the Bank's traditional sectors and is in close cooperation with IFC and MIGA. Over the CPS period and beyond, the Bank Group will continue to take a medium- to long-term view of its engagements that will provide continuity across different political administrations. This long-term approach allows flexibility to respond to emerging demands drawing on the relevant financing and knowledge services. The Government has indicated its preference for an increasing shift in the overall balance of services toward knowledge and convening. For financing services, the Government is looking for an increasing focus on both infrastructure and poverty reduction programs.

21. **The partnership is focused on engagement areas where the Bank Group is likely to provide the most value added in support of Indonesian development priorities.** The WBG engagement is systematically tested against the following criteria to ensure relevance: (i) an important development priority, (ii) based on demand for the Bank Group's support from government, the private sector and civil society, ideally with a strong champion, (iii) is an area where

the WBG has comparative advantage and, (iv) offers the prospect of tangible development results over time. Where these criteria are not met, the WBG will limit its support (as the Bank did in health and agriculture and IFC limited corporate financing to top-tier corporates in recent years), recalibrate its efforts (in this CPS period, focus will shift from reforming the policy framework for decentralization to service delivery by local governments) or exit. Where results have been achieved, the WBG will wind down its engagement (for example, closing the Aceh office upon completion of the disaster response). Meanwhile, we are responding to meaningful client demand for policy and institutional reforms (such as social insurance, financial sector regulation, infrastructure and financial inclusion). Experience suggests this pragmatic approach as an effective way to provide steady, predictable support in key development areas while remaining open to emerging priorities and exploring new ideas.

22. **The CPS takes into account lessons learned from the Bank's past engagement, including the CPS Completion Report for FY09-12 (Annex 2).** These lessons include:

- ***Effectively supporting an increasingly confident middle-income country requires fully aligning Bank support with Indonesia's development program and the country-led and owned policy agenda.*** This has solidified the Bank Group's status as the development agency of choice and put the Bank in a position to be responsive to Indonesia's immediate needs, and to inform the debate on emerging policy issues. Full alignment, in turn, has positive spillover effects for aligning other donor programs behind the country-led agenda in their collaboration with the Bank. This has allowed the Bank to deepen its engagements across key development priorities.
- ***Programmatic development policy lending support provides important cross-cutting convening services for step-by-step incremental reforms.*** As institutional reform efforts deepen at the sectoral level, effectiveness of implementation support is further enhanced by drilling down through discrete projects.
- ***Sustained engagement over several years encourages an evidence-based approach that allows to carefully recalibrate the scope and design of programs as needed.*** A good example is the Bank's support for Indonesia's significant community-driven development program, with demonstrable well-researched impact on the ground. Its country-wide expansion offers important potential for using social capital as a platform for addressing health and education, inclusion and environmental concerns, while requiring increased attention to governance and management, in order to improve impact and reduce operational and reputational risks.
- ***Knowledge services take an increasingly important role and Indonesia seeks to share both its best practices and lessons learned in development experiences, particularly with other middle-income countries.*** In important areas with diminished need for external financing, diffused leadership or poor coordination, the Bank's knowledge and convening services can encourage a policy debate with a view to forging a consensus (e.g. on private-public partnerships), contribute to effective implementation (e.g. in education) and help with the coordination among government agencies (e.g. in infrastructure development). Indonesia recently contributed US\$1.5 million to the Bank's South-South Knowledge Exchange facility.
- ***As Indonesia's private sector continues to develop in a vibrant, fast-growing middle-income economy, IFC's approach in financing and advisory services is becoming more focused in selected priority sectors, such as in infrastructure, financial inclusion, climate change mitigation and agribusiness.*** Going forward, IFC will continue to support projects and interventions that involve significant demonstration impact, i.e. they are innovative and serve as examples to enable the private sector investors and other stakeholders to crowd in. This enhances the development impact from IFC's services in Indonesia's large and growing economy.

23. **The Country Partnership Strategy aims to enhance Indonesia’s domestic capacity for reducing poverty and boosting equitable and sustainable prosperity. Its main thrust is to help public institutions implement and deliver, and to partner with the private sector for sustainable economic and job growth.** The Bank Group’s approach in Indonesia is to (i) closely align with the Government’s own development strategies, policy objectives and priority programs; (ii) strengthen and increasingly rely on Indonesia’s own systems and procedures such as those for procurement and financial management; while (iii) continuing to put a strong emphasis on fiduciary oversight, tangible development results and technical excellence; and (iv) continuing to implement innovative, demonstrational and sustainable private sector projects. It seeks to retain its relevance as a provider of development solutions for an emerging Indonesia by sharing global knowledge, providing innovative financial services and offering the platform of the Bank's convening services. The CPS continues to move forward on the path developed by the previous partnership, the FY09-12 CPS by partnering on investing in institutions in order to enhance governance, through its focus on open and efficient government, accountable service delivery, clear checks and balances; and fostering a conducive environment and supporting sustainable private sector enterprises. Gender equality is also another key aspect of the CPS in line with the Bank’s corporate commitment for 100 percent gender-informed activities in EAP. Bridging the remaining years of the current administration, this CPS focuses on the implementation of the FY13-15 program until early 2015, when a newly elected government and a new five-year plan will be inaugurated.

24. **The Bank Group Partnership is aligned with the Government’s development priorities in their pro-growth, pro-jobs, pro-poor and pro-environment focus.** Figure 1 indicates the key engagement areas where Bank Group support is expected to contribute to tangible development outcomes and make a difference in the lives of Indonesians. Cross-cutting themes include gender equity, as well as governance and anti-corruption. Together, these engagement areas aim to support government efforts in addressing Indonesia's key development challenges in collaboration with the private sector including (i) boosting growth and job creation by facilitating the supply response to the dramatic change in demand that a rising middle class and urbanization bring (pro-growth and pro-jobs agenda); (ii) accelerating the pace of poverty reduction and provide greater economic security for the vulnerable so that they can share the benefits of growing prosperity (pro-poor and pro-jobs agenda) and (iii) enhancing sustainability in natural resource management (pro-green agenda). In meeting the country’s priorities, the Bank’s approach in Indonesia is to put together cross-sectoral teams in the field to bring best quality knowledge and implementation support. Our engagements are supported by a wide range of instruments and financing sources. In addition to more conventional Bank instruments, the Indonesia “business model” is based heavily on being a platform for the delivery of third party financing. This includes multi-donor and bilateral donor trust funds and programmatic and project specific financing and support facilities. By providing a platform for financing from other donors, the Bank Group is able to help deliver an array of innovative solutions and to pilot new ideas in development that would not be possible using only Bank instruments.

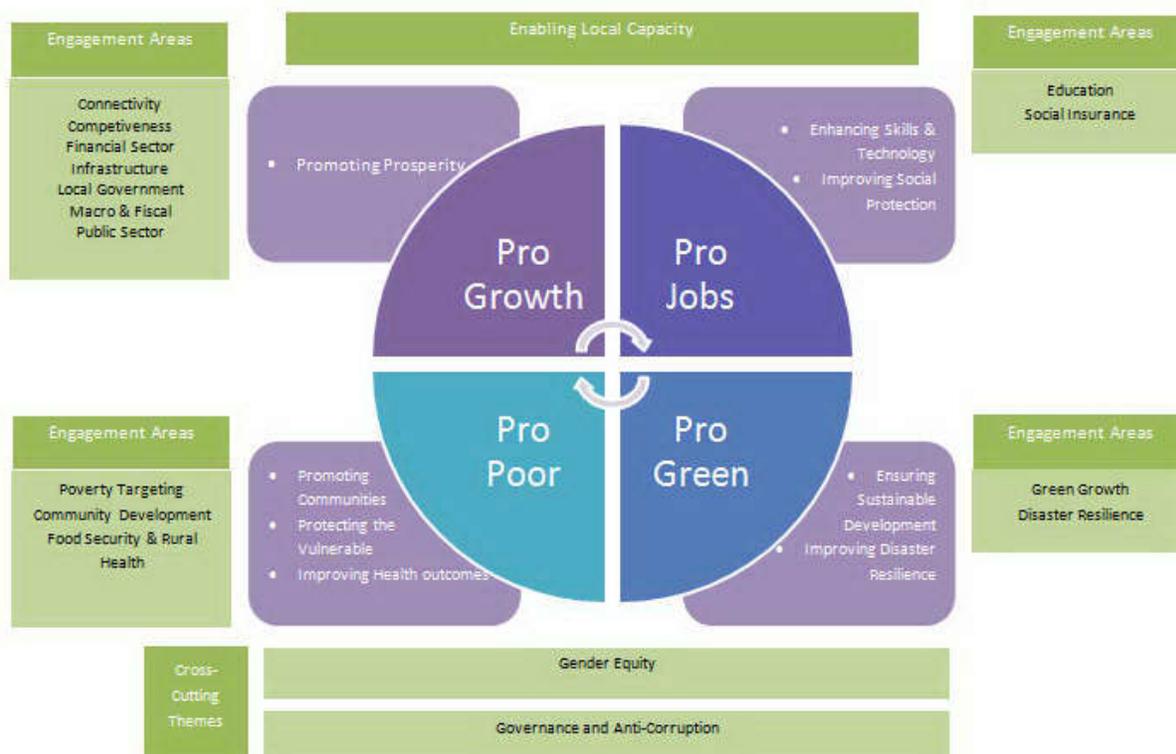
25. Overall, the breadth and depth of the Bank's ongoing engagement is maintained, but with several shifts in emphasis. Box 1 summarizes the areas where the selectivity criteria set out above have led to changes in the CPS Program.

**Box 1: Ins and Outs FY13-15**

**With a strong team on the ground, a long partnership with the Government and donors, the Bank's approach in Indonesia is to selectively take on new engagements and exit existing ones as needs or priorities change. Some examples include the following:**

- Disaster response to the 2004 tsunami in Aceh/Nias as well as to the 2006 earthquake and 2010 volcano eruption in Java will be successfully completed in December 2012, and the Bank's office in Aceh will be closed.
- The Decentralization Support Facility (DSF) has closed and new support in this area more narrowly focuses on supporting incentives and capacity for local and metropolitan governments.
- Food security has surfaced as a strong government priority, which involves a reactivation of rural development, where the Bank will continually support the Government to pay particular attention to women considering that the majority of female labor force (38 percent) remain in agriculture and Indonesia's gender wage gap in this sector remain among the largest in the region.
- IFC seeks to scale up its interventions in the areas of infrastructure development, financial inclusion, agribusiness and food security, job creation and supporting competitive manufacturing enterprises; in line with the Government's request and private sector needs.
- The policy dialogue in health has intensified, with a particular focus on addressing early childhood nutrition.
- The government has decided to no longer draw on Bank financing for basic education after the successful launch of the BOS program, but continues to seek Bank support to improve the quality of spending and to program grants from the private sector to address pressing needs in the most deprived areas.
- The Bank is also exiting lending for climate change as GoI prefers to seek grant funding, but demand for our knowledge services has intensified.
- Private sector development and trade have been combined under the theme of competitiveness.
- Connectivity, recognized as a new theme of the Master Plan, is being supported by a first DPL.

**Figure 1: Alignment of Engagement Areas**



## ***PRO-GROWTH – Promoting Prosperity***

26. **The target of the Government during the FY13-15 period is to increase economic growth to the 7 percent range over the medium term.** The strategy entails maintaining macro stability and fiscal discipline, while enhancing the governance and quality of spending, promoting connectivity, improving the investment climate and greater access to finance, and improving infrastructure including through focusing external borrowing on infrastructure and energy investment. The challenges of upping the medium-term rate of growth from the recent 5.5 percent average for 2002-2011 cannot be underestimated in the face of continuing global uncertainties, domestic political constraints and institutional capacity limitations. Moreover, the relatively good performance during the current crisis may have inured a broader sense in Indonesia of, if not complacency, at least a lack of urgency. The costs of not doing so, however, could be high in not taking advantage of the favorable situation that Indonesia has been facing vis-a-vis commodity prices and the current demographic dividend, rapid urbanization and shifting demand patterns. Put starkly, over the course of the next decade maintaining the current 5.5 percent growth implies a 2025 GPD per capita of US\$6,525, whereas an increase to 7 percent over the same period would translate into GPD per capita of US\$9,057.

27. **Pro-Growth Results.** For this theme, the WBG expects to support development results that will, increase connectivity and logistics performance, improve the regulatory environment for competition and innovation, maintain financial sector stability while enhancing access and increasing the quantity and efficiency of investment in infrastructure and improve the quality of public spending and financial management at the national and local levels.

### ***Connectivity***

28. **Indonesia’s Master Plan sets out its longer term approach to becoming an industrialized economy, and broaden growth through connectivity, human resource improvements and technology.** Poor national connectivity is identified as one of the major impediments for growth and undermining Indonesia’s economic competitiveness, hampering the economic integration among the islands of the archipelago, and reducing access to international markets. For example, Indonesia ranks 75<sup>th</sup> on the World Bank’s Logistics Performance Index, well behind ASEAN competitors such as Singapore (2<sup>nd</sup>), Malaysia (29<sup>th</sup>), Thailand (35<sup>th</sup>) Philippines (44<sup>th</sup>) and Vietnam (59<sup>th</sup>). The price of a bag of cement in certain parts of Papua is 20 times that in Java. In Java, oranges from China are cheaper than oranges from Kalimantan. High domestic transport costs are the main reason. In some export sectors, such as cocoa, rubber and coffee, more than 40 percent of total logistics and transport costs come from pre-shipment and inland transportation expenses before international shipment.

29. **In addition to being crucial for growth, empirical studies show that connectivity has a strong positive impact on women through a number of channels.** These include (i) facilitating access to health and education facilities, as well as expanding economic opportunities for women and (ii) reducing women's workload and time for performing their activities in both the public and domestic spheres.

30. **The WBG has been playing an important role in helping the GoI to focus on enhancing connectivity to accelerate growth and improve equity.** Bank analytic work identified priorities with a focus on intra-island, inter-island and international connectivity issues (*Connecting Indonesia: A Framework for Action*). The Bank has also provided extensive support for the connectivity framework using the WDR 2009 on *Reshaping Economic Geography* and to identify a detailed plan of action. On logistics, the Bank has provided analytic, advisory and convening services, including hosting a series of influential roundtables with stakeholders.

31. **Through development policy operations and knowledge services the Bank expects to support development results that will enhance Indonesia’s logistics performance, improve access to broadband and reduce costs for exporting and importing.** The key to addressing connectivity challenges lies in policy coordination and implementation across multiple levels of government and consultation with the private sector. Support from the Bank will include a series of proposed Connectivity DPLs with co-financing from the Asian Development Bank (ADB) and the Japan International Cooperation Agency (JICA). There are discussions, as well, for possible Bank investments in specific corridor development.

32. **Public investment and improved investment climate is expected to pave the way for private sector participation.** Over the next 15 years, the Master Plan envisages investments of about US\$468 billion. Private sector investment is a key driver and expected to deliver 51 percent of this total. State-owned enterprises (SOE) would contribute 18 percent with various levels of Government providing much of the remainder. The contribution of private investment so far has been limited and GoI is aware that regulatory reforms and improvement of the investment climate are necessary to attract private participation. The WBG is ready to assist GoI in this endeavor. As international trade finance has shrunk in the aftermath of the global financial crisis, IFC is stepping in to provide trade finance for agro-commodity exports from Indonesia. Another role IFC is playing is to support Indonesian private sector businesses competing in global markets, as they set up manufacturing plants in other emerging markets.

<b>Box 2: Connectivity Results, Instruments and Partners</b>		
<b>Pro-Growth Connectivity Development Results: Enhance Indonesia’s logistics performance, improve access to broadband and reduce costs for exporting and importing.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> IFC investments in Jakarta International Container Terminal and Wintermar <u>Proposed:</u> Connectivity DPLs I-III <u>Under Discussion:</u> Corridor 5 Investment IFC investments to support logistics sector	Logistics and trade facilitation Policy notes on logistics, regulatory reform, and managing openness Knowledge sharing through workshops and field visits; engage local think-tanks, universities and private sector organizations to participate in policy dialogue Public Expenditure Reviews of the Road and Rail Sectors.	ADB, AUSAID, Japan (JICA), The Netherlands, Switzerland (SECO), USAID

***Competitiveness***

33. **Private sector-led growth is vital to Indonesia’s competitiveness to create jobs for a growing population, to address the rural-urban income gap and to provide sustainable infrastructure services for an increasingly urbanized society.** Indonesia’s objective is to enhance the environment for private sector development and to foster accelerated growth and poverty reduction, while mitigating climate change impacts. While the prospects for investing in Indonesia are quite promising, given its significant population and natural resources; poor government coordination, uncertainty about the legal and judicial frameworks, infrastructure constraints, and unclear investment policies, regulations, and procedures continue to drag on the investment climate.

34. **The World Bank Group supports development results that will improve the policy framework, regulatory environment, and coordinated interventions for productivity, competition and innovation through development policy operations, knowledge services and IFC advisory services.** Building on synergies between the IFC and the Bank, partnerships have been established with key institutions that shape the investment climate. The *Multi Donor Facility for Trade and Investment Climate (MDFTIC)* supports institutional capacity-building in collaboration with the governments of the Netherlands, New Zealand, Switzerland and Australia. Additional support is being provided by the IFC on improving the capacity of local government to support business operations through its Business Entry Regulatory Reform Program. Competitiveness is also expected to be enhanced through additional engagements to support and strengthen the financial sector.

35. **The export of goods represents 22 percent of nominal GDP, and trade represents a significant part of the Indonesian economy.** Excluding oil and gas exports, more than 70 percent of Indonesia's exports are natural resources and manufacturing products. Within Indonesia's manufacturing exports, almost half of that are natural resource-based manufacturing products, such as palm oil, processed rubber, and processed minerals. Although markets in EU and United States remain important, Indonesia is increasingly trading with emerging markets and countries in the region such as China, India, Malaysia, and South Korea. Such diversity has helped to buffer the sector during the current global economic downturn.

36. **Indonesia has been reforming its trade policies to make them more effective and responsive in promoting growth and competitiveness.** Significant reform has taken place in improving trade facilitation and promoting more inclusive and evidence-based trade policy making. As a member of ASEAN and the G20 process, it has been embracing openness to trade and investment, and greater integration with the global economy. Indonesia took a bold step in harmonizing the structure of its import tariff and the current average import tariff is one of the lowest among emerging economies; simple average tariff is about 5 percent. It is also developing a process to increase transparency in reviewing non-tariff measures that affect trade flows. There has also been progress in improving customs clearance and transparency through the National Single Window.

37. **Recent government efforts to move domestic companies up the value chain through trade policy measures have raised concerns.** These include, for example, restrictions on imported horticulture products, a ban on rattan exports and an export tax and new investment regulations in the mining sector. Restrictive policies involving non-tariff barriers may be less effective than more upstream incentives for greater corporate competitiveness, and could also risk being perceived as serving entrenched domestic interests, undermining the investment climate and weakening investor confidence in the predictability of policy making in a fragile global economic environment.

38. **Bank Group support includes knowledge services for improved capacity of trade policy, including managing price volatility of food imports, and IFC trade finance to support commodity exports.** Of particular note would be the on-going support to advance on food security with knowledge services to improve the technical capacity to monitor food price data and to develop market based instruments to manage risks from food price shocks (discussed below). IFC is focusing on increasing international trade and connectivity through the private sector, which is especially important due to the recent global financial crisis as a result of which global trade flows and investments were significantly reduced. As the international trade finance has shrunk with the global financial crisis, IFC is stepping in to provide trade finance for commodity exports from Indonesia.

<b>Box 3: Competitiveness Results, Instruments and Partners</b>		
<b>Pro-Growth Competitiveness Development Results: Improve the policy framework, regulatory environment, and coordinated interventions for productivity, competition and innovation.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Proposed:</u> Connectivity DPLs 1-III	Support to improve the investment regulatory environment IFC Advisory Services – Investment Climate Program (sub-national <i>Doing Business</i> ; corporate governance; financial infrastructure), Green Banking, capital markets development) Innovation, Investment Generation Technology, and Entrepreneurship	AusAID, Canada (CIDA), Finland, The Netherlands, New Zealand, SECO, USAID

**Financial Sector**

39. **The Government’s focus on maintaining and strengthening the stability of the financial system of the last decade has had demonstrable success.** Indonesia’s financial sector has suffered relatively minor effects from the on-going crisis and financial market volatility. However, Indonesia’s financial sector requires continued deepening, widening, and efficiency, in order to remain supportive of competitiveness and growth goals. The amount of long-term financing for corporations, infrastructure and SMEs remains very limited. In addition, less than 50 percent of the population has access to formal financial services.

40. **Indonesia’s financial sector is small relative to emerging market peers.** Assets were below 70 percent of GDP in 2011. In part, this reflects the severity of the Asian crisis, when well over half of banking assets and loans were written off. Since that time, the financial sector has been slow to develop, and continues to be heavily dominated by a few large banks, which account for roughly 80 percent of financial system assets. Domestic credit to the private sector is improving, albeit slowly, from 25 percent in 2006 to 28.8 percent in 2011. The mortgage debt outstanding to GDP in Indonesia stands at less than 2 percent of GDP, well below more developed markets such as South Korea (36 percent) and South Africa (47 percent). The non-bank financial sector is small. Stock market capitalization, though increasing, remains low, at around 48 percent of GDP. At the same time, new technologies such as mobile telephony, and internet, can enable significant expansion of access to finance especially in the rural areas of the country.

41. **The Bank Group engagement supports development results that will maintain financial sector stability, deepen financial markets, and enhance access.** Prompted by the global financial crisis, development outcomes in support of strengthening the financial sector have benefited from Bank support through the *Financial Sector Assessment Program (FSAP)*, including implementation of a crisis management protocol and capacity building. The proposed *Financial Sector and Investment Climate Reform and Modernization DPL (FIRM)* would focus on enhancing institutional and structural reforms specific to the financial and private sectors. Financial sector reforms would include strengthened financial reporting and auditing standards and practices in alignment with global benchmarks. Through a WBG operation, including an IBRD loan and IFC equity, the *Indonesia Infrastructure Finance Facility (IFF)* is expected to increase the availability of financing for infrastructure. IFC is further designing an advisory services program focusing on capital markets development for infrastructure finance. In addition, working with the Ministry of Trade (MoT), IFC helped to develop regulations, policies and procedures for a national warehouse receipts system. IFC is considering projects to strengthen and deepen capital markets, both for equity and debt.

42. **Both IFC and the Bank, through multi-sectoral engagements, are supporting the Government’s strong emphasis on financial inclusion.** For an economy that relies heavily on micro and small enterprises, to expanding financing alternatives to the most vulnerable segments of

the underserved population in Indonesia including women, rural clients, and the very poor is a key priority. A study on *Access to Finance* has supported the development of financial services for migrant workers, mostly women, both through pilots and more broadly in spreading awareness of financial inclusion and underling Indonesia’s advocacy in the G20 agenda. WBG support for restructuring revolving loan funds used mainly by women to fund micro-enterprises also contributes to gender equity. In addition, IFC committed a US\$75 million gender facility and provided advisory services to *Danamon* and *Bank Internasional Indonesia (BII)* to facilitate access by women to finance their SMEs. Other interventions include supporting financial literacy.

**43. IFC is seeking to significantly expand access to finance through a series of investment and advisory services.** IFC’s financial market program focuses on: (i) building the capacity of financial institutions, especially the mid-size banks, to better serve micro, small and medium enterprises and low-income households; (ii) supporting top tier banks with significant reach potential to adopt innovative products to better serve key segments such as MSME and mid to low income individuals, and to expand mortgage finance for affordable housing; (iii) promoting sustainable lending with a strong emphasis on climate-change and women-owned businesses; and (iv) strengthening the Indonesian financial system. IFC’s focus, amongst other priorities, includes promoting good Corporate Governance and Environmental and Social Standards. Accordingly, IFC extended debt facilities and advisory services to banks with strong distribution capacity in the MSME sector such as *BII*. IFC also assists *PT Bank Tabungan Pensiunan Nasional Tbk (BTPN)* through equity and debt facilities to support its expansion in microfinance sector and advisory services in AgriFinance. IFC also continues to support *Bank Andara*, the Indonesian microfinance wholesale bank, by providing advisory services and capital support to be used in the expansion of the bank’s distribution capacity and to increase its leverage capacity to finance its loan expansion.

**44. Through its advisory services, IFC is further developing programs focusing on banks and non-bank financial institutions’ capacity in providing innovative finance products and services for the micro and largely unbanked segment, such as housing microfinance, micro insurance, and retail payments.** IFC is helping financial institutions to expand services to under-banked market segments, such as to SME’s undertaking sustainable energy investments and to poor marginal farmers. A research project with *Bank Sinar Harapan Bali* is piloting a sustainable business model for mobile banking system, which could benefit unbanked populations in rural areas. Finally, IFC assisted a leading bank to develop a loan product for women entrepreneurs that was launched on December 22, 2011-Indonesia’s Mother’s Day.

<b>Box 4: Financial Sector Results, Instruments and Partners</b>		
<b>Pro-Growth Financial Sector Development Results: Maintain financial sector stability, deepen financial markets, and enhance access.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> IIFF IFG IFC investments in banks and NBFIs <u>Proposed:</u> FIRM DPL IFC investments in the insurance sector <u>Under Discussion:</u> IFC sustainable energy finance products	Financial Sector Assessment Program Micro-insurance Marketplace Review of SME Credit Program (KUR) TA for Deposit Insurance Corporation Crisis Binder Workshop Improving Access to Financial Services in Indonesia Support to Financial Sector Authority (OJK) Crisis Management Protocols Saving and Loan Cooperatives SME Access to Islamic Finance TA for Secretariat of Financial System Stability Forum, IFC Advisory Services.	AusAID, CIDA, Finland, The Netherlands, New Zealand, SECO, USAID

## ***Infrastructure***

45. **Weak infrastructure development is not only undermining Indonesia's economic growth, but also negatively affects efforts to enhance equity and reduce poverty.** While the Government is committed to reducing its debt to GDP ratio, its priority for borrowing remains focused on infrastructure and energy development. Infrastructure investment fell sharply after the Asian financial crisis and has only partially recovered. The low level of investment is attributed to the GoI's focus on fiscal consolidation and reducing public debt, as well as the decline in infrastructure spending by the private sector and SOEs. A variety of issues make it difficult to reverse this trend. Low tariff levels discourage private investment in power and water. Land acquisition has impeded major public infrastructure projects in the past. Finally, coordination difficulties for projects that cut across jurisdictions or involve a number of central and sub-national actors often prevent viable infrastructure projects from coming to fruition.

46. **The GoI is committed to reigniting investment in infrastructure, by increasing public investment and promoting private sector participation through Public-Private Partnerships (PPPs).** The recently approved Land Acquisition Law is expected to help facilitate public investment. Infrastructure laws have been changed, dismantling public monopolies and opening up to private market investors. To improve the use of PPPs, the MoF is now the single provider of guarantees and is considering a viability gap funding (VGF) instrument that would provide capital grants to infrastructure PPPs that are economically viable but financially marginal.

47. **The Bank Group will focus its support on development results that will increase the quantity and quality of national roads, reduce power infrastructure bottlenecks and increase private investment in infrastructure through PPPs.** The Bank Group is expected to continue with its support for public investment in infrastructure with a focus on energy, transport, water supply and sanitation, as well as solid waste, and efforts to enhance the use of PPPs.<sup>1</sup> The recently approved *Infrastructure Guarantee Project (IGP)* helped establish a fiscally sound, credible and transparent guarantee framework to support PPP transactions. The Bank is helping to set up a viability gap funding (VGF) mechanism and supporting GoI's efforts at better planning, structuring and procurement of PPPs. IFC is advising the Government on structuring and bidding PPP projects, supporting the private sector with financing and advisory services, including as transaction advisor for the Central Java Power Project to improve access to electricity for 7.5 million people. MIGA, as well, is exploring ways to work with *IGP*.

48. **Indonesia is endowed with substantial energy resources that include both fossil fuels and renewable energy resources, including the largest geothermal reserves in the world.** Domestic consumption of petroleum products has been heavily subsidized, promoting the development of power generation based on diesel and other petroleum-based fuels. Indonesia has been a net importer of oil since 2003 and has been unable to reduce its dependence on petroleum-based fuels, with a fast growing demand and with half of gas production currently exported.

49. **Creating and maintaining an attractive investment climate for investment in energy infrastructure is a key challenge facing the Government in light of fast growing domestic demand and the declining production from maturing oil and gas fields.** This requires rationalization of energy tariffs and the refocusing of energy subsidies. Mitigating local and global impacts of emissions from burning fossil fuels is a major challenge, as rapid urbanization and rising

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<sup>1</sup> Support for infrastructure investment in water supply and sanitation, as well as small scale local infrastructure through community driven development programs, is discussed under the Pro-Poor theme.

income continue to push up demand. While the use of coal and fossil fuels is bound to increase, the rate and impact on the environment could be moderated by scaling-up renewable energy production and applying advanced low-carbon technologies. This would also improve energy security and help shift the economy to a more productive and sustainable path. At the same time, 80 million people lack access to electricity and every second household still depends on solid fuels for cooking.

**50. To stimulate investment in energy, the GoI is improving the regulatory framework and strengthening the enforcement of existing regulations.** The recently enacted legislation provides a renewed legal framework for the energy sector, with an emphasis on economic sustainability, energy security, and environmental conservation. The Government's ongoing expansion targets 60 percent from renewable resources. The WBG has an important engagement to support efforts to improve power system infrastructure to meet demand, enhance reliability and quality, scale up renewable energy and natural gas, increase access to modern energy, and improve energy efficiency. This includes the on-going *Power Transmission Project*, a proposed follow up *Second Power Transmission Development Project*, and the *Upper Cisokan Pumped Storage Project*. Potential future operations under discussion include additional pumped storage and medium-sized hydropower generation, renewable energy for electrification of outer islands, and energy efficiency.

**51. Synergies between the Bank and the IFC will support scaling up of renewable energy, particularly geothermal.** The Bank recently approved the *Geothermal Clean Energy Project* and a follow up operation is under discussion. IFC focuses on increasing private sector participation in renewable energy with advisory services, financing and equity. IFC has assessed 17 geothermal sites for possible tendering as to their development impact and likelihood of successful implementation. Moreover, it has provided equity investment in Medco Power Indonesia to own and operate a series of gas and hydroelectricity projects, and other equity and loan investments are being considered. MIGA can also provide guarantees on non-commercial risks to support renewable power.

**52. Roads are the predominant mode of transport in Indonesia and account for about 70 percent of freight ton-km and 82 percent of passenger km.** The vehicle fleet has doubled in the past five years and is expected to grow at 10 percent per year over the next decade. Road travel speeds remain low, on the order of 40 km/hr on the national road network. Only 714 km of toll roads are in place, mainly in urban areas. While new construction has lagged, the quality of national roads has improved with 86 percent now in good/fair condition. Sub-national roads face the opposite dilemma – while 100,000 km of roads were added between 2001 and 2009, 57 percent are now deemed to be in bad/poor condition. Road safety on Indonesia's chronically over-crowded roads is poor and getting worse, with some 50 deaths being recorded every day.

**53. The Bank Group would continue playing a role in supporting priority projects on selected regional corridors, where upgrading national roads requires a comprehensive approach to road renewal.** Two road projects are currently under implementation, the *Strategic Roads Improvement Project* and the *Western Indonesia National Road Improvement Project (WINRIP)*. The proposed *Road Asset Preservation Project (RAPP)* would support improvements in the execution, effectiveness and delivery of outputs, while strengthening the framework for improving the quality of expenditures using results-based disbursements. IFC supports the private financing of toll roads by offering long-term capital and sharing best practice. As well, MIGA has global experience of supporting private investment into toll roads, which could be usefully applied.

**Box 5: Infrastructure Results, Instruments and Partners**

**Pro-Growth Infrastructure Development Results: Increase the quantity and efficiency of national and sub-national government spending on infrastructure, and increase private investment in infrastructure.**

<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<p><u>Ongoing:</u>  Strategic Road Infrastructure  Western Indonesia Roads  Power Transmission I  Upper Cisokan Pumped Storage  Geothermal Clean Energy Investment  Infrastructure Guarantee Fund  Infrastructure Finance Facility  IFC investments in Jakarta International Container Terminal, Wintermar, Medco Power, Salamander Energy, and Saratoga II</p> <p><u>Proposed:</u>  Power Transmission II  Road Asset Preservation  Connectivity DPL I-III  IFC investments in telecom and hydro</p> <p><u>Under Discussion:</u>  Renewable Energy for Electrification  Medium Hydropower  Energy Efficiency  Mantenggeng Pumped Storage  Geothermal II  IFC investments in geothermal energy</p>	<p>Assessment of Road Construction Industry  Roads and Railways PERs  Regionalization and Urban Development Review  Advisory services on electricity and fuel subsidies, and on regulatory framework for electricity sector  IFC PPP advisory services.  PPP Framework and Policy TA  Viability Gap Financing TA  Low-income Housing Policy and Finance  IFC advisory services for selecting geothermal energy projects as potential PPP candidates.  IFC advisory services for PPP projects, (Umbulan Water, Central Java).</p>	<p>ADB, AfD, AusAID, Germany (KfW), JICA</p>

## ***Local Government***

54. **Public service delivery and public sector capacity at the subnational level remain major challenges.** With the ‘big-bang’ decentralization of 2001, Indonesia went from being one of the most centralized countries in the world to one of the most decentralized; but the transition is far from complete. Overlapping responsibilities without a coordinated decentralization framework undermine effective service delivery, and sub-national government accountability and transparency mechanisms are weak. Unlike most decentralized countries, Indonesia has not transferred significant revenue power to local governments, distorting incentives and creating an unhealthy dependence on transfers. Meanwhile, many local governments misuse the revenue-raising authority they do have constraining business development, growth and job creation. Transfers provide the bulk of financing, but they are rarely used to as a strategic instrument to improve local government performance.

55. **Indonesia is in the midst of a structural transition towards higher levels of urbanization.** It is already more urban than rural and continues to experience very rapid urban growth. Several of Indonesia’s major cities are becoming metropolitan centers, with populations of five or more million, but infrastructure services are lagging with increasing economic, social and environmental costs. Large metropolitan agglomerations act as drivers of economic growth and job creation but are also increasingly experiencing increased congestion, pollution and inequalities in access to quality basic services and housing. Medium-sized cities are growing the fastest and require enhanced institutional capacity and infrastructure investment in order to manage the urban transition.

56. **The Bank supports development results that will promote improved fiduciary, social and environmental management and technical performance of selected local governments in the delivery of basic services, and enhance the capacity of local institutions to monitor and assess subnational public expenditures.** The Bank-financed *Local Government and Decentralization Project* (DAK) works with GoI’s targeted transfers with an initial emphasis on improved accountability and reporting on grants to infrastructure for pilot local governments. A follow up operation is proposed, which would pilot the Bank’s P4R instrument. Knowledge services include the *Public Expenditure Analysis and Capacity Harmonization (PEACH)* program, which carries out public expenditure reviews at the local level. PERs have been completed in ten provinces working closely with local academic institutions and stakeholders to improve policy and analytical capacity. *PEACH* has incorporated gender analysis in its PERs, identifying key gender issues to which local government need to pay attention. The Bank is likely to continue selectively supporting provincial governments in knowledge exchange and capacity building, as well as conflict monitoring as needed, including in fragile regions, such as Aceh and Papua. The foundation laws on sub-national government including on the division of responsibility, on transfers, on electoral systems and the role of villages are under consideration, which provide an opportunity to address the incentives and financing potential and modes to support effective local governments.

57. **Urban development is an emerging area of Bank support with several efforts already underway.** The *Urban Sector Development and Reform Project (USDRP)* aims at changing governance behavior by targeting reform minded local governments and encouraging increased accountability through citizen’s participation. At the neighborhood level, further Bank financing services are expected to be provided through the proposed *Fourth National Program for Community Empowerment in Urban Areas, (PNPM Urban IV)*. The on-going *Jakarta Urgent Flood Mitigation Project (JUFMP)* seeks to support improved urban drainage and flood control systems, and the longer term sustainability of flood management facilities in Jakarta. As the initial foray into directly supporting major urban infrastructure, the Bank is exploring for larger urban areas the possibility of on-lending for complex infrastructure that require convening and advisory services, as well as

financial support. Mid-sized cities, on the other hand, would likely be good candidates to reach under wholesale arrangements. In addition, IFC fosters improvements with less cumbersome procedures for business start-ups and licensing through the *Sub National Doing Business Survey (SNDB)*, with over 20 cities now participating.

<b>Box 6: Local Government Results, Instruments and Partners</b>		
<b>Pro-Growth Local Government Development Results: Improved fiduciary, social and environmental management and technical performance of selected local governments in the delivery of basic services, and enhance the capacity of local institutions to monitor and assess subnational public expenditures.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> DAK I USDRP JUFMP PNPM Urban III <u>Proposed:</u> DAK II PNPM Urban IV <u>Under Discussion:</u> Metropolitan and Urban Development	PEACH Public Expenditure Analysis PEACH PFM Technical Assistance and Capacity Building Sulawesi Development Diagnostic Report SNDB ECO2 Cities TA and Land Market Assessment Housing Market Segmentation TA. IFC advisory services for Sub-national Doing Business reforms	ADB, AfD, AusAID, CIDA, JICA

### ***Macroeconomic and Fiscal Management***

58. **Fundamental for increasing the level of economic growth is to maintain fiscal discipline and bolster market confidence in the face of continuing global uncertainty, and provide for mitigating measures in the event of an external shock.** Macroeconomic stability from strong fundamentals and fiscal management crisis has underpinned the recovery and sustained growth over the past decade. More recently, macro management and fiscal discipline have helped Indonesia weather the ongoing global financial crisis. At the onset of the crisis to provide confidence to financial markets, the World Bank, in collaboration with the Governments of Australia and Japan and the Asian Development Bank, provided a US\$5.5 billion program of contingency financing under the *Public Expenditure Support Facility DPL-DDO* (FY09, US\$2 billion) to support confidence-boosting measures and social mitigation programs, which closed in December 2010. Subsequently, with the increased risks stemming from the Eurozone crisis, a follow-up program with the same development partners of US\$5.5 billion put together under the *PERISAI (Program for Economic Resilience, Investment and Social Assistance in Indonesia) DPL-DDO* (FY11, US\$2 billion).

59. **Sustaining growth and maintaining macro stability requires quality, evidence-based macro and fiscal policy making.** Despite Indonesia’s strong economic performance, significant challenges in fiscal and macro policy remain, for example, in terms of the allocation of spending (with subsidies accounting for almost one quarter of central government spending in the proposed 2013 Budget) and its efficiency. The Bank will continue to support Indonesia in enhancing the Government’s ability to do sound macro and fiscal policy analysis and formulation through the *Support for Enhanced Macro Economic and Fiscal Policy Analysis institutional (SEMEFPA)* strengthening program; the *Analytical and Capacity Support to Improve Expenditure and Revenue Policy* program, which includes public expenditure review (PER) analysis; and the *Resource Revenues Policy and Administration* technical assistance.

60. **A Development Policy Review (DPR), being prepared concurrently with the CPS, will provide an analytical underpinning of the program and its overall coherence.** The DPR has identified near term risks and the key long-term global, regional and domestic trends that will affect Indonesia, the key challenges and opportunities they bring and the policy options to address them. The *DPR* will provide an analytical underpinning for the Government’s new five-year development plan and serve as a basis for dialogue with the incoming new government in 2014. It will identify near term risks and the key long-term global, regional and domestic trends that will affect Indonesia, key challenges and opportunities they bring and policy options to address them.

61. **The Bank contributes to development results that will support Indonesia in securing financing that will maintain critical public expenditures in the event of tightening in financing conditions, and improve the analytical framework in support of quality in public spending.** In addition to the *PERISAI DPL-DDO*, and the aforementioned knowledge services, the proposed *Institutional, Tax Administration, Social and Investment (INSTANSI) DPL* with parallel financing from Japan and the ADB will support improved budget allocation for critical social and infrastructure investments, enhanced revenue policy and public financial management in general.

<b>Box 7: Macro and Fiscal Results, Instruments and Partners</b>		
<b>Pro-Growth Macro and Fiscal Development Results: Enhanced Government ability to meet its financing needs and maintain critical public expenditures, and use monitoring and evaluation to inform budget allocation.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> PERISAI DPL DDO	SEMEFPA DPR	ADB, Australia (Treasury, AusAID)
<u>Proposed:</u> INSTANSI DPLs I-III	Analytical and Capacity Support to Improve Expenditure and Revenue Policy Initiative for Public Expenditure Analysis policymaker forum. Indonesia Economic Quarterly report (including convening related quarterly Development Partner Discussion and public launch)	Japan (JBIC)

***Strengthening the Public Sector***

62. **Institution building to enhance public sector performance has been a keystone of the current administration. The achievements in strengthening public financial management over the relatively short reform period have been remarkable.** The most notable ones include an automated budget and treasury system; implementation of a Treasury Single Account; the establishment of cash forecasting capacity in the Treasury; the development of accounting standards to provide for accrual accounting; an appraisal of government assets and the introduction of an asset management information system; the establishment of a new procurement agency; adoption of the COSO control framework and strengthening of external audit; strengthening of monitoring and evaluation systems; and early stages of a medium term expenditure framework and initial introduction of performance-based budgeting. While progress has been made, a number of challenges remain. Among others, policy orientation in budget formulation and execution need to be strengthened. The underlying business processes at spending agencies need to be reengineered. The regulatory framework and implementation of e-Government procurement, including the development of a permanent procurement management function in implementing agencies, is incomplete. Relevant and reliable financial reporting needs to be strengthened along with human resources for accounting and reporting. The implementation of COSO control framework needs to be accelerated, internal audit function strengthened, and the supreme audit institution (BPK) needs to strengthen the impact

on its audit findings and linkages with the legislature. Finally, monitoring and evaluation needs to move toward an integrated system as the basis for implementing performance based budgeting.

63. **The Bank's engagement approach to strengthen the public sector continues to support development results that will strengthen the public sector by enhancing public financial management.** The Bank supports efforts by the Ministry of Finance to strengthen its tax administration and broaden its revenue base including non-tax revenue from mineral resources. The proposed *INSTANSI DPLs* will reinforce and broaden ownership and commitment towards the achievement of reform milestones. Project lending provides technical support and financing through the ongoing *Government Financial Management and Revenue Administration Project (GFMRAP)*, the *Project for Indonesian Tax Administration Reform (PINTAR)*, the *Scholarships Program for Strengthening Reforming Institutions Project (SPIRIT)*, and the *Strengthening Indonesia Statistic Project (STATCAP-CERDAS)*. The Public Financial Management - Multi Donor Trust Fund also supports critical activities, bringing together key development partners, including the European Commission, the Netherlands and Switzerland.

<b>Box 8: Public Sector Results, Instruments and Partners</b>		
<b>Pro-Growth Public Sector Development Results: Strengthen the public sector by enhancing public financial management.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> GFMRAP PINTAR SPIRIT STATCAP-CERDAS <u>Proposed:</u> INSTANSI DPLs I-III	Public Financial Management (PFM) TRE/CFRCR advice on exposure management, hedging products and risk insurance, and asset/liability management	European Commission (EC), Netherlands, SECO

***PRO-JOBS - Enhancing Skills and Technology, and Improving Social Protection***

64. **The Indonesian economy must create more and better jobs.** This will require increased efforts to elevate the rate of economic growth, including improved quality in public spending, enhanced private sector investment and increased infrastructure. The share of the population of “productive” age relative to older people is large in Indonesia, and will remain so for the next 15 years. This demographic dividend presents a window of opportunity for high productivity growth as long as youth are equipped with the right skills and presented with the right opportunities. Despite a decade of robust growth, employment opportunities for higher quality jobs remains insufficient for an increasingly urbanized, young population; undermining the ability of growth to contribute to contain rising inequality. One reason is that the movement of workers out of agriculture and low-end services stalled after the Asia crisis because Indonesia’s manufacturing sector never fully recovered. Bank analytic work suggests that the decline of traditional manufacturing is not inevitable and points to two major sources of driving a potential revival: (i) a large labor force and growing wage gap relative to China and other producers; and (ii) the potential for market access of production-scale economies based on Indonesia’s large and growing domestic market and the increasingly integrated regional market. In addition, while there is a substantially growth of women entering the labor market than men over the past seven years, women continue to face lower participation and higher unemployment rates, and are mostly self-employed and unpaid family workers, as well as migrant workers. A key element of the strategy is to enhance the education and skills of the labor force, which will require improving the management of the education system and, including equality of opportunity through improved access to education of the poor. It will also require fostering the

growth in R&D institutions by helping to develop an enabling policy environment. In addition, to facilitate labor market flexibility and provide for good jobs, the Bank will support the Government's focus on improving social insurance.

65. **Pro-Jobs Results.** For this theme, the WBG expects to support development results that will improve the overall governance and management of the education system to improve the education quality and performance of teachers, enhance human resource capacity in R&D, and facilitate the institutional transformation required to implementation reform of social insurance. Going forward Bank support would be through knowledge services. IFC is working to support manufacturing companies that generate good quality jobs directly, as well as help to develop SMEs through supply chain linkages. IFC's engagement towards providing access to finance for micro, small and medium enterprises are also geared towards job creation.

### ***Education***

66. **Despite significant improvements in a number of education and health indicators in recent years, Indonesia still lags behind other countries in the region.** Indonesia's Human Development Index rank is still low (124 out of 187 countries), slightly above Vietnam but below Thailand and Malaysia. Indonesia is on track with many of the Millennium Development Goals related to human development, especially on education. Access to early childhood education is expanding rapidly, but still only 47 percent for 4-6 year olds are enrolled which is of particular importance for lower income children. Access to primary education is nearly universal and literacy rates are close to 100 percent, while gender equity in enrolment in basic education has been reached.

67. **Indonesia has made a clear commitment to education. A constitutional mandate to allocate at least 20 percent of the total government budget to education has led to a more than doubling of spending in real terms since 2002.** The biggest payoff for this increase has been access and equity, but access to early childhood education, senior secondary and above still remains low particularly for the poor. Progress in access and equity has been very fast. The share of 15 year olds from the poorest consumption quintile that are still enrolled in school increased from 60 to 80 percent between 2006 and 2010, but then drops dramatically. In higher education, total participation has increased from 12 percent in 2000 to 26 percent, yet less than 4 percent of 19-22 year olds from the poorest 40 percent enter higher education. Gender disparities are not a problem in terms of access, though boys tend to drop out of all levels of education more than girls.

68. **Along with the need to continue improving equity, a major challenge remains in the quality and relevance of education.** Learning outcomes and the share of top performers remain very low by international standards. Poor allocation of resources is an important part of problem. The Bank's recent *Education Public Expenditure Review* notes that most of the additional resources for basic education went toward teacher hiring and certification allowances. The resulting student teacher ratios are low by international standards and well below levels necessary for a good quality education. Moreover, distribution of the teaching force is highly inefficient and inequitable. At the same time, public funding for post basic education is constrained and poorly spent. There are few incentives for efficient spending and human resource management is limited by civil service considerations.

69. **The Bank's engagement aims to support development results that will improve the performance of teachers and the human resource capacity in R&D.** The Bank has been closely supportive of the improvements in access, equity and quality through financing and knowledge services. The Bank is providing knowledge services for the GoI's program to improve incentives for teacher quality, including monitoring the impact and the ongoing *Better Education Through*

*Reformed Management and Universal Teacher Upgrading Project (BERMUTU)* support implementation. The Dutch and the EC, among a number of others have played an important role in supporting education. The *BOS-KITA Project* helps to finance the Government’s School Operational Assistance (BOS) program that empowers school managers and local communities through a school-based management approach covering some 42.5 million students. The *Basic Education Capacity Trust Fund (BEC-TF)* supports local government school grant programs. For higher education, the ongoing *Higher Education Project (IMHERE)* and knowledge services will continue to focus on helping the GoI in creating an enabling environment and effective support mechanisms for the improvement of the quality, relevance, efficiency, and equity.

70. **With the GoI indicating a preference not to seek further external financing for education, the Bank’s engagement will continue to provide support through knowledge service, ongoing operations and linking with other Bank activities.** For example, the *Early Childhood Education and Development Project (ECED)*, which targets poorer communities through an innovative community managed scheme, would seek to strengthen linkages with the *National Community Development Program (PNPM)*, also financed by the Bank, to enhance activities focused on the poor and vulnerable, including HIV-AIDS prevention, nutrition and sanitation. Knowledge services will continue to be a key component of Bank support. Results from rigorous impact evaluations of teacher certification and ECED provision have and will continue to inform government policy.

71. **Research outputs remain low compared to other countries in the region. The overall resources devoted to research and development (R&D) in Indonesia are insufficient, and high-level human capital to supply needed skills for new jobs is scarce.** Indonesia’s overall public budget allocation to R&D is very low, estimated at only 0.05 percent of GDP, much lower than other countries in the region. At the public research institutes, less than 5 percent of staff holds a Ph.D. degree, and only 15 percent hold Masters degrees. Public research institutions currently conduct 96 percent of R&D and their low performance is a key bottleneck to an efficient innovation system. Increasing public spending on R&D is not enough to guarantee success, public spending should be used to leverage private investment.

72. **The Bank seeks to support an enabling policy environment, and to improve the performance of public institutions and enhance human resource capacity.** It provides advice to improve the public R&D institutes’ performance and STI human resource capacity, including technical assistance for policy reforms to reduce fragmentation and increase competitive funding for research. The Bank is already involved in supporting expansion of necessary research and development with the recently approved *Sustainable Management of Agricultural Research and Technology Dissemination Project (SMARTD)*, and the proposed *Research and Innovation in Science & Technology Project (RISET)* would support improvements in human resource capacity. A result framework with gender sensitive indicators has been developed for *SMARTD* to capture and address the aforementioned gender streaming.

<b>Box 9: Education Results, Instruments and Partners</b>		
<b>Pro-Jobs Education Development Results: Improve the education quality and performance of teachers, and the improve the human resource capacity in R&amp;D.</b>		
<b>Financing/Grants</b> <u>Ongoing:</u> BOS-KITA II BERMUTU IMHERE	<b>Knowledge and Convening</b> Teacher certification impact evaluations. The Role of Politics and Evidenced Based Policy Making: The Case of Teacher Reform in Indonesia Education PER	<b>Development Partners</b> AusAID, The Netherlands, USAID

SMARTD IFC investment in Bonavista School <u>Proposed:</u> RISET <u>Under Discussion:</u> Skills Training for Economic Transformation IFC investments in private sector education providers	Indonesian School Grants Program Review Local Governance Capacity Assessment Video Study Projections and assessment of future skills demand Higher education studies on funding modalities Higher education and labor market linkages Infrastructure assessment Accreditation and access to higher education TA on skills development fund TA on 2015 five year development plan. Public Financing of Indonesia's Knowledge Sector Building Innovation Capacity in Clean Energy	
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### ***Social Insurance***

73. **A strong system of social protection, particularly social insurance, is an essential part of any efforts to improve labor market flexibility and improve the quality of jobs.** The current system of social protection is fragmented and coverage is limited to the poor, civil servants, the military and about 25 percent of formal sector workers. Each segment has different benefits and a different administrator, and the system of supervision and enforcement is a challenge. As a result, only 12 percent of the population has access to pensions, only 60 percent of the population has health insurance coverage, and benefits can be lost when changing employment.

74. **The government's objective is to institute a comprehensive national system of social insurance covering all Indonesians through the National Social Security System Law (SJSN) and the law on National Social Security Administrators (BPJS).** The SJSN law was enacted in 2004, but there was limited implementation progress until recently. The government's stated goal is to establish a uniform health insurance program by 2014 and to cover all Indonesian workers in both the formal and informal sectors by 2019. Similarly, the government plans to establish programs for pensions, old age savings, death benefits and worker accident by mid-2015 and expand coverage to all Indonesians by 2019. The key to success will be program affordability, fiscal sustainability, efficient administration of social insurance programs, proper governance procedures to assure program assets are properly and transparently managed in the best interests of participants, and analysis to assure that women, the disabled and other vulnerable groups are adequately protected.

75. **The Bank would engage in activities to support the conversion of the existing social insurance administrators into not-for-profit institutions and expand coverage and contributions.** Social insurance is emerging as an important area of engagement for the Bank. In response to government demand, we will share best international practice to facilitate proper design and financing of the social insurance programs and the institutional transformation required for this ambitious reform effort. The Bank is working closely with development partners to provide extensive analytic work to assist with implementation of the universal health care program and the four other social security programs, particularly for the pension and old-age savings programs. This will build on the Bank's strength and comparative advantage in pensions and implementation and in the four non-health social security programs, particularly for the pension and old-age savings programs, working closely with development partners. This will build on the Bank's strength and comparative advantage in institutional change management, particularly in the areas of organizational structure, human resources and IT systems. The Bank also will continue to support the design and implementation of a reformed civil service pension scheme. AusAID, the German International Aid Agency (GIZ), ADB and the World Health Organization (WHO) are providing primary support for implementing the universal health care program. The Bank is leading on implementation of the pension and old age savings programs with support from AusAID, ILO and

GIZ. There are also cross-cutting administrative issues where the Bank can assist, such as contribution collection and unique identification numbers for the SJSN system.

<b>Box 10: Social Insurance Results, Instruments and Partners</b>	
<b>Pro-Jobs Social Insurance Development Results: Conversion of the existing social insurance administrators into not-for-profit institutions and expand coverage and contributions.</b>	
<b>Knowledge and Convening</b>	<b>Development Partners</b>
Pension and old age savings roadmap. Transformation of Jamsostek Membership expansion, improved contribution collection and development of ID system for SJSN programs	ADB, AusAID, GIZ, ILO

***PRO-POOR – Promoting Communities, Protecting the Vulnerable and Improving Health Outcomes***

76. **The Government is committed to accelerating the pace of poverty reduction and increasing economic security for the large vulnerable population that is at risk of falling into poverty.** Policy reform efforts are aimed at improving the effectiveness of poverty reduction programs. The country is also focusing on addressing the problems associated with high levels of vulnerability by improving and extending safety nets. At the same time, rising inequality is an emerging concern and the Government is exploring what strategies can support the greater sharing of economic growth with the poor and vulnerable. Working with the Government to ensure continued progress towards poverty reduction goals, and achieving equity and inclusiveness across regions, remains a top priority for the World Bank Group and is linked to a number of other engagement areas.

77. **The Pro-Poor Results.** The WBG expects to support development results that would enhance response to shocks, promote the national targeting system to better reach poor and vulnerable households, enhance the design and performance of the Government’s household-targeted and community development programs, promote revitalization of the agriculture, improve health and nutrition outcomes, particularly of the poor, by supporting improved access to quality health care, including maternal and child health services, and enhanced HIV/AIDS surveillance, as well as increased access to safe water and sanitation.

***Targeting Poverty***

78. **The Bank has supported overall poverty strategy and strengthening central institutions with the establishment of the National Team for the Acceleration of Poverty Reduction.** Oversight and coordination of poverty reduction policies and programs has now been elevated to a cabinet-level team headed by the Vice-President. With the team, the Bank has collaborated on a reform agenda focusing on the programs that fall under the Government’s on-going three-pronged approach to poverty reduction: household-based, community-driven and employment generating programs. Household-based social assistance programs play an important role in the strategy to reduce poverty. In 2012 the Bank released *Protecting Poor and Vulnerable Households in Indonesia*, a comprehensive household social assistance expenditure and program review, to provide an evidence base for program and policy reforms.

79. **The Bank supports development results that will enhance local capacity for detecting and responding to shocks that threaten vulnerable households, increase the number of poverty programs using the national registry of poor and vulnerable households and increase participation of children from poor families in early childhood education and development programs.** These results will be supported by the *INSTANSI DPLs* and knowledge services, involving a multi donor trust fund initially supported by AusAID to support evidence-based poverty reduction policies and programs, as well as to build the analytical capacity of local universities and think tanks for research and assessing poverty-related issues. This is being achieved by: (i) providing poverty analytics and building analytical capacity to inform poverty and social protection policies, programs and strategies; (ii) supporting the Government in the design, implementation and evaluation of key poverty and social protection programs; and (iii) improving the quality and accessibility of data needed for poverty analysis and policymaking.

80. **Support will pay particular attention to gender issues, with an aim to improve women’s access to poverty reduction and social protection programs, improve access to quality jobs, and improve protection for female workers including international migrant workers.** Globally, the World Bank has been placing greater focus on issues related to gender that includes the preparation of a World Development Report on gender. This program will access global knowledge in this area to identify ways to improve gender equity in Indonesia.

**Box 11: Poverty Targeting Results, Instruments and Partners**

**Pro-Poor Poverty Targeting Development Results: Enhanced capacity for detecting and responding to shocks that threaten vulnerable households, and increase the number of poverty programs using the national registry of poor and vulnerable households.**

<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> STATCAP-CERDAS Early Childhood Education & Development (ECED)	Household shock monitoring and response Integration of poverty reduction programs Social assistance reform Urban Poverty Review	AusAID, The Netherlands
<u>Proposed:</u> INSTANSI DPL	ECED – implications for policy and practice from Indonesia ECED impact evaluation	

***Community Development***

81. **The Bank is particularly active in supporting the community-level efforts at poverty reduction through its support to Indonesia’s flagship National Community Empowerment Program (PNPM-Mandiri) – the world’s largest CDD program.** The core PNPM *Mandiri* program now covers 65,000 villages with an annual budget of almost US\$1.7 billion. PNPM’s overall objective is to improve governance and reduce poverty by promoting community decision making in development planning and management. Its core idea is that given adequate information and some technical assistance to improve designs, communities will negotiate a range of cost-effective, economically useful investments that will raise local productivity and benefit the poor. To translate this idea into an operational project, PNPM funds are used to support: (a) building community capacity for the formation and institutionalization of elected representative organizations that are accountable to communities; (b) provision of grants to communities directly and transparently to finance an open menu of poverty alleviation activities; and (c) enhancing the capacity of central government and local governments to partner with community organizations. The program continues to perform well despite some of the implementation challenges that the program has faced in its speedy scale up to national coverage in 2008. It is noteworthy that PNPM has a clear

gender strategy and action plan which, among others, aims at ensuring a gender balance in decision making processes.

82. **Several peer-reviewed quantitative assessments have demonstrated significant impact in terms of effective, attributable poverty reduction.** The main findings confirm that: (a) benefits are heavily skewed to the poor: the two lowest quintiles of the participating population receive the largest share of project benefits; (b) benefits are significant: household expenditures among the poor increased by an average of 11% as a result of project investments, benefitting approximately 45 million poor people; (c) benefits are sustained; physical assessments of PNPM (KDP) built infrastructure found that 85% of the infrastructure built by communities was in good to very good condition five years after its completion. Impact simulations found that after three years the majority of benefits came from increased economic activity attributable to the investments made by the program, not from project grants; (d) benefits are shared: labor composition in PNPM programs averages 40-70 percent, which is on the high end of global measurements. PNPM created over 20 million person-days of paid employment.

83. **The massive scaling-up of PNPM presents major institutional challenges for the implementing agency.** Hands-on implementation support to GoI has helped mitigate governance and fiduciary risks, and build more robust management systems. Still, continuous attention to transparency, the quality of project management and strong fiduciary oversight is required. A comprehensive reform program is being implemented to strengthen the program's institutional arrangements.

84. **The Bank will support development results to improve local governance, participation, particularly by women, increased access to health and education services.** The Government is in the final stages of a wide ranging consultation process to articulate the roadmap for PNPM with the goal of integrating the operating principles of PNPM into regular government operations. Special efforts will go to capacity building of national institutions, so that these institutions can fully take over the functions that are currently done by the PNPM Support Facility.

85. **In addition to investment lending, the Bank supports Indonesia's community based poverty program by managing a multi donor support facility that provides technical assistance and strategic inputs to PNPM.** The support facility focuses on improving the quality of the delivery of PNPM as well as supporting a number of innovative pilot operations including:

*PNPM-Generasi* is a community-based CCT program that uses performance -based block grants to increase community utilization of basic health and education services and promote closer interaction between community groups and front-line service providers.

*PNPM Green* supports financing green sub-projects and is moving towards incentivizing results and addressing the overall village development process, placing particular importance on participative natural resource mapping, and planning local green growth strategies.

*Local Government Capacity Development* pilots social accountability processes and tools to improve local government responsiveness in community-level service delivery.

*PNPM Peduli:* GoI has launched the *PNPM-Peduli* program to further operationalize social inclusion principles by working directly through CSOs for outreach and service delivery.

86. **In addition to these pilot operations, the PNPM Support Facility supports a robust program of analytical work to measure impact and provide the Government with evidence-based policy advice.** An increasing part of the analytical work is implemented through national

institutions, thus building their capacity and fostering the long term sustainability of the social development agenda in Indonesia.

<b>Box 12: Community Development Results, Instruments and Partners</b>		
<b>Pro-Poor Community Development Results: Improved local-level governance, greater participation by women, increased access to health and education, and participation in early childhood education and development</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> PNPM Rural III PNPM Urban III	PNPM Rural Economic Impact Village Infrastructure Census; Incidence of Benefits of Households Local Level	ADB, AusAID, Canada, Denmark, EC, Islamic Development Bank, JICA, The Netherlands, UK, USAID
<u>Proposed:</u> PNPM Rural IV PNPM Urban IV	Institutions III Community Management Revolving Loan Fund Study; Governance Review	
<u>Under Discussion:</u> PNPM Rural V PNPM Urban V	Integrated MIS for PNPM TA to Aceh Local Government Papua Analytical Works PNPM Rural Sentinel Villages Urban Poverty Review	

### ***Food Security and Rural Development***

87. **The Government is increasingly concerned with food security and the negative impact of the price volatility of foodstuffs on overall poverty.** Because over three-quarters of the poor are net food consumers, food price hikes have a disproportionately large impact on the poorest people in Indonesia. It is estimated that a 10% increase in the price of rice leads to a 1.3% increase in the poverty rate. Rural poverty and unemployment are also critical issues facing Indonesia. Around 50% of the country's population live in rural areas and depend mainly or exclusively on the agricultural sector for their livelihood.

88. **While agricultural development was a major contributor to Indonesia's economic and social performance from the late 1960s through the 1990s, it has been in decline for the past fifteen years.** Investment in agriculture has so far not been enough to promote productivity growth and a significant factor in the decline in the performance of the agricultural sector is the decrease in the amount and quality of public investment, as demonstrated in the Bank's recent *Agricultural Public Expenditure Review*. Despite its rich agro-ecological endowments, Indonesia imports fruits and vegetables from neighboring countries, mainly because of quality and consistency problems with its own produce, but also because of the lack of competition in commodity trade.

89. **The Bank is expected to support development results that will access by smallholders to client and market-oriented extension and marketing services, and enhance water security for irrigation.** Dialogue on food security has helped to bring into focus the need to revitalize agriculture and greater Bank engagement. During the previous CPS, lack of Government commitment and championing of reform in the sector had led to a reduced role for the Bank, as compared to earlier periods.

90. **In collaboration with other donors, Bank support for the Government's food security concerns include knowledge services.** The Bank, with the support of development partners, facilitated policy dialogue aimed at improving rice import mechanisms to reduce price volatility in the domestic market. The Bank supported the Government in establishing a platform to strengthen policy coordination to address food security challenges in an integrated way, which includes (i) revitalizing agriculture productivity, (ii) managing domestic price volatility and (iii) protecting the

poor and vulnerable. A technical assistance program funded with a grant from the *Global Food Crisis Response Program (GFRP)* is assisting the GoI to identify future policy directions to enable it to achieve the goals related to food security. Furthermore, technical assistance funded from the Multi-Donor Fund for Trade and Industry (MDFTIC) is assisting the Ministry of Trade in designing action plans aimed at strengthening the competitiveness, sustainability, and value addition of the cocoa, coffee, and tea value chains and their strategic positioning in international market.

91. **The Bank is helping Indonesia implement institutional reforms in the agricultural sector research and extension system to develop a demand-driven, market oriented agricultural services system, particularly for small farmers.** The on-going *Farmer Empowerment through Agricultural Technology and Information Project (FEATI)* helps efforts at improving the delivery of support services to farmers. Complementing *FEATI* with a focus on research is the recently approved *Sustainable Management of Agricultural Research and Technology Dissemination Project (SMART-D)*, which would strengthen the capacity to develop and disseminate best practice technologies for improved agricultural productivity, profitability and sustainability to conduct agricultural research, where Indonesia lags far behind most competitors. Most of the project's expected beneficiaries are women. In the previous *SMART-D*, more than 60 percent of those trained were women.

92. **The Bank in collaboration with other donors is supporting Indonesia to enhance water security for agriculture through institutional reforms, improvements in infrastructure and modernization of irrigation management.** The Bank financed *Water Resources and Irrigation Sector Program (WISMP)* supports the Government in the implementation of its reform agenda providing more stakeholder participation and accountability in the management of water resources and irrigation. These activities are supported by new multi-stakeholder governance platforms, water user associations and improvement of facilities and infrastructure to enhance water security, agricultural productivity, and the value chain. Through the *Dam Operation Improvement and Safety Program (DOISP)* the effectiveness of water availability and use in the reservoirs is improved reducing the risks and adapting to climate change enabling more reliable supplies also for agriculture by improving safety and operational standards and by enhancing sustainable catchment management practices. A strategic dialogue with the government is ongoing and aims at the development of an Irrigation Policy for 2014-2025 in the context of water security for food security, anticipating the rapid transformations in the economy, the increasing competition for natural resources (esp. land and water), and the upcoming transition from subsistence smallholder agriculture to viable commercial farming.

93. **IFC is engaging in the agribusiness sector to empower and strengthen communities, especially the poor and marginal farmers.** IFC has begun working with private sector financial institutions to support their expansion to rural/agriculture lending, as well as continuing work with off-takers seeking to develop stronger links to smallholders and increase the sustainability of their small holder suppliers for some important agricultural commodities like coffee, cocoa and rubber. Similarly, in the palm-oil industry, IFC is seeking to develop a smallholder financing scheme with access to technical advice and materials, and to increase benefit sharing between communities and oil palm plantations. In the coffee industry, IFC is providing training to marginal farmers to improve their yields and business practices. IFC is also seeking opportunities to provide long-term financing to those committed to strengthening their environmental and social standards and practices.

<b>Box 13: Food Security and Rural Development Results, Instruments and Partners</b>
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<b>Pro-Poor Development Food Security and Rural Development Results: Increase access by smallholders to client and market-oriented extension and marketing services, and enhance water security for irrigation.</b>
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Financing/Grants	Knowledge and Convening	Development Partners
<u>Ongoing:</u> FEATI SMARTD WISMP II DOISP IFC investments in private sector agribusiness companies (the Wings Group, Ecogreen)	TA on Food Security TA on Beverage Crops Irrigation Management Modernization Training on risk management Study on Rural Connectivity (Connecting poor and disadvantaged areas to improve food security and rural incomes) IFC advisory services for agribusiness	ADB, AusAID, FAO, SECO

### ***Improving Health Outcomes***

94. **Indonesia has been successful in improving access to health care and made significant progress on several key population health outcomes over the past few decades, but the poor in particular suffer from persistent maternal mortality, chronic malnutrition rates, rising HIV infections and inequitable access to quality services.** Indonesia’s maternal mortality ratio (MMR) was recently estimated to be 220 per 100,000 live births, higher than that of India and Vietnam, despite relatively high rates of antenatal care and skilled birth attendance in the country, and short of the MDG target of 102 maternal deaths by 2015. While Indonesia is on-track to attaining the nutrition-related MDG relating to reducing the prevalence of underweight among children less than five, however 36 percent of Indonesian children are shorter than the standard height for their age and an estimated that 42 percent of rural households have stunted children. Indonesia is not on track for the HIV-related MDG. Women account for 25 percent of HIV cases and in the provinces of Papua and West Papua the virus has become generalized. Public spending on health is only 1.3 percent of GDP in Indonesia, in stark contrast to Thailand (2.9 percent) and, China (2.7 percent). The ratio of doctors is 0.2 per 1000, one of the lowest in the region and much worse in rural and remote areas.

95. **The GoI has made a significant leap forward in committing to improve access to quality health services for all by achieving universal health coverage (UHC).** Household health insurance population coverage rates have increased in the past decade but about 40 percent of the population still remains without any coverage and, at 40 percent of total health spending, out-of-pocket spending remains high. Almost 2.3 million of Indonesian households currently fall into poverty annually due to catastrophic health spending.

96. **In support of the Government’s goals, the Bank expects to help achieve development results to strengthen policies governing the education of health professionals and increase access to safe water and sanitation.** The Bank’s health engagement would increasingly link knowledge services with activities in other engagement areas, including education (ECED), and community development (stunting). In the latter, for example the Bank is helping GoI to prepare a new *Community-Based Health and Nutrition to Reduce Stunting Project*, in support of its key commitment to the global Scaling Up Nutrition (SUN) movement, with grant financing from the Millennium Challenge Corporation (MCC) totaling US\$131.5million. Significant knowledge support would also be provided in association with social insurance reform, where studies would be undertaken to support readiness, with supply side assessments, including human resource availability. Improving the quality and availability of health professions would continue to be pursued through the Bank’s *Health Professional Education Quality Project (HPEQ)*, which strengthens quality assurance policies governing medical education. The Bank would continue providing support for strengthening national HIV policies and program development, including analytical work on epidemiologic and economic aspects of HIV. The *Health Professional Education Quality Project* targeted, among others, improving the quality of midwives and other health care providers to contribute progress in achieving key health outcomes. The same applies to the

*Community-based Health and Nutrition to Reduce Stunting Project* that aims to improve maternal health services in a longer term. IFC's engagement with private sector companies in processed foods sector seeks to achieve better nutritional health for middle and lower income households.

97. **Access to safe water and sanitation is a major factor in the health and overall welfare of Indonesians.** Access to safe water has stagnated since 2001 at less than half the population. Combined with poor sanitation this has been estimated to result in an annual expenditure of US\$ 6.3 billion in health care costs, lost productivity, premature deaths, water resource and fishery losses, declining land values and tourism losses. Together with rapid urbanization, the lack of investment has resulted in an actual decline in urban coverage from 60 percent to about 50 percent by 2009. Access to sanitary facilities is around 54 percent, significantly lower than other countries in the region, such as the Philippines and Vietnam. Open defecation is still practiced by more than 60 million Indonesians. Sewerage coverage is minimal, with only 2 percent of urban areas having access to centralized systems. Of the solid waste generated by Indonesia's urban population of 110 million, only about 40 percent end up in landfills, many of which are open dumps. In rural areas, while the number of community-managed piped water schemes has grown steadily, they cover less than 20 percent of the population and formal solid waste collection systems are virtually non-existent.

98. **The WBG expects to support development results that would increase the coverage of water and sanitation in both urban and rural areas.** The on-going engagement includes a number of activities to support sector initiatives. The Bank finances the *Urban Water Supply and Sanitation Project (UWSSP)*, which assists three local governments and water utilities (PDAM) to improve and expand coverage of water supply services for more than 90,000 households. IFC is supporting GoI on the tender of the Umbulan Water Project, which would provide water of good quality to about 3 million people in East Java, by mobilizing US\$100 million in private investment. Trust-funded activities, such as the *Water and Sanitation Program (WSP)*, provide support for institutional development activities to strengthen national policies, as well as local capacities. The Global Partnership on Output-based Aid (GPOBA) pilot projects in Jakarta and Surabaya to connect the urban poor to water and sanitation services have been scaled up with funding from other donors, resulting in more than 70,000 connections for poor households in 35 cities. The Indonesia Sanitation Sector Development Program (ISSDP), implemented in six pilot cities under the *WSP*, initiated the development of the National Sanitation Acceleration Development Program.

99. **To facilitate improved rural water supply and sanitation services, the Bank has financed the flagship Rural Water and Sanitation Program (PAMSIMAS), which is currently operating in 5,000 villages and using donor funds to expand coverage to more villages in the eastern part of Indonesia.** By 2015, this program is expected to provide some 7 million rural Indonesians with piped water supply and some 3.4 million with improved on-site sanitation. In addition, the trust-funded *Total Sanitation and Sanitation Marketing (TSSM)* project in East Java, implemented by *WSP* focuses on the provision of technical assistance to 29 district governments to support their investing in sanitation. Through this project, a total of 1.4 million people have gained access to improved sanitation. Most of the aforementioned programs are gender-informed and equipped with gender action plan, as well as a strategy and/or results framework with sex-disaggregated indicators wherever relevant.

100. **The WBG continues to supporting GoI initiatives shifting to a more integrated and programmatic approach in the sector toward water supply and sanitation, solid waste management and urban drainage and flood control.** For urban areas, the Bank has begun to engage with the GoI on the possible development of an *Indonesian Water and Sanitation Financing*

*Facility* (IWSFF) with capacity building, technical assistance and investment windows targeted at a large number of PDAMs. At the same time, the Bank will continue to consider supporting specific projects in water supply and sanitation, where approaches are novel and TA-intensive (as under the proposed Lampung PPP transaction) or large and technically complex. Similarly, the Bank has begun to engage with the GoI on the possible development of a national solid waste investment program. IFC remains open to assisting GoI with transaction advisory services for projects mobilizing private sector resources, and would consider providing the needed long-term financing to sustainable private sector operations. MIGA remains open to supporting private investment into this sector.

<b>Box 14: Improving Health Results, Instruments and Partners</b>		
<b>Pro-Poor Improving Health Outcomes Development Results: Strengthen policies governing the education of health professionals and increase access to safe water and sanitation.</b>		
<b>Financing/Grants</b>	<b>Knowledge</b>	<b>Development Partners</b>
<p><u>Ongoing:</u> Health Professionals Education Quality Rural Water Supply and Sanitation Projects (PAMSIMAS I and II) Aceh Community Settlement Reconstruction project Water and Sanitation Program; WASAP Urban Water Supply &amp; Sanitation Grant Facility for Water Management Jakarta Urgent Flood Mitigation Jakarta Water OBA project, Surabaya Water OBA project</p> <p><u>Proposed:</u> PAMSIMAS (AF) Solid Waste Improvement in Regional and Metropolitan Cities</p> <p><u>Under Discussion:</u> Water and Sanitation Financing Facility IFC investments in private sector healthcare companies IFC investments in water and sanitation companies</p>	<p>Policy dialogue and analysis on universal health coverage (UHC) Supply side availability and readiness Human Health Resources HIV/AIDS Survey HIV/AIDS Economic Analysis Double Burden of Malnutrition Total Sanitation and Sanitation Marketing Urban Wastewater Management TA Water and Sanitation Financing Program Political Economy of Water Tariffs Structure Assessment for Water Financing Facility Lampung Water Project TA IFC advisory services for Umbulan Water project</p>	<p>AusAID, The Netherlands, Singapore Cooperation Enterprise (SCE), UNAIDS, UNICEF, USAID/MCC, WHO</p>

***PRO-GREEN – Ensuring Sustainable Development and Improving Disaster Resilience***

101. **Indonesia is well endowed with natural wealth and beauty and is a global epicenter of terrestrial and marine biodiversity. However, this natural wealth is under threat from deforestation, inefficient fossil fuel use, unsustainable marine practices, air and water pollution, and smoke-haze from forest and peat fires.** Forest biodiversity is also threatened by wildlife crime, with a number of iconic species such as tigers and orangutans becoming endangered. At the same time, timber, pulp, and palm oil enterprises contribute billions of dollars annually in economic benefits, creating opportunities and employment, though only some of this is sustainable. This illustrates the complex development choices needed to shift to a more sustainable forest management path. Climate finance and biodiversity premiums offer some potential to channel more resources toward conservation and biodiversity protection. However, turning these potentials into improvements on the ground remains a challenge in terms of policy, governance and implementation.

102. **Pro-Green Results.** WBG engagement is expected to support development results that include enabling the implementation of Indonesia’s REDD+ Strategy, protection for coral and marine resources, and scaling up disaster and climate risk reduction and adaptation measures. Support would be provided through knowledge services and mainly grant financing, along with IFC investments.

### ***Green Growth***

103. **Climate change is recognized as a key threat to Indonesia’s development, especially for the poor who are also disproportionately affected.** Indonesia is highly vulnerable to climate change impacts – sea level rise, changing weather patterns, and increased uncertainty. At the same time, Indonesia’s greenhouse gas emissions are globally significant. Land use change, forestry as well as peat conversion, and fires are the main sources of emissions, contributing more than two-thirds of the total volume of emissions in an average year.

104. **The Master Plan for long term economic development is now a focal point for how “green growth” fits into sustainable development needs.** However, the scope of the challenge is large and success will require action across legal mandates and economic interests from forestry, agriculture, mining, land use and local governments. Choices with long term benefits will still have short term costs that have to be borne. Champions inside and outside of government will need strong economic, social and environmental rationales for the policies they propose.

105. **Since hosting COP 13 in Bali, Indonesia has given priority to climate change actions, with a commitment to reduce emissions by 26 percent by 2020.** GoI has published national action plans and formed a cabinet level National Council on Climate Change. Indonesia is taking advantage of numerous international climate finance options, but stills needs to integrate these opportunities into the development agenda. Indonesia has agreed with Norway on a US\$1 billion dollar performance-based, policy-linked initiative for accelerating action on REDD+. Australia, UK, Japan, USA, Germany and other development partners are contributing additional hundreds of millions of dollars.

106. **WBG engagement is expected to support development results that will help implement Indonesia’s REDD+ strategy and enhance protection for coral and marine resources.** Bank technical assistance has been requested to help design the institutional architecture and financing mechanisms for implementing for REDD+, as well as helping Indonesia to prepare for larger climate finance flows. By FY15 it is expected that a REDD+ Support Facility will be in place with the Bank serving as the advisor, rather than its traditional role as trust fund manager. The Bank would also be ready to implement performance-based or carbon-based payments under the *FCPF Carbon Fund*, the Norway Phase 3 funding, or through bilateral partnerships. IFC has been supporting sustainable forestry practices through advisory services. In one such project, IFC will assist a private sector company in Kalimantan to conduct forest carbon assessment, to allow the company to further build potential REDD+ revenue streams from its sustainable forestry operations. IFC has provided funding to Bio-Carbon, an equity fund established to acquire and expand sustainable forestry operations.

#### **Box 15: A New Partnership to Support Green Growth**

In an innovative knowledge partnership, the Bank is providing advice and analytical support to the Government of Indonesia to help it establish and manage a US\$1 billion fund for **REDD+ (Reducing Emissions from Deforestation and Forest Degradation)**. Indonesia is currently the 3<sup>rd</sup> biggest producer of greenhouse gases in the world, with most emissions coming from deforestation. A new REDD+ Agency and a Fund for REDD+ in Indonesia will support Gol to channel resources to activities consistent with the 2012 National Strategy to cut emissions. Norway has pledged US\$1 billion under a phased program linked to the Government’s ability to

govern and distribute REDD resources. The Global Forest Carbon Partnership Facility and the Forest Investment Program, along with Switzerland, are also supporting this approach.

This REDD+ advisory support is a good example of a potentially new role for the Bank in assisting middle income countries by providing knowledge and expertise based on global best practice. It is also a departure from earlier patterns of trust fund management where the Bank rather than a Government entity acted as trustee. This model, if successful, could represent an approach for many countries that are willing and institutionally able to build local institutions to deliver on climate finance. To deliver on its advisory role, the Bank has assembled a cross-sectoral “virtual team” to bring global knowledge and expertise on international best practices as well as institutional and technical arrangements to help build an Indonesia owned financing instrument for REDD+. This approach helps give confidence to both Government and donors that the funds will be well used.

**107. The move toward green economy thinking creates a strategic opportunity to develop and deliver more integrated policy advice, technical assistance, and capacity building to key government agencies.** Integrating climate efforts into national development plans and budgets will anchor these policies and approaches into central and local governance responsibilities for the long term. The Government of Indonesia has requested the Bank’s assistance to develop a Green Development Support Facility to provide technical assistance and analysis on policy issues and financing needs toward a broader green economic development initiative. For its part, IFC plays a catalytic role in private sector engagement in climate change mitigation and adaptation efforts through its analytical and advisory work. It is seeking investments in geothermal and energy efficiency projects, including mobilizing financing support for such projects; helping to improve environmental and social outcomes in as oil palm; and promoting sustainable forestry practices to enable Indonesia to participate in global carbon markets. IFC is providing advisory services and financing to develop sustainable energy finance projects in the SME sector. It is working with large cities, to introduce Green building codes that mandate the private sector to build more energy and water efficient buildings. The first such code was issued by the Governor of Jakarta in April 2010. WBI supports capacity building on carbon markets and gas flaring.

**108. Conserving biodiversity is also part of the pro-green agenda where the Bank has several strategic investments.** Co-financing from the Global Environment Facility (GEF) is expected to support the ongoing program for coral reef rehabilitation and management (*COREMAP*), a 15-year commitment to stewardship and promoting governance at village, district and national levels. The *Aceh Forest and Environment Project (AFEP)*, nearing completion, supported the largest contiguous forest area in Sumatra. Further engagement would support the GoI and NGO partners to access grants or low-cost financing for conservation and environmental activities, including development of a GEF-financed biodiversity project for protecting habitat and tigers in Sumatra.

**Box 16: Green Growth Results, Instruments and Partners**

**Pro-Green Development Results: Implementing of Indonesia’s REDD+ strategy and improving protection for coral and marine resources.**

<b>Financing/Grants</b>	<b>Knowledge</b>	<b>Development Partners</b>
<u>Ongoing:</u> HCFC Phase Out Project (Montreal Protocol) Geothermal Investment (GEF) Halmahera Conservation COREMAP II (GEF) IFC investment in Medco Power <u>Proposed:</u> Chiller Energy Efficiency (GEF) COREMAP III (GEF)	Forest Carbon Partnership Facility (FCPF), Forest Investment Program (FIP) Indonesia Forest and Climate Trust Fund, TA for REDD/FREDDI AAA on Benefit Sharing Drivers of Deforestation TA Green Growth Support Facility DP Partnership for Market Readiness Carbon Finance IFC advisory services for sustainable palm oil and	AusAID, AfD, CIDA, Denmark, Germany (GIZ), Finland, JICA, The Netherlands, New Zealand, Norway, SECO, USAID

Sumatran Biodiversity (GEF) <u>Under Discussion:</u> IFC investments in geothermal and hydroelectricity sectors	forestry IFC advisory services in Green Banking, Green Buildings Code, and Sustainable Energy Finance as well as in geothermal energy sector.	
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### *Improving Disaster Resilience*

109. **Indonesia is located in one of the world’s most natural disaster prone areas. According to data from the National Disaster Management Agency (BNPB), over the last 30 years, there have been, on average, 289 significant natural disasters per year, with an average annual death toll of 8,000 people.** GoI spends on average between US\$ 300-500 million annually on post disaster reconstruction, with spending for major disasters of up to 6.4 percent of GDP. Following the Indian Ocean tsunami, the GoI allocated more than US\$7 billion for reconstruction in Aceh and Nias. Close to US\$2 billion was spent following the eruption of Mount Merapi in Yogyakarta.

110. **Since the devastation caused by the 2004 Indian Ocean Tsunami, the GoI has made significant advances in preparing for potential future natural disasters.** A comprehensive approach to Disaster Risk Management (DRM) including prevention and preparation, emergency response and post disaster recovery was introduced. Yet Indonesia faces a number of challenges. Among these are insufficient investments in prevention and risk reduction, including a lack of systems to identify risks and manage reconstruction. In addition, BNPB lacks the confidence of line agencies to coordinate and local DRM institutions are unproven. A recent study by the Bank indicates that there is sufficient fiscal capacity and a favorable legal framework for an adequate DRM system, but implementing regulations and upgrading operational capacities remain outstanding. There is ample room for improvement in GoI’s efforts to addressing the differentiated impact of disaster on men and women, girls and boys. Going forward, the Bank will continue to support the Government by facilitating the adoption of disaster risk management approaches that have shown a demonstrable effect on women including through their inclusion in decision making processes.

111. **Development results to be supported by the Bank will include efforts to identify and scale up disaster and climate risk reduction and adaptation measures, including institutionalizing community-based settlement reconstruction.** The basis for the Bank’s involvement in the development of Indonesia’s DRM systems resides in its ability to leverage existing engagements and financing instruments and its access to international best practices that will serve as the foundation to support the building of a disaster and climate resilient Indonesia. With support from the Global Facility for Disaster Reduction and Recovery (GFDRR), the Bank provides technical assistance for risk identification, integrating risk reduction in investment projects, and identifying options for catastrophic risk financing. Disaster contingent components have already been included in several Bank-financed projects. The Bank is also supporting a standing mechanism for multi-donor support in post disaster recovery through a trust fund with an initial contribution of NZ\$2 million in funding from the New Zealand Government. This could represent a major shift from a focus on recovery to an approach focused on preparedness. There has also been some discussion on the use of contingent financing instruments such as the Catastrophe Deferred Drawdown Option (Cat-DDO). In parallel, existing Bank engagements in settlement rehabilitation, infrastructure and education and health that form the core of reactive investment will be further targeted to fully integrate disaster resilience measures. The Bank has also conducted a gender and DRM rapid assessment in *PNPM Urban*, which will inform initiatives under this CPS. During the last few years, IFC supported projects such as *Aceh Shrimp Project* and *Investment Climate Reforms* advisory. It will continue to develop projects towards reconstruction from the Tsunami disaster.

<b>Box 17: Disaster Resilience Results, Instruments and Partners</b>		
<b>Pro-Green Disaster Resilience Development Results: Identify and scale up disaster and climate risk reduction and adaptation measures, including institutionalizing community-based settlement reconstruction.</b>		
<b>Financing/Grants</b>	<b>Knowledge and Convening</b>	<b>Development Partners</b>
<u>Ongoing:</u> Multi Donor Fund for Aceh and Nias Java Reconstruction Fund PNPM support of disaster recovery in Aceh/Nias, Yogyakarta and Central Java <u>Under Discussion:</u> CAT DDO	GFDRR National Risk Assessment Indonesia Disaster Risk Financing Capacity Building module on Post Disaster Needs Assessment and Post Disaster Recover. IFC advisory services for launching Global Index Insurance products	AusAID, JICA, New Zealand

## ***CROSS-CUTTING ENGAGEMENTS - Gender and Governance***

### ***Gender***

112. **Gender is a key cross-cutting theme in the strategic framework of the CPS.** The approach to gender in the CPS is informed by a series of recently completed initiatives. These include the Bank’s internal stock taking of gender-related activities and discussion of how it could address gender issues more effectively (note on “Gender mainstreaming in the World Bank Group in Indonesia”) and the Country Gender Strategy and associated Action Plan and Result Framework developed to coincide with this CPS (see Annex 4). Using the WDR analytical framework (focused on endowment, opportunity and voice and agency), the stock taking exercise has shown that at the national level, the regulatory and planning framework recognizes gender equality as a national priority. As mentioned above, gender is well mainstreamed in the Government Central Planning (the Five year Plans); Indonesia has a Ministry of Women’s Empowerment and Child Protection to coordinate mainstreaming efforts across government and provide support to implementing agencies; and the Ministry of Finance has adopted best practice legislations such as requiring that budget requests from technical Ministries be drafted with a gender lens. At the same time, implementation has been weak in part because gender-disaggregated data and analysis have not been available. Furthermore, at the sub-national level, attention to gender equality is uneven and implementation is often undermined by weak execution and reporting capacities.

113. **Despite tangible progress, persistent gender disparities remain.** Gender parity in enrollment rates has been achieved at all levels of education but persistent gender disparities remain but with evidence of gender streaming. As noted, maternal mortality rates remain relatively high for Indonesia’s income level and women’s voice in the public domain remains relatively weak; while Indonesia’s female labor force participation rate increased from around 45 percent in 1980 to about 55 percent in 2008, it still remained below the 70 percent average for the region; although there is no difference between men and women’s consumption based poverty rates and poverty rates amongst female-headed households are lower than male-headed households, the overall pace of poverty reduction is slower for female-headed households.

114. **Women still earn less than men in all sectors, are more likely to work in the informal sector and constitute the majority of unskilled migrant laborers.** Gender gaps in wages in the service, industry and agriculture sectors in Indonesia are among the largest in the region. The important socioeconomic variations in Indonesia are that urban educated women have higher returns than men with the same education, while less-educated women at the bottom end of the wage distribution face the biggest wage gap. Enterprise surveys also suggest that, within the same firms, women are more likely than men to be temporary workers. While female-owned and managed enterprises tend to be less capitalized and operate in less remunerative sectors. Further, Indonesian

women are disproportionately more excluded from formal financial services than men. *The World Bank Access to Finance Survey 2010* and *Migrant Worker Survey* found that women are less likely to borrow, and when they do so, they are more likely to borrow informally. Women are also less likely to enroll in life insurance, asset insurance or private health insurance than men.

**115. The World Bank Group has been working actively with the Government on programs to help remove barriers to gender equality.** Key activities include (i) consultations with development partners, NGOs, academia, policy institutes and government around gender equality and how best the World Bank might contribute; (ii) collaboration with other development partners in producing set of policy briefs, which collectively provide a country gender assessment; (iii) development of the relationship with Ministry of Women's Empowerment and Child Protection; (iv) hosting of a 2012 WDR consultation event and completing Indonesia's case study; (v) stock taking of gender-related activities across the country program and (vi) drafting the country gender strategy.

### ***Governance and Anti-Corruption***

**116. Over the past decade, the Indonesian government has made strides toward improved public accountability.** Governance and anti-corruption reforms have featured in the programs of successive governments. Freedom of the press has been enhanced; authority was devolved to the regions; checks and balances between the executive, legislative and judicial branches were strengthened; the role of security forces was redefined; direct elections for President and for regional heads were mandated; and an institutional framework, including the creation of Anti-Corruption Commission (KPK) was developed. Civil society played an important role in driving these changes. Indonesia has also seen the enactment of fiscal laws and the rearrangement of key economic ministries, many with WBG support, designed to improve budget and financial management systems (including public procurement, business regulation, auditing, and monitoring and evaluation). Nevertheless old problems remain. Central government institutions struggle to coordinate effectively, bureaucratic incentives are misaligned and capacity lags. In the private sector existing players retain market power and use it to influence political processes. In addition, new challenges are increasing; money politics is on the increase, decentralization has increased coordination issues and reforms in the judiciary, the police and the attorney general's office (AGO) have been slow.

**117. The governance and anti-corruption approach in the Country Partnership Strategy is led by the Indonesia Governance and Anti-Corruption (IGAC) Team, composed of engagement leaders from all the sectors and the Indonesia GAC secretariat.** The IGAC team will be responsible for developing and guiding a strategic approach that effectively integrates governance in the work of the WBG in Indonesia.

**118. International accountability mechanisms are becoming an increasing factor in Indonesia's governance.** Leadership of the Open Governance Partnership, adoption of the *Extractive Industries Transparency Initiative (EITI)*, Reducing Emissions through Deforestation and Degradation (REDD+), as well as the UN convention against Corruption (UNCAC) represent significant steps in increasing the transparency of the GoI's commitment to good governance and an increased focus on monitoring. The World Bank will support these efforts as part of our governance engagement since they provide much needed support for local institutions and communities.

**119. The country governance program is organized around four pillars 1) increasing transparency and efficiency in public financial management, 2) increasing the efficiency of public service delivery, 3) strengthening checks and balances, and 4) promoting open, transparent competition.** This cross cutting focus will be used to improve coordination and provide strategic focus. In the public financial management the focus is on effective and transparent budget

and tax systems (*SPIRIT, SPAN, PINTAR*). The engagements around improved public service delivery focus on improved systems (including procurement) and citizen feedback mechanisms (*DAK, PNPM, BOS*). In the checks and balances area the GAC team is partnering with Indonesian institutions leading the fight against corruption (e.g. the KPK) and engaging with CSOs to reinforce these efforts. To promote open and transparent competition the Bank is focused on resources, including through EITI and REDD+, support for regulatory framework and reforms in the financial sector.

120. **The Bank's governance approach will build on the Indonesian Government's Open Government Partnership (OGP).** The OGP should serve as a powerful governance tool to promote transparency, increase civic participation, improve service delivery, reduce corruption, and harness new technologies to make government more open, effective, and accountable. In September 2012 Indonesia became co-chair of this initiative. The Bank's engagements on PFM and improved statistics are designed around data as a public good, while community driven development, sub-national development, health, education, water and sanitation, have substantial social accountability elements. The Bank will leverage the ongoing engagement to create a space for citizen participation through the recently announced *Global Partnership for Social Accountability (GPSA)*.

121. **IFC is promoting enhanced standards of governance in the private sector operations in the country.** Toward this goal, IFC launched a new corporate governance advisory services initiative in Indonesia in 2012. The strategy will be to work with regulatory agencies to establish model corporate governance practices, to work with selected private sector companies to enhance their performance, as well as to host events to highlight enhanced corporate governance practices.

122. **To safeguard against the risk of corruption in the Bank's own operations, anti-corruption action plans are required.** First introduced in 2005, ACAPs are mandatory in project design and implementation. By the end of 2011, the ACAPs traditional components (access to information, mitigation of collusion, mitigation of fraud, participation of external parties in oversight, grievance handling, and sanction/remedies), are gradually evolving. In particular increasing emphasis is being placed on improved reporting and oversight; improved public complaint handling with Bank program efforts serving as the basis for ministerial initiatives (i.e. beyond the project).

## VI. DELIVERING THE WORLD BANK GROUP PROGRAM

123. **This CPS is a continuation of the World Bank's long-term engagement in Indonesia's development.** It is focused around and consistent with the Government's agenda. The Indonesia program is organized around a set of engagement areas and delivered through a mix of lending and knowledge products often supported by close collaboration with development partners.

### *Financing*

124. **IBRD financing services are expected for priority public programs averaging up to US\$1.1 billion annually over the CPS period, subject to macroeconomic performance, momentum on key reforms and the quality of program implementation, and IBRD's lending capacity.** Lending would continue to decline as a share of Indonesia's GDP and its overall financing requirements. Actual lending amounts in any particular year would be determined by borrower demand and can vary depending on overall exposure, but would remain below the single borrower limit. The overall exposure would be determined not only by the level of lending (commitments) but also by the speed of disbursements, choices regarding exposure management, decisions on the possible extension of contingent financing provided by the US\$2 billion *PERISAI* DPL DDO, and possible adjustments to lending volumes of proposed policy-based operations without affecting the integrity and objectives of the CPS.

125. **IFC is expected to continue its strategy of helping Indonesia reduce the impact of climate change, create high quality jobs, increase rural incomes and promote sustainable urbanization.** This includes programs to expand access to financial services for the underserved population, establish resource efficient and globally competitive manufacturing, increase access to infrastructure, particularly in frontier areas, strengthen commodity-based supply chains, such as agribusiness and forestry, and improve investment climate. In these areas, IFC will seek investments of US\$300-500 million per year, with advisory services of about US\$23-\$25million annually. IFC Advisory services for PPP transactions will continue to provide support as needed.

126. **MIGA has begun to increase its activities in support of Indonesia.** MIGA's approach to operations in Indonesia would be consistent with its global strategy focus, which focuses on conflict affected and fragile economies; South-South transactions; IDA countries; complex infrastructure and extractive industries projects. There are currently two active projects in Indonesia, with guarantees totaling US\$257 million, in the power and mining sectors. Its *Weda Bay Nickel* operation supports a complex extractive investment that carefully addresses social and environmental concerns. Moreover, it is an innovative effort to engage mining operations upstream during the exploration phase to better promote social benefits and environmental safeguards.

#### ***Collaboration with Development Partners***

127. **The Bank's engagement is augmented by strong collaboration with development partners.** Delivering results in a country as large and diverse as Indonesia requires working with a broad range of multilateral and bi-lateral donors, as well as NGOs. This includes co-financing of investment and policy lending, including active participation in policy dialogue, as well as donor-funded grant programs that run alongside Bank financed operations. Indeed, this collaboration has strengthened the Bank's engagements across the CPS. Most DPLs are co-financed, as are several operations and a large number of ESW and TA are supported by grants. As a critical component of the CPS business model, strategic use of trust funds increase the reach of CPS objectives particularly as most of these funds are multi-year and thus provide, at times, a more stable source of financing than the Bank's own budget. These collaborations are different across the engagement areas and depend on the nature of the donor relationship and needs of Government. Moreover, the Bank remains pledged to the Jakarta Commitments, which provide a set of country-specific principles to enhance alignment of financial and advisory support in line with the Paris Declaration.

### **Box 18: Trust Funds: A Platform for Results and Innovation**

A hallmark of the Indonesia program is the extent to which financing for programs, projects, knowledge and innovation have been financed by non-conventional sources. Australia, the Netherlands, EC, US, UK and Canada have been particularly generous contributors to Indonesia's development in this regard. Donor support, largely through country-specific trust funds, has allowed the Bank in Indonesia to leverage IBRD-financed projects and programs and scale up coverage to reach more people. Additionally, the Bank acts as a platform for donors and GoI to work cooperatively to support experimental approaches across our engagement areas. This includes cutting edge approaches to poverty monitoring, new ways of working with CSOs to reach marginalized groups, and experimenting with technologies and partnering with the private sector to support schools and rural infrastructure.

At the same time, as Indonesia evolves, so does the way that trust funds are used and governed. Where typically the Bank acted as "Trustee", GoI is increasingly interested in administering trust fund financing itself, but looks to the Bank for technical expertise in fiduciary requirements and implementation. Donors too are looking for evolving governance models but without losing the Bank's fiduciary oversight which provides confidence that monies will be well spent. Current discussions with GoI, donors and the Bank on REDD+, the US-financed MCC (on MDG), and disaster preparedness demonstrate that innovative structures and new roles for the Bank are possible. A successful REDD+ (see Box 15) could set the direction of many other Bank interventions in Indonesia and elsewhere. Working to fulfill the Government's longer-term strategy for PNPM/PSF sustainability means that the structure and staffing of PSF, one of Indonesia's largest trust-funded programs, will evolve over the next several years with the Bank taking an increasingly smaller role. The lessons from the successful Aceh and Nias MDF are helping to inform GoI and governments around the world to prepare for disasters rather than only react when they hit. (See Annex 7 on Trust Funds)

### ***Portfolio Management***

128. **The close alignment of the Partnership Strategy with Government priorities and programs and more proactive and coordinated management, including for trust funds, has benefited portfolio performance.** The share of problem projects, which used to account for one-fourth of operations, has been brought down to around 15 percent in recent years, and now compares favorably to the performance of other large, middle-income IBRD borrowers. Projects at risk tend to be smaller, so the volume of commitments at risk is less than 10 percent. Continued strong support will be provided to ensure compliance with Bank fiduciary and safeguard policies. Lessons from ongoing projects are helping new projects ensure adequate disbursements, better results on the ground, and fiduciary oversight.

129. **The performance of trust funds has also benefited from a more coordinated approach to their mobilization and management.** All trust funds are now vetted to ensure alignment with country priorities and integrated into the program's overall financial and human resource planning. Quality review processes mirror those of Bank operations. Larger trust funds benefit from being incorporated into the Bank's general operational management and portfolio reviews. (See Annex 6).

130. **The Bank is responsive to the demand for higher performance standards in its project preparation and portfolio management.** Indonesia has access to a growing number of sources for meeting its financing and technical assistance needs, and the Bank must continuously challenge itself to stay relevant. In response, the Bank is aiming at quicker response times in the preparation and implementation of projects, more flexibility in its lending program, simplification of World Bank Group procedures, greater alignment with the country's own systems, and stronger tailoring of the analytical and advisory products to the needs and timeframes of the Government. As part of the utilization of national procurement systems, the Bank would explore quick win initiatives including advance procurement and web-based procurement plan monitoring.

### *Sharing Global Development Solutions*

131. **Indonesia has assumed a growing role in promoting South-South Cooperation through peer-to-peer knowledge exchange.** Most recently, in July 2012, it hosted a High-level meeting "Towards Country-led Knowledge Hubs" attended by over 300 senior participants from 46 countries. It has also played a key role in securing the inclusion of "knowledge sharing" as one of nine pillars in the G20 Development Consensus. Moreover, it pledged a US\$1.5 million contribution to the Bank's South-South Knowledge Exchange facility.

132. **Indonesia's leadership on South-South knowledge exchange is further demonstrated by its strong roles as a provider and recipient of "how-to" development knowledge, often in collaboration with donors or partnering countries.** Indonesia has shared its expertise in, inter alia, agriculture, microfinance, disaster management, and community driven development with states in Asia, Africa, and Latin America and the Caribbean. Indonesian institutions have received knowledge through peer-to-peer exchanges in agriculture, urban development, and other key fields. In addition, the Government has participated in diverse multidirectional learning initiatives, including regional dialogues on aid effectiveness and triangular cooperation with ASEAN countries. JICA has been a major partner in financing and supporting Indonesia's South-South agenda.

### *Results Management Framework*

133. **The CPS seeks to leverage WBG activities in support of the Government's development and reform programs.** While this approach renders the measurement of the direct impact of WBG activities even more difficult, it reinforces the objective of supporting Indonesia's efforts at policy and institutional transformation. The appended results framework is furthermore designed to reflect the flexibility inherent in the CPS' approach: the variations across different engagements in the framework are indicative of the different stages of maturity, with some partnerships and programs being well advanced with more clearly definable and measurable targets, while others are at relatively early stages. The results framework will be monitored and updated periodically. The dialogue with BAPPENAS around program results would be broadened to include other key partners including the MoF. These assessments will serve as guidelines for any necessary course corrections and feed into the CPS Progress Report scheduled for Board presentation in FY14.

### *Managing for Risks*

134. **Indonesia remains vulnerable to economic shocks.** Indonesia's growth performance has been resilient to recent global economic uncertainty, its economic fundamentals remain solid and the Government is in a better position to address economic risks than in the past. Nonetheless, the risk of external economic shocks remains. Indonesia's growth over the past three years has been driven by its export performance. A global growth and trade slow-down would translate into lower Indonesian growth as direct exports to affected markets fall, indirect exports (commodities) to the region fall and international markets remain volatile. Depending on the magnitude and duration of the slowdown, this could also slow job creation in Indonesia. Another potential risk could come from a sudden reversal of financial assets held in the Indonesian stock and bond markets, resulting in exchange rate volatility and inflation. Increasing food prices would particularly hurt the poor.

135. **Natural disasters can inflict significant economic and social costs.** Indonesia remains vulnerable to a broad range of disruptive natural disasters, including earthquakes, volcano eruptions and flooding. Indonesia's experience has contributed to greater disaster preparedness over time; and it is considering a CAT-DDO to help maintain expenditures in case of a natural catastrophe.

136. **A comfortable economic outlook may engender a sense of complacency and limit the scope for reforms.** Particularly in the run-up to the 2014 elections political parties may be less willing to pursuing difficult reforms that could be unpopular. Vested interests may seek shelter from competitive pressures under the mantle of economic nationalism. At the same time, elections will also put pressure on political leaders to deliver results, especially in areas such as infrastructure development, governance reform, and the investment climate. During the transition to a new administration, the Bank would use the DPR and sector engagements notes as a basis for dialogue.

137. **Notwithstanding the ongoing peace-building process in Aceh and the maintenance of political stability throughout the archipelago, tensions could resurface and regional disparities could be accompanied by local conflicts.** While these do not compare with countries that are fragile and conflict affected, the past year has seen an increase in the number of instances of violence and intolerance, primarily on Java, which have highlighted the importance of an unambiguous government stance to uphold laws and protect minorities.

138. **Capacity to develop and implement complex institutional reforms, particularly at the local level, may be undermined by lack of coordination as well as entrenched organizational behaviors.** To help address some of these implementation risks, the CPS is designed around institution-building which offers the Bank's convening services, technical assistance and analytic support for the design and implementation of the government's own reforms.

139. **Governance and corruption risks remain significant.** Through its support for government-led programs there may be a risk of an impact on the Bank's reputation, as for IFC and MIGA through their choices of business partners. To mitigate this risk, the World Bank Group will only engage where it has confidence in its counterparts, where the authorities are committed to reform, where effective anti-corruption measures exist, and where it can build long-standing partnerships. As part of its engagement, the World Bank Group supports measures to strengthen accountability and build fiduciary capacity in counterparts. For the Bank's own portfolio, strong governance and anti-corruption action plans and close supervision remain important, including for trust-funded activities.

### Annex 1: Indonesia CPS FY13-15 Results Matrix

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<b><i>Pro-Growth – Promoting Prosperity</i></b>				
<p><b>Connectivity</b></p> <p>Accelerate growth and enhance equity through domestic connectivity</p>	<p>Lack of policy coordination to implement policy reforms in the connectivity agenda</p> <p>Regulatory barriers that inhibit better provision of connectivity services</p> <p>Inefficient use of public finance and management practice for provision of connectivity infrastructure</p> <p>Private sector participation not being leveraged for the agenda of growth and connectivity</p>	<p>1. Improved ranking of Indonesia's Logistics Performance Index.</p> <p><i>Baseline:</i> in 2012 Indonesia ranked at 59</p> <p>2. Increase access for broadband internet services for population.</p> <p><i>Baseline:</i> 5 percent in 2011</p> <p><i>Target:</i> 30 percent by 2015</p> <p>3. Reduced cost and time to export and import, as indicated in the Doing Business Survey</p> <p><i>Baseline:</i> 2012: Export: 17 days, US\$644 per container; Import: 27 days, US\$660 per container</p>	<p>-Introduction of a set of domestic logistics indicators for monitoring progress in logistics policy reform.</p> <p>-Effective functioning of the Connectivity Working Group and National Logistics Team.</p> <p>-Improved services in domestic cargo shipping.</p> <p>-Increased private sector participation in logistics and telecom/ IT services</p>	<p><b>Financing:</b> Connectivity DPLs, IFC investments in private sector projects to enhance connectivity (i.e. in areas of logistics, telecom, financial infrastructure)</p> <p><b>Knowledge:</b> analytic and advisory work funded by AUSAID and MDFTIC (Dutch, Swiss, and USAID); ESW on logistics and trade facilitation; policy notes on logistics, regulatory reform, managing openness; facilitate knowledge sharing through workshops and field visits; engage local think-tank, universities and private sector organizations to participate in policy dialogue; Development Policy Review</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p><b>Competitiveness</b></p> <p>Enhance competitiveness through improved environment, including open, competitive, sustainable and inclusive markets for business to expand and increase productivity</p>	<p>Bottlenecks and underdeveloped in trade logistics are hurting profitability and undermining firms' productivity; complex regulatory environment inhibits private sector investment; time consuming and costly procedures to establish companies, and clear imports; weak coordination among government institutions for investment policy; pressure to use protectionist measures to protect domestic vested interest; private sector companies are undertaking projects which will not be cost-competitive versus global competition in their target markets; policy decisions are taken without sufficient analysis of alternatives and of their costs and benefits inadequate infrastructure and incentive regime have limited capacity and have not encouraged innovation in private sector.</p>	<p>1. Policy framework adopted to improve competitiveness through better trade logistics, <i>Baseline</i>: Score in 2012 Logistics Performance Indicators (LPI) for logistics quality competence of 2.85 for border management of 2.53, <i>Target</i>: Improved 2014 LPI score on logistics competence of 3.00 and border management of 2.7, National Single Window acting as the single reference for cross-border trade and introduction of single sign-on for all participating agencies</p> <p>2. Improved regulatory environment, interagency coordination, and consultative process in business environment that affect competitiveness of Indonesia's private sector, facilitate innovation and investment facilitation and services. <i>Baseline</i>: 50 days to start a company; 570 days to enforce contract; weak consultative processes prior to issuance of regulations; uncoordinated investment policy; weak investor inquiry handling <i>Targets</i>: 30 days to start a company; less than 500 days to enforce contract; coordinated investment policy and improved transparency in regulatory making; improved performance of investor inquiry handling</p>	<ul style="list-style-type: none"> <li>- Coordinated implementation of the National Logistics Blueprint</li> <li>- Development of Standard Operation Procedure and improvement of the capacity of BKPM (Investment Coordinating Board) Investor Relation Unit to handle investor inquiries</li> <li>- Development of the legal framework to streamline current procedures and reduce delays in small claim resolution</li> <li>- An implementation plan for reforms to reduce the cost of starting a business is adopted</li> <li>- Strengthened interagency coordination and public consultation around business regulatory process.</li> <li>- IFC supporting companies which are cost-competitive in the exports markets or are cost competitive with imports in domestic markets</li> </ul>	<p>Connectivity DPLs; Financial Sector and Investment Climate Reform And Modernization (FIRM) DPL; IFC supporting companies which are cost-competitive in the exports markets or are cost competitive with imports in domestic markets</p> <p><b>Knowledge:</b> AAA supported by MDFTIC to drive policy reforms in logistics and trade facilitation, enhance reform agenda to improve the business regulatory environment; IFC Advisory Services – Investment Climate Program (sub-national <i>Doing Business</i>; corporate governance; financial infrastructure) Innovation, Investment Generation Technology, and Entrepreneurship; Report and policy dialogue on Indonesia's manufacturing sector; Report and policy dialogue on managing openness; Development Policy Review</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p><b>Financial Sector</b></p> <p>Promote the development of a stable, efficient and inclusive financial sector in Indonesia in order to foster accelerated economic growth, reduce poverty and strengthen economic competitiveness on a sustainable basis.</p>	<p>Banks intermediation has improved but it is still low to the size of economy; Bank loans need to increase further to support economic growth</p> <p>Non-Bank Financial Institution (NBF1) assets need to growth further to increase efficiency and reduce risk in financial sector and create long-term domestic financial resources/savings</p> <p>Persistent issues of limited access to finance for underserved groups (MSMEs and households)</p> <p>Indonesia's new Financial Services Authority( OJK) must function effectively as the integrated financial sector authority; the transition period has to be managed properly</p> <p>The financial safety net framework and legal basis for financial crisis management</p>	<p>1. Maintain financial sector stability, deepened financial sector and strengthened private sector through: improved regulatory and supervisory frameworks; maintained soundness of banking sector.</p> <p><i>Baseline:</i> Key financial ratios of banks (Capital Adequacy Ratio (CAR), Non Performing Loan ratio (NPL), Net Interest Margin (NIM) are sound and LDR (Loan to Deposit Ratio) is 75% ( Dec. 2011);</p> <p><i>Targets:</i> Banking financial indicators remain sound and LDR at minimum 80%;</p> <p>2. Growing capital market and NBF1 and a higher access to formal financial services by the Micro-SMEs and underserved populations</p> <p><i>Baseline:</i> 41% of households have access to bank accounts; banking loan to SMEs is 50% (2011), disbursed KUR (credit program for SME) amounted to IDR 63 trillion (2011)</p> <p><i>Targets:</i> Bank loans to SME continue to grow and are maintained</p>	<p>-Bank financial ratios remain sound: CAR higher than 8%, NPLs do not exceed 5%</p> <p>-Bank lending increasing by twice GDP growth rate annually; LDR remains at minimum 80%</p> <p>-NBF1 continues growing and maintains 20% share of financial assets; amount of funds raised from equity and bonds market increases annually</p> <p>- Continued increase of KUR annual disbursement; increased in account holders of Tabunganku ( "no frills" basic savings account product)</p> <p>- OJK is operational and the Financial System Stability Coordination Forum is functioning.</p> <p>- Infrastructure Finance Facility is providing long term financing for infrastructure projects</p>	<p><b>Financing:</b> FIRM DPL; IFC investments in banks, insurance companies, NBFIs and private equity funds. Expanding support to mid-sized banks that mostly serve the SME market.</p> <p><b>Knowledge:</b> Financial Sector Policy dialogues; Financial Sector Assessment Program (FSAP); Microinsurance Marketplace; Review on KUR (Kredit Usaha Rakyat); Deposit Insurance Company (LPS); Improving access to Financial Services in Indonesia Empowering Female Migrant Workers; support to establish OJK; Fiscal Policy Office on developing a crisis management protocol ; Saving and Loan Cooperatives; SME access to Islamic Finance; Capacity building of Secretariat of Financial System Stability Forum; IFC Advisory Services – Access to Finance Program in the areas of SME</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
	<p>need to be strengthened;</p> <p>Limited local infrastructure financing capacity</p>	<p>at 50% of total bank loans; proportion of households with savings account increased</p>		<p>banking (women in business), mobile banking, and housing micro finance, as well as in Investment Climate Program including ongoing support to Credit Bureau and Moveable Collateral registry.</p>
<p><b>Infrastructure</b></p> <p>Increase the level and efficiency of public and private investments in infrastructure to meet needs and strengthen competitiveness.</p>	<p>Lack of investment in infrastructure, which has not kept pace with economic growth; investment in infrastructure fell from about 6% of GDP in 1997 to 2% in 2000, but recovered to about 4% of GDP by 2011</p> <p>Indonesia's infrastructure delivery requirements are massive, and beyond what can be supported through public investment alone</p>	<p>1. Increased effective km of national roads maintained and developed.</p> <p><i>Baseline:</i> 1500 km maintained and 3000 km developed in (2005- 2009)</p> <p><i>Target:</i> Increase by 25% /year (2011-2015)</p> <p>2. Reduced power infrastructure bottlenecks to meet demand and increase access</p> <p><i>Target:</i> Reduce power supply interruption time per customer from 5h/year to 2h/year (2012-2015).</p> <p>3. Increased private investment in infrastructure through the PPP framework</p>	<p>- Incentive framework for PLN introduced to increase efficiency and reduce subsidy requirement</p> <p>-Government Viability Gap Funding mechanism established and operational</p> <p>- Increased capacity of power transmission substations by 14%</p> <p>-At least one PPP transaction in bulk water</p>	<p><b>Financing:</b> 2nd Eastern Indonesia Region Transport; Strategic Road Infrastructure; Western Indonesia Roads Improvement project, Road Asset Preservation; Connectivity DPL; Transmission Development I&amp;II, Renewable Energy for Electrification); Medium Hydro; Infrastructure Finance Facility; Geothermal Clean Energy Investment; Infrastructure Guarantee Fund; Investments by IFC in renewable/ clean power, water and sanitation, ports, shipping and logistics, telecom, oil and gas</p> <p><b>Knowledge:</b> Assessment of Road Construction Industry; Roads and Railways PER;</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
				Advisory service on energy service and subsidy; PPP Framework and Policy; Viability Gap Financing; Low-income Housing Policy and Finance; Geothermal Power Supply; IFC Advisory services for structuring and bidding Public Private Partnership projects.
<p><b>Local Government</b></p> <p>Strengthen local government institutions to improve accountability and increase the level and of impact public spending on service delivery and support metropolitan areas and medium-sized cities to improve infrastructure</p>	<p>Insufficient coordination and leadership of the decentralization agenda at the central level; a limited and unclear role for the provinces</p> <p>A fiscal decentralization framework that does not provide appropriate incentives for increased and higher quality spending</p> <p>Weak capacity of local governments (LG) to manage assets and service delivery</p>	<p>1. Improved fiduciary, social and environmental management as well as technical performance of LGs in the delivery of basic services financed using DAK transfers.</p> <p>2. Improved capacity of research institutions, media and CSOs to assess and monitor sub-national PFM (PEACH): enhanced capacity of local institutions to analyze and monitor public expenditure and PFM and to demand better local government performance in these</p>	<p>-PEACH transparency and accountability components enhanced and expanded</p> <p>-PEACH expanded to additional provinces</p> <p>- Output based disbursement approach pioneered under the LGDP/DAK Reimbursement.</p> <p>-Government financing and technical assistance framework for engagement with metropolitan areas in place</p>	<p><b>Financing:</b> Local Government and Decentralization Project (DAK) I&amp;II; Urban Sector Development and Reform Project (USDRP)</p> <p><b>Knowledge:</b> Report on Urban Agglomerations; PEACH PERs; PEACH PFM Technical Assistance and Capacity Building activities; Sulawesi Development Diagnostic Report; Subnational Workshops on</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
	<p>An inadequate framework for and insufficient financing of multi-year large scale infrastructure programs</p> <p>Lack of coordination in planning, management and investment at the metropolitan and regional in larger urban agglomerations</p>	areas		<p>Gender responsive Budgeting and Planning</p> <p>IFC Advisory services for Sub-National Doing Business reforms</p>
<p><b>Macroeconomic and Fiscal Management</b></p> <p>Strengthen central government capacity for implementing contingency financing, crisis management and quality evidence-based macro and fiscal policy making and</p>	<p>Indonesia's fiscal financing position remains vulnerable to changes in investor sentiment.</p> <p>Despite Indonesia's strong recent economic performance, significant challenges in fiscal and macro policy remain in terms of the allocation of spending (with subsidies accounting for almost one quarter of central government spending in the proposed 2013 Budget) and its efficiency</p>	<ol style="list-style-type: none"> <li>1. Enhanced Government ability to meet its financing needs and maintain critical public expenditures, as measured by continued access to markets, and level of maintenance and capital expenditures.</li> <li>2. Budget allocations informed by monitoring and evaluation. Increase in the number of line ministries and agencies reporting through BRISA (the monitoring and evaluation system) from a baseline of zero in FY11.</li> </ol>	<p>-Indonesia maintains continued access to market financing (meeting the targets in its 2012 Financing Plan)</p> <p>-In the event of a crisis the Government is able to use provisions in the Budget Laws to revise expenditures and/or financing sources under streamlined parliamentary approval process</p> <p>-Development and usage of medium-term forecasting tools which integrate macro and fiscal outlooks</p> <p>-Improved mechanisms for policy based review and</p>	<p><b>Financing:</b> Program for Economic Resilience, Investment and Social Assistance in Indonesia (PERISAI); INSTANSI DPLs; STATCAP-CERDAS</p> <p><b>Knowledge:</b> Development Policy Review; Support for Enhanced Macro and Fiscal Policy Analysis institutional strengthening program; Analytical and Capacity Support to Improve Expenditure and Revenue Policy including public expenditure review analysis; resource revenues policy and administration technical assistance; Indonesia</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
			reallocation of budgetary spending	Economic Quarterly report
<p><b>Strengthening the Public Sector</b></p> <p>Strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures.</p>	<p>The budget system is input-based, excessively detailed and inflexible and strictly annual, hampering implementation of multi-year projects</p> <p>Controls in budget execution processes are generally inadequate and could jeopardize gains from improvements made in other areas of PFM</p> <p>The public procurement system is deficient as is the capacity of procurement practitioners; collusion and corrupt practices in the bidding process continue to exist, causing leakages and losses in the system</p> <p>Increasing demand for improved quality, timeliness and responsiveness of data</p>	<p>1. Strengthened multi-year perspective in fiscal planning, expenditure policy and budgeting <i>Baseline:</i> PEFA PI-12 rating C+ in 2011 <i>Target:</i> improve PEFA PI-12 rating to at least a B+ by 2015</p> <p>2. Number of line ministries receiving unqualified opinions for their annual financial statements: <i>Baseline:</i> 63% of Ministries and Agencies in Financial Statement. <i>Target:</i> 85% of Ministries and Agencies in Financial Statement for FY2013</p> <p>3. Implement new Financial Management Information System in all 177 Treasury Local Offices</p>	<p>-Increased correlation between forward estimates and annual budgets.</p> <p>- Professional association of internal auditors and drafts of (a) code of ethics and (b) internal audit standards established</p> <p>-New regulations for adoption of accrual based accounting policies and chart of accounts issued.</p> <p>- Single public financial management information system for national government provides reliable, timely information on all stages of budget execution, including commitments, in readiness for move to accrual accounting in 2015</p>	<p><b>Financing:</b> INSTANSI DPLs; Management and Revenue Administration Project (GFMRAP); Project for Indonesia Tax Administration Reform (PINTAR); Scholarships Program for Strengthening Reforming Institutions Project (SPIRIT); STATCAP-CERDAS</p> <p><b>Knowledge:</b> Public Financial Management (PFM) Multi Donor Trust Fund (PFM MDTF);</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
	availability are hampered by poor ICT infrastructure and data management and inefficient business processes			
<b><i>PRO-JOBS – Enhancing Skills and Technology, and Improving Social Protection</i></b>				
<p><b>Education</b></p> <p>Provide good quality education to all Indonesians and to produce a smart and competitive workforce. Enhance research and development, science and technology</p>	<p>Despite significant increases in education spending the quality of education remains low</p> <p>Low teacher competency</p> <p>Inefficient allocation of public education spending</p> <p>Weak management of education at the district and school level under incomplete decentralization framework</p> <p>Weak links between education sector and labor market including skill mismatches and weak firm</p>	<p>1. Improved education quality and performance of teachers; Increased number of basic education teachers meets academic qualification mandated by the Teacher Law</p> <p><i>Baseline (2010):</i> 41% of teachers in primary and junior secondary schools hold S1 degree or more.</p> <p><i>Target:</i> 70% of primary and junior secondary school teachers hold S1 degree or more.</p> <p>2. Improved public R&amp;D human resource capacity.</p> <p><i>Target:</i> Masters or PhD degree holders in public research institutes (LPNK) increases from 15% to 17%</p>	<ul style="list-style-type: none"> <li>- Increase in the number of pre-service teacher training programs accredited</li> <li>- Nationwide implementation of revised policies, plans and procedures for continuing education and career development of teachers</li> <li>- Development of a skills training fund supported by government and the private sector</li> <li>- Guidelines for district level performance and equity based school grants developed</li> <li>- Staffing standards for basic</li> </ul>	<p><b>Financing:</b> BOS-KITA II, BERMUTU; Indonesia Higher Education for Relevance and Efficiency (IMHERE); Research and Innovation in Science and Technology Project (RISET); Sustainable Management of Agricultural Research and Technology Dissemination Project (SMARTD)</p> <p><b>Knowledge:</b> The Role of Politics and Evidenced Based Policy Making: The Case of Teacher Reform ing Indonesia; Education PER; Indonesian School Grants Program Review; Local</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
	<p>based training</p> <p>Indonesia ranks poorly on competitiveness and knowledge economy indices</p> <p>Research and Development (R&amp;D) outputs remain low compared to other countries in the region</p>	<p>LPNK institutional assessments completed and reform milestones set</p>	<p>education schools revised</p> <p>-Strengthened capacity of RISTEK management to enhance the quality and relevance of strategic industry-research consortium funding</p> <p>-A new competitive research funding system for RISTEK designed</p>	<p>Governance Capacity Assessment Survey; Survey Video Study; Projections and assessment of skills demand; Higher education studies on funding modalities and labor market linkages, Infrastructure assessment, Accreditation and quality assurance and equity and access to higher education; TA on skills development fund; Support for 2015 five year development; Strengthening Public Financing of Indonesia's Knowledge Sector; Building Innovation Capacity in Clean Energy in Indonesia.</p>
<p><b>Social Insurance</b></p> <p>Provide universal coverage of social insurance to protect workers and the poor from adverse life events or external shocks through the five national social insurance (SI) programs outlined in the SJSN (national social security</p>	<p>Only 50% of the population currently has health insurance and only about 12% of the population has any kind of pension, old age savings, death benefit or work accident insurance.</p> <p>Complexity of assuring fiscal sustainability including proper investment of program</p>	<ol style="list-style-type: none"> <li>1. Conversion of Jamsostek to a not-for-profit institution that can administer the SJSN pension and old age savings programs</li> <li>2. Expand membership and improve contribution collection from the formal and informal sectors.</li> </ol>	<p>- Roadmap covering SJSN pension and old age savings programs completed</p> <p>-Design and financing strategy, including investment policy, for SJSN pension and old age savings plans finalized</p> <p>-Legal and organizational transformation of Jamsostek to</p>	<p><b>Knowledge:</b> Advisory services to Bappenas, DJSN (national social security council), the Ministry of Labor, the Ministry of Finance and others</p> <p>Pension and old age savings roadmap</p> <p>Strategy and background</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p>system) Law and the BPJS (national social security administrators) Law, covering all formal and informal sector workers.</p>	<p>assets</p> <p>Need to quickly transform the legal structure and business processes of the administrators</p> <p>Complexity of expanding membership and collecting contributions from the formal and informal sectors and properly tracking those contributions over time</p> <p>Lack of government capacity and experience with managing the risks of SI programs.</p>		<p>BPJS Employment completed</p> <p>-Membership expansion and contribution collection strategy completed</p> <p>-BPJS Employment begins administration of current PT Jamsostek benefit programs for the current covered group</p>	<p>papers on various aspects of the design, financing and administration of pension and old age savings programs, including Jamsostek institutional transformation, membership expansion and contribution collection</p> <p>Background papers on international experience in various aspects of SJSN implementation</p> <p>Computer modeling and analysis of program design alternatives and costs;</p> <p>Development of Policy Notes on various aspects of SJSN</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<b><i>Pro-Poor – Promoting Communities, Protecting the Vulnerable and Improving Health Outcomes</i></b>				
<p><b>Poverty Targeting</b></p> <p>Reduce absolute poverty and improve income distribution through social protection that is based on the family, community empowerment and expansion of economic opportunities of the low income population. From 12% poverty in 2012, Government is targeting for single digits by 2014.</p>	<p>Around 110 million people still live under US\$2 a day (Bank estimate); large number of urban and rural poor due to lack of income and inadequate productive employment opportunities; lack of quality service delivery to poor people; access to early childhood education remains low, particularly for the poor; wide regional disparities (particularly, eastern provinces); poor are vulnerable to shocks such as food price increases, natural disasters</p>	<ol style="list-style-type: none"> <li>1. National shock monitoring system developed and operational.</li> <li>2. Poverty programs management units using the national registry of poor and vulnerable households to identify beneficiaries. <i>Target: 4 programs by 2015</i></li> <li>3. Increased participation in ECED services particularly for the poor <i>Baseline (2010): 47% of 4-6 year olds enrolled in ECED</i> <i>Target: 75%</i></li> </ol>	<ul style="list-style-type: none"> <li>-Design and protocols for shock monitoring system are developed</li> <li>-Data sharing agreements are in place</li> <li>-Memoranda of Understanding (MOUs) in place with implementing agencies agreeing to use the national registry</li> <li>-Conditional cash transfer program (PKH) expansion strategy is approved</li> </ul> <p>Number of poor households receiving conditional cash transfers increased from 720,000 households (2010)</p>	<p><b>Financing:</b> INSTANSI DPL; ECED STATCAP-CERDAS</p> <p><b>Knowledge:</b> AAA supporting Household shock monitoring and response project; integration of poverty reduction programs; social assistance reform; PNPM Rural Economic Impact Simulation; Village Infrastructure Census; Incidence of Benefits of Households</p>
<p><b>Community Development</b></p> <p>Improved local-level (<i>sub-districts and villages</i>) governance,</p>	<p>Community Development through the PNPM program has been expanded to reach over 60,000 villages. Impact</p>	<ol style="list-style-type: none"> <li>1. 2.5m community members participate directly in meetings; 80% beneficiaries feel that project investments reflected their needs; &gt;50% of poorest communities</li> </ol>	<ul style="list-style-type: none"> <li>-CSOs engaged in improving access to services, livelihoods and rights of marginalized groups (target: 90 CSOs)</li> </ul>	<p><b>Financing:</b> PNPM Rural II-IV; PSF MDTF; JSDF; KDP Sulawesi; Justice for the Poor; CPDA</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p>quality of service delivery and socio-economic conditions in rural areas through wider implementation of poverty reduction and community empowerment programs and the provision of investment resources to support proposals developed by communities, using a participatory planning process.</p> <p>Enhance access to health and education services among the poor</p>	<p>evaluation shows it to be an effective program, but it needs to consolidate program management, enhance participation, particularly by women and marginalized groups.</p>	<p>involved in planning and decision-making meetings; 35% of villages provided feedback on health and education services)</p> <p>2. Women actively involved in decision-making (target: 50% of women in planning/decision-making meetings; 30% of women in community oversight teams)</p> <p>3. Improved community access to and utilization of health and education services in the targeted areas.</p> <p><i>Targets:</i> &gt;80% of pregnant women receiving 4 prenatal care visit; 80% of children under 5 weighed monthly; 50% of pregnant women attending nutrition counseling session; 50% of caregivers of children under 2 attending nutrition counseling session; 70% junior secondary enrollment rate</p>	<p>-Increasing provision of holistic and integrated ECED services for the poor</p>	<p><b>Knowledge:</b> PNPM Rural Economic Impact Simulation; Village Infrastructure Census; Incidence of Benefits of Households; Local Level Institutions III; Community Management of Development Portfolio; Revolving Loan Fund Study; Governance Review; Integrated MIS for PNPM; TA to Pokja Pengendali, Bappenas, KPDT; TA to Aceh Local Government; Papua analytical work; PNPM Rural Sentinel</p>
<p><b>Food Security and Rural Development</b></p> <p>Increase food security and continue the revitalization of agriculture to enhance</p>	<p>The policy of rice self-sufficiency limits the amount of resources available for</p>	<p>1. Modernized client and market oriented marketing and extension services accessible by smallholders.</p>	<p>-10% of IAARD's research and management staff undertakes advanced training in</p>	<p><b>Financing:</b> Farmer Empowerment through Agricultural Technology and</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p>self-reliance in food, increase the competitiveness of agricultural products, increase the income level of farmers, and conserve environment and natural resources</p> <p>Reduce dependence on imports for staple foods while diversifying food consumption</p> <p>Improve income of smallholders and expand opportunities for nonfarm income activities.</p>	<p>farm diversification and agricultural development systems.</p> <p>Limited access to technology and marketing services due to weak capacity of local and national government R&amp;D and extension services prevents the emergence of viable agribusiness enterprises and farm diversification.</p> <p>Commodities are exported with limited domestic value addition and issues of quality, market positioning, and competitiveness in the value chains persist.</p> <p>Mechanisms to promote improved service provision and planning in irrigation and water resources management not yet operational.</p>	<p><i>Baseline:</i> less than 10% of farmers access technology and market information through ICT.</p> <p>2. Increased value addition in smallholder-based agricultural export value chains (e.g. coffee, cocoa, and tea) coupled with higher productivity and more efficient marketing systems. <i>Baseline:</i> Regulatory and policy framework of value chains of smallholder-based exportable commodities is weak with low capacity of support systems.</p> <p>3. Improved water resource and irrigation and planning and coordination mechanisms established.</p> <p><i>Target:</i> Water security improved in at least 50 irrigation Districts.</p>	<p>accredited foreign institutions</p> <p>-MoT launches Action Plans for enhancing the sustainability and competitiveness of at least one small-holder based beverage crop (e.g. coffee, cocoa, or tea)</p> <p>-The Government issues a service oriented irrigation policy and establishes a concept for modernization of irrigation management.</p>	<p>Information (FEATI) Sustainable Management of Agricultural Research and Technology Dissemination Project (SMART-D); Water Resources and Irrigation Sector Mgmt; Dam Operational Improvement; IFC investments in agribusiness companies with a view to enhance food security or to provide sustainable livelihoods to poor farmers</p> <p><b>Knowledge:</b> TA on Food Security to MoA ; TA to the MoPW on irrigation management modernization and policy development IFC advisory services work in sustainable palm oil to improve sustainable livelihoods for outgrowers</p>
<p><b>Health Outcomes</b></p> <p>Improved population health outcomes, including improvements in life expectancy and</p>	<p>High out-of-pocket spending for health.</p> <p>Low and variable levels, distribution and supply of</p>	<p>1. Quality assurance policies governing the education of health professionals with establishment of independent National Accreditation</p>	<p>-Comprehensive analysis of supply side availability and readiness.</p> <p>-Study of human resources for health (HRH) policies</p>	<p><b>Financing:</b> Health Professionals Education Quality; Solid Waste Improvement in Regional and Metropolitan Cities;</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p>reductions in maternal mortality and malnutrition to meet MDG targets by 2015</p> <p>Access to safe water and sanitation is a major factor in the health and overall welfare of Indonesians and expanding coverage is a priority</p>	<p>health services, especially in poor and rural areas.</p> <p>Rising HIV/AIDS epidemic, especially in select provinces</p> <p>Slow reduction in maternal mortality, despite relatively high levels of skilled birth attendance and institutional deliveries</p> <p>Chronic malnutrition and stunting rates</p> <p>Access to safe water has stagnated since 2001 at less than half the population, in particular urban coverage from 60 percent to about 50 percent by 2009</p> <p>Access to sanitary facilities significantly lower than other comparable countries in the region</p>	<p>Agency, and National Agency for Competency; accreditation of 7 health professional schools.</p> <p>2. 7 million people provided with piped water supply and 3.4 million people provided with improved sanitation under PAMSIMAS</p>	<p>completed</p> <ul style="list-style-type: none"> <li>-Analysis of Jampersal / Jamkesmas policies to achieve UHC of maternal health care.</li> <li>-Second Integrated Biological and Behavioral Survey (IBBS) in Papua provinces.</li> <li>-Economic analysis of HIV/AIDS programs</li> <li>-Analysis of multisectoral determinants of double burden of malnutrition (DBM).</li> <li>-Financing facility established to support PDAM technical assistance and investments</li> <li>-National expansion of the total sanitation and sanitation marketing (TSSM) programmatic approach to sanitation into a national program targeting 20,000 villages</li> </ul>	<p>Indonesia Water and Sanitation Investment; PAMSIMAS; Urban Water Supply &amp; Sanitation TF; GPOBA Jakarta and Surabaya ; WASAP; IFC Investments in private sector water and sanitation companies</p> <p><b>Knowledge:</b> Policy dialogue on universal health coverage; supply side availability and readiness assessment; HRH study; HIV/AIDS IBBS survey; HIV/AIDS economic analysis; DBM analysis.</p> <p>Total Sanitation and Sanitation Marketing, Urban Wastewater Management; Surabaya water policy advice; WASAP; Water and Sanitation Financing Program; Political Economy of Water Tariffs; Assessment for Water Financing Facility; Lampung water project TAs. IFC advisory services for structuring water sector PPP projects</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<b><i>Pro-Green – Ensuring Sustainable Development and Improving Disaster Resilience</i></b>				
<p><b>Environment, Natural Resources and Climate Change</b></p> <p>Conservation and utilization of the natural environment that supports sustainable economic growth and increased welfare of the people, accompanied by the control and management of disaster risks, in order to prepare for the expected impacts of climate change.</p> <p>GHG emission reduction of 26% by 2020.</p> <p>Promote renewable energy sources as part of a sustainable development strategy</p>	<p>Deforestation, peat burning, habitat loss; globally significant emissions: forests and land use change.</p> <p>Fragmented, overlapping and decentralized land use authority hampers ability to manage forest and peat lands</p> <p>Climate change: threat to development, especially the poor; vulnerability in agriculture, water management, health, preparedness, resilience</p> <p>Great renewable energy potential relatively untapped due to need for improved pricing and investment climate incentives</p> <p>Power sector is fastest growing source of emissions, mainly from coal based</p>	<p>1. Fund for REDD established with legal, technical and managerial capacity to support and finance Indonesia's National REDD+ Strategy</p> <p>2. Phase III of COREMAP providing expanded support for coral and marine protection.</p>	<p>-Green Growth Support Facility established</p> <p>-Increased financing for terrestrial biodiversity</p> <p>- Geothermal investments under implementation</p>	<p><b>Financing:</b> Chiller Energy Efficiency Project, HCFC Phase Out Plan; Geothermal investment projects; Halmahera Conservation Project; COREMAP III, Sumatra Habitat Conservation with GEF; IFC Investments in clean energy, Sustainable Energy Finance – either directly by IFC or through intermediaries; and sustainable forestry/ agribusiness projects</p> <p><b>Knowledge:</b> Policy dialogue and TA on green economy issues; Green Growth Support Facility; AAA on fisheries management and coral/marine ecosystem values; Forest Carbon Partnership Facility; Forest Investment Program, Indonesia Forest and Climate Trust Fund; AAA on Benefit Sharing, Drivers of</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
	<p>power generation</p> <p>Lack of coordination of policies and incentives for environmental improvement and climate change mitigation; weak economic incentives; policy distortions</p> <p>Limited incentives for firms to develop forest plantation and climate change mitigation program on degraded grasslands and to apply best practices because of high costs and risks, as well as lack of knowledge and experience in blending forest-based climate change mitigation and commercial forestry investment</p>			<p>Deforestation; Support UKP4 on REDD/FREDDI; program support for REDD Agency and Financing Mechanism; Inputs to ongoing Partnership for Market Readiness, GEF V pipeline; policy dialogue and TA; Carbon finance, landfill gas, and Persistent Organic Pollutants control (POPs) Awareness and Capacity Building; GTI Support; AAA on land , mapping, tenure, and customary land Rights</p> <p>Outreach to Civil Society &amp; Customary Peoples, National Indigenous Peoples' Alliance of the Archipelago (AMAN) JSDF Grant; Capacity building with CSOs;</p> <p>IFC advisory services in areas of clean energy development, sustainable energy finance, green banking, sustainable forestry/ agribusiness, green building development etc.</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Intermediate Indicative Development Milestones	WBG Modes of Engagement
<p><b>Disaster Risk Management</b></p> <p>Enhance capabilities to improve disaster risk preparedness, mitigation measures, and post-disaster recovery and reconstruction responsiveness to strengthen sustainability</p>	<p>Duplication of efforts due to the plethora of development partners in Disaster Risk Reduction (DRR); new Disaster Management Agency structure may not have the capacity to mainstream DRR</p>	<ol style="list-style-type: none"> <li>1. Create evidence-based examples of practical and concrete disaster and climate risk reduction and adaptation measures (e.g., safer schools, resilient villages and urban wards with DRR plan and investment program) that can be scaled up and replicated nationally</li> <li>2. Community-based settlement reconstruction incorporated as a Government program</li> </ol>	<p>-Mainstreaming adaptation and resilience issues into urban development, community driven development programs, water and waste management programs, agricultural and rural development programs</p> <p>-GoI led disaster fund (IMDFF-DR) as new mechanism to institutionalize donor support</p>	<p><b>Financing:</b> Multi Donor Fund for Aceh and Nias (MDF), Java Reconstruction Fund (JRF), PNPM Support Facility (PSF) in support of disaster recovery in Aceh/Nias, Yogyakarta and Central Java; Zero Contingent and Disaster Mitigation Components in WINRIP and PNPM Urban III</p> <p><b>Knowledge:</b> GFDRR National risk assessment study/mapping as the basis for GoI's National Disaster Management Plan 2009-2014 and National Action Plan for DRR 2009-2014.;Indonesia Disaster Risk Financing Study and policy dialogue, Capacity Building module on PDNA and Post Disaster Recovery; IFC Advisory services for Global Index Insurance products</p>

## **Annex 2: Indonesia: CPS (FY09-12) Completion Report**

*October 31, 2012*

**Date of CPS:** Sep 11, 2008 (Report No. 44845- IND)

**Date of Progress Report:** Feb 8, 2011 (Report No. 59530-ID)

**Period Covered by the CPS Completion Report:** FY09-12

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### **Summary of Evaluation Ratings**

#### *Program Performance*

Indonesia made important progress putting into place and initiating implementation of the policies and programs needed to reach the objectives of the Medium Term Development Plan (2010-2014), particularly in regard to the areas identified for World Bank Group (WBG) engagement in the Country Partnership Strategy (CPS) for FY09-12. These include macroeconomic management and strengthening the financial sector, particularly in the face of the global financial crisis, facilitating financial inclusion, enhancing the investment climate, reactivating infrastructure investment, increasing access to education, targeting poverty programs, expanding successful community development programs, and initiating responses to climate change. Indeed, Indonesia used its new found voice in the G20 as an international advocate in areas such as financial inclusion, climate change, food security and social safety nets.

During the CPS period, GDP growth declined to 4.6 percent in 2009, from the 6 percent achieved in 2008, but subsequently recovered to 6.1 percent in 2010 and 6.5 percent in 2011, with current estimates of 6.1 percent for 2012. The fiscal deficit came in below target in 2009-2011 and, with strong GDP growth, contributed to the downward trajectory of government debt, which has fallen below 25 percent of GDP. Several of Indonesia's sovereign ratings are back to investment grade for the first time since 1997. Extreme poverty was reduced from 15.4 percent in 2008 to 12.4 percent in 2011. Despite this, 40 percent of the population remains close to the poverty line and vulnerable to shocks. Growth has been less equitable than it might otherwise been. Indonesia was also less successful in implementing its strategy to reduce fuel subsidies and shift these budget outlays to social and infrastructure programs. The quality of public spending for both national and sub-national roads remains poor and promoting private investment in infrastructure is a major challenge.

#### *WBG Performance*

Based on an assessment of strategy design and program implementation at the end of the CPS period, the Bank's performance is rated as *satisfactory* in supporting the Government to achieve the expected development results. The CPS strategy was appropriate to country priorities and goals and was selectively focused. Close alignment with the Government's reform agenda, synergies with an active IFC program and far-ranging collaboration with other development donors supported a strong WBG performance during the CPS period. At the same time, long standing and deep engagements allowed the WBG to respond quickly to emerging challenges, most significantly to help shield Indonesia from shocks associated from the global financial crisis and economic downturn.

A self-evaluation of the CPS Results Matrix (Table 1) outlines the program of activities that supported the CPS and assesses development results.

## **I. Introduction**

1. This Country Partnership Strategy Completion Report (CPSCR) reviews the implementation and effectiveness of the World Bank Group's (WBG) Country Partnership Strategy for Indonesia for FY09-12 (Report No. 44845-IND) approved on September 11, 2008. A CPS Progress Report (CPSPR) was completed on February 8, 2011 (Report No. 59530-ID).

### **A. Indonesia's Economic and Social Background**

2. At the time of CPS preparation in 2008, Indonesia had made much progress in social and economic terms since the Asia crisis a decade before. Its real GDP had been growing at 5 to 6 percent annually since 2002. Prudent fiscal management and a strategy of fiscal consolidation had led to a significant reduction in government debt levels. Inflation was largely kept under control and Indonesia had a strong balance of payments, with record exports. Public investment, while still low by historic standards had been steadily increased during the previous five years. Poverty had declined and public services were receiving additional resources, including through community-driven development programs.

3. While Indonesia was doing well it was felt that it could be doing far better across the areas of poverty reduction, service delivery and governance. In 2007, nearly half of Indonesia's population was living on 1.5 times the national poverty line or less. still either poor or had per-capita consumption levels of less than one-third above the national poverty line. Employment growth was slower than population growth. Public services were inadequate for a middle-income economy. Many regions, especially in eastern Indonesia were lagging behind and Indonesia was doing particularly poorly in a number of health and infrastructure related indicators.

4. Indonesia was in the midst of initiating the second phase of the National Long-Term Development Plan (2005-25) with the formulation of the National Medium-Term Development Plan (RPJMN) for the period 2010-14. The eleven development priorities included: bureaucracy and governance reform, education, health, poverty alleviation, food security, infrastructure, investment and business climate, energy, environment and disaster management, least developed, frontier, outer, and post-conflict areas, and culture, creativity, and technological innovation.

### **B. World Bank Program of Support**

5. The CPS for FY2009-12 marked the beginning of Indonesia's re-emergence as a confident middle-income country that had graduated from IDA, and was enjoying a rising regional and global standing, including membership in the G20. With Indonesia demanding dependable and timely support for its own development priorities and poverty-reduction agenda, the CPS sought to enable the World Bank Group to better respond in helping to meet development challenges.

6. Notwithstanding these achievements, the CPS noted that this next phase of its development was likely to be even more challenging for Indonesia because the country was entering into a period of second generation reforms focusing on institutional transformation to promote economic development and social welfare. Failure to begin addressing these reforms ran the risk of falling into the middle-income trap – squeezed between the innovations of high-income countries and the low labor cost of low-income countries. The consequences of this could include stagnant poverty levels, the depletion of natural resources and increased threats to social cohesion.

7. The CPS outlined a partnership based on: support to the Government's own development strategies, policy objectives and priority programs; strengthening and using Indonesia's own systems and procedures; while continuing to put a strong emphasis on fiduciary controls, accountability and technical excellence; making effective use of existing capacities and harmonizing support; and supporting efforts to strengthen the consolidation and alignment of resources. The WBG sought to partner on investing in institutions to enhance governance by strengthening accountability and capacity.

8. In meeting these challenges Indonesia's main constraint was not a lack of financial resources but the need for effective and accountable institutions to translate available resources into better development outcomes. This focus also recognizes that WBG financing now represents such a small share of Indonesia's national budget that it can only make a demonstrable impact if it leverages a much larger share of Indonesia's own public spending or private investment.

9. The program of engagement included: financing priority public programs and supporting private sector investments; providing flexible, on-demand services, quick-response policy notes, in-depth analytical and knowledge work, and advisory and technical assistance, and; continuing to seek opportunities to work together with other development partners to better align policy, analytic and financial support with government-led strategies and priorities.

10. The CPS also acknowledged that the share of the Banks' financial contribution to Indonesia's development was expected to decline and that knowledge partnerships would increasingly be more important. Accordingly, the WBG would continue to build on its program of analytical and advisory services, and align this program with core engagements and support strengthening of institutions and country systems. Trust Funds were expected to be an integral part of the program, and increasingly aligned with the core engagements, as well as enhancing harmonization and alignment of funding from development partners behind core government programs.

## **II. CPS Program Performance**

*Overall the CPS program performance is rated satisfactory as the program achieved good progress in the engagement areas evaluated below.*

### **A. Overview and Principles of Engagement**

11. The CPS charted a program of engagement in five core areas overlaying two cross-cutting platforms based on the WBG's potential to provide value added in support of Indonesian priorities. These included private sector development, infrastructure, community development and social protection, education, and environmental sustainability and disaster mitigation. The cross-cutting engagements were at the national and sub-national levels focusing on supporting the government institutions and systems. Improved governance was to be promoted through deepening engagements with core central and local government institutions and partnering around core Indonesian programs and with key public accountability institutions. Recognizing that the engagement areas were at different levels of maturity as reflected in the depth of the dialogue, the types of activities supported and the level of influence to support expected development outcomes, sub-national institutions, infrastructure and the environment were identified as emerging areas where outcomes and activities would be better defined during implementation.

## **B. Progress by Areas of Engagement**

### **B.1. Cross-Cutting Engagement Area 1: Central Government Institutions and Systems**

12. The engagement supported GoI in its longer-term efforts to strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures. For the CPS period in particular, the Bank sought to Bank expected to support the following outcomes: improved results orientation in the budget process; timely and reliable financial reporting through effective operationalization of the Single Treasury Account (TSA); improved tax administration; and improved quality and timeliness of key statistics produced by BPS (the National Statistic Agency), e.g., national accounts, poverty data.

13. The engagement benefited from a longstanding and deep relationship with a full array of coordinated Bank instruments and collaboration with development partners. The centerpiece was a continuing *Development Policy Loan* series (DPLs 5-8), co-financed by Japan (JICA) and the ADB, underpinned by an important program of knowledge services, which helped to reinforce and broaden ownership and commitment towards the achievement of reform milestones. Investment lending complemented the DPLs. The *Government Financial Management and Revenue Administration Project (GFMRAP)*, the *Project for Indonesian Tax Administration Reform (PINTAR)* and the *Statistical Capacity Building-Change and Reform for the Development of Statistics (STATCAP-CERDAS)*, provided technical implementation support and investment. The substantial program of knowledge services and implementation support was funded by trust funds in collaboration with other donors, in particular the Public Financial Management – MDTF, which channeled resources to support critical activities and brought together key development partners, the EC, the Governments of the Netherlands and of Switzerland, and the Bank.

14. The development results that the Bank expected to influence were only partially achieved. The Government released its medium term development plan (RPJMN) in October 2009 specifying measurable results and targets for 2010-2014 and beginning in 2011 the annual budget has been more strongly tied to the planning process. However, results-based budgeting is only being slowly introduced. The TSA has been extended to all accounts and cash forecasting capacity has been established, but there is no evidence to show it has improved line ministry cash planning. Updated PEFA figures are not available, but a significant reduction in qualified audits suggests important improvement in internal controls and internal and external audit systems. Improvements in tax administration have seen the number of registered taxpayers increase, but procurement delays under *PINTAR* to support the tax administration information system limits has limited achievements in other areas. With Bank support a new procurement agency was established and now issues national standard bidding documents. While the Bank-financed *STATCAP-CERDAS* was only recently approved and expected improvement have yet to materialize.

15. The GoI's goals require a major institutional change over a longer period and Bank support will continue. More advanced performance-orientated reforms remain works in progress. For example, the medium-term expenditure framework (MTEF) and performance based budgeting (PBB) have only recently been introduced and will require considerable refinement over the next few years. There is an ongoing capacity building effort to strengthen internal and external audit systems and the computerized *GFMRAP* that will strengthen financial management capabilities is to be deployed in 2012, and accrual accounting is due to be introduced in the public sector in 2015. Roll-out of the tax

administration information system is now expected to be completed by 2015. An e-procurement system now in place is expected to support detection leading to sanctions for collusion.

16. While not included as specific development outcome targets in the CPS, the Bank supported Indonesia's efforts to improve governance and anti-corruption. Along with efforts to increase transparency and efficiency in public financial management, noted above, the Bank supported increased transparency and efficiency, including participatory mechanisms, in programs for public service delivery with sub-nationals (DAK), community-driven development (PNPM) and education (BOS). At the same time, IFC is promoting enhanced standards of governance in the private sector and launched a new corporate governance advisory service.

17. Beyond the support for development results defined when the CPS was formulated, the Bank was able to respond to additional GoI requests to support the Central Government with unanticipated lending and knowledge services in a number of crucial areas, including contingency financing in the face of the rapidly deteriorating global financial situation, and knowledge services to enhance Indonesia's influence on the global development agenda, respond to spikes in food prices, and develop a long-term plan to accelerate growth and increase infrastructure investment through enhanced connectivity.

18. The global financial crisis was just beginning to manifest itself at the time of CPS preparation. While the baseline case indicated a small dip in growth from 6.3 percent in 2007 to an expected 6.0 in 2008, it was noted that external developments would determine the degree to which Indonesia's growth moderates in 2008 and the speed of recovery in 2009. A prolonged downside was noted as a risk, but this was somewhat mitigated by the fact that Indonesia was less exposed to external shocks than other economies in the region. Its trade share was relatively small even accounting for its size, at about 50 percent of GDP, and the structure and destination of Indonesia's exports was thought to also help protect its external sector. Firms largely finance their investment through retained earnings. The banking sector was in sound shape and appeared relatively unexposed to developments in troubled financial markets elsewhere.

19. The Government was to seek support from the Bank when in late 2008 and early 2009 there was a sharp increase in borrowing costs. The Bank responded quickly and presented in early March 2009 the innovative *Public Expenditure Support Facility DPL-DDO* of \$2 billion. Parallel financing from the Australian Government, Asian Development Bank (ADB) and Japan (JICA) made for a total package of \$5.5 billion. The operation, which closed in December 2010, provided confidence to the markets, with back-up financing arrangements to sustain public expenditures, and promoted measures to strengthen the domestic financial sector. Subsequently, with the increased risks stemming from the Eurozone crisis, a follow-up program with the same development partners of US\$5.5 billion was provided under the *PERISAI (Program for Economic Resilience, Investment and Social Assistance in Indonesia) DPL-DDO* in May 2012. The Bank's macroeconomic monitoring was scaled up and produced the *Indonesia Economic Quarterly* with wide and anticipated dissemination and support was provided, with financing by the Australian Government, to build the capacity of the Fiscal Policy Office for macro monitoring and forecasting and evidenced-based macro and fiscal policy analysis.

20. Through *Multi-donor Facility for Trade and Investment Climate (MDFTIC)*, WBG responded to GoI requests to strengthen inter-agency coordination for Indonesia's chairmanship in ASEAN Economic Ministers (AEM) meeting in 2012 and the G20 forum. The Bank played important role in facilitating knowledge sharing across key economic agencies that helped develop agenda to strengthen process of regional economic integration by promoting inclusive development

in the AEM meeting in 2012. In the next CPS the Bank is likely to develop a program for GoI to strengthen domestic reform agenda, such as in trade and investment, as follow up from Indonesia's chairmanship and participation in ASEAN and APEC.

21. In collaboration with other donors, Bank support for the Government's food security concerns include knowledge services and proposed development policy lending aimed at facilitating rice import mechanisms and to enable the Government to revitalize the agriculture reform agenda. These include key policy and institutional reforms in the areas of food security, water resources management, agricultural research, innovation and technology dissemination, which, in turn, would be complemented by the Bank's portfolio of investment operations. A technical assistance program funded with a grant from the Global Food Crisis Response Program (GFRP) is assisting the GoI to identify future policy directions to enable it to achieve the goals related to food security options on issues such as challenges of food security in the global context, market prospects for food commodities, the stabilization of domestic prices and the role of social safety nets in mitigating the impact of high food prices. This has supported an ongoing dialogue on food policy reforms with the Ministries of Agriculture and Trade in the development of the proposed *Indonesia Food Security Program DPL*, which would target rice import mechanisms and support the Government in to revitalizing the agriculture reform agenda.

22. Significant and unanticipated GoI request for the Bank's knowledge and convening support was also made to help it formulate a Master Plan for "*Acceleration and Expansion of Indonesia's Economic Development 2011-2025*" (MP3EI) as Indonesia's new, longer term strategy to become an industrialized economy. The Bank played an important role in helping the GoI focus on enhancing connectivity to accelerate growth and improve equity, including extensive support to clarify the objectives of the connectivity framework using the WDR 2009 on *Reshaping Economic Geography* and to identify a detailed plan of action in priority areas. A Bank study identified priorities with a focus on intra-island, inter-island and international connectivity issues (*Connecting Indonesia: A Framework for Action*). On logistics, the Bank hosted a series of roundtables with stakeholders to discuss various facets of connectivity issues. The Bank has also undertaken a study on *Indonesia's Logistics Performance Index*, and a study of regulatory reform to support the upgrading of logistics service providers, as well as developing a monitoring system to track the implementation of the national logistics blueprint. The Bank has also helped GoI to identify quick wins in improving logistics performances in seaports. In the next CPS period, the Bank is likely to develop a programmatic DPL services for connectivity to further support GoI efforts.

## **B.2. Cross-Cutting Engagement Area 2: Sub-national Government Institutions and Systems**

23. Indonesia launched the "big bang" decentralization reform in January 2001, which has led to approximately 500 sub-national governments now managing close to 35 percent of public spending and being responsible for the vast majority of public services. However, the level and quality of spending at the sub-national level is an issue, as are the division of authority and responsibility at the central ministerial level and the incentive structure of the fiscal transfer system. As such, GoI's longer term objective is to strengthen sub-national government institutions to improve accountability and increase the level and impact of public spending on service delivery.

24. This was identified in the CPS as an emerging engagement, and development outcome targets were defined broadly to support improvements in local government capacity for planning, budgeting and delivering public services. At the time of the Progress Note, they were adjusted to respond to opportunities to support an improved fiscal decentralization framework with incentives for

accountability by facilitating a coordinated development partner effort and focusing on specific activities to enhance incentives for accountability. As well, specific targets were added to enhance sub-national infrastructure financing and spending.

25. A coordinated effort to improve the fiscal decentralization framework was achieved. The multi-donor Decentralization Support Facility (DSF), a trust fund largely supported by UKAID, provided the means for a harmonized approach among donors to support decentralization in Indonesia. Progress was achieved in improving coordination across Bappenas (Ministry of Planning), Ministry of Home Affairs, and Ministry of Finance on the decentralization agenda, and included representatives of local government associations. The DSF also has produced a number of knowledge products including studies on territorial reform, sub-national surplus and reserves, sub-national borrowing, sub-national capital market development, and sub-national PER. The coordinated effort also resulted in a redrafting of Laws 32 and 33 of 2004 on regional autonomy and regional finance. However, further efforts to enact legislation were not undertaken by GoI.

26. Development outcome targets on the local government side were also achieved. The Bank helped develop an innovative program through the *Local Government and Decentralization Project (DAK)* that uses an existing transfer program to provide incentives for outcomes and accountability in five pilot provinces. The decision to decentralize BOS education transfers, which benefit 42 million students, was made by GoI and the Bank supported implementation. The capacity of citizens to assess and monitor sub-national spending was improved with support from the *Sub-national Expenditure and Capacity Harmonization (PEACH)*. This involved a three-pronged approach to sub-national public financial management (PFM), including collaborating with local institutions to prepare public expenditure analysis reports, working with a local partner to design and deliver PFM capacity building programs and engaging civil society and the media to build demand side pressure for better budget decisions. This approach has contributed to enhanced PFM in participating provinces, including a positive shift towards better quality spending, evidence-based planning and budgeting, and greater transparency and accountability. *PEACH* has been implemented in 11 provinces including East Java, Papua, Gorontalo, North Sulawesi, South Sulawesi, Southeast Sulawesi and Aceh.

27. Development outcomes to improved infrastructure spending at the local government level were also achieved. As a sector-wide approach, the *DAK* focuses on infrastructure spending with performance incentives. The *Jakarta Urgent Flood Mitigation Project* represents a specific urban infrastructure investment, which also pioneered regulatory changes to facilitate further financing of infrastructure at the sub-national level. Finally, local government infrastructure spending increased from Rp. 49.6 trillion in 2008 to an estimated Rp.56.3 trillion by 2010. Additionally, knowledge services are supporting five large municipalities with financial assessments and credit ratings with the aim of enabling these municipalities to raise their own resources through bond issues. Jakarta is expected to become the first Indonesian municipality to issue bonds in 2013.

### **B.3. Core Engagement Area 1: Private Sector Development**

28. The country's long-term objective is enhancing the environment for private sector development to accelerate growth and poverty reduction. Regulatory environment inhibits private sector investment; time consuming and costly procedures to establish companies, pay taxes, and clear imports. Indonesia generally ranks in the low 120s in ease of *Doing Business (DB)*. Non bank financial institutions and capital markets are small and access to finance limited, with few long-term domestic financial resources. Only one-third of households have access to bank accounts. Linkages

among smallholders, rural businesses and commercial markets are weak. Income generating activities are needed to alleviate poverty, particularly in rural areas where two-thirds of the poor reside.

29. The development outcomes that the WBG sought to influence included (i) strengthened private and financial sector through better regulatory frameworks, improved investment climate, stronger bank and non-bank financial institutions; (ii) improved capacity of sub-national governments to support business operations through introduction of less cumbersome procedures for business start-ups; (iii) improved regulatory environment and interagency coordination in the development of investment policies; (iv) strengthened institutional structure and capacity of the Ministry of Trade to enable it to develop and implement more effective trade policies; (v) improved access to markets for Indonesian businesses in select commodity or industry-based sectors; and (vi) improved market access and long-term sustainability for smallholders by connecting them to selected firms that are seeking secure and growing supply sources.

30. Targets in support of development outcomes to strengthen bank and non-bank financial institutions were achieved. The overall financial sector stability and soundness have been maintained since 2008, and banks and non-bank financial institutions (NBFI) have continued to grow their assets, despite the global financial crisis. In June 2012, the LDR reached 82.6 percent above the 80 percent target. The penetration of NBFI has increased further from 24 percent in 2009, to 28 percent in 2011, and loans to SMEs grew strongly at 24 percent for 2011. Further progress is likely with a GoI issuing a Capital Market and Non Banking Financial Sector Master Plan 2010-2014, which provides a working guideline for financial sector diversification. Based on nationwide household survey data, 41 percent of households now have a bank account, short of the 45 percent target, but Bank support has helped to place financial inclusion as a national priority. The *Indonesia Infrastructure Finance Facility* was established with a joint WBG operation, including an IBRD loan and IFC equity. Finally, IFC is providing support to the Credit Bureau and Moveable Collateral registry.

31. These achievements were supported by the WBG. Support for strengthening the financial sector in the face of the global financial crisis was challenged through the two development policy DDOs and dialogue on the *Financial Sector Assessment Program (FSAP)*, including implementation of a crisis management protocol and capacity building. Support was also provided for the development of the Capital Markets and Non-Banking Financial Sector Master Plan 2010-2014. WBG worked to support efforts to strengthen and expand financial infrastructure for an economy that relies heavily on micro and small enterprises, as well as expanding financing alternatives to the most vulnerable segment of the underserved population in Indonesia, with a strong focus on women, rural clients, and base of pyramid. A study on *Access to Finance* supported the development of financial services for migrant workers, the vast majority of which are women, and facilitating small savings accounts. More broadly, the study has helped mainstream financial inclusion and underpinned Indonesia's effort to include financial inclusion in the G20 agenda. Additionally, the GoI has recently launched a number of efforts to increase access to a broad array of financial services to the poor and underserved, including preparing a National Strategy for Financial Inclusion and scaling up its flagship People's Business Credit program as a way to expand access to credit. Additional WBG support has been for restructuring revolving loan funds used mainly by women to fund micro-enterprises also contributes to gender equity. IFC has created the *Global Business Alliance*, a group of commercial banks from both emerging and developed markets that provide targeted products and services to women-owned business and is expected to launch its first Advisory Services project geared exclusively towards women business owners. In addition, IFC committed a US\$75 million gender facility and provided advisory services to enhance products and services to allow women to

obtain financing for their SME businesses more easily. BII launched a product specifically for women-owned SMEs in June 2012. Over a thousand women-owned SMEs participated with a total loan value of US\$97.3 million.

32. To further financial sector diversification IFC is developing programs focusing on banks and non-bank financial institutions' capacity in providing innovative finance products and services for the micro and largely unbanked segment, such as housing microfinance, micro insurance, and retail payments. IFC is helping financial institutions to expand services to hitherto under-banked market segments, such as to SME's undertaking sustainable energy investments and to poor marginal farmers. Accordingly, IFC extended debt facilities and advisory services to banks with strong distribution capacity in the MSME sector such as *Danamon* and *Bank Internasional Indonesia (BII)*. IFC also assists *PT Bank Tabungan Pensiunan Nasional Tbk (BTPN)* through equity and debt facilities to support its expansion in microfinance sector and advisory services in AgriFinance. IFC also continues to support Bank Andara, the Indonesian microfinance wholesale bank, by providing advisory services and capital support to be used in the expansion of the bank's distribution capacity and to increase its leverage capacity to finance its loan expansion. A research project with *Bank Sinar Harapan Bali* a subsidiary of *Bank Mandiri*, is piloting a sustainable business model for mobile banking system, which could have significant benefits for unbanked populations in rural and frontier areas. IFC has also offered to support Bank Indonesia in further modernizing the national credit reporting practices and systems to improve efficiency and expand outreach, particularly to MSMEs. Furthermore, joint IFC and Bank team continues assisting Bank Indonesia with interventions in regulations and oversight mechanisms in Indonesia for branchless banking services, in particular those that can support expanding financial inclusion in Indonesia. Two branchless banking products for the underserved segment have been launched with a total of non-cash retail payments of US\$4.2m. A diagnostic study was completed on the secured transactions framework, and a project to promote the use of movable collateral registries with the Ministry of Law and Human Rights through its Ease of Doing Business Reforms Task Force has been developed.

33. Development outcome targets have been partially achieved to improve the capacity of sub-national governments to support business operations through introduction of less cumbersome procedures for business start-ups and licensing. IFC supported efforts through the *Sub National Doing Business Survey (SNDB)*; all 14 cities surveyed in the first round have implemented reforms and the average time to start a business and to deal with construction permits have been reduced by more than 25 percent since 2010, below the 50 percent target. Improved capacity of sub-national governments to attract and retain investors has been achieved through the IFC Sub-national *Investment Generation Project*, with investor facilitation, aftercare, policy advocacy and basic location marketing in two provinces.

34. Development outcomes to improved regulatory environment and interagency coordination in the development of investment policies have been achieved. Business start-up time improved to 45 days (2012) from 105 days (2009). The Indonesia National Single Window (INSW) opened with improved transparency of trade regulations and procedures for import clearance. The National Commission for Investment and Export Promotion (PEPI) is coordinating investment policy, including (i) consultations on revised Investment Negative List; (ii) independent cost-benefit analysis of FDI restrictions; and, (iii) investor problem solving, policy consultations and advice. Doing Business (DB) ranking improved from 129 (2009) to 122 (2010).

35. These achievements were supported by the WBG. Building on synergies between IFC and Bank teams, partnerships were established with key institutions that shape the investment climate, and instruments included *DPLs 5-8*, knowledge and IFC advisory services process, including the *Business Entry Regulatory Reform Program*, IFC transactions and capacity building in collaboration with the governments of the Netherlands, New Zealand, Switzerland and Australia through the *Multi-donor Facility for Trade and Investment Climate (MDFTIC)*. These supported: (i) the roll out of the Investment and Special Economic Laws; (ii) two major economic policy packages covering investment regulations and institutions, customs, tax, infrastructure, finance, and SMEs; (iii) streamlined business start-up with simplified procedures for establishing limited liability companies and obtaining licenses; (iv) faster approvals for foreign investors, and; (v) capacity to monitor the investment climate.

36. Targets were met in support of development outcomes to strengthen the institutional structure and capacity of the Ministry of Trade and enable it to develop and implement more effective trade policies. Five specialist teams have been established: Public Relations Center; Logistics Team; Trade Fair Team; Trade Monitoring Team; Commodity Team (to support Food Stability Team at CMEA). Activities included helping establish a credible review process for non-tariff measures; supporting engagement with G20, ASEAN, and APEC agenda; rapid response in trade policy with policy briefs for urgent issues; as well as the aforementioned support on food security with knowledge services to improve the technical capacity to monitor food price data and to develop market-based instruments to manage risks from food price shocks. Finally, IFC helped to develop regulations, policies and procedures for a national warehouse receipts system, as well as provided trade finance to support commodity exports.

37. Targets to improved access to markets for Indonesian businesses in select commodity or industry-based sectors were achieved. IFC is piloting of non-collateralized lending product for cocoa producers in Sulawesi and has identified prospective partners for coffee lending in Sumatra. Targets were also achieved toward improving market access and long-term sustainability for smallholders. IFC supported the establishment of Farmer Training Center (FTC) for smallholder coffee growers in Sumatra with sponsorship from international coffee off-taker and is piloting of the FTC as direct purchasing center.

#### **B.4. Core Engagement Area 2: Infrastructure**

38. Improving the quality of infrastructure is an essential aspect of strengthening Indonesia's competitiveness. Continuing weak investment in infrastructure remains a threat to sustained economic growth and development. At the time of preparation of the CPS, investment in public infrastructure had recovered to some 4% of GDP (between national and local governments, SOEs and private investors) but remains below pre-crisis levels (1997) and well behind levels seen in China, Vietnam and Thailand. The potential of the private sector was largely untapped. As a result, Indonesia was under-served relative to most comparator countries.

39. The WBG engagement aimed to support (i) increased quantity and efficiency of national and sub-national government spending on infrastructure through improvements in subsidy policy, incentives framework, and expenditure planning and budgeting; (ii) increased private investment in infrastructure through the establishment of a fiscally sound, credible and transparent PPP framework; and (iii) availability of bankable Power Purchase Agreement (PPA) and robust pricing formula with improved capacity of relevant government agencies to conduct tenders and to serve as a model for subsequent geothermal IPPs.

40. Targets were met to support increased quantity and efficiency of government spending on infrastructure, as spending on national infrastructure increased by 52% in real terms between 2006 and 2011. The Bank supported this effort through the Infrastructure DPLs 2-4, which promoted reforms, including land acquisition legislation to facilitate investment. As well, the Bank revitalized its investment lending for infrastructure with nine investment operations approved during the CPS in water, energy and roads.

41. Targets were partially met to increase private investment in infrastructure through the establishment of a fiscally sound, credible and transparent PPP framework and increase private infrastructure investment, however, only reached an estimated 0.6p percent of GDP in 2009-10. The Bank supported the development of the PPP Framework under the Indonesia Infrastructure Guarantee Fund (IIGF) through the recently approved *Infrastructure Guarantee Project*. IFC advisory services were also provided and a major \$2 billion energy project has been tendered. Private infrastructure investment is estimated to have only reached 0.6% of GDP for 2009-10, below the 0.75 percent target.

42. Additional WBG activities during the CPS period include IFC support for the tender of the Umbulan Water Project, which would provide water of good quality about to about 3 million people in East Java, by mobilizing US\$100 million in private investment. IFC has financed private sector investments in infrastructure sector, such as Wintermar (offshore shipping vehicle services), and financial institutions such as IIF and Saratoga II, who also support investments in the sector. The Bank is working with IIGF, the Ministry of Finance and the city of Lampung in south Sumatra on a build-own-operate-transfer (BOOT) scheme to expand water supply coverage for an additional 200,000 people through private investment. The Bank is also helping to set up a viability gap funding (VGF) mechanism within the Ministry of Finance.

43. Target were met in support of bankable Power Purchase Agreement (PPA) and robust pricing formula, improved capacity of relevant government agencies to conduct tenders to serve as a model for subsequent geothermal IPPs. The Bank played an advisory role in facilitating six PPAs for geothermal fields which were signed between PLN and PGE with a price that included a premium over coal based generation. The Bank also supported MEMR to draft and issue a new pricing policy- a feed in tariff for geothermal generation. In addition, IFC has worked with geothermal Independent Power Producers for potential PPPs by assessing 17 geothermal sites specifically for possible tendering as to their development impact and likelihood of successful implementation. Moreover, it has been providing financing assistance to private sector players, such as Medco Power, seeking to develop clean sources of power.

### **B.5. Core Engagement Area 3: Community Development and Social Protection**

44. Indonesia's long-term objectives remain to reduce poverty levels and improve equity by improving livelihoods and service delivery, decreasing remaining pockets of vulnerabilities, and strengthening inclusiveness. For the CPS period, the Bank sought to support outcomes to improve socio-economic and local-level governance conditions of the urban and rural poor through wider implementation of poverty reduction and community empowerment programs; public expenditures made more pro-poor by reallocating savings from subsidies towards strategic targeted interventions and successful implementation of conditional cash transfers; and improvements in the integration and implementation of poverty and social protection programs.

45. The centerpiece of engagement has been the long term relationship providing knowledge and financing services to the National Community Empowerment Program PNPM, which includes collaboration with the majority of bi-lateral and multi-lateral donors in Indonesia. Extensive knowledge services and development policy operations (*DPLs5-8*) with development partners support, provided for a deep and productive engagement.

46. Development results were achieved to help improve socio-economic and local level governance conditions of the urban and rural poor through wider implementation of poverty reduction and community empowerment programs through the Bank-financed *PNPM Urban III* and *PNPM Rural II&III*. In rural areas, this supported a nation-wide expansion of the program, which now reaches 63,000 villages and 34 million people. The poverty rate improved from 16.7 percent in 2007 to 12.4% (2011). Data for 2012 are not yet available.

47. An impact evaluation of PNPM Rural indicates that:

- Improved household expenditure rates or improved access to economic and social services in 80 percent of the 7,800 wards.
- Infrastructure built is 20 percent less expensive than that built by non-community based approaches in 80 percent of participating wards.
- EIRRs >30 percent for major rural infrastructure types in PNPM sub-districts (EIRRs range 35-75 percent in 2011).
- 80 percent of PNPM-Rural sub-projects are functional and adequately utilized by communities (89 percent in 2011 )
- Improved HH expenditure rates and improved access to economic and social services in a minimum of 2,500 poor sub-districts (5,020 sub-districts covered by PNPM-Rural in 2011).

48. Development results for PNPM Rural were also met through the under the PNPM-Generasi (CCT pilot) for infant immunization from 65 percent (2007) to 75 percent; assisted deliveries from 67 percent (2007) to 77 percent; primary school enrollment from 96.5 percent (2005) to 97 percent; junior high school enrollment from 57 percent (2006) to 72 percent.

49. Support for gender equity, beyond maternal health, also included economic empowerment for women in accessing revolving funds and microfinance programs, with a minimum of one third of the proposals submitted by women; established women specific forums to enhance voice in community matters; promoted social empowerment by requiring that half of village development proposals come for a women's planning group and ensured that 40 percent of participants in the local coordinating body. As well, PNPM required that one third of village facilitators be women and that women participate on village procurement committees. As a result there are more than 50,000 procurement committees across the county that includes women.

50. The target was partially achieved for public expenditures being made more pro-poor by reducing fuel subsidies and reallocating the savings to strategic targeted interventions for the poor and successful implementation of CCT. While spending on core pro-poor programs has increased to 4.2 percent in 2012, not including expansion of PNPM, fuel subsidies were not decreased by 50 percent to achieve this.

51. Development outcomes were achieved for the integration and implementation of poverty and social protection programs to increase effectiveness and efficiency, and to inform policy and program decisions through poverty data monitoring and analytics with the creation of the National Team for the Acceleration of Poverty Reduction (a cabinet-level team headed by the Vice-President), which was established to integrate and coordinate national poverty reduction policies and programs (Presidential Regulation No. 15/2010). The target to increase benefits coverage for poor men, women, and children was met with the creation of the national registry of 25 million poor and vulnerable households (Pendataan Program Perlindungan Sosial, PPLS11). Instructions were issued from the National Team for implementing agencies to use the database to extract program beneficiary lists. MOUs were signed with implementing agencies agreeing to utilize the national registry- Jamkesmas, scholarships for the poor (BSM), Raskin and the PKH expansion.

52. The Bank supported these efforts through knowledge services. The Bank supported the creation of the National Team for the Acceleration of Poverty Reduction, and collaborated with it in the design and implementation of new approaches to poverty reduction. The Bank completed two major research projects that were designed to provide an empirical foundation for key social assistance reforms: “Protecting Poor and Vulnerable Households in Indonesia”, and “Targeting Poor and Vulnerable Households in Indonesia”. This support is considered state-of-the-art in the Bank for supporting client poverty reduction efforts, and included piloting a conditional cash transfer program which has increased women’s utilization of health services, development of a national targeting system featuring a unified database, and supporting results-based M&E and improved accountability.

#### **B.6. Core Engagement Area 4: Education Sector**

53. Indonesia’s longer-term objective is to improve access to basic education to meet MDGs on primary enrollment rates and literacy targets, and improve the quality of education to enhance competitiveness and inclusiveness. With primary enrollment and gender equity MDG targets basically achieved, the Bank focused on enhancing equity and quality in the system. Development outcomes supported by the Bank in the CPS included: (i) improved development of poor children between 0 and 6 in selected provinces; (ii) increased number of basic education teachers who meet mandated academic qualifications; (iii) improved efficiency and equity in the use of resources to increase access to basic education; (iv) greater share of public education resources channeled to end-users; (v) improved training programs and higher education system through institutional accreditation and conducting regular tracer studies to gauge effectiveness of training; and (vi) improved information and better implementation, monitoring and evaluation of education funding through the BOS-KITA program.

54. Development outcomes to improve the development of poor children between the ages 0 to 6 in selected provinces were achieved with the support of the Bank-financed *Early Childhood Education and Development Project (ECED)*, which helped establish of 6,000 centers in 3,000 poor villages. Early impact evaluation results show that the project has been successful at raising participation and development outcomes of children. The target to reduce the percentage of malnourished children aged 0-6 to 20 percent was surpassed with 18 percent of children underweight (Riskasdas 2010).

55. Targets to increased number of basic education teachers meeting academic qualification mandated by the Teacher Law were not met. While the percentage of teachers in primary and junior secondary schools holding an S1 degree or more was increased from 30 percent to 41 percent by 2010, this was below the target of 70 percent. Bank support during the CPS period included the

teacher quality has been supported through the *BERMUTU Project*, with Dutch co-financing, which introduced ICT based distance learning programs to allow existing teachers, to upgrade their qualifications and to improve their teaching and knowledge skills. Approximately 500,000 teachers have enrolled in these courses.

56. Likewise, the target to improve efficiency and equity in the use of resources to increase access to basic education were not met. While in 2011 a Ministry decree was issued to tackle over-supply and poor distribution of teachers. During this CPS period, public financing of education has increased by over 60% in real terms due largely to the implementation of a constitutional requirement to spend a fifth of its budget on education. Indonesia has made a clear commitment to education. The Bank's recent *Education Public Expenditure Review* notes that most of the additional resources for basic education went toward teacher hiring, even when the student teacher ratio, already one of the lowest in the world, demonstrated little positive impact on learning outcomes. Moreover, distribution of the teaching force is highly inefficient. Attempts to address teacher recruitment and deployment issues appear to have stalled. The technical issues and solutions are well known, but political economy issues are hampering reform. In addition, a major teacher certification program meant to provide incentives to improve quality suffers from a lack of rigorous implementation and has yet to show the expected impact on learning, and the fiscal implications could dramatically reduce the availability of other educational inputs.

57. The development outcomes to channel a greater share of public education resources to end-users to help make basic education more affordable for poor students and to increase secondary education enrolment. Recent data not available, however decree issued on free basic education and since 2009 significant increases in school operational funding (BOS), supported by the Bank-financed *BOS-KITA Project*, which benefits some 42 million students, has likely resulted in important reduction in the overall basic education costs. BOS per student financing has increased in real terms by 66% and 46% in primary and junior secondary schools respectively. The impact of BOS is also apparent on net enrollment in secondary education, which jumped from 57 percent (2007) to 66 percent by 2010.

58. Improved training programs and higher education system through accreditation was only partially achieved. While a higher education law to support this was passed in 2009, it was withdrawn in 2010 and then passed again in 2012. In 2009, however, accreditation occurred for 55 of 82 higher education institutions significantly above the 5 percent target. The Bank-financed *Higher Education Project (I-MHERE)*, together with AusAID, supported the development of the new higher education law.

59. The target for regular tracer studies of university graduates and graduates from job training programs was only partially achieved. A national system has yet to be established, though a number of universities have established systems to undertake tracer studies.

60. Efforts to improved information and better implementation, monitoring and evaluation of education funding through the BOS-KITA program were achieved. Independent monitoring of BOS financing was undertaken between 2008 and 2011, and a school and district information system (TRIMS) was established and is being utilized in some districts.

## **B.7. Core Engagement Area 5: Environmental Sustainability and Disaster Mitigation**

61. Indonesia faces significant environmental and natural disaster related challenges. Half of all Indonesians live in rural areas and are dependent on communal land, and coastal and environmental resources that are being depleted. The other half in this rapidly urbanizing society is affected by water and air pollution, flooding, lack of sanitation, congestion and noise. Indonesia is prone to a range of natural and man-made risks, as well as the impacts of climate change. Deforestation rates in Indonesia are among the highest in the world, with globally significant emissions of greenhouse gases, as a result. Indonesia remains ill equipped institutionally to meet these challenges with fragmented and overlapping jurisdiction and responsibility and weak mechanisms for the necessary coordinated effort. Indonesia's longer-term objectives are to strengthen capacity to adapt to climate change and address environmental challenges, including development of integrated disaster management.

62. While identified as an emerging engagement when the CPS was prepared, targets for development outcomes based on emission levels were over-ambitious given the weak institutional framework and the influence that might be exerted by the Bank. At the time the CPS development outcomes which the Bank expected to influence were reformulated to include: helping to establish coordination mechanisms and institutions for climate change management; enhancing Indonesia's access to international climate financing; promoting renewable energy and the creation of viable forest plantations on degraded lands in frontier areas. Specific targets were not developed. Development outcomes in support of disaster mitigation were left unchanged, and included, strengthening disaster risk resilience in development planning and administration.

63. Development outcomes supported by the Bank to help establish coordination mechanisms and institutions for climate change management were partially achieved. The Bank's engagement was to be centered on climate change through development policy operations, the *Forest Carbon Financing Partnership Facility (FCFP)*, the *Forest Investment Program (FIP)*, carbon financing and *GEF* with a more limited engagement on biodiversity. Partners included ministries and agencies dealing with cross-cutting climate change issues, as well as an active network of CSOs fostering social accountability and participatory mechanisms. The programmatic *Climate Change DPL* was designed to support policy dialogue to mainstream the discussion of climate change across a range of actors, including ministries and agencies dealing with cross-cutting climate change issues, as well as an active network of CSOs fostering social accountability and participatory mechanisms. Following the approval of the first phase of the programmatic series, co-financed by France and Japan, the GoI decided not to borrow further for environmental objectives.

64. A major impetus for this shift was the signing of a letter of intent with Norway for a \$1 billion REDD+ grant program and Bank support was requested. The Letter of Intent for REDD+ has been signed and a coordinating unit was established in the President's Office to prepare an implementation strategy. Over the past year, with advice from the Bank, the Government has led a participatory and consultative process for developing a National REDD+ Strategy, selected Central Kalimantan as a pilot province, including issuing a Master Plan on peat land rehabilitation in Central Kalimantan, and suspended new forest concession licensing for two years. As the institutional framework for implementation is being put in place, the Bank was hired by the Indonesian government (with financing from Norway) to help operationalize the financing mechanism under the Indonesia-Norway REDD+ partnership.

65. Development outcomes supported by the WBG have been achieved in enhancing Indonesia's access to international climate financing. Apart from the Bank's REDD+ support, it also helped in launching the National Readiness Program for REDD, completed the Participation Agreement with the Forest Carbon Financing Partnership Facility, and supported preparation of the Country Investment Program (CIP) under the Clean Technology Fund (CTF). The Bank collaborated with the ADB and the Government in the preparation of Indonesia's Investment Program for the *Forest Investment Program (FIP)*

66. Development outcomes for promoting renewable energy were achieved. The Bank assisted in the development of the new National Energy Plan, where renewable sources figure prominently, and the regulations for the new Energy Law regulations. The Bank-Financed *Geothermal Clean Energy Investment Project* (CTF co-financed) was approved. In addition, IFC has assessed 17 geothermal sites specifically for possible tendering as to their development impact and likelihood of successful implementation. Moreover, it has been providing financing assistance to private sector players, seeking to develop clean sources of power. IFC has focused on accessing CTF to support financing for renewable and energy efficiency projects as well as private sector geothermal energy projects. Work with the commercial banks to expand sustainable energy finance is further supported by the IFC's Advisory Services. IFC has assessed 17 geothermal sites specifically for possible tendering as to their development impact and likelihood of successful implementation. It has also provided US\$25 million of equity to Medco Power Indonesia to develop a series of gas and hydroelectric power plants.

67. Development outcomes to support the creation of viable forest plantations on degraded lands in frontier areas have been partially achieved. IFC is assisting a private sector company in Kalimantan to conduct forest carbon assessment, to allow the company to further build potential REDD+ revenue streams from its sustainable forestry operations. IFC has also provided funding to BioCarbon, an equity fund established to acquire and expand sustainable forestry operations.

68. Targets for supporting development outcomes to strengthened disaster risk reduction (DRR) in development planning and administration have been achieved. With Bank support, DRR has been mainstreamed through risk-based planning processes, and with increased funding capacities in post-disaster needs assessment and reconstruction have improved. The institutional arrangement and enabling environment to facilitate participatory implementation of disaster risk reduction were achieved with a National Action Plan for Disaster Risk Reduction issued by Bappenas; the Disaster Management Agency is operational; local disaster management plans were prepared; emergency operations centers are designed and functional; disaster risk reduction policies, legislation and regulations prepared and implemented in selected provinces; and five-year strategic development plans are being developed and implemented by provincial governments. As well, public awareness program were developed and implemented in high risk villages.

69. Support for strengthening disaster risk reduction in development planning and administration has benefited from the Bank's *Global Facility for Disaster Reduction and Recovery (GFDRR)*, which provides resources for technical assistance for risk identification, integrating risk reduction in investment projects, and identifying policy options for catastrophic risk financing. Disaster contingent components have already been included in two Bank-financed projects (*PNPM-Urban III* and *WINRIP*). Technical assistance is being provided for financing seismic school retrofitting, including earthquake proofing in 60 high risk districts. The Bank is also supporting the GoI to establish a standing mechanism for multi-donor support in post disaster recovery, and a trust fund has been set up, with an initial contribution of NZ\$1 million from the New Zealand Government, as part

of the Indonesia Multi Donor Funding Facility for Disaster Recovery (IMDFF-DR). This initiative will also assist the GoI in institutionalizing its community-based housing and settlement reconstruction program (REKOMPAK) as part of future post-disaster reconstruction.

70. The rebuilding of Aceh and Nias through the *Multi Donor Fund for Aceh and Nias (MDF)* as well as activities for Yogyakarta and Central Java through the *Java Reconstruction Fund (JRF)* will be completed in December 2012. Aceh is transitioning from post-tsunami reconstruction towards sustainable economic development, an important part of which is through strengthening local capacity. During the CPS period, the Bank was able to mobilize quickly to support Government efforts in the wake of the Merapi eruption in Central Java. It provided an assessment that fed into relief and reconstruction plans. Important lessons from the Aceh and Java experiences were used in channeling support through PNPM and promoting the use of the community housing model for reconstruction.

### **III. Bank's Performance**

#### *Lending Deliveries*

71. The CPS proposed that Indonesia's macroeconomic progress and financing needs, together with the emerging reform effort made a strong case for reversing the recent decline in IBRD lending. IBRD investment of between US\$1.5 billion and US\$2.5 billion annually was expected, dependent on macroeconomic performance, financial stability and momentum on key reforms. IFC was to invest about US\$300 million annually in the priority sectors of finance, infrastructure and commodity-based supply chains, but was expected to grow in line with an acceleration of reforms to facilitate private provision of infrastructure. Support from MIGA was also expected to expand with improvements in the investment climate.

72. The program did reverse the recent decline in IBRD lending and delivered almost \$2.7 billion annually, including the unanticipated two DDO operations at \$2 billion each, in keep with strong macroeconomic performance, financial stability and progress on key reforms. IFC committed new investments of US\$140-290 million for IFC's own account, keeping in line with the demand from the private sector.

#### *Portfolio Quality*

73. The share of projects at risk, which accounted for one-fourth of operations in 2008, has been brought down to an average of around 15 percent in recent years, and now compares favorably to the performance of other large, middle-income IBRD borrowers. Projects at risk tend to be smaller, so the volume of commitments at risk is less than 10 percent, and generally, but not exclusively associated difficult implementation environments and engagements. Sixteen ICRs from the Indonesia program were reviewed by IEG (WB Business Warehouse 10/2/2012) from FY09 through FY12. Six of these were rated MU or U. Many of these were approved during the transition period following the Asia Crisis and exited early on in the CPS period in FY09-10. As such, they are not representative of the CPS FY09-12 program and do not provide much in the way of evidence for evaluating the program. All three operations reviewed by IEG and delivered during FY09-12, DPLs 5-6 and the Public Expenditure Support Facility DPL-DDO were rated as "Satisfactory".

### *Non-Lending Services*

74. An extensive program of knowledge was facilitated by resources from development partners who valued the bank's expertise in a large number of areas and its ability to provide ESW, on-time policy notes, and implementation technical assistance. At the same time, the Bank sought to enable local capacity by partnering with local think tanks, universities and NGOs, and in some instances, poverty and *PEACH* for example, fostering new local institutions. As critical elements in defined engagement areas, knowledge services played an important role in the delivery of the overall program in support of development outcomes.

### *Gender Equity*

75. Gender considerations were not explicitly included in the original CPS, but this was rectified in the CPSPR, which outlined the status of gender equity in Indonesia and highlighted efforts by the WBG. The CPSCR notes WBG activities to enhance opportunities for women with greater access to finance and business support. Under PNPM supported is noted for actions to improve maternal health, as well as to promote economic, political, and social empowerment for women.

### *Country Dialogue, Partnerships and Aid Coordination*

76. The Bank's engagement approach places country dialogue at the center of its partnership strategy, which has enhanced its scope and impact. Collaboration with development partners and included a broad range of bi-laterals and multi-laterals, as well as local NGOs and CSOs. The Consultative Group led by the Bank was abolished by Indonesia, signaling its reemergence as a confident middle-income country with its own development agenda. While formal aid coordination no longer exists, engagement-based dialogue continues with Bank involvement based on alignment of donor resources behind the Government's program.

77. Trust fund commitments were at \$1.4 billion at the end of the CPS period, with multi-donor TFs amounting to \$1.2 billion, including \$654 million in the Aceh MDTF. The performance of trust funds has benefited from a more coordinated approach to their mobilization and management and were vetted to promote alignment with country priorities and integrated into the program's overall financial and human resource planning. Quality review processes mirrored those of Bank operations. Larger TFs benefited from being incorporated into the Bank's general operational management and results-based portfolio reviews for all TFs were undertaken regularly in collaboration with Bappenas. Special consideration was given to ensuring that they contributed to the overall objective of the CPS in institution building. Recipient executed trust funds accounted for 82 percent of the TF portfolio in terms of volume.

## **IV. Key Lessons Learned and Recommendations**

78. These lessons include:

- Effectively supporting an increasingly confident middle-income country requires fully aligning Bank Group support to Indonesia's development program and the country-led and owned policy agenda. This solidified its status as the development agency of choice and put the Bank Group in a position to be responsive to Indonesia's immediate needs, as well as for informing the debate on emerging policy issues. Full alignment, in turn, had spillover effects

for aligning other donor programs behind the country-led agenda in their collaboration with the Bank Group. This allowed the WBG to deepen its engagements across key development priorities.

- Programmatic development policy lending support provides important cross-cutting convening services for step-by-step incremental reforms. As institutional reform efforts deepen at the sectoral level, effectiveness of implementation support is further enhanced by drilling down through discrete projects.
- This sustained engagement over several years encourages an evidence-based approach that allows to carefully recalibrate the scope and design of programs as needed. A good example is the Bank's support for Indonesia's significant community driven development program, with demonstrable well-researched impact on the ground. Its country-wide expansion offers important potential for using social capital as a platform for addressing health and education, inclusion and environmental concerns, while requiring increased attention to governance and management, in order to improve impact and reduce operational and reputational risks.
- Knowledge services take an increasingly important role as Indonesia seeks to share both its best practices and lessons learned in development experiences, particularly with other middle-income countries. In important areas with diminished need for external financing, diffused leadership or poor coordination, the Bank's knowledge and convening services can encourage a policy debate with a view to forging an consensus (e.g. on the incentive framework for decentralization, nudge forward the reform agenda (e.g. on private-public partnerships), contribute to effective implementation (e.g. in education) and help with the coordination among government agencies (e.g. in infrastructure development).

**Annex 2.1: Summary of Indonesia CPS (2009-2012) Self Evaluation [10/08/2012]**

Development Outcomes Expected to be Influenced by WBG	Status and Output Evaluation Summary	Major Lending and Non-lending Activities that Contributed to the Outcome
<b><i>Cross-cutting Engagement Area 1 : Central Government Institutions and Systems</i></b>		
<p><b>Improved results orientation in the budget process.</b>  <i>Baseline:</i> Budget allocations based on organization, detailed types of expenditure, functions, programs and activities; budget documents include macroeconomic projections of aggregate expenditures and revenues, but the budget preparation process remains strictly annual with no reference to forward estimates for outer years.  <i>Targets:</i> Results-oriented programs with measurable results becoming the main units for budget allocation and control, with other classifications (by organization and/or type of expenditure) being applied selectively at an aggregate level.</p> <p><b>Effective operationalization of TSA, together with strengthened and timely cash plans from the line ministries.</b>  <i>Baseline:</i> TSA extended to all expenditure accounts but not yet to the revenue side. Very rudimentary cash planning that is not based on expected disbursements.  <i>Targets:</i> Comprehensive TSA coverage of all major government cash balances, including the revenue side. Maximum 10% deviation in line ministries' quarterly cash plans compared with actual cash flows.</p> <p><b>Effective and reliable implementation of State Treasury and Budget System (SPAN) reform, as evidenced by timely and accurate financial reporting.</b>  <i>Baseline:</i> PEFA indicators: PI 18 on effectiveness of payroll control is at D+; PI 20 on effectiveness of internal controls over non-salary expenditure is at D+; PI 25 on quality and timeliness of annual financial statements is at C+.  <i>Targets:</i> PEFA indicators: PI 18 to rise to C; PI 20 to rise to A; and PI 25 to rise to A.</p> <p><b>More efficient tax administration through: increased number of accurate taxpayer registration records in the registration database using third-party data and call centers; increased number of comprehensive and risk-based</b></p>	<p><b>Partially achieved.</b> The 2010-2014 Medium-term Development Plan (RJMNP) provides measurable results and targets indicators. Beginning in 2011, annual budgets have been more strongly to the planning process and include forward estimates for the next two years. However, RBB only slowly being introduced.</p> <p><b>Partially achieved.</b> Treasury Single Account has been extended to all accounts; cash forecasting capacity has been established. No evidence to show that it has improved line ministry cash planning.</p> <p><b>Achieved.</b> Updated PEFA figures are not available. Improvement in internal controls and internal and external audit systems evidenced by significant reduction in qualified audits.</p> <p><b>Not achieved.</b> Improved tax administration has seen the number of registered taxpayers increase, though the coverage still remains very low and</p>	<p><b>Financing:</b> DPLs 5-8; GFMRAP; PINTAR</p> <p><b>Knowledge:</b> Budget Reform in Indonesia; Agric Public Expenditure Analysis; DPR FY08; Agriculture PER; Social Protection PER; Infrastructure PER; Aceh Dialog Economic Policy; PEFA Follow-up; promoting Devt Effectiveness; Support for Enhanced Analysis and Monitoring of the Indonesian Economy (SEAMIE).</p>

<p><b>audits of taxpayer declarations; reduced tax arrears through better and more accurate taxpayer accounts and collection procedures.</b>  <i>Baseline:</i> (i) 40% accuracy (2007; based on total of 11 million taxpayer records); (ii) regular audits are limited to VAT refunds; (iii) processes to collect arrears not classified into collectable and non-collectable items; collection enforcement is ineffective.  <i>Targets:</i> (i) 100% accuracy; (ii) DGT conducts comprehensive audits expanding the number of returns exposed to compliance programs; (iii) effective procedures in place to collect arrears resulting in reported arrears not exceeding 5% of declared tax liabilities.</p> <p><b>Improved procurement system; higher capacity levels at national and provincial levels, and establishment of professional procurement units in implementing agencies; improved quality of procurement audit and effectiveness of sanctions.</b>  <i>Baseline:</i> (i) No procurement law is currently in place and there is no set of national standard bidding documents; (ii) there is no clear capacity-building program and percentage of government staff passing the certification test is still below 15% (mid-2008); (iii) sanctions on colluding firms are relatively limited and do not apply outside the implementing agency where collusion occurs.  <i>Targets:</i> (i) Procurement law and associated tools are issued; (ii) capacity-building program in place; (iii) sanctions provide a deterrent for colluding firms.</p> <p><b>Improved quality and timeliness of key statistics produced by BPS, e.g., national accounts data, poverty data, etc.</b>  <i>Baseline:</i> (i) Inconsistencies between BPS statistics from various different sources; (ii) low levels of user engagement and confidence, and (iii) prolonged data production timelines.  <i>Targets:</i> (i) National accounts move from 1968 System of National Accounts (SNA) to 1993 SNA; decreased discrepancies between statistics from different sources; (ii) increased level of user satisfaction and confidence, and (iii) reduced time lags between collection and data dissemination.</p>	<p>implementation of the tax administration information system has been delayed by procurement problems under <i>PINTAR</i> and a restructuring is underway.</p> <p><b><u>Achieved.</u></b> With Bank support a new procurement agency was established, national standard bidding documents have been issued, and an e-procurement system has been introduced to better detect and sanction collusion.</p> <p><b><u>Not achieved.</u></b> The Bank-financed <i>STATCAP-CERDAS</i> was initially delayed, but extensive support during project preparation is expected to facilitate implementation.</p>	
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**Cross-cutting Engagement Area 2 : Sub-National**

<p><b>An improved fiscal decentralization framework with incentives for accountability.</b>  <i>Baseline:</i> Fiscal framework distorts incentives, limits own source revenues and restricts financing  <i>Target:</i> Coordinated effort to defined new framework underway; DAK approach tying transfers to performance initiated; BOS decentralized; improved capacity of citizens to assess and monitor (PEACH).</p> <p><b>Improved infrastructure spending at the LG level.</b>  <i>Baseline:</i> Limited access by sub-nationals to financing of infrastructure and urban projects, lack of focus on urban issues  <i>Target:</i> Financing of sub-national infrastructure underway through sector-wide approaches or specific urban projects; <i>LG capital spending on the increase;</i></p>	<p><b>Achieved.</b> Bappenas, MoHA, and MoF meeting regularly with DSF as platform for decentralization agenda. Representatives of LG associations included. The Bank helped develop an innovative program through the <i>Local Government and Decentralization Project (DAK)</i> that used an existing transfer program to provide incentives for outcomes and accountability in five pilot provinces. Decision to decentralize BOS taken. Program to support sub-national expenditure and capacity harmonization (PEACH) implemented or underway in 11 provinces. Aceh and East Java Growth Diagnostic completed.</p> <p><b>Achieved.</b> <i>Jakarta Urgent Flood Mitigation Project</i> approved, which pioneered changes to regulations that would now facilitate infrastructure financing at sub-national level for non-revenue generating projects. Local government infrastructure spending has increased from Rp. 49.6 trillion in 2008 to an estimated Rp.56.3 trillion by 2010.</p>	<p><b>Financing:</b> DAK I; ILGR; USDRP; Jakarta Flood Mitigation Project</p> <p><b>Knowledge:</b> Improving Intergovernmental Framework; Intergovernmental Transfers; DSF studies on Territorial Reform; Sub-national Surplus and Reserves; Sub-national Borrowing; Sub-national Capital market development; Local Government and Urbanization; Sub-national PER; Public Expenditure Analysis and Capacity Development; PEACH TA Capacity Building; Aceh, East Java Growth Diagnostic</p>
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**Core Engagement Area 1 : Private Sector**

<p><b>Strengthened private and financial sector through: better regulatory frameworks; improved investment climate; stronger bank and non-bank financial institutions.</b>  <i>Baseline:</i> Key financial ratios of banks are sound; LDR 60%; 35% of households have access to bank accounts; saving, investment and risk management products relevant to poor and vulnerable population are limited.  <i>Targets:</i> Key financial ratios of banks remain sound and LDR reaches minimum 80%; NBFIs assets as proportion of loans to SME doubled; minimum of 45% of households have a bank account; infrastructure finance institution established and well functioning. Increased efficiency and coverage of credit bureau; increased lending against secured movable collateral.</p>	<p><b>Achieved.</b> The overall financial sector stability and soundness have been maintained since 2008. Banks and non-bank financial institutions have continued to grow their assets, despite the global financial crisis. In June 2012, the LDR reached 82.6%; The penetration of NBFIs in the economy has increased further from 24% in 2009, to 28% in 2011. Loans to SMEs grew strongly at 24% for 2011; Based on nationwide household survey, 41% of households have a bank account in their name. The Indonesia Infrastructure Finance Facility was established. IFC</p>	<p><b>Financing:</b> DPLs 5-8, Public Expenditure Support Facility DPL-DDO, Program for Economic Resilience, Investment and Social Assistance DPL-DDO. ; Indonesia Infrastructure Finance Facility, IFC investments in banks and micro finance institutions.</p> <p><b>Knowledge:</b> Support to Financial Sector Policy Support to Financial Sector Policy; Understanding Labor</p>
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<p><b>Improved capacity of sub-national governments to support business operations through introduction of less cumbersome procedures for business start-ups and licensing.</b>  <i>Baseline:</i> Sub-national Doing Business (DB) study of 15 cities and other baseline studies.  <i>Targets:</i> Reduction in time and cost of start-ups and licensing of 50% in client cities. 40,000 businesses completing a new reformed procedure, leading to 10% increase in the value of aggregate private sector savings from 2010 baseline (currently being established).</p> <p><b>Improved capacity of sub-national governments to attract and retain investors (Investment Generation).</b>  <i>Baseline:</i> Absence of the use of investor tracking system and client relationship management approach for investment generation. Absence of a guideline for effective investor facilitation, aftercare, policy advocacy and basic location marketing.  <i>Targets:</i> Demonstrated implementation of investor tracking systems and client relationship management approach in two provinces. Development of guidelines for effective investor facilitation, aftercare, policy advocacy and basic location marketing.</p> <p><b>Improved regulatory environment and interagency coordination in the development of investment policies.</b>  <i>Baseline:</i> 105 days to start a company; weak consultative processes prior to issuance of regulations; inadequate links between customs and other government agencies participating in INSW; uncoordinated investment policy.  <i>Targets:</i> 50 days to start a company; 2 months to receive VAT refund; improved links between customs and other government agencies through the single submission and synchronous processing of information through INSW; coordinated investment policy through PEPI; improved DB rankings.</p>	<p>is providing support to the Credit Bureau and Moveable Collateral registry.</p> <p><b><u>Partially achieved.</u></b> All 14 cities surveyed in the first round, with six cities added to the second round, have implemented reforms and the average time to start a business and to deal with construction permits have been reduced by more than 25 percent since 2010.</p> <p><b><u>Achieved.</u></b> Sub-national Investment Generation Project, investor facilitation, aftercare, policy advocacy and basic location marketing in two provinces.</p> <p><b><u>Achieved.</u></b> Business start-up time improved to 45 days (2012) from 105 days (2009); Indonesia National Single Window (INSW) opened with improved transparency of trade regulations and procedures for import clearance. PEPI is coordinating investment policy, including (i) consultations on revised Investment Negative List; (ii) independent cost-benefit analysis of FDI restrictions; and, (iii) investor problem solving, policy consultations and advice; Doing Business (DB) ranking improved from 129 (2009) to 122 (2010).</p>	<p>Market, Review on KUR (<i>Kredit Usaha Rakyat</i>): Government Partial Guarantee program; Improving access to Financial Services in Indonesia Empowering Female Migrant Workers; Anti-Corruption Harmonization; Corruption Eradication; Enhancing Demand for Legal Reform; Anti-Corruption Institute. Regulatory Reform, National Single Window, Investment Climate Monitoring Survey, IFC Advisory Services – Investment Climate Program. Advisory Services – Access to Finance Program, Investment Climate Program including ongoing support to Credit Bureau and Moveable Collateral registry. Ongoing Sub National Doing Business Survey Round II; Completed Investor Policy and Promotion program; Ongoing licensing reform at DKI Jakarta. Agribusiness Linkages Program. Program to Improve Indonesia's Trade Policy; Capacity Building on Trade; Indonesia Domestic Trade</p>
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<p><b>Strengthened institutional structure and capacity of the Ministry of Trade to enable it to develop and implement more effective trade policies.</b>  <i>Baseline:</i> Absence of specialist teams that can provide the required level of analysis for policy decisions.  <i>Target:</i> At least 4 specialized teams embedded in their respective DGs in the Ministry of Trade providing analytical support for the development of domestic and international trade strategies and for rapid policy response; the teams engage effectively with their policy counterparts in the Ministry.</p> <p><b>Improved access to markets for Indonesian businesses in select commodity or industry-based sectors.</b>  <i>Baseline:</i> SMEs/entrepreneurs/farmers have little direct access to large markets.  <i>Target:</i> New investment/financing for SMEs in supply chain; increased SME contracts with large firms; increased sales and incomes for impacted firms; price transparency increases.</p> <p><b>Improved market access and long-term sustainability for smallholders by connecting them to selected firms (known as ‘lead-firms’) that are seeking secure and growing supply sources.</b>  <i>Baseline:</i> Long supply chains comprising many middlemen with limited access for smallholders to markets, information and technology.  <i>Target:</i> Shorter supply chains with direct access for smallholders to lead firms, improved access to quality seedlings, price information and farming technology.</p>	<p><b>Achieved.</b> Five specialist teams have been established: Public Relations Center; Logistics Team; Trade Fair Team; Trade Monitoring Team; Commodity Team (to support Food Stability Team at CMEA). Regulations and procedures for national warehouse receipts system developed.</p> <p><b>Achieved.</b> Piloting of non-collateralized lending product for cocoa producers in Sulawesi. Identification of prospective partners for coffee lending in Sumatra.</p> <p><b>Achieved.</b> Farmer Training Center (FTC) for smallholder coffee growers in Sumatra established with sponsorship from international coffee off-taker; piloting FTC as direct purchasing center.</p>	
<p><b>Core Engagement Area 2 : Infrastructure</b></p>		
<p><b>Increased quantity and efficiency of national and sub-national government spending on infrastructure through improvements in subsidy policy, incentives framework, and expenditure planning and budgeting.</b>  <i>Baseline:</i> Actual spending on national infrastructure was Rp 18.9 trillion in 2006.  <i>Target:</i> Actual spending on national infrastructure increased by 25% over 2006 level by 2010.</p>	<p><b>Achieved.</b> Spending on national infrastructure increased by 52% in real terms between 2006 and 2011. Infrastructure DPLs 2-4 supports improved sector and land acquisition legislation to facilitate investment, and nine investment operations are launched in water, energy and roads to promote increased national and SOE investment.</p>	<p><b>Financing:</b> Infrastructure DPLs 2-4; 2nd Eastern Indonesia Region Transport; Strategic Road Infrastructure; Java-Bali Power Restructuring; Domestic Gas Market Devt; Jakarta Flood Mitigation Project; Indonesia</p>

<p><b>Increased private investment in infrastructure through the establishment of a fiscally sound, credible and transparent PPP framework.</b>  <i>Baseline:</i> Private sector financial commitments to private infrastructure projects were 0.5% of GDP in 2005.  <i>Target:</i> Private sector financial commitments to private infrastructure projects increase to 0.75% of GDP by 2010.</p> <p>Availability of bankable Power Purchase Agreement (PPA) and robust pricing formula. Improved capacity of relevant government agencies to conduct tenders and to serve as a model for subsequent geothermal IPPs.</p>	<p><b><u>Partially achieved.</u></b> Framework established with support of <i>Infrastructure Guarantee Project</i>. Major \$2 billion energy project has been tendered. Private infrastructure investment is estimated to have only reached 0.6% of GDP for 2009-10. . IFC supported private sector investments in clean power, gas development, logistics etc. sectors.</p> <p><b><u>Achieved.</u></b> IFC provided advisory services for power sector PPP. IFC project development on geothermal Independent Power Producers for potential PPPs..</p>	<p>Infrastructure Finance Facility  Infrastructure Guarantee Project;  Water Resources and Irrigation Sector Mgmt; Dam Operational Improvement; WSSLIC II; WSSLIC III; Urban Water Supply &amp; Sanitation TF: Aceh Community Settlement Reconstruction; Geothermal Power Generation; Aceh IRFF; Aceh Infrastructure Reconstruction Enabling; Jogja Community Based Settlement Rehab; Aceh Econ Devt Financing Facility; Livelihood Reconstruction Yoga/Java; PAMSIMAS Support; NTB River Basin; W&amp;S Program; IFC investments in infrastructure companies.</p> <p><b>Knowledge:</b> Completed: Papua Infrastructure Strategy; Ongoing: Surabaya Water Management Strategy; Assessment of Road Construction Industry; PPP Framework and Policy; Financing Initiative WASAP II; Low-income Housing Policy and Finance; Geothermal Power Supply; Energy Sector Policy Dialog; Infrastructure Guarantee Fund; Timely Land Acquisition for Infrastructure Devt; Telecom and ICT Advisory Support; Telecom and ICT Policy Advice; Value of a Well Run Water Utility; Telecoms/ICT Devt TA; Building Blocks for E-Govt Capability; WSP Program Administration; WSP Advisory Support; Aceh-Nias W&amp;S Facility;</p>
<p><b>Core Engagement Area 3 : Community Development</b></p>		

<p><b>Improved socio-economic and local level (<i>kelurahan-wards</i>) governance conditions of the urban poor through wider implementation of poverty reduction and community empowerment programs for income generation or grants for tertiary level infrastructure.</b></p> <p><b>Improved socio-economic and local-level (<i>kecamatan-sub-districts</i>) governance in rural areas through wider implementation of poverty reduction and community empowerment programs and the provision of investment resources to support productive proposals developed by communities, using a participatory planning process. <i>Baseline:</i> Poverty rate of 16.7% in 2007. <i>Target:</i> Poverty level decreased to 12% by 2012.</b></p> <p><b>PNPM-Rural targets:</b> Infant immunization: 61.2%; assisted deliveries: 69.5%; primary enrolment: 99.5%; junior high enrolment: 72%</p> <p><b>Public expenditures made more pro-poor by reducing fuel subsidies and</b></p>	<p><b>Achieved.</b> Programs for income generation and infrastructure in urban areas have been expanded under PNPM Urban III.</p> <p><b>Achieved.</b> PNPM Rural program expanded nationwide and covers 63,000 villages and 34 million people. Poverty rate: 12.4% (2011) PNPM IE shows:</p> <ul style="list-style-type: none"> <li>• Improved household expenditure rates or improved access to economic and social services in 7,800 wards ( at 6,240 (80%).</li> <li>• Infrastructure built is 20% less expensive than that built by non-community based approaches in 80% of participating wards.</li> <li>• EIRRs &gt;30% for major rural infrastructure types in PNPM sub-districts (EIRRs range 35-75% in 2011).</li> <li>• 80% of PNPM-Rural sub-projects are functional and adequately utilized by communities (89%in 2011 )</li> <li>• Improved HH expenditure rates and improved access to economic and social services in a minimum of 2,500 poor sub-districts (5,020 sub-districts covered by PNPM-Rural in 2011).</li> </ul> <p><b>Achieved.</b> PNPM-Generasi (CCT pilot) targets for 130 treatment sub-districts: Infant immunization from 65% (2007) to 75%; assisted deliveries from 67% (2007) to 77%; primary school enrollment from 96.5% (2005) to 97%; junior high school enrollment from 57% (2006) to 72%.</p> <p><b>Partially achieved.</b> While spending on core pro-poor</p>	<p><b>Financing:</b> PNPM II, III &amp; IV, PNPM Urban III; DPL 7-8</p> <p><b>Knowledge:</b> Poverty Reduction Through Economic Governance; Strengthening Local Capacity for Poverty; PNPM Mandiri Capacity Building; PNPM Strategic Directions; Policy devt for PNPM; PNPM-Rural and PNPM-Generasi Impact Evaluation; Targeting Performance of Poverty Programs; MIS Improvement for PNPM; Cost Accounting Review for CDD; Poverty Dialog on Pro-poor and Pro-jobs; PNPM Communication Strategy;; SP Program Design and Implementation; Helping Generate Jobs for Pro-poor Growth; Alternative Mechanisms for Service Delivery; PNPM M&amp;E; Incidence of Benefits of Household- and Community-based pro-poor development programs TA to Aceh Local Government; Local Level Institutions Study</p> <p><b>Knowledge:</b> “Targeting Poor and Vulnerable Households in Indonesia” (completed); Protecting Poor and Vulnerable Households in Indonesia” (social assistance PER and program review - completed); Partnership for Knowledge-</p>
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<p><b>reallocating the savings to strategic targeted interventions for the poor and successful implementation of CCT.</b>  <i>Baseline:</i> 3.8% of GDP at US\$83/bbl.  <i>Target:</i> Fuel subsidies decreased by 50% and resources re-allocated towards pro-poor programs, amongst others.</p> <p><b>4. Integration and implementation of poverty and social protection programs is improved in order to increase effectiveness and efficiency; policy and program decisions are informed by poverty data monitoring and analytics.</b>  <i>Target:</i> Increased benefits coverage for poor men, women, and children (decreased inclusion and exclusion errors, increase in number of poor households receiving benefits, increase in poor households' share of total benefits).</p>	<p>programs has increased to from 0.3% of GDP in 2007 to 0.39% in 2011, energy fuel and electricity) increased from 3.8% in 2007 to 4.0% in 2011, though the revised 2012 budget is for 2.9% of GDP.</p> <p><b>Achieved.</b> National Team for the Acceleration of Poverty Reduction established to integrate and coordinate national poverty reduction policies and programs (Presidential Regulation No. 15/2010). Creation of national registry of 25 million poor and vulnerable households (Pendataan Program Perlindungan Social, PPLS11). Instructions issued from the National Team for implementing agencies to use the database to extract program beneficiary lists. MOUs signed with implementing agencies agreeing to utilize the national registry- Jamkesmas, scholarships for the poor (BSM), Raskin and the PKH expansion.</p>	<p>based Poverty Reduction (ongoing)</p>
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**Core Engagement Area 4 : Education**

<p><b>Improved development of poor children between the ages 0 to 6 in selected provinces: Percentage of malnourished children aged 0-6 decreases.</b>  <i>Baseline:</i> 27% of children underweight (2001). <i>Target:</i> 20%.</p> <p><b>Increased number of basic education teachers meets academic qualification mandated by the Teacher Law.</b> <i>Baseline:</i> 30% of teachers in primary and junior secondary schools hold S1 degree or more. <i>Target:</i> 70% of teachers hold S1 degree or more.</p> <p><b>Improved efficiency and equity in the use of resources to increase access to basic education; inefficiencies resulting from excess supply and unequal distribution of teachers are reduced: oversupply of teachers as measured by student-teacher ratio (STR) in basic education is reduced.</b> <i>Baseline:</i></p>	<p><b>Achieved.</b> : 18% of children underweight (Riskesdas 2010). Increased community-based ECED services in 6000 targeted villages.</p> <p><b>Not achieved.</b> 41% of teachers in primary and junior secondary schools hold S1 degree or more (MoEC Statistical Yearbook 2010).</p> <p><b>Not achieved.</b> In 2011, a Ministry decree was issued to tackle over-supply and poor distribution of teachers. The decree indirectly tackles over hiring through better information at the central level. However, implementation has been slow. 2010:</p>	<p><b>Financing:</b> BERMUTU; Early Childhood Education and Devt; BOS-KITA; Higher Education HERE; Health Professional Education Quality; TF: Basic Education Capacity</p> <p><b>Knowledge:</b> Teacher Management; Youth Skills &amp; Devt; Education Sector Dialog &amp; Strategy; School Based mgmt Study; Education Sector Assessment; Information Education &amp; Communication; Education Public Expenditure</p>
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<p>Primary STR=20 and junior secondary STR=14. <i>Target:</i> Primary STR=26 and junior secondary STR=22.</p> <p><b>Greater share of public education resources channeled to end-users making basic education affordable for poor students and increasing secondary education enrolment. Average annual cost per student in primary and junior secondary for children in poorest quintile decreases.</b> <i>Baseline:</i> Rp 182,810 for primary and Rp 416,010 for secondary per student per year at 2006 prices (Susenas, 2006). <i>Target:</i> Through co-financing of the BOS program, Rp 150,000 for primary and Rp 250,000 for secondary per student per year at 2006 prices.</p> <p><b>Net enrolment in secondary education (junior and senior combined) increases.</b> <i>Baseline:</i> 57% (2007). <i>Target:</i> Through co-financing of the BOS program, increase to 70% (2012).</p> <p><b>Improved training programs and higher education system: Institutional accreditation awarded to higher education institutions and private sector training providers.</b> <i>Baseline:</i> 215 private sector training institutions accredited, and no higher education institutions accredited. <i>Target:</i> 430 private sector training institutions accredited and 5% of higher education institutions accredited.</p> <p><b>Regular tracer studies of university graduates and graduates from job training programs to establish their subsequent position in the labor market.</b> <i>Baseline:</i> Tracer studies not yet in place <i>Target:</i> Tracer studies in place.</p> <p><b>Improved information and better implementation, monitoring and evaluation of education funding through the BOS-KITA program.</b> <i>Baseline:</i> No systematic, regular independent monitoring of education funding. <i>Target:</i> School and district information system (TRIMS) established.</p>	<p>Primary STR=16 and junior secondary STR=13. (MoEC Statistical Yearbook 2010).</p> <p><b>Achieved.</b> Recent data not available, however decree issued on free basic education and since 2009 significant increases in school operational funding (BOS) has likely resulted in important reduction in the overall basic education costs. BOS per student financing has increased in real terms by 66% and 46% in primary and junior secondary schools respectively.</p> <p><b>Achieved.</b> Recent data not available, but with BOS initiated in 2009, the secondary net enrolment rate had already reached 66% by 2010 (SUSENAS 2010)</p> <p><b>Partially achieved.</b> Operative legislation was passed in 2009, withdrawn in 2010 and then passed again in 2012. In 2009, however, accreditation occurred for 55 of 82 higher education institutions (67%). Further institutional accreditation has stopped for the moment, but accreditation of study programs continues.</p> <p><b>Partially achieved.</b> A number of universities have established systems to undertake tracer studies but no national system currently in place</p> <p><b>Achieved.</b> Independent monitoring of BOS financing undertaken between 2008 and 2011. School and district information system (TRIMS) established and being utilized in some districts.</p>	<p>Review</p>
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*Core Engagement Area 5 : Environment*

**Assist GoI in building needed coordination mechanisms and institutions for climate change management to meet targets. Support Indonesia in accessing and utilization of international financing. Promote renewable energy.** Target not developed.

**Creation of viable forest plantations on degraded lands in frontier areas with combined objectives of producing timber and climate change benefits by working with forest plantation firms, sub-national governments, NGOs, local communities and the broader forestry sector.** Target not developed.

**Strengthened disaster risk reduction (DRR) in development planning and administration.**

*Baseline:* Existing level of funding for DRR.

*Target:* 20% increase by 2010.

**Strengthen the institutional arrangement and enabling environment to facilitate participatory implementation of disaster risk reduction.**

**Achieved.** Master plan on peat land rehab in Central Kalimantan issued. National Readiness Program for REDD launched. Completed Participation Agreement with Forest Carbon Financing Partnership Facility completed . Letter of Intent for REDD+ signed and Bank providing advisory services for program. Support for preparation of Country Investment Program (CIP) under the Clean Technology Fund (CTF).. National energy plan and Energy law regulations issued. Bank Financed *Geothermal Clean Energy Investment Project* (CTF co-financed) approved. IFC has assessed 17 geothermal sites specifically for possible tendering as to their development impact and likelihood of successful implementation. . IFC has also invested US\$25 million of equity in Medco Power, to develop a series of gas and hydroelectric power plants.

**Partially achieved.** IFC is assisting a private sector company in Kalimantan to conduct forest carbon assessment, to allow the company to further build potential REDD+ revenue streams from its sustainable forestry operations. IFC has provided funding to BioCarbon, an equity fund established to acquire and expand sustainable forestry operations.

**Achieved.** DRR has been mainstreamed through risk-based planning processes. With increased funding capacities in post-disaster needs assessment and reconstruction have improved.

**Achieved.** National Action Plan for Disaster Risk Reduction issued by Bappenas. Disaster

**Financing:** Climate Change DPLs, Second COREMAP; TF: GEF Second COREMAP; Geothermal Clean Energy Investment Project; GEF ODS Phase-out; Aceh Forest and Environment

**Knowledge:** Fuel Quality Issues and Air Pollution; Economic Analysis of Climate Change; Persistent Organic Pollutants; POPs Awareness and Capacity Building; Trade & Climate Change & Logistics Reforms; Aceh Response TA Facility; Aceh Support; Nias LEDP Disaster Risk Mgmt; Mainstreaming DRR; Post Disaster Needs Assessment; IFC Advisory Services – Sustainable Forestry Program.

<p><i>Baseline:</i> Current situation is weak and fragmented DRR capacity and policies/regulations.  <i>Target:</i> Improve capacity and operating framework for DRR in target districts/provinces by 2012.</p> <p><b>Public awareness program implemented to promote a culture of safety.</b>  <i>Baseline:</i> Currently no systematic quality public awareness program.  <i>Target:</i> Increased public awareness by 2012.</p>	<p>Management Agency operational. Local disaster management plans prepared. Emergency operations centers designed and functional. Disaster risk reduction policies, legislation and regulations prepared and implemented in selected provinces. Five-year strategic development plans are developed and implemented by provincial government</p> <p><b><u>Achieved.</u></b> Public awareness programs developed and implemented in high risk villages.</p>	
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## INDONESIA: CAS Completion Report

### Planned Lending Program and Actual Deliveries for FY09-12

CAS Plans (February 8, 2011)		Status of Deliveries	
Project	IBRD US\$M		Approved Amount
<b>TOTAL FY09-12</b>			
<b>FY09 Program</b>	<b>2,490</b>		<b>4,225</b>
Fifth Development Policy Loan	700	Delivered (FY09)	750
Second Infrastructure Development Policy Loan	200	Delivered (FY09)	200
Indonesia - BOS Knowledge Improvement for Transparency and Accountability	600	Delivered (FY09)	600
Public Expenditure Support Facility (DPL-DDO)		Delivered (FY09)	2,000
Project for Indonesian Tax Administration Reform (PINTAR)	145	Delivered (FY09)	110
Western Indonesia National Roads Improvement Project	80	Delivered (FY11)	
Dam Operational Improvement and Safety	50	Delivered (FY09)	50
ID-Urban Water Supply and Sanitation	30	Delivered (FY09)	
National Program for Community Empowerment in Rural Areas (PNPM Rural II)	250	Delivered FY09)	300
National Program for Community Empowerment in Urban Areas (PNPM II UPP	185	Delivered (FY09)	115
Jakarta Urgent Flood Mitigation Project	150	Delivered (FY12)	
Indonesia Infrastructure Finance Facility	100	Delivered (FY09)	100
<b>FY10 Program</b>	<b>3,073</b>		<b>2,986.36</b>
ID-Urban Water Supply and Sanitation	30	Delivered (FY10)	23.56
Western Indonesia National Roads Improvement Project	80	Delivered (FY11)	
Indonesia Sixth Development Policy Loan	750	Delivered FY10)	750
Third Infrastructure Development Policy Loan	250	Delivered (FY10)	250
Java-Bali Power (Additional Financing)	30	Delivered (FY10)	30
Health Professional Education Quality Project	78	Delivered (FY10)	77.82
Indonesia Climate Change Development Policy Project	200	Delivered (FY10)	200
Indonesia - Add'l Financing BOS Knowledge Improvement for Transparency and Accountability	500	Delivered (FY10)	500
Local Government DAU/DAK Support	220	Delivered (FY10)	220
Third National Program for Community Empowerment in Urban Areas III	150	Delivered (FY10)	149.98
Third National Program for Community Empowerment in Rural Areas (PNPM-Rural	785	Delivered (FY10)	785
<b>FY11 Program</b>	<b>2,753</b>		<b>2,242.65</b>
Western Indonesia National Roads Improvement Project	250	Delivered (FY11)	80
Upper Cisokan Pumped Storage Hydro-Electrical Power (1040 MW) Project	640	Delivered (FY11)	640
Statistical Capacity Building-Change and Reform for the Development of Statistics (STATCAP-CERDAS)	65	Delivered (FY11)	65
Indonesia: Scholarships Prog. for Strengthening Reforming	113	Delivered (FY11)	112.65

Institutions			
Jakarta Urgent Flood Mitigation Project	150	Delivered (FY12)	
Water Resources and Irrigation Sector Management Program 2	150	Delivered (FY11)	150
Geothermal Clean Energy Investment Project	160	Delivered (FY12)	
Indonesia Seventh Development Policy Loan	600	Delivered (FY11)	600
Climate Change DPL2	200	Dropped	
Indonesia Power Transmission Development	225	Delivered (FY11)	225
Fourth Infrastructure Development Policy Loan	200	Delivered (FY11)	200
<b>FY12 Program</b>	<b>2,890</b>		<b>3,245</b>
Fourth National Program for Community Empowerment in Rural Areas (PNPM IV)	700	Delivered (FY12)	531
Support for Poor and Disadvantaged Areas II (SPADA II)	200	Dropped	
Program for Economic Resilience, Investment and Social Assistance in Indonesia		Delivered (FY12)	2,000
Connectivity DPL	30	To be delivered (FY13)	
Road Asset Preservation Project	300	To be delivered (FY14)	
Indonesia Development Policy Loan 8	500	Delivered (FY12)	400
Jakarta Urgent Flood Mitigation Project		Delivered (FY12)	139
Greater Bandung WSS	375	Dropped	
Water Supply Output Based Disbursement	50	Dropped	
Health Professional Education Quality Project (additional)	90	Dropped	
Geothermal Clean Energy Investment Project		Delivered (FY13)	175
Sustainable Management of Agricultural Research and Technology Dissemination (SMARTD)	80	Delivered (FY13)	
Infrastructure Guarantee Fund (IIGF)	300	Delivered (FY13)	
Power Transmission II	60	To be delivered (FY13)	
Research and Innovation	95	To be delivered (FY13)	
Reforming Pre-service Teacher Training	75	Dropped	
BOS KITA3	35	Dropped	

## Annex 2.3

**INDONESIA: Trust Funds, FY09-12\*****TRUST FUNDS**

Project	TF ID	Approved Amount	Effective Date	Activation Date	Closing
PA 3 - Provincial Government Support Program	TF096864	2,000,000	26-May-10	25-Jun-10	30-Sep-11
Making Aceh Safer Through Disaster Risk Reduction In Development (Drr-A)	TF093151	9,870,000	22-Oct-08	6-Nov-08	31-May-12
Aceh Government Transformation Program	TF092292	16,976,163	22-Jul-08	14-Aug-08	30-Jun-12
Nias Island Transition Project	TF093866	4,590,000	1-Apr-09	19-Jul-09	30-Jun-12
Indonesia Geothermal Power Preparation Grant	TF094705	2,392,486	28-Sep-09	12-Oct-09	30-Jun-12
Partner Agency implemented Projects in the Recovery of Communities in Aceh and Nias	TF012569	750,959	26-Jun-12	29-Jun-12	30-Jun-12
Grant to UGM on Sub-National Capacity Building Programs	TF098043	3,901,171	30-Nov-10	12-Jan-11	31-Jul-12
Support for the Implementation of the Extractive Industries Transparency Initiative (EITI) in Indonesia	TF099302	1,050,000	22-Jun-11	11-Jul-11	22-Oct-12
MDF- Aceh Economic Development Financing Facility Project	TF093358	50,000,000	30-Mar-09	8-Apr-09	30-Nov-12
Basic Education Capacity - Gol Executed	TF091895	21,819,991	5-Jun-08	10-Jul-08	31-Dec-12
WASAP D - Sanitation Community and Municipal Pilots	TF094270	2,210,632	15-Nov-08	14-Feb-10	31-Dec-12
Technical Assistance For Flood Mitigation	TF092649	4,127,200	19-Dec-08	20-Jan-09	31-Dec-12
Co-financing Grant to PNPM for Decentralized Management of Natural Resources and Renewable Energy	TF093076	34,000,000	24-Dec-08	19-Jan-09	31-Dec-12
GPOBA W3 - Indonesia - Expanding Piped Water Supply To Surabaya's Urban Poor Support Facility for the National Program for Community Development/Program Nasional Pemberdayaan Masyarakat (PNPM), Environmental Pilot Project - 'Green' PNPM	TF091511	2,407,500	24-Jun-09	7-Jul-09	31-Dec-12
	TF096887	2,295,400	1-Sep-09	28-Jun-10	31-Dec-12
Nias Rural Access and Capacity Building Project	TF095247	16,000,000	10-Sep-09	5-Nov-09	31-Dec-12
Reimbursement of administrative cost for TF095247	TF095482	480,000	26-Oct-09	6-Jan-10	31-Dec-12
Infrastructure Reconstruction Financing Facility - Additional Financing	TF098082	36,700,000	19-Oct-10	18-Nov-10	31-Dec-12

Nias Livelihoods and Economic Development Program (Nias LEDP)	TF096865	8,200,000	22-Oct-10	10-Nov-10	31-Dec-12
PNPM Rural III - Disaster Recovery Support	TF098819	13,900,000	9-Dec-10	18-Apr-11	31-Dec-12
PNPM Rural III - Disaster Management Support	TF098862	200,000	9-Dec-10	18-Apr-11	31-Dec-12
Settlement Rehabilitation and Reconstruction Project (Rekompak)	TF098863	400,000	9-Dec-10	15-Apr-11	31-Dec-12
Settlement Rehabilitation And Reconstruction Project (Rekompak)	TF098869	11,100,000	9-Dec-10	15-Apr-11	31-Dec-12
PNPM Urban III - Disaster Management Support	TF098870	1,400,000	9-Dec-10	15-Apr-11	31-Dec-12
Third National Program for Community Empowerment in Rural Areas (PNPM-Rural III) Additional Financing	TF099616	32,700,000	31-Mar-11	12-Jul-11	31-Dec-12
Integrated Management Information System (MIS) for PNPM Mandiri - SIMPADU (Phase 2) Project	TF099083	977,000	13-May-11	9-Jun-11	31-Dec-12
Advisory and Analytical Activities to Support Public Procurement Reform	TF098847	750,000	10-Jun-11	24-Jun-11	31-Dec-12
PNPM GREEN Awareness Raising Project in Sumatera	TF011930	265,000	25-Apr-12	30-May-12	31-Dec-12
Communications and Outreach Grant to BAKTI	TF097213	454,500	26-Jul-10	10-Aug-10	31-Mar-13
Preparation Phase under the Partnership for Carbon Market Readiness (PMR) in Indonesia	TF011883	350,000	7-May-12	17-May-12	31-Mar-13
Papuan Women's Empowerment Project (PAWE)	TF093439	1,728,443	1-Apr-09	12-May-10	11-May-13
WASPOLA Facility RE	TF095502	2,325,490	23-Aug-10	2-Sep-10	31-May-13
GPOBA - Improved Access To Water Services In Jakarta Water Project	TF091024	1,801,198	1-Nov-07	30-Jul-08	30-Jun-13
GPOBA - Improved Access To Water Services In Jakarta Water Project	TF091025	771,942	1-Nov-07	30-Jul-08	30-Jun-13
GEF FSP - Indonesia: Geothermal Power Generation Development Project	TF092324	4,000,000	15-Dec-07	24-Oct-08	30-Jun-13
GPOBA W3 - Extending Telecommunication In Rural Indonesia	TF092629	1,868,338	19-Jun-09	30-Jun-09	30-Jun-13
Lahendong II 20 MW Geothermal Project	TF091097	4,472,853	23-Jul-09	29-Jul-09	30-Jun-13
W2-Supporting the Indonesian Corruption Eradication Commission's corruption prevention strategy	TF094467	600,000	2-Jul-10	13-Jul-10	30-Jun-13
KTF Support for Statistical Capacity Building (Recipient-Executed)	TF098283	350,000	15-Nov-10	28-Dec-10	30-Jun-13

Building Local Capacity for Policy Advice in Aceh Project	TF099736	540,000	24-Jun-11	8-Nov-11	30-Jun-13
Integrated Community Legal Empowerment (ICLE) Project	TF010255	325,000	13-Sep-11	21-Oct-11	30-Jun-13
IDF Grant for Indonesia Support to BPK for Preparation of New Strategic Plan	TF096643	258,000	4-Aug-10	9-Aug-10	4-Aug-13
IDF Grant for Indonesia Support to BPKP on Pilot Implementation of COSO Framework	TF096644	250,000	9-Aug-10	26-Aug-10	9-Aug-13
The Community Ranger Program	TF099737	2,600,000	26-Aug-11	8-Nov-11	31-Aug-13
JSDF - Empowering Women Overseas Migrant Workers	TF091169	1,563,770	30-Apr-10	6-May-10	31-Oct-13
Program To Improve Trade & Investment Climate	TF094088	1,580,000	13-Apr-09	27-Apr-09	31-Dec-13
PAMSIMAS - Support for the Third Water Supply and Sanitation for Low Income Communities Project (Recipient executed)	TF094792	32,611,292	10-Sep-09	17-Sep-09	31-Dec-13
ID-TF PNPM Generasi (Community Cct) Scale-Up	TF097410	73,323,000	16-Aug-10	2-Sep-10	31-Dec-13
PNPM Peduli Executing Organization: Lakpesdam Project	TF099535	1,520,600	30-Jun-11	25-Jul-11	31-Dec-13
ID-TF PNPM Peduli Executing Organization: Kemitraan	TF099554	2,733,300	30-Jun-11	18-Jul-11	31-Dec-13
ID-TF PNPM Peduli Executing Organization: Association for Community Empowerment	TF099555	1,966,800	30-Jun-11	18-Jul-11	31-Dec-13
PNPM Community Facilitators Development Program (CFDP)	TF012270	1,193,000	1-Feb-12	16-Jul-12	31-Dec-13
National Violence Monitoring System Indonesia (Component 2)	TF010265	653,500	2-Dec-11	17-Dec-11	31-Mar-14
Sustaining Women's Leadership	TF095058	1,843,105	26-Apr-10	4-May-10	26-Apr-14
National Violence Monitoring System (NVMS)	TF010266	1,014,070	16-Jan-12	25-Jan-12	31-May-14
Preparing Bappenas for the Future: Strategic Management and Institutional Strengthening Project	TF099200	435,000	12-Sep-11	27-Sep-11	12-Sep-14
INDONESIA - Bekasi Landfill Gas Flaring Project	TF091245	2,515,013	20-Apr-09	7-Oct-10	31-Dec-14
GIKOKO - Makassar LFG Flaring Project	TF092829	2,708,475	20-Apr-09	6-May-09	31-Dec-14
Indonesia - FCPF Readiness Preparation Grant	TF099721	3,196,428	10-Jun-11	18-Jul-11	31-Dec-14
Indonesia Slum Alleviation Policy and Action Plan (SAPOLA)	TF097331	455,000	6-Oct-10	25-Oct-10	31-Mar-15

Geothermal Development in Indonesia: Technical Assistance for Capacity Building of Pertamina Geothermal Energy (PGE)	TF011854	6,950,000	24-May-12	21-Jun-12	31-Mar-15
Indonesia Geothermal Clean Energy Investment Project	TF010407	125,000,000	29-Jun-12	12-Aug-11	31-Mar-15
Analysis of Alternative REDD+ Financing Mechanisms, Indonesia Grant Bank-Executed	TF099409	149,030	31-Mar-11	1-Apr-11	31-Mar-12
SLUM UPGRADING AND LOW INCOME HOUSING	TF093033	500,000	12-Sep-08	13-Oct-08	30-Jun-12
Infrastructure Public Expenditure Review	TF095370	259,000	15-Oct-09	7-Oct-09	30-Jun-12
Spatial Planning and Balanced Regional Growth	TF095483	107,000	19-Oct-09	23-Oct-09	30-Jun-12
Development of The Framework and Policies for Infrastructure PPP	TF093725	595,000	27-Jan-09	3-Feb-09	30-Jul-12
Indonesia Water and Sanitation Financing Program	TF010908	135,000	18-Oct-11	23-Oct-11	15-Aug-12
INDONESIA: Improving Farmers Livelihood through Biological-based Farming System in Irrigated Agriculture (Seed Fund).	TF011383	35,000	18-Dec-11	28-Dec-11	30-Sep-12
PPIAF SNTA INDONESIA: Jakarta Credit Rating	TF011980	75,000	1-Mar-12	14-Mar-12	30-Sep-12
Forest Investment Program in Indonesia	TF098929	156,210	20-Jan-11	8-Feb-11	30-Nov-12
ID: Geothermal Diaries: The Journey of Developing the Ulubelu and Lahendong fields in Indonesia	TF099499	162,500	31-Mar-11	15-Apr-11	30-Nov-12
Renewable Energy for Electrification - PLN Capacity Building in HOMER	TF012077	50,000	16-Mar-12	22-Mar-12	30-Nov-12
Pioneering Smart Grid transformation: Indonesia and Brazil	TF012139	48,200	2-Apr-12	3-Apr-12	30-Nov-12
Advisory and Analytical Activities to Support Public Procurement Reform	TF096225	250,000	5-Jan-10	12-Feb-10	30-Dec-12
JSDF Poverty Reduction And Women's Leadership: The "Prime" Project (BANK EXE)	TF091172	40,000	5-Jun-08	6-Aug-08	31-Dec-12
Advisory And Analytical Activities To Support Public Financial Management Reforms 2009-2011	TF093757	2,400,000	1-Jan-09	6-Feb-09	31-Dec-12
Advisory Services In Support Of Tax Administration Reforms	TF093765	910,000	1-Jan-09	12-Feb-09	31-Dec-12
ID-TF PNPM Supervision and Monitoring (Urban)	TF095751	800,000	16-Sep-09	27-Nov-09	31-Dec-12
Corruption Prevention Capacity Building	TF096940	1,623,990	10-May-10	14-May-10	31-Dec-12
Advisory Services in Support of Tax Administration Reforms	TF098026	861,750	1-Oct-10	11-Oct-10	31-Dec-12

ID-TF Local Government Capacity Development	TF098107	1,730,000	18-Oct-10	25-Oct-10	31-Dec-12
Indonesia Urban Poverty Analysis, Program Review and PNPM-Urban Evaluation	TF098255	640,000	21-Oct-10	8-Nov-10	31-Dec-12
Identification and Implementation of Transport Activities in Indonesia	TF099709	200,000	5-May-11	16-May-11	31-Dec-12
Indonesia Water Sector Activities - INDII	TF099799	100,000	25-May-11	1-Jun-11	31-Dec-12
Energy Efficiency Financing Framework	TF010697	170,000	19-Sep-11	28-Sep-11	31-Dec-12
Indonesia Country Coordination and Advocacy	TF010664	700,000	20-Sep-11	22-Sep-11	31-Dec-12
DEWATS ESW Review Indonesia	TF010767	150,000	16-Oct-11	4-Oct-11	31-Dec-12
Geothermal Power Development Program II	TF011403	506,000	13-Nov-11	20-Dec-11	31-Dec-12
Indonesia Urban Solid Waste Management Program	TF011392	100,000	1-Dec-11	16-Dec-11	31-Dec-12
Indonesia: Scaling up Access to Clean and Efficient Cooking Stoves	TF011633	360,000	19-Jan-12	24-Jan-12	31-Dec-12
Indonesia - Fuel to Power Value Chain Optimization	TF011734	170,000	8-Feb-12	7-Feb-12	31-Jan-13
W2-Supporting The Indonesian Corruption Eradication Commission's Corruption Prevention Strategy	TF094468	150,000	11-May-09	27-May-09	30-Apr-13
HRM and Communication	TF097875	1,249,149	1-Oct-10	27-Sep-10	30-Apr-13
Advisory and Analytical Activities to Support Public Financial Management Reforms	TF098024	1,199,980	1-Oct-10	11-Oct-10	30-Apr-13
Trust Fund Management and Administration	TF098027	295,500	1-Oct-10	11-Oct-10	30-Apr-13
Analytical and Capacity Support to Improve Expenditure and Revenue Policy	TF098412	920,000	15-Oct-10	25-Nov-10	30-Apr-13
W4.2 - Strengthening Governance, Improving Incentives and Reducing Non Collection and Leakages in Indonesia's Non-tax Revenue Regime	TF012560	197,500	3-Jun-12	11-Jun-12	30-Apr-13
Papuan Women's Empowerment Project (PAWE) (BANK-EXECUTED)	TF093441	75,000	1-Apr-09	9-Oct-09	11-May-13
ICT Technical Assistance Program	TF097339	211,000	15-Jul-10	19-Jul-10	30-May-13
WASPOLA FACILITY	TF094736	4,941,536	1-Jul-09	15-Jul-09	31-May-13
INDONESIA: Secure Government Communications and Priority Application Development Advisory Assistance	TF010512	250,000	1-Jun-11	2-Sep-11	1-Jun-13

Indonesia:GFDRR Mainstreaming Disaster Risk Reduction in Indonesia # Phase II (Track II TA Core)	TF098020	1,635,000	10-Sep-10	14-Oct-10	28-Jun-13
ID-TF Consolidating Peaceful Development in Aceh (CPDA)	TF096353	2,239,812	22-Feb-10	8-Mar-10	30-Jun-13
ID-TF CPDA Supervision and Operational	TF096442	520,600	22-Feb-10	19-Mar-10	30-Jun-13
ID-TF CPDA Program Management and Administration	TF096443	284,850	22-Feb-10	19-Mar-10	30-Jun-13
GPOBA (W3 SPN): Expansion of Water Services in Jakarta	TF010064	83,914	1-Jul-10	5-Jul-11	30-Jun-13
Korea Trust Fund Support for Statistical Capacity Building (Bank-Executed)	TF098484	150,000	1-Sep-10	9-Dec-10	30-Jun-13
Improving Indonesia's Connectivity	TF097716	250,000	6-Sep-10	2-Sep-10	30-Jun-13
Food Price Crisis Response	TF098146	500,000	19-Oct-10	26-Oct-10	30-Jun-13
EA/IND Scaling Up Rural Sanitation TSSM 1.5	TF098715	2,017,081	17-Nov-10	12-Jan-11	30-Jun-13
StAR - Indonesia Country Engagement	TF010930	100,000	1-Jul-11	18-Nov-11	30-Jun-13
Building Innovation Capacity in Clean Energy in Indonesia	TF099957	450,000	1-Jul-11	23-Jun-11	30-Jun-13
GPOBA (W3 SPN):Expanding Piped Water Supply to Surabaya's Urban Poor - Indonesia	TF011628	149,939	16-Jan-12	25-Jan-12	30-Jun-13
Indonesia - Renewable Energy Access Improvement	TF011879	350,000	21-Feb-12	27-Feb-12	30-Jun-13
Indonesia - Renewable Energy Access Improvement	TF012055	350,000	1-Apr-12	21-Mar-12	30-Jun-13
Indonesia: Irrigation Management Modernization	TF012442	250,000	7-May-12	22-May-12	30-Jun-13
Eco2Cities Metropolitan and Urban Development - Phase 1	TF012439	150,000	21-May-12	22-May-12	30-Jun-13
Land Market Assessment and Housing Market Segmentation - Phase 1	TF012440	225,000	21-May-12	22-May-12	30-Jun-13
GPOBA (W3 SPN): Expansion of Water Services in Jakarta - Indonesia (BEA)	TF011343	35,914	6-Dec-11	12-Dec-11	31-Aug-13
Enhancing Rice Price Stabilization	TF012274	80,000	16-Mar-12	26-Apr-12	31-Aug-13
Production of Public Expenditure Analysis Reports	TF094500	1,387,410	18-May-09	3-Jun-09	30-Sep-13
Technical Support and Capacity Building	TF094880	2,417,292	16-Jul-09	27-Jul-09	30-Sep-13

Bank Operations	TF098044	395,000	24-Oct-10	14-Oct-10	30-Sep-13
JSDF - Empowering Women Overseas Migrant Workers	TF091170	35,000	30-Apr-10	20-May-10	31-Oct-13
Indonesia Urban Solid Waste Management Program	TF011230	65,000	1-Dec-11	30-Nov-11	31-Oct-13
Building Innovation Capacity in Clean Energy in Indonesia	TF011057	500,000	26-Oct-11	8-Nov-11	29-Nov-13
COFINANCING GRANT TO PNPB FOR DECENTRALIZED MANAGEMENT OF NATURAL RESOURCES AND RENEWABLE ENERGY (BANK EXE)	TF093077	735,000	15-Oct-08	17-Oct-08	30-Dec-13
Supporting the Implementation of Indonesia National Strategy on Access to Justice	TF097761	1,600,000	13-Sep-10	14-Sep-10	30-Dec-13
ID-TF PNPB COMMUNICATION STRATEGY	TF092288	4,350,000	12-Jun-08	8-Jul-08	31-Dec-13
THE RESPEK PROGRAM IN PAPUA AND WEST PAPUA PROVINCES (BANK EXECUTED)	TF092648	1,494,624	30-Jul-08	21-Aug-08	31-Dec-13
ADMINISTRATION OF THE JAPAN INDONESIA PRESIDENTIAL SCHOLARSHIP	TF093171	800,000	15-Oct-08	28-Oct-08	31-Dec-13
PNPB Mandiri Revolving Loan Fund (RLF) Capacity-Building and Sustainability Project	TF096352	8,890,866	8-Feb-10	9-Mar-10	31-Dec-13
Partnership for Knowledge-based Poverty Reduction	TF097488	5,174,414	9-Jul-10	2-Aug-10	31-Dec-13
Supervision of PKPR Activities	TF097489	241,207	9-Jul-10	2-Aug-10	31-Dec-13
PKPR Management and Administration	TF098456	229,035	31-Aug-10	1-Dec-10	31-Dec-13
ID-TF RESPEK: Program Management and Administration	TF098191	169,790	6-Sep-10	1-Nov-10	31-Dec-13
GPOBA (W3Sup): Extending Telecommunication in Rural Indonesia	TF097960	146,300	10-Sep-10	7-Oct-10	31-Dec-13
ID PMR Supervision and Technical Assistance Related to Activities under the Partnership for Market Readiness (PMR) in Indonesia	TF011884	50,000	1-Sep-11	28-Feb-12	31-Dec-13
National Program for Community Empowerment (PNPB) Window 3 - PNPB Peduli Phase II	TF010671	1,556,184	19-Sep-11	23-Sep-11	31-Dec-13
Technical Assistance and Support to Bappenas and Kemenko Kesra (Pokja Pengendali PNPB Mandiri)	TF010700	1,661,867	21-Sep-11	28-Sep-11	31-Dec-13
National Program for Community Empowerment (PNPB) Field Operations	TF010808	2,530,000	26-Sep-11	11-Oct-11	31-Dec-13
Partnership for Social Security Reform	TF011289	375,000	20-Oct-11	5-Dec-11	31-Dec-13
Sustaining Women's Leadership (Bank-executed)	TF095059	75,000	26-Apr-10	21-May-10	26-Apr-14

MDTF TO IMPROVE TRADE CLIMATE	TF093642	3,980,000	14-Jan-09	22-Jan-09	30-Sep-14
MDTF TO IMPROVE INVESTMENT CLIMATE	TF093641	4,665,000	15-Jan-09	22-Jan-09	30-Sep-14
MDTF PROGRAM MANAGEMENT AND ADMINISTRATION	TF094087	787,100	26-Mar-09	1-Apr-09	30-Sep-14
PAMSIMAS - BANK OPERATIONAL WORK - SUPERVISION	TF094793	2,002,000	5-Jul-09	15-Jul-09	30-Sep-14
PAMSIMAS - ADMINISTRATION AND MANAGEMENT	TF094796	350,000	5-Jul-09	15-Jul-09	30-Sep-14
PAMSIMAS - Technical Assistance for MIS and Evaluation Study	TF094970	797,378	1-Aug-09	7-Aug-09	30-Sep-14
Support for Enhanced Macro Economic and Fiscal Policy Analysis	TF012147	1,500,000	29-Mar-12	12-Apr-12	30-Dec-14
DUTCH EDUCATION SUPPORT PROGRAM - BANK EXECUTED (PROGRAM ADMINISTRATION)	TF093118	340,800	10-Apr-08	17-Oct-08	31-Dec-14
USAID Support for the National Program for Community Empowerment (PNPM) - Program Management and Administration	TF010256	2,888,268	1-Jul-11	16-Sep-11	31-Dec-14
USAID Supervision and Operational	TF010260	149,259	1-Jul-11	26-Jul-11	31-Dec-14
Indonesia FCPF Readiness Preparation Grant Bank-Executed	TF099269	403,568	3-Mar-11	20-Mar-11	5-Jan-15
Indonesia Slum Alleviation Policy and Action Plan (SAPOLA)	TF097332	45,000	9-Jul-10	21-Jul-10	31-Mar-15
INDONESIA INFRASTRUCTURE SUPPORT - ADMINISTRATION COST	TF093240	384,859	14-Oct-08	4-Nov-08	30-Jun-15
Indonesia Sovereign Disaster Risk Financing and Insurance	TF010729	200,000	26-Sep-11	30-Sep-11	31-Aug-16

\*Based on activation date in FY 09 – FY 12

## Annex 2.4: Indonesia: Analytical and Advisory Work, FY09-12

	AAA ID	Delivered to Client FY	Output Type
<b>Economic and Sector Work</b>			
<b>FY 2009</b>			
TF Papua and West Papua ICT Infrastructure and Service Assessment	P111343	7/1/2009	RPT
Agricultural Research and Development Public Expenditure Analysis	P114693	9/16/2009	RPT
Health system strengthening - Fiscal Space analysis for health sector	P110116	1/30/2009	RPT
ID-Health Finance & Dialogue	P107276	5/28/2009	RPT
Understanding Labor Market Structures and Policies in Indonesia	P104951	11/25/2009	RPT
Sustainable Economic Development Strategy for Aceh (SEDSA)	P113716	7/29/2009	RPT
Fuel Quality Issues and Air Pollution	P109140	6/30/2009	POL
ID-HIV Interventions	P107625	6/25/2009	RPT
Budget reform in Indonesia, IMF-WB	P112100	3/23/2009	RPT
Indonesia DPR FY2008	P102317	6/22/2010	RPT
<b>FY2010</b>			
FSAP Indonesia	P104083	4/1/2010	
Papua Infrastructure Strategy and Prioritization	P114181	10/21/2009	RPT
Indonesia Health Workforce and Improvement Services	P101723	10/28/2009	RPT
Dutch TF - Poverty Reduction Through Strengthening Economic Governance	P104356	12/17/2009	POL
ID-Teacher Management	P110513	5/20/2010	RPT
Indonesia's Development Strategy: Dancing with giants in a world of high commodity prices	P107060	3/17/2011	RPT
Sub-national Surplus and Reserves	P110716	8/3/2009	POL
Intergovernmental Transfer	P110714	8/3/2009	POL
NGO Sector assessment: Indonesia Report	P117198	5/18/2010	
Gender Action Plan: Empowering Female Migrant Workers and Their Families Through Improving Access to Finance	P110782	6/30/2010	RPT
Indonesia II - Corporate Governance ROSC Assessment	P116861	3/26/2010	
Spending for Development (Supporting RPJM 2010-2014)	P113920	6/29/2010	POL
Agriculture Public Expenditure Review Indonesia	P114141	6/30/2010	RPT

<b>FY 2011</b>			
Territorial Reform	P110718	9/10/2009	POL
Indonesian Social Protection Public Expenditure Review (PER)	P117977	6/28/2011	RPT
Improving Targeting Performance of Poverty Programs	P113345	6/28/2011	RPT
HIV/AIDS PET Study (UBW 1st Tranche)	P116361	6/28/2011	RPT
Indonesia ROSC Update Accounting and Audit	P116987	6/30/2011	RPT
<b>FY 2012</b>			
DSF II Focal Area 3 - National Program for Community Empowerment	P107033	11/19/2010	POL
ID-Education and Training to Improve Youth Skills, Competitiveness and Employment	P110512	11/4/2010	RPT
East Java Growth Diagnostic	P119656	12/5/2011	RPT
National Road Map for Water Supply Investment	P122375	6/20/2012	RPT
Sub-national Borrowing	P110715	3/12/2012	POL
Assessment of the Road Construction Industry in Indonesia	P117179	4/24/2012	RPT
Indonesia - Public Expenditure Review of the Infrastructure Sector	P117178	4/24/2012	RPT
Education Sector Financing and Expenditure Review	P122984	6/29/2012	RPT
Indonesia Economic Quarterly and policy notes	P122979	6/12/2012	POL
<b>Technical Assistance</b>			
<b>FY 09 Deliverables</b>			
Tech assistance to Health Systems Strengthening Initiative	P110117	1/13/2009	
DSF II Focal Area 3 - National Program for Community Empowerment	P107191	1/30/2009	
ID-TF Enhancing Demand for Legal and Judicial Reform	P105945	4/6/2009	
DSF II Focal Area 3 - National Program for Community Empowerment	P104387	4/30/2009	
Aceh-Nias Water and Sanitation Facility	P099172	5/29/2009	
Indonesia Youth Investment GOI Support	P099128	5/29/2009	
DSF II Focal Area 3 - National Program for Community Empowerment	P107188	6/16/2009	
DSF II Focal Area 3 - National Program for Community Empowerment	P107190	6/23/2009	
Country Partnership Strategy Sustainability Platform	P113859	6/30/2009	
<b>FY10 Deliverables</b>			
Civil Service Reform in Indonesia	P114903	7/1/2009	

Nias LEDP	P112439	7/15/2009
DSF II Focal Area 3 - National Program for Community Empowerment	P107406	7/19/2009
Indonesia Infrastructure Guarantee Fund (IGF)	P114363	7/30/2009
Indonesia Telecom & ICT Advisory Support	P113803	10/26/2009
Implementation Support to Financial Sector/FSD Monitoring	P107524	11/4/2009
Decentralization: Capacity Enhancement for Eastern Indonesia: Papua Public Expenditure Analysis and Capacity Harmonization Program (PEACH)	P104695	11/7/2009
Governance & Civil Service Reform Dialog	P103788	11/23/2009
GFDRR: Indonesia PDNA	P119682	11/30/2009
Water Supply and Sanitation Financing Initiative (WASAP I)	P109571	2/16/2010
Improving Indonesia's Investment Climate	P113347	5/26/2010
DSF II Focal Area 3 - National Program for Community Empowerment	P107031	5/28/2010
ID-Education Sector Assessment	P110515	4/5/2010
Aceh Dialogue Economic Policy	P117755	6/1/2010
Program to Improve Indonesia's Trade Policy	P099975	6/24/2010
Indonesia PEFA Follow Up	P119601	6/30/2010
<b>FY 11 Deliverables</b>		
ID-CCT (Conditional Cash Transfers)	P106082	7/13/2010
Poverty Dialogues on Pro Poor and Pro Jobs Strategies and Programs	P113344	8/31/2010
Supporting Establishment of Indonesia's Crisis Monitoring System Technical Assistance	P116979	10/13/2010
ID-Access to Finance	P104430	10/25/2010
DSF II Focal Area 3 - National Program for Community Empowerment	P107189	11/19/2010
DSF II - Support to Sub-National Entries	P107057	11/19/2010
DSF II - Support to Sub-National Entries	P107059	11/24/2010
ID: Building Blocks for E-Govt Capability	P115843	2/1/2011
Benchmarking Service Sector in Indonesia	P104696	2/2/2011
<b>FY 12 Deliverables</b>		
Education Sector Dialogue and Strategy	P119259	7/7/2011
Support for Bureaucratic Reform in MoT	P123179	11/1/2011
Subnational Capital Markets	P114383	11/21/2011

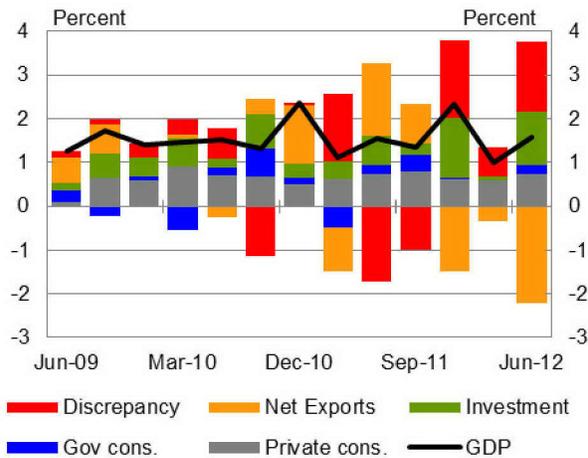
ID - Supporting Post-Conflict Dev (TF)	P108748	11/30/2011
ID (TF) Demand for Legal Reform	P114840	11/30/2011
Planning and Performance Measurement	P118498	3/12/2012
Fiscal Decentralization & Capacity Development	P119420	3/12/2012
Data for Monitoring and Evaluation	P110717	3/12/2012
Alternative Mechanisms of Service Delivery	P110721	3/12/2012
Minimum Service Standards	P110720	3/12/2012
Anti-Corruption	P104742	3/30/2012
Support for Enhanced Analysis and Monitoring of the Indonesia (SEAMIE)	P116552	6/1/2012
Indonesia 2010 PEFA	P123229	6/7/2012
PNPM - Strategic Directions	P120212	6/11/2012
Support for Public Expenditure Analysis	P122981	6/12/2012
Health Sector Reform Agenda TA	P116882	6/12/2012
Monitoring and Evaluation Technical Assistance	P120335	6/12/2012
Indonesia HIV/AIDS Analysis and Dissemination	P121279	6/15/2012
Renewable Energy Project Design	P130999	6/24/2012
StAR - Indonesia Country Engagement	P128636	5/25/2012

## Annex 3: Economic Outlook

### A. The Current State of the Indonesian Economy

1. Supported by domestic demand, Indonesia's recent growth performance has remained robust although, as in other countries in the region, there have been spillovers from the deterioration in the global economy and volatility in international financial markets. Growth in 2011 moved up to 6.5 percent year-on-year, the highest annual growth rate since 1996, from 6.1 percent in 2010 (Figure 1). In the first half of 2012 growth remained solid, at 6.3 percent and 6.4 percent in the first two quarters, despite the weakness in the external environment. Domestic demand, particularly private consumption and investment, has continued to drive growth. However, weakening external demand has subtracted from growth since late 2011, in line with the deterioration in the trade and current account balances discussed below. Recent growth has also been broad-based across sectors, as the strength of domestic demand continues to support growth in key services sectors, such as trade, transport and communications. Within the tradable sectors, non-oil and gas manufacturing has also performed relatively strongly.

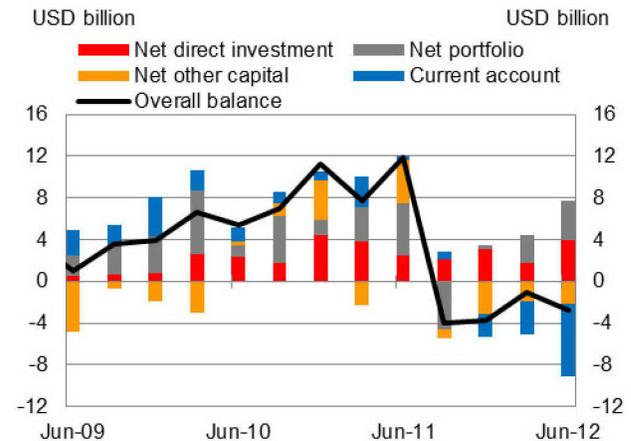
**Figure 1 : With the external demand weakening, private domestic demand has supported Indonesia's recent robust growth** (percentage point contribution to quarter-on-quarter seasonally adjusted growth)



Sources: BPS and World Bank

Note: Contributions may not sum to GDP due to seasonal adjustment

**Figure 2: The widening current account deficit in Q2 2012 contributed to the fourth consecutive overall balance of payment deficit** (USD billion)



Sources: BPS and World Bank

2. Inflation has remained relatively stable over the past year as food price spikes have unwound and the likelihood of subsidized fuel price hikes has decreased. Sharp increases in food prices contributed to rising headline CPI inflation in late 2010. But, as these shocks unwound, inflation declined over 2011 and reached a two-year low of 3.6 percent year-on-year in February 2012. Since then inflation has moved up gradually, to 4.6 percent year-on-year in July 2012, due mainly to higher food prices. Core inflation has also remained low at 4.3 percent in July. Expectations of higher prices associated with a potential adjustment of subsidized fuel prices have also subsided with the reduced likelihood of such a policy change (see discussion below).

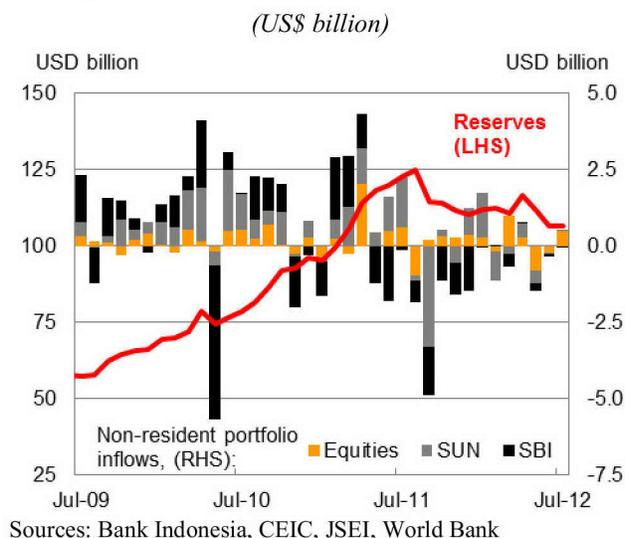
3. Following strong inflows over 2010 and 2011, overall balance of payments outflows have been seen since Q3 2011 (Figure 2). These represent the first quarterly deficits since the end of 2008. Initially, in the second half of 2011, outflows were due primarily to the reversal of inflows on the

volatile capital account. Subsequently, the main driver of the net balance of payments outflow has been the diminishing current account balance, moving into deficit in the fourth quarter of 2011 and hitting a record low since the Asian crisis in the second quarter of 2012. As a result of these trends, and with BI taking measures to stabilize the exchange rate, international reserves have also fallen over 2012, moving to US\$109.0 billion at end-August 2012, around 2.2 times the level of recorded short-term external debt by remaining maturity.

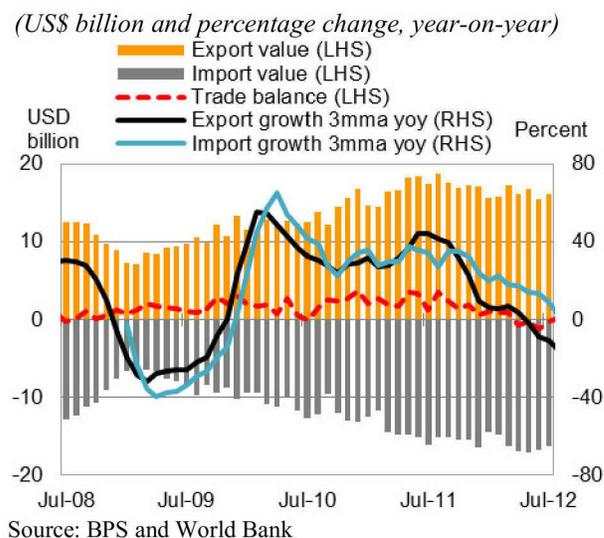
**4. In recent years, as in other emerging markets, portfolio capital flows to Indonesia have been affected by the swings in international investor risk aversion and concern over global growth prospects.** Periods of heightened international risk aversion have contributed to portfolio capital outflows from Indonesia, primarily of local currency fixed income securities (Figure 3). Non-resident investor holdings of local assets are relatively high, for example, their holdings of rupiah-denominated tradable government securities (SUNs), at US\$23.7 billion at end-July 2012, accounted for 28.4 percent of the outstanding stock. As discussed below Bank Indonesia has introduced a number of measures in recent years to address the risks of short-term portfolio outflows. Direct investment inflows, attracted by Indonesia's large and growing domestic market, its natural resources and relatively low manufacturing labor costs, has been rising gradually since 2010. Inflows moderated in the second half of 2011 but remained relatively strong, moving total inflows up to US\$18.9 billion in 2011 from US\$13.8 billion in 2010. FDI continued to be solid at US\$8.2 billion in the first half of 2012 despite slowing from US\$10.3 billion in the same period 2011.

**5. The trend move into a current account deficit reflects to a large extent the strength of Indonesia's domestic demand set against weakening external demand.** These factors have contributed to a decline in the goods trade surplus while there has been a continuation of the large services deficit and rising outflows on the income balance (in line with strong FDI). Both declining commodity prices and volumes have also contributed to falling export growth as the monthly trade balance moved into deficit from April to July 2012. Imports have also come down, with a lag as in 2009, in part likely because a capital and intermediate goods imports are related to exports. External debt-to-GDP has been on a downward trend (moving to 27.3 percent at end-June 2012 from 35.9 percent at end-2006) and is likely to remain stable despite a higher current account deficit (see IMF 2012 Article IV external debt sustainability assessment). There is, though, the risk that, in the current fragile external environment, a further widening of the deficit raises concerns over external financing needs. Should weaker export demand persist, this risk should be mitigated by a reduction in imports used to produce exports and the impacts of price adjustment through the weakening of the exchange rate. On the capital account side, it is encouraging that, as discussed above, FDI has, to date, remained solid (accounting for a rising share of capital inflows).

**Figure 1: Reserves have declined on weaker portfolio, and trade balance, inflows**



**Figure 2: The goods trade balance has narrowed over 2012**



**6. The volatility in international capital markets has been transmitted to local asset prices, although domestic banking sector performance remains solid.** As in international markets, over the past year Indonesian equities have seen sharp swings in prices. The rupiah has also come under pressure, depreciating 12.9 percent against the US dollar to Rp 9,573 per US\$ from the beginning of August 2011 to 30 August 2012. Local currency government bond yields have risen gradually over 2012 as a mixed consequence of the expectation on higher future inflation, related to the potential hike in the subsidized fuel price, and then rising international risk aversion. However, they remain at relatively low levels historically (with the five-year yields at around 5.5 percent). Overall banking sector indicators have remained solid. The capital adequacy ratio, while down slightly, remains at 17 percent. Non-performing loans were down half a percentage point over the year to 2.2 percent.

**7. Strong growth over the past five years is reflected in a significant improvement in Indonesia's poverty and employment numbers.** Indonesia's poverty rate, measured at the national poverty line, fell from 16.6 percent in March 2007 to 12.0 percent in March 2012. Both urban and rural poverty rates have been declining and the decline was spatially uniform. However, the 0.5 percentage point decline since March 2011 is the lowest drop in ten years, reflecting the slowing rate of poverty reduction evident in the last four years. The poverty rates over this period for male-headed and female-headed households are similar (although female-headed household poverty experienced considerably more volatility earlier in the decade). Despite this positive progress, nearly 40 percent of Indonesians live on 1.5 times poverty-line expenditure (or less), meaning there are many who remain vulnerable to impoverishment. There remains the challenge of ensuring that GDP growth translates into sufficient creation of quality jobs. Employment growth of 3.2 percent year-on-year was seen in August 2010, falling to 1.4 percent in February 2012. There were changes in the weighting series between August 2010 and February 2011 which makes employment growth comparisons for February 2010 and August 2011 difficult. The official open unemployment rate has continued to trend downwards, falling to 6.3 percent in February 2012 from 6.6 percent in August a year before (or 6.8 percent on February 2011).

## **B. The Macroeconomic Policy Framework**

**8. Bank Indonesia has shifted its monetary policy stance in line with international developments and the prospects for the path of administered fuel prices.** In anticipation of a worsening external environment, and with inflation declining, Bank Indonesia loosened monetary policy at the end of 2011 and beginning of 2012. Rate cuts in October, one of the earliest policy responses in the region, were followed by further reductions in November 2011 and February 2012 respectively. Furthermore, the lower bound of Bank Indonesia's operational corridor (the overnight deposit facility rate) was also widened in September 2011 and January 2012, moving it to 200 basis points below the policy rate. With the proposal to raise subsidized fuel prices, inflation expectations picked up and BI indicated it was ready to shift its stance, including through measures to manage short-term liquidity. Although inflation expectations have since receded, in August 2012 BI increased the overnight deposit facility rate by 25 basis points, in part to support the exchange rate in the face of the current account outflows. As in other economies, the central bank has also made increasing use of a range of macro prudential tools. For example, in the context of strong credit growth (above 25 percent year-on-year) it has imposed maximum loan-to-value ratios for housing loans and minimum down payment on vehicle purchases.

**9. In terms of exchange rate policy, the Rupiah has depreciated gradually over the year with interventions to manage volatility.** In early May 2012 there were reports of shortages in onshore US dollar liquidity and BI has responded through a number of measures to support FX liquidity, for example introducing a foreign currency "Term Deposit Instrument". These measures follow earlier policy actions aimed at preventing disruptive capital outflows, such as example, reinstating limits on short-term offshore borrowing of banks and raising holding periods on SBIs. With the rising demand for dollars given the overall balance of payment outflows, there has been a gradual depreciation in the exchange rate over the year with the authorities underscoring their commitment to exchange rate flexibility in the 2012 IMF Article IV.

**10. Fiscal deficits and debt continue to be conservative but the allocation of spending could be improved and, with subsidy spending increasing, the deficit is projected to rise in 2012.** The realized (audited) 2011 government deficit of Rp 84.4 trillion (1.1 percent of GDP) came in well below the revised Budget level of Rp 151 trillion (2.1 percent of GDP), as under-spending in core government programs more than offset high spending on energy subsidies. The revised 2012 Budget increased the deficit for the year to 2.2 percent of GDP, up from 1.5 percent of GDP in the original budget. The upward revisions to the 2012 revenue and expenditure numbers were both driven by the increase in the assumed oil price. In light of the likely higher spending on energy subsidies the Government proposed a one-third increase in the subsidized fuel price in its draft revised Budget. However, the approved revised Budget authorized the Government to make such an increase, but only if the six-month average Indonesia crude oil price was 15 percent higher than the US\$105 assumed in the Budget. The revised Budget also included additional spending on temporary compensating programs in the event of a fuel price increase, including a cash transfer to the poor combined with anti-poverty programs at the community level and public transport subsidies while infrastructure spending also received a boost. As in most previous years, realization of expenditures on core programs is likely to come in below budget and revenues continue to grow strongly, although oil and gas non-tax revenue are lower than initially projected due to lower oil lifting. Latest government projections are for the 2012 Budget deficit to come in Rp 179 trillion, slightly below the revised Budget level in nominal terms but still 2.2 percent of GDP. In terms of budget transparency, the central Government publishes its annual Budget in a timely manner. It is usually posted on the Ministry of Finance website within one week after the Budget has been passed.

**11. For 2013, the Government's recently proposed budget projects a narrowing of the deficit to 1.6 percent of GDP, or Rp 150.2 trillion.** The reduced deficit reflects the government's intention to increase revenue to GDP (from 15.9 percent to 16.2 percent) as efforts continue to broaden the tax base, while at the same time reducing nominal spending relative to GDP (to 17.9 percent of GDP vs. 18.2 percent in 2012). Despite this conservative overall spending stance, and an oil price assumption in 2013 of US\$100 per barrel, US\$5 lower than the 2012 assumption, there is a significant increase in energy subsidy spending, driven by growing consumption and a weaker exchange rate; the energy subsidy allocation is 62.9 (35.8) percent higher than the level in the original (revised) 2012 Budget. Total subsidies (rising 29 percent on revised 2012 levels to Rp 316.1 trillion) along with personnel spending (rising 13.6 percent from 2012 to Rp 241.1 trillion) thus continue to account for the lion's share of total public expenditure. Capital spending, while projected to rise a further 15 percent in 2013, continues to run into implementation constraints and will likely lag infrastructure development needs.

**12. The decision not to increase subsidized fuel prices on 1 April in the approved 2012 Budget was as a missed opportunity and there remains the need to redirect this spending to more pressing development needs to support medium-term growth and development and to address the distortions and inefficiencies of the current subsidies.** The fall in international oil prices since early May 2012 made it highly unlikely that the condition for a hike in subsidized fuel prices will be met. An electricity price hike planned for 2012 that would have limited spending on electricity subsidies has also been postponed. In the proposed 2013 Budget, there is no indication of a fuel price adjustment although it is proposed that electricity tariffs be increased by 15 percent on average for higher wattage customers (although details of this mechanism are to be decided and the proposal is subject to Parliamentary approval). From the perspective of fiscal sustainability a higher deficit is manageable given Indonesia's strong initial debt position and conservative deficits-to-GDP. However, in the case that oil prices move up sharply, the risk of hitting Indonesia's three percent of GDP deficit limit could prompt a tightening in spending in key development areas. Furthermore, it is the opportunity cost of the current spending on subsidies that is of particular concern given other pressing development needs, along with the fact the fuel subsidies are an ineffective and poorly-targeted method of assisting the poor (with the vast majority of the benefits going to richer households who own cars and motorbikes).

**Table 1: The revised Budget deficit target for 2012 is 2.2 percent of GDP***(Rp trillion, unless otherwise indicated)*

	2011 Actual		2012 Budget		2012 Revised Budget		2013 Proposed Budget	
		Share of GDP		Share of GDP		Share of GDP		Share of GDP
<b>A. State Revenues and Grants</b>	<b>1,210.6</b>	<b>16.3%</b>	<b>1,311.4</b>	<b>16.2%</b>	<b>1,358.2</b>	<b>15.9%</b>	<b>1,507.7</b>	<b>16.3%</b>
i. Tax Revenues, of which	873.9	11.8%	1,032.6	12.7%	1,016.2	11.9%	1,178.9	12.7%
Income Tax	431.1	5.8%	520.0	6.4%	513.7	6.0%	574.3	6.2%
Sales tax (VAT)	277.8	3.7%	352.9	4.3%	336.1	3.9%	423.7	4.6%
Excises	77.0	1.0%	75.4	0.9%	83.3	1.0%	89.0	1.0%
Export taxes	28.9	0.4%	19.2	0.2%	23.2	0.3%	31.7	0.3%
ii. Non Tax revenues, of which	331.5	4.5%	278.0	3.4%	341.1	4.0%	324.3	3.5%
Natural resources	213.8	2.9%	177.3	2.2%	217.2	2.5%	190.7	2.1%
<b>B. Expenditures</b>	<b>1,295.0</b>	<b>17.4%</b>	<b>1,435.4</b>	<b>17.7%</b>	<b>1,548.3</b>	<b>18.2%</b>	<b>1,657.9</b>	<b>17.9%</b>
i. Central Government Expenditures, of which	883.7	11.9%	965.0	11.9%	1,069.5	12.5%	1,139.0	12.3%
Personnel	175.7	2.4%	215.9	2.7%	212.3	2.5%	241.1	2.6%
Materials	124.6	1.7%	188.0	2.3%	186.6	2.2%	159.2	1.7%
Capital	117.9	1.6%	152.0	1.9%	168.7	2.0%	193.8	2.1%
Social	71.1	1.0%	47.8	0.6%	55.4	0.6%	59.0	0.6%
Subsidies	295.4	4.0%	208.9	2.6%	245.1	2.9%	316.1	3.4%
Fuel subsidies	165.2	2.2%	123.6	1.5%	137.4	1.6%	193.8	2.1%
Electricity subsidies	90.4	1.2%	45.0	0.6%	65.0	0.8%	80.9	0.9%
Interest payments	93.3	1.3%	122.2	1.5%	117.8	1.4%	113.2	1.2%
ii Transfer to Regions	411.3	5.5%	470.4	5.8%	478.8	5.6%	518.9	5.6%
<b>C. Primary Balance</b>	<b>8.9</b>	<b>0.1%</b>	<b>-1.8</b>	<b>0.0%</b>	<b>-72.3</b>	<b>-0.8%</b>	<b>-37.0</b>	<b>-0.4%</b>
<b>D. Fiscal Balance</b>	<b>-84.4</b>	<b>-1.1%</b>	<b>-124.0</b>	<b>-1.5%</b>	<b>-190.1</b>	<b>-2.2%</b>	<b>-150.2</b>	<b>-1.6%</b>

Source: MoF and World Bank staff calculations

**Table 2: Bond sales account for the majority of net financing sources***(Rp trillion, unless otherwise indicated)*

	2011 Actual		2012 Budget		2012 Revised Budget		2013 Proposed Budget	
		Share of GDP		Share of GDP		Share of GDP		Share of GDP
<b>A. Net financing needs</b>	<b>130.9</b>	<b>1.8%</b>	<b>124</b>	<b>1.5%</b>	<b>190.1</b>	<b>2.2%</b>	<b>150.2</b>	<b>130.9</b>
<b>B. Net financing sources, of which</b>	<b>130.9</b>	<b>1.8%</b>	<b>124</b>	<b>1.5%</b>	<b>190.1</b>	<b>2.2%</b>	<b>150.2</b>	<b>130.9</b>
Domestic Banking	40.3	0.5%	8.9	0.1%	60.6	0.7%	14.3	40.3
Non-domestic Banking, of which	108.4	1.5%	117	1.4%	134	1.6%	155.3	108.4
Bond sales	119.9	1.6%	134.6	1.7%	159.6	1.9%	177.3	119.9
Foreign Official Loans	-17.8	-0.2%	-1.9	0.0%	-4.4	-0.1%	-19.5	-17.8

Source: MoF and World Bank staff calculations

**13. Low deficits, budget discipline, prudent fiscal policy and high nominal\_GDP growth have enabled Indonesia to reduce its public debt burden significantly.** In the past ten years, Indonesia's public debt-to-GDP ratio has fallen to slightly below 25 percent in 2011, from around 90 percent in 2000. This improvement in Indonesia's debt position stands out among other economies in the region and has been possible through a combination of fiscal conservatism and high nominal GDP growth. Indonesia's government debt-to-GDP ratio is likely to continue falling in the years ahead and the downward debt dynamics appear to be robust to a plausible range of macroeconomic shocks, in line with those suffered over the past 10 years (see Annex 5). This relatively positive picture focuses on solvency issues rather than liquidity and roll-over risks, which may occur even if solvency is solid. Indonesia's financing position is supported by cash reserves from previous over-financing and the still conservative fiscal deficits. However, as highlighted above, a sharp tightening in global and domestic financial markets, as seen in 2008, would potentially limit the Government's ability to meet gross financing needs on reasonable terms. Recognizing this risk the Government has raised a sizeable share of financing early in the year (with gross securities issuance at end-August at 73.4 percent of the full-year target under the revised Budget) and has put in place contingent financing from donor partners, including the World Bank's PERISAI operation.

**14. In response to the deterioration in the current account deficit in Q2 2012, Bank Indonesia and the Government also announced a number of policy responses.** These policies were designed to adjust the current account deficit to "a sustainable level to support the momentum of the national economy". For example, Bank Indonesia will focus on stabilizing the Rupiah "in accordance with its fundamental conditions" while the measures announced by the Government include support for boosting exports but appear to be aimed mainly at limiting dependence on imports and supporting domestic production. It is unclear whether such policies are likely to be effective, and they could introduce distortions over the medium-term. Furthermore, it is important not to over-react to the recent current account deficit numbers or make policy missteps that could adversely impact investor sentiment, thereby actually putting more pressure on external balances. Allowing for a gradual weakening of the exchange rate, as has been seen recently, could also facilitate an improvement in the trade balance.

### **C. Indonesia's Economic Outlook**

**15. Risks to the outlook for the Indonesian economy remain weighted to the downside, and are likely to remain high in 2013.** Global financial markets and portfolio flows to Indonesia remain volatile, with the global economic outlook highly uncertain, with weaker growth in high income economies, moderating commodity prices and continued financial market turbulence. The direct impact of lower growth in the EU on Indonesia's economy is likely to be limited, as Indonesia's exports are relatively diversified by export destination direct linkages. However, a further deterioration in international financing conditions or in commodity prices and demand relative to the baseline scenario would be of particular concern. A seizing up of global US dollar liquidity could have important implications for Indonesia's financial sector, and potentially have spillovers to the real economy, through investment and trade financing, and to government financing costs. Lower international commodity prices or demand could affect Indonesia's GDP growth via their impact not only on trade (with commodity exports accounting for around two-thirds of the value of exports) but through domestic consumption and investment, as well as lower fiscal revenues. However, a sharp recovery in oil prices, for example due to supply shocks, could also refocus attention on the cost of Indonesia's fuel subsidies.

**16. In a baseline scenario of international financial market fragility combined with relatively weak external, but continued solid, domestic demand, growth of 6.1 percent is forecast for 2012, moving up to 6.3 percent in 2013.** The underlying macro assumptions for this baseline include a

continued weakness in external demand with overall international commodity prices also projected to moderate.

**Table 3: Baseline macro economic outlook**

	2009	2010	2011	2012 (p)	2013 (p)	2014 (p)
Growth						
Real GDP (% change)	4.6	6.1	6.5	6.1	6.3	6.6
Real investment (% change)	3.3	8.5	8.8	9.6	10.0	10.5
Real private consumption (% change)	6.2	4.6	4.7	4.5	4.8	4.9
Real exports (% change)	-9.7	14.9	13.6	6.3	7.6	11.0
Real imports (% change)	-15.0	17.3	13.3	7.7	8.1	11.8
Current account balance (% of GDP)	1.9	0.8	0.2	-2.3	-1.6	-1.7
Fiscal variables						
Central government balance (% of GDP) <sup>1</sup>	-1.6	-0.6	-1.1	-2.2	-1.6	-1.4
Central government debt (% of GDP)	28.4	26.0	24.3	23.0	21.2	19.5
Prices						
GDP deflator (% change) <sup>2</sup>	8.4	8.0	8.4	6.5	7.9	8.7
CPI inflation (%) <sup>2</sup>	4.8	5.1	5.4	4.4	5.1	5.0

Note: <sup>1</sup> 2011 is actual audited, 2012 is revised Budget deficit and deficit from 2013 to 2014 is based on Government 2013 Budget Financial Note. <sup>2</sup> Period averages.

Source: BPS, Bank Indonesia, Ministry of Finance and World Bank staff projections.

**17. Under more adverse but plausible scenarios framed around the above external risks, growth in 2013 could decline to around 4 percent of GDP, the lowest in a decade.** Taking the above downside risks into account, different scenarios can be considered to simulate the impact of external shocks on Indonesia's economy (see Table below). The main impact would be felt in 2013 given the strong performance in 2012 to date. Under a scenario similar to 2009 which assumes a greater growth slowdown due to the real impact of the financial crisis and credit tightness, as well as a moderate decline in commodity prices leading to a sharp contraction in the terms of trade, GDP growth is cut to 4.7 percent in 2013 (down 1.7 percentage points on the baseline scenario), reflecting lower investment and exports. If a financial crisis precipitates, or accompanies, a significant growth slowdown also in emerging economies as well as a sharp drop in global commodity prices, growth could fall even further in 2012, down to just under 4 percent.

**18. The outlook for China is of particular importance for Indonesia.** A drop in China's growth down to 7 percent would directly cut Indonesia's major trading partner growth by 0.17 pp (given a weight in Indonesia's exports of 11 percent in 2011). The second round effects via global and regional trading partner growth would also clearly be important. However, the real concern with a relatively marked slowdown in growth would be if China's growth leads to a sharp fall in global commodity prices - particularly coal and minerals that form a sizeable share of Indonesia's exports. If significant commodity price declines were sustained then this would spill over to domestic consumption and investment in Indonesia as household incomes and corporate investment, and fiscal revenues would also decline. Estimates of the spillovers vary across studies but, estimates in the September 2012 IMF Article IV report on Indonesia, incorporating direct and indirect trade effects and global commodity price impacts, suggest that a 1 percentage point reduction in China's growth could lower Indonesia's GDP by up to half a percentage point. The IMF report also highlights there would also be spillovers through the commodity channel from a shift in the composition of China's growth from investment to consumption.

**19. Growth could also move substantially lower if the impact of adverse external shocks is amplified domestically.** Growth would still be above 4 percent in the international scenarios discussed in the previous paragraphs. This is similar to that seen in 2009, when growth dropped during the height of the global financial crisis but remained at 4.6 percent. However, it is important to note that these GDP projections combine the external scenarios with moderations in the underlying domestic drivers of growth, i.e. private consumption and investment. In the event that there was a major dislocation to these drivers, for example due to domestic policy miss-steps or problems in the domestic financial sector, then the downside risks to growth could be much greater, and hence the importance of crisis preparedness measures.

**Table 4: Different scenarios for the international environment and their potential impact on growth in Indonesia**

Scenarios	International scenario 1: Continuing turmoil		International scenario 2: Return to 2009		International scenario 3: Severe global slowdown		Memo: Outcomes			
	2012f	2013f	2012f	2013f	2012f	2013f	2008	2009	2010	2011
<b>Indonesian GDP growth (percent)</b>	6.0	6.4	5.8	4.7	5.7	3.8	6.0	4.6	6.2	6.5
<b>Scenario assumptions</b>										
Investment/GDP ratio (percent)	25.3	26.1	25.1	25.1	25.0	24.1	23.7	23.4	23.9	24.4
Major trading partner GDP growth (percent)	3.3	3.7	2.3	0.1	1.9	-1.8	2.0	-0.7	7.2	3.6
Terms of trade growth (percent)	2.0	9.0	0.0	-15.0	0.0	-30.0	-18.1	-4.2	5.7	10.2

Source: CEIC and World Bank staff projections

Note: Investment/GDP ratio is real and terms of trade series is constructed by World Bank from monthly trade data

## **D. Policy Challenges**

### ***D. 1. Macro-economic policy***

**20. There remain a number of challenges for the macro fiscal and monetary policy framework.** Bank Indonesia will need to remain vigilant to potential rising inflation and any financial sector risks if domestic demand remains robust. The 2012 IMF Article IV report notes that this will require the usage of traditional monetary policy tools given that macro prudential measures on certain sectors will “not tackle the underlying condition of easy money”. Indonesia’s fiscal position is in a strong starting position at the aggregate level and the deficit is likely to remain conservative. However, flexibility to respond to a downturn in growth is limited by the disbursement issues in infrastructure and the efficiency of spending is limited by the continued burden of energy spending. More generally, there is a need to improve further the quality of the allocation and efficiency of spending, although in the run up to the elections in 2014 the near-term political environment may limit the likelihood of addressing fuel spending expenditures or limiting the growth of personnel expenditures. Failure to make such improvements in the medium-term could lower the growth outlook going forward and ability of the government to meet its development objectives, notwithstanding the level of resources allocated.

**21. Although Indonesia is relatively well placed to weather external shocks, it is also important to further improve preparation for a potential crisis through enhancing the range of instruments and policies available to deal with increased volatility and improving the resilience of its economy and public finances.** Risks in the global environment remain high both from developments in the

Eurozone, the fiscal cliff in the US and the uncertain impact of recent quantitative easing on commodity and emerging market capital flows. Indonesia remains well-positioned to withstand external real and financial shocks due to its continued strong economic performance and policies, low government debt levels and significant reserves. Importantly, the 2013 proposed Budget retains a number of measures to deal with any future crisis situation that had been introduced in the 2012 Budget. Other elements of the Government's crisis preparedness has been the establishment of crisis management protocols and contingent financing facilities with development partners to support financing of critical public expenditures in the event of an increase in market financing pressures. The World Bank PERISAI DPL-DDO operation, in addition to supporting short-term policy measures aimed at enhancing crisis preparedness, provides contingent budget support, which the Government intends to draw down only in the event of a significant worsening of the financing conditions. The Government has also secured additional contingent financing of around US\$3 billion from the Government of Japan (Yen 120 billion), Australian Treasury (AUD\$1 billion) and the Asian Development Bank (US\$500 million).

#### *D. 2. Structural challenges*

**22. Sustained progress on structural reforms can also play an important role in not only enhancing medium-term growth prospects but also in supporting the confidence of investors in the economy in the near term.** A number of recent trade and investment policy measures or proposals have created a sense of rising protectionist policy making. The measures include, for example, restrictions on imported horticulture products, an export tax and new divestment regulations in the mining sector and proposals to limit single ownership in the banking sector. The objectives of these policies, such as moving up the value chain domestically and creating quality jobs, are not necessarily the concern but rather whether these policies are likely to achieve these objectives (and whether they may introduce distortions into the economy which, in the long-term, could be a drag on growth). In addition, the presentation of these policies, which is often changing and inconsistent, highlights coordination difficulties across ministries and limited consultation with stakeholders. In addition to their uncertain effectiveness, there is a risk that the continuation of such policies, or other perceived "policy missteps" could weaken some of the confidence of investors in domestic policy making (particularly in the run up to the 2014 presidential elections). Limiting further such missteps, along with a continuation of the Government's ongoing work on crisis preparedness will be important to maintain investor confidence in a fragile global environment.

**23. Looking towards the medium-term, continued progress on policy reforms and key investments in infrastructure and skills development will be required if Indonesia is to move its potential growth rate up towards 7 percent and beyond.** The continuation of recent growth rates of around 6.5 percent appear sustainable over the next few years, supported on the demand-side by rising incomes and domestic consumption, and on the supply side by Indonesia's demographic dividend and strong investment growth rates reflecting the attractiveness of the domestic market, commodity endowment and relatively low labor costs. However, sustaining such growth rates over the medium-term, or moving them higher, will require investments in infrastructure and addressing regulatory and investment climate constraints on businesses. For example, for 2014-2016 the 2011 IMF Article IV baseline potential growth rate is 7.1 percent, rising to 7.9 percent in an upside scenario in which infrastructure and structural reforms proceed faster than in the baseline but declining to 6 percent in a downside scenario in which infrastructure development proceeds slowly and there is little progress on structural reform. Private and public investment in infrastructure as a share of GDP, at around 4 percent in 2009, is still significantly lower than prior to the 1997/98 crisis. Infrastructure has been identified by the Government as a key constraint for growth, leading to large increases in budgetary allocations to the infrastructure sector as well as efforts to attract more private sector investment.

## Annex 4: Gender Equity

### Recent Progress & Challenges

1. **Indonesia has successfully developed the necessary legal framework for addressing gender inequality concerns and has experienced an improvement in narrowing the gender gap in some important areas such as endowment, opportunities, and voice and agency.** Gender parity has been achieved in all levels of education. Maternal health has significantly improved. There are no pronounced gender disparities in infant and under five mortality rates as well as other health outcomes. Women labor participation rates continue to increase with highly educated women enjoying better returns on their education than men. Political representation of women in national parliament and nearly all district and city legislatures has also increased. Indonesia has also ratified important international conventions and has produced a significant amount of legislations on gender equality such as the anti-domestic violence act, gender equality in development, and the general election law as well as the national strategy for enhancing access to justice. A strong political commitment on gender equality has also outlined in the Medium Term National Plan for 2010-14 (RPJMN). Indonesia is one of a few countries that assigned a dedicated ministry for women's empowerment and child protection.

2. **However, challenges remain especially in maternal mortality, political representation at the national and sub-national level, access to justice, and voice and agency at community level.** Indonesia continues to face challenges in Maternal Mortality Rate (228 per 100,000 births in 2010), HIV/AIDS (Indonesia has the fastest growth of AIDS epidemic in Asia), as well as stunting and wasting. Gaps in access to economic opportunities remain large. For instance, female labor market participation remains at around 50% compared to 80% for men; the gender-wage gap is among the widest in EAP countries; female-led enterprises tend to be smaller, more precarious, less capital-intensive and less productive with limited access to finance; women constitute nearly 80% of Indonesia's cross-border migrant workers with often limited access to financial services and exposure to exploitation and other sorts of human rights violation. Other areas where Indonesia is lagging behind include access to legal justice, political representation and participation to key policy decision makings. These challenges juxtapose the emerging ones in climate change and disaster risk management as women are more vulnerable to these risks than men.

Figure 1. Summary Table for Gender Equality in Indonesia through the Lens of WDR 2012

ASPECTS OF GENDER EQUALITY	INDONESIA'S ACHIEVEMENTS	INDONESIA'S REMAINING CHALLENGES
ENDOWMENTS	<ul style="list-style-type: none"> <li>▶ Indonesia has achieved gender parity in enrollment rates at all levels of education</li> <li>▶ There are no pronounced gender disparities in infant and under-five mortality rates and in most health outcomes.</li> <li>▶ The HIV/AIDS case in Indonesia is low</li> </ul>	<ul style="list-style-type: none"> <li>▶ Gender streaming in education: boys and girls tend to enroll in traditional gender roles related subject.</li> <li>▶ the maternal mortality rate at 228 per 100,000 births in 2010, is amongst the highest in EAP</li> <li>▶ The prevalence of stunting and wasting are quite alarming for both boys and girls</li> <li>▶ Indonesia is considered to have the fastest growth on AIDS epidemic in Asia.</li> </ul>
OPPORTUNITIES	<ul style="list-style-type: none"> <li>▶ The average annual growth of women entering labor market has been substantially higher than men over the past seven years</li> <li>▶ Women's access to better jobs and higher wages</li> </ul>	<ul style="list-style-type: none"> <li>▶ Female labor force participation in Indonesia (52% in 2010) is low by EAP regional standards</li> <li>▶ The gender wage gap in Indonesia is larger than in other EAP countries—women only earn about 70% of what men earn, in part because of gender streaming in choice of fields of tertiary education...</li> <li>▶ ...but mostly because female workers tend to have less secure terms of employment and are more likely to be self-employed, doing unpaid family work or be working in the informal sector</li> <li>▶ Female-led enterprises tend to be smaller, more precarious, less capital-intensive and less productive</li> <li>▶ Women entrepreneurs account for a much lower share of loans extended to MSMEs than their numbers warrant</li> <li>▶ Women constitute nearly 80% of Indonesia's 6 million-plus cross-border migrant workers and often lack financial and other protections and are vulnerable to exploitation</li> </ul>
VOICE AND AGENCY	<ul style="list-style-type: none"> <li>▶ Law and legislation products to enhance women's voices and agencies such as on women's political participation (General Election Law No 10/2008), anti domestic violence (Act No 23/2004), gender equality in development (Presidential Instruction No 3/2010)</li> <li>▶ Women representation in politics has increased from 11 in 2004-2009 to 18 in 2009-2014 with similar increases across provincial and sub district level.<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▶ Growing trend of local government decrees that directly or indirectly discriminate against women</li> <li>▶ Women's political representation is low—only 18% of the 2009 DPR members were women—perhaps in part because nearly 70% of Indonesian men and even a majority (51%) of Indonesian women believe men make better political leaders</li> <li>▶ Women are also under-represented in the policy sphere—in 2011, only 9% of the Echelon-1 level officials in GoI were women</li> <li>▶ Women's access to the formal justice system is limited as is their role in traditional justice systems</li> </ul>

<sup>2</sup> Policy Brief on Gender 7: Women's Voice In Politics and Decision Making, World Bank and others, 2011

CROSS-CUTTING DIMENSIONS	<p>Access to Justice</p> <ul style="list-style-type: none"> <li>▶ The development of national strategy on Access to Justice : in which women’s access to justice is one of the 8 key elements of the strategy – making legal justice as compulsory, free of charge, and affordable for women</li> <li>▶ Legal framework for access to justice and issuance of some progressive law that provide protection on women and children</li> <li>▶ Supporting facilities for access to justice such as Prodeo - the cost-free court, support facilities for women survivor of violence</li> </ul>	<p>Access to justice:</p> <ul style="list-style-type: none"> <li>▶ Women’s access to the formal justice system is limited as is their role in traditional justice systems</li> <li>▶ While property laws are non-discriminatory, the Marriage Law only recognizes men as household heads</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Indonesia is a signatory to most major international conventions upholding principles of gender equality and the RPJM-N identifies gender mainstreaming within GoI as a priority target</li> <li>▶ Indonesia is one of only a few countries that has a dedicated Ministry of Women’s Empowerment and Child Protection (KPPA)</li> <li>▶ Indonesia’s social assistance programs favor female-headed households</li> <li>▶ A broad range of sex-disaggregated data are collected by BPS</li> </ul>	<ul style="list-style-type: none"> <li>▶ Law enforcement need to be further strengthened</li> <li>▶ The weak bargaining position of KPPA as a state ministry towards other technical ministries is the major challenge for KPPA in delivering their main mandate of advocacy.</li> <li>▶ Female-headed households tend to be more vulnerable to shocks and poverty rates amongst female-headed households tend to be more volatile.</li> <li>▶ The existing sex disaggregated data are not widely accessible</li> </ul>

## World Bank Support of Gender Equality So Far

3. **The Bank Group has been working actively with the Government on programs to help remove barriers to gender equality.** There have been a number of successes in integrating gender equality and women’s economic empowerment into the Bank program in areas such as equitable access to resources, voice of women in the development of their community and country, and access to new opportunities. Furthermore, the Bank’s support covers the key dimensions of endowment. The Bank has provided support through operations such as *Early Childhood Education and Development*, *BERMUTU*, *PNPM-Generasi* (CCT) program/PKH, and *SPADA* (in its training for teachers), and gender-informed reports on basic education, teacher quality. The *Health Professional Education Quality Project (HPEQ)* supports the strengthening of quality assurance policies governing the education of health professionals, including midwifery education through accreditation of education institutions and certification of graduates. Some analytical works on safe motherhood have also been conducted such as the well-known report “...and then she dies”. Activities such as HIM (HIV in Indonesia Model) and child nutrition (under *PNPM Generasi*) are other health areas where the Bank is actively doing gender analysis and informing project design accordingly. The CCT program has been underway since 2007, through two pilot programs – one community-based funded under *PNPM* and one household-based funded by the Government in six provinces, West Java, East Java, Jakarta, Nusa Tenggara Timur, Gorontalo and North Sulawesi. They provide cash assistance to 720,000 poor households on the condition that children receive preventative healthcare and attend school, and mothers receive pre- and post-natal care. The project targeted EFA (Education For All) goals and maternal mortality, as well as poverty alleviation. Work on gender also involves seeking to expand access to finance to women owned enterprises. A study on *Access to Finance* has supported the development of financial services for migrant workers, mostly women. IFC provided a US\$75 million gender facility and advisory services to *Danamon* and *Bank Internasional Indonesia (BII)* to facilitate access by women to finance their SMEs.

4. **The Bank’s engagement in economic opportunities focuses on labor market participation, access to finance, livelihoods and property rights, some of which specifically target the women’s economic empowerment and focus on female-headed household, as well as on female migrant**

**workers.** *PNPM* has strong women's economic empowerment components and equipped with tools to well address women's needs. The Bank provides supports to migrant workers, the majority which are women, through a training module on financial literacy that uses the research results from studies on migrant workers' access to finance. A joint titling initiative of MDTF/RALAS is another important Bank's effort to support women's economic opportunities. *The Indonesia Jobs Report* (2010), using sex-disaggregated data, identifies gender inequity issues in male and female labor participation, labor trends, analysis of labor market segmentation, examination of the effects of labor regulations on workers, and skill attainment and returns to education, among others. A number of studies have been carried out to analyze issues faced by female migrant workers and identify policy solutions<sup>3</sup>. The FMW program also provided grants to strengthen the institutional capacity of relevant ministries, including the State Ministry of Women's Empowerment (SMoWE) and Ministry of Foreign Affairs (MoFA), in addressing female migrant workers' issues.

**5. The Bank has addressed strategic and sustainable women's voice and agency at community level focusing on legal rights and access to justice, as well as participatory planning and public decision-making.** The Bank's *PNPM* supported program adopted gender equality and equity in its twelve basic principles. Gender equality and equity is also part of the first specific goal on community's participation. The Bank has also put the foundation for women's political empowerment through establishing women's specific forum to ensure women's voices are heard in program development and planning in both *PNPM Rural* (including PAWE-Papuan Women's Empowerment Program of *PNPM RESPEK*) and *PNPM Urban*, and *PAMISMAS*. The Japan Social Development Fund (JSDF) women leadership program and the Justice for the Poor's women legal empowerment program are two major initiatives for enhancing women's access to justice at the community level and with formal justice institutions. The Bank has also played an important role in ensuring gender to be one of the eight thematic areas of the National Strategy for Access to Justice, providing support on women's legal empowerment, as well as research and diagnostic work on gender in thematic areas, such as the "Aceh Gender Impact of Titling" by the MDF team for Aceh and Nias and "Case study on Women Dispute Resolution through *Adat* Institutions in Aceh" by the Justice for the Poor team. The Bank has also mainstreamed gender issues in its *Initiatives for Local Governance Reform Project (ILGR)*, which supports district (*Kabupaten*) governments to improve transparency, accountability and public participatory practices and to undertake reforms in financial management and procurement. The MDTF and JRF has adopted the community-based settlement planning (CSP) in which women and men work together to develop comprehensive village mapping, prepare a needs assessment report for discussions at the *Rukun Warga* (community group) level, and at the village level to prioritize proposed facilities for CSP funding. A participatory approach was also adopted in Water and Sanitation support.

**6. Efforts have also been made in addressing some of the key cross-cutting issues that are highly relevant and can be valuable for Bank's initiative on endowment, opportunities and voice and agencies such as making sex-disaggregated data and gender analysis in analytical works more available, supporting the Ministry of Women's Empowerment and Child Protection in developing the minimum standard for public services, and conducting gender informed public expenditure reviews.** The Bank has actively supported Indonesia by identifying key gender issue in its analytical work and using sex-disaggregated data. The National Targeting System benefits from such analysis, particularly as regards pregnant mothers. The Social Service Data Collection Survey (PPLS11) has also been established with sex-disaggregated for better targeting. The *PEACH* program has incorporated

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<sup>3</sup> Including the following studies: (i) Malaysia - Indonesia Remittance Corridor Study containing a descriptive overview of the Malaysia – Indonesia remittance corridor and a set of recommendations to the Government on how to maximize the developmental impact of remittances; (ii) a study to map out points of vulnerability experienced by female migrant workers (FMW) from the pre placement to post-placement stage, and to identify the causes of such vulnerability.

gender analysis in its public expenditure review, identifying key gender issues (such as migrant workers) that the local government in different pilot areas needs to pay attention to. Through its DSF program, the Bank supported the Government in developing the national minimum standard for public services with among others, the Ministry of Women's Empowerment and Child Protection.

### **Moving Forward on Gender Equity, the World Bank Group Strategy**

**7. The quite extensive Bank Group support for gender equality and development needs to be further shaped in a more systematic and comprehensive manner, and with visible connections across sectors.** The Bank has been engaging extensively not only in the overall dimensions of gender equality (endowment, opportunities, and voice and agency) but also the cross cutting dimensions by making sex-disaggregated data and gender analysis more available. These supports, however, have been conducted sporadically rather than in a systematic and integrated manner. This is partly due to the absence of a well-documented review detailing the various Bank activities and their interconnections and joint contributions, as well as to the lack of an explicit strategy to move towards more equitable development.

**8. Moving forward, the Bank Group is developing a gender engagement strategy that further identifies ongoing and upcoming activities within the three dimensions of gender equality of endowments, voice and agencies, and opportunities to fortify Indonesia current achievement and further address existing challenges on gender equality.** The sum of these efforts is significant and will be built through a more strategic, program-wide approach to gender, for improving effectiveness, enhancing synergies with various stakeholders, and increasing the ability to affect gender-related reforms. The Government has signaled a renewed commitment and is seeking to accelerate improved gender equity; Inpres No.3/2010 on equitable development, highlights issues of justice for women and children, gender equality and women's empowerment. The RPJMN also outlined the importance of increasing the role of women in development, particularly women leadership in public sector, business community and social organizations.

**9. The Bank Group will continue mainstreaming gender into its operations, financing, and analytical programs at different levels and has dedicated resources in translating the Bank's commitment into practice.** A gender practice group at country level, which includes relevant TTLs, has been instituted with a gender coordinator assigned to lead the group and a gender advisor hired to backstop. In addition, many of the programs/projects have their own gender advisor/analyst/focal point. These will further shape, define, and monitor the Bank's engagement on gender equality in Indonesia. This work will be done in collaboration with the relevant line ministries and development partners such as the Australian Government, as well as civil society organizations.

**10. Moving further, considering the broad range of the issues, Bank's limited resources and scope of work, as well as the Bank's comparative advantage, the Bank will work selectively and strategically.** The Bank will work on areas where (a) pressing needs are evident – MMR and stunting and wasting, (b) emerging opportunities that carry emerging risks – urbanization, migrant workers, DRM/Climate Change, ICT, Population Aging, HIV/AIDS -- and (c) strategic interventions to accelerate gender equality in other areas – voice and agency at community level, gender streaming in education, and access to justice.

**11. Future assistances will also include the emerging trends as identified by WDR 2012 – EAP Companion Study, which not only identifies new opportunities but also new risks in the Region, including Indonesia – increased global economic integration, the rising use of information and communication technologies, migration, rapid urbanization, and population aging.** Between 2000 and 2015, Indonesia, together with China and Cambodia are predicted to increase their urban

populations by 17 percent, 13 percent, and 9 percent, respectively (UN, 2010). This will affect all aspects of life, employment structure, service availability, family and community networks supports. Emerging areas for further support include gender-sensitive social protection, more equal access to ICTs, stronger protection and law enforcement for women migrant workers, safe and enabling environments in urban areas for full female labor participation such as affordable day care services and inclusive finance, as well as old age income security for an aging population.

12. **Careful monitoring and evaluation will be critical to meet the Group’s commitments to gender equality.** Currently, monitoring and evaluation tools seem to be effectively tracking sex-disaggregated indicators at the *output* and, to a degree, *outcome* levels. Going forward, more effort will be required to ensure that the gender dimension is integrated in the outcome monitoring and impact evaluations. This could be achieved by strengthening partnerships to agree on gender goals and targets and to identify and select the gender-relevant indicators to measure results and impacts. Such information could be valuable in improving program interventions and increase their impact.

13. **The Bank Group will also work in partnership with other development stakeholders.** The Bank will continue to work collaboratively with the relevant line ministries and other development partners and further strengthened the current partnership. The Bank will also work closely with the IFC, which is in the process of defining the gender aspects of its sustainable forestry and infrastructure work as well as agribusiness. A series of gender finance modules and analytical work have been conducted by IFC. IFC is also seeking to collaborate further with the Bank and other development partners especially in expanding women’s participation in the value chain of important agri-commodities in Indonesia.

14. **Below are Indonesia’s gender-related goals, which the WBG would seek to support.** The Bank would closely monitor the results and be accountable for the activities designed to support them (As higher level country goals they are not formally part of the CPS Results Matrix).

#### Indonesia - Gender Country-Level Result Framework

Result	Indicator	Relevant Sector
<b>Part 1: National Level Targets</b>		
1.1. Progress toward gender-related Millennium Development Goals is achieved		EASPR, EASHD, SD
	1.1.1. Eliminate gender disparity in primary and secondary education in all level education no later than 2015 (MDG2A)	EASHD
	1.1.2. Increase share of women in wage employment in non-agricultural sector (MDG 3.2)	EASPR, SD
	1.1.3. Reduce by two-thirds, between 1990-2015, the under-five mortality rate (MDG4A)	EASHD, EASPR, SD
	1.1.4. Reduce by three-quarters, between 1990 and 2015, the Maternal Mortality Rate Ratio (MDG5A)	EASHD, EASPR
	1.1.5. Achieve, by 2015, universal access to reproductive health (MDG5B)	EASHD
	1.1.6. Reduce the spread HIV/AIDs (MDG6A)	EASHD
	1.1.7. Achieve, by 2012, universal access to treatment for HIV/AIDs for all those who need it (MDG6B)	EASHD
1.2. Country policy and Institutional Assessment (CPIA) indicates progress on key gender issues	1.2.1. CPIA rating: Promote equal access for men/women to human capital development	Gender Mainstreaming Team
	1.2.2. CPIA rating: Promote equal access for	Gender

	men/women to productive and economic resources	Mainstreaming Team
	1.2.3. CPIA rating: give men and women equal status and protection under the law	Gender Mainstreaming Team
<b>Part 2: Operational Work</b>		
2.1. Project are gender informed	2.1.1. 100 % of IBRD projects in country portfolio and percentage are gender informed	Gender Mainstreaming Team
2.2. Projects' results frameworks are gender responsive	2.2.1. 80% of all of projects under implementation have a sex-disaggregated indicator in results framework	All sectors
2.3. Evaluation of projects provides information on the gender-related consequences	2.3.1. 80% of project in portfolio conduct an-end-of-project impact evaluation with sex-disaggregated data	All sectors
<b>Part 3: Project Results across Four Dimensions</b>		
3.1. Gender equality in endowments and human development is promoted	3.1.1. Number of certified female teachers at the respective project areas 3.1.2. Number of relevant policy papers and analytical works that are gender informed	EASHD
3.2. Active measures taken to close gender gaps in economic opportunity	3.2.1. Number of female migrant workers target beneficiaries with financial access in the respective project areas 3.2.2. Number of relevant policy papers and analytical works that are gender informed	EASPR, EASHD, SD
3.3. Active measures taken to strengthen women's voice and influence	3.3.1. Percentage of women participated in relevant decision meetings at community level in the respective project areas. 3.3.2. Number of community proposed projects that are gender informed in the respective project areas	SD
3.4. Gender inequalities addressed in emerging risk areas	3.4.1. Number of women organization and organization that have concerns on gender and development issues consulted 3.4.2. Number of relevant policy papers and analytical work that are gender informed	EASPR, EASHD, SD
<b>Part 3: Gender-related organization within country team</b>		
3.5. Gender focal point is appointed	3.6.1. Fully operational gender focal point	Country Management Team
3.6. TOR for gender focal point is available	3.6.2. Implementation of the gender focal point TORs	
3.7. System in place to review gender in project preparation phase	3.7.1. Country-wide team and processes exist for providing gender technical backstopping in the project preparation phase	Country Management Team
**) From MDGs Road Map, Indonesia, 2010		

## Annex 5: Governance and Anti-Corruption

### Introduction

1. **Over the past decade, the Indonesian government's progress on public accountability is unmistakable.** The World Bank's partnership with the GoI on governance issues reflects our continuing commitment, but also change and variation over time. Governance and anti-corruption have featured in the programs of successive governments with early years of *reformasi* focusing on sweeping reforms and constitutional amendments. For example, between 1999 and 2004 press freedom was enhanced; authority was devolved to the regions; checks and balances between the executive, legislative and judicial branches were strengthened; the role of security forces (police and military) was redefined; direct elections for President and for regional heads were mandated; and an institutional framework to prevent, investigate and prosecute corruption was developed. Civil society played an important role in driving these changes with the Partnership for Governance Reform especially prominent. These years also saw the enactment of foundation fiscal laws and the rearrangement of key economic ministries, all designed to improve budget and financial management systems.

2. **By 2004, Indonesia was increasing the focus on improving service delivery and consolidating accountability agencies.** This effort built on the legislative foundations for public financial management, (including public procurement, business regulation, auditing, and monitoring and evaluation) and introduced limited (ministerial level) civil service reforms. The consolidation of accountability continued in the anti-corruption area, with the role of the Anti-Corruption Commission (KPK) especially prominent and high-level corruption investigations and convictions became increasingly common. However, reforms in the judiciary, the police and the attorney general's office have been slow and collaboration a problem. Indonesia's free press functions well, with corruption scandals regularly revealed and covered. The role of CSOs has increased and they have increasingly developed specialized expertise. For example, in the area of budget transparency and environment, CSOs played a critical role in Indonesia's accession to candidate status in the Extractive Industry Transparency Initiative (EITI).

3. **The administration has continued its focus on reform of core government systems.** In fact, there is an increased emphasis on bureaucracy reform at the whole government level, a previously identified constraint to the effectiveness of civil service reforms at the ministerial level. Nevertheless, the process of improving accountability has not been smooth, as witnessed by the continued political and bureaucratic attacks of the authority of the KPK. The public popularity of the KPK and its ability to weather repeated conflicts with its power in tact suggests a strong, underlying foundation for better governance. Meanwhile, the police and the attorney general's office continue to be plagued by corruption allegations. A growing concern is electoral corruption at both the national and regional level and the effect this corruption has on budget and policy decisions.

4. **The World Bank and other development partners have played an important role in supporting governance reforms in Indonesia.** The Partnership for Governance Reform led the CSO alliance that supported the critical Government initiatives that transformed Indonesia in the aftermath of the Asian financial crisis. The World Bank provided analytical and technical support including through its flagship publication *Combating Corruption in Indonesia*. The World Bank GAC team has been led

by a senior governance advisor in Jakarta with a mandate to address both systemic and Bank-specific governance problems (including such things as project specific anti-corruption action plans).

5. **The World Bank's governance focus has evolved since 2004.** With sustained economic growth and a solid performance during the global economic crisis international credibility was renewed. Strong governance-related reform programs, especially at the Ministry of Finance, but also at the KPK and elsewhere, attracted attention. Against this background, World Bank support evolved in two important directions. First, institutional reform programs confined initially to the Ministry of Finance (MoF) on improved budget and treasury systems were expanded to tax administration and then on to other government agencies. These programs focused on comprehensive institutional change, revised business processes, improved human resource management, and supportive information and communication systems. In addition, the World Bank added support for key government programs around improved governance of major poverty, education and regional transfer programs to its earlier focus on policy and project lending. The Bank's support to key accountability agencies (outside of KPK) was limited given restricted change in the judiciary. Support for improved performance through demand side efforts (by CSOs) has been continued with a focus around specific programs and engagements, an approach common with other development partner efforts.

6. **IFC launched corporate governance advisory program in Indonesia in 2012.** The work program involves working with regulatory bodies to enhance corporate governance standards in the industry, to increase awareness about the benefits of higher governance standards, and to work directly with private sector businesses and sponsors to provide them with advise on enhancing their companies' corporate governance practices.

### **Governance and Anti-Corruption Work going forward**

7. **The governance and anti-corruption approach in the Country Partnership Strategy is led by the Indonesia Governance and Anti-Corruption Team (IGAC).** The IGAC team is made up of senior management augmented by selected country leadership team personnel.

8. **The country governance program (the IGAC agenda) is organized around four pillars: 1) increasing transparency and efficiency in public financial management, 2) increasing the efficiency of public service delivery, 3) strengthening checks and balances, and 4) promoting open, transparent competition.** These cross cutting focuses will be used to improve coordination and provide strategic direction. In the public financial management pillar, the focus is on the civil service, and effective and transparent budget and tax systems (SPIRIT, SPAN, PINTAR). The engagements around improved public service deliver focus on improved systems (including procurement) and citizen feedback mechanisms (DAK, PNPM, BOS). In checks and balances we will partner with Indonesian institutions leading the fight against corruption (e.g. the KPK) and engaging with CSO's to reinforce accountability. To promote open and transparent competition the Bank is focused on Indonesia's resource endowment, including the Extractive Industries Transparency Initiative (EITI), Reduced Emissions through Deforestation and Degradation (REDD+), and support for regulatory framework and financial sector reforms.

9. **The Bank's governance approach will build on the Indonesian Government's Open Government Partnership (OGP).** The OGP should serve as a powerful governance tool to promote transparency, increase civic participation, improve service delivery, reduce corruption, and harness new technologies to make government more open, effective, and accountable. In September 2012 Indonesia became co-chair of this initiative. The Bank's engagements on PFM and improved statistics are designed around data as a public good, while community driven development, sub-national development, health, education, water and sanitation, have substantial social accountability elements. The Bank will leverage the ongoing engagement and relationship with Government to create a space for citizen participation and cooperation, through the recently announced Global Partnership for Social Accountability (GPSA).

10. **The governance approach will also take advantage of an increased focus on tri-party and international accountability mechanisms.** Leadership of the Open Governance Partnership, adoption of the Extractive Industries Transparency Initiative (EITI), a commitment to Reducing Emissions through Deforestation and Degradation (REDD+), as well as the UN convention against Corruption (UNCAC) represent significant steps in increasing the transparency of the GOI's commitments to good governance and an increased focus on monitoring. The World Bank will support these efforts as part of our governance engagement since they provide much needed support for local institutions and communities.

11. **The IGAC team will strengthen the country program through better integration and additional tools at the engagement level.** These tools include a Governance, Operational and Anti-Corruption Lens (GOAL) Analysis that is being piloted in the form of an annex to our Engagement Strategy Notes. GOAL focuses on aligning with government policy, taking into account of the stakeholders and institutional constraints and opportunities. With GOAL there is an assessment of governance and anti-corruption issues at the engagement level well before projects and AAA are taken on. Second, there will be more emphasis on selected political economy analysis. The IGAC team will also provide a forum for integrating and developing approaches to cross cutting issues, for example, ICT for accountability and Open Government.

12. The IGAC agenda will be supported by a Governance and Anti-Corruption secretariat who will provide technical support across the governance pillars, and take the lead on governance work on enhanced fiduciary oversight in Bank projects.

#### **Partnering with Indonesian institutions leading the fight against corruption.**

13. **The World Bank support for Indonesian anti-corruption institutions is wide ranging with special attention to the engagement with the Anti-Corruption Agency (the KPK).** The World Bank program with KPK includes capacity building, (professional and leadership training as well as knowledge sharing), and support on communications and reporting. Under the Bank's Governance Partnership Facility, work is getting underway to support KPK audits of public service institutions including developing mechanisms to handle public feedback.

14. **While the KPK is the leading institution combating corruption in Indonesia, the majority of corruption cases are investigated and prosecuted by the attorney general's office (AGO).** In recognition of the AGO's crucial role, the World Bank is supporting the AGO R&D bureau reform its processes and procedures based on evidence from field research and public consultation. For example, consultations with communities are leading to a change in the remedies for misappropriation of funds in community-driven development projects.

15. **The Bank is also working with select ministries and agencies on enhancing transparency and accountability.** These efforts encompass support for the application of e-government tools in DG Highways in order to improve project transparency and reporting, and collaboration with DAK on the creation of a results-based financing mechanism for local governments where infrastructure financing is released based on the achievement of transparency standards.

#### **Collaborating with CSOs for Improved Accountability**

16. **The World Bank GAC team is also working with CSOs in Indonesia, to improve institutional accountability.** To do this involves assessing and aiding CSOs with technical input and strategic advice with our partnership not limited to formal agreements but also including idea sharing, discussions and consultations.

17. **In the area of social accountability, the Bank is facilitating CSOs working on open government to improve the transparency and reporting in Government Institutions.** The GAC Team working with Anti-Corruption NGOs, practitioners, academia and the public is working to develop concrete recommendations on how budget reporting should be done. This ongoing effort will augmented by the World Bank's Global Partnership for Social Accountability.

#### **Strengthening Indonesia's anti-corruption systems in WBG-supported projects**

18. **The integration of governance principles World Bank initiatives is done by mainstreaming anti-corruption measures and initiatives.** A Governance and Anti-Corruption (GAC) team, led by the Indonesia Country Office Senior Governance and Anti-Corruption Officer (a member of the Country Leadership Team and head of the IGAC secretariat), coordinates anti-corruption relationships and policy dialogue, oversees governance-related operations, advises project team leaders on governance and anti-corruption strategies, and is responsible for the development of the research agenda and governance monitoring framework. A field-based operations support team supervises fiduciary practices to mitigate the risks of corruption and integrates anti-corruption mechanisms into project design, supports and reviews Anti-Corruption Action Plans (ACAPs), monitors the implementation of ACAPs, shares recommendation and liaises with GoI partners. The GAC team also works with GoI agencies on ACAPs and to support government investigations of corruption allegations in WBG-financed programs.

19. **Regular meetings are held with the MoF to review progress, develop follow-up actions, and discuss remedies and sanctions, as well as possible measures to prevent recurrence.** When the WBG proposes to exercise legal remedies or apply administrative sanctions, it discusses these with MoF the basis for the proposed action and with adequate advance notice.

20. **Since 2003, all Bank-supported projects have included governance-related risks to achieving project objectives and how those risks will be mitigated and managed.** Nevertheless ownership and implementation problems with ACAPs persist and addressing this problem will require collaboration with key organizations, including the KPK, the AGO, and sectoral counterparts such as Ministry of Public Works and the Ministry of National Education. It is anticipated that this collaboration will improve our ability to address corruption at the institutional level (that is above the project level), leading to change in the role of agencies around identifying and mitigating risks. The Bank support for this initiative will alter the nature of the ACAPs — from an instrument of compliance with Bank-financed projects to a government-owned mechanism of accountability to improve public sector performance.

## Annex 6: Portfolio Performance

1. **Among the East Asia Pacific countries, Indonesia has the second largest portfolio after China, in terms of net commitment amount, which at end August 2012 amounted to US\$ 7.7 billion including a US\$ 2 billion of a DPL DDO.** The portfolio consists of 31 lending projects, as well as two GEF operations and nine other large trust funds.

2. **Portfolio performance is comparable to the other middle-income countries (MICs).** In EAP, the Indonesia's commitment at risk (8%) is same as China (8%) and significantly lower than of the Philippines (19%). The number of at risk project (18%) is comparable with China (13%) and the Philippines (19%). The percentage of project at risk increased from 11.8% (FY 2010), to 12% (FY 2011), to 19.4% (FY 2012), and 18.2% in FY 2013. The increase could come from a combination of more realistic and stringent project assessment rating and some innovative and high risk project that was approved during this period. The amount of commitment at risks in Indonesia portfolio, in terms of percentage to the lending & GEF projects has been increased too from 3% in FY 2010, to 3.8% in FY 2011, 8.6% in FY2012 and currently at 8% in FY 2013. This level of commitment at risks is among the lowest compare to other selected IBRD countries (as shown in the table below).

No	Country	# of project	% Commitment at risk (\$)	% of at risk project (#)
1	Indonesia	33	8%	18%
2	China	89	8%	13%
3	Philippines	21	20%	19%
4	India	79	18%	13%
5	Pakistan	24	12%	17%
6	Brazil	57	6%	12%
7	Mexico	22	1%	9%
8	Turkey	11	16%	27%
9	Egypt	21	10%	24%

Source: Business Warehouse

### IFC Portfolio

3. As of September 30, 2012, IFC's committed portfolio in Indonesia was US\$911.71 million for IFC's own account and US\$332.25 million held on account of participant banks. NPLs were at 0% of total portfolio, while the equity committed portfolio accounted to US\$215.07 million. Detailed information about the portfolio is given in "Annex B8: IFC".

### Financial Management, Procurement and Country Systems

4. **The Bank continues to work closely with the Indonesian government in enhancing project implementation in the area of financial management and procurement, as well as on country system as envisaged in the CPS.**

- For financial management the progress to date is improvement of internal controls and internal and external audit systems, and more timely and reliable financial reporting is evidenced by an important reduction in qualified audits. The implementation of COSO control framework needs to be accelerated and the internal audit function strengthened at all levels of Government. The capacity

building of the supreme audit institution (BPKP) needs to continue particularly in the area of follow up and impact on its audit findings and linkages with the legislature. The proposed *Financial Sector and Investment Climate Reform and Modernization DPL (FIRM)* would promote reforms would include strengthened financial reporting and auditing standards and practices in alignment with global benchmarks.

- In terms of improving public procurement system the progress to date is the establishment of a new procurement agency, issuance of a revised presidential decree and national standard bidding document, and requirement to establish procurement service unit in all implementing agency. The Bank, the National Public Procurement Agency and other key stakeholders will engage on a joint work program to support strategic priorities such as procurement performance measurement, modern risk management, and professionalization of the procurement function. This cooperation will include knowledge transfers from other countries with successful, relevant experiences. The main area of focus will be on increasing procurement efficiency by, for example, more strategic use of e-procurement, data driven procurement policy making and management, and enhancing the use of framework contracts to achieve savings and streamline transactions. In addition, the Bank will look at ways to shift more of its procurement resources to strengthening institutions by reducing transaction work, better integrating work at the project and country level, and tailoring capacity building strategies to specific circumstances such as implementing agencies' performance, objectives, and level of decentralization
- The BOS KITA and Local Government DAK projects use country systems in terms of internal controls, financial management and procurement. Under BOS KITA project, the objective is to strengthen school-based management and community participation, improving existing fiduciary arrangement for greater transparency and accountability. The features of Local Government DAK project are results focused, reimburse eligible outputs, strengthen local government internal control, and improve current Government fiduciary and monitoring system.
- The Bank and the Government undertook a Joint Country Portfolio Review for year 2012 (CPPR 2012). The Government took lead of the review process with analytical support from the Bank.

## **Development Impact**

**5. Indonesia has a legacy of poor development impact, but performance has been on the upswing since 2005.** Of the 32 operations rated by IEG during the FY09-12 period, 12 have been rated as MU or U (38 percent). Most of these poorly performing operations were approved during the transition period following the Asia Crisis leading up the first President SBY administration in 2005. As well, these MU or U operations were largely in sectors, health and agriculture, where few reforms were undertaken by the Government and implementation was difficult and drawn out. Of the 10 operations approved prior to the SBY administration, 8 were rated as MU or U (80 percent). Improved development impact since that time can be attributed to the increasing alignment of the Bank's program with the Government's agenda and reform efforts, as well as improved implementation capabilities. Of the 22 operations approved since 2005 and rated by IEG in FY09-12, only 4 were rated MU or U (18 percent).

## Annex 7: Trust Funds

- 1. The Country Team has well defined procedures for taking on new trust funds.** All proposals go to the Indonesia Country Leadership Team (CLT) for endorsement prior to establishment. The CLT screening focuses on priorities, approach and staffing implications.
- 2. The Indonesia trust fund portfolio will remain a strategic component of the World Bank's program.** TFs are essential to support clients in their own implementation of programs and projects, to undertake analytic work and support sector dialogue, and to help build a pipeline of future investment lending. It is expected, however, that the size and composition of the trust funds will remain dynamic. For example, today's portfolio will shrink by 30% with the closing of the Multi Donor Trust Fund for Aceh & Nias (MDF) and the Java Reconstruction Fund (JRF) by the end of FY13. The lessons learnt from the MDF and JRF – both from its implementation and its closing -- will be invaluable for Indonesia (and other countries) and the TF is supporting a number of learning activities for both domestic and international audiences as part of its exit strategy over the course of FY13. Whether a similar level of assistance will be necessary for a disaster/emergency in the future is, of course, unpredictable. In the current trust fund portfolio, a new trust fund is in place under GoI leadership that could support better readiness to respond to disasters in the future. While it is difficult for donors to commit funds to a future disaster, putting in place the governance structure could prove useful to ensure a rapid response to emergencies.
- 3. This is not to say the “trust fund model” is static. As Indonesia evolves so does the way that trust funds are used and governed.** GoI is increasingly interested in directly administering trust funds, but continues to look to the Bank for technical expertise both in terms of fiduciary requirements and implementation. Donors too are looking for evolving governance models but without losing the Bank's fiduciary oversight. Current discussions with GoI, donors and the Bank on REDD+, MCC (on MDG), and disaster preparedness demonstrate that innovative structures and new roles for the Bank are possible. If REDD+, where the Bank acts not as trustee, but as advisor, is successful, it could set the direction of many other Bank interventions in Indonesia and elsewhere. Working to fulfill the Government's longer-term strategy for PNPM/PSF sustainability means that the structure and staffing of PSF, one of Indonesia's largest trust-funded programs, will certainly evolve over the next several years. The PSF team, and the Country Office more widely, is engaging with a number of regional and Bank Corporate units to seek advice and guidance on how best to take on these challenges which will ultimately lead to the Bank's exit from this program.
- 4. Other multi donor engagements such as on trade and investment climate, public financial management, and PNPM support will continue until at least 2015 and are country priorities reflected in the CPS.** TF funding in these areas is multi-year and quite secure. As Government changes some of its borrowing priorities (in particular for education where it will no longer seek IBRD financing), the Bank's engagement in the education sector will be supported more heavily by trust fund sources of financing. If P4R lending is successfully introduced to Indonesia, analytic and implementation support by Government will likely need to be assisted through trust fund financing. As in many other countries, analytic work in other priority borrowing sectors for Government, including infrastructure, can likewise be expected to have some trust fund financing.

## Management of Trust Funds

5. **Portfolio monitoring of TFs is done on a regular basis including through The Indonesia Dashboard and includes specific issues e.g. grants with no disbursement, overdue GRMs, overdue ICMs, grants with closing date in the next 6 months.** All staff are encouraged to enroll in online TF accreditation as part of their learning plans. In FY 12, 100% of LORs were signed on time and without qualifications. During the preparation of trust funds or grants, it is ensured that the cost of administering the TFs will be fully recovered. For large grant programs in particular the PNPM Support Facility, the PSF team has established an additional Portfolio Management Dashboard that integrates data to help the Sector Manager and TTLs assess the portfolio on a real time basis.

6. **Accountability. Supervision is conducted on a regular basis to ensure that trust funds are used for the agreed purposes.** Financial Management Specialists (FMS) are an integral part of all task teams, but also provide clearance for a reallocation or extension of a grant, specifically with regard to the availability of an audit report. Time required for proper FM review could be better planned by some task teams. The inability to charge preparation costs to the TFs can be another constraint to FM input. In the case of NGO recipients, the use of NGO selection worksheet and IAF is useful in providing a preliminary assessment of the recipients and to anticipate potential issues during the assessment. Risk-based financial management reviews are conducted twice a year for big TFs and once a year for small TFs. Additional reviews are conducted if required. The review includes accounting, reporting, internal control framework and limited transaction sampling. These reviews take into account the projects' management report, previous reviews and audit reports. They are conducted by financial management specialists (FMS) and Bank consultants under FMS supervision. There are no overdue audit reports as of June 2012. The Bank's procurement Unit normally delivers procurement training to Implementing Agencies for all projects so that they can better carry out procurement processes in compliance with the Bank's guidelines and procedures as indicated in the GA. Nevertheless, procurement remains an area that is often very difficult for government counterparts in both trust funded and IBRD financed projects.

## Trust Fund Portfolio

7. **AAs of the end of FY12, Indonesia managed 25 country-specific TFs and 38 global/corporate TFs, totaling of USD 1.681 billion.** These trust funds finance 215 active grants totaling USD 1,155 billion. The Multi Donor Trust Fund for Aceh and Nias projects accounted for 39% of the total (USD 654 million out of total of USD 1.681 billion, of which USD 480 million is active). These TFs will complete activities and close on December, 31 2012.

8. **Contributions have come from 17 Donors to Indonesia Country Specific Trust Funds for a total of USD 1.448 billion.** New contributions were received in FY 12 for a total of USD 123 million. In terms of value, Recipient executed TFs are 83 percent of the portfolio. Cumulative disbursement reached 73% compared to 68% at the end of FY 11.

### Summary Indonesia Trust Fund Portfolio

SUMMARY	Number of Trust Fund	Total Contributions (million USD)	Total Grant Amount (million USD)			Number of Grant			Total Cumulative Disbursement (million USD)			Total FY Disbursement (million USD)		
			RETF	BETF	TOTAL	RETF	BETF	TOTAL	RETF	BETF	TOTAL	RETF	BETF	TOTAL
Country Specific Trust Funds	25	1,448	757	165	922	55	70	125	662	127	789	170	38	208
Regional / Corporate Trust Funds	38	233	202	31	233	36	54	90	32	15	47	10	7	18
<b>TOTAL Indonesia TF Portfolio</b>	<b>63</b>	<b>1,681</b>	<b>959</b>	<b>196</b>	<b>1,155</b>	<b>91</b>	<b>124</b>	<b>215</b>	<b>693</b>	<b>142</b>	<b>836</b>	<b>181</b>	<b>45</b>	<b>226</b>

### Indonesia Country Specific Trust Funds – end of FY 12

Trust Funds	Total Contribution Amount (USD)
<b>COUNTRY SPECIFIC TF</b>	<b>1,447,553,819</b>
<b>Single Donor</b>	<b>266,591,191</b>
KDP - Sulawesi (Canada)	15,420,512
KDP - Respek Papua (Australia)	2,981,600
Dutch Basic Education (Dutch)	31,132,800
BERMUTU (Dutch)	52,000,000
Early Childhood Educ. (Dutch)	25,300,000
Indonesia Infra. (Australia)	9,522,217
Geothermal Power Support Program (Dutch)	2,708,711
Geothermal (New Zealand)	7,356,000
Inst. Dev & Cap. Buil. (Dutch)	25,358,325
Poverty Reduction (Australia)	7,483,550
WASAP (Dutch)	33,921,796
PAMSIMAS (Australia)	53,405,679
<b>Multiple Donor</b>	<b>1,180,962,628</b>
PNPM Support Facility	265,041,803
Consolidating Peaceful Develop.in Aceh	6,770,750
Basic Education Capacity	61,935,047
MDTF Aceh Nias	654,661,379
Java Reconstru. Fund	94,062,124
Public Financial Mgt.	25,993,316
Macroeconomic and Fiscal Policy Analysis	5,243,525
Trade & Invest. Facility	11,656,084
Disaster Management Fund (DMF)	2,048,850
DSF II	44,384,290
PEACH	9,165,460

## Indonesia Active Trust Funds – end of FY 12

	<b>Grant Amount (million USD)</b>
<b>Pro Growth</b>	<b>268</b>
Public Financial Management & Expenditure Management	21
National Institution - Governance	5
PHRD local governance reform co-financing (USDRP)	5
Decentralization (PEACH & PREM Aceh) Dutch + CIDA	8
Infrastructure grants (AusAid, PHRD, GEF, Dutch Geothermal)	160
MDF Economic Development Financing Facility	50
MDF Livelihood	8
Trade	0
Investment Climate	10
<b>Pro Job</b>	<b>145</b>
Education - Bank executed	45
Education - Government executed	23
Education - Cofinancing ECED	25
Education - Cofinancing BERMUTU	52
<b>Pro Poor</b>	<b>281</b>
PNPM Support Facility	186
Food Crises	1
Other KDP and community development	7
Conflict	8
Justice for the Poor	2
Gender, Female-headed households & Female migrant workers	7
National Institution - Poverty	6
PAMSIMAS and WSLIC2 cofinancing	27
WSP : WASAP (Recipient Executed)	3
Other - WSP	30
Others - Water	5
<b>Pro Green</b>	<b>295</b>
MDF Aceh Forest (LIF)	10
MDF Aceh Forest (FFI)	8
Environmental Sustainability - excluding green KDP	11
Climate change / Global environment issues (GEF, CDM, ODS)	33
Disaster Risk Reduction and Recovery	2
GEF COREMAP	8
MDF Infrastructure Reconstruction Financing Facility (IRFF)	137
Java Reconstruction Funds (Jogya housing)	86
Marine Electronic highway	1
<b>Others</b>	<b>166</b>
MDF Admin	24
Fiscal Agency - MDF Aceh and Nias	141
Fiscal Agency - Decentralization Support Facility	2

## Annex 8: CPS Consultations

To obtain feedback on the 2009-2012 CPS and provide input for the new 2013-2014 CPS, the World Bank and IFC carried out consultations with a wide cross-section of civil society, from the media to the private sector, as well as civil society organizations focused on environment issues, governance, community development, and poverty reduction. The World Bank Indonesia program also conducted the World Bank Client Survey, with 265 respondents selected out of a pool of 866 stakeholders. The following is a summary of comments from the consultations and from the Client Survey:

- **Efforts at poverty reduction are best implemented through Capacity Development.** Respondents of the Client Survey judged the Development Policy Loan as the least effective instrument for poverty reduction. While respondents believe the Bank performs well at monitoring and evaluation its programs, they are less convinced of the policy prescriptions, deeming some of them too technocratic and less accommodating of political realities. Respondents add that Bank procedures can be too bureaucratic and as a result project implementation can be less than timely.
- **A ‘sectoral’ strategy is inadequate, particularly concerning environmental and poverty.** Participants noted that a ‘green economy’ cuts across sectors, while at the same time requiring a micro ‘not-one-answer-fits-all’ approach. There is also a call, considering the archipelagic nature of Indonesia, for more focus on marine environments. Similarly, CSOs focused on poverty note that poverty-reduction programs must have more linkages between sectors.
- **‘Middle-income’ status may not necessarily fit.** Participants noted that ‘middle-income’ definitions do not apply in more remote provinces, particularly in areas where MDG indicators such as maternal mortality remain critical. Regional disparity must be better addressed. In general, the CSOs urge that the CPS reflects a more sober picture of Indonesia, one marked as much by shortcomings and challenges as well as successes.
- **The infrastructure-intensive sweeping approach of the Master Plan is neither strategic nor effective.** Many society groups argued that a shift back to agriculture and capacity-building at the local level would be more helpful to address food security concerns than the large-scale programs of MP3EI, and that connecting poor regions with more affluent areas do not necessarily translate into more prosperity for the poor. They also note that the MP3EI does not explicitly address the concerns of the Pro-Poor or the Pro-Green agenda. Participants added that private sector involvement in the Master Plan has impeded community rights to land, while others note that the focus on infrastructure may lead to reduced investments on human resources development. Governance-focused CSOs remarked that past infrastructure programs have been poorly carried out and prone to mark-ups. Conversely, however, representatives from the private sector note the need for improved infrastructure in order to be able to expand business potential.
- **Reinforce focus on bureaucracy reform.** From CSOs to the private sector, the World Bank was urgently reminded to not veer from a reform agenda focused on public service delivery. Participants believe that this is where the World Bank provides added value and that our close partnership with the government can lead to improved outcomes, if the programs remain focused on these reforms.
- **Focus on upstream influence is outdated, and increased grassroots involvement is needed.** Participants noted that Bank relationships with stakeholders are concentrated in the capital, Jakarta. They called for a greater engagement of local governments, and increased training for the bureaucracy as well as for CSOs working at the grassroots level. Participants also suggest modifications of ‘technical assistance’ to suit local needs and local capacity, and that data obtained by CSOs should be incorporated more into the Bank’s work. Going forward, they suggest that CSOs are involved in budget formulation, and not just at the monitoring stage.

- **Growth targets are too ambitious.** Participants note that high economic growth has not necessarily translated into better livelihoods, and stress the importance of quality development. They point out the inadequate availability of skilled employment amongst youth that, if not addressed, will lead to more inequity and possible unrest. Private sector representatives also urge the government to not be side-tracked by high ambitions, and instead focus on basic priorities such as civil service reform and health service delivery.
- **The four pillars (Pro-Growth, Pro-Poor, etc.), encompassing many programs, prompts the question: What are the Bank's priorities?** Some participants noted that the Indonesia program may be too 'comprehensive' and not selective in its approach.
- **Community participation must be increased.** Participants called for the involvement of CSOs in the monitoring and evaluation of infrastructure projects. Community development organizations add the financial management capacity of local institutions needs to be strengthened, and that current programs do not adequately address this issue. They add that while the national CDD program has been successful, it would benefit from increased strengthening of accountability mechanisms and community involvement. Poverty-reduction NGOs also note that the Bank is focused on the CDD approach and process rather than obtaining more results. Advocacy groups add that empowerment without real power does not lead to lasting results, and that the voice of poor communities must be amplified. There is a strong call to amplify the need for social justice.
- **Closer partnerships with civil society should be developed.** Civil society participants note that they would be more effective in encouraging reforms. Many participants feel that the World Bank should play a bigger catalytic role in maintaining the reform agenda, particularly reforms relating to the bureaucracy or to the regulatory environment. There is also a very strong call for greater knowledge sharing with CSOs, in order to improve their capacity.
- **Addressing inconsistencies in governance and law enforcement.** Some participants note that private investors do not adhere to low-carbon principles as outlined in the Master Plan. Advocacy groups note that policies supporting better governance face obstacles at the implementation level. Participants call for an increase in programs that provide public expenditure analysis and dissemination of that information.

Standard: CPS Annexes

Annex A1: Key Economic and Program Indicators

Key Economic & Program Indicators - Change from Last CAS

Prepared for all CASs/Progress Reports, but included in Board version of Progress Reports Only

As Of Date 9/18/2012

	Forecast in Last CAS				Actual			Current CAS Forecast		
	2008 <sup>a</sup>	2009 <sup>b</sup>	2010 <sup>b</sup>	2011 <sup>b</sup>	2010 <sup>c</sup>	2011 <sup>c</sup>	2012 <sup>c</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>
<i>Economy (CY)</i>										
Growth rates (%)										
GDP	6.0	6.4	6.7	6.7	6.2	6.5	6.1	6.3	6.6	6.6
Exports	9.5	8.4	8.6	9.1	15.3	13.6	2.8	5.7	11	10.2
Imports	10.0	9.9	7.9	8.3	17.3	13.3	7.1	4.7	11.8	11.7
Inflation (%)	9.8	7.0	6.0	5.5	5.1	5.4	4.4	5.1	5.0	4.8
<i>National accounts (% GDP)</i>										
Current account balance	0.0	0.9	0.3	-0.2	0.7	0.2	-2.3	-1.6	-1.7	-0.9
Gross investment	27.7	27.0	27.0	27.0	32.1	32.0	33.3	34.5	35.4	36.6
<i>Public finance (% GDP)</i>										
Fiscal balance	-0.1	-0.9	-0.5	-0.1	-0.7	-1.1	-2.4	-1.7	-1.4	-0.5
Foreign financing	0.5	-0.3	-0.3	-0.3	0.4	0.2	0.7	0.6	0.7	0.9
International reserves	43.0	44.2	45.6	49.7	96.2	110.1	110.2	122.5	143.1	159.9
(as months of imports)	4.0	4.2	4.0	4.0	7.2	6.4	4.3	4.5	4.7	4.7
<i>Program (Bank's FY)</i>										
	FY2008 <sup>a</sup>	FY2009 <sup>b</sup>	FY2010 <sup>b</sup>	FY2011 <sup>b</sup>	FY2010 <sup>c</sup>	FY2011 <sup>c</sup>	FY2012 <sup>d</sup>	FY2013 <sup>b</sup>	FY2014 <sup>b</sup>	FY2015 <sup>b</sup>
Lending (\$ million)	8,126	8,500	8,700	9,200	9,772	11,314	12,159	12,660	13,231	13,851
Gross disbursements (\$ million)	1,240	1,300	1,350	1,400	2,240	2,186	1,543	1,000	1,000	1,000

a. Estimated year

b. Projected year

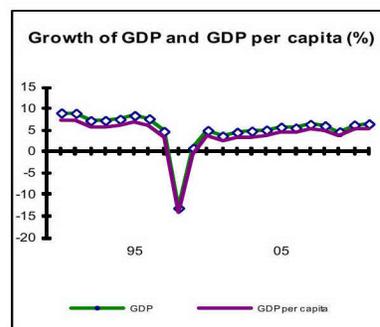
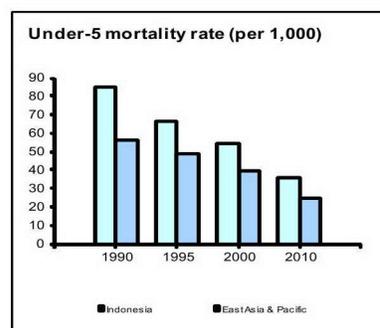
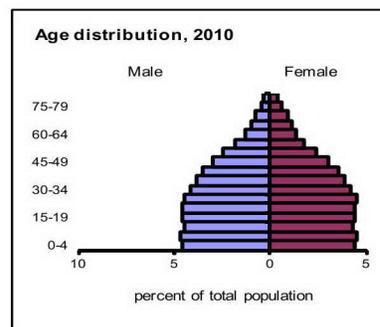
c. Actual outcome

## Annex A2: Indonesia at a glance

### Indonesia at a glance

10/12/12

Key Development Indicators	Indonesia	East Asia & Pacific	Lower middle income	
<b>(2011)</b>				
Population, mid-year (millions)	242.3	1,962	2,519	
Surface area (thousand sq. km)	1,905	16,302	23,579	
Population growth (%)	1.0	0.7	1.5	
Urban population (% of total population)	54	46	39	
GNI (Atlas method, US\$ billions)	649.6	7,249	4,078	
GNI per capita (Atlas method, US\$)	2,680	3,696	1,619	
GNI per capita (PPP, international \$)	4,200	6,657	3,632	
GDP growth (%)	6.5	9.7	6.9	
GDP per capita growth (%)	5.4	8.9	5.3	
<b>(most recent estimate, 2005–2011)</b>				
Poverty headcount ratio at \$1.25 a day (PPP, %)	18	14	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	46	33	..	
Life expectancy at birth (years)	68	72	65	
Infant mortality (per 1,000 live births)	27	20	50	
Child malnutrition (% of children under 5)	18	6	25	
Adult literacy, male (% of ages 15 and older)	95	96	80	
Adult literacy, female (% of ages 15 and older)	89	91	62	
Gross primary enrollment, male (% of age group)	119	111	110	
Gross primary enrollment, female (% of age group)	115	112	104	
Access to an improved water source (% of population)	80	90	87	
Access to improved sanitation facilities (% of population)	52	66	47	
<b>Net Aid Flows</b>				
	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2011</b>
(US\$ millions)				
Net ODA and official aid	941	1,716	1,653	1,393
Top 3 donors (in 2010):				
Australia	48	77	72	356
France	44	122	22	262
United States	117	31	174	180
Aid (% of GNI)	1.3	1.6	1.1	0.2
Aid per capita (US\$)	6	9	8	6
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	9.5	7.7	3.7	5.4
GDP implicit deflator (annual % change)	10.4	7.7	20.4	8.4
Exchange rate (annual average, local per US\$)	627	1,843	8,422	10,121
Terms of trade index (2000 = 100)	..	107	100	137
Population, mid-year (millions)	151	184	213	242
GDP (US\$ billions)	78	114	165	734
<i>(% of GDP)</i>				
Agriculture	24.0	19.4	15.6	14.7
Industry	41.7	39.1	45.9	47.2
Manufacturing	13.0	20.7	27.7	24.3
Services	34.3	41.5	38.5	38.1
Household final consumption expenditure	51.4	58.9	60.7	56.8
General gov't final consumption expenditure	10.5	8.8	6.5	9.0
Gross capital formation	24.1	30.7	22.2	32.8
Exports of goods and services	34.2	25.3	41.0	26.3
Imports of goods and services	20.2	23.7	30.5	24.9
Gross savings	28.7	28.1	26.1	31.3



	1980–90	1990–2000	2000–11
<i>(average annual growth %)</i>			
Population	2.0	1.5	1.2
GDP	6.1	4.2	5.4
Agriculture	3.6	2.0	3.5
Industry	7.3	5.2	4.2
Manufacturing	12.8	6.7	4.6
Services	6.5	4.0	7.4
Household final consumption expenditure	5.2	6.6	4.6
General gov't final consumption expenditure	4.6	0.1	7.8
Gross capital formation	7.7	-0.6	6.4
Exports of goods and services	2.7	5.9	7.7
Imports of goods and services	1.2	5.7	8.2

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.  
a. Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2011
(US\$ millions)		
Total merchandise exports (fob)	65,408	200,788
Total merchandise imports (cif)	44,404	182,604
Net trade in goods and services	15,243	24,154

Current account balance	7,998	1,712
as a % of GDP	4.8	0.2

Workers' remittances and compensation of employees (receipts)	1,190	6,916
Reserves, including gold	29,268	106,530

#### Central Government Finance

(% of GDP)	2000	2011
Current revenue (including grants)	19.7	16.3
Tax revenue	11.1	11.8
Current expenditure	15.6	10.3
Overall surplus/deficit	-1.8	-1.1

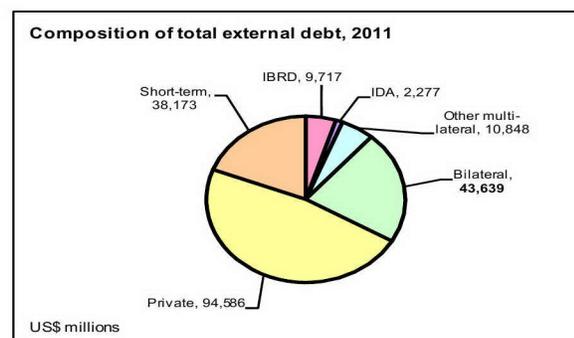
Highest marginal tax rate (%)	2000	2011
Individual	35	30
Corporate	30	28

#### External Debt and Resource Flows

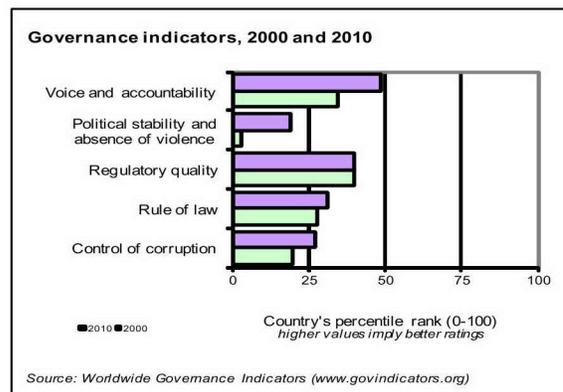
(US\$ millions)	2000	2011
Total debt outstanding and disbursed	143,344	199,240
Total debt service	16,624	30,681
Debt relief (HIPC, MDRI)	-	-

Total debt (% of GDP)	86.9	27.2
Total debt service (% of exports)	26.2	13.0

Foreign direct investment (net inflows)	-4,550	19,242
Portfolio equity (net inflows)	-1,021	-326



Private Sector Development	2000	2011
Time required to start a business (days)	-	45
Cost to start a business (% of GNI per capita)	-	21.5
Time required to register property (days)	-	22
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Economic and regulatory policy uncertainty	48.2	
Corruption	41.5	
Stock market capitalization (% of GDP)	16.3	58.4
Bank capital to asset ratio (%)	6.0	11.4



Technology and Infrastructure	2000	2010
Paved roads (% of total)	57.1	56.9
Fixed line and mobile phone subscribers (per 100 people)	5	108
High technology exports (% of manufactured exports)	16.4	11.4

#### Environment

Agricultural land (% of land area)	25	30
Forest area (% of land area)	54.9	52.1
Terrestrial protected areas (% of land area)	13.6	14.1
Freshwater resources per capita (cu. meters)	9,218	8,504
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	1.2	1.7
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.6	4.3
Energy use per capita (kg of oil equivalent)	730	851

World Bank Group portfolio	2000	2010
(US\$ millions)		
<b>IBRD</b>		
Total debt outstanding and disbursed	11,715	9,054
Disbursements	1,051	2,078
Principal repayments	761	900
Interest payments	950	291
<b>IDA</b>		
Total debt outstanding and disbursed	714	2,313
Disbursements	59	142
Total debt service	31	49
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	880	648
Disbursements for IFC own account	480	507
Portfolio sales, prepayments and repayments for IFC own account	20	46
	43	165
<b>MIGA</b>		
Gross exposure	56	207
New guarantees	0	207

Note: Figures in italics are for years other than those specified. 2011 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

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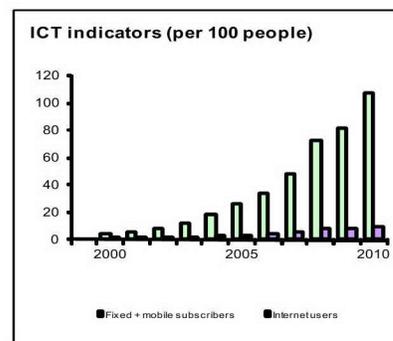
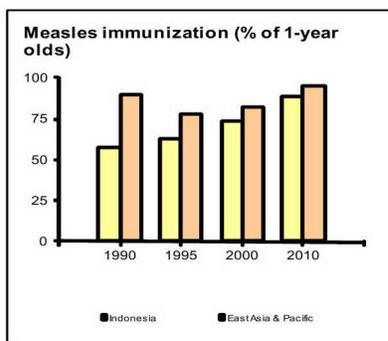
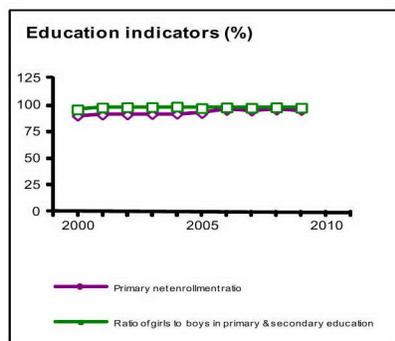
Development Economics, Development Data Group (DECDG).

# Millennium Development Goals

Indonesia

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Indonesia			
	1990	1995	2000	2010
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	54.3	43.4	47.7	18.1
Poverty headcount ratio at national poverty line (% of population)	..	17.6	23.4	13.3
Share of income or consumption to the poorest quintile (%)	9.4	9.0	9.6	8.3
Prevalence of malnutrition (% of children under 5)	31.0	27.4	24.8	17.5
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	98	95	90	95
Primary completion rate (% of relevant age group)	96	99	93	105
Secondary school enrollment (gross, %)	48	49	53	77
Youth literacy rate (% of people ages 15-24)	96	..	..	99
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	93	93	96	98
Women employed in the nonagricultural sector (% of nonagricultural employment)	29	29	32	32
Proportion of seats held by women in national parliament (%)	12	13	8	18
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	85	67	54	35
Infant mortality rate (per 1,000 live births)	56	46	38	27
Measles immunization (proportion of one-year olds immunized, %)	58	63	74	89
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	620	440	350	240
Births attended by skilled health staff (% of total)	32	37	64	75
Contraceptive prevalence (% of women ages 15-49)	50	54	55	57
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.2
Incidence of tuberculosis (per 100,000 people)	189	189	189	189
Tuberculosis case detection rate (% of all forms)	21	9	21	66
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	71	74	77	80
Access to improved sanitation facilities (% of population)	33	38	44	52
Forest area (% of land area)	65.4	..	54.9	52.1
Terrestrial protected areas (% of land area)	10.0	10.9	13.6	14.1
CO2 emissions (metric tons per capita)	0.8	1.1	1.2	1.7
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	3.7	4.0	3.6	4.3
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	0.6	1.7	3.1	15.8
Mobile phone subscribers (per 100 people)	0.0	0.1	1.7	91.7
Internet users (per 100 people)	0.0	0.0	0.9	9.9
Computer users (per 100 people)	..	..	..	1.5



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

10/12/12

Development Economics, Development Data Group (DECDG).

## CAS Annex B2 - Indonesia

### Selected Indicators\* of Bank Portfolio Performance and Management

As Of Date 10/10/2012

Indicator	2010	2011	2012	2013
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	34	33	31	33
Average Implementation Period (years) <sup>b</sup>	4.1	3.7	3.8	3.8
Percent of Problem Projects by Number <sup>a, c</sup>	8.8	12.1	16.1	15.2
Percent of Problem Projects by Amount <sup>a, c</sup>	2.2	3.7	7.0	6.9
Percent of Projects at Risk by Number <sup>a, d</sup>	11.8	12.1	19.4	18.2
Percent of Projects at Risk by Amount <sup>a, d</sup>	3.0	3.8	8.6	8.5
Disbursement Ratio (%) <sup>e</sup>	54.5	43.2	38.5	6.8
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	No	No	Yes	
Supervision Resources (total US\$)	3,444	4,901	5,620	5,800
Average Supervision (US\$/project)	52	50	52	52

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	291	16
Proj Eval by OED by Amt (US\$ millions)	27,285.6	1,931.7
% of OED Projects Rated U or HU by Number	24.9	37.5
% of OED Projects Rated U or HU by Amt	20.0	13.3

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP)
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

### CAS Annex B3 – Indonesia

Indicative IBRD Lending Program, FY13-15				
<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards to (H/M/L)</i>	<i>Implementation Risks (H/M/L)</i>
<b>FY 13</b>		<b>2048</b>		
<b>Planned Deliverables</b>				
	<b>Pro Growth</b>	<b>857</b>		
	Power Transmission and Distribution II	327	M	M
	Institutional, Tax Administration, Social and Investment (INSTANSI) DPL	300	M	L
	Connectivity DPL	100	H	L
	Financial Sector and Investment Climate Reform and Modernization (FIRM) DPL	100	M	L
	Infrastructure Guarantee Fund	30	H	H
	<b>Pro Jobs</b>	<b>175</b>		
	Sustainable Management of Agricultural Research and Technology Dissemination project (SMARTD)	80	M	H
	Research and Innovation in Science & Technology Project (RISET)	95	M	M
	<b>Pro Poor</b>	<b>1016</b>		
	National Community Empowerment Program in Urban Areas for 2012-2014 Project (PNPM - Urban IV)	266	H	M
	National Community Empowerment Program in Rural Areas for 2012-2014 Project (PNPM - Rural V)	650	H	M
	Rural Water and Sanitation Program AF (PAMSIMAS II)	100	M	M

<b>FY 14</b>		<b>750</b>		
<b>Planned Deliverables</b>				
	<b>Pro Growth</b>	<b>600</b>		
	Institutional, Tax Administration, Social and Investment (INSTANSI) DPL II	300	M	L
	Connectivity DPL II	100	M	L
	Road Assets Preservation Program (RAPP)	200	H	M
	<b>Pro Green</b>	<b>150</b>		
	Solid Waste Management Improvement Support Project for Regional and Metropolitan Cities	100	M	H
	Coral Reef Rehabilitation and Management Project III (COREMAP III)	50	M	M
<b>Potential Deliverables *)</b>				
	Financial Sector and Investment Climate Reform and Modernization (FIRM) DPL II	100	M	L
	Geothermal II	300	M	M
	Catastrophe Deferred Drawdown Option (CAT DDO)	500	M	L
	Renewable Energy for Electrification (1,000 islands)	300	M	M
<b>FY15</b>		<b>650</b>		
<b>Planned Deliverables</b>				
	<b>Pro Growth</b>	<b>650</b>		
	Institutional, Tax Administration, Social and Investment (INSTANSI) DPL III	300	M	L
	Connectivity DPL III	100	M	L
	Local Government and Decentralization Project II (DAK Reimbursement II)	250	H	M
<b>Potential Deliverables *)</b>				
	Matenggeng Pumped storage power project	400	M	M
	Metropolitan Area Development project	400	H	H
	Skills Training for Economic Transformation	100	M	H
	Corridor 5 (Lombok Tourism) Development	100	H	H
	PNPM Rural	200	H	M
	PNPM Urban	100	H	M
	Indonesia Water Supply and Sanitation Investment Facility (IWSIF)	100	H	M
	Energy Efficiency Finance facility	100	H	M
	Small and Medium Hydro Development	100	M	M

\*) subject to resolving of Indonesia's exposures and/or readiness of direct lending to SOEs

**Annex B4: Summary of Knowledge Services**

<b>PLANNED ANALYTICAL AND ADVISORY WORK, FY13-14</b>	<b>(Thousand US\$)</b>	
	<b>BB</b>	<b>TF</b>
<b>Economic and Sector Work</b>		
<i><b>FY 2013</b></i>		
Indonesia-Openness, Competition and Grow	143.2	173.5
Indonesia Economic Quarterly FY13	21.5	
Indonesia: Urban Poverty Analysis	33.9	612.4
An Agenda for Senior Secondary Education	77.4	
Indonesia Life Long Learning	107.4	
Teacher Reform in Indonesia	12.4	
PER: Financing Local Governments in ID	192.2	
<i><b>FY 2014</b></i>		
Education: ID-HE Strategic Studies	14.9	
Indonesian Social Protection Public Expenditure Review (PER)		
Improving Targeting Performance of Poverty Programs		
HIV/AIDS PET Study (UBW 1st Tranche)		
Indonesia ROSC Update Accounting and Audit		
<b>Technical Assistance</b>		
<i><b>FY 2013</b></i>		
Support for Bureaucracy Reform	101.6	
Public Procurement Reform		228.1
Indonesia's Non-Tariff Measures	12.1	70.5
Policy Dialogue on Services	8.7	30.6
Rapid Response Supp. on Fin. Sec. Policy	49.7	170.3
Rapid Response Supp. on Trade Mon. & Pol	33.9	58.6
Supp. for ID Intl Econ. Engagement-FORA	10.8	367.1
Support for Enhancing Fiscal Transfer	2.4	
Indonesia Viability Gap Financing	122.1	
Corruption Prevention Capacity Building		936.5
Indonesia - Access to Justice (TF097761)		1,087.1
ID: eServices Secure Govt Network		60.8
Helping Generate Jobs for Pro-Poor Growth	174.1	2,063.2
Supp. for Dev. Gender Engagement in ID	73.1	
TA- Food Security Policies in Indonesia	108.6	
Sustainability of Ag Export Crops	73.8	42.0
Stunting Reduction and PNPM-Generasi TA	205.7	
Indonesia Beverage Crops Value Chains	14.8	
Food Security Policies in Indonesia		170.2

PNPM Field Operations		1,362.1
PNPM WINDOW 3		554.1
PNPM Supervision and Monitoring		4,931.2
TA for PNPM Generasi Pilot Program		3,616.9
PNPM M&E and Special Studies		7,763.8
PNPM Communication Strategy		2,387.0
Mainstreaming DRR in Indonesia phase II		842.9
Disaster Risk Financing	38.4	
ID Climate Policy and Institutional Support	533.7	164.09
WSP - Program Administration	14.6	2,135.0
WSP-Advisory Services		2,713.1
Geothermal Power Support Program	0.1	899.6
Low-income Housing Policy and Finance	126.2	480.4
Modernizing Water Management Sys	1.0	4.1
MDTF - Indonesia Domestic Trade		2,037.7
TA for MIS and Evaluation Study		392.6
Energy Efficiency Financing Program		75.2
Indonesia Clean Stove Initiative		186.0
MDTF to Improve Investment Climate	17.0	2,286.2
ID - Logistics and Connectivity	20.3	474.8
Supporting Financial Sector Development		50.9
Jakarta Fiscal and Bond Issue		52.2
Strengthening Local Capacity for Poverty	142.6	475.2
ID-TF Local Government Capacity Development		1,441.1
Supp. for Strengthening Sub-National PFM	135.6	
Sub National Development Diagnostics	32.7	
<b><i>FY 2014</i></b>		
Public Expenditure Analysis and Capacity Harmonization	215.5	794.4
Improving Poverty Data Quality	43.2	1,051.9
Support for Social Security Reform	63.3	86.4
Support for Domestic Trade	123.0	108.4
Integration of Poverty Reduction	11.8	
Support for Non-Tax Revenue Management	47.3	2.7
Supporting ID Corruption Eradication		86.2
Indonesia SP Engagement TA	145.4	
ID-TF CPDA		1,768.1
ID-TF CPDA Supervision & Operational		272.9
ID-TF CPDA Program Management & Admin		211.3
ID - Higher Education Intro/Dissemination	(46.0)	
Natural resources and governance	55.5	
Gas Development Master Plan	78.4	
Sustainable Cities Dialogue	69.9	7.2
PEACH -TA and Capacity Building (BETF)		1,155.0

## Annex B5: Indonesia – Key Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2005-11	East Asia & Pacific	Lower-middle-income
<b>POPULATION</b>					
Total population, mid-year (millions)	168.1	199.4	242.3	1,961.6	2,518.7
Growth rate (% annual average for period)	2.2	1.6	1.1	0.7	1.6
Urban population (% of population)	26.1	35.6	53.7	45.9	39.4
Total fertility rate (births per woman)	3.7	2.7	2.1	1.8	2.9
<b>POVERTY (% of population)</b>					
National headcount index			13.3		
Urban headcount index			9.9		
Rural headcount index			16.6		
<b>INCOME</b>					
GNI per capita (US\$)	510	980	2,680	3,696	1,619
Consumer price index (2005=100)	20	44	239	131	140
Food price index (2000=100)	15	38	260		
<b>INCOME /CONSUMPTION DISTRIBUTION</b>					
Share of income or consumption					
Gini index	30.5	29.3	34.0		
Lowest quintile (% of income or consumption)	8.7	9.5	8.3		
Highest quintile (% of income or consumption)	39.5	39.1	42.8		
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)		0.6	1.2	2.0	2.0
Education (% of GNI)				3.8	4.0
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	98	95	95	93	85
Male	99	97	97	93	87
Female	92	92	94	94	83
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total		74	80	90	87
Urban		91	89	97	93
Rural		65	71	84	83
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	26	63	89	95	80
DPT	27	69	83	94	79
<b>Child malnutrition (% under 5 years)</b>					
		27	18	6	25
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	60	64	68	72	65
Male	58	62	67	70	64
Female	62	66	70	74	67
<b>Mortality</b>					
Infant (per 1,000 live births)	67	46	27	20	50
Under 5 (per 1,000 live births)	104	67	35	24	69
Adult (15-59)					
Male (per 1,000 population)	368	275	210	157	244
Female (per 1,000 population)	308	219	175	105	175
Maternal (per 100,000 live births)		440	240	89	300
Births attended by skilled health staff (%)		37	75	91	57

CAS AnnexB5. This table was produced from the CMU LDB system.

10/11/12

Note: 0 or 0.0 means zero or less than half the unit shown. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

## Annex B6: Indonesia – Key Economic Indicators

Indicator	Actual			Estimate	Projection		
	2009	2010	2011	2012	2013	2014	2015
<b>National accounts (as % of GDP)</b>							
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100
Agriculture	15.3	15.3	14.7	12.6	10.7	9.3	8.2
Industry	47.7	47.0	47.2	43.0	40.4	37.8	35.2
Services	37.1	37.7	38.1	44.4	48.8	52.9	56.6
Total Consumption	66.2	65.7	65.8	67.8	67.5	66.6	65.9
Gross domestic fixed investment	31.1	32.1	32.0	33.3	34.5	35.4	36.6
Government investment	1.4	1.2	1.6	2.0	2.1	1.9	1.9
Private investment	29.8	30.8	30.4	31.3	32.4	33.5	34.7
Exports (GNFS) <sup>b</sup>	24.2	24.6	26.3	31.0	28.8	28.0	27.2
Imports (GNFS)	21.4	22.9	24.9	28.9	26.5	25.8	24.7
Gross domestic savings	33.8	34.3	34.2	32.2	32.5	33.4	34.1
<i>Memorandum items</i>							
Gross domestic product (US \$ million at current prices)	540	708	847	898	1,024	1,187	1,375
GNI per capita (US\$, Atlas method)	2,160	2,500	2,940	3,010	3,420	3,810	4,380
Real annual growth rates							
Gross domestic product at market prices	4.6	6.2	6.5	6.1	6.3	6.6	6.6
Gross Domestic Income	7.0	4.1	5.0	9.1	6.5	6.6	7.9
Real annual per capita growth rates							
Gross domestic product at market prices	3.5	5.1	5.4	5.0	5.3	5.6	5.6
Total consumption	3.2	3.0	2.6	3.7	3.6	4.3	4.2
Private consumption	1.6	3.6	2.7	3.9	4.1	3.9	4.0
<b>Balance of Payment (US\$ billion)</b>							
Exports (GNFS) <sup>b</sup>	132.8	174.8	221.5	259.6	271.7	306.6	339.2
Merchandise FOB	119.6	158.1	200.8	236.8	245.8	275.9	304.4
Imports (GNFS) <sup>b</sup>	111.6	153.5	197.3	278.4	295.2	332.5	374.0
Merchandise FOB	88.7	127.4	166.0	227.4	238.4	268.5	301.9
Resource balance	21.2	21.3	24.2	(18.9)	(23.5)	(25.9)	(34.8)
Net current transfers	4.6	4.6	4.2	28.1	36.4	34.4	45.9
Current account balance	10.6	5.1	1.7	(20.6)	(16.3)	(20.2)	(12.6)
Net private foreign direct investment	2.6	11.1	11.5	10.1	10.0	11.0	11.0
Change in reserves	(12.5)	(30.3)	(11.9)	(0.1)	(13.2)	(20.3)	(16.6)
<i>Memorandum items</i>							
Resource balance (% of GDP)	3.9	3.0	2.9	-2.1	-2.3	-2.2	-2.5
Real annual growth rates (YR00 prices)							
Merchandise exports (FOB)	-19.4	4.6	4.5	2.9	5.8	11.1	10.6
Merchandise imports (CIF)	-17.9	18.6	12.5	7.2	3.6	12.1	12.0

*(Continued)*

**Indonesia - Key Economic Indicators**  
**(Continued)**

Indicator	<----- Actual ----->			Estimate	<----- Projection ----->		
	2009	2010	2011	2012	2013	2014	2015
<b>Public finance (as % of GDP at market prices)<sup>c</sup></b>							
Revenues	15.1	15.5	16.3	16.0	16.1	16.2	16.1
Expenditures	16.7	16.2	17.4	18.3	18.1	18.0	17.7
Budget surplus (+) or deficit (-)	-1.6	-0.7	-1.1	-2.4	-1.9	-1.7	-1.6
Capital expenditure	2.7	2.6	2.8	3.5	3.6	3.4	3.3
Foreign financing	0.7	0.4	0.2	0.7	0.6	0.6	0.9
<b>Monetary indicators</b>							
M2/GDP	38.2	38.4	38.7	38.7	38.7	38.7	38.7
Growth of M2 (%)	13.0	15.4	16.4	13.0	14.7	15.9	15.9
<b>Price indices (YR00 =100)</b>							
Merchandise export price index	328.5	415.0	504.6	578.4	567.8	573.6	572.0
Merchandise import price index	430.3	521.5	604.0	699.9	708.3	711.4	714.3
Merchandise terms of trade index	76.3	79.6	83.5	82.6	80.2	80.6	80.1
Real exchange rate (US\$/LCU) <sup>d</sup>	129.3	146.3	146.7	135.7	129.1	122.0	115.6
<b>Real interest rates</b>							
Consumer price index (% change)	4.8	5.1	5.4	4.4	5.1	5.0	4.8
GDP deflator (% change)	8.3	8.1	8.4	6.5	7.9	8.7	8.7

a. GDP at market prices

b. "GNFS" denotes "goods and nonfactor services."

c. Actual figures was consolidated central government.

d. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## Annex B7: Indonesia – Key Exposure Indicators

Indicator	<----- Actual ----->			Estimate	<----- Projection ----->		
	2009	2010	2011	2012	2013	2014	2015
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	172,868	202,413	224,755	240,142	237,862	236,456	241,459
Net disbursements (US\$m) <sup>a</sup>	10,993	7,265	11,584	25,510	33,220	34,595	41,012
Total debt service (TDS) (US\$m) <sup>a</sup>	24,891	29,333	30,681	31,151	25,809	27,933	24,340
Debt and debt service indicators (%)							
TDO/XGS <sup>b</sup>	123.8	111.5	98.3	88.4	83.4	79.5	66.8
TDO/GDP	32.5	32.8	30.6	30.9	26.8	23.0	20.3
TDS/XGS	17.8	16.2	13.4	11.5	9.1	8.7	6.7
Concessional TDO	49.7	45.0	41.5	44.5	42.6	39.7	36.3
IBRD exposure indicators (%)							
IBRD DS/public DS	14.0	13.4	10.0	6.1	5.5	4.3	4.7
Preferred creditor DS/public DS (%) <sup>c</sup>	25.3	26.3	24.4	21.6	22.3	16.0	16.3
IBRD DS/XGS	1.0	0.7	0.4	0.2	0.2	0.2	0.2
IBRD TDO (US\$m) <sup>d</sup>	7,877	9,054	9,716	9,963	10,468	11,163	11,784
Share of IBRD portfolio (%)	6.8	8.2	9.3	10.1	11.6	12.4	13.3
IDA TDO (US\$m) <sup>d</sup>	2,234	2,313	2,277	2,262	2,291	2,188	2,139
IFC (US\$m)							
Loans	97.0	150.0	180.0	222.0	275.0	275.0	275.0
Equity and quasi-equity /c	50.0	7.1	5.0	65.0	25.0	25.0	25.0
MIGA							
MIGA guarantees (US\$m)	0	207	627	627	627	627	627

a. Includes public and publicly guaranteed debt, private non-guaranteed, use of IMF credits and net short-term capital

b. "XGS" denotes exports of goods and services, including workers' remittances

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements

d. Includes present value of guarantees

e. Includes equity and quasi-equity types of both loan and equity instruments

Note: TDO as defined by Bank Indonesia includes, among others, holdings of local currency instruments by non-resident investors and may differ from the figure that appears in Annex Table A2.

## Annex B8: IFC

Indonesia  
Committed and Disbursed Outstanding Investment Portfolio  
As of 9/30/2012  
(In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
2006	Bank danamon	58.18	0	0	5	0	58.18	0	0	0	0
2011	Bank intl indo	75	0	0	0	0	0	0	0	0	0
10/12/2008	Bank of banks	0	9.51	0	0	0	0	7.91	0	0	0
10/12/2008	Bima	15	22.58	0	0	0	15	20.25	0	0	0
2011	Biocarbon	0	5	0	0	0	0	1	0	0	0
2004	Bonavista school	0.21	0	0	0	0	0.21	0	0	0	0
2009/12	Btpn	149.58	68.88	0	0	0	49.58	68.88	0	0	0
2012	Cimb niaga	75	0	0	0	0	0	0	0	0	0
2012	Fhp indonesia i	0	25	0	0	0	0	0.14	0	0	0
2007/08	Fugui indonesia	18.82	0	0	0	2.44	18.82	0	0	0	2.44
2009	liff	0	39.49	0	0	0	0	21.57	0	0	0
2010	Jict	29.14	0	0	0	40	24.86	0	0	0	34.29
2012	Medco power	0	25	0	0	0	0	25	0	0	0
2011	Oto finance	71.84	0	0	0	116.25	71.84	0	0	0	116.25
2004/05	Pt ecogreen	4.58	0	0	0	0	4.58	0	0	0	0
7/8/2006	Pt karunia (kas)	11.27	0	0	0	0.67	11.27	0	0	0	0.67
2008	Pt prakars (pas)	7.09	0	0	0	2.22	7.09	0	0	0	2.22
2008	Pt sas	2.45	0	0	0	0.67	2.45	0	0	0	0.67
2006/08	Pt tas	6.18	0	0	0	0	6.18	0	0	0	0
2008/09	Pt tvs	10.91	0	12	0	0	10.91	0	12	0	0
2009/11	Pt viscose	56.67	0	0	0	170	47.67	0	0	0	137
2008/09	Saratoga asia ii	0	19.61	0	0	0	0	7.72	0	0	0
2010	Trada	33.13	0	0	0	0	33.13	0	0	0	0
0/13	Wintemar	44.59	0	10	0	0	25.6	0	0	0	0
<b>Total Portfolio:</b>		<b>669.64</b>	<b>215.07</b>	<b>22</b>	<b>5</b>	<b>332.25</b>	<b>387.37</b>	<b>152.47</b>	<b>12</b>	<b>0</b>	<b>293.54</b>

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.

## CAS Annex B8 - Indonesia

### Operations Portfolio (IBRD/IDA and Grants)

Closed Projects 329

IBRD/IDA*	
Total Disbursed (Active)	1,956.46
of which has been repaid	82.43
Total Disbursed (Closed)	10,310.95
of which has been repaid	11,899.04
Total Disbursed (Active + Closed)	12,267.42
of which has been repaid	11,981.47
Total Undisbursed (Active)	4,584.61
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	4,584.61

#### Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions			Difference Between Expected and Actual Disbursements			
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		Development Objectives	Implementation Progress								
P114348	Water Resources and Irr Mgmt Program 2	S	S	2011	150				142.5	19.5	
P113078	Geothermal Clean Energy Investment Proje	S	S	2012	175				175.0	30.0	
P085133	Govt Finl Mgt & Revenue Admin Project	MS	MS	2005	55	5			34.7	34.7	25.1
P096921	ID - National UPP (PNPM UPP)	MS	MS	2008	167.68	125			32.8	-77.1	37.9
P092218	ID- Indo Infrastructure Finance Facility	MU	MU	2009	100				100.0	0.0	
P097104	ID-BERMUTU	S	MS	2008	24.5	61.5			19.1	16.7	
P077175	ID-Domestic Gas Market Development Proj.	S	MS	2006	160			10.6	9.2	19.8	
P089479	ID-Early Childhood Education and Dev	S	S	2006		67.5			0.7	-4.5	
P083742	ID-Farmer Empower. Agric.Tech.&Info	MS	MS	2007	32.8	60			8.9	7.5	
P068133	ID-GEF MARINE ELECTRONIC HWY	MS	MS	2006			8.3		3.2	3.2	
P099757	ID-GEF-Geothermal Power Generation Dev	MS	MU	2008			4		2.8	2.8	1.5
P113341	ID-Health Professional Education Quality	S	S	2010	77.822				43.9	31.3	
P085374	ID-HIGHER EDUCATION	S	MS	2005	50	30			7.3	6.9	5.9
P063913	ID-Java-Bali Pwr Sector & Strength	MS	MS	2003	303.715			3.6	34.5	8.0	8.0
P111577	ID-Local Government and Decentralization	S	S	2010	220				163.3	41.6	
P122810	ID-PNPM RURAL IV	MS	MS	2012	531.19				21.7	-130.8	

P079906	ID-Strategic Roads Infrastructure	MS	MS	✔	2007	414.4551764			1.5	69.9	71.4	17.0
P078070	ID-Support for Poor and Disadvant Areas	MS	MS	✔	2005	138	35			1.4	0.2	
P090991	ID-URBAN WATER SUPPLY	S	MS	✔	2010	23.56				16.7	4.8	
P071296	ID-USDRP	MS	MS	✔	2005	90			6.6	3.8	10.4	10.4
P085375	ID-WSSLIC III (PAMSIMAS)	S	S	✔	2006		137.5			9.3	0.3	
P096532	ID: Dam Operational Improvement (DOISP)	MU	U	✔	2009	50				39.2	24.8	
P118916	Indonesia Infrastructure Guarantee Fund	#	#	✔	2013	29.6				29.6		
P117323	Indonesia Power Transmission Development	MS	MU	✔	2011	225				225.0		
P111034	Jakarta Urgent Flood Mitigation Project	S	S	✔	2012	139.64				139.6	0.0	
P100740	PINTAR	MU	MU	✔	2009	110				109.7	81.0	
P118113	PNPM - Urban III Project	MS	MS	✔	2010	149.98				7.0	-7.7	
P130048	Progr for Econ Resilience, Inv & Soc Ass	#	#	✔	2012	2000				2000.0		
P118150	Scholarships Program	MS	MS	✔	2011	112.65				104.9		
P106384	Strengthening Indonesian Statistics	MS	MS	✔	2011	65				65.0		
P117243	Sustainable Management of Ag Research	#	#	✔	2013	80				80.0		
P112158	Upper Cisokan Pumped Storage Hydro-Elect	S	S	✔	2011	640				640.0	0.0	
P090990	Western Indonesia National Roads Improv.	S	MS	✔	2011	250				250.0	46.7	
<b>Overall Result</b>						<b>6565.592176</b>	<b>521.5</b>	<b>12.3</b>	<b>22.3</b>	<b>4590.6</b>	<b>233.8</b>	<b>105.8</b>

