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COUNTRY PARTNERSHIP STRATEGY FOR INDONESIA FY2009-2012

# Investing in Indonesia's Institutions

## for Inclusive and Sustainable Development

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# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AAA | Analytical and Advisory Activities |
| ADB | Asian Development Bank |
| Bappenas | State Ministry of Development Planning |
| BAWASDA | Badan Pengawasan Daerah (Local Government Audit Agency) |
| BNPB | National Disaster Management Agency |
| BOS | School Operational Assistance |
| BPK | State Audit Agency |
| BPKP | State Development Audit Agency |
| BPS | Central Bureau of Statistics |
| CAE | Country Assistance Evaluation |
| CAS | Country Assistance Strategy |
| CCT | Conditional Cash Transfer |
| CDD | Community-Driven Development |
| CIF | Climate Investment Funds |
| CIR | Country Impact Review |
| CPS | Country Partnership Strategy |
| CRMR | Country Results Monitoring Review |
| CSO | Civil Society Organization |
| DGH | Directorate General of Highways |
| DHS | Directorate General of Human Settlement |
| DWR | Directorate General of Water Resources |
| DPL | Development Policy Loan |
| DSF | Decentralization Support Facility |
| EITI | Extractive Industries Transparency Initiative |
| GAAPs | Governance and Anti-Corruption Action Plans |
| GDP | Gross Domestic Product |
| GFMRAP | Government Financial Management and Revenue Administration Project |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| ILGR | Initiatives for Local Government Reform |
| JRF | Java Reconstruction Fund |
| KKPPI | National Committee on Policy for Accelerating Infrastructure Provision |
| KPK | Corruption Eradication Commission |
| MDF | Multi-Donor (Trust) Fund |
| MDGs | Millennium Development Goals |
| MIC | Middle Income Country |
| MoF | Ministry of Finance |
| MoNE | Ministry of National Education |
| MoT | Ministry of Trade |
| NGO | Non-Government Organization |
| NPPO/ LKKP | National Public Procurement Office/ Lembaga Kebijakan Pengadaan Pemerintah |
| PDAMs | Urban Water Utility Companies |
| PEACH | Public Expenditure and Capacity Harmonization |
| PLN | State-owned Electrical Utility |
| PNPM | National Community Empowerment Program |
| PNPM-Rural | National Program for Community Empowerment in Rural Areas Project |
| PNPM-Urban | National Program for Community Empowerment in Urban Areas Project |
| PPP | Public-Private Partnerships |
| REDD | Reduce Emissions from Deforestation and Degradation |
| RPJM | Medium-Term Development Strategy |
| SISWA | System Improvement through Sector Wide Approaches |
| SOFEI | Decentralization Support Facility for Eastern Indonesia |
| SMEs | Small and Medium Enterprises |
| SPADA | Support for Poor and Disadvantaged Areas |
| STATCAP | Statistical Capacity Building Project |
| TA | Technical Assistance |
| USDRP | Urban Sector Development and Reform Project |
| WBG | World Bank Group |

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# EXECUTIVE SUMMARY

This Country Partnership Strategy (CPS) for FY2009-12 marks Indonesia's re-emergence as a confident middle-income country (MIC) that has graduated from IDA, and is enjoying a rising regional and global standing. With a Government that is demanding dependable and timely support for its own development priorities and its poverty-reduction agenda, this CPS positions the World Bank Group (WBG) to respond better to these challenges, thereby ensuring the WBG's continued relevance in the new Indonesia.

Ten years ago, Indonesia was in the middle of an extremely severe economic crisis. Today, Indonesia is a different country. It has embarked upon a far-reaching institutional transformation and has become one of the region's most vibrant democracies. Its sub-national governments are now major players in service delivery. The fight against corruption has moved to the center of the Government's program and relevant institutions have been strengthened.

In social and economic terms, Indonesia has also seen much progress. Its real GDP has been growing at 5 to 6 percent annually since 2002. Prudent fiscal management and a strategy of fiscal consolidation have continued the significant reduction in government debt levels. Inflation has largely been kept under control and Indonesia has a strong balance of payments, with record exports. Public investment has steadily increased over the past five years. Poverty has declined and public services are receiving additional resources, including through community-driven development programs.

While Indonesia is doing well 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 still either poor or had per-capita consumption levels of less than one-third above the national poverty line. Employment growth has been slower than population growth. Public services remain inadequate for a middle-income economy. Many regions, especially in eastern Indonesia, are lagging behind and Indonesia is doing particularly poorly in a number of health and infrastructure related indicators. As a result, Indonesia may yet fail to reach several of its MDG targets.

In meeting these challenges Indonesia's main constraint today is not a lack of financial resources but the need for effective and accountable institutions that can translate available resources into better development outcomes. For this reason, "Investing in Indonesia's Institutions" is the theme of the CPS. 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.

Building on the governance focus of the WBG Country Assistance Strategy for 2004 to 2008, this CPS emphasizes engagements with government counterparts and other stakeholders who are committed to addressing critical governance and institutional challenges. With this approach, the WBG wants to support success stories of replicable institutional reform. As such, the emphasis of the financing and knowledge program will continue to shift towards directly supporting successful or promising priority programs of the Government. This approach aims to improve existing government programs, strengthen the institutions involved, both state and non-state, and encourage others to replicate them.

The application of this "institutional lens" will itself provide a focus for the WBG program: investment, together with advisory and analytical services, will be concentrated on the institutions, sectors, systems and programs where this approach is most likely to succeed. In addition to its cross-cutting engagements to strengthen central and sub-national government institutions and systems, this CPS identifies five thematic areas that are expected to form the core of the WBG's engagement: (i) Private Sector Development; (ii) Infrastructure; (iii) Community Development and Social Protection; (iv) Education; and (v) Environmental Sustainability and Disaster Mitigation.

However, this list of core engagements is dynamic and some of these areas may change, especially as Indonesia will be holding general elections in 2009 and the Government's medium-term development plan (RPJM) for 2010-2014 will be launched in 2010. The WBG's capacity to implement this strategy will therefore depend on a degree of flexibility in its program and also on its capacity to build and maintain relationships in other areas where new opportunities may emerge.

Implementing this strategy will also require some flexibility in the WBG's financing instruments and envelope. The two factors that will determine the level of engagement, demand and performance, are prone to change across

sectors, particularly in view of the upcoming elections, and cannot be predicted with accuracy for the entire CPS period. However, the Government's results in implementing the reform agenda, including through development loans, Indonesia's strong macroeconomic progress and Indonesia's financing needs, together make a strong case for reversing the decline in recent years in the International Bank for Reconstruction and Development (IBRD) exposure.

A notional annual IBRD investment of about US$2 billion is expected. Actual annual lending volumes could vary significantly up or downwards, but will be commensurate with continued robust macroeconomic performance, financial stability and momentum on key reforms. IFC expects to invest about US$300 million annually in the priority sectors of finance, infrastructure and commodity-based supply chains. The investment program is expected to grow in the event of an acceleration of reform in private infrastructure provision.

Trust funds and grant financing through trust funds will continue to be an integral part of the WBG program. The majority of trust funds will be aligned with the WBG's core engagement areas. Trust funds also allow for knowledge engagements outside these areas and support the harmonization and alignment of funding from various development partners behind core government programs.

While the share of the WBG's financial contribution to Indonesia's development is expected to decline as the economy expands, knowledge partnerships will become ever more important. The WBG will build on its existing program of analytical and advisory services, and align this program with its core engagements. In doing so the WBG will also ensure that analytical and technical support strengthens national institutions and country systems and, increasingly, will have this type of work led by, and based within, Indonesian institutions.

This CPS is designed to use the WBG's limited resources to better meet Indonesia's needs and aspirations as a middle-income country. By leveraging Indonesia's own institutions, the CPS aims to help the country to move to the next phase of its ongoing and incomplete transformation — a phase that once complete will allow Indonesia to take its place among Southeast Asia's most successful economies.

CHAPTER 1

# INDONESIA'S INSTITUTIONS MATTER FOR DEVELOPMENT OUTCOMES

Indonesia has emerged a very different country today compared with the country that endured deep economic and political crises a decade ago. It has embarked upon a far-reaching institutional transformation and has become one of the region's most vibrant democracies. The first phase of this transformation, from 1998 to 2003, was a period of radical political and economic change, typified by democratization and the largest ever decentralization of government. The second phase, from 2004 to 2008, was a period of consolidating democratic institutions and returning to political and macroeconomic stability, most notable in Indonesia's first direct presidential elections in 2004 and in its debt levels falling to below 35 percent of GDP. As a result, Indonesia resumed higher levels of growth and has now re-emerged as a confident middle-income country (MIC).

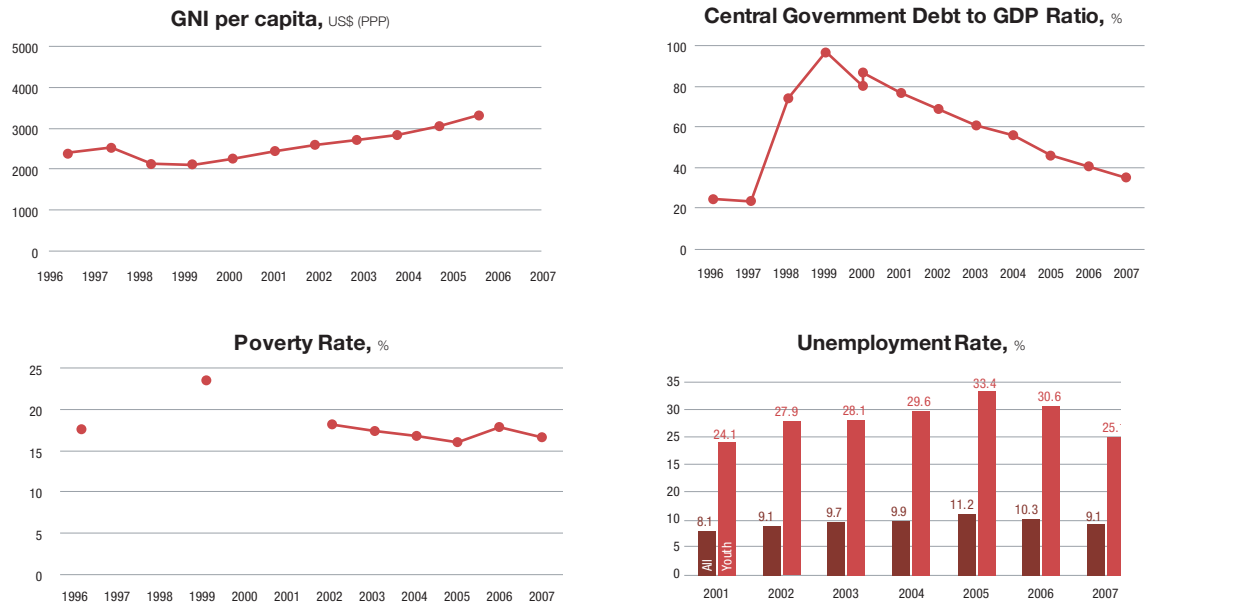
Despite these achievements, Indonesia's transition is far from complete. Poverty levels fell quickly in the years after the crisis, but have been almost stagnant since 2002 (Figure 1). In order to achieve the standards of service delivery and private sector investment required to reach its full potential, Indonesia needs to improve its institutional effectiveness, particularly in the areas of accountability, corruption control and capacity. Better development outcomes now largely depend on addressing fragmentation, capacity weaknesses, capture and corruption in Indonesia's institutions.

## Indonesia has succeeded in consolidating its post-crisis achievements

After a turbulent first five years following the crisis, Indonesia began to consolidate its democratic institutions with the parliamentary election in April 2004 and the first ever direct presidential election in mid-2004. Susilo Bambang Yudhoyono (SBY) won 61 percent of the vote in a second-round run-off on a platform based on promises to fight corruption, jumpstart the economy, and ensure social cohesion and stability. Given that President SBY's own Democrat Party is in a minority in Parliament, the Government has chosen to govern on the basis of a broad consensus that has promoted stability.

Sub-national governments have become major players in service delivery and their role in public investment and economic development is increasing. Indonesia's almost 500 provincial, district and city governments now undertake nearly 40 percent of public spending. Decentralization contributed to the calming of separatist sentiments and regional conflicts and the Government received international praise for signing a peace agreement in mid-2005 with separatist rebels in Aceh, ending a three-decade conflict. There has also been a marked reduction in tensions in Central Sulawesi, Maluku, and Papua. A number of sub-

Figure 1. Indonesia: per capita income, government debt, poverty, unemployment




*Source: World Bank staff calculations, BPS (SAKERNAS labor force surveys).*
*Note: Central Government Debt to GDP Ratio was recalculated in 2000. Poverty data were only available on an annual basis from 2002 onwards.*

national governments have undertaken major reforms of their public sector systems, introducing among others performance-based budgeting and one-stop public services.

The macro-economy continues to be strong; however there are areas of concern. In the context of a slowing global economy, Indonesia's economic growth accelerated to a 10-year high of 6.3 percent in 2007; thereafter revised downward to 6.0 percent for 2008. Domestic demand, particularly private investment, has been the main driver of recent growth rates. Real GDP has been growing at 5 to 6 percent annually since 2002 and, in 2005 per-capita real GDP for the first time exceeded the level reached in 1997, immediately prior to the crisis. The Government's prudent fiscal management and a strategy of fiscal consolidation have continued the significant reduction in government debt levels, which are estimated to fall to 32 percent by end-2008. To date, inflation has achieved year-to-year increases of 11 percent in June due in part to the increase of fuel prices averaging over 125 percent in 2005, and over 28 percent in May 2008 (Box 1).

Box 1. Key facts on the impact of rising oil and food prices

- International oil prices doubled since mid-2007 and food prices increased 20 percent over the first half of 2008, a scale of increase not seen since the 1970s.
- Since 2004, Indonesia has become a net importer of oil but remains a net exporter of energy. Indonesia has announced plans to leave OPEC in 2009.
- Despite record high oil prices, oil and gas revenues have hardly increased but regular revenues have been performing strongly.
- Despite a 28.7 percent increase of fuel prices in May 2008, energy subsidies are likely to exceed US$15 billion in 2008 if oil prices stay substantially above US$100 per barrel. Rising fuel prices have in part, impacted adversely the domestic electricity supply.
- The poor have been hurt by rising food commodity prices because they spend more than half of their consumption resources on food.
- High commodity prices also present opportunities for Indonesia, particularly for net producers of agricultural goods and minerals.

Indonesia has a strong balance of payments, with record exports, and achieved a current account surplus of US$12.7 billion in 2007. This has contributed to a sizeable accumulation of official international reserves, which approached US$60 billion in mid-2008, providing Indonesia with a cushion against external shocks. With fiscal consolidation, public investment has steadily increased over the past five years. Private investment has only more recently recovered and although it still remains below pre-crisis levels, it is rising fast. Following the crisis, investment rates fell from 30 percent before the crisis to a low of 19 percent of GDP in 2002. In 2007, Indonesia's investment rate was 25 percent of GDP.

Faced with one of the world's most devastating natural disasters in recent history — the December 2004 earthquake in Aceh and the resulting tsunami — the Government staged an appropriate response and the reconstruction effort is now making steady progress. The lessons from that disaster have been applied successfully in a number of other major disasters Indonesia has had to face, most notably the earthquakes in Nias and Yogyakarta in 2005 and 2006, respectively.

## Indonesia is now better placed to meet its development challenges

Indonesia has re-emerged with increasing regional and global standing. It now has the possibility to join the ranks of the world's strongest economic performers and, if Indonesia can sustain growth rates close to those of India, China or Vietnam, the world's fourth most populous nation can make poverty history within a decade. High and inclusive growth would help replicate the economic and social dynamism of other Asian countries that attract national and international investments and nurture innovation. Building on its existing economic and political fundamentals, Indonesia today has the opportunity to create this virtuous cycle of sustainable and inclusive growth.

Success, however, is not guaranteed. The next phase of its transformation is likely to be even more challenging than the last one, because Indonesia will have to enter into a period of *second generation reforms*. It will need to provide services such as more sophisticated infrastructure, and secondary and tertiary education, as well as a sustainable health insurance system. If Indonesia fails to address these second generation reforms there is a risk that it will fall 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, relative isolation and rising threats to social cohesion.

Which of these paths Indonesia follows will largely depend on how successful it is in improving its governance — broadly defined as the ability of its public institutions to effectively work for the common good.[1] Indonesia's transition has come a long way in terms of the public's voice and the state's stability. Future success now depends on making progress in improving the quality of Indonesia's institutions, particularly in the public sector. This includes improving regulatory quality, the rule of law, and the control of corruption through more accountability, as well as enhancing institutional capacity. For sustainable, inclusive growth, Indonesia will have to ensure effective implementation of key reforms to the investment climate to both permit the private sector to drive growth and to increase the capacity of public institutions to deliver public goods and share the benefits of growth. These are undoubtedly challenges of enormous proportions.

## Poverty and unemployment

The poverty rate has fallen by about one percentage point per year since 2003 and reached 17.8 percent in 2006 falling further to 16.6 percent in 2007 (see Appendix 4). The percentage of people living on less than US$1-a-day was already below the MDG target by 2006. Yet in 2007, nearly half of Indonesia's population was still either poor or had per-capita consumption levels of less than a third above the national poverty line. These "near-poor" households are vulnerable to expenditure shocks, which can drive them into poverty. Between 2003 and 2004, 40.5 percent of initially poor households escaped poverty, but over one-third of the households that had not been poor fell into poverty. Indonesia's progress towards the millennium development goal to promote gender equality and empower women (MDG 3) is shown in Appendix 3. Indonesia has done extremely well in narrowing the gap between male and female enrollment rates in primary and secondary schools. However, much remains to be done. Women's health issues including maternal mortality rates, continue to pose a challenge. New issues are resulting from decentralization and rapidly increasing migration of female workers. Women also continue to lag behind men in the labor market and in terms of the percentage of earned income. Addressing these challenges will be all the more important as surging food and other commodity prices — coming at a time of record high international oil prices (Box 1) and coinciding with an unfavorable international economic environment — are likely to affect poor and near-poor households disproportionately.

The open unemployment rate rose from 9.1 percent in 2002 to 10.3 percent in 2006, and fell back to 9.1 percent in 2007. Non-participation rates have also risen, and youth unemployment remains high, while median wages have remained the same since the crisis. In agriculture, productivity levels remain low and growth is stagnating. Only about 30 percent of Indonesia's growing labor force appears to have made the transition to what might be considered high-value-added activities.

As part of its poverty reduction program, the Government is scaling up its community-level infrastructure support by consolidating over 50 CDD programs into a National Community Empowerment Program (PNPM-Mandiri) and increasing its investment. This program will be instituted in every village and urban community of the country by 2009-10 in a major effort to enhance inclusiveness in Indonesia's growth. The Kecamatan Development Program and the Urban Poverty Program on which PNPM is based have successfully established community-based, community-driven approaches to poverty alleviation and realized their intended results in terms of physical outputs, institutional development, improved governance and increased incomes. They will now need to be integrated more effectively with sectoral service delivery programs.

Following the adjustments of fuel prices in 2005 and 2008, the Government is also considering further cuts in regressive subsidies and reallocating the additional funds to targeted cash transfer programs designed to compensate the poor.

## Social services

The Government has been investing additional resources in public service provision to address capacity weaknesses and the resulting poor development outcomes. Infant and child mortality rates have been falling steadily, and there has been good progress on primary and secondary enrollment rates. There is also some recent evidence of improvements in the learning achievements of children as recorded in the 2003 and 2006 Program for International Students Assessment (PISA) mathematics assessments.

Much effort is still required to ensure that Indonesia meets all MDG targets (see Appendix 3). Since 2002, child malnutrition rates have stagnated and in some provinces increased. Maternal mortality rates, already the highest in the region, have not improved. Sewerage coverage (estimated at 1.3 percent) is among the lowest is Asia. The Government is in the middle of the decentralization of public services. Many of the gaps in the provision of basic services are due to the difficulties in rebalancing the roles of provincial and district level

[1] For a full definition of governance and anti-corruption, see the GAC-Strategy: Strengthening World Bank Group Engagement on Governance and Anti-Corruption, March 2007, World Bank. http://www.worldbank.org/html/extdr/comments/governancefeedback/gacpaper-03212007.pdf

governments in service provision, and shifting the public sector's role from a provider to a regulator and monitor of private health services.

Indonesia is also one of the countries most affected by avian influenza and a potential source country of a possible human flu pandemic, as well as of a highly infectious trans-boundary animal disease. As such, Indonesia is a prime candidate for better surveillance for human influenza-like illnesses.

### Investment climate and infrastructure

Investment rates are improving, but are still below pre-crisis levels and in certain key sectors such as mining, as well as in policy areas, such as labor reforms, much progress is still needed. Indonesia ranks low in several global comparative indicators of the investment climate, including Doing Business (see Appendix 5). The Government has taken steps to address different aspects of the investment climate through policy reform packages covering key areas of concern of private investors, such as taxes, customs, investment frameworks, and the financial sector, and has promulgated Law No. 25 of 2007 for improving the investment climate; but several challenges remain. Institutional capture is a major obstacle in this area, with many reforms still to be implemented effectively and evenly on the ground.

Improving the quality of Indonesia's infrastructure is another essential aspect of strengthening Indonesia's competitiveness. Road congestion is expected to pose significant challenges and electricity system capacity has been unable to meet growing demand. Retail tariff levels remain below cost in almost all infrastructure sectors, discouraging investment in critical sectors such as power and water. There continue to be considerable operational and financial problems to overcome and land acquisition procedures for infrastructure projects remain cumbersome and often inequitable.

The challenges confronting the transport sector range from weaknesses in capacity, unavailability of long-term financing, to regulatory issues. As in many other parts of the world, the Indonesian transport sector is impacted by considerable governance challenges. The Government recognizes the importance of essential infrastructure to promote private sector activity, both through public sector investments and public-private partnerships (PPP), and set up a National Committee on Policy for Accelerating Infrastructure Provision (KKPPI) in 2005. While KKPPI has been successful in preventing non-compliant projects from materializing, it has yet to make a significant breakthrough in developing transparent and competitive PPP projects.

### Environmental challenges

Indonesia has begun to play an important international role in environmental sustainability issues. Two thirds of Indonesians live in rural areas and are directly or indirectly dependent on communal land, and coastal and environmental resources that are being depleted rapidly. The other third is affected by environmental conditions in urban areas, such as water and air pollution, flooding, 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 substantial emissions of greenhouse gases, as a result. In part, this is the result of the influence of vested interests contributing to illegal logging. Mitigation efforts and corruption control are crucial, and the Government is working to set up the institutional framework, coordinating mechanisms and financial as well as programming capacity for addressing climate change. In the coming years, substantial new funds and instruments will become available to address global public goods. Indonesia is in a unique position both to influence how these funds are used and to tap into these funds to strengthen its own mitigation and adaptation efforts.

## Indonesia's medium-term outlook is favorable but there are downside risks

Indonesia is expected to weather the current global slowdown reasonably well. Growth is projected to slow to 6.0 percent in 2008 before gradually returning



Table 1. Indonesia 2004-2011 – Key macroeconomic indicators and projections

| | Actual | | | | Projected | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Real GDP growth (%) | 5.0 | 5.7 | 5.5 | 6.3 | 6.0 | 6.4 | 6.7 | 6.7 |
| Exports (GNFS) (US$ bn) | 84.2 | 99.8 | 115.0 | 130.4 | 152.6 | 164.1 | 180.0 | 200.2 |
| Imports (GNFS) (US$ bn) | 71.3 | 91.3 | 95.5 | 108.5 | 117.9 | 123.2 | 132.6 | 143.0 |
| Current account balance (US$ bn) | 3.3 | 0.3 | 9.9 | 11.0 | 8.5 | 4.9 | 1.6 | -1.3 |
| Budget deficit (% of GDP) | -1.0 | -0.5 | -0.9 | -1.3 | -1.8 | -1.6 | -1.3 | -1.0 |
| Consumer price index (% change) | 6.2 | 10.5 | 13.1 | 6.5 | 12.5 | 8.0 | 6.0 | 6.5 |
| Growth of M2 (%) | 8.1 | 16.4 | 14.9 | 18.9 | 11.4 | 14.4 | 13.1 | 12.6 |

to trend growth rates approaching 7.0 percent. These projections anticipate some slowing in export growth from recent rates, but foresee domestic demand and especially investment and consumption remaining robust as the economy's momentum from 2007 carries into 2008.

Indonesia is less exposed to external shocks than other economies in the region. Its trade share (the ratio of imports plus exports to GDP) is relatively small even accounting for its size, at about 50 percent of GDP. Firms largely finance their investment through retained earnings. The banking sector is in sound shape and is relatively unexposed to developments in troubled financial markets elsewhere. The structure and destination of Indonesia's exports also protect its external sector from the current downturn. Indonesia's exports are increasingly directed towards emerging economies, particularly those in Asia. Almost two-thirds of Indonesia's exports are primary products and the prices of these, while projected to decrease from recent highs, are likely to remain high into the next decade, according to World Bank forecasts.

However, turmoil in the global economy and the possibility of a prolonged and more severe global slowdown makes any projection highly uncertain. External developments will determine the degree to which Indonesia's growth moderates in 2008 and the speed of recovery in 2009 and beyond. Commodity prices stabilizing near current levels are likely to induce ongoing production growth, while minimizing both the domestic and international disruption flowing from the changes in relative prices. However, further increases in the price of oil are likely to threaten external demand growth, as well as weaken the Government's finances. Meanwhile, further turbulence in international financial markets would likely limit demand for Indonesia's exports and limit investment growth through more expensive credit, weakened confidence among domestic investors, and more costly financing for the Government.

High commodity prices have so far had a positive impact on Indonesia's terms of trade, on its current account and on its growth. As a resource rich country Indonesia stands to benefit in many ways from the current commodity boom. But high commodity prices have also had adverse impacts on inflation, the fiscal balance and income distribution. And further increases in commodity and oil prices pose risks if the fiscal and distributional effects are not managed properly. Indonesia's budget deficit so far has remained at sustainable levels, despite the pressures from ballooning energy subsidies, in part because of the government's decision to reduce fuel subsidies in late May and in part because government revenues have grown significantly since late 2007. But the budgetary costs of energy subsidies and measures to protect consumers from increases in food prices threaten Indonesia's hard-earned fiscal discipline.

Though Indonesia's gross financing needs are still high because of the maturity structure of its existing debt, Indonesia has been able, through prudent fiscal policy, to bring its public debt to GDP ratio to levels well below what had been forecast five years ago at the time the last CAS was prepared. Projections indicate that this trend is likely to continue.

## Development outcomes depend on the quality of indonesia's institutions

Today, the main constraint for Indonesia's development outcomes is not a lack of financial resources but the need for its institutions to translate the available resources into better development outcomes. Indonesia's institutional reforms have made advances in several important aspects of governance. In the past ten years, the voice of the Indonesian public has been considerably strengthened, through civil society and free media organizations, as well as through democratic elections. Delivering better development outcomes now depends largely on improving government effectiveness through strengthening accountability and capacity at all levels, as well as ensuring that much of future growth is driven by private sector development.

### Institutional capacity

Indonesia faces a challenge in that a large number of government agencies are fragmented and have overlapping authorities, hampering efficient decision-making. The implementation of the institutional framework governing the division of roles,

Table 2. Indonesia's debt position and projections

| | Estimate | | | | Projected | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Total debt outstanding disbursed (US$ m)[a] | 137,026 | 130,651 | 128,736 | 136,640 | 137,458 | 146,611 | 151,687 | 158,277 |
| Net disbursements (US$ m)[a] | -5,630 | -2,440 | -13,417 | -10,118 | -9,667 | -6,366 | -7,453 | -5,886 |
| Total debt service (US$ m)[a] | 31,519 | 34,361 | 30,669 | 26,981 | 28,783 | 25,209 | 23,661 | 22,952 |
| Total outstanding government debt to GDP (%) | 59.7 | 47.1 | 38.5 | 34.5 | 31.3 | 29.6 | 27.7 | 26.3 |

*Notes: a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.*

responsibilities and resources between the national and local governments remains incomplete. These challenges are particularly severe in the infrastructure sector. In the new Indonesia, power has been dispersed to many actors, without establishing clarity on their respective roles and responsibilities. As a result, it often takes longer to reach decisions on important investments and to implement them subsequently.

The capabilities of Indonesia's civil servants also need upgrading in various areas to enable them to perform their functions effectively. This is particularly true for local governments as decentralization has dramatically increased their responsibilities without commensurate improvements in capacity. Local-level social service delivery particularly suffers as a result. These are the result of weaknesses in recruitment and training systems, inefficient allocation of civil servants, a compensation system that is not entirely transparent or merit-based, and the absence of credible sanctions for low performance and corruption. Incentive structures are not conducive to initiative or cooperation. In addition, the "command and control" type of management practiced during the Soeharto years has broken down in many areas, but modern management principles have still to be applied.

In response to these challenges, the Government is piloting public sector reforms of specific systems in selected ministries, agencies and localities. The reforms involve strengthening human-resource capacity, revising standard operating procedures, clarifying job descriptions and job grading, enhancing performance incentives through greater pay and promotion linkages, and improving human-resource management functions. The reforms also seek to strengthen policy research and analysis within government ministries and agencies. The State Minister for Empowerment of State Apparatus (Kementrian Negara Pendayagunaan Aparatur Negara/PAN) intends to extend these reforms to other public sector institutions. This is a strategy that uses a phased approach to prevent disrupting standard practices and routines in the initial stages, before demonstrating noticeable improvements in public sector performance via the pilot reform programs.

## Institutional accountability

In its fight against graft and corruption, the Government has strengthened a number of anti-corruption institutions. High-level corruption investigations and, indeed, prosecutions have become increasingly common. The Government is beginning also to implement important reforms in key systems for public financial management, public procurement, business regulation, auditing, and monitoring and evaluation. Although these measures rarely make headlines, they often have an important and lasting impact on the opportunities and incentives for corruption. Indonesia has made major advances over the past five years in establishing a sound legal and administrative framework for the modernization of public financial management in line with good international practice.

Despite these positive steps, these long-standing issues require more time if they are to be thoroughly addressed and effectively tackled. Indonesia's government agencies require even stronger fiduciary control systems, rules and methods for ensuring transparency of information, and effective investigative and disciplinary capabilities. There is also a lack of adequate frameworks for measuring and monitoring results, and social accountability mechanisms that solicit, assess and ensure implementation of client feedback on performance.

While some of the lagging areas are the result of inefficient government structures or lack of capacity, in some instances deliberate institutional capture stifles reform and fosters corruption. In Indonesia's as yet incomplete transition, some government and non-government agencies are still beholden to powerful interest groups. As a result, they can interfere with the efforts that the Government and the country as a whole are working towards, in order to achieve better development outcomes.

The next phase in Indonesia's transition will depend on tackling all of these organizational and institutional issues. There now exists an opportunity to support this next phase of institutional transition as many government agencies have taken ownership of these reforms. Institutional change and reform will now require working with and through institutions where opportunities for supporting such change exist, identifying committed reformers, where and when they arise, and providing them with dedicated support.

CHAPTER 2

# THE STRATEGIC APPROACH

## INVESTING IN INDONESIA'S INSTITUTIONS

## Lessons

This Country Partnership Strategy (CPS) is anchored in the World Bank's East Asia and Pacific Regional Strategy[2] and in the WBG's strategy for Middle Income Countries. Indonesia presents the WBG, an opportunity to partner with a country, of enhanced regional and global standing; an opportunity for the WBG to contribute to government efforts at accelerating and sharing gains in growth and socio-economic prosperity. This CPS is based on consultations with government and non-government institutions (see Appendix 9 on civil society consultations) as well as lessons and recommendations from assessments including the World Bank Country Assistance Evaluation (CAE), the IFC Country Impact Review (CIR), the work underlying the Country Results Monitoring Review (CRMR), and the CAS Completion Report (CAS-CR).

The assessments consider that the WBG's policy, investments and analytical support have contributed to the Government's successes and achievements, notably macroeconomic stability, institutional reforms and provision of some core services, including through the Development Policy Loan (DPL) series, the community-driven development (CDD) programs, and education sector interventions. The WBG was also effective in using its role as a key convener of development partners in response to disasters and played a significant role in providing quality timely analysis and advice, and in building effective partnerships.

However, overall the WBG's investment financing support has been limited, relative to Indonesia's needs for more and higher quality investments. A combination of the perceived high transaction costs of following WBG procedures, lagging counterpart commitment in some areas, and inadequate government capacity in some sectors, has led to slow project preparation and implementation, and delayed the realization of outcomes. A number of rural and social service delivery projects (e.g., in agriculture and health) have also struggled to meet their objectives. Infrastructure was cited among the areas where far more progress is needed. The reviews unanimously stressed the need for greater improvements to the investment climate. The linkages between analytical and advisory activities (AAA) and other WBG operations need strengthening as well.

The WBG's own managerial, operational and administrative systems in Indonesia have been strained by the significant expansion of the WBG's program, especially the growth of the activities supported by trust funds. Thus, although the overall implementation of the CAS was deemed to be broadly on track, there were delays or limited progress in achieving several of the CAS outcomes. In this regard, the assessments note that the WBG should have focused on a smaller set of objectives.

## Approach

This CPS marks Indonesia's re-appearance as an advancing (IBRD-only) mid-level country. It recognizes that fostering inclusive, sustainable growth in a competitive middle-income Indonesia requires strong and effective institutions and therefore seeks a different model of engagement based on a genuine partnership. The Government demands dependable and timely support for its own development priorities and its poverty-reduction agenda. Reviews of the WBG program call for more focus and consolidation. Today, the WBG's financing represents a very small share of investments in Indonesia and leveraging its impact depends on whether it can be applied to improve development outcomes of far larger government programs and private sector investments.

For all these reasons, the focus of this *Country Partnership Strategy* for 2009 to 2012 is on investing in Indonesia's institutions (see Box 2 for a definition of the term "institutions"). The WBG will support Indonesia in the implementation of its own programs and solutions for addressing its development challenges. In the process,

Box 2. Use of the term "institutions"

This CPS uses the term "institutions" to denote arrangements and organizations, not only of the State (government, the legislature and the judiciary at all levels i.e. national, provincial and district), but also private sector actors, financial institutions, civil society and community-based organizations (CSOs and CBOs), academia (including, in particular Indonesian universities), think-tanks, professional organizations and the media. The main focus of the CPS is on improving accountability and building capacity of select state and non-state organizations to meet Indonesia's development objectives.

The strategy recognizes the importance of strengthening both the capacity and accountability of key executive institutions (e.g., ministries and agencies), as well engagement with non-executive institutions of government (e.g., audit, parliament). At the same time, the CPS recognizes that non-government counterparts can play an important role in enhancing accountability.

[2] Securing the Future: Supporting Shared and Sustainable Growth in the East Asian and Pacific Countries and Beyond; April 24, 2008.

it intends to leverage relationships and investments to bring about broad-based policy, institutional and systemic reforms. All WBG engagements will thus be viewed through an "institutional lens" and selected on the basis of their contributions to strengthening Indonesia's institutions and systems, particularly those of the public sector (Figure 2).

This CPS is a natural progression from the last Indonesia Country Assistance Strategy (CAS) for 2004 to 2008. Many elements of the CPS approach have been applied in the past and formed the basis for some of the WBG's most successful programs and partnerships in Indonesia. This CPS maintains the strong emphasis on governance, as did the previous CAS, as good governance continues to remain the single most important issue for development in Indonesia. However, while the last CAS served as an agenda-setting document at a time when the Government's focus on governance issues was still emerging, the CPS seeks to strongly align behind and help implement the Government's own reform priorities.

Today, the Government has made good governance one of its own priorities. The demand put on the CPS is now to allow for practical ways of implementing the governance agenda in alignment with the Government's strategy. It seeks to do so by putting "investing in Indonesia's institutions" at the center of the WBG's work, using this governance focus to determine those areas and sectors in which the WBG will engage.

Underlying this strategy is an understanding that successful institutional change in a large, diverse, dynamic and democratic middle-income country such as Indonesia tends to be government-initiated and -led, and may initially have to be limited in scope and to specific areas (sectors or regions). The application of proven institutional and systemic reforms can be gradually broadened to other areas to ensure greater ownership and sustainability. Thus the CPS seeks to foster success stories based on Indonesian institutions leadership, and thereby contribute to strengthening further their effectiveness, credibility and performance. The WBG will encourage the replication of these successes to maximize the impact of the partnership.

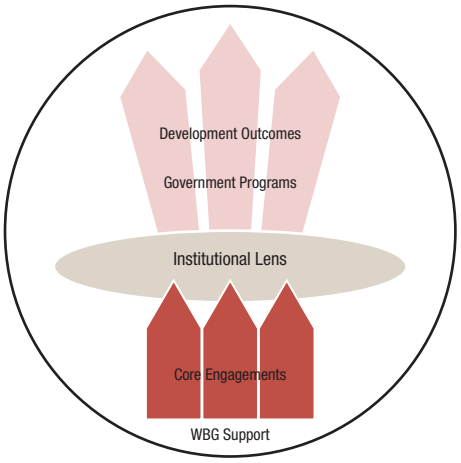
The implementation of this approach requires the WBG to deepen its understanding of Indonesian institutions and their challenges, such that the WBG is able to identify where it may be in a position to contribute to the emergence or replication of such success stories and for it to provide customized products. This in turn requires a shift from an emphasis on transactions towards a genuine partnership based on long-term institutional relationships and trust. Taking full advantage of the existing opportunities also requires consolidating the current wide range of WBG-financed projects and advisory activities. A crucial component of this CPS approach will be to invest in Indonesia's knowledge institutions. The WBG will support Indonesian universities and think-tanks to develop and expand Indonesia's analytical foundations for development (see Chapter 4).

## Selectivity

Consistent with the regional and country partnership strategy, the WBG will engage and apply its resources to areas and sectors that are *significant* for Indonesia's stakeholders, where there remain vital *needs*, in which reform *opportunities* arise, where there is an unambiguous *demand* from Indonesia's key stakeholders, and where the WBG will have the *capacity* to deliver:

- *Significance*: The area of engagement reflects a government priority;
- *Need*: Development challenges are vital;

Figure 2. The CPS approach: Investing in Indonesia's Institutions



- *Opportunity*: Partner institutions (government and/or non-government) are committed to institutional change;
- *Demand*: Indonesia's key stakeholders considers the WBG as a partner of choice; and
- *Capacity*: The WBG has a comparative advantage and an understanding with other partners on respective roles, areas of support, and the possibility of leveraging resources through cooperation.

The consequence of applying all of these criteria is that there will be areas and sectors that may have important needs but where the WBG will not become or no longer remain very active. In some of these areas the WBG may continue to maintain an engagement, albeit at a lower level, in order to be in a position to foster successes at a later point in time, should the opportunity arise.

## Principles and Practices

The partnership between the Government and the WBG is based on: (i) focusing the overall WBG support directly to the Government's own development strategies, policy objectives and priority programs, as reflected in the medium-term development plan (RPJM, or Rencana Pembangunan Jangka Menegah), annual plans and annual state budgets; (ii) using Indonesia's own systems and procedures to the maximum extent possible, establishing additional safeguards and measures in ways that strengthen country systems and procedures where this is not feasible; yet (iii) continuing to put a strong emphasis on fiduciary controls, accountability and technical excellence for ensuring high quality support and good governance; (iv) making effective use of existing capacities and harmonizing support for capacity development accordingly; and (v) supporting government efforts to strengthen the consolidation and alignment of development resources for enhanced development outcomes.

The WBG's engagements will be designed to promote the effectiveness of institutions for achieving stronger development outcomes. The specific combination of actions, systems and mechanisms the WBG supports in each engagement area will depend on specific requirements and conditions. The programs over the CPS period, will build on the WBG's experience in strengthening *accountability* and enhancing *capacity*, both of which will be deepened in the core areas of WBG engagement (see Chapter 3).

### Institutional Accountability

The WBG will strengthen, where possible, the incentives and processes to promote accountability for increased government effectiveness. In general, the CPS engagements will help build or strengthen some or all of the following:

- Social accountability mechanisms to leverage voice and participation;
- External transparency and greater access to public information, as well as where feasible, complaints handling and/or dispute resolution mechanisms for greater accountability;
- Monitoring and evaluation systems that measure institutional performance to enable accountability for results;
- Mechanisms for rewarding good performance within the allowable framework of Indonesia's civil service guidelines;
- Procurement, financial management and control systems to improve cost-effectiveness and to ensure that funds are used for the intended purposes; and
- Internal audit and investigative mechanisms to hold civil service appointees directly accountable for any misuse of funds.

### Institutional Capacity

In order to enhance institutional capacity, engagements will build or strengthen some or all of the following:

- The legal and regulatory framework;
- Operational, technical and administrative policies, procedures and standards;
- Organizational structures, including clarity in definitions of roles and responsibilities;
- Management, information and evaluation systems, as well as implementation, technical and evaluation capacity;
- Planning and budgeting capacity;
- Research and analytical capacity, including to support policy formulation; and
- Knowledge and information sharing, including on international best practice;
- Market supporting institutions such as credit bureaus and quality standards.

## Instruments

The partnership will be implemented by the WBG in: (i) using its financial instruments to co-finance slices of government budgeted priority programs, financing private sector investments, and using new instruments where appropriate; (ii) providing flexible, on-demand services, quick-response policy notes, in-depth analytical and knowledge work, and on-the-ground advisory and technical assistance in priority areas, with a particular emphasis on multi-disciplinary and multi-partner teams; and (iii) continuing to seek and take advantage of opportunities to work together with other development partners to better align policy, analytic and financial support with government-led strategies and priorities.

# CHAPTER 3
# THE WBG PROGRAM CURRENT CORE ENGAGEMENTS

Based on the Government's development plans and CPS consultations, the WBG has identified five thematic areas of engagement that are expected to form the core of the partnership strategy, together with two sets of cross-cutting engagements to strengthen central and local government institutions and systems (Figure 3). These engagements are currently supporting the Government's priority programs with the primary aim of strengthening the effectiveness of Indonesia's institutions. Each of these areas represents a combination of financing and analytical and advisory activities that the WBG will provide in support of the Government's programs.

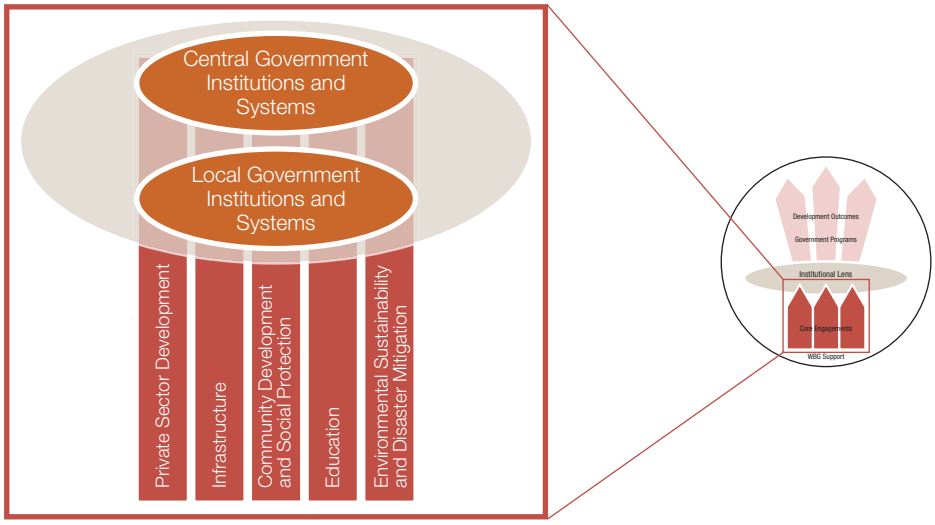
The WBG's engagements in these areas are at different stages of maturity, which is reflected both in the depth of the dialogue, the types of activities supported and the specificity of the results expected. The WBG has, for example, long-standing engagements in support of central government institutions and systems, private sector development, education, and community-based poverty reduction efforts, but its engagements in support of local government institutions and systems, infrastructure or environmental sustainability and disaster mitigation efforts, are still developing. The WBG recognizes that moreover there are areas where Indonesia's needs are great, but where counterparts are not sufficiently committed to institutional reform, or where there is limited demand for the WBG to become engaged. In line with the selectivity in approach pursued via this CPS, the WBG will limit its engagement in such areas.

Even with an increased financing program, the quality of the WBG's knowledge engagement will define the medium-term relevance and development impact in Indonesia. During this CPS period, the analytical and advisory activities program will be aligned with the financing program in these seven core engagements. In addition, the AAA program also allows for continuation of knowledge-centered engagements in non-core areas (e.g., health, where a substantial knowledge program has been developed).

Indonesia's fundamental development priorities are not expected to change in the short term. However, the Government's medium-term development plan (RPJM) for 2010-14 is yet to be drafted and the results of the 2009 elections may present new or different priorities and opportunities for engagement. The WBG's capacity to respond to emerging demands and changing requirements will therefore depend on a degree of flexibility in its program, both within its core engagements and in other select areas currently outside these core programs.

What does "Investing in Indonesia's Institutions" mean in practice for the program of the WBG? Indonesia is facing two fundamental institutional challenges; weaknesses in accountability and capacity, both of which have specific characteristics and offer different entry points for reform (see Chapter 2). The CPS aims to help address these two challenges through the WBG core engagements. The specific types of interventions depend on the nature of the sector, the existing entry-points and the maturity of the individual engagement. The following table illustrates how the WBG will promote effectiveness through strengthening accountability mechanisms and enhancing capacity in its core engagement areas (Table 3), the subsequent sections describe the nature of the engagement and the expected contribution of the WBG to Indonesia's development outcomes.[3]

Figure 3. Investing in Indonesia's institutions: current core engagements




[3] See Annexes B3, B4 and Appendix 10 for details of the lending and non-lending program to be supported within each of the engagement areas.

Table 3. **Enhancing institutional effectiveness through strengthened accountability and capacity in the WBG core engagements**

| | Cross-cutting Engagements | | Sectoral Engagements | | | | |
|---|---|---|---|---|---|---|---|
| | Central Government Institutions and Systems | Sub-national Government Institutions and Systems | Private Sector Development | Infrastructure | Community Development and Social Protection | Education | Environmental Sustainability and Disaster Mitigation |
| Strengthening institutional accountability, via: | | | | | | | |
| Building social accountability mechanisms into the design of projects to leverage voice and participation | | | | | | | |
| Promoting external transparency and access to information for greater accountability. | | | | ■ | | | |
| Enhancing monitoring and evaluation systems. | | | | | | | |
| Establishing mechanisms for rewarding good performance within the allowable framework of Indonesia's civil service guidelines. | | | | | | | |
| Strengthening procurement, financial management and control systems to improve economy,, efficiency, and effectiveness in use of public funds. | | | | | | | ■ |
| Strengthening internal audit and investigative mechanisms. | | ■ | | | | ■ | ■ |
| Strengthening institutional capacity, via: | | | | | | | |
| Strengthening the legal and regulatory framework. | | ■ | | | | | |
| Strengthening operational, technical and administrative policies, procedures and standards. | | | | | | | ■ |
| Strengthening organizational structures, including clarity in definitions of roles and responsibilities. | | | | | | | ■ |
| Strengthening management, information and evaluation systems and enhancing implementation, technical and evaluation capacity. | | | | | | | |
| Evaluating and enhancing planning and budgeting capacity. | | | | ■ | | ■ | |
| Building research and analytical capacity, including to support policy formulation. | | | | | | ■ | ■ |
| Sharing knowledge and information on international best practices. | | ■ | ■ | | | | |

*Note:*
- □ *Light cells represent ongoing (CAS) and future (CPS) engagements.*
- ■ *Dark cells representing the areas of expected/future (CPS) engagements.*

## Cross-cutting engagement 1: central government institutions and systems

Driven by key reformers in Government, Indonesia is making solid progress in improving the effectiveness and accountability of central government institutions and systems. In this vital cross-cutting engagement, the WBG will play a full and active role in supporting the Government's quest to maintain the reform momentum. Where appropriate examples shine through, the WBG will encourage the replication of these successful engagements in other government agencies that show strong commitment towards improving institutional effectiveness.

The WBG will build on its already strong relationships and dialogue with the Ministry of Finance (MoF), the State Ministry of Development Planning (Bappenas) and the Central Bureau of Statistics (BPS). Cognizant of the real progress made over the past few years and keen to sustain the impetus, the WBG will also enhance its partnerships with Indonesian institutions that are responsible for ensuring oversight, accountability, and the rule of law, and are leading the fight against corruption, including the Corruption Eradication Commission (KPK), Attorney General's Office, the state audit agencies (BPK and BPKP) and local government audit agencies (BAWASDA or Badan Pengawasan Daerah), relevant Inspector General units of partner agencies, and the recently-established National Public Procurement Office/ Government Institution for Procurement Policy (NPPO/LKPP - Lembaga Kebijakan Pengadaan Pemerintah, responsible for focused and coordinated planning and development of strategies and policies for public procurement). These partnerships aimed at bolstering institutional effectiveness will take the form of analytical and advisory services, policy dialogue, reform projects and loans.

Accountability will be enhanced through continued strengthening of public financial management and data systems. This will include strengthening audit and investigative mechanisms, enhancing monitoring and evaluation systems that measure performance within institutions, and strengthening managerial, operational and technical policies, as well as procedures and standards in data collection and analysis. Capacity will also be strengthened by supporting improvements to the regulatory framework, developing national capacity-building programs and establishing professional procurement units in implementing agencies with a focus on areas of WBG engagement.

The Development Policy Loan (DPL) series will continue to be at the centre of WBG support to central government institutional and systems reform. Supported by parallel financing from the Government of Japan and the Asian Development Bank (ADB), DPLs have helped the Government's efforts to reduce inefficient public expenditures, strengthen tax administration and debt management, enhance the competitiveness of the financial sector and implement governance and fiduciary reforms. Underpinned by a large AAA program co-financed by development partners, DPLs have also supported key reforms to improve the business climate and service delivery.

The next generation of DPLs will build on strong relationships with the reform-minded economic ministries and support Indonesia's central government in strengthening effectiveness of its systems. Key elements include building capacity in planning and budgeting, revenue and expenditure management, while specific measures relate to public procurement, auditing, monitoring and evaluation, and research and analysis for better policy formulation — all drawn from the Government's own policy packages. Meanwhile, accountability and the control of corruption will be strengthened through enhanced monitoring and evaluation systems, financial control systems, and audit and investigative mechanisms to hold bureaucrats accountable for the funds under their control.

The WBG's engagement will also operate through the Government Financial Management and Revenue Administration Project (GFMRAP) and the future Statistical Capacity Building Project (STATCAP), which are financing investments in technological modernization, capacity-building and change

Table 4. Central government institutions - Illustrative outcomes supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures. | • Improved results orientation in the budget process.<br>• Timely and reliable financial reporting through effective operationalization of the TSA.<br>• Improved tax administration via increased number of: accurate registration records; audits of taxpayer declarations. Reduced tax arrears.<br>• Improved quality and timeliness of key statistics produced by BPS, e.g., national accounts, poverty data<br>• Improved public procurement regulatory framework; procurement capacity at national and provincial levels; and quality of procurement audits and effectiveness of sanctions. |

management. The State Treasury and Budget System (SPAN) project will improve accountability through a new automated treasury system. Over the CPS period, institutional effectiveness through expanding the accountability and capacity of the tax administration system will be enhanced via the Project for Indonesian Tax Administration Reform (PINTAR) project. These projects directly reinforce changes to the underlying institutional, incentive and organizational frameworks for core functions of the MoF, BPS and other related institutions, including fiscal-policy formulation, budgeting, treasury, internal audit, procurement, revenue dispute resolution and legislative oversight. Civil service reform will support the updating of the MoF organizational roadmap, the implementation of future phases of the human resources management reform strategy at the MoF, and the rolling-out of MoF reforms to other ministries.

The MoF and the WBG will also embark upon a substantial program of analytical and advisory services to support the economics ministries in overall public financial management reform efforts, including budget formulation, resource allocation and budget implementation. A good part of these efforts are supported by trust funds. One example of this is the Initiative for Public Expenditure Analysis (IPEA), which seeks to enhance transparency and accountability in public financial management and build the Government's research and analytical capacity in support of improved policy and budget formulation. Another aims to enhance transparency in the oil, gas, and mining sector, where the WBG is supporting the adoption of the Extractive Industries Transparency Initiative (EITI).

## Cross-cutting engagement 2: sub-national government institutions and systems

The empowerment of local governments has been one of Indonesia's most remarkable achievements in the past ten years. As a result, Indonesia's almost 500 sub-national governments now manage close to 40 percent of all public spending and have become crucial players in ensuring that Indonesia meets its future development goals. Since local elections, provinces and districts/ cities are now headed by officials directly accountable to their electorate. Many of them have implemented radical and innovative reforms with the aim of enhancing institutional capacity and accountability, and, in some cases, of encouraging private sector development at the local level. Development partners now have a multitude of local reformers they can engage with, and promising initiatives are flourishing.

The challenges are however, considerable. The needs, opportunities, demand, as well as the WBG's capacity to respond all vary greatly across the archipelago. Experience with support programs for sub-national governments has revealed obstacles to implementation at the central level: no single central government agency is in a position to oversee project implementation from start to finish. Limited capacity in central government agencies in dealing with the MoF in budget preparation, managing internal budget approvals and execution, and supporting field-level implementation are also significant issues. Capacity weaknesses at local levels often exacerbate the problems. Another lesson is that for successful strengthening of institutional accountability at all levels, the involvement of local parliaments, CSOs and media is crucial.

Over the CPS period, the WBG will engage with a limited number of sub-national governments that demonstrate a clear commitment to tackling accountability and capacity challenges. The aim will be to improve the overall development impact through promoting well-targeted and sustainable public spending by making development planning more responsive to constituents and by enhancing public financial management capacity. Support will be based on technical assistance and the co-financing of sub-national expenditure programs. The Bank Group is also seeking ways to finance subnational entities (such as provinces, cities or local water utilities- PDAMs) through the joint Bank-IFC subnational initiative (financing could potentially be provided through local banks or through support to local bond issuances). IFC is working with local governments focusing on reducing investment climate obstacles, including in the local regulatory framework, and on fostering capacity to forge effective public-private partnerships. Several of the programs include components to support local CSOs in order to improve access to information and to enhance social accountability. The WBG will continue to draw attention to inspiring and innovative success stories in sub-national government reforms and to encourage their replication.

The WBG approach is illustrated by two complementary programs: in selected, reform-minded provinces and districts a program that is disbursed against local governments' outputs will provide the opportunity to strengthen financial controls and monitoring and evaluation systems; and, in the same provinces, trust funds, financed by AusAID, the Netherlands and other partners, provide for analytical and advisory services through the Public Expenditure Analysis and Capacity Harmonization (PEACH) program. The program seeks to support the assessment and improvement of the effectiveness of local planning and budgeting processes. Sub-national public expenditure analyses has become a powerful tool to enhance transparency in the provinces where PEACH has been implemented. PEACH programs are demand-driven, tailored to the needs of local governments and implemented by them, together with local Indonesian

research institutions, enhancing collaboration and analytical and implementation capacity of both local governments and local universities. The WBG and other development partners will continue to engage with many of these local stakeholders through the Decentralization Support Facility for Eastern Indonesia (SOFEI), which has established a strong network of reformers across the region. The experiences with the ongoing programs will help inform and improve the design and scope of future WBG support.

The WBG will reinforce and consolidate ongoing partnerships that seek to enhance local government capacity through existing financing programs, such as Initiatives for Local Government Reform (ILGR), the Urban Sector Development and Reform Project (USDRP), and Support for Poor and Disadvantaged Areas (SPADA). In addition, the Decentralization Support Facility (DSF) brings together a number of development partners, including AusAID, DFID, and the Netherlands, with a broad mandate to engage Indonesian institutions essential to the local accountability framework, such as legislatures, media and NGO networks. The DSF will continue to be the main mechanism for deepening WBG relationships with the key central institutions that set and regulate the environment in which local governments operate. Relevant WBI expertise will also be leveraged to complement the WBG's efforts to strengthen the accountability and capacity of sub-national institutions.

## Core engagement 1 – private sector development

Private sector-led growth will be vital to Indonesia's competitiveness regionally and globally, and will also be key to the Government's success in addressing some of the gaps in service delivery. In some areas the public sector can be prone to institutional capture, whereby private business interests seek to protect their advantages and place obstacles in the way of potential competitors. The results can undermine efficiency and innovation, and waste investment opportunities. The Government recognizes this and has been taking appropriate measures to build the required business environment for a strong and dynamic private sector, including launching a series of comprehensive policy reform packages over the past few years. Private investment rates are now beginning to recover in Indonesia, and there are exciting opportunities to consolidate this progress and help support the private sector in becoming the driver of broad-based growth in Indonesia. In particular, the WBG is well-placed to help ensure that the public sector is no longer a bottleneck but instead provides an environment that nurtures private sector development.

Building on synergies between IFC and World Bank teams, the WBG has established strong relationships with key Indonesian partners that shape the investment climate. These include the Ministry of Trade (MoT), the Coordinating Ministry for the Economy, and financial sector regulators (such as Bapepam-LK). This is a crucial area of progress, as institutional capture in the public sector will seriously hamper the private sector development that Indonesia so badly needs. In addition to budget support from the DPL series, these partnerships are also based on analytical, advisory and monitoring work, as well as institutional capacity-building.

Support is being provided to the MoT to deliver effective services in formulating and implementing domestic and international trade and investment policies, implementing these policies, negotiating trade agreements, and managing the human resources and operations of the Ministry. Mobilizing trust funds, the WBG has established a team of advisers to provide direct support on the ground to MoT. Although there are significant obstacles, these initiatives are showing promise. Additionally, IFC will help to facilitate business formalization and market access for new private sector entrants by working to reduce obstacles both at the national and sub-national levels, improving market linkages covering urban and rural producers, and helping small and medium enterprises (SMEs) better understand market requirements and the benefits of adopting new standards and practices. The WBG is furthermore supporting the establishment of an innovative infrastructure financing institution that will help to accelerate private investment in infrastructure. The WBG will also continue to strengthen the capacity of regulatory and supervisory institutions, such as Bank Indonesia, by providing analytical and technical support to reform efforts, and supporting the monitoring and evaluation of the impacts of reforms.

The WBG will continue to work closely in the financial sector – with the World Bank assisting in policy formulation and implementation and IFC focusing on investments in the sector, for strengthened access to

Table 5. Sub-national governments - Illustrative outcomes supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Strengthen decentralized local governments and institutions to increase the impact of public spending. | • Improved LG systems and processes for better planning, resource allocation and budget implementation<br>• Improved standards of service delivery in both urban and rural areas. |

financial services aimed at greater competitiveness and inclusive growth. WBG's capacity building efforts in the sector will continue; this support has been largely financed using trust funds (including the ASEM (Asia Europe Meeting) trust funds). The Government recognizes the systemic importance of the banking sector and has recently begun receiving World Bank support (along with AusAID) on crisis management protocols. Policy discussions on the impact of the sector of recent global credit market turmoil as well as of domestic monetary and fiscal policies continue. The authorities have been considering detailed analytic work in the sector – including the possibility of a Financial Sector Assessment Program (FSAP). Policies and programs to increase access to financial services for a larger segment of the population, SMEs, and innovative public-private partnerships in this area, will also be supported.

## Core engagement 2 – infrastructure

The development of large-scale infrastructure is crucial to Indonesia's progress on almost every front over the CPS period. Despite significant challenges, a window of opportunity now exists to capitalize on the need for a breakthrough - the importance of which is widely recognized by government and private sector counterparts. Focusing on three main sub-sectors, the WBG will support institutions, both public and private, in finding more effective solutions to bridge the financing gap in infrastructure in a sustainable way, and help strengthen the accountability and capacity of institutions to deliver better infrastructure outcomes.

The WBG will provide financial and advisory support for the Government's own infrastructure financing plan as set out in the current RPJM and work with those institutions committed to reform and good governance. This support includes a substantial program of investment lending bolstered by a recently launched infrastructure policy loan (I-DPL) series, as well as model PPP investments by IFC. The support is expected to cover the roads, energy and water sectors (irrigation, as well as water and sanitation services) through I-DPLs and co-financing arrangements to promote infrastructure investments.

The four agencies with which particularly strong partnerships are currently envisaged are the Directorate General of Highways (DGH), the Directorate General of Water Resources (DWR) and the Directorate General of Human Settlement (DHS) — all at the Ministry of Public Works — as well as the state-owned electricity utility (Perusahaan Listrik Negara, or PLN), which, together with some major energy companies, has signaled its willingness to rebuild a new partnership with the WBG. Infrastructure development in Indonesia, even within individual sectors, will require strengthened coordination across government agencies, including line ministries, SOEs, and the MoF, Bappenas and the Coordinating Ministry for the Economy. The WBG will support the strengthening of this inter-agency dialogue.

The WBG's investments in Indonesia's infrastructure institutions aim to promote effectiveness through greater accountability and capacity. The WBG's strategy is designed to support key components of Indonesia's cross-sector infrastructure reform agenda, including reforms aimed at increasing the transparency and efficiency of the Government's spending and strengthening inter-governmental fiscal relations; reforms for promoting public private partnerships within a transparent, credible framework; sector agency capacity-building; and reforms that foster accountability. The WBG will support this reform platform via a series of policy loans jointly with ADB and the Government of Japan.

In the energy sector, the WBG's strategy will focus on strengthening the technical, managerial and operational capacity of state institutions. The aim will be to improve efficiency, in support of a more effective targeting of electricity subsidies in the short term and the development of a sustainable pricing policy over the medium term. In addition, the WBG will support improvements to the institutional framework with the aim of increasing private investments in Indonesia. The envisaged Bank investment financing program will seek to reduce the local and global environmental impacts of the sector and focus on clean and renewable energy such as geothermal power investments, pumped storage, improved coal technologies, and power transmission and distribution projects, including gas distribution.



Table 6. Private sector development - Illustrative outcomes supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Enhance the environment for private sector development to foster accelerated growth and poverty reduction. | • Strengthened private and financial sector through: better regulatory frameworks; improved investment climate; stronger financial institutions; improved market access; business linkages and partnerships.<br>• Improved capacity of select sub-national governments to support business operations.<br>• Improved regulatory environment and interagency coordination in the development of investment policies<br>• Strengthened institutional structure and capacity of the Ministry of Trade for more effective trade policies. |

In the roads sector, the Bank's engagement with the Government has included support for the design of a road asset management framework, transport network development plans and enhancement of planning capacity at provincial and kabupaten (district) levels. IFC plans to support the private financing of toll roads by offering long term capital and sharing best practice from other countries, in order to assist the Government develop and roll out international standard concession agreements, and follow up with financing for a select number of model transactions. The WBG will continue to strengthen the institutional framework at the national and regional levels, including fiduciary, operational, technical, and management systems and capacities of counterparts in support of Government's efforts to improve road quality and capacity. Such measures to improve effectiveness, increase accountability and fight corruption in the sector are essential for the continued and timely implementation of infrastructure projects, several of which have been plagued by weak execution, and procurement, corruption and collusion issues in the past. This support will be given in partnership with ADB, AusAID and the Government of Japan, the three key development partners in the sector. Support for increased private sector participation and effective decentralization of implementation and management of the transport sector will also continue.

In the water sector, the WBG will support strengthening of the legal and regulatory framework and enhancing technical, operational and management capacities, including for select water utilities (PDAMs). There will be a focus on adapting irrigation, dam and reservoir design operations to meet new climate change conditions and productivity requirements. In sanitation and community based water services, the Bank supported PAMSIMAS project focuses on building capacity to plan system integration for centralized, community and household sanitation, and make long-term financing available to municipalities for sanitation infrastructure development. Such financing could be offered where local institutions are keen to implement cost-recovery plans for sustainable operations and maintenance.

## Core engagement 3 – community development and social protection

The World Bank through its decade-long support has contributed to the Government's successful community-driven development and poverty reduction programs. This support transcended the difficult years after the crisis and the outcomes obtained have led to these programs being rolled out on a national scale by the Government. 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 WBG.

With this aim, the WBG will continue to support Government in the design and effective expansion of programs that promote more inclusive growth and social protection, and that also enhance the accountability of elected officials and service providers. This will include CDD and conditional cash transfer (CCT) programs. Support consists of a combination of co-financing and analytical and advisory work, much of which will be funded through trust funds. The CPS support for improved institutional effectiveness will be mainly focused on the Coordinating Ministry for People's Welfare.

The CPS approach inherent in the partnership between the Government and the WBG is built around the National Community Empowerment Program (PNPM-Mandiri), which is based on the well-performing Kecamatan Development Project (KDP) and the Urban Poverty Project (UPP) models — programs in which the WBG has had a long-standing engagement. Over the past ten years, these programs have developed many features to enhance institutional effectiveness through accountability mechanisms and capacity-enhancing strategies that are now being adopted by other projects, not only across Indonesia but also abroad.

Accountability mechanisms include simple and practical procedures for financial control, information disclosure, feedback, complaints, follow-up and resolution. Performance-based rewards are applied at the community level to tap into existing social accountability mechanisms, and this is reinforced by independent monitoring through CSOs and the media. The entire program is designed to generate demand for good governance at the grassroots' level.

In terms of enhancing capacity, the program makes large up-front investments in the training of community facilitators, strengthening their skills in areas such as monitoring and evaluation, planning and budgeting, as well as project implementation. They are taught

Table 7. Infrastructure - Illustrative outcomes supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Strengthen decentralized local governments and institutions to increase the impact of public spending. | • Increased and better quality national and sub-national government spending on infrastructure through improvements in subsidy policy, incentives framework, and expenditure planning and budgeting.<br>• Increased private investment in infrastructure through the establishment of a fiscally sound, credible and transparent PPP framework. |

to use participatory methods and to ensure that the communities understand basic accounting, planning and management principles. The program makes extensive use of local expertise for technical inputs and assessments, thereby strengthening capacity and expanding experience at the community level.

The WBG will co-finance a slice of PNPM-Mandiri, supporting the program's expansion to an estimated US$2 billion annual government investment. With PNPM-Rural and PNPM-Urban ongoing, repeater projects are expected to extend the PNPM program to all 70,000 communities across Indonesia by 2009/2010 — early on in the CPS period. The WBG is also providing support to the Government in its efforts to bring supply-side initiatives from health, education, rural development and other sectors under the PNPM umbrella to maximize complementarities for poverty reduction. In addition, through a WBG trust fund, other development partners support a wide range of analytical and advisory services to promote broader institutional reforms. These aim to strengthen accountability and enhance capacity of the community-level planning process in key institutions and systems, such as dispute resolution and relating to property rights.

Support for addressing gender issues has been incorporated into key financing and analytic/policy advice programs. These includes: support for women via the PNPM; a study on remittances offering recommendations for making formal transfers easier for women and undocumented migrants; a labor market assessment that will among others, include an examination of the impact of labor market policy on job opportunities for women; the use of trust funds to support programs to empower female household heads to develop group-based revolving funds and improve livelihoods; and the support of women's cooperatives to enhance their access to markets.

## Core engagement 4 – education

Over the CPS period, the World Bank's support for the education sector will continue to be based on its close partnership with the Ministry of National Education (MoNE) and the Ministry of Religious Affairs. This core WBG engagement aims at supporting the Government's transformation of the education sector — a transformation that is fundamental if Indonesia is to compete effectively with its regional peers. This engagement will cover the entire spectrum in education — from early childhood education and development to higher education and teacher upgrading — through advisory services, as well as trust-funded activities and investment projects.

The World Bank's engagement in education is strongly focused on improving the effectiveness of state and non-state institutions by strengthening accountability, together with measures aimed at enhancing capacity of state institutions, school heads, staff, and parents. The WBG's strategy is designed to support key components of the Government's education reform agenda, including building social accountability mechanisms, promoting external transparency and access to information, and enhancing monitoring and evaluation systems. Important areas will also include enhancing planning and budgeting capacity, and building the MoNE's own analytical capacity to support better policy formulation.

For example, the World Bank intends to support the Government through a System Improvement through Sector Wide Approaches (SISWA) program. In the first stage of the SISWA — with significant financial support from the Netherlands Government and the European Commission — the World Bank will co-finance the Government's School Operational Assistance (BOS) program. This program builds on MoNE's initiatives to better manage its education funding. through improved information, better monitoring and evaluation, and more streamlined, standardized practices. The BOS program funds important expenditures in the education sector in ways that empower school managers and enhances ownership through schools-based management. At the central level, the new BOS KITA program will help to build government accountability and capacity in order to better monitor, manage and align basic education funding. At the local level, the program will improve governance and accountability, and support districts and schools in their management, operational and technical functions, in line with Indonesia's decentralization strategy. The program will contribute to raising the awareness of parents and the local community, introducing measures to improve transparency, information flows and decision-



Table 8. Community Development and Social Protection - Illustrative Outcomes Supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Reduce poverty levels and improve equity by improving livelihoods and service delivery, and decrease remaining pockets of high-level poverty. | • Improved socio-economic and local-level governance conditions of the urban and rural poor through wider implementation of poverty reduction and community empowerment programs.<br>• Public expenditures made more pro-poor by reallocating savings from subsidies towards strategic targeted interventions and successful implementation of Conditional Cash Transfers |

making, and also support operational improvements to streamline procedures. The sectoral support will additionally seek to strengthen human resource capabilities via improvements to medical/health education in the country.

## Core engagement 5 – environmental sustainability and disaster mitigation

Indonesia has emerged as a leader on climate-change issues. At the same time, the country is faced with some serious challenges on environmental sustainability and natural resource management fronts. This also presents opportunities to Indonesia to benefit from new international investment instruments designed to scale-up funding to help countries in their efforts to address climate change, and to undertake appropriate mitigation and adaptation programs. In both areas the WBG has expertise to place at the Government's disposal. Meanwhile, the WBG will continue with its major role in disaster reconstruction, while helping to reduce Indonesia's vulnerability to natural disasters.

The WBG will continue to focus on strengthening policy formulation and strategic planning capacity for more effective environmental and natural resources management and disaster risk reduction. Enhancing accountability and fighting corruption are also particularly important in this sector. The WBG's engagement around environmental sustainability and disaster mitigation involves several state and non-state interlocutors. In government, the partners include a range of ministries and agencies dealing with cross-cutting climate change issues, including the recently launched National Climate Change Council (Dewan Nasional Perubahan Iklim), as well as Bappenas and the National Disaster Management Agency (Badan Nasional Penanggulangan Bencana, or BNPB) on disaster mitigation and recovery. The WBG will draw from an active network of CSOs to continue fostering social accountability and participatory mechanisms.

IFC will play a catalytic role in private sector engagement in climate change mitigation and adaptation efforts through its analytical and advisory work. It will seek investments in geothermal and energy efficiency projects, including mobilizing financing support for such projects; help improve environmental standards in critical sectors such as palm oil; and promote sustainable forestry practices of private firms with the aim of enabling Indonesia to participate in global carbon markets.

The WBG will continue deepening the relationships established with Bappenas and the local governments of Aceh, Nias and Yogyakarta in supporting selected elements of the Government's actions to strengthen natural disaster resiliency. The rebuilding of Aceh and Nias will continue for the CPS period through the MDF, as will the JRF activities for Yogyakarta and Central Java. A second-phase MDF will support the Aceh region to transition from post-tsunami reconstruction towards sustainable economic development, an important part of which will be through strengthening local capacity. Over the CPS period, the WBG will – in consultation with Government and other partners – also provide requisite support to Indonesia to respond to other natural challenges.

The WBG will support building national and local government capacity for assessing disaster damage, losses and needs; assessing capacity to absorb catastrophic events; supporting development of a social protection system to manage sources of vulnerability; and designing instruments for financial risk transfer and flexible risk financing. The mainstreaming of risk-reduction in the development process will include strengthening Bappenas capacity in preparing the national action plan, strengthening the capability of BNPB and designing a framework for disaster-risk insurance with the MoF.

A key upcoming disaster risk reduction initiative is the Jakarta municipality's (DKI Jakarta) three-year river-dredging program, the Jakarta Emergency Dredging Initiative (JEDI). The WBG will assist DKI Jakarta to locate grant financing for capacity-building within the municipal administration for the effective operation and management of the flood-management system.

To encourage environmental sustainability, the WBG will support measures promoting effective and transparent use of resources. Global best practice

Table 9. Education - Illustrative outcomes supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Improve: access to basic education to achieve MDGs; education quality to enhance competitiveness and inclusiveness | • Increased number of basic education teachers who meet mandated academic qualifications.<br>• Improved efficiency and equity in the use of resources to increase access to basic education.<br>• Improved training programs and higher education system through institutional accreditation; regular tracer studies to gauge effectiveness of training.<br>• Improved information and better implementation, monitoring and evaluation of education funding. |

and lessons will be applied in assessing alternative development and policy paths for 'green growth'. The WBG's policy dialogue will seek to mainstream the discussion of climate change (with attention to both mitigation and adaptation challenges) across a range of actors, through the preparation and dissemination of information to raise awareness about carbon emissions, Indonesia's environmental vulnerability and import of relevant policies.

The WBG will support coordination and facilitate partnerships with the private sector and civil society for the implementation of the National Action Plan for Climate Change. One example is the Indonesia Forest Carbon Alliance. The Government is working in collaboration with a multi-disciplinary alliance of NGOs and research organizations — supported by the international partners including the WBG — to develop and pilot a framework and program to Reduce Emissions from Deforestation and Degradation (REDD). The WBG will also assist Indonesia in making use of the substantial funds and instruments that are becoming available to address global public goods, such as Climate Investment and the Adaptation Funds, as well as global carbon markets.

## Other engagement areas

There are other important areas that may present promising opportunities over the CPS period and beyond. The WBG will continue to invest some resources in these areas in order to maintain and build on existing relationships and foster knowledge partnerships, including through the use of trust funds. While these may not be core engagements at the present time, there could be a change in status if government counterparts and other stakeholders demonstrate a clear commitment to addressing critical governance and institutional challenges.

One example of this type of engagement is the World Bank's support for a comprehensive review of the health sector and an in-depth assessment of its performance. The first result of this engagement has been the production of a Health Public Expenditure Review which was launched jointly with central ministries and local stakeholders in May 2008. The health PER and future health sector analyses will provide analytical inputs for the elaboration of the health reform agenda and sectoral development priorities. While no new lending for the health sector is currently considered, the Bank remains engaged in the health reform agenda.

Similarly, the WBG remains engaged in agriculture. For example, the Bank is supporting the Farmer Empowerment through Agricultural Technology and Information Project, part of a Government effort to revitalize the agricultural sector. Empowerment of farmers through improved information networks, community agribusiness development, enhanced linkages between research and extension is expected to result in increased diversification, higher farmer incomes and agricultural competitiveness. Another example is the Land Management and Policy Development Project, which aims to contribute to the government's objectives of poverty reduction, economic growth and sustainable land resource utilization. In particular, the project seeks to help improve land tenure security through registration, issuing of titles, and enhancing local government capacity to undertake land management functions with greater efficiency and transparency.



Table 10. Environmental sustainability and disaster mitigation - Illustrative outcomes supported by WBG

| Indonesia's longer-term objectives | Development outcomes at end-FY12 |
|---|---|
| Strengthen Indonesia's capacity to adapt to climate change and address environmental challenges including development of integrated disaster management (improve disaster risk preparedness, mitigation measures, and post-disaster recovery and reconstruction responsiveness) | • Implementation of policies and pilots to reduce emissions from deforestation and environmental degradation.<br>• Strengthened disaster risk reduction in development planning and administration. |

# CHAPTER 4
# PROGRAM IMPLEMENTATION

Indonesia's public debt has declined from more than 80 percent of GDP in 2000 to a projected 32 percent in 2008. Its IBRD (International Bank for Reconstruction and Development) debt has been declining as well since 2001, as agreed between the Government and the Bank. IBRD debt service/exports ratio is projected to decline from 2.9 percent in 2003 to 1 percent in 2008, while Indonesia's share of total IBRD exposure also declined from 8.8 percent in FY03 to an estimated 6.7 percent in FY08 (IBRD's exposure to Indonesia has declined from US$11.8 billion in FY2000 to US$6.4 billion by the end of FY08). In view of the substantial borrowing at the time of the financial crisis, and Indonesia's high debt levels, it was appropriate that the Bank's exposure should fall, as IDA commitments increased. Hence, with high levels of repayments and reduced borrowing by Indonesia, net transfers have been negative since 2000 (Figure 4). As Indonesia's reforms progressed, exhibiting strong Country Policy and Institutional Assessment (CPIA) scores, improved independent sovereign credit risk ratings, and rising financing requirements, commitments increased significantly over the last CAS period. In FY08 about US$1.3 billion was provided as loans and credits (of which some US$1 billion was on IBRD terms).

Despite Indonesia's success in debt reduction, the country's gross financing needs are estimated to exceed US$21 billion in 2008 and stay around that level in subsequent years. The Government views WBG loans, particularly DPLs, as a way to simultaneously reinforce the reform agenda and meet in part Indonesia's gross financing needs. This, combined with Indonesia's macroeconomic progress, re-emergence as a mature MIC and strong relationship with the WBG, establish the basis for increasing IBRD resource flows — by extending the successful DPL series and the CDD program. The CPS also aims to provide the strategic framework for revitalizing the WBG's investment financing portfolio, including through co-financing and strengthening of government expenditure programs. With Indonesia's access to IDA ceasing in June 2008, and provided the full potential of the proposed financing program is realized, there could be a significant increase in IBRD lending volume over this CPS period (compared to the previous CAS) reversing IBRD's declining exposure to Indonesia.

## The need for a flexible financing envelope

During this CPS period, the Government's annual budget is projected to exceed US$100 billion. Financing from development partners will continue to decline in relative significance. The IBRD pricing reform positions the WBG better to respond to Indonesia's demand for flexible support. In order to maximize the WBG's operational efficiency, the lending program will make use of a variety of instruments, as appropriate:

- DPLs: policy-base lending focused on structural reforms and cross-cutting issues, as well as high-level sectoral reforms (e.g., Infrastructure DPL);
- Co-financing of successful government programs through sector-wide approaches;
- Repeater projects and additional financing to scale up and broaden the impact of well performing projects; and
- More innovative and competitive instruments and products, including new financial risk-management and debt-management instruments.

This strategy calls for an approach of flexible financing support that allows the WBG to take maximum advantage of opportunities to engage, while also minimizing risk. On the basis of current demand and performance, a notional annual IBRD investment of about US$2 billion is expected. Actual annual lending volumes could vary significantly up or downwards, but will be commensurate with continued robust macroeconomic performance, financial stability and momentum on key

Figure 4. World Bank resource transfer to Indonesia

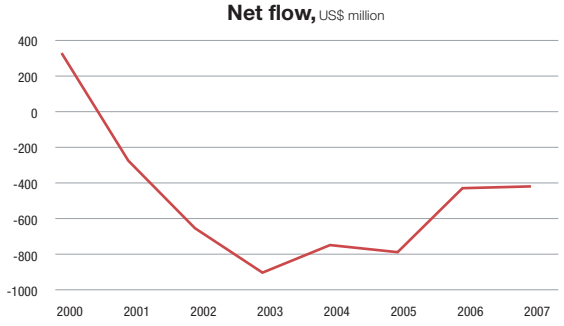
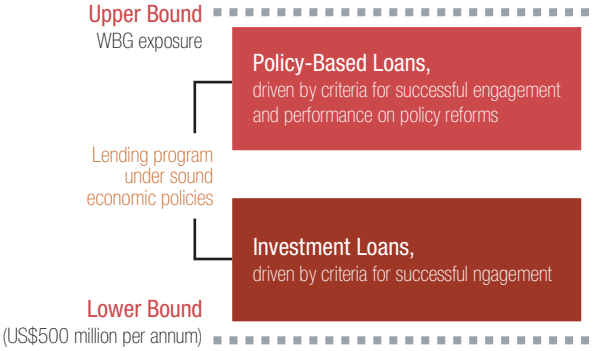



Figure 5. Determining the financing envelope 2009-12



reforms, and be determined by careful management of IBRD exposure (see Figure 5). Actual annual lending volumes will depend on the Government's appetite for Bank borrowing vis-à-vis other sources of finance, and country performance. The lower bound and reduced lending volumes would result in the event of a significant weakening of the macroeconomic stance; substantial back-tracking on the reform program; or poor implementation of WBG-supported projects. Under such a scenario, WBG support could be limited to financing only poverty programs, basic social services, and critical infrastructure needs. The upper bound of the lending envelope, subject to IBRD exposure considerations, will also take into account the level of progress in the key reforms, including those supported by the DPL series.

IFC has a committed investment portfolio of US$695 million in Indonesia, of which 57 percent is invested in financial markets project, 24 percent in agribusiness and 17 percent in manufacturing. In FY07, IFC committed US$278 million to seven projects. IFC expects to invest about US$300 million annually in the priority sectors of finance, infrastructure and commodity-based supply chains. The investment program is expected to grow in the event of an acceleration of reform in private infrastructure provision, further progress in financial sector reform including the non-bank financial sector and further improvement in the investment climate. Close partnership with the WBG will be essential to creating the policy and institutional environment for increased IFC investment.

## Cooperation with other stakeholders/ partnerships

A number of key development partners will continue to leverage the Bank's technical, managerial and fiduciary capabilities on the ground to advance on shared objectives. This is reflected by a robust set of strategic partnerships, most notably through bi/multi-lateral trust funds and co-financing arrangements. Major WBG partners continue to include the Asian Development Bank (ADB), the Australian Government, the European Commission (EC), as well as the Japanese, Royal Netherlands and UK Governments. These partnerships can be expected to remain strong over the CPS period.

## Trust funds

Trust funds (TFs) and grant financing continue to be an integral part of the WBG program. With Indonesia transitioning to IBRD status in FY09, from a 'blend' status (with access to both IDA and IBRD resources) under the previous CAS, TFs will play an ever important role, but will be used more strategically and in accordance with the World Bank's comparative advantage. The majority of TFs will complement other WBG support in the current core engagement areas of this CPS by providing valuable AAA and technical assistance (TA) (Table 11). They support the harmonization and alignment of funding from various development partners behind core government programs. The most significant trust funds finance reconstruction work in Aceh, Nias, Yogyakarta and Central Java. The remaining TFs and grants will finance AAA and TA, as well as some small-scale or pilot activities, outside the current core engagement areas. In line with its commitment to using Indonesia's own systems and procedures to the extent possible, the WBG is committed to gradually moving towards more recipient-executed trust funds.

The WBG's TF portfolio (currently over US$1 billion) has been expanding significantly, and the range and variety of TF arrangements have increased the complexity of managing the TF program. As a result, existing systems and processes for the use of TFs are struggling to keep pace with this expansion. Recent policy changes for TFs approved by the World Bank Board have created an enabling environment for strengthening the operational effectiveness, management and oversight of the Indonesian TF program. In order to ensure the effectiveness and sustainability of the TF program, a new management framework is therefore being pursued as part of this CPS. Its main elements are:

- Applying CPS selectivity criteria (see Chapter 2) to TFs to ensure improved strategic fit;
- Reducing transaction costs, strengthening portfolio management and mitigating risks through: greater standardization and application of clear modalities; clarification of accountabilities; and development of new harmonized tools for TF negotiations, execution and oversight. Common standards and tools for setting and allocating management fees, financing categories, and development-partner reporting will be pursued. The WBG is also taking steps to enhance the TF portfolio management and oversight capacity within the Indonesia country team.

## Knowledge engagements

The knowledge partnership agenda has long been central in the WBG's support to Indonesia and, in line with experience in other MICs, the importance of this partnership is certain to grow over the CPS period. Indeed, knowledge partnership will be key to the successful implementation of the CPS and, in some areas, the most important vehicle for WBG engagement.

The CPS will build on the WBG's existing AAA and TA program, which currently includes: (i) analysis that supports government's development agenda (e.g.

poverty assessments and PERs); (ii) policy notes, think pieces for knowledge generation and background papers; and (iv) hands-on TA. These activities will be used to underpin the core WBG engagements, while also allowing for continued and active involvement in areas outside the core engagements. During the CPS-period, the WBG will continue to deliver on the full spectrum of knowledge products with the trend shifting towards tailor-made, just in-time products. There will also be a stronger emphasis on dissemination of products in Indonesian language.

The WBG will pay special attention to systematic planning and prioritization of AAA including TA. Greater effort will be made to integrate the WBG's AAA and TA with investment services, and maximize harmonization and coordination with the aim of reducing transaction costs. Shifting the emphasis from transactions to relationships also means that demand for AAA in core engagement areas may be informal and at short notice, for example, taking the form of requests for expert advice and discussions, presentations of international experience, specific policy notes, or reports to support policy and institutional reform decisions. The WBG will use trust funds as appropriate, to respond to such demands in a timely way while also ensuring continued focus on quality.

IFC's Advisory Services will work closely with the World Bank on national and sub-national policy and regulatory reform. These efforts will include policy advice, assessments and technical assistance. In all its efforts, IFC will look to incorporate the voice of the private sector into the policy discussion. This may be through public-private dialogue or through feedback to the appropriate government institutions on its policy-making efforts. The IFC's Advisory Service Program is an increasingly important part of IFC's engagement in Indonesia and manages bilateral trust funds of over US$40 million to provide policy advice, consultation, and technical assistance in support of sustainable and broad-based economic growth.

In delivering the knowledge program, the WBG will also invest in Indonesia's knowledge Institutions. Future AAA and TA should be as much as possible led



Table 11. Core engagements: Alignment of instruments[4]

| | National government institutions and systems | Sub-national government institutions and systems | Private sector development | Infrastructure | Community Development and Social Protection | Education | Environmental Sustainability and Disaster mitigation |
|---|---|---|---|---|---|---|---|
| Lending | DPL series; PINTAR; STATCAP; PFM/Civil Service | DPL series; LG DAU/DAK support; IFC sub-national financing | IFC investments; Infrastructure Finance Facility; | I-DPL series; Roads improvement & maintenance; Water utilities reform, Energy reform and delivery; IFC investments | PNPM co-financing | BOS-KITA Co-financing/ SISWA | Climate Change DPL (or CC component in DPL); Jakarta Emergency Dredging Initiative; IFC investments |
| TF[5] and Grants | Public Financial Management Multi-Donor Trust Fund | DSF, IFC Advisory Services | IFC Advisory Services; MDTF for trade and investment | IFC Advisory Services | PNPM TF | Basic Education Trust Fund | Climate Change TF, IFC Advisory Services, Extension of Aceh & Nias MDF; 2nd window of MDF for Peace Building Activities |
| AAA[6] | PEFA; CPAR; PER; DPR; Commodity Prices | Justice for the Poor, PEACH (LG PER program); Inter-governmental analysis; Capacity Enhancement for Eastern Indonesia | IFC Advisory services; Investment climate survey; Trade Facilitation; Financial Sector | Infrastructure Development Review; Water Supply and Sanitation | Poverty Assessment; KDP Research program; CCT; Pro-poor jobs strategy; CDD User Fee assessment | Education Sector PER, Teacher Management and Education Sector Assessment; Support to Education RENSTRA | Low Carbon growth strategy; REDD Study, Aceh and Nias PER; Aceh Peace Program; Aceh Poverty Assessment & Economic updates |

[4] See Appendix 10 and Annexes B3, B4 for details of the lending and non-lending program to be supported within each of the engagement areas.

[5] In addition to the new/forthcoming TFs listed here, a fuller list of major ongoing TFs is available in Appendix 10.

[6] In addition to AAA products specified here, a range of just-in-time, on demand policy advice, capacity building and other TA will be provided over the course of the CPS.

by, and based within, Indonesia's government or non-government institutions, academia and think-tanks. Over the CPS period the WBG will encourage national learning institutions, particularly universities and think-tanks, to play an increasingly important role in the delivery of knowledge, while shifting its own role from one of active research and implementation towards advice and quality control.

## Implementation and management principles

Reflecting Indonesia's re-emergence, this CPS entails some significant changes in the way the WBG team in Indonesia is structured and operates. Achievements in building and developing effective relationships with institutional partners will be recognized. The WBG's existing portfolio will be revisited to ensure that all operations support the CPS approach of investing in Indonesia's institutions.

As of end-June, 2008, the World Bank's active financing portfolio comprised 27 projects with total net commitments of over US$2.9 billion. Nearly 30 percent of the total number of projects were rated 'at risk' while some 17.5 percent of the total commitments were deemed to be 'at risk'. The percentage of 'at risk' projects (by number and commitments) has increased from 15.4 percent and 10.9 percent, respectively as of end-FY07. Several other projects are rated marginally satisfactory. Risk factors include weaknesses in project management, corruption and misuse of funds, delays in counterpart funds release by the Government, slow disbursements, procurement problems, and monitoring and evaluation issues. Improving project performance will be a priority. Efforts to improve portfolio quality, in addition to remedial measures underway will include restructuring of the marginally satisfactory and problem projects to bring their implementation back on track, with a focus on containing commitments at risk. The issues will also be addressed actively through follow-up on specific areas of weakness, e.g., counterpart funds release, application of remedies for misuse of funds, and procurement, financial and project management improvements. Additional efforts will be made to intensify joint project/program supervision with government and other partners, and to build in and implement strengthened participatory and/or independent monitoring and evaluation measures, as appropriate.

Indonesian clients have expressed concerns around the non-financial "transaction costs" inherent in WBG-financed assistance, in line with those increasingly voiced by a number of other MIC clients. Several initiatives to improve the efficiency and processing times of internal WBG administrative processes are underway. Targets and service standards will be set for key processes. There will also be regular pipeline discussions and systematic, regular portfolio reviews with Bappenas and the relevant line agencies. These portfolio reviews will phase in an assessment of key trust funds and the grants portfolio. Follow-up by responsible parties on outstanding issues will be central to enhanced portfolio management. A greater focus on the results and impacts of the WBG-supported programs will also be implemented, building on the first joint results management review undertaken in 2007.

## Addressing the risk of fraud and corruption[7] in WBG-supported programs

The Government has been making progress recently in the fight against corruption as indicated by improvement in 2007 across key governance dimensions[8], including the control of corruption and the rule of law. However, considerable challenges remain, as epitomized by the slow progress in implementing the legal and judicial reform agenda. Thus, the WBG-supported programs in Indonesia continue to require strong anti-corruption measures and fiduciary frameworks. The CPS builds on the CAS, which set out innovative governance and anti-corruption measures, and it seeks to further strengthen these mechanisms and their effectiveness.

A recent internal review of the Governance and Anti-Corruption Action Plans (GAAP) mechanism included in WB-supported projects, has revealed important lessons; notably, more needs to be done to strengthen government ownership and the implementation of these plans. As a result, going forward, the WBG will work to ensure that the plans are relevant to government partners' own anti-corruption efforts as well. Bolstering national ownership and institutional capacity-building for enhanced accountability and improved performance — already one of the elements of the anti-corruption commitment of the last CAS — will be at the center of the implementation of this CPS. The WBG will focus on applying the good governance and anti-corruption principles and practices together with the Indonesian partner institutions for a broader, more sustainable impact.

In addition to incorporating robust mechanisms and tools to safeguard fiduciary responsibilities, and while still relying on its own investigative and sanctions processes, the WBG will support and

[7] "Fraud and/or corruption" refers collectively to fraud, corruption, collusion, coercion and obstruction as defined in the Bank's Guidelines on Preventing and Combating Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants. See also Strengthening World Bank Group Engagement on Governance and Anti-Corruption, March 2007, World Bank.

[8] Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2008: Governance Matters VII.

thereby strengthen those of the Government. For this purpose, the WBG will provide technical assistance to government agencies investigating corruption allegations, such as the KPK, BPKP and BPK or the relevant Inspector General units of partner agencies.

Making greater use of the Government's own anti-corruption mechanisms will contribute to the synergies between IFC's and the World Bank's anti-corruption measures, especially in the important area of supporting regulatory reform that reduces rents and the capture of public assets. The WBG will also leverage demand-side anti-corruption measures and lessons arising from CDD projects, to inform the design and implementation of other programs that it supports. Building on the opportunity offered by the Government's own focus on good governance, the WBG approach therefore is moving from a largely transaction-oriented approach to an institutional one.

## Results management framework

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 (e.g., Ministry of Finance and public financial management) with more clearly definable and measurable targets, while others (e.g., Ministry of Environment and the climate change agenda) are at relatively early stages. The results framework will be monitored and updated periodically. The dialogue with Bappenas around program results will be continued, strengthened and may be broadened to include other key partners. These assessments will serve as guidelines for any necessary course corrections and feed into the CPS Progress Report scheduled for Board presentation in FY11.

## Managing for risks

Investing in Indonesia's institutions requires a close engagement with the partner institutions and the flexibility to modify the program in line with the opening — or closing — of opportunities for working with and through these institutions. The implementation of this approach will itself mitigate risks because the decision to engage will depend on timely and informed assessments of the likelihood for success. However, the approach subjects the WBG program to the factors that determine the opportunities for engagement. In unfavorable conditions, the WBG portfolio may not be exposed to risk, but it may be very limited. The key broader risks are highlighted below:

Political risks: The electoral process is now well institutionalized across the different levels of government. The 2009 elections are likely to be competitive and there is a risk that the elections will give incentives to the partners in the government to strengthen their political appeal by distinguishing themselves, hampering the capacity to jointly pursue difficult reform programs. However, the elections will also put pressure on the administration to deliver demonstrable results, especially in its priority areas of infrastructure development, governance reform, community development, social protection and the investment climate. At the same time, elections can open up the political space for reform as new leaders with a new mandate seek solutions to advance their agenda.

Socio-economic risks: Indonesia's resilience to external shocks has increased, macroeconomic fundamentals are strong and its Government is in a better position to address economic risks than in the past. However, several socio-economic risks remain. 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, with a particular impact on the poor. Another potential risk in this situation could come from a sudden reversal of financial assets held in the Indonesian stock and bond markets. Such an event would feed into the exchange rate fluctuations and inflation, raising domestic tensions. Finally, Indonesia has suffered from major natural disasters of various kinds in the recent past, with significant social costs. Although better prepared than in 2004, the country remains vulnerable to these disasters.

Risk of anti-debt sentiment: Concerns over the use of foreign financing to support the Government budget continue to generate opposition to foreign loans, in particular from, but not limited to, civil society groups. Anti-debt sentiment also exists in the legislature, where several key political parties, despite having explicitly agreed to program lending, hold positions designed to limit foreign debt exposure. Such sentiment raises potential risks for budget support operations as the legislature seeks to play a stronger role in overseeing foreign borrowing.

Reform implementation risks: Even where there is clear political will to tackle institutional reforms, the

reformers themselves can sometimes be overwhelmed by the extent and complexity of the task in the face of vested interests, and entrenched organizational cultures and behaviors. Capacity to develop and implement complex institutional reforms also remains a problem at all levels. It is precisely because of these implementation risks that the CPS is designed around institution-building to provide the technical assistance and co-financing support for the design and implementation of the government's own reforms.

Governance and corruption risks: Fiduciary risks remain significant. Investing in larger government-led programs, may increase the risks of the WBG being associated with a program which may be tainted by corruption. For this reason, the WBG proposes to apply this approach only to areas where the authorities are committed to reform and anti-corruption measures and only where the WBG can build on a long-standing engagement; the WBG will also support measures to strengthen accountability and build fiduciary capacity in counterparts. For the WBG's own portfolio, the governance and anti-corruption safeguards already in place will continue to be improved, and will also provide stronger coverage of the TF portfolio of activities.

WBG performance risks: Indonesia has access to an increasing number of sources for meeting its financing and technical assistance needs. As a result, the Government is seeking higher performance standards, and the WBG is striving to deliver on these fronts. In so doing, the WBG is aiming at quicker response times in the preparation and implementation of projects, more flexibility in the lending program, simplification of WBG 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.

The design of this CPS and its implementation will attempt to mitigate the impact of these risks for the WBG. Not only will the flexibility that the approach requires allow the WBG to reduce the risks in its engagements, but it will also ensure that the new partnership between the World Bank Group and Indonesia lives up to its potential.

# **APPENDICES** AND **ANNEXES**

COUNTY PARTNERSHIP STRATEGY FY2009-2012
**Investing in Indonesia's Institutions**
for Inclusive and Sustainable Development

## Note 1: Cross-cutting Engagement 1: Central Government Institutions and Systems

The World Bank has had an increasingly strong engagement since 2004 in supporting central government institutions, particularly the Ministry of Finance and Bappenas, in public sector reform through policy-based and investment lending, as well as a substantial TF and AAA program.

Lending. There are two programs that have defined the World Bank's lending engagement in this area since 2004, and that are expected to provide the backbone of this engagement during the CPS period as well. First, the World Bank has provided four consecutive DPLs since December 2004 (DPL1-4). The DPL program has increased from US$300 million (DPL1) to US$600 million (DPL4), and is expected to reach US$700 in FY09 (DPL5). DPLs have been the World Bank's main vehicle to support core institutional reforms in the area of public financial management and resulted, among others, in the establishment of a Treasury Single Account, an improved accounting system and the setting-up of an independent National Procurement Office.[9]

Second, the World Bank has supported the implementation of public sector reforms, particularly in the Ministry of Finance through the Government Financial Management and Revenue Administration Project (GFMRAP). GFMRAP1 (US$65 million)[10] was approved in conjunction with DPL1, and has been complementing DPL support for reforms in public financial management. More specifically, GFMRAPs are financing investments in technological modernization, capacity-building and change management. These projects directly reinforce changes to the underlying institutional, incentive and organizational frameworks for core business functions of the MoF and other related institutions, including fiscal policy formulation, budgeting, treasury, internal audit, procurement, revenue dispute resolution, and legislative oversight. The future Statistical Capacity Building Project (STATCAP) will replicate a similar institutional reform investment in the Central Bureau of Statistics (BPS), thereby strengthening the supply of economic and social data available to policy-makers and the public. Over the CPS period, reform of the tax administration system will be supported by the Project for Indonesian Tax Administration Reform (PINTAR).

Trust fund program. Through trust funds, the WBG is providing complementary technical assistance and analytical services, particularly to the core economic ministries. These Trust Funds include a €14.3 million Public Financial Management Multi-Donor Trust Fund financed by the European Commission and the Dutch Government, and a €20 million Dutch Institutional Development and Capacity Building Trust Fund, which supported the implementation of the CAS 2003-08. In particular, the Dutch Trust Fund has been providing support to the Initiative for Public Expenditure Analysis (IPEA), which supported the Government in the allocation and implementation of national and sub-national budgets, and a local justice sector reform program ("Justice for the Poor").

AAA and policy dialogue. Through trust funds and its own resources, the WBG has produced a large number of agenda-setting flagship reports as well as on-demand policy notes and advice, all of which form part of a broader knowledge engagement in the reform of core public sector institutions. The flagship reports include Spending for Development – Making the Most of Indonesia's New Opportunities (PER 2007) and bi-annual economic updates. Other reports include the Public Expenditure and Financial Accountability Assessment (PEFA 2008), an Education Expenditure Review (2007), and a Health Expenditure Review (2008). A Development Policy Review (DPR) has been produced in conjunction with this CPS. All of these outputs are part of an engagement to support economic and sectoral ministries in public sector reform, as well as budget formulation, allocation and implementation. The future knowledge engagement will deepen WBG support to budget reform and Indonesia's anti-corruption institutions. The WBG will also support Bappenas in preparation of a background study for the Government's next Medium-Term Development Plan 2010-14 framework.

## Note 2: Cross-cutting Engagement 2: Sub-national Government Institutions and Systems

The WBG seeks to expand its support for the core issue of institutional reform and governance at the local-government level. Under a decentralization framework, priority will be given to making development planning more responsive to constituents, improving

[9] The DPL program has also supported reforms in the Investment Climate and Service Delivery (see engagements on private sector development and poverty).

[10] Comprising US$55 million from IBRD, US$5 million from IDA, and US$5 million from PHRD (Poverty and Human Resources Development - Japanese Global Trust Fund).

public financial management, and strengthening the accountability of local governments. Support will be based on technical assistance and the co-financing of sub-national expenditure programs, along with possible direct engagements with the larger municipalities.

Lending. The WBG approach includes a loan to finance a share of local governments' expenditures, to be disbursed against local governments' outputs. Preliminary discussions, including the identification of local governments that will be engaged in the project, are underway. The WBG will also strengthen ongoing partnerships through continuing engagement in existing lending programs, such as Initiatives for Local Government Reform (ILGR), the Urban Sector Development and Reform Project (USDRP), and Support for Poor and Disadvantaged Areas (SPADA). In addition, the WBG will start working more closely with the largest municipalities in order to support their specific growth and development challenges.

Trust fund program. Through the AusAID-East Asia and Pacific Infrastructure for Growth Trust Fund, the WBG will provide technical and analytical support to key ministries to review sub-national government financing, in addition to supporting the role of sub-national governments in addressing growing urbanization and housing provision. Analysis of the constraints on developing a market for municipal borrowing will explore a range of issues, such as revenue sources, laws and regulations, incentives, borrowing capacity, and creditworthiness. In relation to this, an assessment of Indonesia's regional urban development will focus on the contribution of major urban centers to regional and national economic growth, as well as the delivery of services to the population.

AAA and policy dialogue. Development partners will fund analytical and advisory services to selected local governments through the Public Expenditure Analysis and Capacity Harmonization (PEACH) program in order to assess and improve the performance of their planning and budgeting processes. In addition, the Decentralization Support Facility (DSF) brings together a number of development partners with a broad mandate to engage Indonesian institutions essential to the local accountability framework, such as legislatures, media and NGO networks. The WBG and other development partners will continue to engage with local governments through the Decentralization Support Facility for Eastern Indonesia (SOFEI), which has established a strong network of reformers across the region. WBG resources will also complement the above trust fund activities in support of a series of policy notes. Policy discussion will be fostered through the dissemination of the notes and in the form of multi-stakeholder workshops for discussion of findings, recommendations, and follow-on activities.

## Note 3: Core Engagement 1: Private Sector Development

Lending. The World Bank's work in the investment climate, trade and financial sector areas is a core element of the Bank's flagship DPL lending program. In support of the proposed CPS, additional lending opportunities could be identified in these areas, as agreed with Government. In the financial/infrastructure sector, the Bank is preparing a US$100 million loan to support the establishment of an infrastructure financing institution that can help accelerate private investment in infrastructure. This is an innovative engagement involving the Bank and IFC (which will take an equity stake in the institution) as well as a number of other development partners in addition to private investors. Additional demand-driven investment lending support may be provided in areas where institutional restructuring and strengthening needs are identified through ongoing AAA/TA activities.

Trust funds program. Through trust funds, the WBG is providing complementary technical assistance, policy advice and capacity building in the areas of investment climate, trade and finance to core economic ministries, sub-national government and organizations, and institutions engaged in economic growth and development programs. Appropriate support to sub-national governments for fostering an environment conducive to the development of SMEs will be provided. IFC trust funds include an estimated US$40 million over five years raised from a suite of bi-lateral governments as well as IFC, for IFC Advisory Services to engage in broad ranging economic development initiatives. The Bank is contributing through the Dutch Trust Fund to Improve the Investment Climate and the Dutch Program to Improve Trade Policy in Indonesia, amounting to US$3.9 million and US$2.5 million, respectively. The Bank is also setting up a Multi-Donor Trust Fund, initially valued at US$7 million. This facility aims to strengthen GoI institutions (such as the Ministry of Trade and the National Team for Export and Investment Promotion, or PEPI) in managing effectively and efficiently the challenges of improving trade competitiveness, the investment climate, and the financial sector by supporting organizational reform, improving HR training management, setting up specialist teams and providing TA and policy advice to support reform and restructuring efforts.

AAA, TA and policy dialogue. This program is supported through the Bank's own resources leveraged substantially by TF resources. Flagship products that set multi-year reform agendas with analysis that underlies several government reform packages (e.g., the non-bank financial institutions report and the forthcoming report on improving access to financial services) and flagship reports on special issues (e.g., the ESW report on the impact of high commodity prices on Indonesia's

development strategy) are one form of engagement. Another is rapid-response on-demand policy notes that support emerging issues in the investment climate, trade and financial sectors. Lastly, ongoing policy dialogue and inputs to ongoing reform efforts being undertaken by the Government are high-impact activities that will continue to be supported. Key counterparts to this work are the Coordinating Ministry for the Economy, the Ministry of Trade, Bapepam-LK, Bank Indonesia, and other relevant agencies. Close interaction with, and inputs to, the financial industry, private sector and self-regulatory bodies are also important areas of engagement that will continue.

## Note 4: Core Engagement 2: Infrastructure

The WBG will provide financial and advisory support for the Government's infrastructure financing plan as set out in the RPJM. Key sectors covered through a series of Infrastructure DPLs (I-DPLs) and co-financing pooled-funding arrangements include energy, roads, and urban infrastructure, such as housing, water supply and sanitation.

Lending. WBG support includes a substantial program of investment lending to the following key projects:

- Investment lending support for the energy sector will focus primarily on clean and renewable energy technologies including geothermal power investments, pumped storage, advanced coal technologies, power transmission and distribution projects, gas distribution projects, and rural electrification. Strategic investments will seek to facilitate PLN's institutional re-organization and policy reforms that will enhance efficiency and reduce PLN's cost of supply.
- Urban infrastructure development will focus on several key issues, such as water and sanitation improvements, and low-income housing. Water management projects will increasingly target priority issues, such as flood mitigation and dam operations improvement. In sanitation, the WBG's ongoing PAMSIMAS project, for rural and peri-urban populations, focuses on building capacity to plan system integration for centralized, community and household sanitation, and make long-term financing available for sanitation infrastructure development.
- The Directorate General of Highways' (DGH) well-defined maintenance program for the national road network, as well as clear objectives for the condition of the network, made it a good candidate for partnership in the implementation of development programs in regional and national road operations. Road improvement projects will focus efforts on strengthening fiduciary, operational and management capacities of local counterparts, and improve the pace of implementation in ongoing projects.

Trust fund program. Through the AusAID-East Asia and Pacific Infrastructure for Growth Trust Fund, the WBG will be providing technical and analytical support to key ministries to review the role of the Government in housing provision. The WBG will offer support to both central and sub-national governments in the development of a policy and strategy for the provision of housing opportunities to low-income residents in urban areas. Particular focus will be on the condition of housing and land markets (supply and constraints), access to housing finance, and an analysis of the current slum environment (including population density and geographical distribution).

AAA and policy dialogue. The WBG primarily works with four agencies on infrastructure policy development: the Directorate General of Highways (DGH), the Directorate General of Water Resources (DWR) and the Directorate General of Human Settlement (DHS) — all at the Ministry of Public Works — as well as the state-owned electricity utility (Perusahaan Listrik Negara, or PLN). WBG will continue to engage the DWR and the DHS to enhance policies in support of increased access to affordable piped water and urban sanitation. In addition, as transportation is one of the most rapidly rising sources of Greenhouse Gas (GHG) emissions, the WBG will work to appraise the current situation and key policy actions that need to be taken to improve air quality and reduce emissions. Actions achievable through legislation and financial incentives will be identified in a brief policy note, as well as other dissemination materials appropriate for the media, public pressure groups, car manufacturers, and NGOs.

## Note 5: Core Engagement 3: Community Development and Social Protection

The WBG will continue to support the Government in its efforts to reduce poverty and to ensure equity and inclusiveness across regions. Despite impressive macro-economic growth rates over the past several years, poverty remains high in Indonesia with 36 million people or 16.7 percent below the national poverty line (US$1.55/day) and almost half the population (49 percent) below US$2/day (2007). Indonesia continues to under-perform compared with its neighboring countries in terms of access to quality healthcare, water and sanitation, education and other basic services.

WBG support consists of assistance on the macro-economic growth side as mentioned in other parts of this CPS, as well as the service delivery and direct poverty programming dimensions. The latter will be achieved through a combination of co-financing loans, AAA, and technical assistance and policy guidance on poverty reduction strategies and programming. Major government counterparts include the Government's

National Poverty Commission, led by the Coordinating Ministry for People's Welfare, as well as Bappenas and the Ministries of Finance, Home Affairs, Public Works, Social Welfare, Education and Health.

Lending. The National Community Empowerment Program (PNPM-Mandiri) is the Government's flagship national poverty reduction program. It was built upon the previous 10 years of successful experience with the World Bank's Kecamatan Development Program (KDP) and Urban Poverty Program (UPP). For 2008-09, the program includes two WBG SILS totaling US$409 million as well as national and local government counterpart funding and other community development programs equaling about US$1.8 billion. Other smaller poverty reduction programs are being folded into the PNPM-Mandiri in order to make poverty programming at the community level more streamlined and coordinated. PNPM-Mandiri currently covers almost 70 percent of the sub-districts in the country; by 2009, the Government expects the program to cover all sub-districts and cities. This program is planned to continue until 2015, and the WBG and other donors will be supporting these efforts through repeater loans.

The other major poverty program that the Bank is supporting is the Conditional Cash Transfer (CCT) program. The Bank provides technical support and guidance for the traditional household version of the CCT (Program Keluarga Harapan), as well as financial support through the PNPM-Mandiri program and a community version of the CCT. Both programs began in 2007 and are expected to continue in future years.

Trust fund program. The AAA work and technical assistance are funded primarily out of two major trust funds. The PNPM Support Facility was established in early 2008 with about US$40 million in initial commitments from the Dutch, DANIDA, and AusAid. The facility will fund a variety of evaluations, special studies, and technical assistance related to PNPM implementation. In addition, a Dutch Trust Fund supports the AAA and technical work of PREM's poverty team as described below. A Dutch Trust Fund provides just under €1.8 million to support a range of activities, such as poverty program assessments, data and policy advice, institutional capacity-building activities, implementation support for key poverty programs (social protection), and results and knowledge sharing activities.

AAA and policy dialogue. The poverty AAA work has been funded primarily out of trust funds, with Bank Budget (BB) supporting core World Bank staff costs. In the case of PNPM, this allows the limited resources of trust funds to leverage high returns in terms of policy guidance, strategic technical assistance, and analytical knowledge. AAA and policy dialogue for this CPS period will consist of:

- Ten different evaluations and studies for PNPM-Mandiri to evaluate its poverty impact, cost effectiveness, inclusiveness, and various aspects of its operations.
- Technical guidance and policy advice regarding poverty reduction strategies and reforms, as well as oversight of the two World Bank loans, PNPM-Rural and PNPM-Urban.
- Technical assistance and evaluations of the pilot CCT programs and social protection in general.
- Assessments of other major poverty reduction programs.
- Several randomized experiments related to poverty targeting and governance.
- Monitoring and evaluation capacity building with Bappenas and other ministries.
- Analytical work and technical guidance related to national employment policies.
- Improved poverty measurement and statistical capacity building.

## Note 6: Core Engagement 4: Education

The World Bank has developed increasingly close ties with both the Ministry of National Education (MoNE) and the Ministry of Religious Affairs (MoRA), with strong engagement in strategic areas of the education sector through a mix of lending, technical assistance and policy dialogue.

Lending. The lending portfolio has grown considerably, with three projects starting since 2006 and another three projects in the pipeline. Among current projects, the Improving Management of Higher Education for Relevance and Efficiency (IMHERE) project (US$117 million) was launched in 2006 and aims to build capacity for the reform and oversight of the higher education system and to improve academic quality and institutional performance. The Early Childhood Education and Development (ECED) (US$127 million — including US$23 million in Dutch grant financing) began in 2007 and aims to establish about 6,000 community-based ECED sites for children up to six years of age in targeted poor districts and villages. This project will help to level the playing field for poor children who drop out and repeat school due to unequal access to early learning opportunities. The Better Education through Reformed Management and Universal Teacher Upgrading (BERMUTU) (US$195 million, with US$52 million Dutch grant financing) began in 2008 and is targeted to areas that will assist the Government to implement the December 2005 Teacher Law, which links significant increases in teacher incentives to certified teacher competencies. The project supports structures that are critical in the certification and upgrading process. Areas include the accreditation of universities, capacity building of teacher cluster groups

(which will be instrumental in teacher upgrading) and reform of teacher progression and promotion systems.

Among projects in the pipeline, BOS-KITA, a proposed US$600 million three-year project beginning in October 2008 aims to support a major government program that provides operational funding to primary and junior secondary schools across the nation. The project will strengthen the already existing BOS program through establishing an independent monitoring unit and an information campaign. The System Improvements through Sector-Wide Approaches (SISWA) program is aimed at gradually moving donor assistance towards a basic education sector support program and is intended to be the means by which the Government will eventually (by 2010) align, coordinate and focus all donor assistance to basic education. This proposed program of about US$1 billion (US$200 million World Bank lending) is being led by the Government with the primary partners including the Government of the Netherlands, the European Commission and AusAID. The Better Employment Knowledge and Entrepreneurship to Revitalize Job Access (BEKERJA) (currently proposed amount of US$100 million) is a youth employment program aimed at improving the functioning of the labor market for youth by addressing key bottlenecks on both the demand and supply side of the skills market. The program is under discussion with government counterparts and would include activities in support of vouchers for unemployed youth to receive vocational training, and micro and SME finance.

Trust fund program. Two large trust funds are in operation to support strategic policy areas of education. The US$11.1 million Dutch Basic Education Support Program has been targeted to the shaping of national policy and in the provision of necessary just-in-time technical support in critical areas, including: (i) Teacher Management and Quality of Education, (ii) Piloting of Teacher Certification and Teacher Employment and Deployment policies, (iii) Improving the Accountability, Incentive and Support Structures of Basic Education, (iv) Education Monitoring and Evaluation, and (v) ICT in Education. The €39 million Basic Education Capacity Trust Fund (BEC-TF) was jointly established by the European Commission and the Government of the Netherlands with the purpose of supporting the Government in improving the delivery of decentralized basic education. It is also intended to lay the ground and conditions to be met for a major sector-wide investment program. These goals will be achieved through targeted analytical work, thematic dialogue in education between the Government and donors, and capacity development and strengthening of systems for planning, budgeting, financial management, M&E, and human resource management.

AAA and policy dialogue. In tandem with lending development and preparation, a broad array of AAA work has been conducted to support the Government in key areas, including the Government's current medium-term strategy (RENSTRA), the regulations under the Teacher Law, analytical work on mechanisms for teacher certification, teacher employment and redeployment, inclusive education, reaching the vulnerable and disabled, education management information system, quality framework for early childhood education and adult literacy. Future formal Economic and Sector Work (ESW) is planned for four areas, including (i) Education Sector Assessment, which will provide the technical assistance to assist the Government in preparing a technically sound "education sector assessment" report, which will form an analytical base for the formulation of a strategically pertinent and focused medium-term strategic plan (RENSTRA) for 2009-14, (ii) Teacher Quality, focused on helping the Government in formulating new policies or refining existing policies to improve quality of teachers aimed at improving student learning, (iii) Teacher Employment and Deployment, which will fill in knowledge gaps and provide policy recommendations that will inform Indonesia's teacher employment and deployment strategy, and (iv) Early Childhood Development Evaluation, which is a joint research between the Early Childhood Development Unit (ECDU) in the MoNE and the World Bank, with the purpose of conducting a high quality evaluation of the ECED program and providing the evidence required to raise awareness and advocate for early child development and the importance of school readiness.

## Note 7: Core Engagement 5: Environmental Sustainability and Disaster Mitigation

Following the Bank's major role in the reconstruction of Aceh, Nias and Yogyakarta, the CAS was amended in September 2006 to include a disaster risk management pillar. This called for the Bank to support new legislation and institutional arrangements for disaster risk reduction (DRR), and integrating DRR in its sectoral work. Joint TA was to be provided in key areas, including developing national and local government capacity for assessing disaster damage, losses and needs; assessing capacity to absorb catastrophic events, amongst others. Meanwhile, in 2007 the Bank became a major source of support for climate change mitigation and adaptation activities. This engagement involves support for the Ministry of Environment in preparation for the Bali COP 13, assistance to the Ministry of Forestry to develop its program on REDD, partnership with the MoF to develop a low carbon growth strategy, and work with Bappenas to formulate a national climate change and disaster management adaptation program.

Lending. Engagement with climate change is relatively new, but a climate change pillar is being developed for the fifth Development Policy Loan (DPL 5) to incorporate priority actions related to institutional consolidation, mitigation and adaptation. This pillar will enable the DPL5 to be increased by US$100 million. Once institutional leadership on the climate change issue has been consolidated and the Bank has a clear counterpart, it may be possible to consider a stand-alone climate change DPL series. The Bank is financing a growing portfolio of Clean Development Mechanism (CDM) projects and mainstreaming adaptation to climate in the overall Bank lending portfolio. Finally, the emerging Forest Investment Fund presents an opportunity to provide Indonesia with concessional lending to support, inter alia, the initial development of REDD projects.

For both national-scale disasters (Aceh/Nias and Yogyakarta), the World Bank responded by reprogramming its lending portfolio to make funds available for community-based reconstruction programs. The Bank also has a significant grant-financed portfolio of projects in both areas. The possibility exists to develop a catastrophic drawn-down option (CAT DDO) if there is government interest in this new "line-of-credit" financing mechanism. Enhanced efforts will be made to integrate DRR and climate change adaptation into the project cycle.

Trust fund program. Trust funds support the Bank's climate change program including in the following areas:

- REDD: about US$1million in reimbursable agreements from the Government of Australia and DFID plus funds from the Bank's PROFOR to assist the Indonesia Forest Climate Alliance with development of the national REDD program.
- Pathways to Sustainability: US$200,000 from PROFOR which is leveraging over US$2 million from AusAID and CSIRO to develop macro and micro-modeling tools for Bappenas to understand better the environmental (including greenhouse gas emissions) consequences of different developmental paths.
- Low Carbon Growth: US$360,000 through an Externally Funded Output from AusAID to support a low carbon growth study in partnership with the Ministry of Finance. Additional resource commitments are expected from DFID for this work.
- An additional grant of US$1-2 million from WASAP is being proposed for a pilot study on water-resources management in relation to the major source of Indonesia's carbon emissions, namely degraded peatlands.

Discussions have been held with development partners and the GoI to create a MDTF for climate change, which would support the GoI's climate change action plan by financing TA, capacity building and pilot activities. Once an appropriate government counterpart has been found, the fund will be activated.

Trust funds have been used to respond to major disasters and initiate a program for mainstreaming DRR. The Bank created and manages a US$697 million MDTF for Aceh and Nias for post-disaster reconstruction through a portfolio of 20 projects, over half of which are Bank supervised. Similarly, over US$84 million was committed to the Java Reconstruction Fund following the Yogyakarta/Central Java earthquake. Its major community-built housing project is Bank supervised. For DRR, a US$1.25 million grant has been obtained from the Global Facility for Disaster Reduction and Recovery to mainstream DRR in Bappenas, the new Disaster Management Agency (BNPB), the insurance industry, and the Bank itself.

AAA and policy dialogue. The Bank's climate change AAA has focused on TA to prepare the national REDD program and support for the first phase of the low carbon growth study. The Bank will focus efforts on the main inputs for the GoI to develop its low carbon growth strategy and the policy dialogue has sought to mainstream the discussion of climate change. This has involved: preparing and disseminating information to raise awareness about carbon emissions, vulnerability and relevant policies; working with the Ministries of Finance and Trade on relevant instruments and options for mitigation and adaptation; engaging with Bappenas on issues of development partnership and adaptation; and coordinating with the donor community on financial support for Indonesia's climate change program. At the local level, the WBG will assist DKI Jakarta's three-year river-dredging initiative, the Jakarta Emergency Dredging Initiative (JEDI), to locate grant financing for capacity-building within the municipal administration.

PREM has taken the lead on AAA, especially in the area of disaster financing, monitoring of the reconstruction process and economic impact analysis. Outputs in FY08 include the Aceh Poverty Assessment, the Nias Public Expenditure Review, a stock-taking report One Year after the Yogyakarta Earthquake, bi-annual Aceh Economic Updates and the establishment of a reconstruction finance tracking methodology. In FY09, the following products are anticipated: An analysis of reconstruction results in Aceh and Nias in conjunction with the official end of the reconstruction period, a deepening of economic research and support to other country teams in responding to disasters and setting up M&E.

Appendix 2.

# Indonesia: Results Framework Approach

The key development outcomes at the end of the CPS period are included in the following Results Framework. The variations across these in the framework are indicative of the different stages of maturity, with some partnerships and programs being well advanced (e.g., Ministry of Finance and public financial management), while others (e.g., Ministry of Environment and the climate change agenda) are at relatively early stages. The following seeks to classify the seven current core engagements by level of relative maturity:

Mature engagements:
Cross-cutting Engagement Area 1: Central Government Institutions and Systems
Core Engagement Area 1: Private Sector Development
Core Engagement Area 3: Community Development and Social Protection
Core Engagement Area 4: Education

Developing engagements:
Cross-cutting Engagement Area 2: Sub-national Government Institutions and Systems
Core Engagement Area 2: Infrastructure
Core Engagement Area 5: Environmental Sustainability and Disaster Mitigation

Where core engagements are already moving into a mature phase, the WBG is in a position to be more specific in terms of the outcomes over the CPS period that can be realistically achieved. Hence, the detail relating to the outcomes and intermediate indicative milestones are more developed in the mature engagements than in those engagements that are still in an early phase. In these developing engagements, outcomes are somewhat less definable and therefore, more likely to be based on a range of possible targets or intermediate outcomes.

Finally, it is important to note that the flexibility inherent in the CPS will also apply to the results framework, with adjustments to the core partnerships and programs also being mirrored in the results framework, as appropriate.

Appendix 2.

# Indonesia: CPS Results Matrix

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| | | Overarching Development Outcomes | | |
| "The ideal Indonesia is an Indonesia that is safer and more peaceful, just and democratic and more prosperous."<br><br>State Address of the President of the Republic of Indonesia on the Eve of the Sixtieth Anniversary of Indonesia's Independence." | Further improvements to effectiveness and quality of public expenditures, and strengthened national institutions, fiduciary and operational frameworks required for enhanced accountability and increased Government effectiveness | 1. WBG support and financing are aligned to national priorities.<br>2. Strengthened use of Indonesia's own systems, procedures and institutions to the extent possible.<br>3. Enhanced harmonization of development partners' support.<br>4. Contributions toward strengthened public fiduciary controls, accountability, managerial, technical and evaluation capacity. | | |
| | | CROSS-CUTTING ENGAGEMENT AREA 1: CENTRAL GOVERNMENT INSTITUTIONS AND SYSTEMS | | |
| Strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures for a competitive, inclusive, and sustainable Indonesia | The budget system is input-based, excessively detailed and inflexible and strictly annual, hampering implementation of multi-year projects | 1. Improved results orientation in the budget process. Baseline: 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. Targets: 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. Data source: Pertinent government regulations, including annual budget law; staff assessments. | • Revised program structure for RPJM 2010-15 specifies measurable results and targets aligned to organizational structure (2010)<br>• Standing order for virements allow spending ministries to reallocate between spending units, activities, some economic categories and location within a given program without prior MoF approval (2012)<br>• Progress towards a point where budget documents present current budget year estimates and forward estimates for two outer years (continuous) | Ongoing Financing: GFMRAP; Institutional Development TF (Netherlands); GFMRAP TF (PHRD); Governance TFs (Netherlands); PFM TFs (PHRD)<br><br>Planned Financing: DPLs; PINTAR/ GFMRAP II; STATCAP; PFM – MDTF |
| | Government cash balances are fragmented and there is limited information available for efficient management of cash; treasury operations are currently managed through fragmented data collection and consolidation systems which have limited capacity to produce reliable and timely information on budget execution | 2. Effective operationalization of TSA, together with strengthened and timely cash plans from the line ministries. Baseline: TSA extended to all expenditure accounts but not yet to the revenue side. Very rudimentary cash planning that is not based on expected disbursements. Targets: 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. Data sources: MoF accounts quarterly cash plans, government regulations; system manuals, integrated database and staff assessments. | • Inclusion of major revenue accounts into the TSA regime (2008)<br>• Contract signed for procurement of new Treasury and Budget system (2008)<br>• Progressive inclusion of remaining cash balances of central government institutions into the TSA regime (continuous)<br>• Treasury enforces quarterly cash planning in the line ministries (2009)<br>• Progressive implementation of the Integrated Financial Management System in the Treasury starting with 5 pilot ministries (2010) | AAA/Others: PER, DPR;; analysis of demand for legal reforms; commodity price analysis; CEM/ sector analysis; support to RPJM; policy notes; poverty assessment |
| | Controls in budget execution processes are generally inadequate and could jeopardize gains from improvements made in other areas of PFM | 3. Effective and reliable implementation of State Treasury and Budget System (SPAN) reform, as evidenced by timely and accurate financial reporting. Baseline: 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+. Targets: PEFA indicators: PI 18 to rise to C; PI 20 to rise to A; and PI 25 to rise to A. Data source: Repeat PEFA assessment (2012). | • COSO control framework piloted in 3 select line ministries providing better understanding of the challenges on internal control in line ministries (2009)<br>• On payroll controls, an initial design of an information system which links BKN and MDAs is produced (2010) | |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CROSS-CUTTING ENGAGEMENT AREA 1: CENTRAL GOVERNMENT INSTITUTIONS AND SYSTEMS | | | | |
| Strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures for a competitive, inclusive, and sustainable Indonesia | Improvements in tax administration are hampered by inefficient registration, returns processing, document management, and limitations in the basic IT infrastructure | 4. 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 audits of taxpayer declarations; reduced tax arrears through better and more accurate taxpayer accounts and collection procedures. Baseline: (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. Targets: (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. Data sources: AusAID study; staff assessment; government regulations. | • Double entry for registration process introduced (2009)<br>• Centralized registration system introduced (2009)<br>• Registration master file cleaned up of erroneous records and duplications (2009)<br>• Development of taxpayer risk assessment models (2009)<br>• Determination of reliable arrears information (2009)<br>• Contract for procurement of core tax administration system signed (2009)<br>• Progressive development and implementation of core tax administration systems (continuous)<br>• Progressive implementation of risk-based audit management (continuous)<br>• Progressive development and implementation of systematic collection program (continuous) | AAA/Others: PER, DPR;; analysis of demand for legal reforms; commodity price analysis; CEM/ sector analysis; support to RPJM; policy notes; poverty assessment |
| | The public procurement system still has significant deficiencies in terms of improving the regulatory framework and implementation tools as well as capacity of procurement practitioners; collusion and corrupt practices in the bidding process continue to exist, causing leakages and losses in the system | 5. Improved regulatory framework; 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. Baseline: (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. Targets: (i) Procurement law and associated tools are issued; (ii) capacity-building program in place; (iii) sanctions provide a deterrent for colluding firms. Data sources: Staff assessment; government regulations; update of OECD/DAC BIL. | • LPKP fully staffed and functional (2008)<br>• Revision of Keppres 80/2003 and issuance of national standard bidding documents (2008)<br>• Development of a capacity building strategy (2008)<br>• Support to capacity building program providers at the national and provincial level (2009)<br>• Procurement units established at selected implementing agencies (2009)<br>• Strengthening the procurement audit functions in IGs and BPKP (2009)<br>• Revision of the sanctions system (2009)<br>• Procurement law enacted (2010)<br>• Professional procurement stream is established in implementing agencies (2010) | |
| | Increasing demand for improved quality, timeliness and responsiveness of data availability are hampered by poor ICT infrastructure and data management, and inefficient business processes | 6. Improved quality and timeliness of key statistics produced by BPS, e.g., national accounts data, poverty data, etc. Baseline: (i) Inconsistencies between BPS statistics from various different sources; (ii) low levels of user engagement and confidence, and (iii) prolonged data production timelines. Targets: (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. Data sources: Dialogue with BPS; reports; staff workshops, user surveys. | • All sub-districts statistics officers equipped with GPS technology (2009)<br>• Sixty-six city offices connected by wide area network (2009)<br>• Business process re-engineering conducted for 5 product lines (2010)<br>• Methodology reviews conducted for 5 product lines (2010)<br>• Data warehouse prototype designed and developed (2011)<br>• Corporate Training Strategy developed and implemented for new information management systems (2011)<br>• Quality assurance mechanisms established and implemented (2011) | |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CROSS-CUTTING ENGAGEMENT AREA 2: SUB-NATIONAL GOVERNMENT INSTITUTIONS AND SYSTEMS | | | | |
| Strengthen decentralized local governments and institutions to increase the impact of public spending | Weak capacity of local governments (LG) to manage assets and improve service delivery | Improved LG systems and processes for planning, budgeting and delivering services and investments.<br>Baseline: Most LGs have poor investment planning, budget management, and weak implementation capacities. Very few LGs conduct adequate investment and expenditure planning.<br>Target: (i) LGs following Bank-supported programs prepare detailed medium-term investment plans (RPJM); (ii) LGs following Bank-supported programs execute annual investments as identified in their medium-term plans; and (iii) LGs following Bank-supported programs conduct detailed expenditure reviews and prepare capacity enhancement programs.<br>Data sources: Medium-term investment plans submitted to the MoF by LGs. Expenditure management assessments. | • Ongoing work with national government and various select rural and urban LGs on creating a framework for improving their planning and resource management (continuous)<br>• Improving asset and financial resource management within select LGs (continuous)<br>• Engagement through NLTA with large urban municipalities (continuous)<br>• Series of regional-based knowledge-sharing events and policy dialogues to increase awareness and share lessons learnt in areas with limited information access, i.e., eastern Indonesia (continuous) | Ongoing Financing: SPADA; ILGRP; USDRP; DSF – MDTF; ILGRP – MDTF; DSF<br><br>Planned Financing: DPLs; LG DAU/ DAK Support; PNPMs<br><br>AAA/Others: Strengthening inter-governmental framework; IEC/ DSF II; Papua PER; PEACH |
| CORE ENGAGEMENT AREA 1: PRIVATE SECTOR DEVELOPMENT | | | | |
| Enhance the environment for private sector development to foster accelerated growth and poverty reduction and strengthen competitiveness and inclusiveness | Financial intermediation is low; non bank financial institutions and capital markets are small; type and access to finance limited; limited long-term domestic financial resources and lack of local infrastructure financing expertise | 1. Strengthened private and financial sector through: better regulatory frameworks; improved investment climate; stronger bank and non-bank financial institutions.<br>Baseline: 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.<br>Targets: Key financial ratios of banks remain sound and LDR reaches minimum 80%; NBFI assets as proportion of loans to SME doubled; minimum of 45% of households have a bank account; infrastructure finance institution established and well functioning.<br>Data sources: Bank Indonesia; Bapepam & LK; access to finance surveys; BPS. | • Banking lending consistently increases higher than annual inflation rate and LDR reaches 70% (2008) and increases 5% annually thereafter<br>• Steady increase of mutual fund assets and amount of capital raised through equity and bonds market IPO (continuous)<br>• Mainstreaming the results of national access to finance survey in government policy (2009)<br>• Higher penetration of pension and insurance (continuous) | Ongoing Financing: IFC investments in priority sectors; IFC Advisory Services Initiative; Investment Climate TF (Netherlands)<br><br>Planned Financing: IFC investments in priority sectors; Private Infrastructure Finance; bilateral TFs to IFC Advisory Services; trade and investment climate MDTF<br><br>AAA/Others: Investment climate, trade facilitation, financial sector; studies on insurance and NBFI; surveys of access to finance; policy dialogue on banking sector; capacity building, and IFC engagement with microfinance; IFC Advisory Services Initiatives on regulatory reform and investment promotion; capacity-building initiatives to MoT, PEPI and other GoI institutions |
| | Sub-national government processes are slow, cumbersome and lacking in transparency | 2. Improved capacity of sub-national governments to support business operations through introduction of less cumbersome procedures for business start-ups and licensing.<br>Baseline: Sub-national Doing Business (DB) study of 15 cities and other baseline studies.<br>Targets: Reduction in time and cost of start-ups and licensing of 50% in client cities.<br>Data sources: Internal M&E reviews; WBG Doing Business report. | • Improved monitoring and evaluation capacity of effectiveness of licensing offices by districts or provincial government (continuous)<br>• Passage of national laws that affect and improve national and sub-national governments' business licensing processing (continuous) | |
| | Policy decisions are taken without sufficient analysis of alternatives and of their costs and benefits; lack of specialists to provide information at the level required; weak coordination between research units and policy units; complex regulatory environment inhibits private sector investment; time consuming and costly procedures to establish companies, pay taxes and clear imports; weak coordination among government institutions for investment policy | 3. Improved regulatory environment and interagency coordination in the development of investment policies.<br>Baseline: 109 days to start a company; 4 months to receive VAT refund; 7 days average container dwell time; uncoordinated investment policy.<br>Targets: 50 days to start a company; 2 months to receive VAT refund; 5 days average container dwell time; coordinated investment policy through PEPI; improved DB rankings.<br>Data sources: Official data from Ministry of Justice, Tax Department and Port Authority/Pelindo/ JICT; PEPI progress reports; and DB report. | • Regular monitoring and public announcement of company start-up time (Ministry of Justice); VAT refund time (DG Tax); and container dwell time (Pelindo/JICT) (continuous)<br>• Progress towards a fully staffed and functional professional secretariat for PEPI (continuous) | |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CORE ENGAGEMENT AREA 1: PRIVATE SECTOR DEVELOPMENT (*continued*) | | | | |
| Enhance the environment for private sector development to foster accelerated growth and poverty reduction and strengthen competitiveness and inclusiveness | Policy decisions are taken without sufficient analysis of alternatives and of their costs and benefits; lack of specialists to provide information at the level required; weak coordination between research units and policy units; complex regulatory environment inhibits private sector investment; time consuming and costly procedures to establish companies, pay taxes and clear imports; weak coordination among government institutions for investment policy | 4. Strengthened institutional structure and capacity of the Ministry of Trade to enable it to develop and implement more effective trade policies. Baseline: Absence of specialist teams that can provide the required level of analysis for policy decisions. Target: 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. Data source: Policies developed by the Ministry of Trade and progress reports of specialist teams. | • At least 3 specialist teams are set up and fully staffed by Ministry of Trade staff and advisors (2010)<br>• Specialist teams are involved in the development of analysis for policy decisions (2011)<br>• Sectoral policy/regulatory impediments in selected agrifood value chains presented to Ministry of Trade (2010). | Ongoing Financing: IFC investments in priority sectors; IFC Advisory Services Initiative; Investment Climate TF (Netherlands)<br><br>Planned Financing: IFC investments in priority sectors; Private Infrastructure Finance; bilateral TFs to IFC Advisory Services; trade and investment climate MDTF<br><br>AAA/Others: Investment climate, trade facilitation, financial sector; studies on insurance and NBFI; surveys of access to finance; policy dialogue on banking sector; capacity building, and IFC engagement with microfinance; IFC Advisory Services Initiatives on regulatory reform and investment promotion; capacity-building initiatives to MoT, PEPI and other GoI institutions |
| | Transparent and efficient linkages among smallholders, SMEs and rural businesses and commercial markets are weak | 5. Improved access to markets for Indonesian businesses in select commodity or industry-based sectors. Baseline: SMEs/entrepreneurs/farmers have little direct access to large markets. Target: New investment/financing for SMEs in supply chain; increased SME contracts with large firms; increased sales and incomes for impacted firms; price transparency increases. Data source: Internal M&E project review. | • Steady increase in investment in direct sourcing by lead firms (continuous)<br>• Business linkages or forums created to facilitate lead firm/SME linkages (continuous).<br>• Improvement in price discovery mechanisms of agricultural commodities via warehouse receipts system (continuous)<br>• Improving SME competency to comply with market standards (continuous) | |
| CORE ENGAGEMENT AREA 2: INFRASTRUCTURE | | | | |
| Increase the level and efficiency of public and private investments in infrastructure to meet needs and strengthen competitiveness | 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, and was only 3.2% in 2005 | 1. Increased quantity and efficiency of national and sub-national government spending on infrastructure through improvements in subsidy policy, incentives framework, expenditure planning and budgeting. Baseline: Actual spending on national infrastructure was Rp 18.9 trillion in 2006. Target: Actual spending on national infrastructure increased by 25% over 2006 level by 2010. Data source: MoF. | • Increase in sub-national budget (APBD) capital expenditures by 20% over 2005 level (2010)<br>• 35% of urban population with access to piped water compared with 31% in 2006 (2010)<br>• 60% of population with access to electricity compared with 55% in 2003 (2010)<br>• 84% of national roads remain in good/fair condition compared with 81% in 2006 (2010) | Ongoing Financing: Strategic Roads Infrastructure; Domestic Gas Market Development; Eastern Indonesia Transport; WSSLIC III; Urban TF (PHRD); Water & Sanitation TF (AusAid)<br><br>Planned Financing: IDPLs; National Roads Maintenance and Improvement; Pump Storage/ Hydropower; Dam Operations; Jakarta Flood Control; Private Infrastructure Finance; specific investment loans in water, transport, and energy sectors; IIF loans and IFC Investments; IFC PLN Central Java Coal-Fired IPP; infrastructure TF (AusAID)<br><br>AAA/Other: Infrastructure sector notes; infrastructure development strategy; IFC Advisory Services |
| | Indonesia's infrastructure delivery requirements are massive, and beyond what can be supported through public investment | 2. Increased private investment in infrastructure through the establishment of a fiscally sound, credible and transparent PPP framework. Baseline: Private sector financial commitments to private infrastructure projects were 0.5% of GDP in 2005. Target: Private sector financial commitments to private infrastructure projects increase to 0.75% of GDP by 2010. Data source: MoF. | • PPP transactions tendered in compliance with Perpres 67/2005<br>• Private sector financial commitments to private infrastructure projects increase to 0.75% of GDP compared to 0.5% in 2005 (2010) | |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CORE ENGAGEMENT AREA 3: COMMUNITY DEVELOPMENT AND SOCIAL PROTECTION | | | | |
| Reduce poverty levels and improve equity by improving livelihoods and service delivery, and decrease remaining pockets of vulnerabilities to strengthen inclusiveness | Around 110 million people still live under US$2 a day; 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; wide regional disparities (particularly, eastern provinces); poor are vulnerable to shocks such as food price increases, natural disasters | 1. Improved socio-economic and local level (kelurahan) 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. Baseline data and targets will be developed as part of Bank-supported projects and AAA.<br><br>2. Improved socio-economic and local-level (kelurahan) 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. Baseline: Poverty rate of 16.7% in 2007. Target: Poverty level decreased to 12% by 2012. Data source: BPS.<br><br>3. Public expenditures made more pro-poor by reducing fuel subsidies and reallocating the savings to strategic targeted interventions for the poor and successful implementation of CCT. Baseline: 3.8% of GDP at US$83/bbl. Target: Fuel subsidies decreased by 50% and resources re-allocated towards pro-poor programs, amongst others. Data source: MoF. | • Improved household expenditure rates or improved access to economic and social services in 7,800 kelurahan (wards) (end 2009)<br>• Infrastructure built is 20% less expensive than that built by non-community based approaches in 80% of participating kelurahan<br>• EIRRs >30% for major rural infrastructure types in PNPM kecamatan<br>• 80% satisfaction level of beneficiaries regarding improved services and local level governance<br>• Improved HH expenditure rates and improved access to economic and social services in a minimum of 2,500 poor sub-districts (2008)<br>• Improved HH expenditure rates and improved access to economic and social services in a minimum of 4,000 sub-districts (2009). Improved health and education indicators in 130 kecamatan in 5 provinces through the PNPM Generasi CCT pilot<br>• Performance-based DAK introduced<br>• MIS established for checking conditionalities fulfillment of CCT program<br>• Expansion of CCT coverage areas (continuous) | Ongoing Financing: KDP; UPP; SPADA; PNPM TFs (Netherlands, Australia, DFID); SPADA TFs (DFID)<br><br>Planned Financing: PNPM-Rural; PNPM-Urban; PNPMs Combined; Youth Employment; PNPM TFs<br><br>AAA/Other: Poverty assessment; pro-poor jobs strategy; impact evaluations and studies of PNPM; impact evaluation of CCT; technical support to PNPM; guidance to BPS on poverty targeting and strengthening systems |
| CORE ENGAGEMENT AREA 4: EDUCATION SECTOR | | | | |
| Improve basic education to achieve MDGs on primary enrollment rates and literacy targets and improve the quality of education to enhance competitiveness and inclusiveness | Lack of affordable ECED services, particularly for the poor | 1. Improved development of poor children between the ages 0 to 6 in selected provinces: Percentage of malnourished children aged 0-6 decreases. Baseline: 27% of children underweight (Susenas 2001). Target: 20%. Data source: Susenas, IFLS. | • Increased community-based ECED services in selected provinces. By 2010, 6000 villages have adopted a community based approach to delivering ECED services<br>• Establishment and utilization of standards for early childhood development services. By 2011,<br>• ECED standards are issued and used in more than 10 provinces<br>• Reduction in absenteeism of teachers: Target: to reduce absenteeism to 10 percent from 19 percent (2002 survey)<br>• Perverse incentives for districts on teacher hiring abolished | Ongoing Financing: BERMUTU; Higher Education; ECED; Basic Education Capacity MDTF; BERMUTU and ECED TFs (Netherlands)<br><br>Planned Financing: BOSs; SISWA 1 & 2; Education TFs<br><br>AAA/Other: Education sector review and assessment; support to RENSTRA; PERs; ESW on ECED; higher education (IMHERE); GDLN; BERKERJA; |
| | Low quality of basic education | 2. Increased number of basic education teachers meets academic qualification mandated by the Teacher Law. Baseline: 30% of teachers in primary and junior secondary schools hold S1 degree or more. Target: 70% of teachers hold S1 degree or more. Data Source: Teacher census; Ministry of National Education (MoNE) data. | | |
| | Inefficiency of spending resulting from weak management of education at the district and school level under incomplete decentralization framework | 3. 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. Baseline: Primary STR=20 and junior secondary STR=14. Target: Primary STR=26 and junior secondary STR=22. Data source: Teacher census of MoNE. | | |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CORE ENGAGEMENT AREA 4: EDUCATION SECTOR (*continued*) | | | | |
| Improve basic education to achieve MDGs on primary enrollment rates and literacy targets and improve the quality of education to enhance competitiveness and inclusiveness | Lack of affordable ECED services, particularly for the poor | 1. Improved development of poor children between the ages 0 to 6 in selected provinces: Percentage of malnourished children aged 0-6 decreases. Baseline: 27% of children underweight (Susenas 2001). Target: 20%. Data source: Susenas, IFLS. | • Increased community-based ECED services in selected provinces. By 2010, 6000 villages have adopted a community based approach to delivering ECED services<br>• Establishment and utilization of standards for early childhood development services. By 2011,<br>• ECED standards are issued and used in more than 10 provinces<br>• Reduction in absenteeism of teachers: Target: to reduce absenteeism to 10 percent from 19 percent (2002 survey)<br>• Perverse incentives for districts on teacher hiring abolished | Ongoing Financing: BERMUTU; Higher Education; ECED; Basic Education Capacity MDTF; BERMUTU and ECED TFs (Netherlands)<br><br>Planned Financing: BOSs; SISWA 1 & 2; Education TFs<br><br>AAA/Other: Education sector review and assessment; support to RENSTRA; PERs; ESW on ECED; higher education (IMHERE); GDLN; BERKERJA; |
| | Low quality of basic education | 2. Increased number of basic education teachers meets academic qualification mandated by the Teacher Law. Baseline: 30% of teachers in primary and junior secondary schools hold S1 degree or more. Target: 70% of teachers hold S1 degree or more. Data Source: Teacher census; Ministry of National Education (MoNE) data. | | |
| | Inefficiency of spending resulting from weak management of education at the district and school level under incomplete decentralization framework | 3. 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 Baseline: Primary STR=20 and junior secondary STR=14. Target: Primary STR=26 and junior secondary STR=22. Data source: Teacher census of MoNE. | | |
| | High parental cost at all levels of education. | 4. Greater share of public education resources channeled to end-users making basic education affordable for poor students and increasing secondary education enrolment.<br><br>4a. Average annual cost per student in primary and junior secondary for children in poorest quintile decreases. Baseline: Rp 310,296 for primary and Rp 492,586 for secondary per student per year at 2006 prices (Susenas, 2006). Target: 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. Data source: Susenas.<br><br>4b. Net enrolment in secondary education (junior and senior combined) increases. Baseline: 57% (2007). Target: Through co-financing of the BOS program, increase to 70% (2012). Data source: Susenas. | Increased size and improved management of BOS | |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CORE ENGAGEMENT AREA 4: EDUCATION SECTOR (*continued*) | | | | |
| Improve basic education to achieve MDGs on primary enrollment rates and literacy targets and improve the quality of education to enhance competitiveness and inclusiveness | Lack of competitiveness of graduates of the education system. | 5. Improved training programs and higher education system:<br><br>5a. Institutional accreditation awarded to higher education institutions and private sector training providers supported by the Department of Higher Education and Non-formal Education in the MoNE. Baseline: 215 private sector training institutions accredited, and no higher education institutions accredited. Target: 430 private sector training institutions accredited and 5% of higher education institutions accredited. Data source: MoNE data.<br><br>5b. Department of Higher Education and Non-formal Education in the MoNE conducts regular tracer studies of university graduates and graduates from job training programs to establish their subsequent position in the labor market. Baseline: Tracer studies not yet in place. Target: Tracer studies in place. Data source: MoNE data. | Improved curriculum in higher education institutions and private sector training providers supported by the Department of Higher Education and Non-formal Education in MoNE. | |
| | Lack of information, and weak monitoring and evaluation of education funding. | 6. Improved information and better implementation, monitoring and evaluation of education funding through the BOS-KITA program. Baseline: No systematic, regular independent monitoring of education funding. Target: A Central Independent Monitoring Unit (CIMU) established and in operation on a sector-wide basis. Data source: MoNE and CIMU data. | CIMU operating in selected regions and on selected programs. | |
| CORE ENGAGEMENT AREA 5: ENVIRONMENTAL SUSTAINABILITY AND DISASTER MITIGATION | | | | |
| Strengthen the capacity of the country to adapt to climate change and address environmental challenges to ensure sustainability | Competition among national counterparts to lead climate change program: unclear mandates and partners; entrenched fuel and electricity subsidies reduce incentives for energy efficiency and renewables; continued governance problems that contribute to deforestation; conflicting and decentralized land use authority hampers ability to manage forest and peatlands | 1. Decrease in the growth of greenhouse gas (GHG) emissions in the energy sector. Baseline: Continue downward trend in growth of GHG emissions intensity for energy sector emissions: 1995-99: 4% average annual growth; 2000-04: 1.7% average annual growth. Target: Additional 10% decrease in growth of emissions intensity during 2005-10. Data source: Data from the Ministries of Environment, Forestry, and National Climate Change Council. Indonesia and Climate Change: Current Status and Policies," 2007, PEACE/DFID/World Bank. | • Climate change coordination mechanism established (2008)<br>• Regulations on geothermal business issued (2009)<br>• National energy plan issued (2009)<br>• Energy law regulations issued (2010)<br>• Climate change actions incorporated in medium-term development plan (2010)<br>• Actions budgeted and under implementation (continuous)<br>• Central Kalimantan peatland master plan being implemented (2009-12)<br>• Peatland inventory, baseline and risk analysis completed (2010) | Ongoing Financing: Coral Reef Rehabilitation (GEF); Ozone Depletion (OTF); Water Resources TF (Netherlands)<br><br>Planned Financing: DPL5; CC DPL; Forest Carbon Partnership Facility; Forest Investment Fund; Climate Change TFs; IFC investments<br><br>AAA/Others: Low carbon growth strategy; REDD study; DRR for Aceh; Aceh Government Transformation Program (AGTP) |

| Indonesia's Longer-term Objectives | Issues and Obstacles | Development Outcomes End-FY12 | Intermediate Indicative Development Milestones | WBG Modes of Engagement |
|---|---|---|---|---|
| CORE ENGAGEMENT AREA 5: ENVIRONMENTAL SUSTAINABILITY AND DISASTER MITIGATION (*continued*) | | | | |
| Strengthen the capacity of the country to adapt to climate change and address environmental challenges to ensure sustainability | Competition among national counterparts to lead climate change program: unclear mandates and partners; entrenched fuel and electricity subsidies reduce incentives for energy efficiency and renewables; continued governance problems that contribute to deforestation; conflicting and decentralized land use authority hampers ability to manage forest and peatlands | 2. Policies and pilots to reduce emissions from deforestation and degradation being implemented effectively. Baseline: Land-based carbon emissions of 2,563 million tons CO2 equivalent (2005). Target: 2,307 million tons CO2 equivalent. Data source: Data from the Ministries of Environment, Forestry, and National Climate Change Council | • Ministerial decree and guidelines for REDD program (2008)<br>• REDD "readiness" achieved (2009) | Ongoing Financing: Coral Reef Rehabilitation (GEF); Ozone Depletion (OTF); Water Resources TF (Netherlands)<br><br>Planned Financing: DPL5; CC DPL; Forest Carbon Partnership Facility; Forest Investment Fund; Climate Change TFs; IFC investments<br><br>AAA/Others: Low carbon growth strategy; REDD study; DRR for Aceh; Aceh Government Transformation Program (AGTP) |
| Enhance capabilities to improve disaster risk preparedness, mitigation measures, and post-disaster recovery and reconstruction responsiveness to strengthen sustainability | Possible 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 | 3. Strengthened disaster risk reduction (DRR) in development planning and administration. Baseline: Existing level of funding for DRR. Target: 20% increase by 2010. Data source: National budget. | • National Action Plan for Disaster Risk Reduction issued by Bappenas (2010)<br>• Disaster Management Agency operational (2009)<br>• Local disaster management plans prepared (2011)<br>• Emergency operations centers designed and functional (continuous) | |
| | | 4. Strengthen the institutional arrangement and enabling environment to facilitate participatory implementation of disaster risk reduction. Baseline: Current situation is weak and fragmented DRR capacity and policies/ regulations. Target: Improve capacity and operating framework for DRR in target districts/ provinces by 2012.Data source: Provincial governments. | Disaster risk reduction policies, legislation and regulations prepared and implemented in selected provinces (2011) | |
| | | 5. Public awareness program implemented to promote a culture of safety. Baseline: Currently no systematic quality public awareness program. Target: Increased public awareness by 2012. Data source: Provincial governments. | • Five-year strategic development plans are developed and implemented by provincial government (2011).<br>• Public awareness programs developed and implemented (2011) | |

Appendix 3.

# Indonesia: Progress Toward the MDGs

Performance with regard to the MDGs has been mixed. Of the eight Millennium Development Goals (MDGs) listed in the table below, the majority are on track. In 2006, the percentage of people living on less than US$1 a day was substantially below the MDG target of 10.3 percent. There have been notable improvements in educational attainment at the primary school level. Also, net primary enrollment remains high, including when assessing the gender balance. Under-five child mortality is falling steadily. Access to improved water facilities has increased dramatically, although it still tends to be low for the poor. Other indicators are less positive, however. Reductions in malnutrition have stagnated since 2002, undermining the progress made in the other indicator in the poverty alleviation goal, and maternal mortality fell by only 20 percent between 1993 and 2005, probably insufficient to meet the MDG target by 2015. Finally, despite recent progress, access to improved sanitation also remains significantly short of the MDG target for the environment goal.

## Indonesia's progress towards achieving its MDGs

| Goal | Targets | 2015 Target | Value | As of | On track |
|---|---|---|---|---|---|
| 1. Eradicate extreme poverty and hunger | Halve the proportion of people living under US$1 per day (indicator: proportion of people living under US$1 a day) | 10.3 | 8.5 | 2006 | Yes |
| | Halve the proportion of people suffering from hunger (indicator: prevalence of malnutrition) | 19 | 25.8 | 2005 | No |
| 2. Achieve universal primary education | Ensure that all children can complete a full course of primary education (indicator: net enrollment in primary school) | 100 | 93.2 | 2005 | Yes |
| 3. Promote gender equality and empower women | Eliminate gender disparities in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015 (indicator: net enrollment girls in primary school) | 100 | 99.7 | 2005 | Yes |
| 4. Reduce child mortality | Reduce by 2/3 the under-5 child mortality rate (indicator: no of U5M per 1,000 live births) | 33 | 46.0 | 2005 | Yes |
| 5. Improve maternal health | Reduce by 3/4 the maternal mortality ratio (indicator: MMR per 100,000 live births) | 105 | 307 | 2005 | No |
| 6. Combat HIV, malaria and other diseases | Have halted, by 2015, and begun to reverse the spread of HIV/AIDS and other major diseases (indicator: HIV/AIDS prevalence) | Insufficient information | | | |
| | Have halted, by 2015, and begun to reverse the incidence of TB (indicator: TB prevalence per 100,000) | Not available | 262 | 2005 | Yes |
| 7. Ensure environmental sustainability | Halve, by 2015, the proportion of people without sustainable access to safe drinking water (indicator: proportion of people with access to safe water) | 86 | 77 | 2004 | Yes |
| | Halve, by 2015, the proportion of people without sustainable access to basic sanitation (indicator: proportion of people with access to basic sanitation) | 73 | 55 | 2004 | No |
| | By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers | Insufficient information | | | |
| | Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources | Insufficient information | | | |
| 8. Develop a global partnership for development | In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. (indicator: youth unemployment rate) | Not available | 30.6 | 2005 | No |

Appendix 4.

# Indonesia: Poverty and Inequality in Indonesia: Summary of Recent Poverty Assessments

Indonesia stands at the threshold of a new era. After the historic economic, political, and social upheavals at the end of the 1990s, Indonesia has started to regain its footing, becoming one of the world's emergent economically viable countries. Poverty levels that had increased by over one-third during the crisis are now at pre-crisis levels.

Nevertheless, the challenge of reducing poverty in Indonesia remains one of the country's most pressing issues. The number of people living below US$2/day comes close to equaling all those living on or below US$2/day in all of the rest of East Asia besides China. Recently, there was an unforeseen upturn in the poverty rate. This reversal appears to have been caused primarily by a sharp increase in the price of rice between February 2005 and March 2006 which largely accounted for the increase in the poverty headcount rate to 17.75 percent. One positive recent development, however, is that poverty fell to pre-tsunami levels in Aceh (see Box 1).

Indonesia has a golden opportunity to reduce poverty rapidly. First, given the nature of poverty in Indonesia, focusing attention on a few priority areas could deliver some quick wins in the fight against poverty and low human development outcomes. Second, as an oil and gas producing country, Indonesia stands to benefit in the next few years from increased fiscal resources thanks to higher oil prices and reductions in fuel subsidies. Third, Indonesia can harness still further benefits from its ongoing processes of democratization and decentralization.

Poverty in Indonesia has three salient features: (i) Many households are clustered around the national income poverty line of about PPP US$1.55-a-day, making even many of the non-poor vulnerable to poverty; (ii) The income poverty measure does not capture the true extent of poverty in Indonesia; many of those who may not be income poor could be classified as poor on the basis of their lack of access to basic services and poor human development outcomes; and (iii) Given the vast size of and varying conditions in the Indonesian archipelago, regional disparities are a fundamental feature of poverty in the country.

An analysis of poverty, its determinants, and Indonesia's history in reducing poverty points to three ways to fight poverty. The three means for helping people lift themselves out of poverty are economic growth, social services, and public expenditures. Each of these prongs addresses one or more of the defining features of poverty in Indonesia: vulnerability, multidimensionality, and regional disparities. In other words, an effective poverty strategy for Indonesia has three components:

- Making Economic Growth Work for the Poor. Economic growth has and will continue to be, fundamental to reducing poverty. Making growth work for the poor is simultaneously key to linking the poor throughout various parts of the Indonesian archipelago to the growth process whether it is across the rural-urban space or across the various regional and island groupings. So it is fundamental to addressing the issue of regional disparities. To address the vulnerability characteristic of poverty associated with the dense concentration of income distribution in Indonesia, anything that can shift this distribution to the right will rapidly reduce the incidence of and vulnerability to income poverty.
- Making Social Services Work for the Poor. The delivery of social services to the poor, whether by the public or private sector, is essential to addressing poverty in Indonesia. First, this is key in addressing the non-income dimensions of poverty. Lagging human development indicators, such as the high maternal mortality rate, must be tackled by improving the quality of services that are made available to the poor. This goes beyond levels of public spending: it is about improving systems of accountability, service delivery mechanisms, and even government processes. Second, the nature of regional disparities transcends income disparity and is largely reflected in disparities in access to services which, in turn, result in disparities in access to services which, in turn, result in disparities in human development outcomes across regions. Thus, making services work for the poor is key to addressing the problem of regional disparities in poverty.
- Making Public Expenditure Work for the Poor. Besides economic growth and social services, the Government, by targeting public spending to the poor, can assist them in countering income and non-income poverty. Public spending can be used for helping those who are vulnerable to income poverty through a modern system of social protection that augments their own efforts to deal with economic uncertainty. Also, public spending can be used to improve human development outcomes- hence,

tackling the non-income multidimensional aspects of poverty. Making expenditures work for the poor is particularly pertinent now given the increased fiscal space that exists in today's Indonesia.

Three transformations are taking place in Indonesia, each of which can be more or less pro-poor. Policy measures that can make these changes rapidly reduce poverty include:

- As it grows, Indonesia's economy is being transformed from one with agriculture as its mainstay to one that will rely more on services and industry. The priority for making this growth work for the poor is a friendlier rural investment climate, principally through better rural roads.
- As democracy takes hold, the Government is being transformed from one where social services were delivered centrally to one that will rely more on local governments. The priority for making services work for the poor is stronger capacity of local governments and better incentives for service providers.
- As Indonesia integrates internationally, its systems of social protection is being modernized so that Indonesia is both socially equitable and economically competitive. The priority for making public expenditure work for the poor is to shift from intervening in markets for commodities that the poor consume (such as fuel and rice) to providing targeted income support to poor households, and using the fiscal space to improve critical services such as education, health, safe water, and sanitation.

Box. Poverty in Aceh

The 2004 Indian Ocean earthquake and tsunami caused devastating damage and loss in Aceh, both in economic and human terms. Poverty in Aceh increased slightly in the aftermath of the tsunami, from 28.4 percent in 2004 to 32.6 percent in 2005. This occurred against falling poverty levels in the rest of the country. In 2006, poverty fell to 26.5 percent below the pre-tsunami levels suggesting that the rise in tsunami-related poverty was short lived and reconstruction activities most probably facilitated this decline.

Nevertheless, poverty remains significantly higher than the rest of Indonesia. Aceh has experienced very low or negative growth for most of the past three decades, lagging behind Indonesia and North Sumatra for most years. Poverty in Aceh is predominantly a rural phenomenon, with over 30 percent of rural households living below the poverty line. There appear to be two overlapping but distinctly vulnerable groups: the structurally poor, i.e. those that were poor before the tsunami; and the "shocked" who suffered loss of private goods and assets due to the tsunami.

Priorities for alleviating poverty in Aceh include:

- Longer-term development efforts should focus on the poorest areas of Aceh, in particular those in the rural interior and more remote areas.
- Any poverty alleviation strategy should focus on increasing the productivity of the agricultural and fisheries sectors.
- In order to avoid any renewal of the conflict, which has been closely linked to natural-resource wealth, the Government of Aceh can: (i) diversify the economy away from natural resources; (ii) increase the transparency of the distribution and use of revenues; and, (iii) ensure the rule of law.
- The Government of Aceh should invest in a strong civil service that ensures an efficient allocation of resources, as well as the provision of quality public services.
- The Government of Aceh should scrutinize spending patterns, such as the increased spending on government administration and the civil service wage bill.
- The Government of Aceh should continue its high levels of investment in education, increasing the efficiency of spending.
- Better planning is necessary to match identified needs and allocation of resources in key sectors.

Appendix 5.

# Indonesia: Doing Business 2008

| INDONESIA<br>East Asia & Pacific<br>Lower middle income | |
|---|---|
| Ease of doing business (rank) | 123 |
| GNI per capita (US$) | 1,420 |
| Population (m) | 223.0 |

| | | | |
|---|---|---|---|
| Starting a business (rank) | 168 | Protecting investors (rank) | 51 |
| Procedures (number) | 12 | Extent of disclosure index (0–10) | 9 |
| Time (days) | 105 | Extent of director liability index (0–10) | 5 |
| Cost (% of income per capita) | 80.0 | Ease of shareholder suits index (0–10) | 3 |
| Minimum capital (% of income per capita) | 38.4 | Strength of investor protection index (0–10) | 5.7 |
| Dealing with licenses (rank) | 99 | Paying taxes (rank) | 110 |
| Procedures (number) | 19 | Payments (number per year) | 51 |
| Time (days) | 196 | Time (hours per year) | 266 |
| Cost (% of income per capita) | 286.8 | Total tax rate (% of profit) | 37.3 |
| Employing workers (rank) | 153 | Trading across borders (rank) | 41 |
| Difficulty of hiring index (0–100) | 72 | Documents to export (number) | 5 |
| Rigidity of hours index (0–100) | 0 | Time to export (days) | 21 |
| Difficulty of firing index (0–100) | 60 | Cost to export (US$ per container) | 667 |
| Rigidity of employment index (0–100) | 44 | Documents to import (number) | 6 |
| Nonwage labor cost (% of salary) | 10 | Time to import (days) | 27 |
| Firing cost (weeks of salary) | 108 | Cost to import (US$ per container) | 623 |
| Registering property (rank) | 121 | Enforcing contracts (rank) | 141 |
| Procedures (number) | 7 | Procedures (number) | 39 |
| Time (days) | 42 | Time (days) | 570 |
| Cost (% of property value) | 10.5 | Cost (% of claim) | 122.7 |
| Getting credit (rank) | 68 | Closing a business (rank) | 136 |
| Strength of legal rights index (0–10) | 5 | Time (years) | 5.5 |
| Depth of credit information index (0–6) | 3 | Cost (% of estate) | 18 |
| Public registry coverage (% of adults) | 20.5 | Recovery rate (cents on the dollar) | 12.6 |
| Private bureau coverage (% of adults) | 0.2 | | |

Appendix 6.

# Indonesia: Toward Enhanced Environmental Sustainability and Disaster Risk Management

Environmental Sustainability and Disaster Management have been identified as the two themes/areas that would be key to strengthening GoI's efforts towards sustainable development over the next years. To date in Indonesia, the World Bank has only had a limited engagement with these two areas, particularly with respect to Climate Change, and plans to step up its presence over the next three years to respond to GoI's request for support, enhance the Government's relevant strategy and use EAP's comparative advantages.

## Environmental Sustainability

Nature and extent. Climate change is receiving more attention in Indonesia now than ever before. Political leaders are adjusting to the realization that the country is the world's third largest emitter of greenhouse gases. Local and national stakeholders are energized by the possibility of avoiding deforestation with support from international payments. Society is contemplating the risks and options for how a vulnerable country can adapt to the effects of climate change. And Indonesia is increasingly in the international spotlight as host of this year's COP 13 (Bali, December 3-14, 2007).

Development impacts (health and livelihoods). While Indonesia is likely to experience modest temperature increases, climate change will result in more intense rainfall and sea-level rise. Potential development impacts include: (a) increased threats to food security; (b) declining agricultural productivity; (c) inundation of productive coastal zones and communities; (d) loss of farming and coastal livelihoods; (e) consequences for water storage (water reservoirs, electricity generation, drinking water supply); (f) intensification of water- and vector-borne diseases; and (g) deterioration of coral ecosystems.

Root causes. Indonesia's high level of greenhouse gas emissions is being driven by deforestation, forest fires and degradation of land, especially peat swamps. Underlying these emissions are good forestry policies and legislation, but weak implementation and enforcement. Also, initiatives such as expansion of biofuel production and revitalization of forest industries may exacerbate emissions if they are not carefully planned. Emissions from the energy sector are relatively small but rapidly growing also following GOI's pursuit of a coal-fired power expansion program and barriers to the development of renewable energy sources. Finally, there has been relatively little planning or investment in mitigation.

Government strategy. Various government strategies are relevant to this theme including: (a) the National Action Plan Addressing Climate Change that was launched by the Ministry of Environment at the Bali COP13 in December 2007; (b) an interministerial strategy to reduce emissions from deforestation and degradation that was also proposed at Bali; (c) the national energy strategy; and (d) the Ministry of Finance's intention to develop a low carbon growth strategy.

Bank and other key donor assistance. The international community is seeking ways to respond to this growing commitment to address the causes and consequences of climate change. Financing for CDM projects has been actively promoted by Austria, Canada, Denmark, Japan, The Netherlands, and the World Bank, since Indonesia ratified the Kyoto Protocol, but with limited results. More recently, the possibility of reducing greenhouse gas emissions through avoided deforestation has captured the imagination of the Ministries of Environment and Forestry. In response, Australia has announced an A$200 million Global Initiative on Forests and Climate with a geographic focus on Indonesia. The World Bank and donor partners are developing a Forest Carbon Partnership Facility that would have an initial capitalization of US$300 million dollars and likely include Indonesia as a pilot partner.

Strategic gaps in government strategy and/or donor response. Until the second quarter of 2007, climate change was primarily the responsibility of the Ministry of Environment and the main focus was on CDM projects. Since then, the issue has garnered the attention of the President and key ministries such as Economic Coordination, Finance, Forestry and Trade, and ensuing donor support. Perhaps the greatest remaining gap is that government policy in the energy sector has yet to incorporate or align itself with the climate change agenda.

Proposed World Bank initiative(s) and rationale. The World Bank is one of several actors that have been active in climate change issues over the past five years. This has included: (a) implementing activities with the GEF climate change mitigation program; (b) raising awareness about CDM opportunities; and (c) actively developing CDM projects for carbon financing. Given

the context described above, there is now a unique opportunity to increase the Bank's engagement and effectiveness in helping Indonesia to tackle climate change issues. Each of the following strategic pillars builds on one of these comparative advantages with the objective of supporting Indonesia's ability to understand and respond to the key challenges presented by climate change.

- *Pillar 1: Setting the context of the debate*. The Bank should use its convening and analytical powers to help stakeholders in Indonesia understand the issues and options faced by the country in mitigating and adapting to global warming. The two flagships for this pillar are (a) a recently-completed state-of-the-art synthesis of the most recent and reliable information on Indonesia and climate change (emissions, impacts and policies), and (b) a study of options for low-carbon growth that is being planned with the Ministry of Finance for 2008-09. In addition, the Bank will be assessing carbon, energy and climate linkages as part of its work to prepare the Country Environmental Analysis.
- *Pillar 2: Focusing on avoided deforestation and degradation*. As forest and peatland degradation are the overwhelming sources of Indonesia's greenhouse gas emissions, it is sensible to begin the approach in this area. The objective in this area should be to help Indonesia develop and implement its strategy for reducing emissions from deforestation and degradation, both through technical assistance and financing of pilot projects. Beyond avoided deforestation, other aspects of climate change should be addressed through: (i) Continuing to increase the CDM portfolio for carbon financing; ii) Using the energy and transport programs to promote clean fuels and technologies; and (iii) Addressing longer-term issues of adaptation through the Bank's infrastructure projects, development policy lending (including the possibility of a stand-alone climate change DPL in partnership with Japan and the ADB) and disaster management support.
- *Pillar 3: Mobilizing resources and support*. As a multilateral development bank, WBG has unparalleled access to human, financial and technical resources, including international good practice. The WBG should bring this comparative advantage to help advance work on climate change in Indonesia, e.g., by "climate-proofing" the Bank's investment portfolio. The Bank has already mobilized nearly US$2 million in technical assistance for: (a) preparing the REDD methodology, strategies and pilot portfolios (with the Ministry of Forestry, DfID and Australia); (b) initiating the low carbon growth strategy (with the Ministry of Finance); and (c) enhancing the national adaptation strategy (with KLH and UNDP). During 2007, the Bank has been in discussion with the international community, through the Environment/NRM coordination group in Jakarta, about the establishment of a multi-donor initiative/fund on natural resources; growing donor interest by Australia, Germany, the UK and others around climate change issues in Indonesia provides an incredible opportunity to move this initiative forward. Once established, this Fund can serve not only as a financing mechanism but also a forum for donor coordination as well as policy dialogue between the GoI and the international community on issues of climate change and natural resource management.

Impact and monitorable indicators. Monitorable indicators would include:

- Lower CO2 emissions per capita and per US$ of GDP
- Reduction in annual rate of deforestation
- Reduction in total ha/year destroyed by forest fires
- Ha/year of restored or protected peatlands
- Lower CO2 emissions per GWh of electricity produced
- Increase in percentage of energy supplied by renewable sources
- Percentage of Bank projects that have incorporated adaptation measures

## Disaster Management

Nature and extent. Due to its geographic positioning, composition and demography, Indonesia and its population are highly vulnerable to disasters. Between 2003-2005 alone, the national disaster agency (Bakornas) counted 1,430 disasters, including flooding and windstorms (accounting for 70 percent of all disasters), landslides and geological disasters (earthquakes, tsunamis and volcanic eruptions). In addition, the country is prone to drought, forest fires, epidemics and anthropogenic (technological) disasters.

Development impacts (health and livelihoods). Major events such as the 2004 Aceh tsunami and the 2006 Yogyakarta earthquake result in the loss of thousands of lives and billions of dollars. Nearly 170,000 people died in the tsunami with US$4.5 billion in damages and losses; over 5700 people perished in the earthquake and economic costs were estimated at US$3.1 billion. The local development impact of these extreme events is enormous, requiring major reconstruction of housing, infrastructure and the economy. Equally important but less well-known are the dozens of smaller monthly disasters that result in deaths, injuries and economic hardship.

Root causes. Natural disasters are caused by largely uncontrollable forces such as the movement of tectonic plates or the eruption of magma through the earth's crust. However, exposure and vulnerability to disaster risk are more controllable. Exposure to risk is increased

with poor spatial planning and natural resource management. Vulnerability to risk is greater when there is low public awareness, inadequate infrastructure, poor enforcement of standards such as building codes, etc. Greater exposure and vulnerability to risk factors increases the loss of life and property from disasters.

Government strategy. In 2006, Indonesia issued a national action plan for disaster risk reduction (DRR) that seeks to: (a) ensure that DRR is a national and local priority; (b) identify, assess and monitor disaster risks and enhance early warning; (c) use knowledge, innovation and education to build a culture of safety and resilience; (d) reduce underlying risk factors, and (e) strengthen disaster preparedness for effective response. In March 2007, the national parliament approved the Disaster Management Law that codifies this plan, sets out responsibilities for DRR as well as disaster response at the local and national levels and modernizes institutional arrangements for disaster management.

Bank and other key donor assistance. Donor assistance for disaster response in Indonesia has been significant, especially for major events. Post-tsunami resources from bi- and multilateral donors as well as international and local NGOs amounted to over US$5 billion. Support for DRR has been much less significant, with technical assistance and pilot initiatives being provided by UNDP, DfID, Germany, Japan, the U.S., Red Cross agencies, and NGOs.

Strategic gaps in government strategy and/or donor response. The Indonesia Country Assistance Strategy Progress Report (September 2006) identified "Disaster Risk Management" as a fourth pillar for the CAS because: (a) Aceh and Nias will require ongoing heavy engagement, especially in 2007-08; (b) lessons from the post-tsunami reconstruction are being applied to recovery work in Yogyakarta and Central Java; (c) Indonesia has become the epicenter for Avian and Human Influenza risks; and (d) these events, together with the country's high level of hazard vulnerability and growing importance of adaptation to climate change, reinforce the pressing need for a disaster risk management framework. This will entail efforts to build internal capacity for disaster risk reduction and response as well as strategic support to external partners for reducing and managing disasters.

Proposed EAP initiative(s) and rationale. The internal and external components would be:

- Building internal capacity for disaster risk reduction and response. The Bank has a new policy on Rapid Response to Crises and Emergencies (OP/BP 8.00, January 2007). The last two years have provided the World Bank in Indonesia with intensive experience in responding to a range of emergencies and crises (Aceh and Nias tsunami & earthquake, Yogyakarta/ Central Java earthquake, avian flu, Jakarta floods, etc.). The Bank needs to capitalize on the new policy and existing resources to ensure that the Bank can effectively respond to future disasters and integrate disaster risk reduction as part of the lending and grant portfolio (this could be done in tandem with the integration of adaptation to climate change). Planned Key Outputs: a) creation of virtual disaster management team, drawing on field and headquarters expertise, for knowledge sharing, coordination and rapid response; b) training and raising awareness about OP/BP 8.00 and disaster risk reduction; c) facilitation of disaster risk reduction expertise and resources for task teams that are actively interested in including disaster preparedness and mitigation as part of their ongoing and planned operations;
- Supporting external partners to reduce and manage disasters. The OPCS paper, "Toward a New Framework for Rapid Bank Response to Crises and Emergencies," calls on the Bank to promote a proactive approach to reducing disaster risk in high-risk countries and to work with all development partners to mainstream risk reduction. The Government of Indonesia has recently issued a National Action Plan for Disaster Reduction (2006-2009) and the House of Representatives (DPR) is deliberating on a bill concerning disaster management. UNDP, with support from DfID, is developing a program on "Safer Communities through Disaster Risk Reduction in Development." Thus, there is a mandate and opportunities to support external partners in reducing and managing disasters. Planned Key Outputs: (a) mobilization of resources from the Global Fund for Disaster Reduction and Response (GFDRR); (b) specific support for preparation of the new National Action Plan 2010-2014 (Bappenas), capacity building for disaster management agencies and developing a framework for catastrophic risk insurance (Ministry of Finance); and (c) coordination with development partners, e.g., active participation in the UN Technical Working Group on Disaster Risk Reduction.

Impact and monitorable indicators. Some critical indicators would include:

- Responsiveness and operational utility of the virtual disaster management team
- Incorporation of DRR elements in 50 percent of new lending operations and retrofitting of measures in 25 percent of existing portfolio
- Mobilization of resources (US$1 million ++) of GFDRR and other funds for internal and external activities
- Completion of at least one external partnership on either disaster response or risk reduction (with Bappenas, disaster risk management agencies and/or Ministry of Finance)

Appendix 7.

# Indonesia: Environmental Indicators

| | Indonesia | EAP | LMC |
|---|---|---|---|
| Population, total (millions) | 220.6 | 1884.4 | 2256.8 |
| Urban population (% of total) | 48.1 | 41.5 | 46.5 |
| GDP (current US$) (billions) | 287 | 3056.6 | 4013.6 |
| GNI per capita, Atlas method (current US$) | 1260 | 1633 | 1789 |
| Land area (sq. km) (thousands) | 1812 | 15871 | 27977 |
| Agricultural land (% of land area) | 26.4 | 50.8 | 42.1 |
| Irrigated land (% of cropland) | 12.4 | .. | 26.3 |
| Forest area (% of land area) | 48.8 | 28.4 | 26.5 |
| Annual deforestation (% of change) | .. | .. | .. |
| Nationally protected areas (% of total land area) | 14.3 | 12.1 | 12.8 |
| Mammal species, total known | .. | .. | .. |
| Mammal species, threatened | .. | .. | .. |
| Bird species, total known | 1604 | .. | .. |
| Bird species, threatened | 121 | .. | .. |
| GEF benefits index for biodiversity (0 = no biodiversity potential to 100 = maximum) | 90 | .. | .. |
| GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent) | 3.9 | 3.3 | 3.6 |
| Energy use (kg of oil equivalent per capita) | 814 | 1182 | 1216 |
| Combustible renewables and waste (% of total energy) | 28.5 | 15.5 | 12.8 |
| Energy imports, net (% of energy use) | -46.7 | 0.1 | -14 |
| Electric power consumption (kWh per capita) | 509 | 1492 | 1502 |
| Electricity production from coal sources (% of total) | 40.7 | 70.4 | 56.9 |
| CO2 emissions (kg per 2005 PPP $ of GDP) | 0.6 | 0.9 | 0.8 |
| CO2 emissions (metric tons per capita) | 1.7 | 3.3 | 3.4 |
| PM10, country level (micrograms per cubic meter) | 96 | 73 | 69 |
| Passenger cars (per 1,000 people) | .. | 14 | 21 |
| Renewable internal freshwater resources per capita (cubic meters) | 12867 | 5022 | 5769 |
| Annual freshwater withdrawals, total (% of internal resources) | 3 | .. | .. |
| Annual freshwater withdrawals, agriculture (% of total freshwater withdrawal) | 91 | .. | .. |
| Improved water source (% of population with access) | 77 | 79 | 81 |
| Improved water source, rural (% of rural population with access) | 69 | 70 | 71 |
| Improved water source, urban (% of urban population with access) | 87 | 92 | 93 |
| Improved sanitation facilities (% of population with access) | 55 | 51 | 55 |
| Improved sanitation facilities, rural (% of rural population with access) | 40 | 36 | 39 |
| Improved sanitation facilities, urban (% of urban population with access) | 73 | 72 | 76 |
| Mortality rate, under-5 (per 1,000) | 36 | 31 | 37 |
| Adjusted savings: gross savings (% of GNI) | 27 | 44.5 | 39.4 |
| Adjusted savings: consumption of fixed capital (% of GNI) | 10.1 | 10.1 | 10.2 |
| Adjusted savings: net national savings (% of GNI) | 16.9 | 34.5 | 29.2 |
| Adjusted savings: education expenditure (% of GNI) | 0.9 | 2.1 | 2.5 |
| Adjusted savings: energy depletion (% of GNI) | 11.5 | 6.7 | 10.4 |
| Adjusted savings: mineral depletion (% of GNI) | 2.6 | 0.6 | 0.6 |
| Adjusted savings: net forest depletion (% of GNI) | .. | 0 | 0 |
| Adjusted savings: carbon dioxide damage (% of GNI) | 0.9 | 1.2 | 1.2 |
| Adjusted savings: particulate emission damage (% of GNI) | 1.2 | 1.3 | 1.1 |
| Adjusted net savings, including particulate emission damage (% of GNI) | 1.6 | 26.8 | 18.4 |

*Legend: LMC (lower middle income), EAP (East Asia and the Pacific)*
*Source: World Bank, Little Green Data Book (2008)*

Appendix 8.

# Indonesia: CAS Completion Report

Date of CAS: October 29, 2003
Date of CAS Progress Report: September 5, 2006
Period covered by the CAS Completion report: FY0

Report No. 27108-IND
Report No. 36856-IND

This CAS Completion Report reviews the implementation and effectiveness of the World Bank Group's (WBG) Country Assistance Strategy (CAS) for Indonesia for FY04-08 (Report No. 27108-IND) approved on October 29, 2003. A CAS Progress Report (CASPR) was completed in September 2006 (Report No. 36856-IND). The CASPR made some adjustments to the original CAS with respect to the outcome indicators, extension of the CAS by one year to FY08 from the original completion date of FY07, and addition of a fourth focus area to respond to the emerging needs of the Government.

## Indonesia's Longer-Term Strategic Goals

At the time of CAS preparation, Indonesia was still in the process of transitioning from an autocratic, centralized economy to a democratic, decentralized one. The Government had been successful in restoring macroeconomic stability and reducing poverty to the pre-crisis levels. Despite this, the number of poor in Indonesia was high and many others remained vulnerable to falling under the poverty line as a result of an adverse shock. Progress towards meeting the MDG outcomes was also slow. Delivering basic public services in a decentralized framework was an opportunity, but also posed a challenge. Although Indonesia had begun to address governance and corruption issues, these reforms were marred with slow implementation due to weak institutional capacity.

The short term agenda of the Indonesian government was framed by its decision not to renew the IMF program after its completion in December 2003. Instead, it prepared a comprehensive economic package of time-bound policy actions to be implemented in the short term (18 months). The economic package - or the 'white paper' - covered the core areas of macroeconomic management, financial sector reform, and policies to restore investment and growth. It was comprehensive, but ambitious, especially to be implemented during an election year.

The Government's medium term framework for poverty reduction was laid out in the RPJM (medium term plan), representing the country's development vision for 2004-09 and in the Interim Poverty Reduction Strategy Paper (I-PRSP). The three national development goals for 2004–2009 were outlined in the RPJM as realizing a safe and peaceful Indonesia, a just and democratic Indonesia, and a prosperous Indonesia.

## CAS Objectives

The CAS was designed to support the Government's short-term and medium-term agendas. It identified two primary constraints towards meeting these goals: (i) a weak investment climate, and (ii) lack of quality service delivery to poor people. Progress in these areas was further hindered by the underlying problem of weak governance. The Bank's strategy was to support Indonesia in its efforts to strengthen the investment climate and improve basic service delivery while addressing the core issue of governance. The Bank faced additional challenges in responding to the unprecedented series of natural disasters (the Aceh earthquake and tsunami of December 2004, Nias earthquake of March 2005, Jogyakarta earthquake in May 2006) and the increasing concern over the spread of Avian Human Influenza (AHI). Thus, a fourth focus area on enhanced disaster risk management was included in the CASPR. These four became the main pillars of the CAS.

*Pillar 1: Addressing the Underlying Issue of Governance*[11]: "KKN" (corruption, collusion and nepotism) was noted as the key constraining factor in achieving the country's development goals. As a result, this 'Governance CAS' mainstreamed governance activities throughout the Indonesia program. Addressing the core issue of governance was focused around making development planning more responsive to constituents, establishment of a well-regulated and transparent system of public financial management at all levels of government, effective implementation of decentralization, and putting in place a credible and impartial justice sector, and focused attention to safeguarding Bank-supported activities and associated resources.

[11] In the original CAS, governance was included as a third pillar. Given its overarching nature and cross-sectoral nature, it was re-formulated as the first pillar in the CASPR. The CAS Completion Matrix (Attachment A) however, retains it as the third pillar.

*Pillar 2: Improving the Climate for High Quality Investment*: To improve the investment climate, the World Bank Group's (WBG) assistance was focused in five areas: maintaining macroeconomic stability, fostering a stronger and diversified financial sector with more equitable access, supporting the environment for a competitive private sector, refurbishing infrastructure, and creating sustainable income generating opportunities for poorer households.

*Pillar 3: Making Service Delivery Responsive to the Poor*: The Bank's efforts were directed towards accelerating the attainment of key MDGs in education and health and improving education and health outcomes for the poor.

*Pillar 4: Disaster Risk Management*: Rebuilding Aceh and Nias, responding to the Jogyakarta and Central Java earthquakes, and strengthening government effectiveness to curb the spread of AHI formed the key support areas of the disaster risk management pillar.

## CAS Outcomes

Although the implementation of the CAS has largely been on track, the effectiveness of delivered activities as measured by the outcome indicators has varied. The country performance and the results of the Bank's program have been mixed with good progress and strong Bank support for economic management, education, community development and post-disaster reconstruction, and less effective results in the health and infrastructure (including water and sanitation) sectors and at the local government level.

The 2007 CAE recognized that the "Bank-supported programs have made important contributions in supporting the restoration of macroeconomic stability, and in helping Indonesia to return to the pre-crisis income levels and to reduce poverty after the sharp increase experienced during the crisis"[12]. The review found that measured against the Bank's objectives, the Government's success in achieving macroeconomic stability, the careful fiscal management, and the progress made in the legislative and institutional frameworks in many areas all represented important achievements. The report noted, however, that the transition has not yet put in place the fundamentals required to move to the next level in terms of growth, poverty reduction, and social progress. In particular, the report found that improvements are needed in the investment climate.

As always, measuring the direct link between the Bank's specific contributions and a specific country outcome is difficult because the WBG plays a small role in Indonesia's development aid framework and some country outcomes are slow to materialize.

## Pillar 1: Addressing the Underlying Issue of Governance

### Country Progress

Combating corruption is the top priority of the current administration and credible efforts were made by the Government to deepen the institutional and regulatory framework for addressing corruption issues including money laundering activities, freedom of information, and whistleblower protection. Several new independent institutions have been created in the last several years such as the Anti-Corruption Commission, Judicial Commission, Financial Crimes Task Force, Commercial Court, Ombudsman, Election Commission, and the Special Investigative Team for Corruption Crimes. These institutions are functioning, though with various degrees of effectiveness. Successful prosecutions have been made against former ministers, business leaders, sitting governors, judges and legislators. Hundreds of corruption investigations into high level officials have been approved by the President. The special crimes case load of the Attorney General has increased by nearly six times in the past five years. These are key outcomes related to Indonesia's fight against corruption. The improvement in Indonesia's governance indicators as reflected in 'Governance Matters VI' suggests that these processes are having considerable impact[13]. Laws and regulations have been passed on asset declarations of state officials, anti-money laundering, criminalization of corruption offences, state finances, treasury, procurement, state audit, and accounting standards. More recently, Indonesia has joined the World Bank and UNODC (United Nations Office of Drugs and Crime)-supported StAR (Stolen Asset Recovery) initiative. Though it is too early to declare victory on the governance agenda, there are already clear indicators of progress. However, progress in judicial and legal reforms has been disappointing.

Civil service reforms were also launched with a delay starting with the full-scale reorganization at the Ministry of Finance (MoF) to deal with budget formulation and execution, tax and customs regulations, etc., that are often the very foundation of opportunities to engage in corruption. In 2006, the Government continued its program of extending modern tax offices with a major expansion to medium-sized tax offices and through the beginning of a reorganization of the central tax office to support the longer-term tax reform agenda.



[12] Indonesia: Country Assistance Evaluation, IEG, June 2007, pp v.

[13] Kaufmann D., A. Kraay, and M. Mastruzzi, 2007: Governance Matters VI: Governance Indicators for 1996-2006.

The implementation of Indonesia's 'big-bang' decentralization of 2001, which has led to the creation of some 440 local governments, remains complex and continues to pose multiple challenges with effective execution of the administrative and fiscal responsibilities now vested in these local authorities. On-granting and on-lending decrees that were approved in the early days were amended, but continued to pose constraints for provision of sub-national resources by development partners, including the World Bank, during the CAS period. The roles and responsibilities at each level of government are still not fully clarified, leading to slow implementation of programs and inefficient service delivery at the local level.

### Bank Contribution

Most importantly, over the CAS period, the WBG regained some of the credibility it had lost during the Soeharto years and was successful in reestablishing and strengthening partnerships with several key reform-minded stakeholders. It was envisaged during CAS preparation that the entire lending and non-lending program will be designed to strengthen accountability and transparency through two approaches: (i) greater public participation in policy making and policy monitoring processes across different levels of government, and (ii) enhancing the capacity of institutions responsible for implementing governance reforms. The earlier CAS had built a good foundation on which to expand the governance agenda (e.g., field-based governance advisor, and the establishment of an in-house anti-corruption committee). In particular, the Indonesia team greatly ramped up the focus on safeguarding Bank supported activities against fraud and corruption issues, inter alia by including mandatory Governance and Anticorruption Actions Plans (GAAPs) as part of the Project Appraisal Document for projects approved over the CAS period. However, the implementation experience and monitoring of GAAPs have been mixed across the portfolio.

Bank advice for transparent and accountable public financial management (PFM) led to new legislation and regulations on State Finances, State Treasury, and State Audit. Through the Government Financial Management and Revenue Administration Project (GFMRAP), this enabled the reorganization of the MoF, strengthening accountability, eliminating overlap and duplication of functions, and allowing the MoF to focus more effectively on its core functions.

The Bank is playing a leading role in supporting decentralization through the management and administration of a multi-donor Decentralization Support Facility (DSF). IFC Advisory Services improved the investment climate by working with district governments on licensing and other regulatory reforms. A first generation of local government projects under implementation (ILGRP, USDRP, SPADA) are building capacity for improved local governance, accountability and transparency while maintaining the focus on poverty reduction programs at the decentralized level. As part of ILGRP preparation, local level poverty reduction strategies were formulated in 15 kabupatens after public consultations. The Bank currently fields the largest comprehensive biannual survey of public service delivery and corruption in Indonesia's 440 districts, allowing it to track the impact of decentralization on governance outcomes over time. However, slower-than-expected implementation of the first generation local government projects because of issues related to on-lending and on-granting has delayed achievements of outcomes related to strengthening local governance.

During the CAS period, the Bank had limited interventions in the justice sector. A noteworthy contribution has been at the community level through the Justice for the Poor (non-lending) program. Activities under this program have contributed to strengthening access to judicial services at the local level, focusing particularly on the poor and marginalized sections of the society. The program also looked into different conflict situations proposing different informal dispute resolution processes. At the national level, the Bank has supported the Anti-Corruption Commission (KPK) in its initial difficult phase of existence and together with IMF, built the legal basis for the KPK, helped ensure due process in the selection of the members, and supported the newly established commissions in being operational. This led to an increase in the number of successful investigations and prosecutions including for some high profile cases.

## Pillar 2: Improving the Climate for High Quality Investment

### Country Progress

Most of the time bound actions of the Economic Package were met on time enabling a smooth exit from the IMF program. Three policy packages were issued in 2006 on the investment climate, financial sector reform, and infrastructure. A comprehensive policy package was issued in 2007 outlining 168 specific reform measures to be undertaken by December 2008.

The 2006 CASPR reported that the fundamental weaknesses in the investment climate were being gradually addressed, leading to higher confidence and stronger sovereign credit ratings. In response to improved policies, growth was rising, albeit slowly, and poverty was falling. Although banking sector health showed improvement, the CASPR pointed to a need for greater financial sector diversification.

Good macroeconomic and fiscal management and a favorable external environment have strengthened

Indonesia's economic foundation. Gross Domestic Product (GDP) growth was 5.5 percent in 2006 and 6.3 percent in 2007. Government debt fell from 80 percent of GDP in 2000 to an estimated 35 percent of GDP by 2007, well below the 60 percent target specified in the State Finance Law – a major achievement. A key driver of recent growth has been a recovery in investment with the investment to GDP ratio increasing from 22 percent in 2004 to 25 percent in 2007. Inflation rates (up until the recent fuel and commodity price hikes) had decelerated and the financial markets had become increasingly confident as reflected in the upgrading of Moody's and S&P bond ratings in 2006. As a result of the sharp reduction in fuel subsidies in 2005, as well as declining debt service payments and increasing revenues, Indonesia created additional "fiscal space" of US$15 billion annually. Equivalent to around 4 percent of GDP, this is the largest increase in additional fiscal resources since the oil revenue windfall of the 1970s. However, higher food prices are driving overall inflation which is now 7.4 percent as food inflation is 10.4 percent (February 2008, year-on-year). Higher oil prices create a fiscal drain – fuel and electricity subsidies are likely to be close to or above US$20 billion in 2008, higher in nominal terms than the levels that led to the price adjustment in 2005.

At the height of the financial crisis, nearly 80 percent of the banking system was effectively owned by the Government. A major accomplishment during the post-crisis period was the sale of all the formerly publicly owned banks to largely credible foreign investors. The share of state-owned banks in the overall banking system has gone down by 10 percent since 2003 and now stands at 36 percent. Regulation and supervision of the banking system has improved dramatically. Prudent lending to the private sector (learning from the crisis) and rapidly growing Small and Medium Enterprise (SME) and consumer lending are now the strengths of the system. In the private sector, all major obstacles faced by businesses have declined consistently since 2003, including the reduction in business start-up time from 168 days in 2003 to 105 days in 2007. Percentage of businesses identifying tax administration as a moderate, severe and very severe problem decreased from 57 percent to 38 percent, while those identifying customs and trade regulations as a moderate, severe and very severe problem decreased from 51 percent to 32 percent during the same time. Indonesia has also improved its ranking in the Doing Business indicator, moving up from 135 out of 175 surveyed in 2007 to 123 out of 178 in 2008. However, rigid labor laws continue to discourage new hirings in the formal sector.

Improvements in the environment for infrastructure investment have been mixed with low private sector involvement. A national committee on Policy for Accelerating Infrastructure Provision (KKPPI) was established in 2005 and a Risk Management Unit was established in MoF. Two infrastructure summits were organized by the Government and attracted good participation from the private sector. However, lack of bankable projects has limited actual follow through via PPP tenders. Although there has been some private sector participation in the power sector, annulment of the Electricity Law in 2002 posed a policy issue with considerable price distortions affecting the energy sector/energy utility's ability to operate effectively. Institutional and regulatory improvements in the water and sanitation sector have been the least successful; the lack of progress within the Government on issues around arrears of PDAMs (public water utilities) has impeded provision of lending support by the Bank and other development partners to these entities.

## Bank Contribution

One year into CAS implementation, Indonesia was successful in meeting the CAS high case triggers. As a result, budget support through a series of DPLs was resumed in 2004 and four DPLs have fully disbursed for US$1.9 billion. The Bank's first DPL was linked to the Government's short-term agenda as outlined in the Economic Package and contributed to the smooth exit from the IMF program, thus helping to boost confidence. Together, the DPLs have contributed significantly to the Government's policy reforms in the areas of macroeconomic stability, investment climate, service delivery, public financial management, and anti-corruption.

IFC's program of investment went through three distinct phases before, during and after the crisis and were strongly impacted by the governance environment. IFC's investment commitments averaged about US$109 million per year before the crisis, focused mainly on manufacturing opportunities not linked to the Government. During the crisis years (FY98-00), IFC focused on restructuring its problem investments and/or protecting its investments from contentious sponsors or other creditors who were not interested in following the principle of fair burden sharing among financiers of companies in financial distress. It was a challenge for investors, including IFC, to enforce legal rights in the aftermath of the crisis due to the weak judicial system. IFC's new investment operations during the crisis years were limited to supporting existing client companies with support to complete ongoing projects whose original financing plan could not be followed because the banking system had collapsed during this period. During the crisis years, IFC's investment operations averaged only one project per year with an average financing commitment of US$16.9 million. During the post-crisis years, IFC's investment operations have recovered to pre-crisis levels, and have recently expanded in line with improvements in the governance environment and investment climate reforms. IFC averaged four projects, with US$103.3 million of commitments per year, which gradually

increased through FY07 when IFC committed US$278 million in seven projects – two in agribusiness, three in the financial sector, one in general manufacturing and services, and one in education.

During the CAS period, the focus of Bank's financial sector program became more selective with non-bank issues moving to the center stage in an effort to improve the investment climate. The Bank's support related to pensions, debt markets, and capital market infrastructure has been instrumental in encouraging Bank Indonesia to be serious about meeting international standards. IFC has also increased its engagement in the financial sector. IFC approved three long-term Indonesian Rupiah loans to commercial banks in Indonesia totaling US$305 million. These loans were directed to SMEs in Indonesia. IFC is also supporting the bank consolidation process. The number of commercial banks remains over 130, which the authorities hope to reduce to about 70 through raising capital requirements. IFC has engaged with a few of them to facilitate and participate in their consolidation. IFC's Advisory Program has built the capacity of rural banks and micro finance institutions, which is now being complemented by investments. IFC has worked with six women's cooperatives, 153 farmers' groups, and rural banks in Bali and Eastern Java. IFC is contributing to the creation of the first wholesale microfinance institution.

Private sector development has also been a focus for the Bank Group. The Government passed three reform packages on investment climate policy issues alone in which WBG inputs were incorporated. IFC Advisory Services began work in Indonesia in 2003 and it has collaborated with IBRD and FIAS on Investment Law reform. Achievements include an average two-thirds reduction in the time and cost of business licensing at select sub-national districts saving businesses an estimated US$10 million annually; promulgation of a national guideline supporting the development of effective licensing offices; and, the implementation with the province of Aceh of a new model for investment promotion. MIGA continues to use its online services to assist Indonesia to attract foreign direct investment by profiling potential investment opportunities in the country. Along with the dialogue undertaken as part of Doing Business indicators survey and the preparation of bi-annual investment climate surveys, the WBG has been able to elevate the agenda on investment climate right up to the Presidential level.

Slower progress has been made in refurbishing infrastructure, which remains a key impediment to improving the investment climate and delivering basic social services. A first Infrastructure DPL in the amount of US$200 million was approved by the Bank's Board in December 2007, which together with a Public Private Infrastructure TA project (PPITA), seeks to help achieve breakthrough on the large unfinished agenda relating to infrastructure and PPP policy reforms. A set of roads, gas and energy, and irrigation projects are being implemented, but implementation progress has been slow. Thus, while the WBG has become a strong partner with the Government with regards to infrastructure, and its expertise is being heavily relied upon, the pace of large-scale infrastructure investment interventions needs to be accelerated. The IFC Board approved a US$50 million loan to PGN (gas transmission, distribution and wholesaling). This was a first joint IFC-Bank team sub-national fund transaction in Indonesia, and the first globally with a utility company majority-owned by a national government. The WBG also supported the two infrastructure summits organized in Jakarta in 2005 and 2006, but they failed to attract a good number of PPP projects.

The WBG's support for increasing sustainable income creating opportunities for the poor was led by its coastal zone management program - the largest Bank-financed coral reef management program (COREMAP) in the world. It includes 416 island communities, covering 2.6 million ha or 25 percent of coral reefs in the region, and has contributed to improved awareness and practices in the coastal communities. Under the Farmer Empowerment and Technology Improvement (FEATI) project, outcomes have been impacted by preparation and startup delays in the project. IFC's Advisory Services have contributed to visible results in a number of sectors, including increases in seaweed farmers' incomes, maize farmers getting access to finance (many for the first time), and small Indonesian businesses selling sustainably harvested wood as furniture into developed markets.

## Pillar 3: Making Service Delivery Responsive to the Poor

### Country Progress

Progress towards achieving the MDGs in the education sector has been stronger than that in the health sector as noted in the 2006 CASPR. With decentralization, regional governments have become the dominant players in service delivery and are now spending almost the same amount as the central government. However, the 2007 Public Expenditure Review highlighted the inefficient resource allocation in the health sector. Coupled with weaknesses in capacity and governance challenges, public health service delivery remains poor, and is burdened by quality and access issues. Net enrollment rates at primary school have increased and a Teacher Law to improve teacher quality and deployment has been approved. In the health sector, utilization of health services has gone up, and so has the percentage of births attended by trained health workers. However, translation of this into lower maternal mortality rates has been slow.

Although operational water supply systems have been established in about 1,206 villages covering some 3 million villagers, the progress in improving sanitation services has been inadequate. The recent (2006) Bank-financed household survey covering nearly 13,000 households in 32 districts across 29 provinces revealed that 70 percent of Indonesians surveyed responded that health services have improved since 2001; more than 72 percent cited improvements in education services; and more than 55 percent cited improvements in administrative services. Poverty rate has declined to 16.6 percent as of September 2007 following a peak of over 23 percent in 1999 as a result of the financial crisis (17.4 percent in 2003). Recently, the Government announced several major new poverty reduction initiatives, and in August 2006, the Government launched the first nationwide poverty reduction program comprising two pillars: the National Program for Community Empowerment or Program Nasional Pemberdayaan Masyarakat (PNPM); and, a pilot Conditional Cash Transfer (CCT) Program.

### Bank Contribution

Through its education sector dialogue and analytical work, the Bank supported the development of the Government's "Strategic Priorities in Education Development Medium Term Program 2005-2009" (RENSTRA) which is now the basis of a major sector-wide program that is under preparation. The Bank also piloted the Early Childhood Development (ECD) programs which are now being scaled up. These programs have been shown to have substantial impacts on helping children from poor families to get higher grades in primary and secondary school. The Bank administered National Education Reform Program (Netherlands and EC financing) was a catalyst for the Bank to re-engage in the education sector in Indonesia, and it has continued to provide extensive analytical support for policy formulation, development of the next RENSTRA for 2009-14, the introduction of the new teacher upgrading law, and delivery of the ECD project. The Bank, with support from the same donors, established a Basic Education Capacity-Building Trust Fund (BEC-TF) to support the implementation of RENSTRA.

In the health sector, the performance of the Bank lending interventions has been mixed, with only partial realization of expected outcomes. Several of the completed projects were not successful (with sustainability unlikely), mainly due to limited capacity to carry out reforms and also complicated by the ambiguities created by decentralization with regard to the roles and responsibilities of local governments vs. higher levels of government. The three Bank-financed Provincial Health Projects (PHPs) aimed at improving health outcomes by strengthening the capacity of districts, provinces and the center in managing a decentralized health system. They have helped the Government in increasing birth deliveries by trained health workers and improving the immunization coverage for BCG and measles vaccine. However, vaccination coverage for others (DPT, polio and HepB) has failed to improve. The Bank recently started getting engaged in HIV/AIDS dialogue, especially in the province of Papua where the risks are high.

In April 2007, the Government announced plans for scaling up the long-running suite of Bank-supported rural and urban CDD programs (Kecamatan Development Project, KDP, and Urban Poverty Project, UPP) as its national-level poverty reduction strategy. The two programs represent the largest Bank-financed CDD program in the world, covering 48 percent of villages (some 38,000) with a focus on the poorest. These projects have been successful in increasing access of the poor (including women and vulnerable community members) to tertiary socio-economic infrastructure and other services. The KDP and UPP model has also helped improve local level governance by involving communities directly in a participatory, empowering, and transparent framework. The model is also being used effectively to support post-disaster reconstruction in Aceh-Nias and Jogyakarta.

## Pillar 4: Disaster Risk Management

### Country Progress

The Government responded quickly and comprehensively to the Aceh earthquake and tsunami tragedy of December 2004. The first task was to prepare a Damage and Loss Assessment involving all the major donors and led by Bappenas. It was completed in a few weeks with loss estimates totaling nearly US$4.5 billion. It was presented to the Consultative Group meetings in January 2005 as the basis for mobilizing international financial support. This was then followed by the preparation of a more detailed Master Plan for Rehabilitation and Reconstruction, also led by Bappenas and involving the donor community. A major accomplishment was the creation of the Special Reconstruction Agency (BRR) and its immediate staffing with well known and credible Indonesians. It was formally established in April 2005 and became operational a month later.

Critical to the reconstruction process was the agreement on the peace accord between the Government and the GAM (Gerakan Aceh Merdeka) ending the decades-long conflict that had caused nearly 15,000 deaths and tremendous suffering to the people of Aceh. The MOU sealing the peace agreement was signed on August 15, 2005 and was a strong basis for post-conflict peace-building. In addition to contributing to the delivery of post-tsunami support, the end of this conflict has led to an improvement in the quality of life and outlook for Aceh's future development.

Over the last two years, Indonesia has emerged as the epicenter for Avian and Human Influenza (AHI) risks. The risks arise from the large size of the country, extensive holdings of poultry by millions of households, high-risk farming practices, and a decentralized administration with weak capacity. As of January 30, 2008, 101 people have died from AHI. Government response has been generally viewed as slow and uncoordinated although in recent months its public awareness campaign seems to be reaching most of the country's population.

### Bank Contribution

The Bank played an instrumental role in the preparation of the Damage and Loss Assessment, Master Plan for Reconstruction, setting up of the BRR, and for mobilizing funds from the donor community. The Damage and Loss Assessment was led by the Bank team on the donor side and was prepared in less than four weeks after the tsunami. At the Government's request, the Bank initiated, designed, and drafted the founding legislation and provided continuous TA and support during the first few months of BRR's existence. The Aceh Multi-Donor Fund (MDF) with current pledges of close to US$700 million - the largest post-disaster fund in the Bank – is considered a best practice mechanism for donor coordination in response to natural disasters. MDF's close coordination with the BRR and the local government (newly elected Aceh Governor) has contributed greatly to its success. The Bank also restructured three ongoing IDA projects (US$20 million) to include reconstruction components and mobilized JSDF grants (US$7.8 million) for emergency support. Additionally, reconstruction components were included in two new projects that were delivered to the Bank's Board in FY05 (US$15 million).

MDF-financed projects have delivered support in the recovery of communities, infrastructure and transport, capacity building and governance, and sustainable management of the environment. Further, the MDF covered the important cross-cutting issues of environmental protection and sustainable recovery. The overall process of reconstruction is well underway with 85,000 new houses completed by September 2007, of which 4,400 were by the Bank. In addition, 4,050 houses have been rehabilitated. Other accomplishments include: 43 community health clinics and 282 schools built or repaired; 846 bridges repaired; 2,330 kms village roads and 199 km of urban roads rebuilt; 1,211 irrigation and drainage projects in rural areas and rehabilitation of 178 kms drainage in urban areas; 1,148 clean water systems and 1,032 sanitation units built by the Bank. Over 11 million workdays were generated through the Bank-supported infrastructure work as of August 2007. The community based housing reconstruction program (REKOMPAK) in Aceh has functioned remarkably well and has been adopted by the Government as the model for post-disaster housing interventions in Central Java and Jogyakarta. The MDF is the largest single donor in the environment sector focusing on improved waste management services and protection of forest resources. The progress is not as good for the land titling project –over 121,590 titles have been distributed (by May 2008) to the population, compared to the target of 600,000 by June 2008, as the National Land Agency (BPN) has faced challenges in implementing the project as designed. The project design and establishment of targets were carried out in a short period to respond to the catastrophe; an additional complicating factor, particularly in the earlier phase has been the difficulty in obtaining data.

Immediately after the tsunami, IFC management approved an allocation of US$2.5 million to support the relief efforts by the private sector in all tsunami-affected countries, through a matching grant program. In Aceh, IFC contributed resources to three private sector companies - GE, Sampoerna and Cascal – to provide clean drinking water for the population and develop temporary schools for displaced children. IFC also provide US$1 million and secured US$5.5 million from AusAID to establish an IFC Advisory Service program in Aceh. The program has established an Investment Outreach Office to support private sector investment, with IBRD provided policy advice to the Governor of Aceh on private sector policy issues, supported the livelihoods of shrimp farmers by helping to improve yields, and helped to improved business development services.

The participatory approaches of CDD projects involving civil society, communities, private sector and other local organizations have also helped provide post-conflict assistance. KDP was the only Bank project operating in Aceh during the conflict period and its network of facilitators played a crucial role in reaching out to the community in the immediate aftermath of the 2004 tsunami devastation. The project also facilitated the re-integration of GAM rebels.

Reconstruction experience in Jogyakarta has also been remarkable. Less than one year after the devastating earthquake in May 2006, almost 150,000 houses (more than half the total needed) were rehabilitated, most at low cost and with strong community participation. The Bank also used its convening power in the aftermath of this tragedy to help bring together several key development partners around a US$84 million Java Reconstruction Fund (JRF). The Government also implemented a new Disaster Management Law in March 2007 to prepare and respond more effectively to disasters.

## Bank Performance

This section reports on the Bank's performance measured by the Bank's own internal performance indicators for the portfolio, and reports such as PSRs,

ISRs, CRMR, OED evaluations and the CAE (see Attachment A, CAS Completion Matrix). Effectiveness of non-lending services, including trust fund mobilization, is also discussed.

## Lending Deliveries

During the CAS period, 23 IBRD/IDA projects were delivered for a total of about US$4 billion (see Attachment B). Of this, US$0.9 billion (24 percent) was on IDA terms; and US$2.1 billion was for program support. PREM delivered the largest share of new loans at 49 percent (five operations, including four DPLs), followed by the Sustainable Development Network at 45 percent (15 projects, including the IDPL operation), and Human Development Network at 6 percent (three projects). The lack of clarity and commitment by some counterparts on pipeline projects to a very high drop rate – between FY04 and FY08, 13 projects were dropped costing US$3.33 million in sunk preparation costs. The average project preparation period was 35 months indicating that the decision to drop majority of these projects was made at an advanced project preparation stage. In addition, about a dozen projects that were included in either the CAS or the CASPR were not prepared (i.e., they did not have an approved AIS and did not incur any preparation costs).

## Portfolio Quality

As of April 2008, the Bank's total portfolio stands at 24 projects with total net commitments of US$2.5 billion and undisbursed balance of US$1.8 billion. Portfolio performance has been mixed with a disbursement ratio of 17 percent. Proactivity index is maintained at 100 percent, but realism index is only at 40 percent. This mixed result is due both to inadequate government capacity and internal Bank 'hassle' factors. While the 2006 CASPR noted that important gains have been achieved in overall portfolio quality, it also noted some risk factors and emphasized the need for continued hands-on management. The FY06 CPPR and the initial findings of the FY08 CRMR have also identified major risk factors affecting the portfolio quality: weaknesses in project management, corruption in procurement of goods and services, misuse of project funds, delays in budget approvals and releases, lack of procurement planning and timely procurement actions, slow pace of disbursements, and weak M&E. These portfolio reviews offered several actions and recommendations. As noted earlier, GAAPs have now become a standardized component of all projects, normally serving as an annex to the PADs and subsequently incorporated into project operational manuals.

Thirty-six Bank projects closed between FY04 and April 2008; of which 27 have been evaluated by IEG (see Attachment C). Of the projects evaluated, 74 percent are rated satisfactory or marginally satisfactory on outcome. The ratio of "at risk" to total projects (by commitments) is currently at 21 percent. The associated risk factors include weak capacity for project management, procurement delays, corruption and misuse of funds, delays in releasing counterpart funding, and monitoring and evaluation. The Bank addressed these by restructuring projects, canceling loans, continuous dialogue with the Government on counterpart funds, assisting the Government in resolving the misuse of funds, and providing support to strengthen the Government's procurement team.

During the CAS period, IFC has committed US$935 million in 43 projects. As of March 30, 2008, IFC's outstanding exposure in Indonesia is US$709 million in 27 institutions (US$694 million for IFC's own account). The average loan risk rating was 3.6, an improvement over a year ago when it was 3.8. The average risk rating on the equity side, as of the same date, was 3.8, an improvement from a year ago when it was 4.0.

## Non-Lending Services

The WBG's AAA program has evolved over time in line with the country's emerging MIC status (see Attachment D). The program focus shifted from a more structured 'formal' report preparing activities to responding to high-impact, just-in-time requests from the Government that largely required TA rather than detailed analysis and report preparation. Dissemination also improved with more and more reports and policy notes being translated in Bahasa Indonesia and distributed to a wider country audience for greater impact.

An important contribution by the WBG in the early CAS period involved preparation of a Policy Notes Package for the incoming government in 2004 consisting of 20 policy notes. The Package was the WBG's initial "calling card" in discussions with the new President and his Cabinet and proved to be useful to key Ministers in developing their respective "100 day plans" at the President's request. Particularly worth highlighting is the Bank's analytical input and 'behind the door' engagement and advice which resulted in the Government reducing the highly regressive fuel subsidy in 2005, as well as their decision to reallocate most of the saved funds to health, education, village infrastructure, and implement an unconditional cash transfer (UCT) program.

The INDOPOV program played an important supporting role for the government agencies on their poverty agenda with a three part agenda that reviewed and provided policy advice on pro-poor growth, pro-poor spending and services for the poor. The Justice for the Poor program has been another key highlight of the Bank program. It has helped to develop strategies for a bottom-up, demand driven approach to justice reform building popular constituencies to demand justice and push for necessary reforms to legal institutions. The Bank was able to re-engage in two important sectors

(education and environment) through its AAA program. Through programs such as the Forest Law Enforcement and Governance (FLEG) and the Program for Pollution Control Evaluation and Rating (PROPER), the Bank has reengaged in the areas of natural resources and environmental management, leading to many more initiatives, including supporting the Government to prepare for the landmark international Climate Change Conference in Bali in December 2007, under the aegis of the United Nations Framework Convention on Climate Change (UNFCCC).

IFC's Advisory Services plan to continue work on the investment climate, access to finance, supply chain development and plan to add programs on environmental sustainability and infrastructure. A review of the largest Advisory Service project, PENSA, indicated that continued investment into PENSA would lead to even higher impact with implementation of more robust management processes. In response, IFC has consolidated offices and closed programs that were not likely to yield strong systemic impact.

Much of the WBG's work is now done in partnership with local research institutes, other donors, NGOs, and in close collaboration with the Government. Over time, the Bank and its partners have pursued a programmatic approach to research and technical assistance, identifying key issue areas in Indonesia's development path and framing a set of activities to provide analysis, policy recommendations and other support.

### Country Dialogue, Partnerships and Aid Coordination

Partnerships with donors have remained strong, allowing the WBG to leverage significant amounts of financial and human resources for CAS implementation. Indonesia is the largest user of Trust Funds (TFs) in the Bank. Total active grants amount to US$1,245 million consisting of 186 active grants (see Attachment A). The biggest single TF is the Aceh-Nias MDF with total contributions of about US$700 million. The TF programs have contributed significantly to the CAS objectives. The obvious outputs and outcomes include: pooling of resources for joint strategies and actions (education), greater responsiveness to unanticipated needs as in post-disaster recovery efforts (Aceh-Nias MDF and JRF), provision of high quality research, policy dialogue and knowledge dissemination (Netherlands Institutional TF, DSF, INDOPOV). The TFs have helped the Bank, the Government and development partners toward the goals of the Paris Declaration – harmonization, alignment and results. The availability of TF financing has allowed a marked increase in the WBG's analytical and advisory services, especially allowing the WBG to mobilize the right skills to respond to just-in-time government requests. They have also supported more enhanced supervision than restricted Bank budgets would normally allow for complicated projects. IFC has leveraged over US$40 million in grant resources to support IFC Advisory Services which focused on sustainable economic growth and development, with a geographic emphasis on Eastern Indonesia. Program areas include access to finance for the underserved, investment climate reform, agribusiness linkages, sustainable wood supply chain and handicrafts. Since 2003, IFC Advisory Services have contributed to an improved investment law, a reduction in the time and cost of business licensing at select sub-national districts, and increased access to finance for small borrowers. The IFC Board has already committed US$10 million to PENSA for the next five years to catalyze a renewed multi-donor partnership.

Strong partnerships are also being forged using other instruments. Joint policy reform operations have seen ADB, Japan and the Bank teaming up in support of the Government's policy reform agenda through the co-financing of the Bank's DPLs. Sector wide approaches are being strengthened in education with the Netherlands and EU as key co-financiers. The Banda Aceh office, initially set up through Dutch TF funding, continues to be a stronghold for partner coordination and dialogue and has contributed to strengthening the implementation of the MDF projects on the ground.

Partnerships with Civil Society Organizations (CSOs), NGOs, and parliamentarians were also strengthened during the CAS period. The Bank has taken every opportunity – either through lending or non-lending – to reach out to the NGO/CSO community. In the immediate aftermath of the tsunami, the Bank worked closely with the NGOs that were part of the KDP project to provide relief services. The Bank, through the WBI, has also provided capacity building activities for local governments and for parliamentarians.

## Overall Assessment and Lessons Learnt

Despite the uncertainties surrounding project preparation and delayed implementation of some projects, on balance the implementation of the CAS has been satisfactory. The effectiveness of the WBG's activities as measured by the portfolio quality and outcome indicators has varied depending on the sectoral context, cross-cutting challenges, and the Bank's own internal 'hassle factors', but good progress has been made in a number of the CAS focus areas.

The Bank recognized its shifting role of supporting an emerging MIC agenda. During the CAS period, WBG interventions moved towards supporting a country-led and owned policy agenda consistent with Indonesia's emerging status as a MIC. The Bank was well positioned to advise the Government on several issues, furthering

its relationship and reputation with the Government as a "go to" partner on policy issues. A substantial effort was made to drive home emerging policy messages to policy-makers and to opportunistically engage, either through lending or non-lending, in entry-points for a change (e.g., education, environment, fuel subsidy reduction, UCT, CCT). Very important was the WBG team's foresight in identifying problems to focus on before these were widely recognized as challenges, and the Bank's flexibility to respond quickly to government requests and needs on demand.

CDD projects continue to achieve results on the ground. The two Bank-financed CDD programs (KDP and UPP) were central to the enhanced service delivery and inclusive growth agenda of the CAS. They have been successful in delivering small-scale infrastructure, and basic services to poor communities. These have built or rehabilitated schools, health center facilities, water and sanitation systems, roads, bridges, markets and electrification systems and are contributing to providing employment, building capacity and deepening local governance.

DPLs contributed strongly to advancing cross-cutting reforms. The Bank team helped to design a home-grown program for the Government resulting in a smooth IMF exit. The Bank's first DPL was linked to this program, thus helping to build confidence. With Indonesia successfully meeting the CAS high case triggers, budget support through a series of DPLs was resumed in 2004 and four DPLs were fully disbursed for US$1.9 billion. A first sectorally oriented Infrastructure DPL was also approved by the Bank's Board in December 2007. They have contributed significantly to the Government's policy reforms in the areas of macroeconomic stability, investment climate, service delivery, public financial management and anti-corruption, as well as pursuing the agenda on infrastructure and PPP policy reforms.

Strong donor partnerships leading to trust fund mobilization allowed the WBG to re-engage in some sectors, and to deepen ongoing support in other sectors. Partnerships with donors have remained strong, allowing the WBG to leverage significant amounts of financial and human resources for CAS implementation. The availability of TF financing has allowed a marked increase in the WBG's analytical, technical assistance, and advisory services. For example, the Bank has emerged as an influential player in facilitating donor support for the Government's education sector agenda. However, the administrative costs associated with managing a large portfolio of TFs need to be assessed, and the strategic focus of the TF portfolio enhanced further. On the operational side, there is a need to better integrate TF resources with Bank budgets and programs.

The Bank was effective in using its role as the key convener to respond quickly and efficiently to post-disaster reconstruction and other emerging requests. The Bank's role became evident during the immediate post-tsunami/earthquake period when the Government asked the WBG to lead a coordinated donor effort to address the reconstruction in Aceh, Nias, and Jogyakarta. The WBG's contribution towards this is the hallmark of the CAS period. The Bank has also emerged as an influential player in facilitating donor support for the Government's education sector agenda.

The WBG's strengths for implementing the CAS were largely in its skilled and expert staff that could be tapped into in a short time (e.g., post-tsunami/earthquake support), capacity to manage large donor TFs (MDF, DSF, BEC), bring global experience and apply it within the local context (e.g., UCT, CCT), mobilize support for private investment (IFC), and a large corps of national staff and consultants for provision of local knowledge and know-how.

Less progress has been made in the infrastructure sector which remains a key impediment to improving the investment climate and delivering basic social services. Although the Government was committed to improving infrastructure, results on the ground have not been very impressive and substantial gaps remain. And while the WBG has engaged in this sector with a comprehensive lending and non-lending program, its support has not led to expected outcomes, in particular for attracting private sector investment. The sector also continues to be plagued with corruption issues in Bank-financed projects, which has delayed project preparation and implementation and has serious implications for the future project pipeline.

The local government 'platform' approach outlined in the CAS has not worked well as evidenced by the lagging performance of the first generation of related projects. A key constraint has been the lack of clarity in the roles and responsibilities at the district, provincial and national levels of government. The challenges in the implementation of revised on-lending and on-granting decrees were another detrimental factor impacting the implementation of the ILGRP, USDRP, and SPADA. Moreover, the health sector in Indonesia has been relatively slow to adjust to the country's decentralization and transfer of service delivery functions from the central to the local governments, as indicated by lack of improvement in related outcomes.

Lack of clarity and strong commitment by the Government has led to delays in project preparation and high costs of dropped projects. Lack of long-term planning and inadequate co-ordination among various government agencies led to an uncertain environment for project preparation. Regular and

coordinated dialogue with the Government (Bappenas, MoF and line ministries), and tighter management of lending pipeline are critical to minimize such costs in the future. In addition, there seems to exist a "missing middle" between the DPLs and CDDs. Government commitment and implementation/results have been much stronger for DPLs and CDD projects while a number of investment projects have been facing challenges affecting their full potential.

Inadequate government capacity and internal Bank 'hassle' factors have led to slow project implementation and delayed realization of outcomes in some sectors. Weaknesses in government capacity to implement projects and delays in counterpart funding, especially at the local level, have partly contributed to delays in project implementation. Ideally, decentralized projects should be executed using the local level PFM framework. However, since the on-lending/on-granting guidelines were not fully developed, these projects were implemented through the national level PFM systems adding to implementation delays. Internal "hassle" factors of dealing with the Bank processes and procedures have also emerged as contributing to delays related to procurement issues, with increased transaction costs for both the client and the Bank. Strengthening support to build country systems within the Government's decentralized framework will be critical to improving project performance.

Appendix 8. : Attachment A

# Indonesia: CAS Completion Report: Results Framework - Completion Matrix

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR ONE: IMPROVING THE CLIMATE FOR HIGH QUALITY INVESTMENT AND GROWTH | | | | |
| Maintain macroeconomic stability<br>• Inflation below 7%<br>• Debt to GDP below 60%<br>• Investment as % of GDP above 30%<br>• Growth of at least 5% | Consolidate macroeconomic stability and focus increasingly on the microeconomic foundations of growth<br>• Continued vulnerability to shocks because of high debt<br>• End of Paris Club restructuring<br>• Possible decrease in market confidence from IMF exit<br>• Weak tax and customs administration<br>• Nascent domestic government bonds market<br>• Vulnerable financial sector with contingent liabilities to the budget | • Deficit of 1.2% of GDP in 2004, 1% in 2005<br>• Reduce debt/GDP ratio to below 40%<br>• Non-oil tax revenue to GDP up 1%<br>• Decrease in tax arrears | • Budget discipline maintained; deficit of 1.1% of GDP in 2007 (done)<br>• Debt management on sustainable path; debt/GDP ratio 38% in 2006, and 34% in 2007 (achieved)<br>• Non-oil tax revenue was up 2% from 2001 to 2005, up 0.8% from 2005 to 2006 (11.5%) (achieved)<br>• Tax arrears decreased (done) | Lending<br>GFMRAP, DPLs 1-4, IDPL<br><br>AAA<br>Briefings for new Govt ; CGI Briefs, PERs , DPR ; Debt Management ASEM ; Fiscal policy analysis ; WTO advice, Fuel subsidy reduction advice<br><br>TF<br>GFMRAP<br><br>Partners<br>ADB, JBIC, IMF, AusAID debt mgt, USAID trade |
| | Goal is to improve effectiveness and targeting of compensation schemes. Engagement in fuel subsidies comes to a close with the evaluation of the UCT. Original outcome was subsumed under PFM (pillar 3) and performance of CCT schemes | Fuel prices get closer to market level | Fuel subsidies reduced in March and October 2005. UCT program was implemented for a year. CCT program piloted (achieved) | |
| | Focus was on improving pace and quality of public spending. Similarly, outcome was subsumed under PFM (pillar 3) | Gradual increase in capital and social spending to 3.5% of GDP | 3.4% of GDP in 2006 and 3.5% in 2007. Including regional spending, total capital expenditures exceed 7% of GDP in 2006 (achieved) | |
| Stronger and diversified financial sector with equitable access | Weak governance of state banks was a critical issue<br>• Lack of alternatives to banking sector for access to capital<br>• Weak supervision in banking and non-banking sectors<br>• Public sector domination in bank ownership<br>• Unsustainable blanket deposit guarantee<br>• Inadequate access to financial services for SMEs and poorer households<br>• Poorly developed institutional investors<br>• Reduction of Blanket Guarantee to be pursued.<br>• BI role as a lender of last resort has to be enacted by law | Increase stability of finance sector<br>• At least 20% private ownership of all state-owned banks<br>• Indonesia in broad compliance with international standards<br>• Financial sector safety net implementation continued | • State-owned banks' private ownership exceeds 20% for 2 of the 4 state-owned banks. State bank share of overall banking system is 36% (ongoing)<br>• Indonesia taken off the list of non-cooperative countries of the FATF (done)<br>• BI has made serious efforts to comply with BCP; others, such as NBFIs, are still lagging behind (slow/ongoing)<br>• Blanket Guarantee removed as of September 2006. Coverage on deposits was reduced from Rp 5 billion in March 2006 to Rp 100 million in March 2007 (achieved) | IFC/MIGA<br>• IFC investments in banks and non-banking financial institutions<br>• IFC Advisory Service Initiatives<br><br>AAA<br>Financial sector monitoring<br><br>Partners<br>IMF–Strengthening bank supervision and creation of financial sector safety net |
| | Recommendations in NBFI report provided a basis for policy dialogue<br>• Weak supervision in non-banking sectors was a challenge<br>• Inadequate financial access to SME sector and poor households<br>• Weak insurance industry | Improve access to finance<br>• Increase in non-bank financial sector's share of financial system assets beyond 10%<br>• Number of SMEs with increased access to finance<br>• Strengthen insurance industry regulatory and supervisory framework and develop a strategy to deal with insolvent firms | • NBFI assets comprise 22.3% of total financial sector assets (2006) (achieved)<br>• Total credit realization by SMEs from commercial banks, as measured by BI, increased by 82% from 2003 to 2005. Loans to SMEs comprised 52% of total loans (June 2007), compared to 47% in 2003 (achieved)<br>• Pension fund industry re-organization and restructuring slower than expected<br>• Resolution of unviable insurance firms slower than expected<br>• Bapepam merged with GDFI. Strengthening of its regulatory and supervisory capacity slower than expected | IFC<br>Advisory Service Initiatives<br><br>AAA<br>NBFI report |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR ONE: IMPROVING THE CLIMATE FOR HIGH QUALITY INVESTMENT AND GROWTH | | | | |
| Supportive environment for competitive private sector | • Implementing regulations of the new Investment Law not completed<br>• Number of licenses in ministries to be reduced<br>• Transactions costs to business need to be reduced<br>• Weak regulatory frameworks<br>• Lack of inter-agency cooperation to remove investment impediments<br>• Unclear division of labor among levels of government<br>• Ineffective Competition Agency<br>• Lack of clarity & inconsistent enforcement of environmental regulations<br>• Poor quality of higher education (skills) | • Overall improvement in investment climate<br>• Reduce business start-up time from 168 (2003) to 30 days<br>• More effective tax services | • All major obstacles faced by businesses have declined consistently, but remain high (ongoing)<br>• Start-up time for new businesses takes 109 days (2008) (slower than expected)<br>• Rolling out of tax administration reforms is on-track: 3 tax laws have been introduced to Parliament and modern tax offices have expanded (on track)<br>• 170 local nuisance taxes & fees were abolished between 2005-06 (ongoing)<br>•% of businesses identifying tax administration as a moderate, severe and very severe problem decreased from 57% in 2003 to 38% in 2007 (ongoing)<br>• Average time to obtain VAT refunds has decreased from 12-18 months (2003) to 4 months (2008) (on track) | Lending<br>• GFMRAP<br>• DPLs 1-4<br>• IDPL<br><br>IFC<br>IFC Advisory Service Initiatives<br><br>AAA<br>• Business Environment Surveys (bi-annual)<br>• Review of draft Customs Law<br>• Background notes on international best practices for implementing regulations of Investment Law<br>• Value chain studies<br>• Investment related labor market analysis<br>• Background notes on trade policy reforms |
| | Clearance process to be exclusively computerized | • More effective customs services<br>• Clear criteria to implement customs regulations concerning use of priority, green, and red lanes stipulated | •% of businesses identifying customs and trade regulations as a moderate, severe and very severe problem decreased from 51% (2003) to 32% (2007) (on track)<br>• Average import clearance time has reduced from 8 (2004) to 6 days in the red lane (preliminary 2007 data) (on track)<br>• Use of lanes part of the investment package issued by GOI (done) | IFC<br>IFC Advisory Service Initiatives<br><br>Partners<br>ILO Youth Employment Network |
| | Rigid labor regulations discourage jobs creation in the formal sector | Implement flexible labor regulations | New draft labor law being reformulated after delays following strong resistance by labor unions (slower than expected) | |
| | Impact of new regulations on investment not yet materialized | • Clarity of functions of central and local governments towards private sector development<br>• Investment climate in about 40 regions participating in local services platform projects above the national average | • Draft amendment to move from negative to positive list for regional tax items and to restrict the creation of nuisance and/or economically harmful charges and levies has been completed (on track)<br>• Implementing regulations for Laws 22 and 25 is slower than expected | |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR ONE: IMPROVING THE CLIMATE FOR HIGH QUALITY INVESTMENT AND GROWTH | | | | |
| Refurbished infrastructure | GOI established a framework to develop infrastructure as a key national priority. The Bank supports this program through a DPL<br>• Remove policy road-blocks to public and private infrastructure investment. (Increases in infrastructure investment was expected to be in the order of 1% of GDP over 2007-09)<br>• Increase connections in 4 key sectors (Roads, Water and Sanitation, Energy and Telecommunication)<br>• Ensure adequate social and environmental management of infrastructure investment (as measured by reviews of sample projects)<br><br>Overall<br>• Lack of public financing, and poor regulatory frameworks which preclude needed private sector participation<br>• Ill-defined government responsibilities with decentralization<br><br>Key sectors<br>• Impending power shortages<br>• Poor road maintenance<br>• Low density of telecom connections<br>• Bankrupt water utilities | Improve the environment for infrastructure development<br>• Main CAS outcome was that at least 5 model PPP projects be successfully tendered | • A first Infrastructure Summit that drew a large participation from private investors was held in January 2005; a follow-up summit took place in November 2006 (done)<br>• A national committee on Policy for Accelerating Infrastructure Provision (KKPPI) was established in 2005 (done)<br>• PPP Unit is being established within KKPPI as a center of technical expertise in project preparation (ongoing)<br>• Risk Management Unit established in MOF, but needs to become fully operational (slower than expected) | Lending<br>• Private Provision of Infrastructure TA<br>• DPLs 1-4<br>• IDPL<br><br>AAA<br>Infrastructure Summit<br><br>Partners<br>IFC, MIGA, JBIC, ADB |
| | Lack of bankable projects limits the number of PPPs<br><br>Focus was in particular on supporting the following government objectives:<br>• Reduce the incidence of corruption in public and private roads projects<br>• Establish public financing mechanisms to support sustainable maintenance of the national road network | Road sector<br>• Improved institutional arrangements to be established for toll roads<br>• Improve the condition of national and other strategic arterial roads | • Improved institutional arrangements established for toll roads (done)<br>• Automatic tariff adjustment mechanisms for toll roads completed (done)<br>• The quality of the road network in Sumatra has been preserved with Bank support (corresponding to about 24,000 km) and subprojects implemented with Bank support have led to more than 1500 km of improved roads and 4500 meters of bridges in Eastern Indonesia (done) | Lending<br>• East Indonesia Regional Transport 1, 2<br>• Sumatra Regional. Roads Project<br>• Strategic Road Infrastructure<br><br>AAA<br>Infrastructure Sector Study<br><br>Partners<br>IFC, MIGA, JBIC, ADB |
| | Institutional improvements not yet resulting in a significant increase in the number of actors<br><br>Since Electricity Law was annulled in 2002, there is a lack of clear vision in the sector | Energy sector<br>• Increased number of actors in the oil & gas sectors<br>• Improved tariff structure for gas sector<br>• Partial privatization of key infrastructure SOEs, e.g. PGN<br>• Increased number of actors in power sector<br>• More efficient power sector | • All elements for opening oil and gas sector to competition, such as regulator and implementing rules and regulations are in place; 3rd party open access is now in effect in transmission (with no evidence yet of new actors); there are at least two newcomers (Petronas and Shell) in retail (ongoing)<br>• Pricing study is completed and has been submitted by PGN to the regulator (done)<br>• Partial privatization done for PGN where share of Govt is 39% (ongoing)<br>• There has been some private sector participation in power generation: Two IPPs came on line in 2006-1320 MWs Tanjung Jati B and 600 MW Cilcap Coal Power Plants in Central Java (ongoing)<br>• A 110 MW goethermal plant, scheduled for 2008 (Darajat plant in W. Java), is being tested (ongoing) | Lending<br>• Domestic Gas Market Development<br>• PGN Gas Distribution Project (joint IFC/IBRD)<br>• Java-Bali Power Project<br><br>IFC & MIGA<br>Support to investments in power and telecommunication<br><br>AAA<br>Power Sector Policy Paper (funded by ESMAP) |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR ONE: IMPROVING THE CLIMATE FOR HIGH QUALITY INVESTMENT AND GROWTH | | | | |
| Refurbished infrastructure | The performance of the Water and Sanitation Sector (WSS) has remained stagnant at a historical low investment level of about 0.5% of GDP. The overall estimates of economic losses due to lack of access to water and sanitation were estimated at 2.4% of GDP in 2002 | Water & Sanitation<br>The management and operation of 5 PDAMs start to improve | • Project is expected to focus first on 3 PDAMs to be followed by a number of other PDAMs joining the reform program [Note: it is expected that the successful implementation of the first package will convince other PDAMs that debt restructuring under the reform program is possible] (ongoing)<br>• Resolution of PDAM arrears to be initiated, following the enactment of related regulations and issuance of detailed procedures on debt restructuring by MOF (slower than expected) | |
| Sustainable income-creating opportunities for poorer households | Urban and rural<br>• Uncertain property rights and corrupt land management<br>• Lack of access to natural resources & coastal resources (e.g., community-managed forests, coral reef ecosystems)<br>• Limited access to capital<br>• Unfavorable SME environment<br>• Poor technology and a lack of information among farmers<br>• Irrigation network poorly maintained | 2.5 million new land titles issued (50% in women's' or joint names) in project-assisted areas | • Distribution of title certificates to land owners in the 9 LMPDP provinces is 661,501, as at May 2007 Mid-Term Review. A further 190,000 titles certificates completed and awaiting distribution. (Number of titles distributed to women and joint owners [husband and wife] not available) (ongoing)<br>• In Aceh, 121,594 land title certificates have been distributed to land owners, as of May 2008 (per BPN). (Number of titles distributed to women and joint owners [husband and wife] not available) (ongoing)<br>• Land administration service delivery standards in place (done)<br>• Land administration course now operating in three universities (done)<br>• National consultative forum for National Land Policy Framework conducted in 2006 (done)<br>• Five local government land management pilots, under MoHA, completed in 2007 (done) | Lending<br>Land Management Policy Development Project (LMPDP)<br><br>IFC<br>IFC Advisory Service Initiatives<br><br>TF<br>Reconstruction of Aceh Land Administration System (RALAS) Project funded by MDF Grant |
| | | Average income of target groups of coastal communities from sustainable reef-based or reef-substitute sources increases by 10% until 2010 | • More than 50% reduction in illegal and destructive fishing and coral mining in most of COREMAP1 pilot areas. Public awareness of the dangers of coral reef degradation increased from 39% to 75% (ongoing)<br>• Baseline for COREMAP2 areas have been collected and progress in incomes is expected to be observable once results from the 2008 socio-economic surveys are available (ongoing) | Lending<br>COREMAP2 |
| | | • 30,000 villages/cities with improved access to roads, bridges, irrigation and other infrastructure through participatory planning and financing<br>• Increased household income levels in the targeted 30,000 villages/cities | • 38,000 villages/cities through CDD programs have engaged in a participatory planning and financing process, increasing access to vital infrastructure and water/sanitation resources (achieved)<br>• Villages covered by KDP showing significant HH expenditure impact as compared to non-KDP areas (achieved) | Lending<br>• KDP<br>• UPP<br>• SPADA<br>• ILGRP<br><br>AAA<br>Poverty Assessment<br><br>TF<br>• KDP<br>• Water Resource & Irrigation<br>• Poverty Reduction |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR ONE: IMPROVING THE CLIMATE FOR HIGH QUALITY INVESTMENT AND GROWTH | | | | |
| Sustainable income-creating opportunities for poorer households | | • Increase in household expenditure rates, incomes, and adoption rates of technologies in 71 project-assisted districts<br>• 20% increase in income levels for farmers in the areas of improved irrigation systems | • An average of 70% of participating households in 3,000 villages adopting new technologies with increases in incomes ranging from 35-60% from improved agribusiness development activities (on track)<br>• 250,000 ha of irrigated area benefiting from improved water management, and some 500,000 ha from repairs and rehabilitation to the physical infrastructure (ongoing) | Lending<br>• Water Resources & Irrigation Sector Mgmt<br>• FEATI<br><br>AAA<br>• Rural Investment Climate Survey<br>• Agricultural Extension Services in Indonesia<br>• Horticultural Producers and Supermarket Development<br>• Information and Communication Technologies for Rural Development<br>• Issues in Indonesian Rice Policy<br><br>Partners<br>ADB, DFID, Dutch Trust Fund, JICA, EU, GEF, IDRC, CIRAD |
| PILLAR TWO: MAKING SERVICE DELIVERY RESPONSIVE TO THE POOR | | | | |
| Better education outcomes for the poor | In Bank-assisted areas, improved quality, coverage, and utilization of basic education services, especially for the poorest 40% | | | |
| Increased proportion of poor children who are ready to enter school by the age of 6 (Enrollment in ECED programs remained at less than 20% from 2002 to 2004) | Legacy of overly centralized, unresponsive service provision:<br>• Failure to account for community needs and service quality<br>• Weak monitoring, evaluation and information dissemination<br>• Limited funds used sub-optimally (e.g., pay for inputs, not results)<br>• Limited private sector role | Improved access to ECED services | • Increased number of quality ECED service in targeted poor areas from 600 integrated ECD centers that were established across 12 districts with Bank support as of 2006 (on track)<br>• Increase in level of public financing for ECED and basic education (achieved) | Lending<br>• Early Child Development Project<br>• ECED<br>• BERMUTU<br><br>AAA<br>ECE and Development sector report |
| | • Poor targeting and accountability of social safety net programs<br>• Roles of government levels not clearly defined (including for environmental and natural resource management)<br>• Lack of service standards<br>• Weak monitoring and feedback at local level (including on environmental quality) | | | TF<br>Early Childhood Education |
| Improvement in Indonesia's performance in international standardized assessment (e.g. TIMSS) (no evidence yet) | Impact on actual improvement in teachers' quality and rebalance of deployment to be seen | Improved quality of education services<br>• Increased number of accredited HE programs that are rated A (i.e., meeting international standards) by an independent panel<br>• Teachers' standards developed, vetted by Panel of Experts and adopted by October 2007<br>• 50,000 teachers (out of 2.7 million) pass certification test by 2008 | • Teacher Law to improve teacher quality and deployment approved in 2005 (done)<br>• National Education Standards Board established in 2005 to set standards for teacher certification (done) | |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR TWO: MAKING SERVICE DELIVERY RESPONSIVE TO THE POOR | | | | |
| Improved health outcomes for the poor | In Bank-assisted areas, improved quality, coverage, and utilization of health services, especially for the poorest 40% | | | |
| • Maternal mortality rate decreases from 334 per 100,000 (1995) to 307 per 100,000 (DHS-2002/3)<br>• Under 5 child mortality rate decreases from 60 per thousand live births to 46 per thousand live births (DHS 2002/3). Rate is at 71 per thousand live births among poorest 40%<br>•% of under 5 children who are underweight at 25% in 2004 | • The decentralization process in the health sector suffers from lack of clarity in roles and responsibilities between central and decentralized levels<br>• New shocks have increased the pressure on the Ministry Of Health to deliver quality services and rapid responses (avian flu risk, earthquakes)<br>• The fuel-subsidies provided the sector with new resources<br>• Policies addressing improved service delivery remain weak<br>• Effective design and implementation of public expenditure and programs that benefit the poor needed<br>• Local capacity weak<br>• Political accountability evolving<br>• Persistent funding shortages<br>• Poor costing & funding strategies<br>• Conflict-induced service disruption | • Increase in utilization rates of health services in targeted provinces<br>• Increased % of institutional deliveries assisted by trained health workers<br>• Increased % of childhood immunizations<br>• Improved nutritional status, especially for children under 5<br>• Commence pilot conditional cash transfer program | • Evidence shows that increased financing for priority health programs has translated into improved services in West Java and Banten where increase in utilization of services has been observed between 2001 and 2005. However, in other provinces, the poorer ones, evidence has yet to materialize (slower than expected)<br>• The percentage of births attended by trained health workers increased from 66% to 72% between 2002 and 2004 (achieved)<br>• Immunization with BCG and measles vaccine exceeded 80% in 2004 but the percentage of children completing DPT, polio vaccine and HepB was less than 50%. Outbreaks of polio were recorded in 2005 (achieved)<br>• CCT program designed and piloted in 7 provinces (done) | Lending<br>• Provincial Health I and II<br>• Health Workforce & Services (PHP 3)<br>• WSSLIC 2 and WSSLIC 3/ PAMSIMAS<br><br>AAA<br>• Decentralization;<br>• Private Sector Environment,<br>• PROPER<br>• Analytic and Policy Basis of HIV Control<br>• Statistical Capacity Building Support<br>• Health Workforce and Improving Services Delivery<br>• WBI Capacity Building – Integrated Water Resources Management<br><br>TF<br>• Water & Sanitation for Low income Communities<br>• Water & Sanitation<br><br>Partners<br>ADB, JBIC, JICA, Netherlands, AusAID, USAID, Unesco, Unicef, WHO, EU, DFID, WASPOLA |
| Increase in proportion of population with sustainable access to an improved water source and proper sanitation (urban/ rural) (no recent data) | • Scaling-up the successful approach in access to water is a priority<br>• Improving sanitation remains a challenge | • Increased % of households with access to safe drinking water and sanitation in 2,500 villages and 20 urban areas<br>• Increased % of households practicing improved key hygiene practices in target areas | • Functioning water supply systems have been established in 1,208 villages (covering 3.04 million villagers) (achieved)<br>• CLTS was introduced in mid-2005 in 12 communities in 6 districts of Indonesia covered by the Bank's WSLIC and ADB's CWSH projects; within 1.5 years, the CLTS movement spontaneously expanded to over 120 communities, nearly 90 of which have reached the status of being free of open defecation. Following this excellent community response, WSLIC project decided to scale up CLTS to all its 34 districts starting 2007 (ongoing) | Lending<br>WSSLIC 2 and WSSLIC 3/ PAMSIMAS<br><br>AAA<br>Statistical Capacity Building Support |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR THREE: THE CORE CAS OBJECTIVE: ADDRESSING THE UNDERLYING ISSUE OF GOVERNANCE | | | | |
| Development planning is responsive to constituents | • Lack of political commitment to governance reform<br>• Poor accountability of political and economic elites<br>• Local level governments face a legacy of overcentralization with little capacity<br>• Weak civil society organization and hierarchical relations at the village level | Core group of at least 40 districts participating in local services platform projects records significant improvements in governance outcomes | • 12 districts have fulfilled entry and pre-investment requirements of the LG framework. Other 28 are expected to start participation in 2008 in order to graduate in 2010 (ongoing)<br>• Governance performance of LGs is being monitored through GDS (GDS2 results are currently being analyzed and will be available for dissemination in 2008; it covers 133 kabupaten, which constitute a representative sample at the national level; preliminary results show a surprisingly high level of satisfaction (85%) with LG performance on service delivery, but also show a negative correlation between cases of corruption and satisfaction level) (ongoing) | Lending<br>• ILGRP<br>• USDRP<br>• SPADA<br><br>AAA<br>• GDS2<br>• Measurement Framework for Financial Management of Local Governments<br><br>TF<br>• ILGRP<br>• Decentralization Support Facility |
| Development planning is responsive to constituents | Civil society involvement in government policy-making and planning has increased but is still spotty | By 2010, all villages in Indonesia engage in a participatory approach to development planning, execution, and oversight | 38,000 villages/cities in CDD areas (50% of total) engage in a participatory process of planning and budgeting (on track) | Lending<br>• KDP<br>• UPP<br>• WISMP<br>• ILGRP<br>• FEATI<br><br>AAA<br>• Poverty Assessment<br>• Project M&E systems<br><br>Partners<br>DfID, ADB, Netherlands, Japan, Partnership for Governance Reform |
| Regulated and transparent public financial management | Automated Treasury Payment system is a new outcome expected to be delivered by 2008. More than 18,000 commercial bank accounts handled government funds, with no standards for efficient authorization and management of balances<br>• Substantial capacity building needed to ensure effective dissemination across all levels of government<br>• Weak political commitment | • Automated Treasury Payment system enables accurate and timely financial reporting and reduces incidence and size of idle cash balances<br>• Consolidate from nearly zero to at least 50% of core government cash operations into TSA | • All major government expenditure accounts are now zero balanced. Revenue accounts are not yet zero balanced. Work on the revenue accounts is ongoing (ongoing)<br>• The procurement of the automated treasury system is still ongoing and is not expected to be implemented by 2008 (ongoing) | Lending<br>• DPLs 1-4<br>• GFMRAP<br><br>IFC<br>IFC Advisory Services Initiatives<br><br>AAA<br>• Governance and Decentralization Survey 2<br>• Forest Governance Initiative<br>• Environmental Dialogue (AMDAL) |
| An efficient and streamlined civil service | • Address root causes of poor public sector governance and corruption by instituting civil service reforms<br>• Bappenas to monitor effectiveness and undertake independent operational assessment of the new compensation programs | • All line ministries prepare financial statements using new government accounting standards<br>• Establishment of national remuneration commission that reviews civil service salaries and transparency of pay packages<br>• Reduced leakage in expenditure flows to end-users as measured | • A consolidated financial statement for the central government was completed for 2004 for the first time, and completed again in 2005 (done)<br>• GOI has launched pilots in Ministry of Finance and Education with the intent of designing a comprehensive CSR program (ongoing) | TF<br>World Bank-Netherlands Trust Fund for Decentralization Technical Assistance and Advisory Services |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| PILLAR THREE: THE CORE CAS OBJECTIVE: ADDRESSING THE UNDERLYING ISSUE OF GOVERNANCE | | | | |
| Effective implementation of decentralization | Focus on engaging sector ministries (Health, Education, Environment and Public works) in the preparation of ministerial decrees<br>• Uncertainties in the delineation of autonomy at different levels of government<br>• Clarification of roles and responsibilities for supervision and regulation | Greater clarity of functions at each level of government | Decree PP38 of 2007 defines service delivery responsibility at each level of government. Actual implementation yet to be seen (slower than expected) | • Institutional Development<br><br>Partners<br>GTZ, Netherlands, DFID, JBIC, ADB, CIDA |
| | • Remove DAU hold-harmless provisions as scheduled in 2008<br>• Increase funds for DAK in APBN, especially for social sectors<br>• Speed up transfer of natural resource revenue shares (NRRS) to sub-national governments | Improved mechanisms for fiscal transfer<br>• Enhanced fiscal equalization performance of general purpose transfers (DAU)<br>• Implement clear and consistent provisions for on-granting and on-lending donor finance | • The "second big bang" created additional transfers to regions of almost 50% (DAU by 64%). The poorest parts of Indonesia have been the main beneficiaries. Ever since, fiscal equalization is not Indonesia's main challenge – spending resources well at the local level is (change in priority)<br>• The removal of DAU hold-harmless provisions is expected to be implemented in 2008 but since the "second big bang" only plays a minor role in fiscal equalization (change in priority)<br>• Ministry of Finance Decree on On-Lending and On-Granting has been issued. The new on-lending framework is piloted under USDRP. But this is still to take off. The on-granting framework is yet to be launched under ILGRP (ongoing) | |
| Establishment of a credible and impartial justice sector<br>• Significant improvements in corruption perception measures and in survey -based measurements of popular trust in court system in project-assisted areas: Corruption perception index and governance indicators (TI, WBI) point to a slight improvement since 2002 | • Formal justice system lacks credibility among most Indonesians<br>• Political commitment to reforming legal institutions is very weak<br>• Poor face significant obstacles in reaching the formal justice institutions.<br>• Given more rapid progress than anticipated on establishment of Anti-Corruption Commission (KPK) and Anti-Corruption Court, end-CAS outcome as expanded to include cases investigated by KPK<br><br>Institutional and legal framework needs further strengthening | Positive trend in the number of investigations leading to prosecution (increase in investigations by AGO from 1,384 in 2005 (and 1,320 in 2003) to 1,758 in 2006 and in prosecutions from 729 in 2005 (604 in 2003) to 807 in 2006)<br>• Full compliance with wealth declarations by public officials as established by law<br>• Increased % of poorer households and SMEs using legal, paralegal and alternative dispute mechanisms in at least 40 districts<br>• Issue implementing regulations on Witness Protection Law and Freedom of Information Act | Investigative Units have been established in IG and are operational. Anti-Corruption Commission and Court are operational and have taken on several high-profile corruption cases. Law expanding legal mandate of BPK for auditing public finance passed (ongoing)<br>• 20 districts (6 in conflict areas) have started building networks of paralegal and ALD assistance. Impact on access is too early to tell (ongoing)<br>• 2 pilots in progress for establishing network of paralegal assistance, alternative dispute resolution mechanisms, and legal literacy training; expansion of pilots expected in 5 provinces over next year (ongoing) | Lending<br>• SPADA<br><br>AAA<br>• Justice for the Poor<br>• Partnership for Governance Reform<br>• Governance and Decentralization Survey 2<br>• Anti-Corruption Studies<br><br>TF<br>• Governance Partnership<br><br>Partners<br>Partnership for Governance Reform, DFID |

| Strategic and Longer-Term Country Outcomes | Outcomes Influenced by the CAS Program During the Five Year Period | | | WBG and Partner Contributions |
|---|---|---|---|---|
| | Issues and Obstacles | Expected End-CAS Outcome(s) | Progress To Date | |
| **PILLAR FOUR: DISASTER RISK MANAGEMENT** | | | | |
| Rebuilding a Better Aceh and Nias | | | | |
| Restored economic growth (GDP) and sustainable livelihoods<br><br>Inflation in line with national average<br><br>Reduced percentage of population living in poverty (household expenditure) | The main challenge is to address the missing middle of district level infrastructure that will connect houses into communities<br><br>Sustaining the peace process will depend on meeting GAM reintegration needs | • Decreased number of displaced people living in tents, barracks and with host families<br>• Transparency and efficiency of reconstruction process<br>• Decreased rate of unemployment among tsunami-affected populations, ex-combatants and others<br>• Also see Pillar 1 for land survey, adjudication and title distribution progress under MDF Project on Reconstruction of Aceh Land Administration System<br>• Forest monitoring and protection systems strengthened and implemented<br>• Community based forest and ecosystem rehabilitation for livelihoods and environmental services implemented | • 6,267 displaced people (mainly in Aceh Besar and West Aceh) still living in tents and barracks and estimated maximum 20,000 with host families (achieved/ongoing)<br>• The process of reconstruction is underway: 85,000 new houses were completed by September 2007 of which 4,400 were built by the Bank. Additionally, 4,050 houses have been rehabilitated (achieved/ongoing)<br>• 43 community health clinics and 282 schools built or repaired by the Bank. 846 bridges repaired; 2,330 km village roads and 199 km of urban roads rebuilt; 1,211 irrigation and drainage projects in rural areas and rehabilitation of 178 km drainage in urban areas; 1,148 clean water systems and 1,032 sanitation units by the Bank; over 11 million workdays generated through the above Bank-supported infrastructure work as of August-2007 (achieved/ongoing)<br>• About 10% of individuals aged 15 years or older were seeking or available for work in first half of 2007 (assessment completed)<br>• KDP village survey completed covering assessment of infrastructure and social conditions (done)<br>• Aceh Public Expenditure Analysis and Public Financial Management in Aceh Report published; Aceh Flood Damage Assessment completed (done)<br>• Separatist group (GAM) reintegration needs. Data analysis about the forest status completed. The baseline data is: Undisturbed forest 1,562,062 ha (68%); Disturbed forests (20%); and non forests 283, 836 ha (12%)<br>• Nurseries established in four villages; rehabilitation of 280 ha with tree species selected by the communities based on livelihood needs; integrated village spatial planning completed in Pisang in A.Selatan. Livelihood projects based on the water sources identified. Project feasibility studies are being assessed (done) | Lending<br>• CDD projects (KDP, UPP)<br>• SPADA<br><br>IFC<br>• IFC Advisory Services Initiatives<br><br>AAA<br>• GDS<br>• Disaster Risk Management Framework<br><br>TF<br>• MDF for Aceh & Nias (housing, land, technical assistance, waste management, infrastructure and environment)<br>• KDP for Aceh<br><br>Partners<br>MDF (ADB, Canada, Denmark, EU, Finland, Germany, Netherlands, New Zealand, Norway, Sweden, UK, USA, Belgium, Ireland) |
| Responding to Yogyakarta & Central Java Earthquake | | | | |
| Rebuild housing | | Reduced number of households without a house rebuilt | 2,000 houses have been built through Bank support as of September 2006 and a total of 6,000 houses rebuilt is the target (on track) | Lending<br>Community Based Settlement Reconstruction and Rehabilitation Project (CSRRP)<br><br>TF<br>Java Reconstruction Fund (JRF) |
| Avian and Human Influenza and other Emergent Crises | | | | |
| Sustainable income-creating opportunities for poorer households | Government strategy to respond to HPAI threat not yet clarified | • A participatory system detects outbreaks and responds in 12 districts<br>• Communities trained to undertake quarterly vaccination of poultry in 6 districts | Government's public awareness campaign appears to be reaching the bulk of country's population (ongoing) | TF<br>• Avian and Human Influenza Facility |
| Improved Institutional Framework for Disaster Risk Management | | | | |
| Strengthened capacity for disaster risk management | GOI and donors have been responding to the devastating disasters, but a coordinated pro-active risk management framework needed. | Technical and capacity building support at national and local level for assessing post-disaster damage and needs | • Mainstreaming disaster preparedness and risk management under consideration (ongoing) | |

Appendix 8. : Attachment B

# Indonesia: CAS Completion Report: Planned Lending Program and Actual Deliveries, FY04-FY08

| FY | CAS Plans | (US$M) | | | | (US$M) | | |
|---|---|---|---|---|---|---|---|---|
| | | IBRD | IDA | Grant | Actual Deliveries | IBRD | IDA | Grant |
| 2004 | Coral Reef Rehabilitation & Management Program II | 46 | 26 | | Delivered in FY04 | 33 | 23 | |
| | Eastern Indonesia Region Transport 2 | 200 | | | Delivered in FY04 | 200 | | |
| | Land Management & Policy Development | 29 | 32 | | Delivered in FY04 | 33 | 33 | |
| | Initiatives for Local Governance Reform | 28 | 32 | | Delivered in FY05 | 15 | 15 | |
| | Support for Poor and Disadvantaged Areas | | 45 | | Delivered in FY05 | 69 | 35 | |
| | Urban Poverty Project 3 | 113 | 67 | | Delivered in FY05 | 67 | 71 | |
| | Urban Sector Development & Reform Program | 78 | 22 | | Delivered in FY05 | 45 | | |
| | Catchment Protection (LIL) | | 3 | | Dropped | | 3 | |
| 2005 | Government Financial Management & Revenue Admin | 120 | | | Delivered in FY05 | 55 | 5 | |
| | Higher Education Project | 65 | 35 | | Delivered in FY05 | 50 | 30 | |
| | Kecamatan Development Project 3B (not in CAS) | | | | Delivered in FY05 | 80 | 80 | |
| | Domestic Gas Sector Restructuring | 85 | | | Delivered in FY06 | 80 | | |
| | Strategic Roads Infrastructure | 200 | | | Delivered in FY07 | 208 | | |
| | Environment & Sanitation | 40 | 60 | | Dropped | | | |
| | Provincial Health & Nutrition | | 75 | | Dropped | | | |
| | Sustaining Microfinance | 20 | 40 | | Dropped | | | |
| | Urban Water Services Improvement | 30 | 20 | | Dropped | | | |
| | High Case | | | | | | | |
| | First Development Policy Loan | 200 | | | Delivered in FY05 | 300 | | |
| | East Java Development Reform Program | 175 | | | Dropped | | | |
| | Grants | | | | | | | |
| | MDF- Land Titling in Aceh (RALAS) (not in CAS) | | | | Delivered in FY05 | | | 25 |
| 2006 | Early Childhood Education and Development (not in CAS) | | | | Delivered in FY06 | | 68 | |
| | Water Supply & Sanitation For Low Income Communities 3 | 80 | 20 | | Delivered in FY06 | | 138 | |
| | Farmer's Empowerment & Technology | 40 | 30 | | Delivered in FY07 | 33 | 60 | |
| | Strengthening Capacity for Decentralized Education | 70 | 30 | | Dropped | | | |
| | Urban Local Government Reform 2 | 100 | 50 | | Dropped | | | |
| | Urban Water Supply | 100 | | | Dropped | | | |
| | Initiatives for Local Governance Reform 2 | 100 | 50 | | Not prepared | | | |
| | Local Community Support Project (KDP4) | 50 | 50 | | Not prepared | | | |
| | High Case | | | | | | | |
| | Second Development Policy Loan | 250 | | | Delivered in FY06 | 400 | | |
| | West Java Environment Management (APL2) | 70 | | | Dropped | | | |
| | Energy Sector Project | 200 | | | Not prepared | | | |
| | Yogyakarta Regional Development & Poverty Reduction | 50 | | | Not prepared | | | |
| | Grants (not in CAS) | | | | | | | |
| | MDF- Aceh Forest & Environment | | | | Delivered in FY06 | | | 21 |
| | MDF- Community Based Settlement Reconstruction & Rehabilitation | | | | Delivered in FY06 | | | 85 |
| | MDF- Community Reconstruction through KDP | | | | Delivered in FY06 | | | 65 |
| | MDF- Community Reconstruction through UPP | | | | Delivered in FY06 | | | 18 |
| | MDF- Emergency Rehabilitation of Drainage & Flood System | | | | Delivered in FY06 | | | 5 |
| | MDF- Infrastructure Reconstruction Enabling Program (IREP) | | | | Delivered in FY06 | | | 42 |

| FY | CAS Plans | (US$M) | | | | (US$M) | | |
|---|---|---|---|---|---|---|---|---|
| | | IBRD | IDA | Grant | Actual Deliveries | IBRD | IDA | Grant |
| 2007 | Fisheries Revitalization Project | 100 | 50 | | Dropped | | | |
| | National Agency for Drug & Food Control | 40 | 10 | | Dropped | | | |
| | Catchment Protection 2 | 50 | 25 | | Not prepared | | | |
| | Community Based Education for Marginal Youth | 50 | 25 | | Not prepared | | | |
| | Provincial Health & Public Health Functions | 30 | 10 | | Not prepared | | | |
| | Umbulan Spring/Greater Surabaya Water | 100 | | | Not prepared | | | |
| | Urban Community Development | 100 | 50 | | Not prepared | | | |
| | Water Resources & Irrigation Sector Mgt(APL2) | 70 | 30 | | Not prepared | | | |
| | High Case | | | | | | | |
| | Third Development Policy Loan | 250 | | | Delivered in FY07 | 530 | 70 | |
| | KDP3 Second Phase - Additional Financing (not in CASPR) | | | | Delivered in FY07 | | 123 | |
| | UPP2 Additional Financing (not in CASPR) | | | | Delivered in FY07 | | 136 | |
| | Teacher Management (BERMUTU) | 70 | 70 | 40 | Delivered in FY08 | 25 | 62 | |
| | Government Financial Management & Revenue Administration 2 | 60 | | | Moved to FY09 | 120 | | |
| | Private Infrastructure Finance | 60 | | | Moved to FY09 | 60 | | |
| | Urban Water Supply & Sanitation | 35 | 35 | | Moved to FY09 | 30 | | |
| | Yogyakarta Earthquake Housing Reconstruction | | 110 | 76 | Not prepared | | | |
| | Grants | | | | | | | |
| | MDF- Infrastructure Reconstruction Financing Facility | | | 100 | Delivered in FY07 | | | 100 |
| | MDF- KDP Nias | | | 26 | Delivered in FY07 | | | 26 |
| | MDF- SPADA Aceh/Nias | | | 25 | Delivered in FY07 | | | 25 |
| | MDF- Roads Lamno-Calang | | | 12 | Moved project to UNDP | | | |
| | JRF - Transitional Housing Projects | | | 6 | Delivered in FY07 | | | 6 |
| | JRF - Permanent Housing & Community Infrastructure Project | | | 76 | Delivered in FY07 | | | 70 |
| 2008 | Fourth Development Policy Loan | 500 | | | Delivered in FY08 | 600 | | |
| | Infrastructure DPL | 100 | | | Delivered in FY08 | 200 | | |
| | National Program for Community Empowerment | 100 | 100 | | Delivered in FY08 | 41 | 191 | |
| | National UPP (PNPM UPP) | 50 | 100 | | Delivered in FY08 | 53 | 125 | |
| | Dam Operational Improvement | 80 | 20 | | Moved to FY09 | 50 | | |
| | National Roads Improvement | 300 | | | Moved to FY09 | 300 | | |
| | Youth Employment Program | 40 | 40 | | Moved to FY09 | 100 | | |
| | Basic Education (SISWA) | 120 | 80 | 300 | Moved to FY10 | 300 | | |
| | Electricity Access for Rural | 100 | 52 | | Moved to FY11 | 150 | | |
| | Infrastructure Guarantee Fund | 50 | | | Moved to FY11 | 300 | | |
| | West Tarum Canal | 80 | 20 | | Moved to FY11 | 80 | | |
| | Agricultural Export Competitiveness | 70 | | | Dropped | | | |
| | CCT to the Poor/DAK for CDD Operations | 10 | 150 | | Not prepared | | | |

Appendix 8. : Attachment C

# Indonesia: CAS Completion Report: Projects Closed During CAS Period (FY04-FY08)

| | Closing | Disbursed | Cancelled | Outcome | | Sustainability | | Institutional |
|---|---|---|---|---|---|---|---|---|
| | Date | US$M | US$M | ICR | IEG | ICR | IEG | Development |
| Nusa Tenggara Development | 09/30/2003 | 22.06 | 4.94 | U | MU | Unlikely | Unlikely | Modest |
| Sulawesi Agricultural Area | 12/31/2003 | 23.10 | 3.70 | U | MU | Unlikely | Unlikely | Modest |
| Corporate Restructuring | 12/31/2003 | 6.15 | 24.50 | S | MS | Likely | Non-evaluable | Modest |
| Iodine Deficiency Control | 12/31/2003 | 18.77 | 9.70 | S | S | Likely | Likely | Substantial |
| Quality of Undergraduate Education | 03/31/2004 | 56.61 | 9.89 | S | S | Likely | Likely | Substantial |
| Central Indonesia Secondary Education | 06/30/2004 | 93.06 | 9.69 | S | S | Likely | Likely | Substantial |
| East Java & NTT Junior Secondary Education | 06/30/2004 | 87.42 | 3.90 | S | S | Likely | Likely | Substantial |
| Sumatra Secondary Education | 06/30/2004 | 93.58 | 3.42 | S | S | Likely | Likely | Substantial |
| Urban Poverty | 06/30/2004 | 80.75 | 0.00 | S | S | Highly Likely | Likely | Substantial |
| Information Infrastructure Development | 06/30/2004 | 24.89 | 8.50 | S | MS | Likely | Likely | Modest |
| Coral Reef Rehabilitation and Management | 07/31/2004 | 6.70 | 0.20 | S | MS | Likely | Non-evaluable | Substantial |
| Fifth Health Project | 07/31/2004 | 32.71 | 11.99 | U | U | Unlikely | Unlikely | Modest |
| Bepeka Audit Modernization | 09/30/2004 | 14.01 | 1.77 | U | U | Likely | Likely | Modest |
| Bali Urban Infrastructure | 09/30/2004 | 72.13 | 37.87 | S | MS | Likely | Unlikely | Substantial |
| Water Resources Sector Adjustment Loan | 11/09/2004 | 150.00 | 150.00 | S | S | Highly Likely | Likely | Substantial |
| Railway Efficiency | 12/30/2004 | 57.39 | 47.33 | U | U | Unlikely | Unlikely | Modest |
| Safe Motherhood | 12/31/2004 | 32.27 | 10.23 | S | S | Likely | Likely | Modest |
| West Java Basic Education | 12/31/2004 | 99.46 | 3.76 | S | S | Likely | Likely | Substantial |
| First Development Policy Loan | 03/31/2005 | 300.00 | 0.00 | | S | | Likely | Modest |
| Decentralized Agricultural/Forestry Extension | 03/31/2005 | 16.59 | 0.00 | S | MU | Likely | Non-evaluable | Modest |
| Bengkulu Regional Development | 12/31/2005 | 12.45 | 8.05 | S | S | Likely | Likely | Substantial |
| Sumatra Regional Roads | 12/31/2005 | 178.01 | 50.00 | S | MS | Unlikely | Unlikely | Modest |
| Second Development Policy Loan | 03/31/2006 | 400.00 | 0.00 | | | | | |
| Library Development LIL | 04/30/2006 | 4.15 | 0.00 | MS | MS | | | |
| Sulawesi Basic Education | 04/30/2006 | 62.19 | 0.00 | S | S | | | |
| Sumatra Basic Education | 04/30/2006 | 73.86 | 0.00 | S | S | | | |
| Eastern Indonesia Regional Transport | 06/30/2006 | 198.58 | 0.00 | | | | | |
| West Java Environmental Management | 06/30/2006 | 13.15 | 0.00 | MU | MS | | Unlikely | Substantial |
| Early Child Development | 12/31/2006 | 10.85 | 10.65 | MS | MU | | | |
| Third Development Policy Loan | 03/31/2007 | 601.29 | 0.00 | | | | | |
| Provincial Health II | 06/30/2007 | 75.23 | 32.00 | | | | | |
| Global Development Learning LIL | 12/31/2007 | 1.45 | 0.00 | | | | | |
| Kecamatan Development II | 12/31/2007 | 331.59 | 0.00 | | | | | |
| Provincial Health I | 12/31/2007 | 31.26 | 3.17 | | | | | |
| Fourth Development Policy Loan | 03/31/2008 | 600.00 | 0.00 | | | | | |
| Infrastructure DPL (IDPL) | 03/31/2008 | 0.00 | 0.00 | | | | | |

*Notes: Outcome ratings: HS - Highly Satisfactory; S - Satisfactory; MS - Moderately Satisfactory; MU - Moderately Unsatisfactory; U - Unsatisfactory*

Appendix 8. : Attachment D

# Indonesia: CAS and CAS PR Completion Report: Key Nonlending Program and Actual Deliveries, FY04-FY08

| CAS PR Plans | |
|---|---|
| Notes on Aceh Reconstruction | Delivered in FY05 |
| Papua Public Expenditure Analysis | Delivered in FY05 |
| Preliminary Loss & Damage Assessment for Aceh | Delivered in FY05 |
| Rural Electricity Access | Delivered in FY05 |
| Accounting ROSC | Delivered in FY06 |
| Aceh & Nias One Year after the Tsunami | Delivered in FY06 |
| CGI Brief: Investing for Growth and Recovery | Delivered in FY06 |
| ECED Sector Report | Delivered in FY06 |
| Information and Communication Technologies for Rural Development | Delivered in FY06 |
| Local Environmental Governance (AMDAL review) | Delivered in FY06 |
| Local Government Financial Management | Delivered in FY06 |
| Non-Bank Financial Institutions Study | Delivered in FY06 |
| PRSP Support | Delivered in FY06 |
| Public Private Partnerships in Agriculture | Delivered in FY06 |
| Rebuilding Better Aceh & Nias-CFAN Report | Delivered in FY06 |
| Rural Investment Climate Survey | Delivered in FY06 |
| Yogyakarta and Central Java Preliminary Damage and Loss Assessment | Delivered in FY06 |
| Conflict and Poverty | Delivered in FY07 |
| Fuel Savings/Unconditional Cash Transfer | Delivered in FY07 |
| HIV/AIDS | Delivered in FY07 |
| Improving Rural Productivity | Delivered in FY07 |
| Infrastructure Summit | Delivered in FY07 |
| Local Government Platform Flagship | Delivered in FY07 |
| Migration and Remittances | Delivered in FY07 |
| Nias Public Expenditure Analysis | Delivered in FY07 |
| Poverty Assessment | Delivered in FY07 |
| Public Expenditure Review: Spending for Development | Delivered in FY07 |
| Social Protection Study | Delivered in FY07 |
| Teacher Management | Delivered in FY07 |
| Aceh Poverty and Economic Development | Delivered in FY08 |
| Conditional Cash Transfer | Delivered in FY08 |
| Governance and Decentralization Survey 2 | Delivered in FY08 |
| Public Financial Management Measurement Framework | Delivered in FY08 |
| Social Aspects of Poverty Reduction | Delivered in FY08 |
| Corruption Monitoring Surveys | Delivery in FY08 |
| DPR | Delivery in FY08 |
| Employment Study | Delivery in FY08 |
| Health Workforce and Improving Service Delivery | Delivery in FY08 |
| Country Procurement Assessment Report | Delivery in FY09 |
| Aceh BRR Support and Donor Coordination | Ongoing |
| Aceh Program Implementation | Ongoing |
| Creating a Diversified Financial System | Ongoing |
| Good Environment Governance | Ongoing |
| Governance Civil Service Dialogue | Ongoing |
| Improving Investment Climate | Ongoing |
| Improving Service Delivery | Ongoing |
| Investment Climate Flagship | Ongoing |
| National Governance Flagship | Ongoing |
| Reducing Poverty Flagship | Ongoing |
| WBI Capacity Building Program for the Government | Ongoing |
| Poultry Sector Strategy | Dropped |

| | |
|---|---|
| CAS Plans | |
| Averting an Infrastructure Crisis | Delivered in FY04 |
| CGI Brief: Indonesia: New Directions | Delivered in FY04 |
| DPR: Beyond Macroeconomic Stability | Delivered in FY04 |
| Education in Indonesia: Managing the Transition to Decentralization | Delivered in FY04 |
| Forest Policy Strategy | Delivered in FY04 |
| Justice and the Poor | Delivered in FY04 |
| Making Indonesia Competitive: Promoting Exports, Managing Trade | Delivered in FY04 |
| Mining Indonesia's Wealth Responsibly | Delivered in FY04 |
| PRSP Support | Delivered in FY04 |
| Investment Climate Flagship | Delivered in FY05 |
| Policy Briefs for Incoming Government | Delivered in FY05 |
| Regional Expenditure Review | Delivered in FY05 |
| Local Government Reforms Flagship | Delivered in FY06 |
| Making Services Work for the Poor in Indonesia | Delivered in FY06 |
| Public Expenditure Review | Delivered in FY06 |
| Aceh RPER | Delivered in FY07 |
| Poverty Assessment: Making the New Indonesia Work for the Poor | Delivered in FY07 |
| Corruption and Legal Reforms Flagship | Ongoing |
| Additional deliveries not in CAS | |
| Combating Corruption in Indonesia: Enhancing Accountability for Development | Delivered in FY04 |
| Corporate Governance Country Assessment | Delivered in FY04 |
| Health and Decentralization | Delivered in FY04 |
| Water User Rights Analysis | Delivered in FY05 |
| Additional deliveries not in CAS PR | |
| Aceh Stocktaking Report | Delivered in FY06 |
| Nonbank Financial Institutions Review | Delivered in FY06 |
| Budget Reform Strategy Priorities | Delivered in FY07 |
| Horticultural Production and Supermarket Development | Delivered in FY07 |

Appendix 9.

# Indonesia: Civil Society Consultations World Bank Group Country Partnership Strategy for FY09-12

In preparing the new World Bank Group (WBG) Country Partnership Strategy (CPS) for Indonesia (FY 2009-2012), a focus group discussion was held in Jakarta on February 13, 2008 to elicit inputs from civil society groups across the country. Fifteen groups from four regions –Sumatera, Sulawesi, Java, and Nusa Tenggara— participated in the full-day discussions. These diverse groups have been active in advocacy and development work, namely in the area of gender mainstreaming, democracy building, anti-corruption and governance, sustainable natural resources management, community development, legal reforms, development research, grassroots capacity building, and micro-credit.

The focus group discussion was facilitated by a team of civil society interlocutors led by Rustam Ibrahim, former director of LP3ES –a respected Jakarta-based development NGO. At the discussion, the World Bank team was led by Joachim von Amsberg, Country Director for Indonesia.

This document summarizes the key recommendations from these civil society groups arising from the discussions.

## Key Recommendations for the World Bank Group

### A. General Recommendations

1. Although the World Bank has a comprehensive Anti-Corruption Action Plan, taking actions against individuals or firms committing corruption in its projects, or demanding that the Government return the loan amounts; these measures are not sufficient in fighting corruption in Indonesia. The World Bank should ensure that the Government of Indonesia follow-up on these corruption cases through legal means. The Bank should also prepare a blacklist of ministries and regional governments that took part in corruption in Bank-financed projects.
2. Gender mainstreaming should be an integral part of every Bank-financed project design and implemented consistently. Currently, the participation of women in project decision making is minimal.
3. Some Bank-financed projects overlook local traditions, such as customary land rights (hak ulayat). The World Bank should not separate local values in the implementation of its programs. In order to avoid adverse impact on the environment, ensure sustainability, and increase ownership, the design and implementation of Bank-financed projects should factor in local traditions.
4. Information on Bank-financed projects should be easily accessible to the public at the project site. There should be a clear complaint mechanism that would allow public feedback to be followed through.
5. Community rights and human rights should always be considered in the design, planning, and implementation of every Bank-financed projects.
6. The World Bank should help reduce Indonesia's debt by providing incentives for its forest conservation efforts. Indonesia's forests are the lungs of the world and people in the developed world benefit from its conservation.
7. The Bank should carry-out environmental assessment for every investment project, such as in infrastructure and natural resources extraction, as they affect the livelihoods of the people.
8. Technical assistance should not be provided as loans, but as grants.

### B. Partnership with the Central Government

9. With regard to regional autonomy, some government and ministerial decrees are in conflict with the spirit of decentralization. The World Bank should help review these decrees and analyze their adverse impact on decentralization in Indonesia. Based on the review, the Bank could lay out the issues and provide recommendations to the central government to correct anomalies.
10. The World Bank should devolve the implementation of financed projects to the district governments. In order to improve the efficient use of resources, the central government should merely play a policy making and monitoring role, and should not be the executor of Bank-financed projects.
11. The World Bank should provide technical assistance for civil service reform.

### C. Partnership with Regional Governments

12. The World Bank should provide technical assistance to mainstream participatory planning at the grassroots level. Development projects and programs are often weakly coordinated at the grassroots level. An integrated bottom-up approach to participatory planning prepared annually at the

grassroots level will reflect the real needs of local communities.

13. The World Bank should help build capacity of district level regional governments for both the executive and legislative branches. Officials at the local level need the technical knowledge and skills on drafting regulations, realizing the importance of academic review, assessing the impact of regulations on communities, and understanding the need for harmonization of regional regulations.
14. The World Bank should support capacity building of Regional Audit Agencies (Bawasda), especially in enhancing their role in monitoring regional finances.
15. The World Bank should provide technical assistance for regional governments in budget preparation to avoid delays in preparing the Regional Development Budgets (APBD).
16. Successful Bank-financed projects, such as the Kecamatan Development Project (KDP) and the Urban Poverty Project (UPP), should be able to be sustained beyond their project life-cycles. The Bank should build partnerships with regional governments to continue supporting these initiatives through their own financing and ensuring that the original participatory approach is reflected in their implementation.
17. The Bank should urge regional governments to issue Freedom of Information Acts and other regulations to promote transparency.
18. Globally, tourism is a sustainable source of growth that spurs local economies. The Bank should assist regional governments in developing and managing their tourism sectors.

### D. World Bank's Engagement with Civil Society

19. To help ensure that Bank-financed projects are free from corruption, the Bank should work together with civil society groups. Credible groups with clear track records and knowledge of development could be empowered to monitor the implementation of projects on the ground. These groups should work independently and report their findings to the public.
20. In engaging Indonesian civil society groups at the project level, the Bank should take into consideration their past track records. The Bank should prepare basic guidelines and standard requirements that are based on competency, capacity and accountability. As an entity, a civil society group should be a non-profit organization and not a commercial consulting firm. Therefore, civil society groups should be treated differently from commercial entities in the procurement process and should be exempted from several regulations, such as Presidential Decree No. 80.
21. The Bank should assist Indonesian civil society groups in improving their accountability and transparency. This could be done through technical assistance and capacity building support to umbrella organizations and civil society networks in building and developing self-regulation mechanisms. This will help encourage the adoption of a code of ethics and accreditation/certification mechanism among the civil society groups that will be self-administered by the umbrella network. The grant support for this technical assistance could be managed through existing entities supported by the World Bank, such as the Decentralization Support Facility (DSF).
22. Consultations between the Bank and Indonesian civil society groups should be carried out on a regular basis, not only in the context of preparing a CPS, but also in the preparation and planning stages of every Bank-financed program or project in Indonesia. This could be done through the establishment of a regular working group which includes representatives of civil society, the Government, and Bank management. The Bank should ensure that regional CSOs, women, and marginalized groups are well represented in the working group.

## Participating Civil Society Organizations

MATARAM, WEST NUSA TENGGARA
- KONSEPSI-NTB
- MITRA SAMYA
- KOSLATA
- SOMASI
- YKPR

PALEMBANG, SOUTH SUMATERA
- YAYASAN PUSPA INDONESIA ( PUSAT STUDI PEMBERDAYAAN PEREMPUAN DAN ANAK SUMSEL)
- PERSERIKATAN OWA INDONESIA
- FITRA SUMSEL
- Women Crisis Centre (WCC) Palembang
- WAHANA BUMI HIJAU

MAKASSAR, SOUTH SULAWESI
- YAYASAN PELITA DESA
- YAYASAN MASYARAKAT MAJU
- IPPM (Institut Penelitian dan Pemberdayaan Masyarakat)
- AiLO SULSEL/ Asosiasi LSM/ORNOP SULSEL

JAKARTA
- LP3ES

Appendix 10.

# Indonesia: Addressing the Issue of Fraud and Corruption in WBG Supported Programs[14]

Now a decade after the fall of the New Order regime, whose collapse exposed the tremendous costs of corruption for Indonesia's stability and development, the salience of this issue has not yet diminished. Indonesia has taken important steps forward in the course of this decade, creating a system of electoral accountability, opening up the space for an independent media and vibrant NGO community, and building a new institutional framework to prevent, investigate and prosecute corruption. President Yudhoyono has placed the fight against corruption at the center of his governing program. High level corruption investigations and indeed prosecutions are increasingly common. And the Government is beginning to implement important reforms in the key systems for public financial management, public procurement, business regulation, auditing, and monitoring and evaluation, which although rarely make headlines, often have a far more important and lasting impact on the opportunities and incentives for corruption. Though several international corruption indicators have shown some positive movement especially over the last few years, the progress has been modest and both public and investor perceptions of Indonesia continue to see corruption as endemic. Many claim that decentralization in the absence of a strong local accountability framework may even have worsened corruption at that level or, at the very least, made it more unpredictable.

For the WBG in Indonesia, corruption remains a triple threat: it undermines progress on the country's broad development objectives; it is a serious risk to the effectiveness of WBG assistance; and it weakens public trust in development assistance overall. One of the most important lessons of the WBG's experience in Indonesia is that the success of its entire program will be judged by the contribution that our engagements in all sectors are seen to make towards greater transparency and accountability and by the standards of integrity with which that program is implemented. This has consistently been one of the main messages of the WBG's CPS consultations with civil society.

Under the previous CAS, the WBG committed to four key anti-corruption principles across its entire program in Indonesia:

- The WBG must have a clear and consistent voice raising corruption concerns and promoting feasible policy responses across all sectors of our operations.
- The WBG should select projects to open multiple entry points in the fight against corruption.
- The WBG should build in mechanisms to mitigate corruption risks for all projects through empowerment, participation and transparency.
- Where corruption allegations do arise, the WBG must be vigorous in investigating them and providing disclosure of the results in accordance with the WBG's rules and policies.

These principles, which were designed at a time when the WBG had limited engagement with the Indonesian Government on governance and anti-corruption issues, led to important changes in the Indonesia program. . Under the new CPS, there will be an enhanced focus on supporting the Government's own anti-corruption efforts, working in partnership with a range of Indonesian anti-corruption and fiduciary institutions. As such, in addition to protecting Bank-financed operations, the WBG's anti-corruption efforts over the CPS period will be equally devoted to strengthening national institutions and systems that will directly impact a much wider scope of public expenditures. In line with this approach, when corruption allegations do arise in WBG-financed programs, the WBG will make its best effort to support the Government's own investigative and sanctions processes, in addition to following the WBG's own investigative and sanctions processes. Under this CPS, the WBG's engagement on anti-corruption will be guided by the following three principles:

1) Partner with Indonesian institutions that are leading the fight against corruption. Since the last CAS, the WB has developed strong working relationships with Indonesia's key anti-corruption institutions: the Corruption Eradication Commission (KPK), the Attorney General's Office, the Audit Board (BPK), the Financial Development and Supervisory Board (BPKP), the Financial Transaction Reports and Analysis Center (PPATK), and the Office of the Ombudsman. Through trusts funds, the WBG has been able to provide direct

[14] "Fraud and/or corruption" refers collectively to "fraud, corruption, collusion, coercion and obstruction" as defined in the Bank's Guidelines on Preventing and Combating Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants.

technical assistance to strengthening Indonesia's anti-corruption prevention campaign, improving auditing capacity, building capacity to recover stolen assets through the Stolen Assets Recovery initiative, and, in the oil, gas, and mining sector, to enhancing transparency through support for the adoption of the Extractive Industries Transparency Initiative (EITI). The WB will continue to provide TA/support to the key government agencies (including KPK, BPK), as well as undertake efforts aimed at the strengthening of anti-corruption advocates and research institutes through several initiatives, such as: (1) training and research on measuring the impact of governance and anti-corruption programs through randomized evaluations in a long-term research partnership between the Poverty Action Lab at the Massachusetts Institute of Technology and Indonesia's leading corruption researchers; (2) participatory expenditure reviews for regional government budgets led by regional universities through the PEACH initiative; and (3) support for Indonesian research on the identification and tracking of rents in various resource flows.

2) Select priority programs for WBG engagements to support "islands of good governance" in select government agencies and regions. The WBG will work within the framework of the cross-cutting and core engagements discussed in the CPS to open up multiple anti-corruption entry points at different levels of government and across different sectors. The WBG will seek to work and support Indonesian partners who demonstrate a clear commitment to undertaking institutional reforms to address the incentives and opportunity for corruption in publicly financed programs. These multiple entry points raise the likelihood of achieving demonstrable impact in specific areas that can be replicated to build success stories and counter impressions that "nothing can be done" in an environment of endemic corruption.

3) Build into the design of WBG-assisted government programs support for the strengthening of Indonesia's own systems to mitigate corruption risks and handle corruption allegations. Since 2003, all WBG-assisted government programs have included Governance and Anti-corruption Actions Plans (GAAPs) as part of the implementation arrangements. Prepared together with the relevant government clients, these GAAPs are intended to assess the risks of corruption inherent in such projects and introduce design and supervision mechanisms executed by the Government to mitigate such risks. Over the past five years, these GAAPs have incorporated measures such as enhanced disclosure mechanisms for project documents and results, public complaints handling mechanisms to receive, investigate and resolve corruption-related complaints, external oversight measures for key stages of program implementation, and clearly defined sanctions and remedies so that small-scale corruption cases can be resolved within the framework of the program. Experience to date has demonstrated that the effectiveness of these GAAPs depends significantly on the degree to which the proposed mechanisms are integrated into the relevant Government agency's own systems and procedures. To ensure this integration, the WBG and Bappenas will carry out regular portfolio reviews of the implementation of all GAAPs with the participating Government agencies. In addition, GAAPs will continue to be disclosed publicly to allow for civil society oversight of anti-corruption mechanisms.

### Follow-up of corruption allegations in WBG supported projects:

Both the GoI and the WB may receive allegations of fraud and corruption related to WB-supported programs and projects. When the WB receives such allegations, it will, subject to its relevant policies and procedures applicable to corruption allegations and its disclosure policies and procedures, disclose these allegations to the GoI in a timely manner. It will also, where it considers it to be warranted, investigate the allegations for the purposes of possible WB administrative sanctions.

If the GoI receives such allegations, the MoF has agreed to promptly inform the Bank about such allegations. The MoF will direct WBG-provided complaints to the relevant GoI investigative and/or audit agency for follow-up.

The GoI and the WB have agreed that for the foreseeable future the Director General of Debt Management and External Financing, Ministry of Finance will be designated as the GoI focal point for these exchanges of information. The focal point may change by mutual consent of GoI and WBG if deemed necessary in the future.

The WBG will make its best efforts to provide, when requested, technical assistance to GoI agencies reviewing corruption allegations in WBG-financed programs, with a view to strengthening the technical capacity of relevant Indonesian agencies to investigate corruption allegations. Such agencies may include the KPK, BPKP, BPK and the relevant Inspectors General of partner agencies.

Regular meetings will be held with MoF to review the progress and follow-up actions of corruption investigations and discuss proposed remedies and sanctions; as well as discuss and agree on possible measures for prevention of recurrence in the future. In the event that the WBG proposes to exercise legal

remedies and/or apply administrative sanctions, it will, unless Bank management determines that exceptional considerations arise, explain to MoF the basis for its proposed action and provide MoF with the maximum possible advance notice before taking the action in question.

To integrate these principles across the entire range of our partnerships, the Indonesia Country Team will continue to invest substantial resources into mainstreaming anti-corruption measures and initiatives. The Indonesia Country Office includes a Governance Adviser in the Country Management Team to coordinate its anti-corruption relationships and policy dialogue, oversee governance-related operations, advise projects on governance and anti-corruption strategies, and develop a comprehensive research agenda and monitoring framework on governance. A strong field-based Operations Support team has been put in place to lead the movement towards a systematic and effective supervision of fiduciary practices during project implementation. An in-house Governance and Anti-Corruption Committee will continue to meet regularly with representation across the sectors to serve as a focal point for integrating anti-corruption mechanisms into project design, support and review GAAPs, monitor implementation of GAAPs and liaise with our GoI partners. A Senior Anti-Corruption Adviser will also be added to the staff to work closely with GoI agencies on all aspects of developing and implementing GAAPs and supporting relevant agencies in the investigation of corruption allegations in WBG-financed programs.

Appendix 11.

# Indonesia: Management of Trust Fund Operations

The ability to mobilize trust fund resources has enabled the World Bank and other development partners to respond to priority needs of the Government of Indonesia in a timely manner and to explore and address emerging issues. The dramatic growth of the Indonesia trust fund portfolio reflects the Bank's commitment to build broader and deeper partnerships with the larger development community. The grant financing provided under these trust funds are helping Indonesia to address emerging challenges of transforming and strengthening its institutions. The outcomes of these partnerships include: pooling of financial resources for joint strategies and actions – whether it is to provide assistance at the sub-national level or to support vital policy and institutional reforms; greater responsiveness to unanticipated needs as in post-disaster recovery efforts; and high-quality research and policy dialogue.

The Indonesia trust fund program has also helped to leverage the Bank's own knowledge and resources in providing support for special strategic thrusts of the Government's agenda. There are numerous examples where trust funds serve as generators of knowledge, contributing to new development initiatives and allowing the testing of pilot projects that are being replicated on a larger scale. Availability of trust funds has allowed a marked increase in the Bank's analytical and advisory activities, and more comprehensive supervision than limited Bank budgets would normally allow. In addition to the post-disaster support work, among others, joint analytical work is helping to influence areas including policy reforms in education, service delivery, governance, decentralization, poverty programs, public expenditure and public financial management, and investment climate. Significant IBRD or IDA financing has also been complemented with cofinancing from donor partners for certain flagship programs such as the KDP.

## Indonesia Trust Fund Portfolio

The Bank's Indonesia trust fund portfolio has expanded dramatically; at the same time, the variety of trust fund arrangements has vastly increased the complexity of managing the program. At one end of the spectrum are large, multi-donor trust funds (MDF) or jumbo trust funds established to implement reconstruction programs and capacity building activities. Examples include: MDF for Aceh and Nias, Java Reconstruction Fund, Decentralization Support Facility, Basic Education Capacity Building Program, and the EC/Dutch Trust Fund for Public Financial Management and Revenue Administration Reform Program. At the other end are small, ad hoc trust funds to support specific activities (although these are reducing in number). Examples are: Support for supervision of the KDP in Aceh and North Sumatra; JSDF: Improving Rural Connectivity for Sustainable Livelihoods; PHRD grants for project preparation; IDF grants for specific institutional development activities; and, TFESSD Campaign to Improve Participation of Women in CDD Programs. Total portfolio amount of current active trust funds in the Indonesia portfolio is about US$1.3 billion with 179 active grants. The biggest component of the portfolio is the MDF for Aceh and Nias, with total amount of about US$492 million (pledges about US$700 million). In terms of volume, Recipient Executed Trust Funds (RETFs) are about 90 percent of the portfolio. Annual new contributions and disbursements over the last three years have been US$150 million and US$160 million respectively.

## Need for a Shift in Strategic Approach

As the supply of grant money continues to increase, the "opportunistic" approach to mobilizing trust funds to support "donor" projects needs re-thinking. Certain quarters in the Government hold the view that some trust funds are imposing CGI-like mechanisms, without really contributing to convergence of ideas on critical development issues or supporting the harmonization agenda. There is an increasing concern that "donor projects" are undermining the Government's own interventions, especially if the activities are executed by the donors and the funding is not incorporated in the government budgets. With the thrust of the CPS on building national institutions and leveraging good practices on policies in an emerging MIC, there are opportunities to move from "donor projects" to government-led programs, with the Bank playing the role of a facilitator, convener, and fiduciary manager.

## Main Issues to be Addressed

The diversity of objectives, combined with a largely decentralized process of mobilizing trust funds, pose unique challenges in ensuring strategic direction and selectivity. As the number of trust fund programs has grown, questions are being raised whether enough selectivity is being exercised across new

initiatives, and whether the costs of managing them are well understood and taken into account at the time commitments are made.

The trust fund program has grown to the point where existing systems and processes have found it difficult to keep pace with the increasing demands of the Government, donors, and Bank staff. A new management framework is thus being proposed as part of the CPS to ensure effectiveness of the program and make it sustainable. This would require changing the way in which the Bank works with the Government and the commitment the Bank makes to donors, exercising more selectivity in acceptance of trust funds on the basis of alignment with the CPS, cost-effectiveness criteria, streamlined governance structures, and assessment of risks and expected outcomes and impact.

## A Proposed New Management Framework

The main driver for the proposed approach would be to move away from an opportunistic, donor project approach to an engagement of development partners to support existing government programs included in the government's budget. Such an approach would aim to link priorities of Bappenas, MOF and line ministries around the CPS challenges of enhancing competitiveness, inclusion, and sustainability in Indonesia. The new framework would focus on aligning the incentives of the Government, donor partners, and the Bank to help achieve results on the ground. The main elements of the proposed approach are:

Pillar 1: Promoting a more strategic approach which focuses on: (i) selectivity of program activities; (ii) government leadership; (iii) creating linkages with priorities of Development Partners; and (iv) leveraging government programs.

### (i) Selectivity of Program Activities

Trust funded activities will be aligned with and support key priorities of the CPS. These activities will be on the "front burner" of the program going forward:

Co-financing of core government programs such as PNPM and SISWA. In addition, opportunities will be explored in other sectors including roads, natural resource management and sustainable energy.

Partnerships for strengthening public sector systems. Build upon ongoing justice for the poor, anti-corruption work and PFM reforms.

Local government partnerships. Areas of interest could be continued support for decentralization and local governance through the DSF.

Global partnerships. Support the environmental, deforestation, natural resource management and governance nexus (where there are opportunities of supplements and buy-downs for mitigation) and help with adaptation planning and incorporating the climate change agenda using resources such as the new Climate Investment Funds and Carbon Funds.

At the same time, the Bank and donors would like to leave the door open for new unspecified issues – an open menu which allows for expansion in areas where there are reform champions on the government side. It would also allow for responding to unforeseen needs, such as natural disasters and other emergency situations.

### (ii) Government Leadership

The Bank is working with the Government to ensure full ownership of trust funded programs. In that context, the Bank intends to build upon successful trust fund models which have fully engaged the Government in their management structure. Two successful models are: (a) MDF for Aceh and Nias, in which BRR is responsible for soliciting proposals aligned with the Aceh reconstruction plan and then putting them to a Government-donor led Steering Committee; and (b) Basic Education Capacity Building Program which has helped to fund extensive analytical support for policy formulation to support the Government's Medium-Term Education Sector Policy, or RENSTRA. The Bank and the Government engage in a thematic dialogue based on the analytical work carried out under the trust fund.

Other measures to promote government leadership could include: (i) establishment of a focal point in MOF or Bappenas; (ii) improved reporting for the Government on trust fund portfolio performance; and (iii) transferring to the Government consultant capacity developed at the Bank from trust fund financing.

### (iii) Linkages with Development Partners

Development partners have also expressed interest in adopting more programmatic approaches to trust fund mobilization and management, possibly centered around cross-sectoral themes focused on joint objectives. The Bank intends to take steps to decrease the number of ad hoc trust funds and approach the donors increasingly to sponsor thematic programmatic trust funds in line with the Government's strategic directions. Developmental needs and priorities would be identified as part of the sectoral dialogue between line ministries and donors. Funding requests for the resulting programs would be prioritized and a menu provided to donors after consultations with Bappenas. Modalities for the ensuing trust fund programs would be more standardized, with upfront agreements on levels of services with donors. The ideal model would incorporate agreed thematic objectives, and broad

criteria for allocation of funds, with the Bank authorized to allocate within an annual planning framework. The Bank would also consider organizing an annual "Forum" together with the Government to present funding needs of priority programs.

(iv) Leveraging Government Programs

The mainstreaming of trust funds into the government programming processes is essential and remains a major agenda item for the CPS. The Government has already initiated a process to include RETFs and BETFs for recipient work in its budgeting process, although a specialized process may be needed to incorporate small trust funds which are approved during the government fiscal year.

Pillar 2: Strengthening risk management and controls: While the acceptance of trust funds has strengthened partnerships and brought major benefits to the Government and the Bank, there are also a diverse set of risks that accompany the acceptance of financing from outside sources. As the Indonesia trust fund program has grown, it has become more important that these risks be understood and managed more explicitly. The key risks identified for the trust fund program are:

- Strategy and Policy – standardization, fee allocation, execution, and financing of staff costs;
- Processes and Systems – user-friendly templates, portfolio management, donor reporting, and systems enhancements;
- Administrative and Managerial – including issues of office space, accounting oversight, management of the portfolio; and
- Operational – transparency and the clarification of accountability to enhance confidence in the Bank's stewardship of trust fund resources; and development of new tools to help teams negotiating trust fund arrangements.

Pillar 3: Improving operational effectiveness and processes: Recent policy changes for trust funds approved by the Board have created an enabling environment to make adjustments to the management framework for Indonesia trust fund programs. The challenge for the Indonesia CMU is to develop systems which would help to increase efficiency and decrease complexity. To the extent possible, the CMU will implement a more mainstreamed approach, building on existing operational processes and encourage more coordinated, disciplined trust fund mobilization.

Going forward, the increasing mainstreaming of trust funds into the regular business planning, resource management, and quality oversight processes will continue to be an important operating principle. Some of the key actions being proposed are:

1. Creating a Service Center for Trust Fund Management Support in the Jakarta Office. The Service Center will have responsibility for:
   - Quality assurance, M&E at the portfolio level, overall donor coordination, oversight, standardization of key provisions in agreements with donors, dissemination of good practice (e.g., in terms of negotiating trust fund support);
   - Results-based portfolio reviews, including follow-up on risky trust funds and support to complex trust funded operations; and,
   - Improved coordination with HR, legal and other support units.
2. Encouraging teams to focus on substantive aspects of work and ensure staff are not "penalized" for raising TFs.
3. Improving managerial oversight of consultants in general and creating an internal research/support unit where skills can be tapped with the aim to move consultants in the medium term from BETFs to RETFs.
4. Changing the cost effectiveness equation. Recover actual costs for complex trust fund programs building on the new cost recovery policy for the Bank.
5. Recognizing good achievements in TF management and donor coordination in promotion decisions for staff and managers.

It is expected that the improved systems and processes will better serve the goals of selectivity and achievement of results, as management works to ensure that there are no unfunded mandates. The approach could also mean turning away some trust funds that are not aligned to the priorities of the Government and to the new CPS.

To support the implementation of the new framework, the CMU will develop a Trust Fund Management Plan (aligned with the Regional Trust Fund Management Plan as required in the new TF Framework approved by the Board) in line with specific business needs identified above. The Plan will be developed in a flexible manner to cater to the needs of the Government, development partners, and Bank staff.

Appendix 11: Attachment A

# Indonesia Trust Fund Portfolio

| Engagement area | | Major Donors |
|---|---|---|
| Environmental Sustainability and Disaster Mitigation | | |
| Multi-Donor Fund for Aceh and Nias (RETF) | 697 | EC, Netherlands, DFID, Canada, WBG, Sweden |
| Aceh Response - JSDF (RETF) | 8 | Japan |
| Java Reconstruction Fund (RETF) | 84 | EC, Netherlands, DFID, Canada |
| Avian Influenza (RETF) | 15 | EC, Japan |
| Ozone Depletion Phase-Out (RETF) | 37 | Multiple donors |
| Global Environmental Facility (RETF) | 9 | Multiple donors |
| Central Government Institutions and Systems | | |
| Public Financial Management (RETF) | 8 | Japan |
| Public Financial Management (BETF) | 3 | Netherlands |
| Institutional Development (BETF) | 25 | Netherlands |
| Governance (BETF) | 6 | Netherlands |
| Sub-national Government Institutions and Systems | | |
| Decentralization Support Facility (BETF) | 20 | DFID, AusAID |
| Private Sector Development | | |
| Smallholder Agribusiness (RETF) | 5 | AusAID |
| Investment Climate and Trade (BETF) | 7 | Netherlands |
| Infrastructure | | |
| Water Supply and Sanitation (RETF) | 10 | AusAID, Netherlands |
| Urban Development (RETF) | 5 | Japan |
| Water Resources Management (RETF) | 15 | Netherlands |
| Water & Sanitation (BETF) | 3 | Netherlands |
| Community Development and Social Protection | | |
| Poverty Reduction/CDD (RETF) | 107 | Netherlands, DFID, EC |
| PNPM (RETF) | 61 | Denmark, Netherlands, DFID, Canada, Australia |
| SPADA (RETF) | 5 | DFID |
| Education | | |
| Education - Cofinancing (RETF) | 92 | Netherlands |
| Basic Education Capacity (RETF) | 28 | Netherlands, EC |
| Basic Education Capacity (BETF) | 13 | Netherlands, EC |

*Notes:*
*Figures above represent cumulative commitments and disbursements typically span multiple years (on average five years).*

*RETFs are Recipient Executed Trust Funds executed normally by government implementing agencies. BETFs are Bane Executed Trust Funds implemented by the Bank.*

*More than 90 percent of the trust funds are recipient executed (shown as shaded). For example, almost all trust funds for Environmental Sustainability and Disaster Mitigation are implemented by government entities.*

Appendix 11: Attachment B

# Indonesia: Key Active Trust Funds

Multi-Donor Fund for Aceh and Nias (MDF): Multiple Donors (US$697 million): The MDF supports the rehabilitation and reconstruction of Aceh and Nias in the wake of the earthquake and tsunami of December 2004, and the earthquake of March 2005. The MDF serves as a common platform for mobilizing donor resources and providing financial assistance to support the Government's recovery program using a coordinated framework to channel assistance in the areas of reconstruction, rehabilitation of infrastructure and transport, land titling, capacity building and governance, and sustainable management of the environment.

Java Reconstruction Fund (JRF): Multiple Donors (US$84 million): The focus of the JRF is on addressing the reconstruction and rehabilitation efforts following the Jogyakarta-Central Java earthquake of May 2006. The JRF has been funding the reconstruction of improved housing, damaged infrastructure, and livelihood conditions for those affected by the disasters.

Decentralization Support Facility (DSF) I and II: Multiple Donors (UK, Australia) (US$20 million): The DSF I and II TFs support the formation and functioning of regional and local governments while at the same time promoting a harmonized donor approach to supporting Indonesia's sub-national governance reform program. They support the partnership among government, the World Bank, and like minded donors who are involved in decentralization. Funds are used for analytical and advisory activities to bring together donor policies and practices relevant for decentralization.

Institutional Development and Capacity Building TF: Netherlands (US$25 million): The TF, supplemented by others, supports governance reforms, improvement of the investment climate, legal and justice sector reforms, civil service reforms, Eastern Indonesia development, and public expenditures.

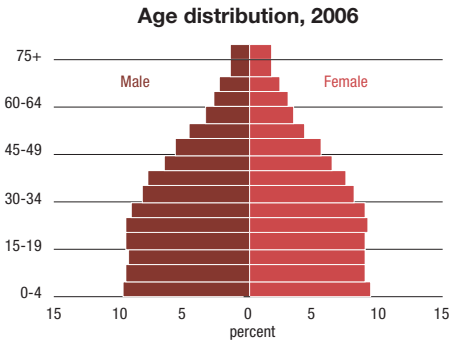
Better Education through Reformed Management and Universal Teacher Upgrading Project (BERMUTU): Netherlands (US$52 million): The TF co-finances the BERMUTU Project supported by the Bank. The development objective of this grant is to contribute to the improvement of the overall quality and performance of teachers through enhancing teachers' knowledge of subject matter and pedagogical skills in the classroom. The TF will contribute to improving teacher competency and performance to promote student learning and thus contribute to the development of quality human resources, ultimately leading to a growth in productivity and the improvement of Indonesia's competitiveness in the global economy.

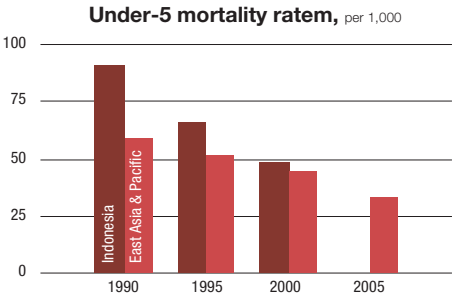
Basic Education Capacity Program (BEC): Multiple Donors (US$40.5 million equivalent): The BEC TF contributes to the Government's achievement of MDG and EFA goals through good governance in education. The purpose of the program is to support improvements in the delivery of decentralized basic education services by local governments and schools in selected program areas, and by extension, in other locations.

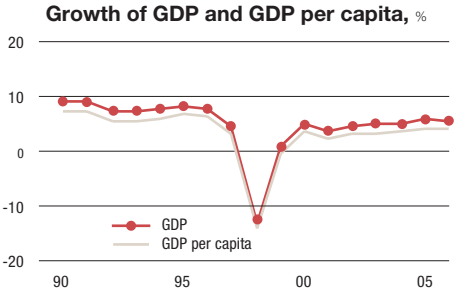
Annex A2

# Indonesia: At-a-Glance

| Key Development Indicators (2006) | Indonesia | East Asia & Pacific | Lower middle income |
|---|---|---|---|
| Population, mid-year (millions) | 224 | 1,900 | 2,276 |
| Surface area (thousand sq. km) | 1,860 | 16,300 | 28,549 |
| Population growth (%) | 1.3 | 0.8 | 0.9 |
| Urban population (% of total population) | 48 | 42 | 47 |
| GNI (Atlas method, US$ billions) | 316 | 3,539 | 4,635 |
| GNI per capita (Atlas method, US$) | 1,410 | 1,863 | 2,037 |
| GNI per capita (PPP, international $) | 3,950 | 6,821 | 7,020 |
| GDP growth (%) | 5.5 | 9.4 | 8.8 |
| GDP per capita growth (%) | 4.0 | 8.6 | 7.9 |
| *(most recent estimate, 2000–2006)* | | | |
| Poverty headcount ratio at $1 a day (PPP, %) | 8.5 | 9 | .. |
| Poverty headcount ratio at $2 a day (PPP, %) | 50 | 37 | .. |
| Life expectancy at birth (years) | 67 | 71 | 71 |
| Infant mortality (per 1,000 live births) | 30 | 26 | 31 |
| Child malnutrition (% of children under 5) | 29 | 15 | 13 |
| Adult literacy, male (% of ages 15 and older) | 94 | 95 | 93 |
| Adult literacy, female (% of ages 15 and older) | 87 | 87 | 85 |
| Gross primary enrollment, male (% of age group) | 118 | 115 | 117 |
| Gross primary enrollment, female (% of age group) | 116 | 113 | 114 |
| Access to an improved water source (% of population) | 79 | 79 | 81 |
| Access to improved sanitation facilities (% of population) | 60 | 51 | 55 |




| | 1980 | 1990 | 2000 | 2006 | 1980–90 | 1990–2000 | 2000–06 |
|---|---|---|---|---|---|---|---|
| Net Aid Flows (US$ millions) | | | | | (average annual growth %) | | |
| Net ODA and official aid | 941 | 1,716 | 1,654 | 2,524 | 1.8 | 1.5 | 1.4 |
| Top 3 donors (in 2006): | | | | | 6.1 | 4.2 | 4.9 |
| Japan | 350 | 868 | 970 | 1,223 | | | |
| Australia | 48 | 77 | 72 | 185 | 3.6 | 2.0 | 3.1 |
| Netherlands | 85 | 190 | 144 | 176 | 7.3 | 5.2 | 4.0 |
| Aid (% of GNI) | 1.3 | 1.6 | 1.1 | 0.9 | 12.8 | 6.7 | 5.1 |
| Aid per capita (US$) | 6 | 10 | 8 | 11 | 6.5 | 4.0 | 6.5 |
| Long-Term Economic Trends | | | | | 5.2 | 6.6 | 4.5 |
| Consumer prices (annual % change) | 9.5 | 7.5 | 3.7 | 13.1 | 4.6 | 0.1 | 8.3 |
| GDP implicit deflator (annual % change) | 31.0 | 7.7 | 20.4 | 13.6 | 7.7 | -0.6 | 5.4 |
| Exchange rate (annual average, local per US$) | 627.0 | 1,842.8 | 8,421.8 | 9,159.3 | 2.7 | 5.9 | 7.7 |
| Terms of trade index (2000 = 100) | .. | 63 | 100 | 76 | 1.2 | 5.7 | 9.0 |
| Population, mid-year (millions) | 148.3 | 178.2 | 206.3 | 223.9 | | | |
| GDP (US$ millions) | 78,013 | 114,426 | 165,021 | 364,459 | | | |
| | | | (% of GDP) | | | | |
| Agriculture | 24.0 | 19.4 | 15.6 | 12.9 | | | |
| Industry | 41.7 | 39.1 | 45.9 | 47.0 | | | |
| Manufacturing | 13.0 | 20.7 | 27.7 | 28.0 | | | |
| Services | 34.3 | 41.5 | 38.5 | 40.1 | | | |
| Household final consumption expenditure | 51.4 | 58.9 | 60.7 | 62.0 | | | |
| General gov't final consumption expenditure | 10.5 | 8.8 | 6.5 | 8.6 | | | |
| Gross capital formation | 24.1 | 30.7 | 22.2 | 24.6 | | | |
| Exports of goods and services | 34.2 | 25.3 | 41.0 | 30.9 | | | |
| Imports of goods and services | 20.2 | 23.7 | 30.5 | 26.1 | | | |

*Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.*
*a. Aid data are for 2005.*
*Development Economics, Development Data Group (DECDG).*

Annex A2

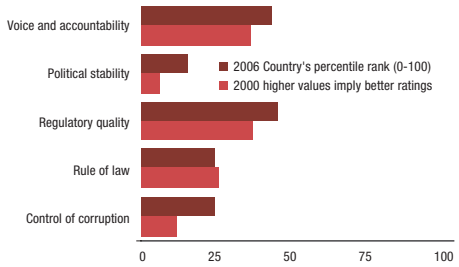
# Indonesia: At-a-Glance

| Balance of Payments and Trade (US$ millions) | 2000 | 2006 |
|---|---|---|
| Total merchandise exports (fob) | 62,124 | 103,514 |
| Total merchandise imports (fob) | 33,515 | 73,868 |
| Net trade in goods and services | 29,862 | 19,539 |
| Current account balance | 23,982 | 9,937 |
| as a % of GDP | 14.5 | 2.7 |
| Workers' remittances and compensation of employees (receipts) | 2,380 | 5,722 |
| Reserves, including gold | 29,268 | 43,083 |
| Central Government Finance (% of GDP) | | |
| Current revenue (including grants) | 19.7 | 19.1 |
| Tax revenue | 11.1 | 12.3 |
| Current expenditure | 15.6 | 11.5 |
| Overall surplus/deficit | -1.8 | -0.9 |
| Highest marginal tax rate (%) | | |
| Individual | 35 | 35 |
| Corporate | 30 | 30 |
| External Debt and Resource Flows (US$ millions) | | |
| Total debt outstanding and disbursed | 141,693 | 125,846 |
| Total debt service | 16,622 | 30,675 |
| Debt relief (HIPC, MDRI) | – | – |
| Total debt (% of GDP) | 85.9 | 34.5 |
| Total debt service (% of exports) | 11.2 | 24.9 |
| Foreign direct investment (net inflows) | -7,896 | 2,877 |
| Portfolio equity (net inflows) | -1,911 | -340 |

| Private Sector Development | | |
|---|---|---|
| Time required to start a business (days) | .. | 97 |
| Cost to start a business (% of GNI per capita) | .. | 86.7 |
| Time required to register property (days) | .. | 42 |
| Ranked as a major constraint to business (% of managers surveyed who agreed) | | |
| Economic and regulatory policy uncertainty | .. | 48.2 |
| Corruption | .. | 41.5 |
| Stock market capitalization (% of GDP) | 16.3 | 38.1 |
| Bank capital to asset ratio (%) | 6.0 | 10.5 |

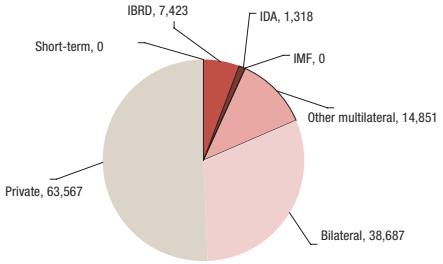
| Technology and Infrastructure | 2000 | 2005 |
|---|---|---|
| Paved roads (% of total) | 57.1 | 55.3 |
| Fixed line and mobile phone subscribers (per 1,000 people) | 5 | 23 |
| High technology exports (% of manufactured exports) | 16.2 | 16.3 |
| Environment | | |
| Agricultural land (% of land area) | 25 | 26 |
| Forest area (% of land area) | 54.0 | 7.3 |
| Nationally protected areas (% of land area) | .. | 4.2 |
| Freshwater resources per capita (cu. meters) | .. | 12,867 |
| Freshwater withdrawal (% of internal resources) | 2.9 | .. |
| CO2 emissions per capita (mt) | 1.3 | 1.4 |
| GDP per unit of energy use (2000 PPP $ per kg of oil equivalent) | 4.1 | 4.1 |
| Energy use per capita (kg of oil equivalent) | 707 | 800 |

**Governance indicators,** 2000 and 2006




*Source: Kaufmann-Kraay-Mastruzzi, World Bank*

**Composition of total external debt,** 2006 (US$ millions)




| World Bank Group portfolio (US$ millions) | 2000 | 2006 |
|---|---|---|
| IBRD | | |
| Total debt outstanding and disbursed | 11,715 | 7,423 |
| Disbursements | 1,051 | 696 |
| Principal repayments | 761 | 1,403 |
| Interest payments | 950 | 425 |
| IDA | | |
| Total debt outstanding and disbursed | 714 | 1,318 |
| Disbursements | 59 | 316 |
| Total debt service | 31 | 37 |
| IFC (fiscal year) | | |
| Total disbursed and outstanding portfolio | 880 | 462 |
| of which IFC own account | 480 | 325 |
| Disbursements for IFC own account | 20 | 46 |
| Portfolio sales, prepayments and | | |
| repayments for IFC own account | 43 | 46 |
| MIGA | | |
| Gross exposure | 56 | 50 |
| New guarantees | 0 | 0 |

*Note: Figures in italics are for years other than those specified. 2006 data are preliminary.*
*.. indicates data are not available. – indicates observation is not applicable.*
*Development Economics, Development Data Group (DECDG).*

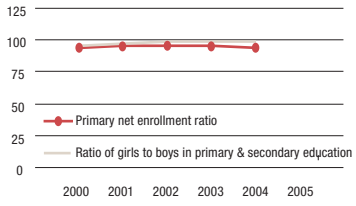
Annex A2

# Indonesia: Millennium Development Goals

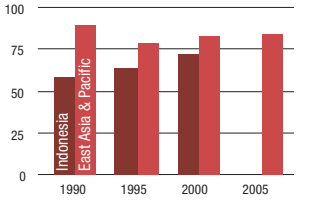
With selected targets to achieve between 1990 and 2015, *estimate closest to date shown, +/- 2 years*

| | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|
| Goal 1: halve the rates for $1 a day poverty and malnutrition | | | | |
| Poverty headcount ratio at $1 a day (PPP, % of population) | .. | 13.9 | 7.2 | .. |
| Poverty headcount ratio at national poverty line (% of population) | .. | 15.7 | 27.1 | 17.8 |
| Share of income or consumption to the poorest quintile (%) | .. | .. | 8.4 | .. |
| Prevalence of malnutrition (% of children under 5) | .. | 34.0 | 24.6 | 29.0 |
| Goal 2: ensure that children are able to complete primary schooling | | | | |
| Primary school enrollment (net, %) | 97 | .. | 94 | 94 |
| Primary completion rate (% of relevant age group) | 94 | 96 | 97 | 101 |
| Secondary school enrollment (gross, %) | 46 | .. | 55 | 63 |
| Youth literacy rate (% of people ages 15-24) | .. | .. | .. | .. |
| Goal 3: eliminate gender disparity in education and empower women | | | | |
| Ratio of girls to boys in primary and secondary education (%) | 93 | .. | 96 | 99 |
| Women employed in the nonagricultural sector (% of nonagricultural employment) | 29 | 29 | 32 | 31 |
| Proportion of seats held by women in national parliament (%) | 12 | 13 | 8 | 11 |
| Goal 4: reduce under-5 mortality by two-thirds | | | | |
| Under-5 mortality rate (per 1,000) | 91 | 66 | 48 | 38 |
| Infant mortality rate (per 1,000 live births) | 60 | 48 | 36 | 30 |
| Measles immunization (proportion of one-year olds immunized, %) | 58 | 63 | 72 | 72 |
| Goal 5: reduce maternal mortality by three-fourths | | | | |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | .. | .. | 230 | .. |
| Births attended by skilled health staff (% of total) | 32 | 37 | 64 | 72 |
| Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases | | | | |
| Prevalence of HIV (% of population ages 15-49) | .. | .. | .. | 0.1 |
| Contraceptive prevalence (% of women ages 15-49) | 50 | 55 | 57 | 57 |
| Incidence of tuberculosis (per 100,000 people) | 343 | .. | .. | 245 |
| Tuberculosis cases detected under DOTS (%) | .. | 1 | 20 | 53 |
| Goal 7: halve the proportion of people without sustainable access to basic needs | | | | |
| Access to an improved water source (% of population) | 72 | .. | .. | 77 |
| Access to improved sanitation facilities (% of population) | 46 | .. | .. | 55 |
| Forest area (% of total land area) | 64.3 | .. | 54.0 | 48.8 |
| Nationally protected areas (% of total land area) | .. | .. | .. | 20.6 |
| CO2 emissions (metric tons per capita) | 0.8 | 1.2 | 1.3 | 1.4 |
| GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent) | 4.1 | 4.6 | 4.1 | 4.1 |
| Goal 8: develop a global partnership for development | | | | |
| Fixed line and mobile phone subscribers (per 1,000 people) | 6 | 18 | 50 | 184 |
| Internet users (per 1,000 people) | 0 | 0 | 9 | 73 |
| Personal computers (per 1,000 people) | 1 | 5 | 10 | 14 |
| Youth unemployment (% of total labor force ages 15-24) | 8.9 | 13.4 | .. | .. |

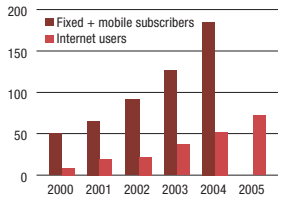
**Education indicators,** %




**Measles immunization,** % of 1-year olds




**ICT indicators,** per 1,000 people




*Note: Figures in italics are for years other than those specified. .. indicates data are not available.*
*Development Economics, Development Data Group (DECDG).*

Annex B2.

# Selected Indicators* of Bank Portfolio Performance and Management

| Indicator | 2006 | 2007 | 2008 |
|---|---|---|---|
| Portfolio Assessment | | | |
| Number of Projects Under Implementation [a] | 26 | 26 | 27 |
| Average Implementation Period (years) [b] | 3.2 | 3.7 | 3.8 |
| Percent of Problem Projects by Number [a, c] | 3.8 | 11.5 | 25.9 |
| Percent of Problem Projects by Amount [a, c] | 4.4 | 7.1 | 13.9 |
| Percent of Projects at Risk by Number [a, d] | 7.7 | 15.4 | 29.6 |
| Percent of Projects at Risk by Amount a, d | 4.5 | 10.9 | 17.5 |
| Disbursement Ratio (%) [e] | 20.9 | 20.2 | 24.9 |
| Memorandum Item | Since FY 80 | Last Five FYs | |
| Proj Eval by OED by Number | 267 | 18 | |
| Proj Eval by OED by Amt (US$ millions) | 23,328.2 | 1,325.2 | |
| % of OED Projects Rated U or HU by Number | 24.2 | 27.8 | |
| % of OED Projects Rated U or HU by Amt | 22.0 | 9.9 | |

*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.*

Annex B3.

# Indonesia: Indicative IBRD Lending Program, FY09-12

| Fiscal Year | Product Title | IBRD US$ (millions) |
|---|---|---|
| 2009 | Proposed Policy Lending | 900 |
| | DPL5 | 700 |
| | IDPL2 | 200 |
| | Proposed Investment Lending Projects | 1,590 |
| | BOS (School Operations and Scholarships) | 600 |
| | PINTAR (GFMRAP2) | 145 |
| | National Roads (Western Indonesia) Improvement | 80 |
| | Dam Operational Improvement | 50 |
| | Urban Water Supply and Sanitation | 30 |
| | PNPM II (Rural) | 250 |
| | PNPM II (Urban) | 185 |
| | Jakarta Emergency Dredging Initiative | 150 |
| | Private Infrastructure Finance | 100 |
| | FY09 Total (with Standby Investment Projects) | 2,490 |
| 2010 | Proposed Policy Lending | |
| | DPL6 | |
| | IDPL3 | |
| | Climate Change/other thematic/sector DPL | |
| | Proposed Investment Lending Projects | |
| | BOS/ Education SISWA | |
| | Local Government DAU/DAK Support | |
| | National Roads Maintenance Project | |
| | PNPM III (Rural) | |
| | PNPM III (Urban) | |
| | Pump Storage Hydro-Electric | |
| | Strengthening Indonesian Statistics (STATCAP) | |
| | Other Sectoral Projects | |
| | FY10 Total | 1,500 - 2,500 |
| 2011 | Proposed Policy Lending | |
| | DPL/IDPL/CC DPL/other thematic/sectoral DPL | |
| | Proposed Investment Lending Projects | |
| | Education SISWA | |
| | PNPM I (Combined Rural/Urban) | |
| | Other Sectoral Projects | |
| | FY11 Total | 1,500 - 2,500 |
| 2012 | Proposed Policy Lending | |
| | DPL/IDPL/CC DPL/other thematic/sectoral DPL | |
| | Proposed Investment Lending Projects | |
| | PNPM II (Combined Rural/Urban) | |
| | PFM/Civil Service | |
| | Other Sectoral Projects | |
| | FY12 Total | 1,500 - 2,500 |

Annex B3.

# Indonesia: IFC Investment Operations Program

| | 2005 | 2006 | 2007 | 2008* |
|---|---|---|---|---|
| Commitments (US$m) | | | | |
| Gross | 639.6 | 742.3 | 873.1 | 718.3 |
| Net** | 491.8 | 605.9 | 742.7 | 703.0 |
| Net Commitments by Sector (US$M) | | | | |
| Accomodation & Tourism Services | 5.0 | 3.8 | 1.3 | 0.0 |
| Agriculture & Forestry | 33.0 | 88.5 | 60.4 | 60.6 |
| Chemicals | 160.4 | 148.1 | 116.4 | 100.7 |
| Collective Investment Vehicles | 0.0 | 0.0 | 0.0 | 15.0 |
| Education & Services | 2.8 | 2.8 | 5.2 | 5.1 |
| Finance & Insurance | 158.9 | 221.2 | 397.1 | 390.0 |
| Food & Beverages | 61.8 | 84.6 | 113.0 | 106.2 |
| Industrial & Consumer Products | 44.2 | 36.8 | 32.4 | 21.2 |
| Oil, Gas, & Mining | 0.0 | 0.0 | 0.0 | 0.0 |
| Prof., Scient., & Tech. | 1.2 | 1.0 | 1.0 | 0.0 |
| Textiles, Apparel, & Leather | 12.4 | 11.6 | 11.6 | 0.0 |
| Transportation & Warehouse | 8.3 | 3.3 | 0.0 | 0.0 |
| Wholesale & Retail Trade | 3.9 | 4.2 | 4.2 | 4.2 |
| | 491.8 | 605.9 | 742.7 | 703.0 |
| Net Commitments by Sector (%) | | | | |
| Accomodation & Tourism Services | 1% | 1% | 0% | 0% |
| Agriculture & Forestry | 7% | 15% | 8% | 9% |
| Chemicals | 33% | 24% | 16% | 14% |
| Collective Investment Vehicles | 0% | 0% | 0% | 2% |
| Education & Services | 1% | 0% | 1% | 1% |
| Finance & Insurance | 32% | 37% | 53% | 55% |
| Food & Beverages | 13% | 14% | 15% | 15% |
| Industrial & Consumer Products | 9% | 6% | 4% | 3% |
| Oil, Gas, & Mining | 0% | 0% | 0% | 0% |
| Prof., Scient., & Tech. | 0% | 0% | 0% | 0% |
| Textiles, Apparel, & Leather | 3% | 2% | 2% | 0% |
| Transportation & Warehouse | 2% | 1% | 0% | 0% |
| Wholesale & Retail Trade | 1% | 1% | 1% | 1% |
| | 100% | 100% | 100% | 100% |
| Net Commitments by Investment Instrument (%) | | | | |
| Loan | 60% | 80% | 84% | 82% |
| Equity | 13% | 7% | 5% | 8% |
| Quasi Loan + Quasi Equity | 4% | 3% | 2% | 2% |
| Guarantee | 17% | 6% | 7% | 7% |
| Risk Management | 5% | 5% | 1% | 1% |
| Total | 100% | 100% | 100% | 100% |

* *As of March 31, 2008*
** *IFC's Own Account only*

Annex B4.

# Indonesia: Summary of Non-lending Services Selected Recent Completions and Activities Underway

| Product | Completion FY | Audiencea |
|---|---|---|
| Recent completions | | |
| Aceh Program Implementation & Sectoral Support | 2007 | GOV |
| Aceh Public Expenditure Analysis | 2007 | GOV |
| Anti-Corruption Advice for Sub-national Entities | 2007 | OTH |
| Averting an Infrastructure Crisis | 2007 | GOV |
| CDD Platform Support | 2007 | OTH |
| Conflict and Poverty | 2007 | OTH |
| Decentralization Technical Assistance and Advisory Services | 2007 | GOV |
| Developing the Eastern Islands | 2007 | OTH |
| Fuel Subsidy Policy Analysis | 2007 | GOV |
| HIV/AIDS | 2007 | GOV |
| Indonesia Poverty Assessment | 2007 | GOV |
| Infrastructure Summit Follow-up & Policy Dialogue | 2007 | GOV |
| Justice for the Poor | 2007 | OTH |
| LDL Platform | 2007 | GOV |
| Migration and Remittance Research | 2007 | OTH |
| Nias Public Expenditure Analysis | 2007 | GOV |
| Policy Framework for Regional Electrification and Rural Access | 2007 | PUB |
| Public Expenditure Review | 2007 | GOV |
| Raising Rural Productivity | 2007 | GOV |
| Social Inclusion | 2007 | OTH |
| Social Protection Road Map | 2007 | GOV |
| Taking Stock of Decentralization Reforms | 2007 | GOV |
| Aceh Peace Process-Reintegration and Analytical Support | 2008 | OTH |
| Conditional Cash Transfer Program Development | 2008 | GOV |
| Decentralized Support Facility | 2008 | OTH |
| Governance and Decentralization Survey 2 | 2008 | PUB |
| Social Aspects of Poverty Reduction | 2008 | OTH |
| Aceh Poverty and Economic Update 2008 | 2008 | GOV |
| Deepening Expenditure Reforms in Indonesia | 2008 | GOV |
| Land Acquisition and Policy Development | 2008 | GOV |
| Public Financial Management Performance Measurement Report | 2008 | GOV |
| Underway | | |
| Aceh Response TA Facility | 2008 | GOV |
| Anti-Corruption | 2008 | OTH |
| Corruption Monitoring | 2008 | PUB |
| CPAR | 2008 | GOV |
| Creating a Diversified Financial Sector in Indonesia | 2008 | GOV |
| Decentralization | 2008 | GOV |
| Health System Strengthening - Fiscal Space Analysis for the Health Sector | 2008 | GOV |
| Improving the Intergovernmental Framework | 2008 | GOV |
| Indonesia Country Environmental Analysis | 2008 | PUB |
| Indonesia DPR FY2008 | 2008 | PUB |
| Indonesia Health Workforce and Improvement Services | 2008 | GOV |
| Indonesia Youth Investment | 2008 | GOV |
| Poverty and Sustainable Economic Development in Aceh (PASEDIA) | 2008 | PUB |
| Rice Policy Dialogue | 2008 | GOV |
| Social Protection Road Map | 2008 | GOV |
| Support for Teacher Management System Reform | 2008 | GOV |
| Supporting Indonesia's Anti-Corruption Institutions | 2008 | GOV |

*a. Government, donor, Bank, public dissemination.*

Annex B4.

# Indonesia: Summary of Nonlending Services Planned Key Activities (FY09-12)

| Product, Grouped by clusters | Completion FY | Audiencea |
|---|---|---|
| Central Government Institutions and Systems | | |
| Indonesia Updates FY2009 | 2009-12 | PUB |
| Policy Notes for the New Government | 2009-10 | GOV |
| Just-in-time Policy Advice | 2009-12 | GOV |
| Enhancing Demand for Legal and Judicial Reform | 2009 | OTH |
| Health Finance & Dialogue | 2009 | GOV |
| Indonesia's Development Strategy -- High Commodity Prices | 2009 | GOV |
| Supporting Post-Conflict Development (DGF) | 2009 | GOV |
| CPAR | 2010 | GOV |
| Comprehensive Country/Sector Analysis/CEM | 2010 | GOV |
| PER | 2010 | GOV |
| Support to RPJM | 2010 | GOV |
| Development Policy Review | 2011 | PUB |
| Sub-national Government Institutions and Systems | | |
| Improving the Intergovernmental Framework for Enhanced Decentralization | 2010 | GOV |
| Information, Education & Communication/ DSF II | 2010 | GOV |
| Capacity Enhancement for Eastern Indonesia: Papua Public Expenditure Analysis and Capacity Harmonization Program (PEACH) | 2012 | PUB |
| Private Sector Development | | |
| Improving Indonesia's Investment Climate, Trade Facilitation & Financial Sector | 2010 | GOV |
| Infrastructure | | |
| Infrastructure Development | 2009 | GOV |
| Water Supply and Sanitation | 2010 | GOV |
| Community Development and Social Protection | | |
| Poverty Reduction -- Pro-Poor & Poor Jobs Strategies and Programs | 2009 | GOV |
| Conditional Cash Transfers | 2009 | GOV |
| National Program for Community Empowerment (User Fee Assessment for CDD) | 2009 | GOV |
| Support to PNPM/CDD/Rural Programs | 2009 | GOV |
| Poverty Assessment | 2011 | GOV |
| Education | | |
| Education Sector Review | 2010 | GOV |
| Support to RENSTRA | 2010 | GOV |
| Environmental Sustainability and Disaster Mitigation | | |
| Low Carbon Growth Strategy | 2009 | GOV |
| REDD Study | 2010 | GOV |
| Aceh Economic Update | 2009 - 2012 | GOV |
| Aceh Peace Program | 2009 - 2012 | GOV |
| Local Government Support & Development Partner Coordination | 2009-2012 | GOV |
| Aceh & Niah PER | 2011 | GOV |
| Aceh & Nias Poverty Assessment | 2012 | PUB |

*a. Government, donor, Bank, public dissemination.*

Annex B5.

# Indonesia: Social Indicators

| | Latest single year | | | Same region/income group | |
|---|---|---|---|---|---|
| | 1980-85 | 1990-95 | 2000-06 | East Asia & Pacific | Lower-middle-income |
| POPULATION | | | | | |
| Total population, mid-year (millions) | 163.0 | 192.8 | 223.0 | 1,898.9 | 2,276.5 |
| Growth rate (% annual average for period) | 1.9 | 1.6 | 1.3 | 0.9 | 0.9 |
| Urban population (% of population) | 26.1 | 35.6 | 49.2 | 42.4 | 47.3 |
| Total fertility rate (births per woman) | 3.7 | 2.7 | 2.2 | 2.0 | 2.1 |
| POVERTY (% of population) | | | | | |
| National headcount index | .. | .. | 16.7 | .. | .. |
| Urban headcount index | .. | .. | .. | .. | .. |
| Rural headcount index | .. | .. | .. | .. | .. |
| INCOME | | | | | |
| GNI per capita (US$) | 530 | 1,010 | 1,420 | 1,856 | 2,038 |
| Consumer price index (2000=100) | 20 | 44 | 176 | 138 | 138 |
| Food price index (2000=100) | 15 | 37 | 121 | .. | .. |
| INCOME/CONSUMPTION DISTRIBUTION | | | | | |
| Gini index | .. | 34.4 | 39.4 | .. | .. |
| Lowest quintile (% of income or consumption) | .. | 8.3 | 7.1 | .. | .. |
| Highest quintile (% of income or consumption) | .. | 43.1 | 47.3 | .. | .. |
| SOCIAL INDICATORS | | | | | |
| Public expenditure | | | | | |
| Health (% of GDP) | .. | .. | 1.0 | 1.8 | 2.2 |
| Education (% of GDP) | .. | 1.0 | 1.0 | 3.5 | 4.8 |
| Net primary school enrollment rate (% of age group) | | | | | |
| Total | .. | 96 | 95 | 93 | 93 |
| Male | .. | 98 | 96 | 93 | 93 |
| Female | .. | 94 | 93 | 93 | 92 |
| Access to an improved water source (% of population) | | | | | |
| Total | .. | 74 | 77 | 79 | 81 |
| Urban | .. | 90 | 87 | 92 | 93 |
| Rural | .. | 65 | 69 | 70 | 71 |
| Immunization rate (% of children ages 12-23 months) | | | | | |
| Measles | 26 | 63 | 72 | 89 | 90 |
| DPT | 27 | 69 | 70 | 89 | 89 |
| Child malnutrition (% under 5 years) | .. | 27 | 24 | 13 | 11 |
| Life expectancy at birth (years) | | | | | |
| Total | 59 | 64 | 68 | 71 | 71 |
| Male | 57 | 62 | 66 | 69 | 69 |
| Female | 60 | 66 | 70 | 73 | 73 |
| Mortality | | | | | |
| Infant (per 1,000 live births) | 70 | 48 | 26 | 24 | 27 |
| Under 5 (per 1,000) | 109 | 66 | 34 | 29 | 36 |
| Adult (15-59) | | | | | |
| Male (per 1,000 population) | 368 | 275 | 172 | 165 | 173 |
| Female (per 1,000 population) | 308 | 219 | 123 | 104 | 108 |
| Maternal (modeled, per 100,000 live births) | .. | .. | 420 | 150 | 180 |
| Births attended by skilled health staff (%) | .. | 37 | 72 | 87 | 86 |

*Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.*

*Source: World Development Indicators database, World Bank - 11 April 2008.*

Annex B6.

# Indonesia: Key Economic Indicators

| Indicator | Actual | | | Estimate | | Projected | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| National accounts (as % of GDP) | | | | | | | | |
| Gross domestic product[a] | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Agriculture | 14 | 13 | 13 | 14 | 13 | 12 | 11 | 11 |
| Industry | 45 | 47 | 47 | 47 | 46 | 46 | 46 | 47 |
| Services | 41 | 40 | 40 | 39 | 40 | 42 | 42 | 42 |
| Total Consumption | 71 | 71 | 69 | 71 | 66 | 65 | 64 | 64 |
| Gross domestic fixed investment | 22 | 24 | 24 | 25 | 26 | 27 | 27 | 27 |
| Exports (GNFS)[b] | 32 | 34 | 31 | 29 | 31 | 29 | 29 | 28 |
| Imports (GNFS) | 28 | 30 | 26 | 25 | 24 | 22 | 21 | 20 |
| Gross domestic savings | 29 | 29 | 31 | 29 | 34 | 35 | 36 | 36 |
| *Memorandum items* | | | | | | | | |
| Gross domestic product (US$ million at current prices) | 256,837 | 286,969 | 364,612 | 432,815 | 485,599 | 559,994 | 631,633 | 722,871 |
| GNI per capita (US$, Atlas method) | 1,110 | 1,260 | 1,420 | 1,650 | 1,930 | 2,200 | 2420 | 2660 |
| Real annual growth rates (%, calculated from 00 prices) | | | | | | | | |
| Gross domestic product | 5.0 | 5.7 | 5.5 | 6.3 | 6.0 | 6.4 | 6.7 | 6.7 |
| Real annual per capita growth rates (%, calculated from 00 prices) | | | | | | | | |
| Gross domestic product at market prices | 3.6 | 4.3 | 4.3 | 5.1 | 4.7 | 5.1 | 5.4 | 5.4 |
| Total consumption | 6.9 | 1.3 | 4.9 | 6.8 | 2.5 | 4.5 | 4.6 | 4.4 |
| Private consumption | 7.5 | 0.8 | 4.5 | 7.4 | 4.4 | 4.4 | 4.5 | 4.3 |
| Balance of Payments (US$ millions) | | | | | | | | |
| Exports (GNFS)[c] | 84,212 | 99,760 | 115,032 | 130,439 | 152,570 | 164,133 | 180,049 | 200,236 |
| Merchandise FOB | 72,167 | 86,833 | 103,514 | 118,014 | 139,770 | 150,946 | 166,464 | 186,241 |
| Imports (GNFS)[d] | 71,257 | 91,319 | 95,493 | 108,458 | 117,888 | 123,208 | 132,560 | 142,972 |
| Merchandise FOB | 50,401 | 69,270 | 73,868 | 84,930 | 88,357 | 92,404 | 98,598 | 105,871 |
| Resource balance | 12,955 | 8,441 | 19,539 | 21,981 | 34,682 | 40,925 | 47,489 | 57,264 |
| Current account balance | 3,294 | 307 | 9,937 | 11,010 | 8,516 | 4,854 | 1,637 | -1,312 |
| *Memorandum items* | | | | | | | | |
| Resource balance (% of GDP) | 5.0 | 2.9 | 5.4 | 5.1 | 7.1 | 7.3 | 7.5 | 7.9 |
| Real annual growth rates ( YR00 prices) | | | | | | | | |
| Merchandise exports (FOB) | 24.0 | 33.3 | 48.8 | 18.6 | 7.6 | 8.4 | 8.6 | 9.1 |
| Merchandise imports (CIF) | 75.1 | 49.5 | 11.8 | 38.6 | 8.4 | 9.9 | 7.9 | 8.3 |
| Public finance (as % of GDP at market prices)[e] | | | | | | | | |
| Current revenues | 17.6 | 17.8 | 19.1 | 18.7 | 20.0 | 20.1 | 20.5 | 20.9 |
| Current expenditures | 18.6 | 18.3 | 20.0 | 20.0 | 22.1 | 22.0 | 21.0 | 21.0 |
| Budget surplus (+) or deficit (-) | -1.0 | -0.5 | -0.9 | -1.3 | -2.1 | -0.9 | -0.5 | -0.1 |
| Capital expenditure | -- | 1.2 | 1.6 | 1.7 | 1.9 | 1.9 | 2.2 | 2.5 |
| Foreign financing | -1.2 | -0.4 | -0.8 | -0.6 | -0.3 | -0.3 | -0.3 | -0.3 |
| Monetary indicators | | | | | | | | |
| M2/GDP | 45.0 | 43.2 | 41.4 | 41.5 | 41.0 | 41.0 | 41.0 | 41.0 |
| Growth of M2 (%) | 8.1 | 16.4 | 14.9 | 18.9 | 11.4 | 14.4 | 13.1 | 12.6 |
| Price indices( YR00 =100) | | | | | | | | |
| Merchandise export price index | 115.2 | 137.9 | 162.3 | 183.7 | 225.0 | 243.0 | 268.0 | 299.8 |
| Merchandise import price index | 138.8 | 207.3 | 220.4 | 253.4 | 273.2 | 285.1 | 301.9 | 321.7 |
| Merchandise terms of trade index | 83.0 | 66.5 | 73.6 | 72.5 | 82.4 | 85.2 | 88.8 | 93.2 |
| Real exchange rate (US$/LCU)[f] | 115.7 | 114.2 | 133.8 | 134.8 | 136.9 | 127.3 | 121.4 | 113.8 |
| Consumer price index (% change) | 6.2 | 10.5 | 13.1 | 6.5 | 7.5 | 7.0 | 6.0 | 5.5 |
| GDP deflator (% change) | 8.6 | 14.8 | 13.6 | 11.5 | 7.5 | 7.0 | 6.0 | 5.5 |

*a. GDP at market prices*
*b. "GNFS" denotes "goods and nonfactor services."*
*c. Includes net unrequited transfers excluding official capital grants.*
*d. Includes use of IMF resources.*
*e. Consolidated central government.*
*f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.*

Annex B7.

# Indonesia: Key Exposure Indicators

| Indicator | Estimate | | | | Projected | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Total debt outstanding disbursed (TDO) (US$m)[a] | 137,026 | 130,651 | 128,736 | 136,640 | 137,458 | 146,611 | 151,687 | 158,277 |
| Net disbursements (US$m)[a] | -5,630 | -2,440 | -13,417 | -10,118 | -9,667 | -6,366 | -7,453 | -5,886 |
| Total debt service (TDS) (US$m)[a] | 31,519 | 34,361 | 30,669 | 26,981 | 28,783 | 25,209 | 23,661 | 22,952 |
| Debt and debt service indicators (%) | | | | | | | | |
| TDO/XGS[b] | 162.7 | 131.0 | 111.9 | 104.8 | 90.1 | 89.3 | 84.2 | 79.0 |
| TDO/GDP | 59.7 | 47.1 | 38.5 | 34.5 | 28.3 | 26.2 | 24.0 | 21.9 |
| TDS/XGS | 37.4 | 34.4 | 26.7 | 20.7 | 18.9 | 15.4 | 13.1 | 11.5 |
| Concessional/TDO | 29.2 | 28.3 | 29.8 | 28.2 | 36.7 | 33.8 | 34.2 | 34.0 |
| IBRD exposure indicators (%) | 25.4 | 36.1 | 22.2 | 20.7 | 19.2 | 17.4 | 16.2 | 12.3 |
| IBRD DS/public DS | 23.2 | 30.4 | 12.2 | 20.6 | 19.3 | 17.8 | 16.8 | 14.7 |
| IBRD DS/XGS | 2.3 | 1.9 | 1.6 | 1.4 | 1.0 | 0.9 | 0.6 | 0.4 |
| IBRD TDO (US$m)[d] | 8,943 | 8,132 | 7,423 | 6,821 | 7,161 | 7,570 | 8,429 | 9,645 |
| IDA TDO (US$m)[d] | 996 | 1,001 | 1,318 | 1,550 | 1,390 | 1,425 | 1,447 | 1,451 |
| IFC (US$m) | | | | | | | | |
| Loans | | 492 | 606 | 743 | 703 | 300 | 350 | 400 |
| Equity and quasi-equity /[e] | | 85 | 61 | 55 | 72 | 34 | 39 | 45 |
| MIGA | | | | | | | | |
| MIGA guarantees (US$m) | | .. | .. | .. | 50 | .. | .. | .. |

*b. "XGS" denotes exports of goods and services, including workers' remittances.*
*Bank for International Settlements.*
*d. Includes present value of guarantees.*
*e. Includes equity and quasi-equity types of both loan and equity instruments.*

Annex B8.

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

| Closed Projects | 300 |
|---|---|
| IBRD/IDA * | |
| Total Disbursed (Active) | 1,065.99 |
| of which has been repaid | 0.82 |
| Total Disbursed (Closed) | 26,206.70 |
| of which has been repaid | 20,841.88 |
| Total Disbursed (Active + Closed) | 27,272.69 |
| of which has been repaid | 20,842.69 |
| Total Undisbursed (Active) | 1,886.99 |
| Total Undisbursed (Closed) | 12.84 |
| Total Undisbursed (Active + Closed) | 1,899.83 |

| Active Projects | | Last PSR | | | | | | | Difference Between Expected and Actual | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Supervision Rating | | | Original Amount in US$ Millions | | | | Disbursements a/ | | |
| Project ID | Project Name | Development Objectives | Implementation Progress | Fiscal Year | IBRD | IDA | GRANT | Cancel. | Undisb. | Orig. | Frm Rev'd |
| P085133 | Govt Finl Mgt & Revenue Admin Project | MS | MU | 2005 | 55 | 5 | | | 55.14 | 43.14 | 10.49 |
| P071318 | Coral Reef Rehab and Management II | MS | MS | 2004 | | | 7.5 | | 6.21 | 4.21 | |
| P071316 | Coral Reef Rehab and Mgmt Prog II | MS | MS | 2004 | 33.2 | 23 | | 0.166 | 37.60 | 21.77 | |
| P096921 | National UPP (PNPM UPP) | # | # | 2008 | 52.68 | 125 | | | 180.34 | | |
| P092019 | Kecamatan Development Project 3B | S | S | 2005 | 80 | 203 | | | 34.30 | -106.51 | -18.65 |
| P003701 | ODS I- UMBRELLA | S | S | 1995 | | | 36.5526 | | 10.08 | 10.08 | 10.08 |
| P097104 | BERMUTU | MU | MU | 2008 | 24.5 | 61.5 | | | 81.00 | -2.87 | |
| P077175 | Domestic Gas Market Development Proj. | S | S | 2006 | 80 | | | | 48.21 | 13.21 | |
| P089479 | Early Childhood Education and Dev | MS | MS | 2006 | | 67.5 | | | 67.04 | -0.41 | |
| P074290 | Eastern Indonesia Region Transp. 2 | MS | MS | 2004 | 200 | | | 1 | 141.47 | 121.47 | |
| P083742 | Farmer Empower. Agric.Tech.&Info | MS | MS | 2007 | 32.8 | 60 | | | 86.62 | 5.50 | |
| P099757 | Geothermal Power Generation Dev | # | # | 2008 | | | 4 | | | | |
| P085374 | HIGHER EDUCATION | S | MS | 2005 | 50 | 30 | | | 65.32 | 28.70 | |
| P073772 | Health Workforce & Services (PHP 3) | MS | MS | 2003 | 31.1 | 74.5 | | | 65.26 | 52.94 | 11.34 |
| P076174 | Initiatives for Local Govern. Reform | MS | MU | 2005 | 14.5 | 15 | | | 16.23 | 10.74 | |
| P063913 | Java-Bali Pwr Sector & Strength | MS | MS | 2003 | 141 | | | | 97.95 | 90.90 | 51.24 |
| P079156 | KECAMATAN DEV. 3 | S | S | 2003 | 45.5 | 45.5 | | | 2.28 | 0.97 | |
| P064728 | LAND MANAGEMENT &POLICY DEVT | MU | U | 2004 | 32.8 | 32.8 | | 0.164 | 36.42 | 21.46 | |
| P076271 | PPITA | MS | MU | 2003 | 17.1 | | | | 4.52 | 4.52 | 4.52 |
| P079906 | Strategic Roads Infrastructure | S | MS | 2007 | 208 | | | | 197.70 | -10.30 | -0.30 |
| P078070 | Support for Poor and Disadvant Areas | MU | MU | 2005 | 69 | 35 | | | 92.70 | 53.21 | |
| P072852 | UPP2 | S | MS | 2002 | 29.5 | 206 | | | 58.15 | -95.56 | 10.03 |
| P084583 | UPP3 | S | S | 2005 | 67.3 | 71.4 | | | 27.70 | -43.79 | |
| P071296 | USDRP | MS | MU | 2005 | 45 | | | | 36.50 | 7.60 | |
| P059477 | WSSLIC II | S | S | 2000 | | 77.4 | | | 7.92 | -0.34 | |
| P085375 | WSSLIC III | S | S | 2006 | | 137.5 | | | 153.56 | 27.30 | |
| P059931 | Water Resources & Irr.Sector Mgt Prog | S | S | 2003 | 45 | 25 | | | 54.36 | 51.24 | 24.85 |
| P105002 | National Program for Community Empower | # | # | 2008 | 41.19 | 190 | | | 235.27 | | |
| Total | | | | | 1,395.17 | 1,485.10 | 48.05 | 1.33 | 1,899.83 | 309.19 | 103.59 |

Annex B9.

# Indonesia: IFC Committed and Disbursed Outstanding Investment Portfolio,

## US$ Millions

| FY Approval | Company | Committed | | | | | Disbursed Outstanding | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Loan | Equity | **Quasi Equity | *GT/RM | Participant | Loan | Equity | **Quasi Equity | *GT/RM | Participant |
| 2006 | Bank Danamon | 149.56 | 0 | 0 | 5 | 0 | 59.56 | 0 | 0 | 0 | 0 |
| 2007 | Bank International Indo | 123.43 | 0 | 0 | 0 | 0 | 123.43 | 0 | 0 | 0 | 0 |
| 2008 | Bima | 0 | 5 | 0 | 0 | 0 | 0 | 3.67 | 0 | 0 | 0 |
| 2004 | Bona Vista School | 0.86 | 0 | 0 | 0 | 0 | 0.86 | 0 | 0 | 0 | 0 |
| 2007 | Fugui Indonesia | 30 | 0 | 0 | 0 | 0 | 30 | 0 | 0 | 0 | 0 |
| 2007 | Insurance Student Loan | 0 | 0 | 0 | 2.46 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2004 | Medan NP School | 1.75 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | PT Gawi | 9.72 | 0 | 0 | 0 | 1.74 | 3.57 | 0 | 0 | 0 | 1.74 |
| 1989 | PT Agro Muko | 0 | 2.2 | 0 | 0 | 0 | 0 | 2.2 | 0 | 0 | 0 |
| 1989/ 1994/ 2003 | PT Astra | 0 | 0.51 | 0 | 0 | 0 | 0 | 0.51 | 0 | 0 | 0 |
| 2000/2005 | PT Astra Otopart | 0 | 0.7 | 0 | 0 | 0 | 0 | 0.7 | 0 | 0 | 0 |
| 2000/2002/2004/2005/2007 | PT Bank NISP | 65 | 10.66 | 2.86 | 0 | 0 | 35 | 10.66 | 2.83 | 0 | 0 |
| 1993/1996 | PT Bina Danatama | 0.02 | 0 | 1.03 | 0 | 1.92 | 0.02 | 0 | 1.03 | 0 | 1.92 |
| 2004/2005 | PT Ecogreen | 45.83 | 0 | 0 | 0 | 0 | 45.83 | 0 | 0 | 0 | 0 |
| 1991/1995/1999/2004 | PT Indo-Rama | 40.8 | 6.21 | 0 | 0 | 0 | 40.8 | 6.21 | 0 | 0 | 0 |
| 2000/2006/2007 | PT Karunia (KAS) | 46.52 | 0 | 0 | 0 | 1.78 | 46.52 | 0 | 0 | 0 | 1.78 |
| 2000/2006 | PT Makro | 0 | 4.21 | 0 | 0 | 0 | 0 | 3.71 | 0 | 0 | 0 |
| 1993 | PT Nusantara | 0 | 0 | 10.61 | 0 | 8.25 | 0 | 0 | 10.61 | 0 | 8.25 |
| 2004 | PT Prakars (PAS) | 10.75 | 0 | 0 | 0 | 1.6 | 10.75 | 0 | 0 | 0 | 1.6 |
| 2006 | PT TAS | 7 | 0 | 0 | 0 | 0 | 7 | 0 | 0 | 0 | 0 |
| 2008 | PT TVS | 20 | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 0 |
| 1995/2004 | PT Viscose | 7.88 | 0 | 0 | 0 | 0 | 7.88 | 0 | 0 | 0 | 0 |
| 2008 | Saratoga Asia II | 0 | 15 | 0 | 0 | 0 | 0 | 0.11 | 0 | 0 | 0 |
| 2005/2006 | WOM | 14.84 | 12.63 | 0 | 0 | 0 | 14.84 | 12.55 | 0 | 0 | 0 |
| 2004/2006/2007 | Wilmar | 0 | 0 | 0 | 50 | 0 | 0 | 0 | 0 | 50 | 0 |
| Total Portfolio: | | 573.96 | 57.12 | 14.5 | 57.46 | 15.29 | 446.06 | 40.32 | 14.47 | 50 | 15.29 |

** Denotes Guarantee and Risk Management Products.*
*** Quasi Equity includes both loan and equity types.*

INDONESIA
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SELECTED CITIES AND TOWNS
PROVINCE CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
VIETNAM
PHILIPPINES
MALAYSIA
BRUNEI
SINGAPORE
Sulu Sea
Celebes Sea
PACIFIC OCEAN
Java Sea
Banda Sea
Arafura Sea
INDIAN OCEAN
AUSTRALIA
TIMOR-LESTE
PAPUA NEW GUINEA
KALIMANTAN
SUMATERA
SULAWESI
JAWA
PAPUA
Banda Aceh
Medan
Pematangsiantar
Simeulue
Nias
Natuna Besar
Pekanbaru
Tanjungpinang
Lingga
Pontianak
Padang
Siberut
Jambi
Bangka
Pangkalpinang
Belitung
Palembang
Bengkulu
Enggano
Bandar Lampung
Serang
JAKARTA
Bandung
Semarang
Surabaya
Madura
Yogyakarta
Denpasar
Bali
Lombok
Mataram
Sumbawa
Raba
Flores
Ende
Waingapu
Sumba
Timor
Kupanga
Tarakan
Samarinda
Balikpapan
Palangkaraya
Bandjarmasin
Mamuju
Parepare
Makassar
Palu
Gorontalo
Manado
Talaud Is.
Morotai
Ternate
Halmahera
Waigeo
Obi
Sula Is.
Peleng
Buru
Ceram
Amahai
Ambon
Baubau
Muna
Kendari
Misool
Sorong
Manokwari
Biak
Yapen
Fakfak
Jayapura
Timika
Puncak Jaya (5030 m)
Merauke
Kai Is.
Aru Is.
Tanimbar
Babar
Wetar
Alor
Moa
Lakor
Mentawai Is.
0 200 400 Kilometers
0 100 200 300 400 Miles
PROVINCES:
1 NANGGROE ACEH DARUSSALAM
2 SUMATERA UTARA
3 RIAU
4 SUMATERA BARAT
5 JAMBI
6 BENGKULU
7 SUMATERA SELATAN
8 LAMPUNG
9 BANGKA-BELITUNG
10 BANTEN
11 D.K.I. JAKARTA
12 JAWA BARAT
13 JAWA TENGAH
14 D.I. YOGYAKARTA
15 JAWA TIMUR
16 BALI
17 NUSA TENGGARA BARAT
18 NUSA TENGGARA TIMUR
19 RIAU KEPULAUAN
20 KALIMANTAN BARAT
21 KALIMANTAN TENGAH
22 KALIMANTAN SELATAN
23 KALIMANTAN TIMUR
24 SULAWESI UTARA
25 GORONTALO
26 SULAWESI TENGAH
27 SULAWESI BARAT
28 SULAWESI SELATAN
29 SULAWESI TENGGARA
30 MALUKU UTARA
31 MALUKU
32 PAPUA BARAT
33 PAPUA
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