

Document of
The World Bank Group

FOR OFFICIAL USE ONLY

Report No. 99172

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF INDONESIA

FOR THE PERIOD FY16 – FY20

November 3, 2015

Indonesia Country Management Unit
East Asia Pacific Region
The International Finance Corporation
The Multilateral Investment Guarantee Agency

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank Group authorization.

**The last Country Partnership Strategy was discussed by the Board on December 13, 2012
(Report No. 72906-IND)**

CURRENCY EQUIVALENTS

Currency Unit = Indonesian Rupiah (IDR)
IDR 13,491 /US\$1.00 (as of 23 October 2015)

FISCAL YEAR

January 1 to December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asia Development Bank
AFD	Agence Française de Développement
ASA	Advisory Services Analytics
ASEAN	Association of Southeast Asian Nations
APBN	National Budget / <i>Anggaran Pendapatan dan Belanja Negara</i>
Bappenas	Ministry of National Development Planning
BI	Indonesia's Central Bank
BPS	National Statistics Agency
CGAP	Country Gender Action Plan
CLR	Completion and Learning Review
COSO	Committee of Sponsoring Organizations
CSO	Civil Society Organization
CTF	Climate Technology Funding
DAK	Specific Purpose Grants
DPD	Regional Representatives' Council
DPL	Development Policy Lending
DPR	House of People's Representatives
FAO	Food and Agriculture Organization
FCS	Fragile and Conflict-Affected Situations
FDI	Foreign Direct Investment
FHH	Female-headed Households
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Green House Gas
GoI	Government of Indonesia
GP	Global Practice
GW	Gigawatts
IDR	Indonesia Rupiah
IGF	Investment Guarantee Fund
IIF	Indonesia Infrastructure Fund
IPF	Investment Project Financing (IPF)
IPP	Independent Power Producers
IsDB	Islamic Development Bank
IUU	Illegal, Unreported, and Unregulated (fishing)

JICA	Japan International Cooperation Agency
Kabupaten	Regencies, cities
KfW	German Government-Owned Development Bank
Kota	Municipality
LUCF	Land-use Change and Forestry
MCA	Marine Conservation Area
MDF	Multi Donor Fund
MFI	Multilateral Financial Institutions
MoF	Ministry of Finance
MPR	People's Consultative Assembly
MPW	Ministry of Public Works
MSMEs	Micro, Small and Medium Enterprises
NAWA CITA	GoI's nine priorities agenda
NPL	Nonperforming Loan
NUSP	National Slum Upgrading Program
NUWSP	National Urban Water Supply Program
OSS	One-Stop-Shop
P2B	The Umbrella of Graduation Programs
PAMSIMAS	Community-Led Water and Sanitation Program
PELINDO	Indonesia Port Corporation
PERISAI	Program for Economic Resilience, Investment and Social Assistance
PFM	Public Financial Management
PforR or P4R	Program for Results
PLN	State Owned Power Utility
PMO	Project Management Office
PMU	Performance Management Unit
PNPM	National Program for Communities Empowerment
PPP	Public-Private Partnership
PUSKESMAS	Public Primary Health Facility
RAS	Reimbursable Advisory Services
R&D	Research and Development
REDD+	Program to Reduce Emissions from Deforestation and Degradation
REKOMPAK	A Community-driven Disaster Reconstruction and Resettlement program
RER	Real Exchange Rate
RPJMN	Mid-term Development Plan
SCD	Systematic Country Diagnostic
SJSN	Health Insurance-National Social Security System
SME	Small Medium Enterprise
SOE	State-Owned Enterprises
UHC	Universal Health Coverage
VAT	Value-Added Tax
YOY	Year-On-Year

	IBRD	IFC	MIGA
Vice President:	Axel van Trotsenburg	Dimitri Tsitsiragos	Keiko Honda
Director:	Rodrigo A Chaves	Vivek Pathak	Ravi Vish
Task Team Leader:	Josephine M. Bassinette	Sarvesh Suri	Timothy James Histed

TABLE OF CONTENTS

I.	Introduction and key messages	5
II.	COUNTRY CONTEXT AND DEVELOPMENT AGENDA	8
	II.1. Political and Social Context	8
	II.2. Growth, Poverty and Shared Prosperity	8
	II.3. Recent Economic Developments	12
	II.4. Lessons from CPS Completion Report	15
III.	PROPOSED WBG PARTNERSHIP FRAMEWORK	16
	III.1. Building the Partnership Strategy	16
	III.1.a. Government’s Development Agenda: Selectivity Filter One.....	17
	III.1.b. Development Challenges and Approaches Identified in the SCD: Selectivity Filter Two.....	19
	III.1.c. Impact and WBG Comparative Advantage: Selectivity Filter Three	21
	III.2. Proposed Partnership Strategy	21
	III.2.a. Engagement Area 1: Infrastructure Platforms at the National Level.....	22
	III.2.b. Engagement Area 2: Sustainable Energy and Universal Access.....	25
	III.2.c. Engagement Area 3: Maritime Economy and Connectivity	28
	III.2.d. Engagement Area 4: Delivery of Local Services and Infrastructure	30
	III.2.e. Engagement Area 5: Sustainable Landscape Management	34
	III.2.f. Engagement Area 6: Collecting More and Spending Better	37
	III.2.g. Supporting Beam I: Leveraging the Private Sector: Investment, Business Climate and Functioning of Markets.....	40
	III.2.h. Supporting Beam II: Shared Prosperity, Equality and Inclusion.....	44
IV.	Implementing the CPF	47
	IV.1. Focus and selectivity within the CPF Strategy	47
	IV.2. Implementing the WBG Program.....	48
V.	MANAGING RISKS TO THE CPF PROGRAM.....	53
	V.1. Political Economy and Governance Risks	53
	V.2. Macroeconomic Uncertainty	53
	V.3. Implementation and Capacity Constraints	54
ANNEXES	.....	56
	Annex 1. CPF Result Framework.....	56
	annex 2: key macroeconomic indicators.....	78
	Annex 3. Completion and Learning Report.....	79
	Annex 4. Selected Indicators of Bank Portfolio Performance and Management	160
	Annex 5. Operations Portfolio (IBRD/IDA and Grants).....	161
	Annex 6 Statement of IFC’s Held and Disbursed Portfolio Committed and Outstanding Portfolio	162
	Annex 7. Consultations of the Draft CPF	163
	Map of Indonesia	165

LIST OF FIGURES

Figure 2.1: Evolution of official poverty rate, 1996-2013.....	10
Figure 2.2: Change in poverty rates 2000-12*, Indonesia versus EAP countries	10
Figure 2.3: Close to 40 percent of the population was poor and vulnerable in 2012	11
Figure 2.4: 75 percent of poor households fail to move out of poverty or vulnerability over a three-year period	11
Figure 3. 1: CPF Strategy Emerges from the Intersection of Three Selectivity Filters.....	16
Figure 3. 2: Government of Indonesia's RPJM Development Strategy	17
Figure 3. 3: The Three Pathways Identified in Indonesia SCD	19
Figure 3. 4: CPF Strategy Emerges from Applying Selectivity Filters.....	22
Figure 3. 5: In-year variance of capital from original budget	38
Figure 3. 6: Indonesian firms are lagging in size, technical prowess, training, and formality.....	42

LIST OF TABLES

Table 3. 1: Indonesia ranks low in key aspects of tourism competitiveness	24
Table 4. 1: Draft IBRD Indicative Lending Pipeline FY2016-20*	51
Table 5.1: Risk in Indonesia	55

LIST OF BOXES

Box 3.1: Client Survey Result	19
Box 3. 2: Using a Platform Approach to Deliver Clean Water and Sanitation Nationwide	23
Box 3.3: How One World Bank Group Can Help Deliver Sustainable Energy and Access.....	27
Box 3.4: Tourism's Unrealized Potential in Indonesia.....	43
Box 3.5: Delivering as a World Bank Group	44
Box 4.1: Selectivity in the CPF: What WBG Plans To Do Differently	48
Box 4.2: Experience of REKOMPAK	50

I. INTRODUCTION AND KEY MESSAGES

1. **Seventy years after independence and more than a decade of political and institutional reforms, Indonesia has emerged as a stable democracy.** With a population of 250 million living across over 6000 inhabited islands, Indonesia is the world's fourth most populous nation. This archipelago nation, which spans three time zones and nearly 6000 kilometers, is the tenth largest economy in terms of purchasing power parity, endowed with remarkable natural resources from its land and seas, and the only Southeast Asian member of the G-20. It has made significant gains in poverty reduction with its poverty rate more than halved from 24 percent at the time of the Asian financial crisis down to 11 percent by 2014. For a decade up until 2015, it had a growth rate of about 6 percent annually, an active private sector and a burgeoning middle class. Its adult literacy is at almost 95 percent, with primary, secondary and tertiary education gross enrollment rates of 100, 83 and 32 percent respectively. The share of female school enrollment exceeds that of males at each level. Life expectancy at birth increased from 68 years in 2002 to 71 years 2012.

2. **Indonesia's achievements are now under stress, with a slowdown in its commodity driven economy, stagnant rates of poverty reduction and rapidly rising inequality.** Poverty reduction has begun to stagnate, with a near zero decline in 2014, the smallest reduction in over a decade. As measured by the current national poverty rate of 11.3 percent, there are 28 million poor people in Indonesia. At the same time, inequality is increasing. Between 2003 and 2010, consumption of the bottom 40 percent¹ grew at 1-2 percent annually, while that of the two richest quintiles grew by about 6 percent. Consequently, the Consumption Gini coefficient, an indicator of inequality, rose from 30 to 42 over this period, amongst the fastest widening of inequality in East Asia. The future of the bottom 40 percent of the population is further clouded by high inequality of opportunity, one-third of which is attributable to circumstances of birth (gender, ethnicity, birthplace or family background). The levels of maternal mortality (190 per 100,000 live births) and child malnutrition (37 percent of under-five children are stunted) are more aligned with the poorest countries of the world than with the vast majority of middle income countries. Indonesia is also facing rapid rates of deforestation and land degradation which have a disproportionate impact on the poor.

3. **The government of President Joko Widodo, which was inaugurated in October 2014, recognizes that the country is undergoing a period of profound economic transition.** While GDP growth averaged a solid 5.8 percent per year over 2004-2013, it moderated to 5.0 percent in 2014 and current estimates show growth of about 4.7 percent for 2015. While many factors impact growth, the commodities sector, which has weakened globally, is significant. Prices of key commodity exports have fallen by 40 percent since their 2011 peak, contributing to a current account deficit since 2013. Domestic private consumption which has been the main driver of growth, has softened in the last year. In short, the economic tailwinds of the past decade—rapid growth in Indonesia's key trading partners particularly China, high commodity prices, and significant growth in consumption of an emerging middle class—have now become headwinds. Indonesia therefore is focusing on shifting its economy away from its dependence on commodities towards one that depends much more heavily on productive sectors and services. The Government's Mid-term Development Plan (RPJMN 2015-2019), reflects its strategy to meet these development challenges by focusing on human and community development, narrowing the income gap through increased productivity and poverty reduction measures, and increasing development without environmental degradation.

4. **The Development Policy Review, completed in 2014, and the Systematic Country Diagnostic (SCD)², completed in 2015, explain the limited window of opportunity for Indonesia to reach high per capita income levels.** To keep up with a young population entering the labor market, Indonesia's economy must create some 2 million new jobs annually to absorb new workers. Moreover, Indonesia's demographic dividend will end in approximately 15 years. No country has ever gotten rich after it has gotten old; meaning

¹ In other words, the fifth and fourth quintiles combined.

² The DPR 2014 (Indonesia: Avoiding the Trap) and the SCD (Connecting the Bottom 40 Percent to the Prosperity Generation)

that for Indonesia to reach its aspirations, it will need an accelerated growth path of some 8 percent over the coming years.

5. **The government and the World Bank Group (WBG) share a vision of an equitable and prosperous Indonesia aligned with the twin goals of eliminating extreme poverty and increasing shared prosperity.** During six decades of partnership, Indonesia has been a testing ground and an inspiration for a range of innovations that have shaped the WBG. The Indonesia office was one of the first decentralized offices and today is one of the largest offices outside of Washington DC. Indonesia brought into focus the need to systematically address the environmental and social impacts of projects. It hosted the first IFC advisory services team, and introduced ground-breaking initiatives in community-driven development, microfinance and disaster response, which have become models for countries across the globe. The Indonesia program also has a long history of working with development partners by mobilizing bilateral financing and expertise in order to enhance and leverage traditional WBG products and pilot innovative development solutions. This platform, built in partnership with the Government of Indonesia (GoI) and the private sector, underpins the implementation of the proposed engagement areas and delivers innovation which would be impossible using only traditional World Bank Group sources of financing and products.

6. **This CPF, covering the period FY2016-20, builds on the previous Country Partnership Strategy (CPS) FY2013-15 and the long-term operational and policy-based support that has been a hallmark of WBG's engagement with the GoI for the past decade.** For example, the continuation of the World Bank's long record of support to Government in economic policy making will remain important. At the same time, the CPF, guided by the twin goals of eliminating poverty and enhancing shared prosperity, brings a greater degree of selectivity by improving the focus on consistent public policy reforms to shore up Indonesia's economic fundamentals, helping create a more enabling environment for the private sector that is the main source of growth and creation of new jobs, and making growth sustainable and shared more widely. Addressing the country's massive infrastructure gap will play a prominent role in the CPF and will require not only a scaling up of financing but also better implementation and forward-looking management of Indonesia's natural resources. Inequality of opportunity, which accounts for one-third of total inequality, will have to be addressed through attention to the prioritization of spending, the accountability for service delivery particularly for health and education, and attracting the private sector.

7. **Drawing on the lessons from the CPS, the CPF will be more selective in its scope and will deploy new ways to deliver ongoing programs and engagements.** For example, in the area of governance, the SCD highlights the centrality of getting reform priorities right, refocusing public administration on better implementation, and building in more accountability and transparency at the local government level to ensure better service delivery. To respond to these needs, the CPF has mainstreamed support for governance and anticorruption in each of the engagement areas and supporting beams to maximize opportunity for impact. Examples where WBG looks to strengthen the governance framework within engagements include technical assistance for streamlining of business licensing which reduces the costs of doing business whilst decreasing the opportunities for corruption, land administration reforms to support the more efficient delivery of infrastructure and better manage the landscape and improved financial management systems to support increased Government transfers to the village level to ensure more transparency and better service delivery. Focusing the reform agenda around making more space and a more reliable and enabling environment for the private sector, in all our engagements, is another way for this CPF to focus better WBG reform efforts. The importance of working at the subnational level, particularly in support of health and education, will be strengthened through a dedicated local service delivery engagement area that seeks to make improvements at the point of delivery. Inclusion and shared prosperity, including social protection for the most vulnerable, will be a recurrent theme across the CPF engagements.

8. **As described in the SCD, enhancing prosperity for the bottom 40 percent rests in large part on shifting the economy to a more productivity-based growth path which can create more and better jobs.** This suggests that the CPF requires a heavier emphasis on infrastructure and on an enabling environment

for the private sector. Therefore, the CPF concentrates on areas of infrastructure necessary to better connect the economy, provide sustainable energy, help the country reap benefits from the rapid pace of urbanization and improve equality of opportunity through better access of the poor and vulnerable to essential water and sanitation services. For growth and job creation, improvements to the business environment could be transformational. More consistent and less restrictive trade and investment regulations would help unlock private capital and increase the opportunities for the public and private sectors to work together to improve implementation and fill the enormous infrastructure financing needs which cannot be addressed using public financing alone. A deepening of capital markets will likewise be essential to provide the finance to fill the infrastructure gap and invest in higher productivity sectors such as manufacturing.

9. **The CPF will seek to maximize synergies across the WBG and take advantage of all instruments in support of the CPF goals.** Particularly because of its focus on infrastructure investment, and the need to support the private sector as the engine of job creation, the government has requested that WBG bring the balance sheets of all three institutions— IBRD, IFC and MIGA—to bear, along with technical assistance and policy reform support. The decision of Government in 2015 to support direct lending by multilateral organizations to state-owned enterprises (SOEs) with sovereign guarantee has increased the opportunity for increased financing especially in infrastructure. In other areas, WBG’s value may be primarily through knowledge services and the sharing of global experience most often supported through partnerships with other bilateral and multilateral development partners. Moreover, engagement areas will move at different speeds. Some, particularly those that build on long-running engagements such as in water, can be expected to have greater impact on the ground within the CPF period. Others will require a longer time horizon to produce results. The potential for impact, rather than the time horizon for visible outcomes, will be an important filter in this regard. There are risks to development outcomes which might arise from the difficulty of maintaining reform momentum in the face of political economy, governance and macroeconomic challenges amongst others. The sequencing of interventions within engagement areas, and the ability to adjust during the CPF implementation period, will be important tools for mitigating risks.

10. **The proposed CPF would require a larger financing package than the previous CPS, although WBG’s total contribution would still be a very small percentage of overall borrowing needs.** The CPF, if fully implemented, could entail a scaling up of IBRD lending of an indicative amount of about US\$7.5 billion, new IFC engagements of up to US\$3 billion in equity, loans, guarantees and mobilization and a more active MIGA program that expands the use of political risk and non-payment guarantee instruments. For the IBRD, lending would average some US\$1.5 billion per annum although actual lending volumes will depend on country demand, choice of instrument, overall performance during the CPF period and IBRD’s financial capacity and demand from other Bank borrowing countries. Should these volumes be reached, Indonesia would potentially reach and then exceed the \$16.5 billion threshold above which a 50 basis point surcharge on incremental exposure would apply. Indonesia would potentially also reach the Single Borrower Limit (SBL) of US\$19 billion towards the end of the CPF period depending on the actual commitments. Given that about one-third of the indicative lending pipeline is fast disbursing development policy lending and possible P4R, it will be necessary for the government and the Bank to take stock of the situation with regard to the SBL midway through the CPF period and consider possible measures to continue IBRD financing under different scenarios within the limits of the SBL. The experience of other large IBRD borrowers will be helpful in this regard.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

II.1. POLITICAL AND SOCIAL CONTEXT

11. **Indonesia is the largest economy in Southeast Asia, the tenth largest in the world as measured by purchasing power parity and the only Southeast Asian member of the G-20.** With a GDP per capita of US\$3,510 (current prices), Indonesia has emerged over the last decade as a vibrant middle-income economy with growing regional and global influence. With a population of over 250 million, it is the fourth most populous in the world and the world's largest Muslim majority country, with a constitution that embraces democracy and pluralism. Its people come from some 300 distinct native ethnic groups speaking over 700 languages and dialects and live on some 6000 islands amongst an archipelago of some 17,500 islands. Indonesia has the most volcanoes of any country in the world and is plagued by a number of natural hazards that include earthquakes, volcanic eruptions, tsunamis, floods and droughts. The island of Java, where 58 percent of the population lives, is the world's most densely populated island. Eleven Indonesian cities have over one million inhabitants. The largest is Jakarta with approximately 10 million people. Except for Medan in Sumatra, the four other cities of over 2 million people, are all located in Java.

12. **Following the historic elections in 2014, President Joko Widodo began a five-year term in October 2014.** The presidency is the highest executive office, with authority to appoint the cabinet. The People's Consultative Assembly (MPR) consists of a 560-member House of People's Representatives (DPR) and a 136-member Regional Representatives' Council (DPD). After more than three decades of the Soeharto regime's centralized authority that ended in 1998, Indonesia is today one of the world's most decentralized countries, with elected local governments in 34 provinces, 511 districts/cities and some 72,000 villages.

13. **The election of President Widodo, who in less than 5 years went from small city mayor to Governor of Jakarta and then to the President of the Republic, was widely viewed as a reformist victory.** But the challenges facing the new Administration were great. It was faced with the urgency of a fundamental economic transition necessitated by the need to adjust to the end of a 10-year commodity boom, to implement long-standing structural reforms and to tackle endemic corruption. The new administration implemented bold energy subsidy reforms within weeks of taking office. Maintaining reform momentum, however, is challenging and will require unified positions within government and with parliament. Long-standing special interests can be expected to stand as counter forces to the reform efforts.

II.2. GROWTH, POVERTY AND SHARED PROSPERITY

14. **The past decade saw robust economic growth, as Indonesia benefited from a boom in commodity exports, increased investor confidence and capital inflows and a young population.** Rapid growth in China, India and other emerging economies translated into rapid increases in demand for commodities that created a boom in Indonesia from 2003 to 2011. Benchmark international prices for coal, crude palm oil, rubber and crude oil—all important export commodities for Indonesia—rose threefold between 2000 and 2010 in real terms. As a result, terms of trade and net exports increased sharply, investments recovered to pre-1997 Asian financial crisis levels, and rising household incomes significantly boosted private consumption.

15. **A key feature of Indonesia's commodity boom was the rise in the (largely non-tradable) services sector reflecting in part a sharp appreciation of the real exchange rate (RER).** The services sector, broadly defined, contributed an average 3.3 percent to total GDP growth against 1.8 percent for industry and 0.6 percent for the primary sector in 2003-12. The expansion of the services sector is associated with the appreciation of Indonesia's RER, following more than two decades of overall sharp depreciation, a period during which investments in manufacturing export industries boomed. In contrast, the appreciation of the RER

in 2002-12 led to a decline of investments flowing into these sectors and a rise of investments in domestically-oriented sectors, chiefly services. There is also evidence that the liberalization of retail trade in 1998, telecoms from 1999 and air transport in 2004 contributed to the rise of investment and growth in these sectors.³ Between 2001 and 2010, the share of transport and communications, financial services and retail trade, and hotel and food services in total foreign investment flows almost doubled to an average of 63 percent of GDP in 2010. A large part of the services sector is composed of micro, small and medium-sized enterprises which typically are a large source of employment for youth and women. The MSME sector contributed around 57 percent to GDP and 47 percent of total employment.

16. **Since 2012, Indonesia has been experiencing the expected macro-fiscal effects of commodity price declines in a resource-driven economy.** The prices of key export commodities in net terms peaked in 2011 and had dropped by about 57 percent by September 2015. This sharp decline in export commodity prices, coinciding with a rapid increase in oil imports, sharply reduced Indonesia's trade surplus and led to the opening of a significant current account deficit for the first time in 15 years. On the fiscal side, softer export commodity prices, combined with lower production of oil and gas and revenues, increased fiscal pressures through 2014. Government nominal revenues growth dropped from 22.7 to 7.7 percent. At the same time, due to high crude oil prices until mid-2014 and a sharp depreciation of the rupiah in the second half of 2013, government spending on energy subsidies increased significantly. Facing both external and fiscal pressure, the government needed to adjust its policy setting and focus on maintaining macroeconomic stability.

17. **Indonesia's macro policies have been significantly adjusted since mid-2013.** Bank Indonesia (BI), the country's central bank, tightened monetary policy up until November 2014 (a cumulative increase of 200 basis points), contributing to a halving of credit growth, before easing its key reference interest rate by 25bp to 7.25 percent in February 2015. At the same time, in order to avoid a decline in foreign reserves, and to help reduce the current account deficit and make it easier to absorb possible external shocks, BI kept the exchange rate flexible. In the second half of 2013, the rupiah depreciated by 26 percent. The rupiah has continued to trend lower against the US dollar by about 17 percent in the year to September 2015. However, US dollar strength has been broad-based and Indonesia's domestic prices have increased at a relatively faster pace.

18. **The fiscal sector has also had to adjust to the effect of lower oil and gas revenues and high energy subsidies to support macro-fiscal stability.** Faced with the challenge of slowing revenues and mounting energy subsidies, the government increased domestic fuel prices by an average 33 percent in June 2013. However, much of the fiscal savings from this reform was lost by the end of 2013 due to the sharp depreciation of the rupiah. The fuel subsidy thus kept increasing, reaching Rp 246 trillion in 2014. In November 2014, the new government decisively increased fuel prices by 30 percent. This was followed by the complete removal of the subsidies for gasoline and the capping of subsidies for diesel through a new market-based price determination formula.

19. **During this period, financial sector stability remained a priority of government.** Given the dominance of banks over capital markets, and the overall smaller size of the Indonesian financial system relative to its economy, financial stability is predicated on deepening and broadening the system further, to better cushion global economic shocks as well as intermediate funds and manage risks for the country's growth needs. Lending is constrained by structural impediments to mobilisation of longer-term sources of funds outside of banking's short term deposits (most deposits are 1-3 month term only). This has created maturity mismatch risk as the country's infrastructure funding needs to expand, adding upward pressure to existing non-performing loans as well as sectoral concentration in bank lending exposure. Foreign investment in Indonesian financial markets increases the complexity of mitigating risks to external shocks. Bank Indonesia has encouraged hedging of forex liabilities of the private sector but more data and risk management of these instruments the

³ See, for instance, Dharmawan, Gusti, Ngurah, Irwan (2012). *The Effect of Air Transport to Economic Development in Indonesia*. Erasmus University of Rotterdam, Erasmus School of Economics.

risks associated with currency volatility will be required as their use increases will impact inflation, foreign currency debt servicing and economic growth. Risks associated with the coordination of financial sector regulation, regulatory uncertainty, and data transparency are being addressed with integrated risk assessments and supervisory models, a stronger bank resolution process and capacity building.

20. **The cumulative impact is that Indonesia’s GDP growth has been slowing since 2012.** Weaker global commodity prices and demand, and tighter domestic financing conditions, have weighed on the economy, with fixed investment growth roughly halving since 2012 (up 4.1 percent in 2014) and exports contracting slightly (a 1 percent decrease in 2014 from 13.6 percent growth in 2011). The pace of consumption growth also slowed to 4.8 percent in 2014 from 5.6 percent in 2013. Consistent with slower output growth since 2012, net job creation has slowed to an annual average of 0.9 percent, only just enough to keep the share of working age Indonesians in employment stable at 62.6 percent (based on the most recent two labor force surveys conducted in August 2013 and 2014). Poverty reduction has also been slowing, with the official poverty rate⁴ falling by an average of only 0.3 percentage points per annum since 2012, compared to relatively larger average annual declines of 1.0 percentage point between 2007 and 2011. The March 2015 poverty rate was 11.22%, effectively flat compared to the March 2014 rate of 11.25%. The extreme poverty rate based on the international poverty line of PPP \$1.90 per day is estimated by the World Bank to be 8.3% for 2014.

21. **Indonesia is facing significant economic and social development challenges.** As noted above, poverty in Indonesia more than halved from 24 percent in 1999 to 11 percent in 2014, using the national poverty line (Figure 2.1). This progress is in line with other high performing EAP countries since the Asian financial crisis (Figure 2.2). But further progress is proving stubborn and lifting the “hard core” poor permanently out of poverty will require greater focus and new programs. Economic growth and agricultural expansion, for example, have not translated into improved nutritional outcomes over the past 10 years. In terms of geographical distribution, poverty rates are highest in eastern Indonesia (30 percent in Papua) and lowest in Kalimantan, a resource-rich and low-density region. Poverty rates are also highest for households living in and on the edge of forests and amongst those living in coastal areas. But all areas are impacted even relatively well-off Java and Bali, which account for about 60 percent of the total population, are home to just over half of Indonesia’s poor.

Figure 2.1: Evolution of official poverty rate, 1996-2013

(Percent of population)

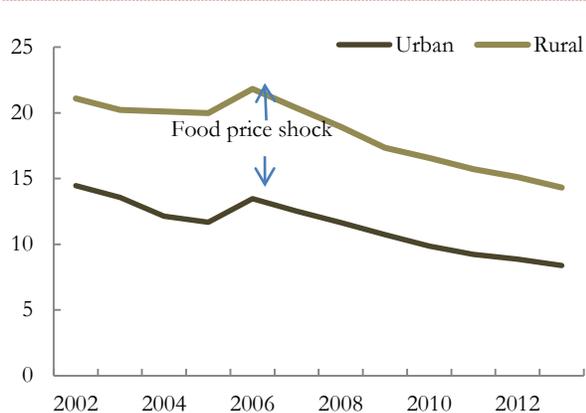
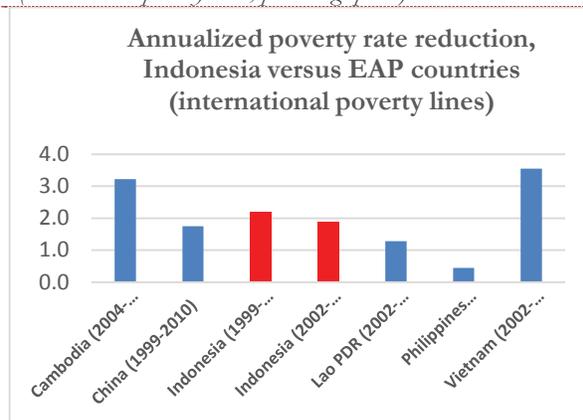


Figure 2.2: Change in poverty rates 2000-12*, Indonesia versus EAP countries

(international poverty lines, percentage point)



Source: PovCalNet. International poverty line of \$1.90 per person per day, 2011 PPP

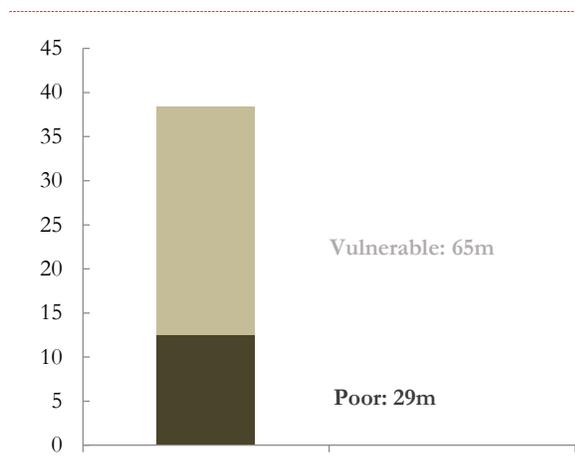
*Thailand and Malaysia are excluded because poverty was less than 5% in 2000.

⁴ As published by Statistics Indonesia using a set of provincial poverty lines. The national average poverty line for March 2015 was IDR 330,776 per person per month.

22. **The relative success in reducing extreme poverty masks the extreme vulnerability of the bottom 40 percent of households which are not officially poor but are prone to falling back into poverty.** Together, the poor and the vulnerable amount to 38 percent or very close to the WBG’s “bottom 40 percent” of the population (Figure 2.3). The ability of the poor to permanently exit poverty is proving extremely difficult. In 2008, only 25 percent of the poor escaped poverty within two years, and those who did manage to exit remained vulnerable to falling back into poverty. While productive employment was a significant factor, so was the precariousness of ‘prosperity’ amongst the bottom 40 percent, where shocks prompted by food price increases, illness or loss of a job often put families back into poverty (Figure 2.4). In 2009, 15 percent of the poor escaped poverty, but were poor again in 2010 (Susenas data).⁵ Not only can shocks prevent those with jobs from escaping poverty, but fear of risk—and a lack of insurance and savings mechanisms to effectively deal with risk—can lead people to avoid what they perceive as risky but potentially higher return activities.

Figure 2.3: Close to 40 percent of the population was poor and vulnerable in 2012

Percent of the population (percent) and number (million)



Source: Susenas data, World Bank staff calculations

Figure 2.4: 75 percent of poor households fail to move out of poverty or vulnerability over a three-year period

Status in 2010 of households who were poor in 2008 (percent)



Source: Susenas data, World Bank staff calculations

23. **Gender differences in terms of job status imply that women tend to be more vulnerable than men.**⁶ Women constitute the majority of the self-employed and unpaid family workers, making them more susceptible to personal and financial insecurity. The gender wage gap in Indonesia is larger than in other countries in East Asia, with women earning about 70 percent of what men earn, in part because female workers tend to have less secure terms of employment and are more likely to be self-employed, doing unpaid family work or working in the informal sector. Compared to men, women have a 24 percent higher probability of working in the informal sector⁷. However, in the formal sector, the unexplained gender wage gap is only around 10 percent, which is relatively low by world standards. Women-owned SMEs are mostly self-employed by necessity. Indonesia ranks 108 out of 142 countries for women’s economic participation and opportunity sub-index according to the World Economic Forum’s Global Gender Gap Report for 2014. Indonesia’s social assistance programs do favor female-headed households (FHH), but because FHH typically have a sole income

⁵ The World Bank has recently conducted a study of risk and risk management in Indonesia. Drawing primarily on original qualitative evidence from four rural and peri-urban sites, this study explores in-depth the risks faced and risk management practices adopted at the household and community level in Indonesia. Preliminary findings show that the rural poor and near-poor face a wide variety of risks and shocks. Among these, food price and health shocks are the most important but they also arise from the high cost of participating in customary lifecycle rituals.

⁶ The World Bank’s World Development Report (2011) framework for analyzing gender issues emphasizes four dimensions: endowment, opportunities, voice and agency, and cross-cutting dimensions. Gender disparities in endowment (e.g., education and health) have been significantly reduced as shown in the next section.

⁷ World Bank Indonesia Jobs Report (2010).

earner, usually with children to care for and support, female-headed households are more vulnerable to shocks and their poverty rates are more volatile.

24. **Indonesia's increase in inequality is amongst the highest in the EAP region over the past decade.** Between 2003 and 2010, consumption of the bottom 40 percent grew at 1 to 2 percent annually, while that of the two richest quintiles grew by about 6 percent. Consequently, the Consumption Gini coefficient, an indicator of inequality, rose from 30 to 42 over this period, amongst the fastest widening of inequality in East Asia. Education and ownership of assets are the key factors explaining inequality in Indonesia. Inequality increased because members of affluent Indonesian households have access to higher education and assets, such as real estate and stocks that allowed their wealth to grow rapidly. With better education, they are able to find better jobs and benefit from the increasing "skills premium" in the labor market. Compared with workers with a primary education or less, those with junior secondary education enjoy a 20 percent premium, those with senior secondary education a 40 percent premium, and those with tertiary education earn double.⁸ Individuals from poor households, however, lack financial assets and can only improve their income through work. Most of the jobs created in Indonesia since 2001, and indeed most current jobs, are in low productivity sectors, resulting in low real labor incomes. In addition, these workers have limited access to formal worker protection making them more vulnerable to shocks.

25. **About one-third of inequality in recent years can be traced back to circumstances that children are born into, or develop soon after—inequality of opportunities.** The latter can be seen by comparing a child born in Jakarta to non-poor parents who have at least high school education with a child born in a rural area of Papua or Maluku to a poor family with little education. The former has only a 6 percent chance of lacking proper sanitation, compared with 98 percent for the rural child. These differences extend across all other indicators of opportunity, such as access to clean water, housing, quality health services and education. The combination of unequal access to quality services to build human capital and the rising skill premium in the labor market, has resulted in an unequal access to good jobs and ultimately increasing inequality.

II.3. RECENT ECONOMIC DEVELOPMENTS

26. **GDP decelerated to below 5 percent in the first half of 2015 and private consumption expenditure, Indonesia's growth engine in recent years, is also slowing.** Despite gradually improving global economic conditions, the balance of international risks to Indonesia's outlook remains on the downside. Persistently low global commodity prices mean that, in the near term, net commodity-exporting countries are likely to face both weaker economic activity and deteriorating fiscal balances relative to the period before 2012 when global commodity prices were rising. In addition to growth and fiscal risks, commodity-dependent economies may need to manage risks arising from further currency depreciation. (See Annex 2: Key Macroeconomic Indicators.)

27. **Return to higher economic growth depends on stable fiscal management, successful implementation of the government's ambitious infrastructure development plans, and on further improvement of the business environment to reignite private investment.** Support to the economy from the fiscal sector is impeded by weak revenues and low capital spending year-to-date. On the expenditure side, allocations to priority infrastructure projects should be safeguarded so that these can move ahead. This requires a fiscal deficit that is higher than the 1.9 percent of GDP planned in the 2015 revised budget, while still within the 3 percent of GDP which is Indonesia's legal limit. According to a revised revenue outlook in July 2015, the Ministry of Finance expects the 2015 deficit to reach 2.2 percent of GDP. On the revenue side, the government has already introduced important measures such as electronic tax return submission and improvements in the income tax audit strategy. There is significant scope to optimize the tax regime, improve corporate income taxation, and revise value-added tax (VAT) exemptions to increase equity. At the same time,

⁸ World Bank (2014): "Hard Choices", Indonesia Economic Quarterly, World Bank, July, 2014

improving the business environment hinges on greater consistency and simplification of regulations that define the functioning of markets, including firm entry, competition, recruitment of workers, and trade.

28. **Underinvestment in infrastructure over the past decade has left Indonesia with a large infrastructure gap.** Total infrastructure investment—that is, investment by the central government, subnational governments, state-owned enterprises and the private sector—has remained unchanged at only 3 to 4 percent of GDP for a decade. This is half of what it was in Indonesia before the 1997 Asian financial crisis, and well below China’s 10 percent and India’s 7.5 percent share in GDP. This underinvestment has impacted infrastructure in every sector of the economy—from rural irrigation to urban housing—and across the entire archipelago.

29. **Under-investment in infrastructure has manifested itself into extreme problems of congestion and poor logistics performance, power shortages, lack of clean water and sanitation and other basic services, which together have seriously undermined productivity growth, competitiveness, poverty reduction efforts, and the health and well-being of the people.** Moreover, even where public spending has increased, improvements in outputs and outcomes have generally been below expectations. In roads, for example, a six-fold increase in spending resulted in only 20 percent more kilometers of roadway. Implementation of large-scale infrastructure is impeded by bottlenecks ranging from difficult land acquisition procedures, inefficient procurement, planning, and project management to chronic issues of sub-standard regulation and corruption.

30. **The infrastructure gap is also a result of the underdeveloped role of the private sector in providing infrastructure, both in terms of quantity and quality of investment.** This situation is a result of several factors including: a complex and non-transparent regulatory framework for implementation of infrastructure projects, an unclear framework for Public-Private Partnerships making it extremely difficult to mobilize private funds for investment, a lack of appropriate financial instruments and markets to support a flow of private financing to infrastructure sectors, and the lack of mechanisms to appropriately manage risks.

31. **GDP growth in Indonesia declined to 4.7 percent year-on-year in the first half of 2015, driven mainly by low levels of fixed investment but also by a softening of growth in private consumption.** Low fixed investment growth continues to drive Indonesia’s slowdown, contributing only 1.4 percent yoy to GDP growth in the first quarter, which is about half of the average quarterly growth contribution in 2010-2012. At the same time, private consumption expenditure growth, which had previously remained resilient, is also moderating, to 4.7 percent yoy in the first half. Since its share in total GDP expenditure is about 55 percent, weakening private consumption is likely to weigh heavily on overall growth. In addition, the sizable decline in nominal consumption growth to 7.6 percent yoy in the first quarter, from 9.4 percent in the previous quarter and from 12.3 percent a year ago, has had a negative impact on the government’s VAT receipts.

32. **This slowdown in economic growth, as well as lower global oil prices, helped narrow the current account deficit to 1.8 percent of GDP in the first half of 2015.** The government’s ambitious plans to ramp up infrastructure spending, if successful, could push up overall investment and increase Indonesia’s current account deficit when growth strengthens. Running moderately-sized current account deficits appears sustainable for Indonesia, especially if supported by policy measures to boost international competitiveness and to raise the efficiency of given levels of investment in generating growth, jobs and incomes. Securing a resilient mix of external financing sources, including foreign direct investment (FDI), and mobilizing more domestic saving, by improving access to finance and strengthening the domestic financial sector, can also reduce Indonesia’s vulnerabilities to volatile global financial market conditions and maintain financial stability which is critical for economic growth.

33. **Macroeconomic management has remained prudent and broadly appropriate to mitigate risks and facilitate the adjustment of Indonesia’s external balances to weaker exports and more challenging external financing conditions.** Most recently, in September 2015 global asset and commodity

markets experienced further volatility triggered by uncertainty about China's economic growth prospects amidst renewed steep falls in Chinese equity prices. Global equity, commodity and emerging market currency markets also fell sharply, but have subsequently generally recovered ground in volatile trading. Indonesian financial markets were also affected, although not disproportionately in the context of the global sell-off. In the currency market, while the rupiah's depreciation of 17 percent against the U.S. dollar between January and September poses challenges, the rate of depreciation does not stand out globally⁹. As part of a proactive financing strategy in the face of ongoing weakness in commodity revenues and uncertain market conditions, the Ministry of Finance requested the disbursement of the US\$2 billion Program for Economic Resilience, Investment and Social Assistance in Indonesia DPL DDO (PERISAI) on September 21, 2015. Further depreciation of the rupiah, tightening financing conditions, downward pressures on commodity prices, and the potential impact of El Nino are among the major risks that the government will have to manage going forward.

34. **Looking ahead, five mega-trends will shape economic prospects which policy reforms can turn into powerful drivers of growth and long-term economic transformation.** These factors are Indonesia's demographics, the urbanization trend, commodity prices, developments in China, and the potential impact of climate change.

- **Demographic factors.** Indonesia has abundant labor. Between 2013 and 2020, the working-age population will increase by 14.8 million, reaching 189 million from the current 174 million. Today, 50 percent of the population is under the age of 30. This increasingly educated and IT-savvy youth is an asset that can be used to boost overall productivity and economic growth. With the right policies in place to utilize this labor, Indonesia could be poised to benefit from a demographic "dividend" before the population starts to age in 2025-30.
- **Rapid urbanization.** Indonesia's urban population is increasing at an annual pace of about 4 percent, and by 2025, 68 percent of the population is projected to live in urban areas, compared to 52 percent in 2012. As income rises and existing large metropolitan areas such as Jakarta and Surabaya become saturated, the demand for consumer durables, shopping space and housing will increase significantly in smaller cities. Connecting these cities and their inhabitants to rural areas, metropolitan areas and the global economy will be essential to attracting firms and achieving shared prosperity. Empirical evidence shows that urbanization supports growth and poverty in Indonesia only if it is in the presence of adequate infrastructure.
- **Global commodity prices.** The softening of commodity prices since 2011 poses challenges for Indonesia in the short term, as seen in their impact on Indonesia's trade balance and revenue collection, but it offers an opportunity to enhance the quality and diversity of investments in Indonesia. Over the past decade, high commodity prices tilted investment incentives in favor of the resource sector and non-tradable sectors (e.g., the real estate sector) against manufacturing and other tradable sectors. Going forward, lower commodity prices should increase the relative profitability and attractiveness of manufacturing and can help Indonesia develop its industrial base. With reforms to reduce the constraints faced by manufacturing firms, weaker commodity prices can be a blessing in disguise. Moreover, given the role of resources in GDP, lower commodity prices are shifting the political economy in favor of reforms that would improve natural resource management. For example, lower prices are an opportunity to make more sustainable the growth trajectory of the palm oil industry.
- **Developments in China.** China's rapidly rising wages present Indonesia with potential in regaining a comparative advantage in labor-intensive export sectors. China's nominal wages have grown by an annual average of almost 15 percent since 2001 which, together with slowing productivity growth in low-skilled sectors in recent years, has seen Chinese unit labor costs grow by almost 70 percent since 2005 according to the Economist Intelligence Unit, 2011. This pressure, combined with slower overall economic growth as China rebalances, is likely to prompt investors to look beyond China's coastal areas, including to ASEAN countries.

⁹ For example, compared with the 30.9 percent depreciation of the Brazilian real.

- **Climate Change:** The impact of the changing global climate bringing higher temperatures, changes in precipitation, flooding and rising sea levels are expected to build in Indonesia over the next 20 years, with especially negative consequences for the poorest people. These impacts will be felt in food and water security and on all those who are dependent on climate-sensitive livelihoods such as fisheries and agriculture. Adapting to these threats, together with measures to mitigate the country's contribution to GHG especially through the burning of peat forests, will be major challenges running throughout the country's development choices.

II.4. LESSONS FROM CPS COMPLETION REPORT

35. **The lessons of experience, including those from implementation of the previous CPS, have been taken into account both in determining the areas in which the WBG will work as well as in how the CPF will be implemented.** These lessons have also been considered in identifying the risks to the CPF. In particular, the FY13 – FY15 CPS Completion and Learning Review (CLR) highlighted the importance of the following:

- **Political economy drivers, as much as technical constraints, impact the likelihood and direction of reform.** Understanding these drivers and the ability of WBG interventions to influence them are important considerations in determining the scope of WBG support. Government ownership, commitment, resources and champions for reform agendas are major determinants of success. Whether or not there is the ability to engage with the right level of government and whether there is a counterpart with the responsibility and accountability to deliver should be considered in choosing engagement areas in this CPF.
- **In a country as large and diverse as Indonesia, a comprehensive approach has the best chance of impact.** Indonesia is the largest economy in Southeast Asia with a heterogeneous society, wide disparity in income and an extraordinary degree of geographic dispersion. Therefore, a small or one-off intervention is not likely to have a meaningful impact unless it can be brought to scale. The CPS has successful examples of such impact including PNPM Urban, PNPM Rural, PAMSIMAS and DAK, and IFC's advisory programs in palm oil and corporate governance, all of which started as smaller engagements with WBG support and went on to become platforms for delivery of services nationwide. It also means emphasizing the WBG value proposition in the combination of financial products, knowledge services and implementation support, including through the strategic use of country specific trust funds, and employing the synergies amongst IBRD, IFC, and MIGA in large or complex engagement areas as relevant. This CPF looks to use this approach as much as possible.
- **The ability of government to implement reform and projects will be one of the key indicators of success during the next CPF period.** This is particularly true for programs that are heavy in infrastructure, institution building and long-term reform challenges such as PPPs. Experience from the current CPS has shown that shortcomings in project readiness—particularly in terms of advance procurement, land acquisition, safeguard requirements, sponsor commitment, and ownership/commitment—contribute to delays in implementation, partial achievement of results and sometimes failure. This CPF is cognizant of these issues. The government and WBG have agreed to address implementation constraints upfront in order to improve success rates.
- **Governance challenges remain a key impediment to eliminating poverty and enhancing shared prosperity.** Experience from the implementation during the CPS, as well as the results of the SCD, indicates that efforts to tackle the governance challenges that get in the way of development success should be an integral part of future engagement areas. As explained in the SCD, this could entail among other things focusing on supporting effectiveness of public institutions, supporting improved service delivery and responsiveness and accountability to the citizens at the local level. Similarly, governance and quality of sponsors are needed for well-functioning private sector companies and projects. These focus areas, along with the mainstreaming of appropriate governance support within engagement areas, should help maximize

opportunities for success.

- **The WBG could seek opportunities to pursue a more holistic approach for greater impact on Indonesia’s natural resource and environmental challenges in partnership with government counterparts, private sector players and civil society.** This CPF, working with a new government, provides an opportunity for the WBG to develop a more comprehensive engagement if aligned with the new Government’s policy direction and reform commitment.
- **The future results framework should try to address some of the difficulties in measuring a Country Program that combines long-term policy reform objectives and more immediate project level results.** Government and WBG are aware of the M&E challenges associated with operationalizing this CPF both on the project and the aggregate level. These were considered in the preparation of the Results Framework (Annex 1). In addition, greater attention to individual project level M&E and assessing the adequacy of the results framework will be considered during the course of implementation and adjusted in response to realities in the field.
- **Greater selectivity:** Cumulatively, the lessons from the previous CPS support the need for this CPF to be more selective in its design, scope and results. While the government’s development agenda is necessarily broad and the country’s needs are great, the WBG must have fewer engagements if it is to bring scale and impact through the program over the next four years. Difficult choices up front and a willingness to correct course during the CPF period are required.

III. PROPOSED WBG PARTNERSHIP FRAMEWORK

III.1. BUILDING THE PARTNERSHIP STRATEGY

36. **Within the country’s economic and social context and the lessons of experience, the CPF uses three selectivity filters to improve focus and maximize the chances for transformational change over the medium and longer-term.** The first filter is that the CPF supports the priorities and the ambitions of the government to build a more prosperous, equal and economically independent Indonesia. The second focuses on the pathways identified in the SCD to address the constraints to eliminating extreme poverty and boosting shared prosperity. The third relates to the potential for impact and WBG’s comparative advantage. Finally, the strategy was refined in the light of consultations with a broad range of stakeholders including the private sector, development partners, and CSOs. Each is described in the sections below (see also **Error! Reference source not found.**).

Figure 3. 1: CPF Strategy Emerges from the Intersection of Three Selectivity Filters

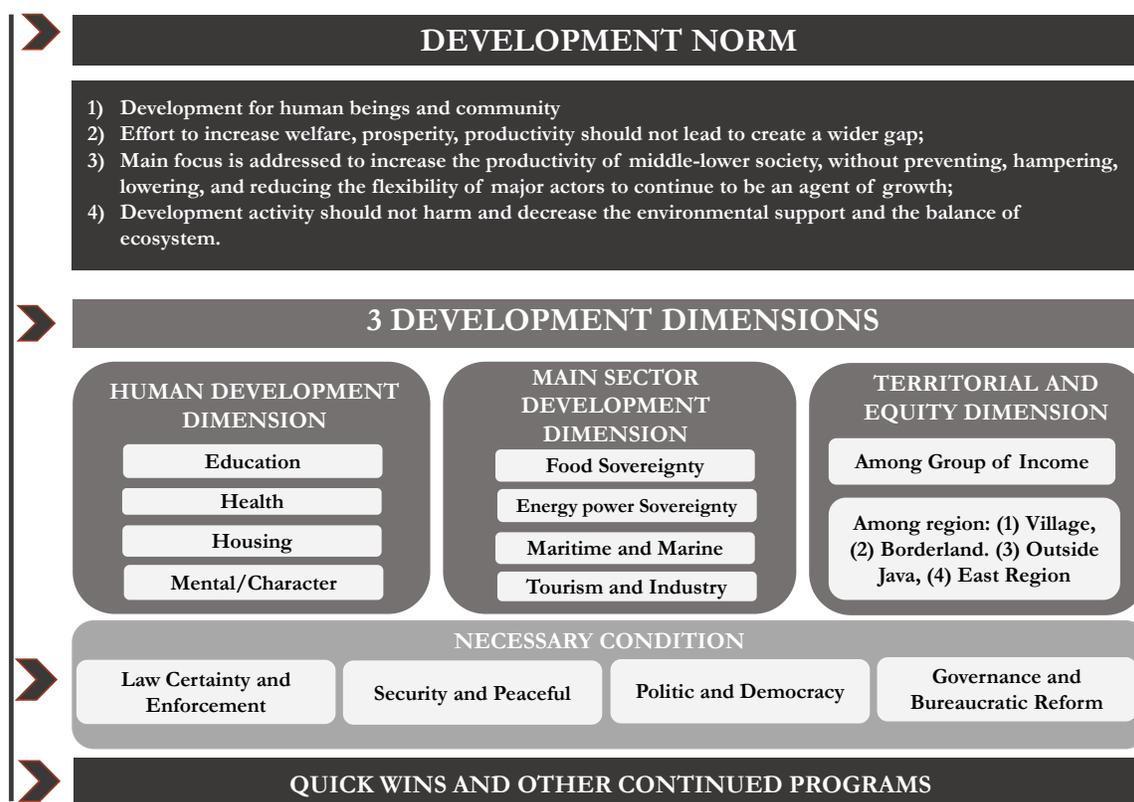


III.1.a. Government’s Development Agenda: Selectivity Filter One

37. **The priorities of government are broadly set out in the Mid-term Development Plan (RPJMN 2015-2019), which was issued in early 2015 reflecting the current Administration’s strategy to meet Indonesia’s development challenges.** The government’s vision is focused around the realization of a self-reliant nation that maintains its unique national characteristics whilst existing in mutual cooperation and respect within the global community. The main paths by which the government looks to achieve this vision are: (i) a strengthened national security that protects the sovereignty of the nation, sustains its economic independence by securing its maritime resources, and is reflective of Indonesia as an archipelago state; (ii) achieving a country that is more equitable, democratic and law-abiding; (iii) improving the quality of life for all Indonesian people within a more advanced and prosperous economy; (iv) making the nation more economically competitive; and (v) preserving Indonesian culture and identity.

38. **The RPJMN serves as a framework for the medium term development plan and aims to improve the quality of human life and address disparity and inequality.** The main objectives of the RPJMN are human being and community development, narrowing the income gap through increased productivity and poverty reduction measures, and increasing development without environmental degradation. These objectives are channeled through three development dimensions: (i) human development (ii) main sectors, and (iii) territorial and equity dimensions as shown below (Figure 3. 2)

Figure 3. 2: Government of Indonesia’s RPJM Development Strategy



39. **Government is keen that the CPF is drawn from the RPJMN of 2015-2019, particularly that all the areas of engagement are aligned with the three development dimensions and the supporting ‘necessary conditions’ described above.** GoI appreciated that the interim FY13-15 CPS mirrored the former RPJMN’s pro-growth, pro-jobs, pro-poor, and pro-green pillars which helped align the WBG’s program results against those expected by the RPJMN 2010-2014. Acknowledging that it was necessary for the World Bank

Group to use selectivity criteria in the light of the expansive needs set out in RPJMN 2015-2019, the government supported the process whereby the CPF engagement areas and supporting beams are those where WBG has a comparative advantage, are fully aligned with the development dimensions in the RPJMN, and in those cases where IBRD financing would be provided, Bappenas, line ministries and IBRD were in agreement on project choices and were reflected in the government's "Blue Book". Government and WBG are particularly interested to ensure that the CPF results framework objectives and indicators are obtainable, monitorable, and will assist government evaluate the success of its partnership with WBG.

40. **In addition to the priorities set out in the RPJMN, WBG has consulted and discussed widely with senior policy makers including the President and Vice President, ministers and government officials, private sector leaders and civil society on which priorities would most benefit from WBG support and the best ways for achieving results.** These discussions have taken place since early 2014 and have helped the new government refine its own thinking on some of the key challenges facing the country in terms of growth and equality of opportunity. Government has shown particular interest in understanding how other countries have approached similar development issues and challenged WBG to bring together financing, global knowledge and the highest quality expertise to deliver solutions. Likewise, the private sector looks to WBG not only for equity, loans and guarantees, which IFC and MIGA can provide to individual firms, but to the provision of evidence-based advice and support on a range of regulatory issues and practices that hold back private sector growth and its ability to operate effectively and efficiently. Before the drafting of the CPF, the formulation of the SCD was informed by more than a year of outreach with universities, media, and civil society at large on Indonesia's development challenges and priorities. Consultations on the Bank's approach to safeguards, procurement, and gender, as well as the Client Survey (see Box 3.1 below), were also opportunities for in-depth discussions of WBG programs and priorities which helped inform the design of the new CPF.

41. **In addition to the partnership with government, extensive consultations on the draft CPF were held with stakeholders within government, the private sector, civil society and development partners.** Formal sessions were held in locations in Jakarta and in other large metropolitan areas as well as through the internet. (See Annex 7 for details). In summary, there was support for the WBG's engagement in Indonesia and a desire for WBG assistance in knowledge services, the sharing of global expertise, capacity building and financing in support of some of government's key development objectives. Whilst the direction of the CPF and the areas of engagement resonated broadly with those consulted, there were specific areas which were identified as of being of particularly high priority by the different groups:

- a. **Civil society participants emphasized concern for the unmet needs and the inequality of access suffered by people living in the forest, coastal, and remote areas.** It was felt that central government-led programs were not able to reach the neediest and that WBG programs should also prioritize interventions at the local government level and support holistic strategies to reduce inequality, especially in these remote areas. It was felt that access to energy and improved infrastructure could likewise be strengthened by bottom-up approaches including empowering villages. CSOs expressed strong support for improving the quality of local services, particularly teacher quality and access to quality healthcare. CSOs looked to WBG to provide necessary data on poverty and inequality and to promote its use in policy-making.
- b. **Leaders of the private sector expressed concern about the lack of proper education and skills of the Indonesian workforce.** They stressed the need for government to improve the educational system to deliver the specialized skills needed in a modern economy. They also highlighted the lack of investment in essential infrastructure including power generation and transmission and the slow progress in the regulatory reform necessary to unlock private capital for investment. The manufacturing sector pointed out the need to improve Indonesia's competitiveness, particularly compared to regional competitors, through better infrastructure, logistics, skills and incentives (including tax).

- c. **Development partners supported the analysis in the SCD and the ambitiousness of the engagement areas defined by the CPF.** They looked to WBG to lead the way on some of the most difficult development challenges where progress had been disappointing over the last several years particularly in the area of environment, implementation of large scale infrastructure, and the business climate. They agreed that the mode of delivery was essential and that filters regarding impact, accountability and government ownership would be determinants of success. They expressed interest in working closely with WBG in coordinating the assistance provided by development partners, supporting the implementation models where bilateral grant assistance either through World Bank trust fund or in parallel programs were leveraged by WBG investment projects and implementation support. They proposed a realistic results framework to assess progress against an ambitious program.

Box 3.1: Client Survey Result

From March to May 2015, the WBG invited a wide range of stakeholders to participate in a country opinion survey. Participants were drawn from government, bilateral and multilateral agencies, private sector, CSOs, media, academia and parliament. A total of 316 out of 1089 invited stakeholders participated in the survey.

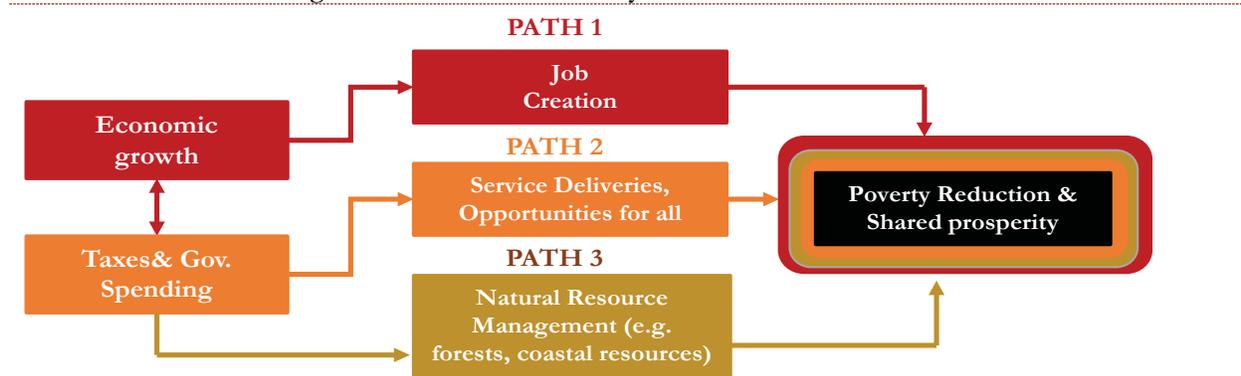
Views of the WBG are relatively positive and have improved since the last survey, which took place in 2012. Stakeholders report that the Bank is effective in its collaboration with government, citing positive developments in responsiveness, and staff accessibility. Perceptions of the WBG’s relevance and how realistic its program is both increased significantly.

The survey reported that participating stakeholders viewed governance and education as development priorities, followed by rural development, transport and corruption.

III.1.b. Development Challenges and Approaches Identified in the SCD: Selectivity Filter Two

42. **The SCD identifies the pathways for the elimination of extreme poverty and increasing shared prosperity through the creation of better jobs, improving equality of opportunity, and helping Indonesia manage its vast endowment of natural resources in a sustainable way** (Error! Reference source not found.). It identifies six reform priorities in this regard including: (i) shifting the economy to a productivity based growth path, (ii) boosting investment in infrastructure and energy, (iii) improving the business environment, (iv) improving the delivery of local services and infrastructure including health and education, (v) strengthening and expanding the social assistance programs and (vi) better management of natural resources. Delivering on these priorities will require continued focus on reforms to support and grow the private sector, greater financial resources generated by improvements in medium term tax and non-tax resource mobilization and allocation, and enhancing implementation capacity, inter-governmental coordination and cooperation, as well as tackling governance challenges.

Figure 3. 3: The Three Pathways Identified in Indonesia SCD



43. **Path 1. The private sector is the main engine of economic growth but the government plays a critical role by devising and implementing policies that encourage private sector participation and through the provision of key public goods.** Three key factors have constrained more rapid growth and creation of jobs in the higher productivity sectors over the past decade: (i) large infrastructure gaps which led to a shortage of electricity, poor irrigation to support agriculture, serious congestion on roads and ports, lack of public transport, and high logistics costs which discourage manufacturing; (ii) skills gaps, with more than 60 percent of Indonesian firms reporting that skills are a constraint; and (iii) a weak business and financing environment, with investment and trade regulations that are generally restrictive, often inconsistent, and uncertain. Realizing return on investment will depend on how projects are implemented with efficient and cleaner procurement, attention to planning and project management, and tackling chronic issues of corruption. For example, the top constraint highlighted by upstream oil and gas companies is uncertainty about government policies and the timeline for reform. Government policy support to attract private investments both in infrastructure as well as in inclusive business models will also be important, in order to leverage private sector's efficiencies and innovativeness in tackling poverty and increasing inclusion.

44. **Path 2. The second pathway to poverty reduction and shared prosperity is service delivery and opportunity for all.** The provision of decent housing, transportation services, water and sanitation, and quality education and health care is constrained by a combination of weak tax collection leading to suboptimal levels of public expenditure, poor public spending mix and service delivery challenges at the central and subnational levels. Over the past decade, large energy subsidies have crowded out public spending on infrastructure and social programs, reducing shared prosperity. In 2012, spending on energy subsidies accounted for more than one-fifth of the central government's budget, more than three times the allocation for infrastructure such as roads, water, electricity and irrigation networks, and three times government-wide spending on health. In agriculture, public spending has increased substantially in recent years, but has gone to private input subsidies (e.g., fertilizer, seeds, credit) rather than public goods (e.g., irrigation schemes, research and extension). Moreover, where spending has been increased, improvements in outputs and outcomes have been disappointing. Most of the public funding for basic services and infrastructure like education, health, water and sanitation is decentralized. Decentralized spending on these services has increased substantially but their quality remains low and unevenly distributed across regions. Opportunities for the private sector to help fill the gap in water, sanitation, healthcare and education remain limited due primarily to regulatory hurdles. Going forward, spending public money in the right areas and doing so efficiently and effectively will be crucial in providing equal opportunities for all citizens through increased access to quality health and nutrition services, education and infrastructure.

45. **Path 3. The special nature of poverty in forest and coastal areas suggests that pathways 1 and 2 need to be supplemented by a third one: natural resource management.** Indonesia is endowed with one of the most valuable forest capital wealth and the largest mangrove and sea grass ecosystems in the world. Yet poverty is highest in forest and coastal areas. Six million out of the thirty-two million people that live in remote forest areas are poor. Similarly, poverty rates among the 140 million people that depend on marine and coastal resources for livelihood is high.¹⁰ Poverty reduction efforts in these areas are constrained by the challenges imposed by remoteness, low population density and dispersed locations as well as weak governance leading to an overexploitation of natural resources. Over the past decades, the combination of rapid deforestation, overexploitation of resources, peat fires, floods and landslides has threatened the livelihoods of people living in forest and coastal areas. At the same time, in areas where there are population concentration, vulnerability to disaster and climate risk continued to be high with around 40 percent of Indonesia's population living in areas at risk from multiple hazards.¹¹ For the country as a whole, better management of natural resources is

¹⁰ While the poverty rate of this population scattered around the archipelago is not available, it is deemed high. According to the Ministry of Maritime Affairs and Fisheries, about 90 percent of coastal fishers live in poverty.

¹¹ See World Bank, Natural Disaster Hotspots, A Global Risk Analysis (Washington DC: Disaster Risk Management Series, 2005), table 1.2.

necessary to reduce poverty and share prosperity for these populations and to ensure that Indonesia's vast resources are used in a way that brings greater benefit to all Indonesians.

III.1.c. Impact and WBG Comparative Advantage: Selectivity Filter Three

46. **Political economy realities, the capacity of the World Bank Group operating with finite resources (financial and human), and the depth and breadth of development challenges in a country as large and diverse as Indonesia requires an additional filter to those of government and SCD priorities.** Therefore the potential for impact and WBG's comparative advantage is used as a third determinant in deciding not only the pillars of the strategy, but choices of activities within each area. The opportunity to be impactful requires the ability to address issues at the right level of government, receptivity of the private sector and its willingness to engage in selected areas, working with empowered counterparts and other stakeholders and a clear request for WBG support. Impact is not a time bound concept. Engagement areas, and various interventions within each, will move at different speeds. Some, particularly those that build on long-running programs such as in water and urban slum upgrading, can be expected to have substantial impact on the ground within the CPF period. Others will need a longer time horizon to bear fruit. In practice, this would mean that the quality of the engagement—and therefore the potential for impact—rather than the time horizon for visible outcomes, should be a determining factor. In addition, the World Bank Group must have a comparative advantage and the capacity, including the requisite financing and other development tools, as well as human resources and global knowledge, to deliver high quality solutions in a timely manner. Introducing this filter requires that difficult trade-offs be made, that some important areas are left to others, at least in the near term, and that WBG resources be handled whenever possible for maximum impact.

III.2. PROPOSED PARTNERSHIP STRATEGY

47. **Together the three filters have led to the development of a CPF strategy with an objective to operationalize WBG support to the GoI to eliminate extreme poverty, generate prosperity and share this more widely amongst all its people.** As depicted in the figure below (Figure 3.4), the proposed WBG program has been organized around six engagement areas which are supported by two beams.

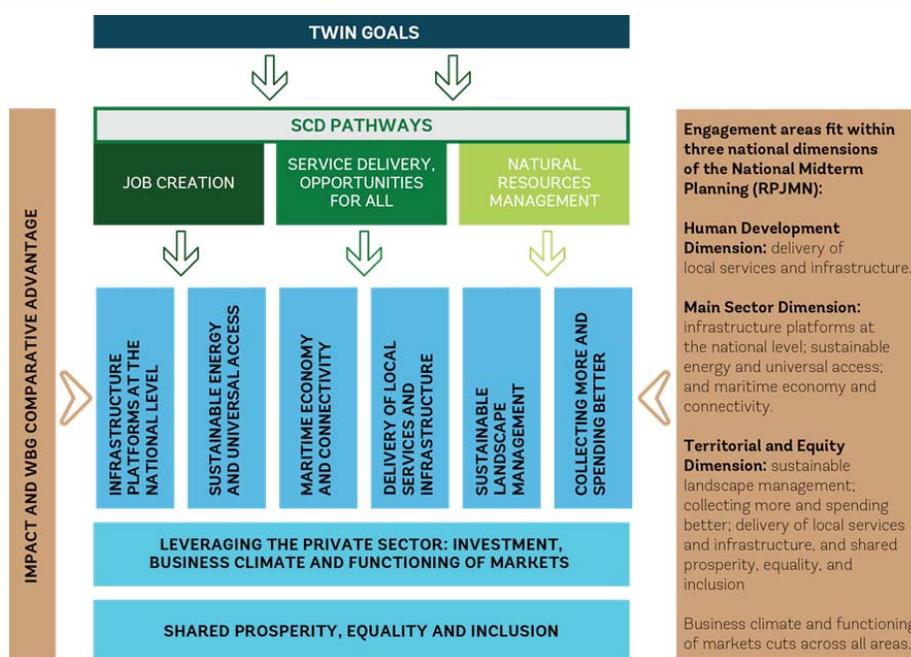
48. **In line with the SCD and government's top priorities, infrastructure development features prominently within the engagement areas of the proposed CPF.** This is justified given that reducing the infrastructure gap would help (i) alleviate the constraints that infrastructure bottlenecks impose to competitiveness, growth and creation of jobs; (ii) support the delivery of services including health and education and (iii) provide inclusion and connectivity across the country's vast archipelago. Even with this infrastructure emphasis, WBG resources will form a small portion of overall need. Investment of over US\$100 billion a year will be required over the next five year period to close the infrastructure gap. Of this, the state budget, including foreign borrowing, is expected to finance about one-third, with the remaining needing to come from the private sector and from SOEs. Through a package of loans, equity and targeted TA, the WBG will aim at increasing privately financed infrastructure (including those with partial or full private sector financing or benefiting from a government guarantee) and through demonstration projects which could help jumpstart the market.

49. **To organize WBG engagements in this broad area of infrastructure, Indonesia's own systems and organizational structures are used.** In Indonesia, the development of strategies, national programs and policy formulation in all development areas is the responsibility of the central government. However, with decentralization, the *delivery* or *execution* of most national development programs is the primary responsibility of subnational governments (Provinces, Regencies (*kabupaten*), municipalities (*kota*) and villages). There are some cases where the delivery of programs is still largely the responsibility of the central government level via line ministries (housing, irrigation and dams, water and sanitation, national roads, tourism) or SOEs (maritime and ports, energy). Therefore, to respond in a way that is best aligned to our client, one engagement is associated with national platforms and one with local governments. Two areas—energy and maritime and logistics—are

separate engagement areas given their top priority by government and that underinvestment, institutional challenges, and operational inefficiencies in these sectors are the chief bottlenecks to growth, competitiveness and creation of more productive jobs in the economy as a whole.

50. In addition to infrastructure, the pathways to the twin goals and priorities of government are addressed through three additional engagement areas and two supporting beams. Challenges to equality of opportunity, especially for health and education, are addressed at the ‘point of delivery’ in the “Local Service Delivery” engagement. Natural resource management is addressed under the sustainable landscape management engagement. Supporting improved revenue collection and more efficient and better targeted spending outcomes is under “Collecting More and Spending Better”. There are two supporting beams. Leveraging the Private Sector and Inclusion help provide the necessary underpinnings for efficient and effective delivery of all the engagement areas and ensure that outcomes have the desired focus and impact on creating jobs, eliminating poverty and promoting inclusive growth and prosperity.

Figure 3. 4: CPF Strategy Emerges from Applying Selectivity Filters



51. Each of these engagement areas and supporting beams are described in the sections below.

III.2.a. Engagement Area 1: Infrastructure Platforms at the National Level

INFRASTRUCTURE PLATFORMS AT THE NATIONAL LEVEL

- At the national level engagement, we will seek to work in those sectors where we can have impact through ‘platforms’ in partnership with government and development partners to reach scale, and where relevant, the private sector. This will most likely concentrate on the following sectors:
 - Water and sanitation
 - Irrigation and dams
 - Affordable housing
 - Integrated tourism
- This engagement links with SCD Pathway 1 Job Creation by addressing one of the biggest constraints to growth and the creation of high productivity jobs and Pathway 2 Service Delivery and Opportunity for All particularly by addressing the shortfalls in decent housing, transportation, water and sanitation.

52. **Infrastructure Platforms at the National Level Infrastructure** involves those sectors where the central government, mostly through the Ministry of Public Works, has responsibility for policy and/or implementation, where government or the private sector have expressed a strong interest in working with the World Bank Group and where supporting or expanding ‘platforms’ in partnership with government and, where relevant, the private sector can make a meaningful impact. The CPF makes a distinction between delivery at the local and national level not so much because the geographical coverage of the projects are different, but mainly because the delivery model is different and therefore so are the bottlenecks and solutions. While there remains the possibility to work in other sectors during the CPF period if conditions change, it is currently expected that the WBG engagement at the national level will be concentrated in water and sanitation, irrigation and dams, housing and integrated tourism development.

53. **Water and sanitation. The RPJMN specifically sets an ambitious target of eliminating slums and providing universal access to water and sanitation (100-0-100 target), including the end to open defecation, by 2019.** WBG proposes to directly support several expanding and new national-level programs. These include the Community-Led Water and Sanitation Program (PAMSIMAS III), the National Slum Upgrading Program (NUSP) and the National Urban Water Supply Program (NUWSP). The role of WBG would be to help establish regional water supply systems which will increase water sources and production capacity, as well as encourage regional collaboration amongst local governments for a more effective and economically viable service delivery mechanism. Similarly, work is planned in urban wastewater management and a solid-waste program for serving metropolitan areas. The WBG’s involvement in all these programs is designed not just to fill the financing gap, but to assist the Ministry of Public Works and Housing in setting up well-designed platforms of delivery which also strengthen the capacity of local government, supported by strong monitoring and evaluation systems. IFC is considering to support private sector companies providing water and sanitation services in select locations, where the concessions have been granted in a transparent manner and the firms provide services in sustainable and socially responsible ways. In addition, IFC is also considering assisting select municipalities in structuring and bidding out waste-to-energy power projects for private sector participation. Of the national platforms, this area of the engagement has the strongest links to local government implementation and the expected results are explained further under Engagement Area 4.

Box 3. 2: Using a Platform Approach to Deliver Clean Water and Sanitation Nationwide

Beginning in 2008, WBG has been helping GoI address the serious challenges of providing water and sanitation to Indonesia’s rural population. This assistance evolved into the formation of a national platform (PAMSIMAS) which has extended access to sustainable water and sanitation services to approximately 8 million Indonesians to date. Within this CPF period, the PAMSIMAS platform provides the means of transforming Indonesia’s ambitious national goal of “100-0-100” into a reality. Through the platform approach under this CPF engagement area, WBG technical assistance and implementation support, provided primarily through Australian trust fund financing, together with IBRD lending, are the catalysts for a much larger financing envelope from government’s own budget which allows PAMSIMAS to reach national scale. It is expected that within the first year of the CPF, additional financing from the IBRD of some US\$300 million could be matched by approximately US\$1 billion of government financing to provide access to sustainable water to an additional 10.5 million Indonesians and sanitation services to an additional 7.5 million Indonesians by the year 2020.

54. **Irrigation and dams. Under the RPJMN 2015-2019 the government has set ambitious goals for the modernization of irrigation infrastructure including rehabilitating 3 million hectares of irrigation channels and constructing 1 million new hectares of irrigation channels.** GoI plans to build 49 new dams in the next five years in addition to the 16 dams which are currently under construction. Within these ambitious targets, WBG’s engagement would focus on using IBRD resources to rehabilitate existing schemes, with complementary R&D and extension services, and enhancing user participation to improve the quality of irrigation services, better maintain the infrastructure and support a more diversified pattern of production to boost farmer incomes and nutritional outcomes. At the same time, IFC would assist the Ministry in identifying irrigation dams which can be upgraded to also generate power and, where appropriate, help bid out some of

these projects as PPPs to bring in private sector participation which has been missing in development and operations.

55. **Housing.** The government has made reducing the housing backlog and delivering affordable housing an explicit policy priority. With the *Satu Juta Rumah* (One Million Homes) initiative, launched in April 2015, the administration has set an ambitious target of delivering one million homes annually to meet new household demand and to address the housing deficit. WBG will aim to work both through the private and the public sector to support the provision of affordable housing through a mix of lending and technical assistance on both the supply and demand sides including encouraging private sector financing of affordable housing projects, as well as to support to financial institutions in extending mortgages.

Table 3. 1: Indonesia ranks low in key aspects of tourism competitiveness

Indonesia Tourism Competitiveness Rankings, 2015	Ranking out of 141 countries
Environmental Sustainability	134
Safety and Security	83
Health and Hygiene	109
Air Transport Infrastructure	39
Ground and Port Infrastructure	77
Tourist Service Infrastructure	101
Price Competitiveness	3
Human Resources and Labor Market	53
Natural Resources	19
Cultural Resources	25

56. **Integrated Tourism Development through Infrastructure, Institutions and Skills.** Indonesia is endowed with spectacular and extensive natural and cultural resources which make tourism potentially one of the most important sectors for job creation. Yet Indonesia lags well behind its neighboring countries in exploiting its competitive advantage. Indonesia attracts about 9 million international visitors annually compared to over 25 million in both Malaysia and Thailand. If it could attract 20 million tourists a year by 2019, as is the Government’s target, Indonesia could significantly reduce its current account deficit by earning an additional US\$21 billion in tourism generated foreign exchange. Attracting an additional 10 million tourists would create some 700,000 new tourism jobs, many for women and youth. In addition, for every job directly created in Indonesia’s tourism sector, nearly two jobs are created indirectly, through supply chain impacts, or induced through the additional spending by those newly employed¹² Indonesia could take advantage of these opportunities in the tourism sector if it could address some key constraints: (i) poor tourism infrastructure including access, quality of facilities, and environmental sustainability; (ii) institutional bottlenecks, lack of public-private and cross-ministry/agency coordination, and (iii) insufficient skills to provide a full range of tourism experiences in a profitable and sustainable manner. WBG is proposing to support Indonesia with a comprehensive approach, focusing on priority ‘hub’ destinations to start and later expanding to more sites as part of a national tourism program. The program would draw on IBRD, IFC and MIGA resources, together with other development partners, to support the development of sustainable tourism destinations via a sequenced process of policy and planning coordination, development of infrastructure, promotion at the national and local level and skills development. It would have particularly strong links to the private sector including private sector investments possibly with support from IFC and MIGA financial products as well as

¹² Calculations based on 2013 international tourist receipts per tourist, according to World Economic Forum Travel and Tourism Competitiveness Report 2015. For every US\$1 million in Travel & Tourism spending, 198 jobs are supported (67 direct, 84 indirect, and 47 induced), according to WTTC 2015 Indonesia.

services to support local communities in delivering quality experiences, including SME financing and skills development needed to create a competitive tourism-based economy.

57. Proposed development outcomes for this engagement area include:

Increase access to water irrigation and dam safety

- The number of people benefiting from improved irrigation and dam safety.
- Area provided with improved irrigation and drainage services

Increase access to affordable housing

- Number of low-income households with access to affordable ‘core starter’ public housing units
- Number of households with access to affordable housing through credit-linked down payment subsidies

Development of integrated tourism development

- Number of integrated tourism destinations established
- Number of integrated tourism master plans prepared

III.2.b. Engagement Area 2: Sustainable Energy and Universal Access

SUSTAINABLE ENERGY AND UNIVERSAL ACCESS

- Over US\$50 billion investment deficit, 60 million people with no dependable access, limited success using renewables for generation.
- GoI has committed to:
 - Reduce/target energy subsidies to improve efficiency of resource allocation
 - Expand access
 - Increase share of renewable energy to 23 percent
 - Incentivize industrial enterprises to convert to energy efficient technologies.
- WBG’s engagement will use a full set of interventions including private sector investment, lending, DPLs, knowledge services to:
 - improve operational efficiency and reliability of services through transmission and distribution, pumped storage
 - support renewable energy and low carbon development
 - increase access to Modern Energy Services
- Support improvements in governance, competitiveness and efficiency
- This engagement links with SCD Pathway 1 Job Creation by addressing one of the biggest constraints to growth and the creation of high productivity jobs and Pathway 2 Service Delivery and Opportunity for All particularly in its access agenda.

58. Developing the energy sector is at the top of the government’s priorities and is identified in the SCD as one of the major bottlenecks to growth, shared prosperity and human capital formation.

Chronic underinvestment and subsidies have left Indonesia with a power deficit and, with demand continuing to increase at an annual rate of about 8 percent, government has projected that the country will need at least 35 gigawatts (GW) of new generation capacity together with associated transmission and distribution capacity over the next five years. Moreover, with an electrification ratio of 84.3 percent of the population, Indonesia lags behind neighbors like Thailand, Vietnam and China which have achieved universal access. Government is looking to simultaneously increase generation capacity to meet demand and assist growth, substantially increase the share of renewables in the energy mix, and provide universal access to all Indonesians.

59. The power sector in Indonesia is dominated by the state-owned power utility PLN that owns and operates 39.3 GW of the 51.6 GW of installed generating capacity, as of 2014, making it arguably the biggest power utility in the world. Independent Power Producers (IPPs) represent a much smaller 7.9 GW of installed capacity, and the balance is from captive generation. Investment in energy will be critical for

supplying an expanding economy and for increasing coverage to 60 million Indonesians without reliable access to electricity. With energy contributing almost a quarter of total CO₂ emissions, reducing the heavy reliance on fossil fuel sources to meet rising demand is both central to Indonesia's development plan as well as to support the global climate change agenda. To improve the efficiency and sustainability of the energy sector, constraints to greater investment by the state-owned enterprises (SOEs) and the private sector will need to be overcome.

60. **The sector until recently was characterized by subsidized electricity tariffs, and high fiscal transfer to PLN.** These subsidies, projected at 0.6 percent of GDP in 2015, are unsustainable at current levels, and the government has embarked upon a tariff rationalization effort aimed at targeting subsidies only to low income consumers. Additional energy sector challenges include an increase of coal in power generation imposing environmental costs on the economy and on society and energy efficiency programs that have yet to gain significant traction. Coal accounted for about 52 percent of the generation fuel mix at the end of 2014 and, without support to the renewable sector, could increase to some 60 percent by 2019.

61. **Addressing these large challenges will require new business models and changes to the role of the government, SOEs, and the private sector.** For instance, PLN alone is expected to finance up to US\$40 billion in generation (5 GW), transmission and distribution. The remaining 30 GW is to be designed, built, financed and operated by the private sector. Past delays come from a string of regulatory uncertainties and ambiguities, and excessive administrative processes. The government is making efforts to streamline and coordinate processes. For instance, it has created a Performance Management Unit (PMU) under the Ministry of Energy and Mineral Resources and an inter-ministerial Project Management Office (PMO) under the President and Vice President to drive delivery of the program. Additionally, it has committed to a number of long term measures around (i) reducing, and better targeting, energy subsidies to improve productive and resource allocative efficiency; (ii) expanding electricity access; (iii) scaling up renewable energy deployment by 2025; and (iv) mobilizing a partnership program on energy conservation to incentivize industrial enterprises to convert to energy efficient technologies. In the last two years, GoI have been increasing electricity tariffs. In addition, they have undertaken or initiated a number of measures to improve the speed and efficiency by which they make investments in generation, transmission and distribution and to improve the ability to attract private sector investors, including reducing permits and red tape associated with licensing.

62. **Against this background, WBG's engagement will focus primarily in four areas, drawing on all members of the World Bank Group (see Box 3.3 below) and a range of instruments from trust-fund financed technical assistance to investments with the private sector.**

- Energy Infrastructure: improving operational efficiencies, reliability of services through among others transmission and distribution, pumped storage
- Renewable energy and low carbon development: accelerating geothermal and other renewables complemented with sustainable development of hydropower and the gas sector
- Access to modern energy services, potentially through grid extension, possible off grid solutions, modern cooking solutions
- Sector governance, competitiveness and efficiency, particularly through the DPL series, project delivery TA.

63. **A recent Presidential decree has provided the basis for direct IBRD lending to PLN with sovereign guarantee.** Along with this instrument, WBG support to the sector would comprise a mix of financing instruments, such as Investment Project Financing (IPF), Development Policy Loans (DPLs), Program for Results (PforRs), IFC equity and loans for private sector projects, and a combination of MIGA's political risk insurance and Non-Honoring products in the renewable energy sector. In addition, the program proposes to leverage Climate Technology Funding and GEF resources. Technical assistance and knowledge services will be funded primarily through Indonesia specific and regional trust funds and working with other development partners. Policy lending is expected to support reforms to improve the regulatory and implementation framework which in turn will make more productive public and private sector participation in renewable generation, gas, and increased electrification nationwide. The engagement will focus on moving the

power and gas sectors toward a more secure and sustainable development path. Coal and nuclear generation will be specifically excluded, but more importantly, many elements of the program, including the proposed development policy lending, will help mitigate the risk of increasing the use of coal-fired power generation to meet fast-growing demand and achieve universal access to electricity.

Box 3.3: How One World Bank Group Can Help Deliver Sustainable Energy and Access

This engagement area illustrates well the successful model of collaboration across the World Bank Group organizations. The energy engagement area is an opportunity to increase sustainable generation, increase access and create an environment conducive to private investment and faster implementation in support of Government's national goals. Building on a long history of interaction with the public and private sectors, this WBG engagement uses a diverse and sequenced set of development tools to deliver results. Starting with economic and sector work and dialogue with policy makers and other stakeholders, WBG helps identify the key physical and regulatory bottlenecks. This knowledge is then used to support substantive reform of the sector through a proposed IBRD financed Energy DPL which includes IBRD and IFC experts in the task team and is delivered in coordination with other development partners including ADB, KfW, AfD, and JICA in order to leverage IBRD financing. Such reform improves the impact of WBG lending for generation of renewable energy. A P4R is proposed to support enhanced PLN corporate governance, procurement and environmental and social sustainability which is necessary for PLN's ability to increase access for the roughly 60 million people who are under-served. The reform efforts simultaneously improve IFC's ability to come in with financing and syndications from commercial banks to support additional renewable generation (particularly geothermal and hydro), better transmission and access through investment of the private sector, while further improvements for both SOE and private sector operators can be supported through MIGA guarantees. Since IBRD financing will be increasingly constrained as Indonesia approaches its Single Borrower Limit (SBL), IFC and MIGA financing is an essential means for leveraging additional financing.

64. **Together these elements are expected to create a more enabling environment for cleaner energy (gas, renewables and hydropower) investments, which opens opportunities for displacing the use of coal fired power generation to meet fast-growing demand.** At the same time, it should be recognized that improvements in the early years will be incremental, particularly in relation to large scale infrastructure and institutional and regulatory reform. Given the extensive political economy issues, gas sector development strategy reform, building incentives for investment and efficient service delivery will take time and will not always move in a straight line. As in other sectors, there is a long list of regulations that are to be issued, but the absence of implementing regulations may slow the pace of reform.

65. **Proposed development outcomes for this engagement area include:**

Increase supply and access to energy

- Number of households receiving improved access to reliable energy
- Incremental geothermal power installed capacity (MW)
- Incremental pumped storage installed capacity (MW)
- Incremental electricity sales of PLN (Gwh)
- Non coal (hydro, gas) power produced (Gwh)

III.2.c. Engagement Area 3: Maritime Economy and Connectivity

MARITIME ECONOMY AND CONNECTIVITY

- Investment gap in excess of US\$50 billion. If logistics costs were on par with Thailand (16 percent vs 24 percent of GDP), Indonesia would save US\$70 billion annually that would be available for more productive uses.
- The government made ‘Maritime Nation’ a pillar of its development agenda, but progress is delayed due to a lack of a coordinated response across regulatory, operational and investment aspects and overlapping mandates.
- Possible WBG interventions include a blend of investment lending, DPLs, possible IFC investment, MIGA guarantee and knowledge services to support:
 - creation of an improved regulatory and operating environment which supports investment by both public and private sectors
 - port development and operation
 - hinterland connectivity in port areas including land and air-based transport
 - development of the blue economy.
- This engagement links with SCD Pathway 1 Job Creation by addressing one of the main constraints to growth and the creation of high productivity jobs, Pathway 2 Service Delivery and Opportunity for All particularly in improving connectivity in eastern regions and Pathway 3 in providing infrastructure and regulatory environment to make use of natural resources, especially in coastal and marine areas and fisheries, more sustainable and the benefits more evenly shared.

66. **Good connectivity is a vital prerequisite to supply domestic markets efficiently and to compete internationally.** It is all the more important in an archipelago nation where the sea can become a tool of cohesion or a source of fragmentation and isolation. Good freight logistics—both in terms of speed and dependability—involve a wide range of elements including hard infrastructure and technology, good regulation and efficient operations and quality of human capital. In Indonesia, poor logistics act as both a drag on growth and a major contributor to inequality. The costs of logistics—moving goods around the country, as well as imports and exports in and out of Indonesia—is about 24 percent of GDP. Thailand, on the other hand, spends about 16 percent of GDP doing the same. For Indonesia, this difference amounts to some US\$70 billion per year that could be used more productively.

67. **Poor connectivity and logistics weighs most heavily on Indonesia’s poor.** Especially in eastern Indonesia, which has the highest incidence of poverty, maternal mortality and childhood stunting, lack of connectivity to the rest of the country, as well as to the world, make it difficult to support a diversified economy despite the presence of vast natural resources. At present, eastern Indonesia cannot tap into the potential of shipping backload to make their products available in densely populated western Indonesia. Port-hinterland connections are also a major contributor to high logistics costs and uncertainty in the movement of goods. Basic commodities are frequently not available throughout the year. The poor state and unreliability of port-hinterland connections is particularly problematic given the shortage of cold storage facilities throughout the country partially as a result of energy shortfalls. This hampers the ability to maintain a cold chain for high value products such as fish and fresh produce.

68. **But even in Indonesia’s biggest and richest population centers in Java and Sumatra, the time to reach and trade through ports is generally higher than in other major ASEAN countries.** The movement of goods around the main ports of Jakarta and Surabaya, despite significant investment and professional port management, is frequently congested. The costs of bringing containers to the Jakarta ports from nearby industrial areas are about twice those in Malaysia although distances are similar. In the era of ‘just in time’ manufacturing, the inability to predict the arrival of imports or the ability to export, puts Indonesia at a significant disadvantage to other countries even those where labor costs are higher. Much of this problem is associated with connectivity. Roads which are the predominant mode of transport and land connectivity in

Indonesia, accounting for 70 percent of freight ton-km and 82 percent of passenger-km, suffer from inefficient investment, poor quality and inadequate maintenance. The air freight industry provides a good example where a better enabling regulatory environment promotes trade internationally and domestically. But, air freight is the exception rather than the rule.

69. **Indonesia's marine and coastal natural resources are among the richest in the world, but the country is not benefitting in terms of growth, livelihoods and the environmental services which they provide.** Moreover, coastal populations are disproportionately represented amongst Indonesia's poor. Indonesia is the world's second largest producer of wild-capture fish, accounting for 6.5 million tons produced in 2011, 60 percent of which was from small-scale fishers. FAO estimates that fishers, fish farmers and those supplying services and goods from marine and coastal ecosystems contribute to the livelihoods of 140 million Indonesian citizens. However, the sector is seriously underperforming, contributing only 3 percent to GDP, primarily through accelerated and largely unsustainable growth in aquaculture. Production targets for 2015-19 would be achieved through heavily polluting expansion of aquaculture and with unsustainable levels of wild capture fisheries output. Pollution entering marine and coastal ecosystems has spiked across the country and Indonesia is now the second largest contributor to marine plastics in the world. At present, of the 20 million tons of aquaculture and wild capture produced each year, only 5.6 million tons are processed post-harvest in Indonesia due to a poor investment environment and lack of necessary infrastructure, such as cold storage facilities and electricity. Seven of Indonesia's 11 fisheries management areas are already fully exploited. In addition, government estimates that illegal, unreported, and unregulated (IUU) fishing results in upwards of US\$20 billion lost revenue annually, compared with reported revenues from fisheries of only US\$4 billion.

70. **Recognizing these challenges, President Widodo, in his first days in office, made making Indonesia into a 'Maritime Nation' a pillar of his development agenda.** This has included initial attempts to address the problems of institutional coordination by creating a new Coordinating Ministry for Maritime Affairs that aims to bring together the various line ministries and agencies that are involved in ports, shipping, transport and fisheries. The RPJMN 2015-2019 presents a maritime strategy with substantial investments in ports infrastructure and hinterland connections as well as fisheries and coastal ecosystems and calls for improvement of port efficiency including targets for the reduction of dwell time in major ports in Indonesia. The government is preparing several Presidential Decrees on upgrading ports, building new ports and improving port efficiency.

71. **Against this background, WBG's engagement in this area would focus on a number of the most critical challenges where the government has requested our help.** These include: (i) the creation of an improved regulatory and operating environment which supports investment by both public and private sectors; (ii) port development and operation; (iii) hinterland connectivity possibly including supporting improvements in roads and air-based transport; and (iv) support for the blue economy. These areas would be supported using a full suite of WBG financial and knowledge products to build synergies across the program and with government funded projects. A proposed Development Policy Loan would support the government in identifying and implementing a reform package to promote better maritime logistics, improve the climate for private and public investment and strengthen technical capacity for better policy making and implementation. Reimbursable Advisory Services and other knowledge products would be used to support the collection of data and evidenced-based policy making and to help prioritize investments. IFC is considering assisting Pelindo-II, an SOE, in identifying good PPP candidate: port projects in the eastern Indonesia corridor. This would help underpin expected investments by the Bank, IFC and MIGA in port construction and operations, air connectivity, and hinterland connectivity. WBG will also look to help integrate sustainable marine and fisheries natural resources into the overall maritime approach. It is expected that particular emphasis will be in eastern Indonesia and other lagging regions in line with government priorities and to promote shared prosperity.

72. **By working as a World Bank Group, we would draw on the various strengths of each organization to create synergies among the various interventions.** As an example, it is expected that IFC could support port operators whilst the Bank leads in investment in port development, hinterland infrastructure and blue economy. IFC and MIGA could potentially support better air connectivity.

73. **Proposed development outcomes for this engagement area include:**

Improve maritime logistics and connectivity

- Reduction of container handling time in selected international and domestic terminals
- Reduction in travel time for selected links to ports

Improve fisheries management practices

- Sustainable fisheries management implemented in fisheries management areas
- Percentage health status of coral reefs in intervention areas improved

III.2.d. Engagement Area 4: Delivery of Local Services and Infrastructure

DELIVERY OF LOCAL SERVICES AND INFRASTRUCTURE

- One third of income inequality can be traced to inequality of opportunity in access to health and education services and basic infrastructure such as sanitation. Half of GoI spending is at the local level where capacity and accountability are the weakest.
- Solutions lie in enhancing the way central, provincial, district and village government work together to deliver these services.
- Eliminating extreme poverty and boosting shared prosperity in the longer-term would require improving opportunities today particularly in terms of education, health and nutrition to ensure a healthy and productive population in the future.
- This engagement will be organized around three pillars using investment and knowledge services:
 - Strengthening the decentralization framework to improve local service delivery
 - Supporting the delivery of quality education and health services, water and sanitation in rural areas to directly address inequality of opportunity.
 - Supporting the sustainable urbanization of cities, particularly through infrastructure development.
- This engagement links with SCD Pathway 2 Service Delivery and Opportunity for All in supporting improvements in quality, access and accountability for health, education, sanitation and other infrastructure provided through local governments.

74. **Inequality of opportunity from birth accounts for a persistently high share of income inequality later in life.** One-third of all consumption inequality in Indonesia is due to factors that are outside of an individual's control. The most significant of these factors are differences amongst households based on parental education and, to a lesser extent, where they were born. Inequality of opportunities has remained high despite the significant gains in access to key services like health, education, water and sanitation. This is due to a combination of unequal access to quality services to build human capital, which leads to inequalities in child health and nutrition as well as skills, and the rising skill premium in the labor market, which results in increasing unequal access to good jobs and ultimately increasing inequality.

75. **Rapid urbanization has not been the engine for reducing poverty and boosting shared prosperity which it might have been had there been adequate investment in urban infrastructure.** The urban population has been increasing at an average rate of 4.1 percent per year between 2000 and 2010 and already accounts for about half of the country's population. Yet, for every 1 percent increase in urbanization, Indonesia achieved only 2 percent GDP growth, below the return to urbanization in other Asian countries like

China, Vietnam and Thailand which, unlike Indonesia, have benefited from the economies of agglomeration. The number of urban poor is quickly catching up with the number of rural poor—currently, out of the 25 million extreme poor in Indonesia, 10 million live in urban areas—and inequality in urban areas is higher and increasing more rapidly than in rural areas.

76. **Despite significant investments and gains in access, the quality of services is persistently low and unevenly distributed across regions.** The large regional disparities have less to do with levels of spending in these services than with ability of local governments to deliver.

- **Education services.** Government spending has tripled in the last 10 years but little has changed in the classroom. More than half of the teachers do not meet minimum competency levels, contributing to 40 percent of 15 year-olds, mostly poor, performing below the lowest competency level in PISA-math. This ranks Indonesia the second lowest country globally.
- **Health-related services.** Government spends only 1.2 percent of GDP on health, the fifth lowest rate globally. Moreover, this spending is not improving services to an acceptable level. No single public primary health facility (*Puskemas*) in the country is equipped with the mandated human resources and equipment necessary to provide basic health services. Some 41 percent of the population lacks access to safe water (down from 48 percent despite a six-fold increase in spending in the last seven years) and 35 percent of the population practice open defecation. These realities contribute to persistently high rates of maternal mortality (190 deaths per 100,000 live births, below the MDG target of 102 maternal deaths per 100,000 live births by 2015) and of child malnutrition (37 percent of under-five children are stunted).
- **Urban infrastructure.** Government spending is insufficient to keep up with the degradation of local public assets which are already generally of low quality. To date, implementation of large-scale infrastructure investments have been slow. Together this has resulted in low access and generally poor quality of services in water, transportation (public transport services, if existent, are mostly provided by old and badly maintained minibuses, three-wheelers, motorcycles and ordinary taxis), centralized sanitation (only available to 2 percent of the urban population) and sewerage (only present in 11 cities nationwide). Only half of urban roads are considered of ‘reasonable quality’. Private sector companies provide some transportation services (motorcycle or car taxi services), but their participation in mass transit water and sanitation remains low.

77. **Improving the quality of services requires overhauling the current system for delivery by local governments.** In order to get to a future free of extreme poverty and one where prosperity is shared more widely, the inequality of access that exists today needs to be addressed. Indonesia’s big bang decentralization transferred the financing (about half of total government spending) and responsibility for the provision of most basic services to district governments. At the same time, most local governments do not yet have adequate capacity to deliver services, nor are they accountable for results to the central government or to their constituents. Therefore, solving the problems of service delivery and provision of local infrastructure require building the capacities of local government to deliver, moving towards a more performance-based transfer system, providing the tools for citizens to monitor local service delivery, as well as differentiated approaches for different types of regions. It also requires combining the current top-down approach to reform, whereby local government implement national policies, with more local focus which uses frontline services as the entry to develop solutions and working out ways to identify and align supporting interventions at each levels of government. Ultimately, improving local service delivery is about enhancing the way central, provincial, district, and village government work together to deliver results on the ground. There are some cases, particularly in disaster recovery, where good local governments and engaged communities have joined forces to deliver good services and infrastructure. This is evident in the success in rebuilding Aceh after the tsunami and in Yogyakarta where 300,000 houses in an area devastated by the eruption of Mt Merapi were rebuilt. But there are fewer examples in terms of health and education services.

78. **The World Bank engagement in local service delivery is organized around three pillars which would be supported through the use of both knowledge services and investment lending.**

Pillar 1: Strengthening the decentralization framework to improve local service delivery. This pillar would focus on supporting efforts to establish a performance-based fiscal transfer system, strengthening the capacity of central government agencies to support and oversee the performance of local governments, strengthening the back-office functions of local governments to deliver local services and infrastructure, and developing tools for citizens to monitor local service delivery. WBG financial support would focus on the gradual roll out of performance incentives in fiscal transfers to local governments for priority sectors (infrastructure, health and education for example).

Under this pillar, IFC would help support private sector models of delivering some of the services. In several countries, including Indonesia, private sector healthcare providers (hospitals, diagnostic centers) complement the government to improve services for citizens. WBG would seek to support such models, as well as promote other inclusive healthcare models such as e-consultations through the private sector to ramp-up services especially to disadvantaged regions.

Pillar 2: Supporting the delivery of quality education and health services, water and sanitation in rural areas. The WBG would support the local implementation of national programs that provide performance-based funds and technical assistance to districts and villages in disadvantaged regions in order to ensure universal access to education and health-related services (including water and sanitation) that meet minimum quality standards. IFC would seek private sector models for utilizing new technologies to expand healthcare and education services to the base of the pyramid populations in remote regions.

- **Health service readiness for Universal Health Care (UHC)** focuses on equipping *Puskemas* with the physical inputs and human resources needed to provide basic health services, particularly maternal and child health and nutrition services. WBG would support efforts to reduce child malnutrition through the improvement of relevant health services as well as the expansion of the National Rural Water and Sanitation Program (PAMSIMAS) which is referenced in Engagement Area 1. Further interventions in relation to malnutrition are included in the Inclusion beam detailed in Section III.2.h.
- **12 years of quality education for all** focuses on ensuring schools meet minimum quality standards, teachers show basic competencies and school expansion is efficient.
- **Implementation of the 2014 Village Law.** In the transition from the long-running community driven PNPM program, this intervention focuses on ensuring that an increased flow of financing to villages can be absorbed in a transparent, following the community focused process so that they are well used to fill gaps in infrastructure to complement investments by district. Within this context, attention would be paid to improving access for indigenous communities (specifically adat villages) by capitalizing on recent changes in the Village Law in the identification and outreach to these communities.

Pillar 3: Supporting sustainable urbanization. Given the scale of the problem, this pillar acknowledges the need for different approaches in various urban areas and seeks to have interventions focused around two types of local delivery areas: (a) very large metropolitan areas which provide a high percentage of national economic activity (Jakarta and Surabaya), and (b) rapidly urbanizing secondary cities.

- a. **Supporting Jakarta and Surabaya to become world class cities.** These two cities are Indonesia's largest and face complex and unique challenges requiring a more "retail approach". Both cities are examples of good local governments that can provide a demonstration effect to the rest of Indonesia. WBG would support the implementation of the reform programs already underway through a package of knowledge services (e.g. budget management and financing, PFM, investment planning, education, social protection) and financing (for infrastructure). IFC may support select urbanization

infrastructure projects which are in natural monopolistic sectors and are being developed by municipalities/sub-national government agencies.

- b. **Supporting the sustainable urbanization of secondary cities.** This would focus on key infrastructure sectors including: urban transport, water supply and sanitation, drainage, urban flood and disaster risk management, slum upgrading, solid waste management and urban pollution. Interventions would support national programs that provide results-based financial assistance and capacity building to cities to implement national policies and goals such as 100 percent access to water and sanitation as discussed under Engagement area One. While the focus of this engagement will be infrastructure development, WBG would also support efforts to improve social services, jobs and inclusion more generally for the poor in these cities. IFC will work with selected municipalities to assist them in corporatizing and in issuing municipal bonds and to bring private sector solutions to infrastructure investment when appropriate.

79. **This engagement area represents a major enhancement and scaling up of WBG intervention.** Previously, there had been relatively little support to the central government agenda to reform the decentralization framework. Likewise, past interventions have tended to focus on supporting sector-specific solutions when the root causes are most often associated with how national laws and guidelines for different services are actually financed, implemented and monitored by local governments. In other cases, previous WBG support was provided directly to communities, but with relatively little connection to local governments. In this new engagement area, the policy framework for improving local service delivery will cut across interventions while ensuring the synergy among sector interventions in the same geographical area. In all cases, the goal is to demonstrate reform across regions.

80. **Proposed development outcomes for this engagement area include:**

Improve local service delivery

- Number of DAK-financed physical outputs reported, verified, and meeting eligibility criteria in districts where the performance incentive is introduced

Improve access to basic services in targeted cities

- Increase in people with improved access to urban infrastructure and services in the targeted slums, disaggregated by gender
- Increase in households with new access to improved piped water services in targeted cities
- Increase in households with access to improved sanitation services in targeted cities
- Increase in household receiving improved solid waste management in targeted cities

Improve access to quality education and health related services in targeted rural areas

- Increase in percentage of mothers and children receiving maternal and child health services in targeted areas
- Increase in number of students enrolled in schools meeting minimum service standards in targeted areas, disaggregated by gender
- Increase in people having access to improved water services in targeted areas, disaggregated by gender
- Increase in people having access to improved sanitation services in targeted areas, disaggregated by gender

III.2.e. Engagement Area 5: Sustainable Landscape Management

SUSTAINABLE LANDSCAPE MANAGEMENT

- One fifth of Indonesia’s poor live in coastal and forest regions. Insecure access to land and over-exploitation and degradation of natural resources has a direct link to poverty in Indonesia as well as global impact in terms of climate change.
- Government has introduced some ambitious initiatives and regulatory change, but a piecemeal approach, weak capacity, and institutional and governance failures mean degradation of forests and peat areas continues unabated with increasingly devastating effect nationally and globally.
- This engagement will seek to change WBG approach from incremental to one that focuses on managing landscapes through improved spatial planning and land allocation to help shift the development trajectory through:
 - Support for design and implementation of programs to improve management and benefits of terrestrial natural assets.
 - Support land management and spatial planning to address problem of dual land management system
 - With private sector, create demonstration models of sustainable development of natural resources
 - Disaster management, mitigation and preparedness
- This engagement links with SCD Pathway 3 Natural Resource Management.

81. **Indonesia is one of the world’s largest GHG producers, primarily due to high rates of deforestation and land degradation.** Based on emissions data through 2011—the last year for which comprehensive global emissions data are available—Indonesia is the fifth-largest emitter when its land-use change and forestry (LUCF) emissions are included in its profile and the eighth-largest emitter when these emissions are excluded.¹³ The vast majority (62 percent) come from LUCF, with emissions from this sector increasing 65 percent in absolute terms since 1995. The activities primarily responsible for this are deforestation and peat degradation, most recently associated with the expansion of palm oil plantations.¹⁴ Greenhouse gases from mangrove and sea grass destruction are a potentially important, but not currently measured, source of emissions. Emissions from energy (26 percent), the country’s second-largest source, are significantly less important but growing fast, increasing 80 percent in absolute terms since 1995. Future energy emissions are likely to continue rising due to planned expansion of coal-fired power generation and a slower uptake of renewables. Overall, transport (7 percent) and waste (3 percent) are much smaller contributors to GHG emissions.¹⁵

82. **Prone to drought, floods, landslides, and sea-level rise, Indonesia is susceptible to all major climate-related risks except cyclones.** In the near term, Indonesia is at risk of higher temperatures, changes in precipitation patterns, and flooding caused by a combination of land use change and rising sea levels, in turn negatively impacting agriculture and food and water security. Government risk analysis suggests that about 61 million people in 315 districts and municipalities live in areas with medium-to-high risk of flooding. Climate change will exacerbate the already high exposure of the population to flooding and, in the longer term, risks to lowlands will intensify as sea-level rise could increase by 35 cm by 2050 and by 75 cm by the end of the 21st century.¹⁶ Failure to adapt to a changing climate is expected to have substantial economic costs. The Asian

¹³ Based on 2011 data, Indonesia is behind China, the United States, India and Russia when land use change and forestry (LUCF) emissions are counted and the eighth largest GHG emitter when LUCF are excluded (behind China, the United States, India, Russia, Japan, Brazil and Germany). Data source: CAIT Climate Data Explorer, 2015, Washington, DC: World Resources Institute. Available online at: <http://cait.wri.org>. CAIT data are derived from several sources. Full citations are available at <http://cait.wri.org/faq.html#q07>. LUCF data come from FAO 2014, FAOSTAT Emissions Database and CO₂ emissions from fuel combustion data come from ©OECD/IEA, 2014.

¹⁴ National Council on Climate Change, 2010.

¹⁵ Based on 2012 CAIT data.

¹⁶ WACLIMAD, February 2012. “Thematic Paper 2: Impact of Sea Level Rise on the Lowlands.”

Development Bank estimated in 2009 that by the end of this century, climate change could cost Indonesia, the Philippines, Thailand and Vietnam between 2.5 percent and 7 percent of GDP annually.¹⁷ For Indonesia, increased climate-related disasters will come on top of the roughly US\$1.5 billion already spent annually on post-disaster recovery.

83. **Failure to adapt to a changing climate is hurting Indonesia's poor the most.** Over 110 million people in about 60 Indonesian cities are exposed to negative impacts of climate change. The greatest impacts fall on the poorest people, specifically those who are dependent on climate-sensitive livelihoods, such as agriculture, fishing, and forest activities. The poor lack the assets and resilience to easily adapt to the impacts of climate change. In this context, Indonesia has been an early proponent of climate adaptation and resiliency action.

84. **As set out in the SCD, the quality of natural resource governance and management will influence how effectively Indonesia's growth strategy lifts people out of extreme poverty and boosts shared prosperity.** The special nature of poverty in forests areas requires an approach that works with management of natural resources. The remoteness, low population density and dispersed community locations warrants an approach that recognizes the linkages between the fate of people dependent on these areas and natural resource activities and changes in ecosystem services resulting from deforestation, overexploitation of resources, floods, landslides, and natural disasters.

85. **An estimated 20 percent of income of rural populations stem from agriculture and other natural resource based livelihoods.** A key element of lifting the extreme poor out of poverty requires permanent sustainable management of natural resources. Inadequate land-use and access rights leave local populations at a disadvantage in negotiations with large businesses seeking access to the land held or controlled by these people. In addition, Indonesia is a mega-biodiversity nation, supporting two of the world's 25 biodiversity hotspots. Economic development needs to ensure sustainability of this rich natural asset base.

86. **To address poverty in Indonesia requires focusing on all regions in the country and maximizing the use of the country's abundant natural resources and beauty for the good of all Indonesian people.** Unsustainable land use practices, including palm oil and timber plantations, mining and agriculture, and poorly planned infrastructure projects have led to land and forest degradation, increased air, soil and water pollution and scarcity and conflict. Although agriculture and forest plantations, specifically pulp and paper and palm oil activities, result in significant economic benefits for the country and its citizens (for examples the palm oil subsector provides livelihoods to between three and five million people and contributes 4.5 percent to GDP), many companies still expand into sensitive areas such as primary forests and peat lands, and related economic benefits are not shared equitably. Although there are employment benefits, forest dependent communities suffer from marginalization and increasing lack of access to natural resources due to insecure land rights and lack of legal rights to traditional and customary forests on which they depend. Eradicating poverty and boosting shared prosperity will require accelerating land registry and beginning the challenging task of improving natural resource management in order to make agriculture, forestry and extractive industries more sustainable.

87. **Insecure access to land and resources is a major cause of poverty in rural communities.** The major impediment to providing security of tenure is the complex and inconsistent legal framework, and the institutional arrangements which support a dual system of land administration, separately administering forest and non-forest lands. There are an estimated 110 million land parcels eligible for land registration, of which only 40 million parcels are officially registered, and just 12 million officially surveyed and titled. In addition, around 15 percent of the land mass is not accounted for, and the institutional responsibilities for its public administration are unclear.

¹⁷ Asian Development Bank (ADB) (2009), "The Economics of Climate Change in South East Asia: A Regional Review."

88. **The main underlying causes of deforestation and inefficient land use are weak governance, poor land-use planning and administration and adverse financial and fiscal incentives.** Conflicting and unenforceable regulations between sectors, lack of law enforcement, conflicting data and maps and lack of clarity of land rights favor corruption, lead to land conflicts and inefficient land use, generating high public costs and preventing Indonesia's natural resources from contributing effectively to increasing national wealth. Some examples of perverse incentives include undervalued and inconsistent non-tax revenue fees, decentralized retention schemes by which local revenues are largely dependent on unsustainable natural resource extraction, fertilizer and biofuel subsidies, and food crop and log trade restrictions.

89. **GoI has initiated a number of initiatives and started some regulatory change processes which, if successfully implemented, would begin to address these issues nationally.** This includes reorganization at the ministerial level and commitments to more equitable resource management, decentralization of forest management, spatial planning, peat fire management, and more transparent and efficient licensing processes. At the same time, the government has limited capacity to implement these policies and legislation, particularly where they require cross-ministerial coordination. While the previous government launched important initiatives in this area, indicators of landscape performance have degraded, with continued high deforestation rates, and persistent pockets of poverty amongst those communities living in and around forest and coastal areas.

90. **In terms of global climate change, Indonesia has pledged to reduce its GHG emissions by 29 percent by 2030 compared with a 2010 baseline.**¹⁸ The country aims to be a leader in efforts to reduce emissions from deforestation and degradation (REDD+), and has since 2011 had a moratorium on new forest concessions. However, despite a bilateral agreement with Norway that would provide financing of up to US\$1 billion, the REDD+ agenda has not yet thrived. Given the high emissions from peat fires, Indonesia has also prioritized regulatory action on peat lands, where the policy and regulatory framework, coupled with management and enforcement capacity, are relatively weak. On the energy front, the country's primary action to address related emissions has been to set a target for renewable energy generation of 23 percent by 2025¹⁹, a significant increase from the 3.2 percent of renewable capacity in 2014. In particular, geothermal energy stands out as an untapped resource with existing capacity at only about 1.36 GW.

91. **Managing landscapes through improved spatial planning and land allocation could shift the development trajectory toward a more resilient path.** Experiences from recent disaster events showed that poor site and land use planning may result in adverse economic losses when disaster strikes. Events such as tsunami and flood, whose locations are relatively predictable, could be better mitigated to reduce impacts to livelihoods and production.

92. **Bank assistance to GoI under this engagement would cover support for design and implementation of a landscape program focused on improving management of, and benefits from, terrestrial natural assets.** The Sustainable Landscape Management Engagement could involve investments and support for policy reforms pertaining to land and forest governance and administration to reduce poverty, create a better investment climate for infrastructure investment, establish a cooperation framework for sustainable livelihood and agricultural development, and increase jobs and income while maintaining the natural asset base. It also would address the underlying drivers of deforestation and forest degradation which could unlock the enabling conditions for Indonesia's REDD+ Agenda. The landscape program would also support Indonesia's global commitment to reduce greenhouse gas emissions by 2020 by 41 percent as compared to "business as usual" and will improve resilience of Indonesia's communities to the impacts of climate change and natural disasters.

¹⁸ Based on Indonesia's final draft INDC published August 30, 2015. A final version of the INDC is expected to be published end-September.

¹⁹ National Energy Policy 2014-2050.

93. **A particular emphasis would be on supporting land management and spatial planning and reducing the constraints created by Indonesia’s dual land management system.** WBG would assist GoI put in place a reliable, consistent, geo-referenced national inventory of land parcels covering all lands, both state/public and private lands, and the technical assistance necessary to support harmonization of spatial plans at provincial, district and village level. It would strengthen the capacity of subnational entities to interpret spatial plans to be able to allocate, manage and monitor land and support the rights of indigenous communities within the forests. Efforts to reduce and manage disaster risk would continue as an important component of the WBG program.

94. **On the private sector side, IFC would continue to support and create demonstration models of sustainable development for companies across relevant sectors such as agriculture, forestry, infrastructure, and extractive industries.** This could include engaging with leading forestry and oil palm plantation companies committed to improved environmental and social performance as well as working with the private sector across the supply chain to support the pivot of large investors and their suppliers toward increased environmental and social sustainability.

95. **Proposed development outcomes in this engagement area include:**

Improve land management and special planning

- Completion and public availability of One Map in the context of national spatial data infrastructure

Strengthened capacity in decentralized forest management

- Land area supported by forest management units with improved management effectiveness

III.2.f. Engagement Area 6: Collecting More and Spending Better

COLLECTING MORE AND SPENDING BETTER

- Indonesia’s revenue-to-GDP (14.7 percent in 2014) and tax-to-GDP (10.9 percent) ratios are very low and declining. There are significant challenges in budget execution and achieving outcomes.
- Government seeks to raise revenues, transform tax collection administration and improve the composition and effectiveness of public spending.
- This engagement would use investment and policy-based lending and knowledge services to support government in the following areas:
 - Revenue:
 - Supporting the revision of select tax policies
 - Supporting reforms to increase tax compliance and strengthening and mainstreaming non-tax revenue administration.
 - Improve spending through:
 - Advancing energy (fuel and electricity) subsidy reforms
 - Better quality through improved allocative efficiency, and better budget execution in key areas such as infrastructure.
 - Strengthen institutional capacity to modernize procurement and contract management and control environment.
- This engagement links with Pathway 2 by providing both increased revenue and better spending for the delivery of services opportunities for all, and Pathway 3 which seeks to improve the way revenue from Indonesia’s abundant natural resources can be captured and shared to improve sustainability and share resources more equitably.

96. **Fiscal policy, in its revenue mobilization and quality of spending functions, were identified in the SCD as key to poverty reduction and shared prosperity.** Indeed, as highlighted in many of the engagement areas above, the provision of decent housing, water and sanitation, transportation services, and quality health care remains limited due to poor public spending delivery at the central and subnational levels

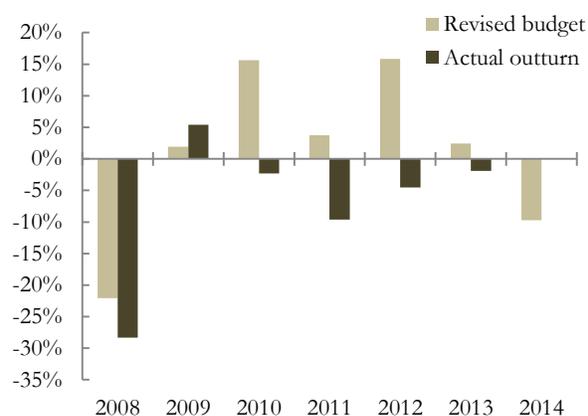
combined with lack of resources and suboptimal levels of public expenditure. Indonesia’s revenue-to-GDP (14.7 percent in 2014) and tax-to-GDP (10.9 percent) ratios are very low by international standards. This is not due to lower tax potential; by one estimate, Indonesia is collecting less than 50 percent of its total potential tax revenue²⁰. Revenue-to-GDP could fall to as low as 13.4 percent in 2015 and stay in that range in the medium term under a “business as usual” scenario. Over the past decade, low levels of revenue (as a percentage of GDP), combined with a fiscal deficit legally capped at 3 percent of GDP, has led to a suboptimal level of public spending (16.9 percent of GDP in 2014 compared to more than 28 percent for middle-income countries in Asia). In other words, greater revenue mobilization could have allowed Indonesia to spend more within the legal fiscal limit.

97. **Just as important as collecting more, however, is ‘spending better’– that is, improving both the composition and delivery/execution of public spending.** Before the introduction of a major fuel subsidy reform in January 2015, central government’s public spending on infrastructure and health programs were significantly crowded out by large energy subsidies. In 2014, spending on energy subsidies accounted for more than one-fifth of the central government’s budget and more than three times the allocation for infrastructure and health.

98. **The need for an improved spending mix to reflect the government’s development priorities is even more salient at the subnational level.** As discussed under Engagement Area 4, subnational governments now spend over half of the national budget (net of subsidies and interest payments). Much of this spending goes to personnel and administrative expenses. In 2012, district governments spent 52 percent of their budget on personnel and only 3 percent on capital expenditures. Provincial governments did much better (24 percent on personnel and 21 percent on capital) but their spending responsibility is much more limited (34 percent of total transfers to subnational governments in 2013). In general, subnational governments’ spending is excessively dominated by spending on administration over productive sectors and on personnel over maintenance and capital spending. Improving the allocative efficiency of local government budgets by reallocating more resources to front-line service delivery would be an important step in improving the provision of key services to the population.

99. **Budget execution and project implementation often fall short of the amount allocated in the budget particularly for infrastructure investment.** In recent years, the execution rates of capital expenditure, most of which is for infrastructure, has averaged only 86 percent of the revised budget allocation between 2010 and 2014 (see **Error! Reference source not found.**). The slow pace of execution of investment programs is a major concern to the government as this hinders improving service delivery and efforts for boosting economic growth in the country. Government institutions are generally struggling to execute public investment programs in a timely and effective manner, largely due to weaknesses in preparation and implementation of investment programs, such as inadequate preparatory work, cumbersome government budget processes, weak procurement and contract management, and the absence of a performance monitoring system. The SCD also identifies transparency and accountability in the use of public funds as key ingredients in improving service delivery. In

Figure 3. 5: In-year variance of capital from original budget



Source: MoF Audit Reports, Financial Notes and World Bank staff Calculations

²⁰ Fenochietto, R. and Pessino, C., 2013, “Understanding Countries’ Tax Effort”, IMF Working Paper WP/13/244.

addition, budget preparation continues to focus on the budget year with limited consideration of the medium-term implications of current decisions and the constraints they place on future budgetary decisions.

100. **The government has made progress in recent years towards strengthening the control environment and the regulatory framework for public procurement with assistance from the WBG.** GoI has adopted COSO as its control framework. The internal audit function has been streamlined and an association of public sector internal auditors established. The SAI has made significant strides in its mandate, resources and performance. Revised procurement regulations have been issued that have begun the process of standardized bidding documents, use of e-procurement and putting in place dedicated procurement service units in procuring agencies.

101. **Creating additional fiscal space is planned through a major effort to mobilize revenue, in particular non-oil and gas tax revenue as well as income tax, VAT and excise, by improving tax administration and compliance and optimizing tax policy.** Government's ongoing and planned revenue policy reforms aim to broaden the tax base, simplify the tax regime and strengthen the tax and non-tax revenue administration. To support these reforms, funding for the Directorate General of Taxation was significantly increased in the revised 2015 budget and through revisions of major tax laws, both the VAT and income tax laws, which are on the legislative agenda for 2016.

102. **WBG's engagement aims to help the government raise revenues while reducing economic distortions and lowering administration costs.** To achieve this objective, WBG would support government in the following areas: (i) supporting the revision of selective tax policies; (ii) greater effectiveness and efficiency of tax compliance management through a move to a risk-based approach to compliance management; and (iii) strengthening non-tax revenue administration. The Bank would support reforms in these areas through a suite of complementary instruments:

- **Knowledge services:** (i) Analytical work to build the evidence base for reforms, for example, estimation of revenue potential and policy and compliance gaps by revenue source, and revenue impact simulations; and (ii) Technical assistance to support the design and implementation of reforms.
- **Policy-based lending** to provide an anchor and coordination mechanism for the overall medium-term fiscal reform strategy.
- **Investment lending** possibly to support the modernization of tax administration.
- **P4R instruments** under engagement areas such as energy, local delivery of services and infrastructure and national level infrastructure which will improve the quality of spending.

103. **Improving the quality of spending is at the core of the government's priorities.** The recent energy subsidy reforms have dramatically improved the allocative composition of public spending. With the new subsidy scheme, the cost of fuel subsidies is projected to fall sharply from 2.4 percent of GDP in 2014 to 0.6 percent of GDP in 2015. The projected fiscal savings of nearly Rp 200 trillion, or about US\$16 billion, provides space for higher spending on priorities such as infrastructure, health and social programs, particularly over the longer term when rising fuel subsidy costs would otherwise have crowded out such spending. To further improve budget execution, the government has revised land acquisition regulation to accelerate the land acquisition process by facilitating timelier funding. The government announced its policy directions in the macroeconomics and fiscal policy for 2016 draft budget to further improve the efficiency and effectiveness of social programs and subsidies by gradually moving away from subsidizing goods to direct subsidies such as cash transfers.

104. **In line with these government priorities, WBG would support the government to "spend better" in the following areas:** (i) advancing energy (fuel and electricity) subsidy reforms through consistent implementation and improved transparency; (ii) improving quality of spending (allocative efficiency,

effectiveness and budget execution) in key areas; (iii) improving quality of spending and service delivery of selected subnational governments and (iv) strengthening institutional capacity to modernize procurement and contract management and to improve the control environment.

105. **This assistance would use several WBG instruments and would cut across several of the engagement areas already described above. In particular:**

- **Knowledge services:** (i) Analytical work and TA to build the evidence base for and to support the design and implementation of reforms to improve the quality of spending; and (ii) Analytical work and hands-on TA to improve procurement efficiency in key ministries at national and subnational levels and to support use of modern methods and tools in procurement and contract management.
- **Policy-based lending** through a fiscal reform DPL.

106. **The analytical program would be consolidated around TA activities that have capacity building components and which support the immediate application of analytic work, thereby increasing the likelihood of better results and ensuring impact on policy formulation.** Drawing on the lessons of experience, investment operations in this area would have to carefully assess government buy-in, project design and possible implementation constraints before going forward.

107. **Proposed development outcomes for this engagement area include:**

Improve revenue collection

- Increase in the compliance rate for individual and corporate taxpayers

Improve efficiency and effectiveness of spending

- A rise in the central government spending on health, capital expenditure (proxy for infrastructure), and social assistance
- A rise in central budget execution rates (realized as a percentage of APBN) of capital spending

III.2.g. Supporting Beam I: Leveraging the Private Sector: Investment, Business Climate and Functioning of Markets

**LEVERAGING THE PRIVATE SECTOR:
INVESTMENT, BUSINESS CLIMATE AND FUNCTIONING OF MARKETS**

- Creating jobs and reducing poverty will depend on a growth strategy that is supported by the private sector. Private sector growth depends on enabling and predictable regulations, infrastructure availability, and well-functioning product and factor markets.
- The need to improve the business and financing environment is a unifying factor cutting across the economy and impacts the efficiency and efficacy of many development solutions.
- WBG approach will be to work within engagement areas and through stand-alone support to:
 - Bring together private capital in support of public policy including through investments, PPP and other support for private sector investment in infrastructure, knowledge services and TA
 - Support private sector companies and businesses through WBG support for entrepreneurship and innovation, IFC financing and advisory services in select areas, and MIGA guarantee products
 - Extensive TA for regulatory reform, One Stop Shop (OSS) efforts and better functioning factor markets

108. **As set out in the SCD, growth, jobs and poverty reduction will depend a great deal on the significant contributions of the private sector.** Government plays a critical role by devising and implementing appropriate policies and regulations. Whilst addressing some key constraints through the various engagement areas, a weak business and financing environment cuts broadly across the economy and impacts the efficiency and efficacy of many development solutions. Contributors to the problems of the business and financial environment include investment and trade regulations which are generally restrictive, uncertain and

often inconsistent (including between the national and local levels), and a permitting and licensing regime which is time-consuming and costly. Partnerships between the public and private sector, especially in infrastructure investment, remain extremely limited. As a result, although Indonesia's investment-to-GDP ratio was 32 percent in 2012, higher than those South Korea (27 percent) and India (30 percent), 85 percent of gross capital formation was accounted for by construction, not productive investments in areas such as machinery and equipment. FDI grew by some 21 percent to US\$23 billion in 2014, but most recent FDI has been concentrated in services (retail, trade and finance) and agribusiness, and not in infrastructure or manufacturing sectors.²¹

109. Regulations, licenses and permits at the national and subnational levels are complex, imposing delays and costs on investment. Along with construction permits, paying taxes and enforcing contracts Indonesia is within the bottom 40 in terms of the most cumbersome procedures globally.²² Subnational regulations are even more complex and unpredictable given the weaker capacity and lack of uniformity at the lower levels of government. Sectorally, uncertainty for investors is created by the existence of contradictory or misaligned laws and regulations and lack of information. Several attempts to support national industries to move up the value chain have fallen short, resulting in protecting uncompetitive local production and higher costs for consumers.

110. In addition to enabling and predictable regulation (as well as infrastructure availability), private sector growth is predicated upon well-functioning product and factor markets. Product markets in Indonesia are characterized by limited market information, insufficient value chain linkages, low agglomeration and uneven access to business development services, incubators, and accelerators. The market for capital is similarly underdeveloped. Enterprises in Indonesia are generally credit constrained and face a limited range of specialized products such as leasing. Formal labor markets are rigid, especially due to severance pay provisions and the minimum wage setting processes. Skills shortages and mismatches persist. Difficulties in acquiring land continue to constrain many business activities. Because of these factors, Indonesian firms are not benefitting as they should from the relatively inexpensive cost of labor, favorable demographics, large domestic market and abundant and unique natural resources which should make them more globally competitive. Instead, firm productivity is low and decreasing by regional standards, eroding export competitiveness, domestic market growth, and job creation.

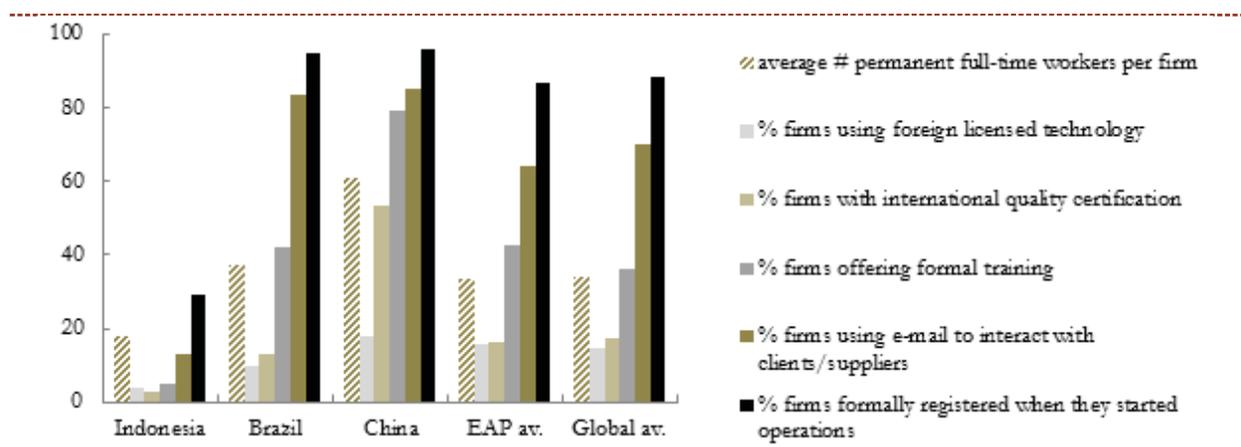
111. Progress in bringing together private and public capital remains limited. Of the 56 PPP projects identified for funding in 2010-15 (valued at US\$51.2 billion), only three were considered "ready for offer" and only two have been prepared for tender. The constraints are twofold. First, concerted high level coordination is required to bring together an array of GoI entities, address legal and regulatory uncertainty and lessen the procedural complexity that has arisen around PPPs. Significant capacity constraints also remain at all levels of government in relation to project structuring, implementation and monitoring. Second, more efficient and diversified capital market instruments are necessary in order to attract financing from institutional investors such as pension funds, insurers, mutual funds and sovereign wealth investors to fund investment.

112. The bulk of impact from relaxing binding constraints on the functioning of markets would benefit MSMEs which represent 99 percent of companies in Indonesia, 57 percent of GDP value-added, and provide 97 percent of all employment. Most Indonesian firms employ less than 20 workers which is significantly below the EAP average of 33. Less than 30 percent of firms are in the formal sector as compared to 95 percent in Brazil and 96 percent in China. The average Indonesian firm also uses less technology and communications, and its employees receive less training (See Figure 3. 6) than its comparator countries. There is significant scope for increasing domestic linkages as well as productivity in services sectors. Spreading production outside of Java is also among government priorities, but would require the development of "growth poles" to boost productivity.

²¹ The composition change of FDI can also not be defined as a trend.

²² It takes 65 separate payments and reports to pay taxes on average, and more than 200 days to get a construction permit. This performance is below the regional (East Asia and Pacific) average and its peer countries' performance: the Philippines ranked 95th, China 90th, Thailand 26th, and Malaysia 18th.

Figure 3. 6: Indonesian firms are lagging in size, technical prowess, training, and formality



Source: World Bank, Enterprise Survey 2009 Indonesia and most recent (2009-2012) Enterprise Survey for other countries

113. **Against this background, improving the business climate and markets is amongst the highest priorities in order to attract private sector capital that is essential for the creation of jobs and for helping to finance the country’s vast infrastructure needs.** GoI started a campaign on domestic regulation simplification during the previous administration, which has been brought to the top of the policy agenda by the current government. One of the earliest actions of President Widodo was for the Investment Coordinating Board and relevant ministries to implement a central one-stop-shop for all national business licensing.²³ The intended result is quick, simple, transparent, and integrated licensing services as a means to entice investors and to bring their investments in businesses and infrastructure online rapidly. Most recently, the government followed up with implementation improvements in the areas of starting a business and paying taxes. Trade agreements can be useful instruments not only to gain market access but more importantly to help address regulatory barriers in important areas, such as investment, government procurement and competition. For example ASEAN (and likely the recently signed TPP) require commitments to increase competition and protection to investors and to reduce differential treatment of foreign producers that could help attract foreign investments and strengthen domestic competitiveness. These externally imposed requirements are often effective at inducing reforms in politically sensitive areas.

114. **GoI is working to strengthen the enabling environment for PPPs.** The legal framework for PPPs has been amended to allow the private sector to invest in the development and operation of financially viable infrastructure projects without being obliged to enter into a joint venture with an SOE. The government’s PPP coordinating body (KPPIP) is working on a process of prioritizing and identifying projects suitable for public investment and PPPs. The Ministry of Finance is operationalizing its newly established PPP Unit and advancing the implementation of the PPP framework overall. Bappenas’ role in the PPP planning process has been strengthened.

115. **GoI is also prioritizing the development of MSMEs and agriculture, but its approach may not result in simulating the highest growth, highest value-added enterprises.** There are over 50 national SME programs and score of subnational ones, straining the budget without commensurate impact. Concessional initiatives tend to be poorly targeted due to lack of data and implementation capacity. The experience with special economic zones has also not been a strong one in Indonesia. To raise productivity, create jobs and to support promising sectors such as logistics, IT, and fashion, requires well-coordinated government support for better regulations, functioning product and factor markets, skills development and infrastructure. The tourism industry is an excellent case in point (see Box 3.4 below)

²³ At the time of the President’s order, the Investment Coordinating Board was already operating a limited one-stop-shop which processed 14 licenses, including the license for starting a business and the operational license.

Box 3.4: Tourism's Unrealized Potential in Indonesia

The tourism industry accounted for 9.3 percent of Indonesia's GDP in 2014 and generated 9.8 million direct and indirect jobs. In 2014, visitor exports represented 48 percent of all service exports and 5.6 percent of total exports. Every US\$1 spent in tourism generates US\$1.7 in the wider economy, more than other major sectors. Tourism is a labor-intensive sector and generates jobs particularly for women and youth. The development of tourism as a growth pole in Bali, facilitated by WBG in the late 1970s, was successful in promoting growth beyond Java, and in leveraging public and private investment and financing. Decades later, Bali receives 40 percent of all tourists to Indonesia, and the province's poverty rate is the second lowest after Jakarta.

Yet Indonesia is not yet expanding tourism in a comprehensive way to other destinations across the archipelago. It ranks 50th out of 141 countries in the 2015 World Economic Forum's Travel & Tourism Competitiveness Index. The country's competitiveness, based on its abundant resources could be vastly improved. It ranks well on price competitiveness (3rd), biodiversity (4th), and number of World Heritage natural sites (10th). But is held back by challenges with limited infrastructure (75th) and a restrictive enabling environment (80th).

116. **A combination of WBG products can support the dynamic nature of private sector development and help increase productivity in a targeted set of business areas where conditions are propitious for high growth.** In particular, WBG will focus on supporting reforms in the regulatory environment, and for high-growth firms within dynamic product and supportive factor markets. The choice of how the support is to be designed has been sifted through three filters—visibility, impact, and capable counterparts—in order to maximize the benefit from WBG support. Given that IFC's and MIGA's balance sheets are limited, whilst the needs for financing and advisory support for private sector development are immense, IFC will seek to bring in like-minded mobilization partners in supporting its private sector development agenda (See Box 3.4)

117. **One of the most important interventions by WBG is to focus on bringing together private capital in support of public policy and in particular to support efforts to increase private sector financing of essential infrastructure.** WBG has a fairly large existing portfolio of investment and knowledge services, including two lending operations - the Indonesia Infrastructure Fund (IIF) and the Investment Guarantee Fund (IGF), with which implementation during the CPF period should help strengthen results on the ground. It is proposed to provide additional financing for IIF and, working with other development partners, potentially increase the scope of the IGF. WBG plans to provide assistance to strengthen PPP architecture including the legal framework and coordination between the government and the private sector. WBG will also help to unlock financial markets to support project finance, level playing-field rules for funds and investment vehicles, deepen hedging markets through a simplified issuance regime for certain securities and support further development of credit registries. IFC will also continue to support private sector companies to issue corporate bonds and listing equity shares to deepen the capital markets. Through a package of loans, equity and targeted TA, the WBG will aim at increasing privately financed infrastructure (including those with partial or full private sector financing or benefiting from a government guarantee) through demonstration projects which could help jumpstart the market and could leverage some US\$ 1 billion in additional private financing over the CPF horizon.

118. **Within the overall framework of the CPF engagement areas, IFC will continue to support private sector companies and businesses through financing and advisory services in select areas as will MIGA through its guarantee products.** In infrastructure development, IFC expects to continue support for private sector companies which adhere to high standards of governance and sustainability in power, transportation (ports, airports, toll roads), water and sanitation sectors, amongst others. Support is also expected for manufacturing and agribusiness companies which utilize domestic raw materials and add value through sustainable and efficient operations. In each of these sectors, IFC will seek to develop models that provide a demonstration effect both through investments and advisory projects, which then could be replicated by other firms and corporations.

119. **TA for regulatory reforms and the OSS will support GoI reform efforts at the national level and can be expanded to the subnational level where possible.** This could be supported through analysis of regulations in areas where progress has been slow. A combination of Knowledge Services and TA to support MSME development and specialized finance (for example: leasing and credit bureaus) could support the expansion of growth poles outside of Jakarta, value chain linkages to large domestic and foreign firms, and improve access to markets.

120. **Proposed development outcomes for this supporting beam include:**

Simplify business licensing processes to support private sector

- Reduction in total time required for processing of all licenses in four priority sectors (apparel, food, IPP, and tourism)

Increase the role of the private sector in national infrastructure investment

- An increase in private sector investment in infrastructure
- An increase in total number of international tourist arrivals
- An increase in number of tourism-related jobs in integrated tourism destinations

Enhance access to finance

- An increase in percentage of populations with access to financial services
- Number of individuals/microenterprises reached with financial services, disaggregated by gender
- Number of SMEs reached with financial services

Box 3.5: Delivering as a World Bank Group

Joint Global Practices as well as the individual strengths of different WBG products come together naturally in “Leveraging the Private Sector” as well as in “Inclusion” beams. A joint team supports financial access and payments and contributes to work in social assistance programs including housing. WBG support on access to finance, national payment systems, secured transactions, credit bureaus, MSME finance, and creditor rights has contributed to an increase in financial access nationally from 20 to 36 percent of adults over the past three years. On regulatory simplification, the joint trade and competitiveness practice supports the central and subnational governments to implement simplified regulations, including business registration and operational licenses. This work spans licensing simplification for starting a business to regulations in electricity, the maritime sector to finance and taxes. Already, reforms have helped 1.7 million newly incorporated firms and Indonesia's Doing Business ranking reflects its "active reformer status" at 114 in 2015 (up from 128 three years ago). The success of WBG collaboration can be explained by working in areas that make business sense and taking advantage of each institution’s competitive advantage in an integrated engagement.

III.2.h. Supporting Beam II: Shared Prosperity, Equality and Inclusion

SHARED PROSPERITY, EQUALITY AND INCLUSION

- This beam applies a lens of eliminating poverty and lessening inequality across the WBG program both for the future and to protect today’s poor and vulnerable by helping them to move into productive lives.
- Will provide input, including support to evidence-based policy making in other engagement areas as well as stand-alone support to the development and implementation of policies to protect the poor and vulnerable and to help them sustainably move out of poverty.
- This beam would mainly be delivered through knowledge services, with the support of development partners. It will be organized around three main components:
 - Improving the poverty and inequality focus of policies supported by other CPF engagements
 - Improving social protection programs for the poor and vulnerable
 - Supporting the creation of and access to productive jobs
- WBG interventions with the private sector would focus on the creation of more productive jobs through cooperation with specific companies and financial inclusion.

121. **Eliminating extreme poverty and boosting shared prosperity require applying a poverty and inequality lens to government policies across the board along with dedicated policies to protect the poor and help them move out of poverty into productive lives.** The policies supported by the previous engagements, if designed and implemented properly, could significantly contribute to these goals. For example, the delivery of quality services to all Indonesians will provide equal opportunities today and set the foundation for eliminating extreme poverty and boosting shared prosperity in the future.

122. **But dedicated policies are also needed now to protect today's poor and vulnerable and to help them move into productive lives.** Indonesia has been building a safety net system since the 1997 Asian Financial Crisis, but coverage remains low and benefits too small to make a sustainable difference. Indonesia is now implementing one of the largest social security reforms in the world, but is challenged to make coverage more inclusive, squeeze out fraud and corruption and establish a financing mechanism that does not discourage formal employment already burdened by rapid and unpredictable increases in minimum wage levels and punitive severance pay requirements. Policies to help move the poor out of poverty into productive lives (for example by the provision of credit and savings and employment support), are currently limited, but the government has made them a priority along with complementary policies to promote the creation of more productive jobs.

123. **Gender differences, particularly in terms of job status, mean that women tend to be more vulnerable than men.** Women constitute the majority of the self-employed and unpaid family workers, making them more susceptible to personal and financial insecurity. Compared to men, women have a 24 percent higher probability of working in the informal sector. Women-owned SMEs are mostly self-employed by necessity. Indonesia's social assistance programs do favor female-headed households (FHH), but because FHHs typically have a sole income earner, usually with children to care for and support, female-headed households are more vulnerable to shocks and their exit from poverty more volatile.

124. **Ensuring access to financial markets can help break the cycle of poverty and lower the risk of the near-poor slipping back.** This can be done by building people's savings and providing insurance, and enabling funding of consumption and productive activities for farmers and informal workers. In Indonesia, the share of adults with access to finance has jumped from 20 percent to 36 percent over the period 2011-14,²⁴ although access is lower in rural communities (29 percent) and for the poorest 40 percent of adults (22 percent). Geography and low levels of financial literacy are particular challenges for financial inclusion. Government is looking to implement e-money and branchless banking regulations with the objective of linking millions of additional Indonesians to finance, as well as providing additional banking and insurance products including Sharia-compliant products.

125. **The proposed WBG program on inclusion aims to improve the poverty and inequality focus of government policies supported by the CPF engagement areas as well as stand-alone support to the development and implementation of policies to protect the poor and vulnerable and to help them sustainably move out of poverty.** This beam will mainly be delivered through knowledge services with the support of other development partners and is organized around four components:

- ***Improving the poverty and inequality focus of policies supported by other CPF engagements.*** This would be done through analysis, measurement, capacity building and awareness raising around poverty and inequality in general, as well as support to specific policies and programs.
- ***Strengthening of safety nets,*** focusing on (i) the development of common systems for social assistance programs, particularly for targeting and digital payments; (ii) reform of the Rice for the Poor Program (*Raskin*) to improve access of the poor to nutritious foods complemented by reforms to enhance agricultural productivity and markets; (iii) transformation of existing food distribution programs into a food voucher program that protects poor households from food-price volatility, calorie scarcity, and malnutrition; and (iv) reforming existing safety nets to better respond to shocks.

²⁴ World Bank's Global Findex survey 2014.

- ***Developing graduation programs for the poor and related support.*** This could include support to (i) the development of the umbrella of graduation programs (P2B) at the central level; (ii) the adjustment and implementation of these programs by local governments; (iii) the development of the financial infrastructure to increase access to credit, savings and insurance among the poor and vulnerable across Indonesia; and (iv) improving payment systems infrastructures to increase reach to the poor.
- ***Improving the implementation of The Social Security Program (SJSN) to provide effective protection to all citizens (health) and workers (employment programs).*** WBG will continue to help the government with program design and financing and building capacity to manage these programs.
- ***Increasing access of the near-poor to financial access products*** to help them buy productive assets and insurance to prevent them from slipping back into poverty. This could include support for micro-finance, smallholder support programs in agribusiness sectors, technical support and capacity building for implementation of newly-issued regulations, and possible support for agricultural insurance drawing on expertise across WBG.

126. **Inclusion and sharing prosperity will require the creation of more productive jobs.** Given the importance of job creation as a pathway to the twin goals, interventions are included throughout the engagement areas. In addition, WBG will use TA and knowledge services to support better evidence-based policy making and to help government particularly focus on: (i) addressing the bottlenecks to the reallocation of workers to more productive activities; (ii) improving the skills of the workforce; (iii) improving access of disadvantaged workers to productive employment through, for example, employment support programs; (iv) improving worker protection without discouraging formal employment; and (v) improving the protection and quality of employment of Indonesians who migrate abroad.

127. **In addition, a gender focus will continue to be mainstreamed across WBG operations continuing on the significant success under the previous CPS.** The Country Gender Action Plan will continue to identify, coordinate and monitor activities to promote gender issues in the broader engagement in Indonesia as well as in specific operations and knowledge products across four dimensions of gender equality: endowment, economic opportunities, voice and agency, and emerging risks areas. Areas with a particular gender focus in the CPF will include financial sector development, village law and poverty targeting, education, health, environmental sustainability and disaster mitigation. Continuation of IFC programs for female entrepreneurs and SME finance will target women in financial inclusion programs.

128. **WBG interventions with the private sector will continue to focus on the creation of more productive jobs through cooperation with specific companies and particularly through financial inclusion activities drawing on both IFC and the Bank.** WBG is expected to provide additional financing to banks and financial institutions to extend their support to micro, small and medium enterprises, helping to create livelihoods and jobs for poor people. IFC would work with larger corporates in infrastructure, manufacturing, food products and services sectors to support them in securing jobs, procuring raw materials and producing high quality goods for poor people through its focus on inclusive business models. WBG will increase its focus on identifying global models based on new technologies to enhance inclusion. These would include diverse subsectors such as mobile banking to enhance financial inclusion and e-consultations to provide low-cost healthcare and diagnostic services to patients in more remote areas. One of the world's largest partial credit guarantee programs for MSMEs is another outcome of this support with large outreach and good performance (12 million clients and a NPL of 3.3 percent).

129. **Proposed development outcomes for this support beam include:**
Improve social protection programs for the poor and vulnerable

- Number of households benefiting from PKH (conditional cash transfer), disaggregated by gender
- Increase in the number of households receiving payments digitally

Support creation of and access to productive jobs

- Number of jobs supported

IV. IMPLEMENTING THE CPF

130. **In practice, delivering on the CPF’s objective will mean bringing together the necessary WBG products and skills to create the momentum for positive change and comprehensive solutions.** All of the engagement areas and beams will be delivered using multiple GPs and some with multiple practice groups. None will be delivered using a single financial or knowledge instrument. In many cases, the engagement areas also bring together more than one of the World Bank Group’s three organizations. This requires that the WBG work together in different ways. In some cases, a GP could be in the lead on an engagement, and for other GPs, their involvement may be in a supporting role. Moreover, the engagement areas themselves are intertwined and mutually supporting. For example, solutions to Indonesia’s energy challenges cannot be done in isolation from the impacts on landscapes and management of natural resources. Tackling Indonesia’s rapid urbanization means improving the ability of local level government to implement national policies, or supporting national policy makers to strengthen the accountability of municipal governments to provide quality education to all. Possible interventions in national infrastructure will be intended to support the government to develop means for spending better. Implementation of maritime connectivity must take into account maximizing the value of the blue economy whether for fisheries or tourism. The strength of the Indonesia WBG country team, and the excellent partnership with government, will remain an important factor in our ability to deliver.

IV.1. FOCUS AND SELECTIVITY WITHIN THE CPF STRATEGY

131. **The CPF provides an opportunity to add focus, building on the foundations of WBG’s long-term engagement in Indonesia and lessons of experience:**

- The CPS FY2013-15 was an interim strategy that covered the last two years of former President Yudoyono’s second term and the first year of the new government. It was a time characterized by slower progress in reform initiatives, a reluctance to access foreign borrowing, and a hesitation on key decisions given the expected change in government. The CPS was, therefore, of necessity open-ended and engagements looked more for breadth than depth. With a new government, there is a desire to make more use of the WBG value proposition of combining knowledge services and project financing and implementation support. The enhanced level of access to and desire by government to work with WBG sets a strong basis for working more selectively on high impact areas overall.
- Compared to the CPS, which had four widely defined areas of engagement that covered all development areas—pro-growth, pro-jobs, pro-poor, pro-green—and deliberately left space for a wide range of smaller and one-off activities, this CPF proposes more defined engagement areas and supporting beams that focus on fewer areas of intervention.
- To provide more clarity on outcomes and client focus, WBG programs will be defined by engagement areas rather than by specific sectors or GPs. Moreover, the selectivity filters proposed in this CPF are not static and limited to determining only the engagement areas and beams. Selectivity will be used actively during implementation to judge whether individual WBG interventions within the engagement areas and beams are sufficiently focused and have a realistic chance of meeting their development objectives.
- The CPF is explicit that we will recalibrate our efforts or exit where the selectivity criteria are not met based on the prevailing policy environment and government priorities. This is consistent with providing steady, predictable support in key development areas while remaining open to emerging priorities. For example, during the previous CPS period, the WBG had limited engagement in health. In this CPF, it is proposed to ramp up involvement through possible investment and knowledge services. Previously, there has been little support to the central government agenda to reform the decentralization framework, partly a reflection of lower commitment of past governments to this

reform agenda. To reach scale in the urban agenda, WBG will work directly with only two large metropolitan areas and with other mid-size cities, WBG will work more “wholesale”.

Box 4.1: Selectivity in the CPF: What WBG Plans To Do Differently

Based on the current policy environment and priorities, the following are examples of what WBG will not do, and will do differently, unless conditions change:

- **In national infrastructure:** At the national level, financing for infrastructure will be where we can support government on developing and implementing national platforms rather than any one-off investments.
- **In the energy sector:** Given the overwhelming needs in the energy sector, WBG will concentrate on renewables in geothermal and hydropower while KfW and other development partners provide leadership in areas such as solar and wind.
- **In Roads:** WBG will focus on advisory and road investment that either advances the connectivity agenda or supports reforms to increase the efficiency of public spending in the sector including attracting private sector financing rather than interventions where the emphasis is simply on expanding the physical network.
- **In governance:** Support for governance and anti-corruption remain critical, but will be delivered through engagement areas and determined by using selectivity filters to improve the chances for impact and ownership. The main focus will be through engagements focused on “collecting more and spending better” and improving the capacity of local level governments to deliver essential human services and infrastructure and away from isolated subnational initiatives which have little chance of scale or replicability.
- **In agriculture:** The current policy environment, including food policies and associated patterns of public expenditure, is not conducive for investment lending. WBG engagement will instead focus on analytic and advisory work, in parallel with working with the private sector in the agriculture sector, as part of sustainable landscape management and through helping address the ‘triple burden’ of malnutrition through the local service delivery engagement area and inclusion beam.
- **In environment:** We will direct our support to national or subnational initiatives that are embedded in a broader national landscape program, and away from relatively small, isolated, free-standing interventions with little chance of scale or for which there is not a clear and empowered champion in accordance with CPF selectivity filters.
- **In rural development:** As part of the evolution of the long-running PNPM support program, emphasis will be away from supporting a number of experimental engagements (PNPM Green, PNPM Peduli, PNPM Creative Communities) to focus on supporting implementation of the 2014 Village Law including through provision of results-based matching grants and technical assistance to districts and villages in disadvantaged regions to ensure access to basic services that meet minimum quality standards for all.

IV.2. IMPLEMENTING THE WBG PROGRAM

132. **The proposed CPF would require a larger financing package than the previous CPS, although WBG’s total contribution would still be a very small percentage of overall borrowing needs.** The CPF, if fully implemented, could entail a scaling up of IBRD lending of an indicative amount of about US\$7.5 billion, new IFC engagements of up to US\$3 billion in equity, loans, guarantees and mobilization and a more active MIGA program that expands the use of political risk and non-payment guarantee instruments. For the IBRD, lending would average some US\$1.5 billion per annum although actual lending volumes will depend on country demand, choice of instrument, overall performance during the CPF period and IBRD’s financial capacity and demand from other Bank borrowing countries. Should these volumes be reached, Indonesia would potentially reach and then exceed the \$16.5 billion threshold above which a 50 basis point surcharge on incremental exposure would apply. Indonesia would potentially also reach the Single Borrower Limit (SBL) of US\$19 billion towards the end of the CPF period depending on the actual commitments. Given that about one-third of the indicative lending pipeline is fast disbursing development policy lending and possible P4R, it will be necessary for the government and the Bank to take stock of the situation with regard to the SBL midway through the CPF period and consider possible measures to continue IBRD financing under different scenarios within the limits of the SBL. The experience of other large IBRD borrowers will be helpful in this regard. The SBL

exposure can be contained through various conventional measures (e.g. cancellation of undisbursed balances of existing loans, prepayment of selected outstanding loans; reduction in new borrowings or shortening of average maturities). In addition, other measures may also be deployed for example opting to use own resources to purchase IBRD Special Private Placement Bonds (SPPBs) as a means to ease the hard constraint of the SBL and to open up headroom for additional lending²⁵.

133. **In addition to financing, WBG knowledge products will remain important both as free-standing interventions and to provide the analytic underpinnings for investment operations and to support evidence-based policy making.** The Bank's knowledge and convening services will continue to be used to help move forward the policy dialogue and lay the ground work for further progress on key areas, and contribute to effective implementation of policies—such as the fuel subsidy reform and reallocation of resources to social programs and productive investments—and support the coordination across government agencies. Knowledge services will also be the main instrument of support in cases where political economy considerations may not be conducive for lending.

134. **The CPF results framework will be used as a dynamic tool to define and monitor outcomes and milestones.** The results framework in Annex 1 captures ongoing activities and new activities agreed upon with the government and proposed under the CPF. In line with the lessons identified in the Completion and Learning Report (CLR) in Annex 2, the results framework balances the long-term policy reform objectives of the CPF and more immediate project-level results. It is important also to recognize that given the time frame of the CPF, many of the measurable results during the CPF period will be achieved through the existing active portfolio, and the results envisioned under the proposed new projects will likely materialize in the outer years of the CPF, if not beyond the CPF period. Given the demand-driven and flexible architecture of the CPF, the results framework will be adapted at mid-point of implementation to reflect the implementation status of the World Bank Group activities and feedback from the annual program review and planning meetings that are regularly held with government.

135. **The change in the partnership framework has come about because of the new government's focused development agenda and its different approach to multilateral borrowing.** Government values not only financing for priority investments, but understands the WBG value proposition in combining financial products, knowledge services and implementation support. Particularly for large and complex infrastructure investment such as energy, maritime and housing, the government has requested that the WBG bring the balance sheets of all three institutions—IBRD, IFC and MIGA—to bear. The WBG can come together in a particularly complimentary manner in these engagements for several reasons. First, this approach leverages each organization's strengths so that for both the client and the WBG, the sum is more than the parts. For example, port construction can leverage private sector capital in commercially viable ports leaving scarce IBRD resources for those facilities where financial viability is lacking whilst making the overall sector more attractive to the private sector investment. By using an approach that is strongly market driven, IFC and MIGA find it easier to offer the private sector a viable proposition for investment. The platform nature of the engagements also provides a suite of instruments that allows each institution to contribute according to its comparative advantage rather than having engagements with a single product. (See Box 3.3)

²⁵ The SPPB option is part of the framework endorsed by the Board in August 2002 for managing IBRD exposure in countries close to the IBRD's SBL. The SPPB option provides for flexibility in managing exposure to borrowing countries that are close to the SBL, while respecting the rationale underlying the SBL. Under the SPPB option, highly creditworthy borrowing countries can enter into an agreement with IBRD to purchase IBRD SPPBs if gross exposure is projected to exceed the SBL by a pre-agreed limit. Through the SPPB option, IBRD's gross exposure to a borrower with respect to loans and guarantees could be reduced by the principal amount of the outstanding SPPBs, ensuring that, on a net basis, exposure would remain within the SBL.

136. **At the same time, the government has put a high premium on speed of delivery and shorter time horizons.** The tremendous needs for infrastructure financing and delivery require public and private financing to work in better synergy. This situation requires that the WBG's engagement draws on the best global expertise and has implications for staffing and presence in country. Delivery of the CPF will require the continued large-scale presence in Jakarta, combined with support particularly from hubs such as Singapore, which locate the Bank's top experts in infrastructure development in close proximity to the client to provide not only technical advice but hands-on implementation support.

137. **This ambitious CPF is made possible by the continued partnership with bilateral development partners who, most often through country-specific trust funds for IBRD and regional programs for IFC, provide the means by which WBG in Indonesia has been able to leverage WBG-financed projects and programs and scale up coverage to reach more people.** The Bank has a history of working with bilateral and multilateral partners to deliver development assistance through country-specific trust funds around core areas of infrastructure, social development, trade, poverty, and economic analysis. In many programs, for example, the community-based rural water program (Pamsimas) and the long-running PNPM program, large investments by government, substantial IBRD loans and development partners financing together provide the financing and the implementation platform for programs that can reach nearly every corner of Indonesia. Such platforms also allow GoI and development partners to work cooperatively to support experimental approaches to delivery whilst avoiding aid fragmentation. This includes cutting edge approaches to poverty monitoring and new ways of working with CSOs and the private sector. The GoI and WBG are together pursuing a policy of sharing the lessons from Indonesia around the world, particularly to IDA and fragile and conflict affected states. Similarly, IFC has significant donor financed programs in the areas of sustainable agriculture development, forestry, corporate governance, financial inclusion and capital markets development. These are areas where IFC's interventions have substantial development impact and where IFC has distinct competitive advantages in working with the private sector. The World Bank's well-established knowledge program will retain its central role in the delivery of the WBG program during the CPF period.

138. **In addition to bilateral partners and their development agencies, the technical and financial needs of the government's development strategy will require that the WBG continues to expand its cooperation with other MFIs.** The World Bank Group has long worked with the ADB in cofinancing. Going forward, it is expected that the government may look for additional areas where WBG, ADB, IsDB and bilateral development agencies could work in concert particularly in areas of policy reform. The Bank and the UN organizations have successfully implemented a number of programs together in Indonesia. Under this CPF, it is expected that this partnership will be particularly strong in the area of disaster recovery and mitigation, and in the areas of natural resource management, particularly in forest areas and coastal regions (see Box 4.2 below).

Box 4.2: Experience of REKOMPAK

REKOMPAK, a community-driven disaster reconstruction and resettlement program started in 2005, provides a good example of how WBG can collaborate with multiple stakeholders to tackle development challenges in Indonesia. The approach was first piloted in Aceh following the massive destruction of the 2004 tsunami.

Planning and coordinating the large scale effort to rebuild Aceh was an enormously complex task. Following a request from government, the World Bank acted as trustee responsible for managing a Multi Donor Fund (MDF) which pooled together a total of US\$654.5 million received from fifteen donors. These development partners, under one trust fund mechanism, provided the best for beneficiaries by putting aside individual interests and avoiding aid fragmentation.

REKOMPAK, which was financed by the MDF, provided housing for tens of thousands of people and reconstruction of several hundred settlements. It also provided the government and development partners an effective platform of collaboration for future reconstruction. When disaster struck in the aftermath of Yogyakarta earthquake, the government and communities, with support from the WBG and the MDF, and using the model developed in Aceh, were able to build 280,000 houses with almost 100 percent occupancy rate within two years, making it one of the fastest and largest settlement disaster recovery programs in history.

Table 4. 1: Draft IBRD Indicative Lending Pipeline FY2016-20*

	Project/Program Title	Executing Agency	Amount in \$M by loan instrument		
			IPF	DPL	P4R
Engagement Area 1: Infrastructure Platforms at the National Level					
1	Dam Opr Rehab & Safety Improvement Project -2 (DORSIP-2)	MPW&H	150-250		
2	Urgent Rehabilitation of Irrigation Project (URIP)	MPW&H	150-200		
3	Modernization Strategic Irrigation Project (MISP)	MPW&H	150-200		
4	National Affordable Housing Program	MPW&H	150-200		
5	Tourism Infrastructure Development	MOPW&H	100-150		
Engagement Area 2: Sustainable Energy and Universal Access					
1	DPL Energy I	MCEA		500	
2	DPL Energy II	MCEA		300	
3	AF-Upper Cisokan 1040MW	PT.PLN	150-200		
4	Power Distribution Efficiency -P4R (PT.PLN)	PT.PLN			500
5	Poko Hydro Power 130MW(PLN)	PT.PLN	200-250		
6	Matenggeng Power (PLN)	PT.PLN	200-250		
7	Geothermal II 150MW(PT.PGE/Pertamina)	PT.PGE	100-150		
8	Power Distribution Efficiency II -P4R (PT.PLN)	PT.PLN			250
Engagement Area 3: Maritime and Connectivity					
1	Road improvement to support Integrated land and sea toll way - Northen area	MPW&H	150-200		
2	DPL Maritime, logistics & connectivity-MLC	MCEA		300	
3	DPL Maritime, logistics & connectivity-MLC II	MCEA		300	
4	Eastern ports development (PT.Pelindo)	PT.PELINDO II	200-300		
5	National program for blue economy	MoFsh	100		
Engagement Area 4: Delivery of Local Services and Infrastructure					
1	Regional Infrastructure Devevelopment Funds (RIDF)	PT.SMI	200-300		
2	AF- National Rural water & sanitation (Pamsimas 3)	MPW&H	300		
3	National Slum Upgrading	MPW&H	200		
4	Improvement of Primary Health care	MOH			250
5	Improvement of Solid Waste Mgmt to Support Rgnl & metro Cities	MPW&H	100		
6	National Urban Water Supply Program	MPW&H	100		
7	Regional watersupply in Benteng Kobema and Durolis	MPW&H	100		
8	Surabaya urban transport	Pemkot Sby	100		
9	National Urban Waste Water Management Program (Sewerage system devt and Dev't of Sewage treatment plant facility)	MPW&H	100-150		
10	Support for Delivery of Village Infrastructure and basic services	MOV	150-200		
11	National Urban Dev't Program (NUDP) - Sustainable Urban Dev't	MPW&H	100		
12	DAK Reform Program	MOF	100-150		
13	Quality Education in Disadvantaged Regions	MOEC	100-150		
Engagement Area 5: Sustainable Landscape Management					
1	Forestry Investment Program	MOFr	100		
2	National Land Administration and Spatial Planning	MOA&SP	100		
Engagement Area 6: Collecting More and Spending Better					
1	DPL Revenue Collection	MOF		300	
2	Modernization of Tax Collection project	MOF	100		
3	DPL Revenue Collection II	MOF		300	
4	Dev't of Capacity, Quality and Competency HR (SIPRIT II)	BAPPENAS	100-150		
Supporting Beam 1: The Business Climate and Functioning of Markets					
4	AF Indonesia Infrastructure Financing Facility	PT.SMI/PT.IIFF	150		

*Financing amounts are indicative only and will be determined over the period. Total IBRD lending cannot exceed the SBL.

139. **At the same time, Indonesia and WBG need to take into account the implementation challenges that will be associated with this CPF.** The current IBRD portfolio is at its lowest level in 5 years with 21 projects and about US\$4.3 billion (following the US\$2 billion DPL DDO disbursement in September 2015) in net commitments as a result of the slowdown in borrowing towards the end of the last CPS period. In FY15, the disbursement ratio was 15 percent, lower than its historical average of over 20 percent, reflecting the higher percentage of infrastructure projects in the portfolio mix which typically take longer to implement. Commitments at risk (31 percent) are considerably higher than China (15.5 percent) and the Philippines (14 percent), although the number of projects at risk (32 percent) is comparable with Philippines (31 percent). As noted above, the CPF would potentially see the IBRD portfolio almost doubling the existing commitment levels.

140. **Although implementing better and faster is one of the government's key objectives in meeting its ambitious infrastructure goals, it has significant challenges in implementation capacity and has struggled particularly with executing large infrastructure projects.** The GoI, led Bappenas, in coordination with the Bank, has already identified and initiated a number of steps to address long-standing implementation issues. Some of the most important have been launched. This includes a new Presidential decree which provides for a sovereign guarantee for direct lending by the MFIs to selected state-owned enterprises. This is essential for WBG's engagements in energy and in maritime and logistics. In the past, working with SOEs through Subsidiary Loan Agreements caused delays for long periods at the start of the project and subsequent delays during project implementation. The government has also revised and made more flexible its process (the Blue Book) for determining which projects and programs are eligible for foreign concessional loan financing. This will bring greater certainty in line ministries and within the Bank in terms of government commitment to proposed projects and therefore will speed preparation. GoI is revamping its own procedures for project readiness, including the provision of budget support for project preparation that has not been readily available for many years. Similarly, in the Bank, steps are being taken to help government by providing more support on safeguards, M&E and use of government systems in procurement whenever possible. Maintaining a strong presence in country will be essential to provide the requisite level of implementation support for the ongoing and new portfolio along with preparing an ambitious pipeline.

141. **Maintaining the successful gender focus in project design and implementation will be important.** Under the last CPS, the Country Gender Action Plan met its initial target of ensuring 100 percent (from 80 percent) of the operations delivered in FY13 were gender informed. The Community Development programs met the targets for women's participation (45 percent of women in planning/decision-making meetings; 32 percent of women in community oversight teams) and the community access to health and education services improved (91 percent of pregnant women received 4 prenatal care visit against a target of 80 percent). The water and sanitation programs have achieved impressive results, exceeding the targets set with more than 7 million people provided with access to clean water and 7.69 million (double the target) provided with access to sanitation. This was a significant achievement for the gender agenda given the higher proportion of women and children benefiting from these services. Gender specific M&E will be further strengthened in the CPF engagement areas, including outcome indicators where possible and relevant. In addition, at the project level, every effort will be made to measure gender specific outcomes.

V. MANAGING RISKS TO THE CPF PROGRAM

142. **Risk to the implementation of the CPF in Indonesia is assessed as substantial, with four potential areas of impact.** These include: (i) political economy and governance challenges, (ii) uncertainty around the macroeconomic environment both globally and domestically; and (iii) weak institutional and implementation capacity and (iv) environmental and social risks. These risks, if materialized, could singly or jointly impact the government's willingness and ability to implement the reform necessary to support its ambitious development agenda or could make the outcome of the development agenda less successful. These risks also pose challenges to the ability to mobilize and implement the investment in infrastructure and services which are essential to deliver on a more prosperous and equal society. In turn, these factors pose risks to the scope and depth of WBG's support particularly with respect to the investment pipeline and the intended outcomes in terms of the twin goals.

V.1. POLITICAL ECONOMY AND GOVERNANCE RISKS

143. **As explained throughout the CPF, action is needed to accelerate the country's structural transformation, including some that can be expected to generate "quick wins", while recognizing that the full benefits of such a shift will accrue only over the longer term.** Increasing infrastructure and energy investment so as to better connect the economy domestically, and boost external competitiveness by reducing logistics costs, are clear priorities. The early actions taken by the administration to eliminate fuel subsidies in order to reallocate fiscal flows for more productive uses were an excellent start. Likewise, calls for an end to corruption and misuse of public policy for private gain resulted in the establishment of the OSS to make doing business easier, and introducing steps to make the Ministry of Mining and Energy and tax administration more transparent and accountable. These steps were very well received by civil society and the private sector alike. It is in the context of these reforms that WBG's engagement in energy, for example, is placed. Maintaining and delivering on these reforms will not be easy particularly as government will have to continue to take on special interests in many of its core sectors. Inconsistent policy directions, or expansion of protectionist tendencies in trade policy, for example, could have a negative impact on the business environment, thus reducing opportunities for private sector participation in the financing of infrastructure and in the investments needed to create jobs. In some areas, they could also set back efforts for eliminating poverty, for example, through higher food prices or the misallocation of government spending. The government is aware of these risks and is intensifying efforts to accelerate the implementation of the reform agenda to improve market sentiment and maintain investor confidence. The economic policy reform packages announced by the government over several months in 2015 provide the opportunity to restore business confidence if well implemented. Sequencing the interventions under each of the engagement areas is one way for WBG to mitigate for this risk including, for example, avoiding lending in those sectors where the policy environment is not currently conducive and using policy-based lending to help open up the space for more efficient public and private sector investment.

V.2. MACROECONOMIC UNCERTAINTY

144. **Indonesia, like most emerging middle income countries, particularly those that are commodity exporters, is vulnerable to the shocks and volatility impacting the global economy.** Indonesia's government is in a position to address economic risks despite recent falls in the growth rate. At the same time, the room for maneuver is less than in the past as described earlier under Recent Economic Developments. Risks are particularly associated with employment and job creation, revenue collection, the sudden reversal of financial assets held in the Indonesian stock and bond markets, and exchange rate volatility and inflation. Food and water security could become more serious concerns in the context of the impact of the El Nino phenomenon impacting Indonesia which is expected to be as bad as or worse than in 1997. These risks, along with volatility in the global economy, could impact Indonesia more sharply if government struggles

with the pace of its own structural reform. For the implementation of the CPF, backsliding could risk WBG's ability to help government with development policy lending necessary for both its fiscal space and to support its ambitious plans for infrastructure investment and improvement in service delivery since these require substantial reallocation of spending. The risk of sharp increases in food prices which would particularly hurt the poor could impact poverty outcomes. Indonesia's economy has proven resilient and responsive to global economic risks and volatility, including with support to government from WBG financing and technical assistance. Engagements under this CPF would also help mitigate macroeconomic risks. Intensive policy dialogue through the preparation of DPLs, and broader technical assistance for macroeconomic management, for instance in financial supervision and management of fiscal and external balances, reinforce WBG's commitment to supporting Indonesia in the analysis of key public policy opportunities and challenges, and build on a long history of support to evidence-based policy making.

145. **From the perspective of interventions with the private sector, the two greatest challenges are: (i) a global investment environment where there is a general decrease in liquidity in emerging markets and investors and banks withdraw from investing in projects due to increasing interest rates and volatile local currency markets; and (ii) a decrease in Indonesia's capacity and willingness at both government and/or state-owned enterprise level of delivering executable projects.** In terms of the CPF, our ability to work with and through the private sector ultimately will depend on a conducive business climate. This requires that government can undertake the needed reforms to improve the business environment for private investment. A balanced approach towards state-owned enterprises will also be important in creating an enabling environment for the private sector to operate. In addition, the shallow domestic capital markets pose a risk. The government's infrastructure plans alone need close to US\$500-600 billion over the next four years, of which close to two-thirds are expected to come from private sector companies and state-owned enterprises. Arranging funding for the private sectors' growth plans would also be daunting. In the face of these risks, the CPF program depends on its sequencing both to help Government manage risks, but also to have the flexibility to calibrate WBG responses.

V.3. IMPLEMENTATION AND CAPACITY CONSTRAINTS

146. **As discussed in the previous section, although implementing better and faster is one of the government's key objectives in meeting its ambitious infrastructure goals, it has significant challenges in implementation capacity and has struggled particularly with executing large infrastructure projects.** This is reflected not only in the implementation status of the Bank's current portfolio, but even more so in the government's challenges with its own budget execution and the quality of outcomes from spending. The SCD describes in detail the challenges faced by line ministries and particularly local governments in ensuring good execution of annual budgets and the need for strengthening the capacity, particularly at the local level, to provide quality services in health, education, sanitation and water. It should be expected that improvements in the early years will be incremental, particularly in relation to large scale infrastructure and institutional and regulatory reforms.

147. **WBG has considered carefully these risks and, to the extent possible, put in place mitigation measures to minimize their impact on implementation of the CPF.** First, WBG has designed a CPF that is more focused on fewer areas despite the potential financing envelope being larger. By putting the engagements through the filters not only of the SCD pathways, but also through the lens of clear counterpart demand and potential impact and ability to deliver, we are less likely to be trying to support changes in areas where there is insufficient political will or where potential for success is limited. Second, by introducing a multiplicity of tools in engagement areas including analytics, development policy lending, investment and results financing, as well as engagements both with the public and private sectors whenever possible, we are able to come at the challenges from more directions and with greater firepower in order to help demonstrate impact and results. Thinking of the business environment and markets as a 'beam' that potentially underpins all the engagement areas is one way the CPF can achieve this. WBG's business model in Indonesia, which combines

support from development partners as an integral part of the CPF and where financing and knowledge services are combined, means we are able to engage more deeply and rapidly at the analytical level to shore up government efforts at evidence-based policy making and reform than we would if doing it alone.

V.4. ENVIRONMENTAL AND SOCIAL RISKS

148. **Insecure access to land and over-exploitation and degradation of natural resources constitute major risks to Indonesia’s sustainable development as they have direct links to poverty in Indonesia as well as global impact in terms of climate change.** The comprehensive landscape management engagement proposed in this CPF, combined with the Government’s policy direction and reform commitment, aims to address some of these challenges and mitigate the potential risks to the extent possible, acknowledging that many of these issues require sustained engagement and a longer time horizon beyond the CPF. If government’s ability to address these difficult issues wanes, the larger landscape engagement and the development outcomes associated could become more difficult to achieve. In such a case, as with all engagement areas, an appropriate realignment in direction and sequencing can be considered over the course of the CPF period.

149. **Finally, in addition to these ‘man-made’ risks, Indonesia is highly vulnerable to natural disasters that can inflict significant economic and social costs.** Indonesia sits on the ‘ring of fire’ and is highly vulnerable to a broad range of disruptive natural disasters, including earthquakes, volcano eruptions and flooding. Indonesia’s experience has contributed to greater disaster preparedness over time, and events such as the recent eruption of Mount Kelud, have been localized in terms of socio-economic impacts and are being dealt with through the disaster mitigation institutions that the IBRD has been actively supporting in partnership with the government, the UN and the New Zealand government among others. In the face of a large-scale natural disaster, WBG can be expected to refocus the CPF as needed, seeking to work with a broad range of development partners along with government agencies. Such was the case in the highly successful efforts following the 2004 earthquake and tsunami and 2006 devastating earthquake and eruption in Jogjakarta. This refocus could be limited to a certain engagement area, for example, concentrating national infrastructure on reconstruction or as a replacement for an entire engagement if needed.

Table 5.1: Risk in Indonesia

Risk Categories	Rating (H, S, M, L)
Political and governance	S
Macroeconomic	S
Sector strategies and policies	M
Technical design of project or program	L
Institutional capacity for implementation and sustainability	S
Fiduciary	M
Environment and social	H
Stakeholders	L
Overall	S

ANNEXES

ANNEX 1. CPF RESULT FRAMEWORK

Engagement Area 1: Infrastructure Platforms at the National Level

Definition of focus area: Infrastructure Platforms at the National Level Infrastructure involves those sectors where the central government, mostly through the Ministry of Public Works and Public Housing, has responsibility for policy and/or implementation, where government or the private sector has expressed a strong interest in working with the World Bank Group and where supporting or expanding ‘platforms’ in partnership with government and, where relevant, the private sector can make a meaningful impact. The CPF makes a distinction between delivery at the local and national level not so much because the geographical coverage are different, but mainly because the delivery models are different and therefore so are the bottlenecks and solutions. While there remains the possibility to work in other sectors during the CPF if conditions change, it is currently expected that the WBG engagement at the national level will be concentrated in water and sanitation, irrigation and dams, housing and integrated tourism development.

Links between the focus area and the twin goals: As set out in the SCD, eradicating poverty and increasing shared prosperity in Indonesia depend, to a large extent, on closing the country’s large infrastructure gap. Reducing the infrastructure gap would support these goals through alleviating the constraints that infrastructure bottlenecks impose on competitiveness, growth and creation of jobs. This engagement links with SCD Pathway 1 Job Creation by addressing one of the biggest constraints to growth and the creation of high productivity jobs and Pathway 2 Service Delivery and Opportunity for All.

Country Development Goals: The National Medium-Term Development Plan 2015-2019 (RPJMN) puts a strong emphasis on infrastructure development and financing, including an emphasis on access to affordable housing, integrated tourism infrastructure, innovation in infrastructure financing through PPPs, improved water resource management, irrigation and food security.

Objective 1: Increase access to water irrigation and dam safety

Intervention Logic:

Food security is prioritized in the RPJMN 2015-2019 with a focus on modernizing irrigation infrastructure, rehabilitating 3 million hectares of irrigation channels and constructing 1 million new hectares of irrigation channels. Within these ambitious targets, WBG’s engagement would focus on using IBRD resources to rehabilitate existing schemes, with complementary R&D and extension services, and enhancing governance to increase user participation and sustainability of investments. At the same time, IFC will assist the Ministry in identifying irrigation dams which can be upgraded to also generate power and, where appropriate, help bid out some of these projects as PPPs to bring in private sector participation that has been missing in development and operations. IFC will also continue to assist agriculture companies in employing more efficient watering of their fields, and helping in demand side management.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>The number of people benefiting from improved irrigation and dam safety</p> <p>Baseline: TBD (2016) Target: TBD (2020)</p> <p>Area provided with improved irrigation and drainage services (Hectare)</p> <p>Baseline: 164937 (2016) Target: TBD (2020)</p>	<p>Operational water user association created or strengthened</p> <p>Baseline: 1674 (2016) Target: TBD (2017)</p> <p>Number of dams returned to full operation with reduced risk of failure after rehabilitation</p> <p>Baseline: 0 (2016) Target: 22 (2020)</p>	<p>On Going:</p> <ul style="list-style-type: none"> Dam Operational Improvement (DOISP) (P096532) Water Resources and Irrigation Management Program 2 (P114348) <p>Planned New:</p> <ul style="list-style-type: none"> Dam Operation Rehabilitation & Safety Improvement Project II (DORSIP-2) Urgent Rehabilitation of Irrigation Project (URIP) Modernization Strategic Irrigation Project (MISP)
<p>Objective 2: Increase access to affordable housing</p>		
<p>Intervention Logic: Access to housing is a critical challenge facing Indonesia, particularly in the urban areas. The current administration has made reducing the housing backlog and delivering affordable housing an explicit policy priority. With the <i>Satu Juta Rumah</i> (One Million Homes) initiative, launched in April 2015, the administration has set an ambitious target of delivering one million homes annually to meet new household demand and to address the housing deficit. WBG will aim to work both through the private and the public sector to support the provision of affordable housing through a mix of lending and technical assistance on both the supply and demand sides including encouraging private sector financing of affordable housing projects, as well as to support financial institutions in extending mortgages. IFC will also promote use of green building concepts amongst private sector housing developers.</p>		

<p>CPF Objective Indicators</p> <p>Number of low-income households with access to affordable 'core starter' public housing units Baseline: 0 (2016) Target: 200,000 (2020)</p> <p>Number of households with access to affordable housing through credit-linked down payment subsidies Baseline: 0 (2016) Target: 300,000 (2020)</p>	<p>Supplementary Progress Indicators</p> <p>Number of cities that have developed affordable housing plans Baseline: 0 (2016) Target: 20 (2020)</p> <p>Development of national integrated beneficiary targeting system for housing subsidies Baseline: N (2016) Target: Y (2020)</p>	<p>WBG Program</p> <p><u>On Going:</u></p> <ul style="list-style-type: none"> Land, Housing and Urban Settlements PAAA (P149874) <p><u>Planned New:</u></p> <ul style="list-style-type: none"> National Affordable Housing Program (P144948) IFC's financing and advisory sectors for affordable housing/ mortgages projects
<p>Objective 3: Development of integrated tourism destination</p>		
<p>Intervention Logic:</p> <p>Indonesia is endowed with spectacular and extensive natural and cultural resources which make tourism potentially one of the most important sectors for creating jobs, growth and shared prosperity with a high proportion of employment for women and youth. Yet it lags well behind its neighboring countries in exploiting its competitive advantage. Indonesia is missing major opportunities in this key sector because of a number of severe infrastructure, institutional and skills gaps. WBG is proposing to support Gol with a comprehensive approach, focusing on priority 'hub' destinations to start and later expand to more sites as part of a national tourism program. The program would draw on IBRD, IFC and MIGA resources to support the development of integrated tourism destinations, which are based on integrated master-plans and implementation strategies that are endorsed by a broad set of stakeholders. The development of integrated destinations would be via a continuous process of policy and planning coordination, and would bring together (i.e. integrate) the development of infrastructure, the promotion at the national and local levels, and skills and SME development. It would include private sector investments through IFC and MIGA financial products to support the tourism industry and to support local communities in delivering quality experiences, including SME financing and skills development needed to create a competitive tourism-based economy.</p>		
<p>CPF Objective Indicators</p> <p>Number of integrated tourism destinations established Baseline: 0 (2016) Target: 1 (2020)</p>	<p>Supplementary Progress Indicators</p> <p>Number of integrated tourism master plans prepared Baseline: 0 (2016) Target: 3 (2020)</p>	<p>WBG Program</p> <ul style="list-style-type: none"> National Tourism Development (P157599) IFC's investments and advisory support for tourism and related industries
<p>Engagement Area 2: Sustainable energy and universal access</p>		
<p>Definition of focus area: Indonesia is facing a power deficit and, with demand continuing to increase at an annual rate of about 8 percent. Government has projected that the country will need at least 35 GW of new generation capacity together with associated transmission and distribution capacity over</p>		

the next five years. Government is looking to simultaneously increase overall generation to meet demand and prepare for growth, substantially increase the share of renewables in the energy mix, and provide universal access as a fundamental right of all Indonesians.

Links between the focus area and the twin goals: As set out in the SCD, developing the energy sector is at the top of the government's infrastructure priorities and one of the major bottlenecks to growth, shared prosperity and human capital formation. This engagement links with SCD Pathway 1 Job Creation by addressing one of the biggest constraints to growth and the creation of high productivity jobs and Pathway 2 Service Delivery and Opportunity for All particularly in its access agenda.

Country Development Goals: The current RPJMN 2015-2019 presents a comprehensive energy strategy with substantial investments to achieve energy sovereignty. The main sector dimension of RPJMN lists four priority sectors, which are (i) energy and power sovereignty, (ii) food sovereignty, (iii) maritime, and (iv) tourism and industry. Optimizing the utilization of energy sources inside the country (gas, hydro, and geothermal) is the way to achieve energy and power sovereignty. To address these challenges, at a strategic level, the GoI has committed to a number of long-term measures around (i) reducing, and better targeting, energy subsidies to improve productive and resource allocative efficiency; (ii) expanding electricity access; (iii) scaling-up renewable energy deployment by 2025; and (iv) mobilizing a partnership program on energy conservation to incentivize industrial enterprises to convert to energy efficient technologies.

Objective 4: Increase supply and access to energy

Intervention Logic

This objective will be supported by WBG through the engagement in the area of strengthening sector governance and sustainability, supporting renewable energy and low carbon development, expanding access to modern energy services through non-coal generation, transmission and distribution and enabling gas sector policy formulation and investment planning. WBG support would be through a mix of financing instruments: Investment Project Financing (IPF), Development Policy Loans (DPLs), Program for Results (PforRs), IFC equity and loans for private sector projects, and a combination of MIGA's political risk insurance and non-honoring products in the renewable energy sector.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Number of households receiving improved access to reliable energy Baseline (2012): 12.45 million Target (2020): 13.97 million	The Borrower issues a national approach to electrification with improved coordination of institutional responsibilities, financing mechanisms and planning Baseline (2015): No Target (2017): Yes	Ongoing Projects: <ul style="list-style-type: none"> Indonesia Power Transmission Development (P117323) Indonesia Second Power Transmission Development (P123994) Upper Cisokan Pumped Storage Hydro-Elect (P112158) Geothermal Clean Energy Investment (P113078) IFC's equity investment in Medco Power
Incremental geothermal power generation installed capacity (MW) Baseline (2014): 0 Target (2020): 150	The Borrower issues the implementing regulations for the 2014 Geothermal Law on the process to convert geothermal energy to electricity	

<p>Incremental pumped storage installed capacity (MW) Baseline (2016): 0 Target (2020): 1,000</p> <p>Incremental electricity sales of PLN (Gwh) Baseline (2014): 65,361 Target (2020): 97,000</p> <p>Non coal (hydro, gas) power produced (Gwh) Baseline (2014): 1,175 Target (2020): 1,300</p>	<p>Baseline (2015): No Target (2017): Yes</p>	<ul style="list-style-type: none"> • IFC - BDSN (766617) Asahan I hydropower • MIGA- Rajamandala Hydropower IPP (guarantee issuance of US\$200 million) <p>Planned Projects:</p> <ul style="list-style-type: none"> • Geothermal Energy Upstream Development (CIF/GEF) • Power Distribution Efficiency -P4R • DPL Energy I • DPL Energy II • Poko Hydro Power • Upper Cisokan Additional Financing • Power Distribution Efficiency II -P4R • Matenggeng Power • Geothermal II Project • IFC's PPP advisory support for developing renewable and gas based IPPs and transmission projects • IFC's investments to support clean IPPs and transmission projects • Indonesia Renewable Energy Program - Business Development (#600118; Cross-Industry Advisory Services) • Indonesia Hydro Projects (Min of Public Works) (#600444; Cross-Industry Advisory Services)
---	--	---

Engagement Area 3: Maritime and Connectivity

Definition of focus area: Good connectivity is a vital prerequisite to supply domestic markets efficiently and to compete internationally. It is all the more important in an archipelago nation like Indonesia where the sea can become a tool of cohesion or a source of fragmentation and isolation. Good freight logistics—both in terms of speed and dependability—involves a wide range of elements including hard infrastructure and technology, good regulation and efficient operations and the quality of human capital. Indonesia’s coastal and marine natural resources are among the richest in the world, but the country is not maximizing the potential of these resources in terms of economic growth (export fisheries, marine-based tourism), livelihoods benefits (jobs, income, nutrition, food security) and the environmental services (resilience to natural disasters, fish nurseries) they provide.

Links between the focus area and the twin goals: This engagement links with SCD Pathway 1 Job Creation by addressing one of the main constraints to growth and the creation of high productivity jobs, Pathway 2 Service Delivery and Opportunity for All particularly in improving connectivity in eastern regions and Pathway 3 in providing infrastructure and regulatory environment to make use of natural resources, especially in coastal areas and fisheries, more sustainable and the benefits more evenly shared.

Country Development Goals: The current RPJMN 2015-2019 presents a comprehensive maritime strategy with substantial investments in ports infrastructure, hinterland connections and fisheries. The RPJMN calls for improvement of port efficiency and clear targets are set for the reduction of dwell time in major ports in Indonesia. The Government is preparing several Presidential Decrees on upgrading ports, building new ports, improving port efficiency, among other key investments. The RPJMN also sets ambitious targets in support of sustainable fisheries management and expansion and diversification of wild capture and aquaculture fisheries production and post-harvest processing with the aim to double production and export by 2019. The RPJMN includes clear targets for mangrove restoration and increased management of protected areas and specific species. Government has already issued a number of critically important regulations to improve governance and management of its marine and coastal natural resources.

Objective 5: Improve maritime logistics and connectivity

Intervention Logic

As an archipelagic nation, maritime logistics and connectivity play a critical role in driving growth, enhancing competitiveness, facilitating shared prosperity, and ensuring proper access to goods and services for all Indonesian citizens regardless of their location. For remote regions, high logistics costs help to increase their isolation and limit economic links to nearby growth poles; this in turn undermines prospects to reduce the development gap. The WBG program provides support to the GoI in addressing its connectivity challenges by outlining options and priorities to improve efficiency in national freight logistics. Specifically, the program aims to: (a) improve the quality of overall logistics policy-making through key sector interventions and policy analysis; (b) improve the country’s maritime connectivity by upgrading infrastructure, and developing recommendations for more integrated logistics solutions; and (c) reducing logistics costs via the promotion of policy reforms aimed at increasing competitiveness and productivity by overcoming barriers that inhibit investment and business development in the sector.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Reduction of container handling time in selected international and domestic terminals Baseline: 6.5 days (2016)	Establishment of taskforce that provides clear guidance to line ministries and agencies on coordinated logistics reform	On Going: <ul style="list-style-type: none"> Managing Logistics Costs in Indonesia (P146261)

<p>Target: 3 days (2020)</p> <p>Reduction in travel time for selected links to ports</p> <p>Baseline: TBD (2016)</p> <p>Target: TBD (2020)</p>	<p>Baseline: Establishment of taskforce with clear mandate (2016)</p> <p>Target: Regulations issued and/or revised by taskforce (2020)</p> <p>Number of ports able to receive larger ships</p> <p>Baseline: TBD (2016)</p> <p>Target: TBD (2020)</p> <p>Km of road connections to port improved</p> <p>Baseline: 0 (2016)</p> <p>Target: TBD (2020)</p> <p>Meter quay wall upgraded/built</p> <p>Baseline: TBD (2016)</p> <p>Target: TBD (2020)</p>	<ul style="list-style-type: none"> • Trade and logistics PA (P156780) • IFC's loan support to Jakarta International Container Terminal <p>Planned New:</p> <ul style="list-style-type: none"> • Eastern ports development (PT. Pelindo) • IFC's investments with private sector ports developers and operators • Road Improvement to support Integrated land and sea toll way • DPL Maritime, logistics & connectivity (MLC I) • DPL Maritime, logistics & connectivity (MLC II)
--	---	--

Objective 6: Improve fisheries management practices

Intervention Logic

All of the projects indicated—COREMAP CTI, CCRES and the proposed National Blue Economy Program—are designed to support improve fisheries management practices to enhance the economic contribution of the fisheries sector and ensure resilience and long-term provision of critical ecosystem services to support shared prosperity. The proposed National Blue Economy Program responds to government's request for a large-scale, transformational program designed to accelerate sustainable development of Indonesia's living marine and coastal resources to support the vision of a prosperous Maritime Nation. The Program was selected to respond to the request to strengthen sustainable management of Indonesia's abundant, but stressed, wild capture fisheries, mainstream sustainability principles in its rapidly expanding aquaculture subsector and help de-risk the sector to support increased sustainable private sector investment in fisheries in line with government's strategic policy directives.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Sustainable fisheries management implemented in fisheries management areas ²⁶</p> <p>Baseline: 0 (2016) Target: 2 (2020)</p> <p>Percentage health status of coral reefs in intervention areas improved ²⁷</p> <p>Baseline: 0 (2016) Target: 70 (2020)</p>	<p>Development of coral reef fisheries management plans</p> <p>Baseline: 0 (2016) Target: 2 (2020)</p> <p>Number of village having improved coral reef management</p> <p>Baseline: 0 (2016) Target: 210 (2020)</p>	<p>On Going:</p> <ul style="list-style-type: none"> • Coral Reef Rehabilitation and Management Program Phase III (P127813) • Coral Reel Rehabilitation and Management Program III (P130389) • Capturing Coral Reef and Related Ecosystem Services Project - CCRES Regional Project (P123933) <p>Planned New:</p> <ul style="list-style-type: none"> • National Blue Economy Program
Engagement Area 4: Delivery of Local Services and Infrastructure		
Definition of focus area:		
<p>More than a decade after decentralization, which transferred the responsibility for the provision of most basic services to district governments, and despite significant increases in decentralized public spending (about half of total government spending), the quality of services remains persistently low and unevenly distributed across regions. The problem is that most local governments do not have adequate capacity to deliver services, nor are they accountable for results to the central government and their citizens. Improving local service delivery requires building the capacities of local government to deliver services, moving towards a more performance-based transfer system, providing the tools for citizens to monitor local service delivery, as well as differentiated approach to different types of regions. Ultimately, improving local service delivery is about enhancing the way central, provincial, district, and village governments work together to deliver results on the ground.</p>		
<p>Links between the focus area and the twin goals: Eliminating extreme poverty and boosting shared prosperity in the longer-term require improving opportunities today particularly in terms of education, health and nutrition to ensure a healthy and productive population in the future. This engagement links with SCD Pathway 2 Service Delivery and Opportunity for All in supporting improvements in quality, access and accountability for health, education, sanitation and other infrastructure provided through local governments.</p>		

²⁶ The sustainable fisheries management indicators are: (i) stock of fish resources, (ii) habitat, (iii) method of capture, and (iv) institutional (establishment of coral reef management plans and district spatial plans with clear management measures identified)

²⁷ % of live coral cover macro benthos, and indicator reef fish species

Country Development Goals: RPJMN (National medium term planning) aims to improve the quality of human life and address disparity and inequality. One of the three development dimensions is territorial and equity dimension that aims to ensure that development could be equally distributed among income groups and across regions.

Objective 7: Improve local service delivery

Intervention Logic

This engagement will focus on supporting efforts to establish a performance-based fiscal transfer system, strengthening the capacity of central government agencies to support and oversee the performance of local governments, strengthening the back-office functions of local government to deliver local services and infrastructure, and developing tools for citizens to monitor local service delivery. WBG financial support will focus on the gradual roll out of performance incentives in fiscal transfers to local governments for priority sectors (infrastructure, health and education). Under this pillar, IFC would help support private sector models of delivering some of the services. In several countries, including Indonesia, private sector healthcare providers (hospitals, diagnostic centers) complement the government set-up to improve the services for citizens. WBG will seek to support such models, as well as promote other inclusive healthcare models such as e-consultations perhaps through the private sector to ramp up services especially to frontier areas.

CPF Objective Indicators

Number of DAK-financed physical outputs reported, verified, and meeting eligibility criteria in districts where the performance incentive is introduced
 Baseline: 72 (2016)
 Target: 88 (2018)

Supplementary Progress Indicators

System for monitoring fiscal and service delivery performance of local governments fully operational

WBG Program

On Going:

- Local Government DAK (P111577)
- AF for the Local Government and Dec. Project (P111577)
- PAAA “Decentralization that Delivers” (P154976)

Planned New:

- P4R/OBD: DAK Reform program

Objective 8: Improve access to basic services in targeted cities ²⁸

Intervention Logic

The WBG will support national programs that provide results-based financing and technical assistance to cities to improve provision of basic services to citizens, including water sanitation, and solid waste.

²⁸ Targeted cities: Cities where urbanization is happening most rapidly and face the most challenge in terms of urban development

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Number of people with improved access to urban infrastructure and services in the targeted slums, disaggregated by gender Baseline: 0 (2016) Target: 4 million (2020)</p> <p>Number of household with new access to improved piped water services in targeted cities Baseline: 0 (2016) Target: 1,200,000 (2020)</p> <p>Number of household with access to improved sanitation services in targeted cities Baseline: 0 (2016) Target: 750,000 (2020)</p> <p>Number of household receiving improved solid waste management in targeted cities Baseline: TBD (2016) Target: TBD (2020)</p>	<p>Number of Slum Improvement Action Plans (SIAPs) at city level Baseline: 30 (2016) Target: 130 (2020)</p> <p>Number of local government's owned water utilities (PDAMs) with improved services Baseline: 0 (2016) Target: 150 (2020)</p> <p>Number of cities with improved sanitation services Baseline: 0 (2016) Target: 5 (2020)</p> <p>Number of infrastructure subprojects financed by RIDF fund Baseline: TBD (2016) Target: TBD (2020)</p> <p>Number of local government received RIDF fund Baseline: TBD (2016) Target: TBD (2020)</p>	<p>On Going:</p> <ul style="list-style-type: none"> Jakarta Urgent Flood Mitigation Project (P111034) Surabaya Urban Corridor Development BETF (P148821) Sustainable urbanization PAAA (P153802) <p>Planned New:</p> <ul style="list-style-type: none"> Regional Infrastructure Development Fund (RIDF) (P154947) National Urban Water Supply Program National Slum Upgrading Program (P154782) Surabaya Urban Corridor Development Project National Sewerage System Development Program. National Program for Improving Solid Waste Management. Regional Water Supply Program
<p>Objective 9: Improve access to quality education and health related services in targeted rural areas²⁹</p>		
<p>Intervention Logic</p> <p>The WBG will support national programs that provide performance-based funds and technical assistance to districts and villages in rural regions in order to ensure universal access to education and health-related services (including water and sanitation) that meet minimum quality standards. IFC will seek private sector models for utilizing new technologies to expand healthcare and education services to the base of the pyramid populations in remote regions.</p>		

²⁹ Targeted rural regions: Disadvantaged rural regions, defined in terms of poverty and access to education, health, and water and sanitation

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Percentage of mothers and children receiving maternal and child health and nutrition services in community health center (puskesmas) and its network in targeted areas Baseline: TBD (2016) Target: TBD (2020)</p>	<p>Percentage of primary health care centers in target areas under the accreditation program that have achieved accreditation Baseline: TBD (2016) Target: TBD (2020)</p>	<p>On Going:</p> <ul style="list-style-type: none"> • PNPM Rural 2012 - 2015 (P128832) • PNPM-Generasi (P132585) • UHC PAAA (P153828) • Village Law PAAA (P153219) • ECED Frontline PAAA (P156674) • PNPM-Generasi Impact Evaluation (P152466) • ID PAMSIMAS Support Trust Fund (P116236)
<p>Number of students enrolled in schools meeting minimum service standards in targeted areas, disaggregated by gender Baseline: TBD (2016) Target: TBD (2020)</p>	<p>Number of doctors/nurses/ midwives in target areas with basic competencies in MCH care Baseline: TBD (2016) Target: TBD (2020)</p>	<ul style="list-style-type: none"> • ID-WSSLIC III (PAMSIMAS) (P085375) • AF-National Water and Sanitation Program (PAMSIMAS 2)
<p>Numbers of people having access to improved water services in targeted areas, disaggregated by gender Baseline: 7.9 million (2016) Target: 22 million (2020)</p>	<p>Percentage of children 0-59 mo weighed monthly Baseline: TBD (2016) Target: TBD (2020)</p>	<p>Planned New:</p> <ul style="list-style-type: none"> • Primary Health Care Project (P157150) • Quality Education in disadvantaged regions (P4R) • Village Law Implementation Project/P4R
<p>Numbers of people having access to improved sanitation services in targeted areas, disaggregated by gender Baseline: 7.7 million (2016) Target: 14.9 million (2020)</p>	<p>Number of teachers in projects areas with basic competencies (UPK test) Baseline: TBD (2016) Target: TBD (2020)</p>	<ul style="list-style-type: none"> • Village for Services PAAA • Teacher Quality and Education Financing PAAA. • AF- National Water and Sanitation Program (PAMSIMAS 3) (P129486) • PAAA to support PAMSIMAS
<p>Engagement Area 5: Sustainable Landscape Management</p>		

Engagement Area 5: Sustainable Landscape Management

Definition of focus area: Better harnessing potential of natural assets (land, water, forests) for sustainable and inclusive growth through improved spatial planning and land administration, improving governance and management of the forest estate, integration of a landscape approach into the portfolio and pipeline, making growth inclusive, through targeting the vulnerable and promoting equity, and enhancing cross-sectoral coordination and

integration for landscape management. This focus area covers support for design and implementation of a Landscape Program focused on improving management of, and benefits from, terrestrial natural assets.

Links between the focus area and the twin goals: As set out in the SCD, the quality of natural resource governance and management will influence how effectively Indonesia's growth strategy lifts people out of extreme poverty and boosts shared prosperity. Poverty rates are highest for households living on the edge of forests. The special nature of poverty in forest areas requires an approach that works with management of natural resources. The remoteness, low population density and dispersed community locations warrant an approach that recognizes the linkages between the fate of people living in these areas and natural resource activities and changes in ecosystem services resulting from deforestation, overexploitation of resources, floods, landslides, and natural disasters. This engagement links with SCD Pathway 3 Natural Resource Management.

Country Development Goals: The current RPJMN 2015-2019 presents the priority actions related to landscape management: (i) to optimize the natural resources and develop regulations to support; (ii) to strengthen the forestry sector; (iii) to build spatial and sustainable environment. GoI has initiated a number of ambitious initiatives and started some regulatory change processes, which, if successfully implemented, would begin to address many of these issues nationally. These include reorganization at the ministerial level with commitments to more equitable resource management, decentralization of forest management, spatial planning, peat fire management, and more transparent and efficient licensing processes. At the same time, the government has limited capacity to implement sound policies and legislation, particularly where requiring cross-sectoral response.

Objective 10: Improve land management and spatial planning

Intervention Logic

The indicative portfolio provides support to the GoI in developing some of the core fundamentals for better harnessing the potential of natural assets as a source of sustainable economic growth, jobs, and livelihoods. Specifically, these activities include: (i) build capacity for improved spatial planning and land administration; (ii) improve governance by improving transparency over the boundaries of the forest assets; and (iii) address root causes of poverty and natural degradation by improving security of land tenure and use. These activities were selected based on their criticality to reducing poverty in and around forest areas and improving forest-related revenue collection and management as a driver for broader growth.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Completion and public availability of One Map³⁰ in the context of national spatial data infrastructure</p> <p>Baseline: 0 (2016) Target: 1 (2020)</p>	<p>Number of provinces with approved spatial plans</p> <p>Baseline: 7 (2016) Target: 9 (2020)</p> <p>Strengthening of legal and institutional framework for land management, tenure and use rights in forest estate</p>	<p>On Going:</p> <ul style="list-style-type: none"> PAAA Green Development Support Program (P148318) REDD+ Support Facility (P149183) IFC: Indonesia Green Buildings Regulation (#589167; Trade and Competitiveness)

³⁰ One Map is a proposed single incorporate database bringing together land use, land tenure and other spatial data for Indonesia

	<p>Baseline: 0 (2016) Target: 5 (2020)</p>	<ul style="list-style-type: none"> SE Asia Forestry Advice (#600431; Manufacturing, Agribusiness & Services) Indonesia Palm Oil Development Smallholders (#594007; Manufacturing, Agribusiness & Services) Follow on Palm Oil Project No. 2: SCI in Plantations (#593807; Manufacturing, Agribusiness & Services) <p>Planned New:</p> <ul style="list-style-type: none"> National Land Administration & Spatial Planning PAAA Indonesia Landscape Program (P156489) IFC: Forestry Supply Chain Indonesia (#600124; Manufacturing, Agribusiness & Services)
Objective 11: Strengthened capacity in decentralized forest management		
Intervention Logic		
<p>The indicative portfolio provides support to the GoI in developing some of the core fundamentals for better harnessing the potential of natural assets as a source of sustainable economic growth, jobs, and livelihoods. Specifically, these activities include: 1) improve governance and management of the Forest Estate with a focus on decentralized management; and 2) address root causes of poverty and natural degradation by improving security of land tenure and use; and 3) make growth inclusive and equitable, through ensuring vulnerable communities within forests are benefiting from those resources. The activities were selected based on their criticality to reducing poverty in and around forest areas and improving forest-related revenue collection and management as a driver of broader growth, and reflects ongoing engagement areas between the World Bank and related ministries. Likewise, the portfolio under preparation reflects areas critical to success where the GoI has demonstrated interest in engaging. While these areas are considered critical for engagement, important risks do remain given the challenging political economy of the sector, and the weak coordination between ministries and local government.</p>		
<p>CPF Objective Indicators</p> <p>Land area supported by forest management units with improved management effectiveness (Hectare)</p> <p>Baseline (2016): 0</p>	<p>Supplementary Progress Indicators</p> <p>Forest management units with forest boundaries delineated and integrated into spatial plans of provinces (numbers)</p> <p>Baseline: 0 (2016)</p>	<p>WBG Program</p> <p>On Going:</p> <ul style="list-style-type: none"> PAAA Green Development Support Program (P148318) REDD+ Support Facility (P149183)

Target (2020): 560,000	Target: 10 (2020) Forest management units governed by long-term management plans prepared with community participation (numbers) Baseline: 0 (2016) Target: 6 (2020)	<ul style="list-style-type: none"> IFC: SE Asia Forestry Advice (#600431; Manufacturing, Agribusiness & Services) <p>Planned New:</p> <ul style="list-style-type: none"> Forestry Investment program (P144269) IFC: Forestry Supply Chain Indonesia (#600124; Manufacturing, Agribusiness & Services)
------------------------	---	---

Engagement Area 6: Collecting More and Spending Better

Definition of focus area: Indonesia's revenue-to-GDP (14.7 percent in 2014) and tax-to-GDP (10.9 percent) ratios are very low by international standards. This is not due to lower tax potential; by one estimate, Indonesia is collecting less than 50 percent of its total potential tax revenue. The 50 percent of tax revenue not being collected is a result of suboptimal tax policy (policy gap) and weak administration (compliance gap). Just as important as collecting more, however, is 'spending better', that is, improving both the composition and delivery/execution of spending. Before the introduction of a major fuel subsidy reform, central government's public spending on infrastructure and health programs were significantly crowded out by large energy subsidies. In 2014, spending on energy subsidies accounted for more than one-fifth of the central government's budget and more than three times the allocation for infrastructure and health. Subnational governments now spend a bit more than half of the national budget (net of subsidies and interest payments). In general, subnational governments' spending is excessively dominated by spending on administration and personnel over productive sectors and capital spending. Improving the composition of local government spending and reallocating more resources to frontline service delivery are important steps towards improving the provision of key services to the population.

Links between the focus area and the twin goals: Fiscal policy, in its revenue mobilization and quality of spending functions, were identified in the SCD as key to poverty reduction and shared prosperity. Just as important as collecting more, however, is 'spending better', that is, improving both the composition and delivery/execution of spending. The SCD also identifies transparency and accountability in the use of public funds as one of the key ingredients in improving service delivery. This engagement links with Pathway 2 by providing both increased revenue and better spending for the delivery of services opportunities for all, and Pathway 3 that seeks to improve the way revenue from Indonesia's abundant natural resources can be captured and shared to improve sustainability and share resources more equitably.

Country Development Goals: RPJMN 2015-2019 put emphasis on: (i) strengthening state revenue administration capacity and improving tax policy to increase the state revenue from tax and non-tax sources; and (ii) strengthening planning and budgeting institutions to improve budget execution, the allocative efficiency, and the effectiveness (impact) of public expenditure.

Objective 12: Improve revenue collection

Intervention Logic

By collecting more, the government will be able to adequately finance the key priority areas, such as infrastructure, supported by the CPF. Ongoing and upcoming portfolio items selected based on potential impact on the strengthening of revenue administration capacity (to reduce the compliance gap) and on improving tax policy (to reduce the policy gap). Specifically, WBG's engagement aims to help the government raise revenues while reducing economic distortions and lowering administration costs. To achieve this objective, WBG would support the government in the following areas: (i) supporting the revision of selective tax policies; (ii) greater effectiveness and efficiency of tax compliance management through a move to a risk-based approach to compliance management; (iii) strengthening and mainstreaming non-tax revenue administration.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Compliance rate for individual and corporate taxpayers Baseline: 59.8% individual, 47.3% corporate (2013 tax year) Target: TBD (2018 tax year)</p>	<p>Legislation passed to increase the tax base Baseline: No (2016) Target: Two revisions of tax laws: Income Tax and VAT Law (2017)</p> <p>Regulation fully implemented to eliminate duplicate tax IDs. Baseline: No (2014) Target: Yes (2016)</p> <p>Procurement initiated (RFPs) for acquisition of a modern tax management software system. Baseline: No (2015) Target: Yes (2017)</p>	<p>On Going:</p> <ul style="list-style-type: none"> TA-Revenue and Budget Management (P155648) <p>Planned New:</p> <ul style="list-style-type: none"> Tax policy TA (part of macro-fiscal PA P132241) Non-tax revenue policy and administration TA (part of Natural Resources for Development PA P156142) Modernization of Tax Collection project Sub-national fiscal TA, including in

Objective 13: Improve efficiency and effectiveness of spending

Intervention Logic

By improving the allocative and technical efficiency of public expenditure, the government will be able to reduce economic distortions and lower administration costs to allow for more optimal mix of public spending such as infrastructure, health, and education. Ongoing and upcoming portfolio items are designed to provide multiple instruments to support government's spending better agenda. Specifically, WBG aims to help the government in the following key areas: (i) advancing energy (fuel and electricity) subsidy reforms through consistent implementation and improved transparency;

(ii) improving quality of spending (allocative efficiency, effectiveness, and implementation) in key areas; (iii) improving quality of spending and service delivery of selected subnational governments; and (iv) strengthening institutional capacity to modernize procurement and contract management and to improve the control environment.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Central government spending on health, capital expenditure (proxy for infrastructure), and social assistance (percentage of total expenditure of approved national budget excluding transfers to subnational governments) Baseline: health at 2.7% (2014); capital expenditure at 12.2% (2014); social assistance at 3.2% (2014) Target (2016 onward): higher than baseline</p> <p>Central budget execution rates (realized as a percentage of APBN) of capital spending Baseline: 80% (2014) Target: 90% (2018)</p>	<p>Contract commitments on capital spending made in first 3 months of year as a % of total planned capital spending Baseline: TBD (2015) Target: TBD (2020)</p> <p>Change regulations (including at least PMK 157/2013) to better enable large infrastructure contracts, including multi-year contracts (as measured by fiscal DPL II). Baseline: No (2015) Target: Yes (2017)</p> <p>Improvement in the opinion expressed in audited annual Central Government financial statements Baseline: Qualified (2015) Target: Unqualified (2017)</p>	<p>On Going:</p> <ul style="list-style-type: none"> • PERISAI DPL-DDO (P130048) • Expenditure policy TA (part of macro-fiscal policy PA P132241) <p>Planned New:</p> <ul style="list-style-type: none"> • DPL Fiscal Reform I and II (P156655) • Sub-national fiscal TA, including in resource rich regions (part of macro-fiscal policy PA P132241 and Decentralization PA)

Supporting Beam 1: The Business Climate and Functioning of Markets

As set out in the SCD, growth, jobs and poverty reduction will depend a great deal on a growth strategy that is supported by the private sector as the engine of growth. The government plays a critical role by devising and implementing appropriate policies and regulations. Whilst addressing some key constraints (such as the infrastructure and skills gap) through the various engagement areas, we see a unifying factor—a weak business and financing environment—as one that cuts very broadly across the economy and which impacts the efficiency and efficacy of many of the development solutions. The symptoms of the weak business and financing environment are evidenced by investment and trade regulations which are generally restrictive, often inconsistent (including across different levels of governments), and uncertain; obtaining permits and licenses is time-consuming and costly. Improving the business climate and markets is amongst the government’s top priorities in order to attract private sector capital that is essential for the creation of jobs and for helping to finance the country’s vast infrastructure needs. Interventions targeted to improve the business environment and the functioning of markets cut across all engagement areas including National and Local infrastructure, Energy, Maritime, and Landscape Management.

Objective 14: Simplify business licensing processes to support private sector

Intervention Logic

A combination of WBG products will be used to support the dynamic nature of private sector development and forge a productivity pull in a targeted set of business areas where conditions are propitious for high growth. In particular, WBG will focus on supporting reforms in the regulatory environment, and for high-growth firms within dynamic product and supportive factor markets.

CPF Objective Indicators

Reduction in total time required for processing of all licenses in 4 priority sectors (apparel, food, IPP, tourism)
 Baseline: 0% reduction (2015)
 Target: 20% reduction (2020)

Supplementary Progress Indicators

Reduction in total time required for processing of all licenses in IPP
 Baseline: 600 days (2015)
 Target: 300 days. (2017)

WBG Program

On Going:

- Indonesia Private Sector Development Reform Project (P144680, NLT/A, Delivery: FY17)
- Research and Innovation in Science and Technology Project (P121842)
- Sustainable Management of Agricultural Research and Technology Dissemination (P117243)

Planned New:

- SME Development (Programmatic AAA, CN forthcoming FY16Q2)
- Technical assistance for regulatory simplification to BKPM

Objective 15: Increase the role of the private sector in national infrastructure investment

Intervention Logic

The engagement to assist Indonesia in closing its large public infrastructure gap by supporting the flow of private capital into infrastructure development and improving the institutional, legal and regulatory framework to enhance the ability of private capital and public institutions to work together for infrastructure development.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>An increase in private investment in infrastructure (higher private investment) Baseline: US\$327 m (2016) Target: US\$5,000 m (2020)</p> <p>Increase in total number of international tourist arrivals Baseline: 9.44m (2016) Target: 15.0m (2020)</p> <p>Increase number of tourism-related jobs in integrated tourism destinations Baseline: TBD (2016) Target: TBD (2020)</p>	<p>A reformed regulation clarifying Perpres (presidential regulation) 75 & 38 Baseline: 0 0 (2016) Target : 1 (2020)</p> <p>An increase in privately financed infrastructure projects (projects with partial or full private sector financing, or those benefiting from a government guarantee). Baseline: 0 (2016) Target : 3 (2020)</p>	<p>On Going:</p> <ul style="list-style-type: none"> Infrastructure Finance Facility IFFF (P092218) Indonesia Infrastructure Guarantee Fund (P118916) <p>Planned New:</p> <ul style="list-style-type: none"> AF-Infrastructure Finance Facility IFFF Indonesia Infrastructure Finance Development (P157490 and P157491) Technical assistance for regulatory simplification for PPP projects IFC's PPP advisory services Capital market development, especially in area of infrastructure finance IFC's direct and indirect investments in private sector infrastructure projects
Objective 16: Enhance access to finance		
Intervention Logic		
<p>A combination WBG products will be used to support the dynamic nature of private sector development and forge a productivity pull in a targeted set of business areas where conditions are propitious for high growth. In particular, WBG will focus on supporting reforms in the regulatory environment, and for high-growth firms within dynamic product and supportive factor markets. The choice of how the support is to be designed has been sifted through three filters – visibility, impact, and capable counterparts – in order to maximize the benefit from WBG support.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Increase percentage of population with access to financial services Baseline: 36% (2016) Target: 50% (2020)</p>	<p>Increase of financial literacy Baseline: 21% (2013) Target: 2% increase per year until 2017</p> <p>Value of Financing Facilitated</p>	<p>Ongoing:</p> <p>IBRD</p> <ul style="list-style-type: none"> (P156536) Indonesia#C007 Payments Systems Upgrade (P151368) Indonesia Digital Payments

<p>Number of individuals/microenterprises reached with financial services, disaggregated by gender Baseline (2013): 1,370,000 Target (2018): 4,767,000</p> <p>Number of SMEs reached with financial services Baseline (2014): 51,500 Target (2020): 85,500</p>	<p>Baseline (2014): 0 Target (2019): US\$ 185 million</p>	<p>IFC</p> <ul style="list-style-type: none"> • Earth Quake Index Insurance (EQII) for Microfinance Portfolio Protection (#599136; Finance and Markets) • Environmental & Social Risk Management for Financial Institutions (#591447; Financial Institutions Group) • Indonesia Corporate Governance Project (#590107; Environment, Social and Governance) • Indonesia Financial Infrastructure - Secured Transactions (#597607; Finance and Markets) • Indonesia M Banking 2 Digital Inclusion (#600401; Finance and Markets) • Partial Credit Guarantee for PT Ciputra Residences' bond • IFC's investments and advisory support for various private sector clients <p>Planned New:</p> <ul style="list-style-type: none"> • Indonesia Financial Infrastructure - Credit Reporting (#598967; Finance and Markets) • Indonesia Microfinance (#599772; Financial Institutions Group) • Indonesia Mobile Banking Phase 2 (Digital Financial Inclusion) (#599875; Financial Institutions Group) • Capital markets development program • IFC investment support for private companies to issue bonds or stocks on capital markets
--	--	--

Supporting Beam 2: Shared Prosperity, Equality, and Inclusion

Definition of focus area: All the policies supported by the CPF engagement areas, if designed and implemented properly, can significantly contribute to the twin goals. However, dedicated policies are also needed now to protect today's poor and vulnerable and to help them move into productive lives. Indonesia has been building a safety net system since the 1997 Asian Financial Crisis, but coverage remains low and benefits too small to make a sustainable difference. Indonesia is now implementing one the largest social security reforms in the world, but coverage is still very limited, with fraud and corruption already apparent; high employer contributions are being compounded by high minimum wages and severance pay that are hurting formal employment. Policies to help move the poor out of poverty into productive lives, such as through the provision of credit and savings and employment support, are very limited, but the new government has made them a priority, as are complementary policies to promote the creation of more productive jobs.

Links between the focus area and the twin goals: Eliminating extreme poverty and boosting shared prosperity require applying a poverty and inequality lens to government policies across the board along with dedicated policies to protect the poor and to help them move out of poverty into productive lives.

Country Development Goals: An overarching goal of the RPJMN is to achieve inclusive growth and development. One of the three development dimensions of the RPJMN is territorial and equity, which includes policies to ensure that development is equally shared among income groups and regions.

Objective 17: Improve social protection programs for the poor and vulnerable

Intervention Logic: This objective will be supported through primarily knowledge services: (i) poverty and inequality focus: analysis of poverty and inequality in general, and support to specific policies and programs supported by the CPF to improve on poverty and inequality reduction; (ii) safety nets: development of common systems for social assistance programs through targeting and payments, reform the Rice for the Poor Program (Raskin) to improve access of the poor to nutritious foods, and the expansion and improvement of Indonesia's Conditional Cash Transfer program (PKH); and (iii) social security: design, finance and build capacity to manage the SJSN employment programs, safeguard the system against error, fraud & corruption (EFC) and high labor taxes, as well as introducing M&E system and socializing the employment programs.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Number of households benefiting from PKH, disaggregated by gender</p> <p>Baseline: 3 million (2016)</p> <p>Target: 6 million (2020)</p>	<p>Strategic paper to inform the expansion and improvement of PKH prepared.</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2018)</p> <p>Strategic paper for digitalizing payment of social assistance benefits prepared.</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2018)</p>	<p>On Going:</p> <ul style="list-style-type: none"> Partnership for Knowledge-based Poverty Reduction PAAA (P132247) Strengthening Indonesian Statistics Project (STATCAP) Consumption Module Simulation SUSENAS (P153589) Social assistance reform TA (P117975)

<p>Increase in the number of social assistance beneficiaries (households) receiving payments digitally</p> <p>Baseline: 1 million (2016) Target: 7 million (2020)</p>	<p>Introduce dynamic updating of the Unified Database (used for poverty targeting)</p> <p>Baseline: No (2016) Target: Yes (2018)</p> <p>Guidelines and action plan for improving system to prevent, detect and correct EFC developed and implemented.</p> <p>Baseline: Yes (2016) Target: No (2020)</p>	<ul style="list-style-type: none"> • Social Security PAAA (P144677) • (P151.368) Indonesia Digital Payments
<p>Objective 18: Support creation of and access to productive jobs</p>		
<p>Intervention Logic</p> <p>Inclusion and sharing prosperity will require more productive jobs. Given its importance as a pathway identified in the SCD, interventions that support that objective are included throughout the CPF engagement areas. This objective will be further supported through dedicated knowledge services, focusing on (i) addressing the bottlenecks of reallocating workers to more productive activities; (ii) improving the skills of the workforce; (iii) improving access of the poor and vulnerable to productive employment through graduation programs; (iv) improving worker protection without discouraging formal employment; (v) improving the protection and quality of employment of Indonesians migrating abroad; and (vi) developing the financial infrastructure to increase access to credit, savings and insurance among the poor and vulnerable across Indonesia.</p> <p>IFC expects to provide financing to banks and financial institutions to extend their support to micro, small and medium enterprises, helping to create livelihoods and jobs for poor people. IFC will also continue to work with larger corporations in infrastructure, manufacturing, food products and services sectors to support them in securing jobs, procuring raw materials and producing high quality goods for the poor people through its focus on inclusive business models.</p>		
<p>CPF Objective Indicators</p> <p>Number of jobs supported ³¹ Baseline (2015): 4,700 Target (2019): 6,790</p>	<p>CPF Objective Indicators</p> <p>Formula-based minimum wage setting introduced. Baseline: TBD (2016) Target: TBD (2020)</p>	<p>CPF Objective Indicators</p> <p>On Going:</p> <ul style="list-style-type: none"> • Jobs PAAA (P146480) • PAAA Financial Sector Development • Social assistance reform TA (P117975)

³¹ through IFC and MIGA investments

	<p>System for monitoring job informality established. Baseline: TBD (2016) Target: TBD (2020)</p>	<ul style="list-style-type: none"> • Indonesia#C007 Payments Systems Upgrade (P156536) • Indonesia Digital Payments (P151368) • IFC IFC's investments and advisory support for various private sector clients • MIGA- Rajamandala Hydropower IPP (guarantee issuance of US\$200 million) <p><u>Planned New:</u> IFC:</p> <ul style="list-style-type: none"> • Indonesia M Banking 2 Digital Inclusion (#600401; Finance and Markets) • Agricultural Finance AS to Bank Muamalat (#600480; Financial Institutions Group) • Danamon Agriculture Finance (#600755; Financial Institutions Group) • Indonesia Agribusiness Business Development (#600483; Manufacturing, Agribusiness & Services) • Indonesia Responsible Microfinance (#601066; Finance and Markets) • FHP Indonesia II (#36865, Collective Investment Vehicles, \$40m)
--	---	---

TBD: to be determined

ANNEX 2: KEY MACROECONOMIC INDICATORS

	2012	2013	2014	2015f	2016f	2017f	2018f
Real Economy	<i>Annual percentage change, unless otherwise indicated</i>						
Real GDP	6.0	5.6	5.0	4.7	5.3	5.5	5.5
Per Capita GDI (in US\$ Atlas Method)	3,599	3,759	3,654	3,515	3,514	3,662	3,998
Contributions to GDP growth (ppt):							
Consumption	3.5	3.6	3.1	2.8	3.1	3.3	3.3
Investment	2.9	1.7	1.3	1.2	1.6	1.9	1.9
Net exports	-1.5	0.6	-0.3	0.7	0.3	0.0	0.0
Imports (real growth)	8.0	1.9	2.2	-3.2	3.6	5.9	6.2
Exports (real growth)	1.6	4.2	1.0	-0.2	4.7	5.7	5.9
Unemployment rate (ILO definition)	6.3	6.1	5.9	..	..	..	..
GDP deflator (avg.)	3.8	4.7	5.4	4.9	5.3	4.6	4.5
CPI (avg.)	4.0	6.4	6.4	6.8	5.5	5.0	4.8
Fiscal accounts*	<i>Percentage of GDP</i>						
Expenditure	17.2	17.3	16.9	17.0	16.6	..	..
Revenue	15.4	15.1	14.7	15.1	14.5	..	..
General Government Balance	-1.8	-2.2	-2.2	-1.9	-2.1	..	..
General Government Debt	23.0	24.9	24.6	25.2	25.3	..	..
Selected Monetary Accounts	<i>Annual percentage change</i>						
Base Money (M2)	15.0	12.8	11.9	..	..	..	..
Credit to non-government (eop)	22.4	22.1	14.2	..	..	..	..
Interest (key policy interest rate), eop	5.8	7.5	7.8	..	..	..	..
Balance of Payments	<i>Percentage of GDP, unless otherwise indicated</i>						
Current Account Balance	-2.7	-3.2	-2.9	-2.0	-2.6	-2.7	-2.7
Imports	23.2	23.2	22.7	20.0	20.2	19.7	21.1
Exports	23.0	22.5	22.4	20.7	20.3	19.6	20.6
Direct Investment (net, in billion US\$)	13.7	12.2	15.5	10.9	12.4	13.4	14.6
Gross Reserves (in million US\$, eop)	112.8	99.4	111.9	108.0	113.0	121.0	133.0
Months' import cover (goods)	7.6	6.8	8.0	9.1	9.0	9.0	9.2
As % of short-term external debt	206.4	176.6	188.8	185.5	178.8	175	182.4
External Debt	27.5	29.2	33.1	35.5	36.3	35.9	34.4
Term of Trade (index 2008=100)	94	81	85	..	..	..	..
Exchange Rate (average) IDR/US\$	9,387	10,461	11,865	..	..	..	..
Memo items							
GDP nominal in (in billion US\$)	918	910	889	863	916	1,012	1,116

Note: Using revised and 2010-rebased GDP. * Fiscal accounts are based on revised 2015 Budget and draft 2016 Budget. ** 2015 and 2016 are World Bank staff projection based on the Government's primary deficit targets. Source: MoF as published by the MoF.

Source: BPS; Ministry of Finance; BI; World Bank staff projections.

ANNEX 3. COMPLETION AND LEARNING REPORT

CPS Board Discussion:	December 13, 2012
CPS Progress Report (Board Presentation):	May 29, 2014
Period Covered by CPS Completion Report:	FY13-15

INTRODUCTION

1. **This Country Partnership Strategy Completion and Learning Report (CPSCLR) reviews the experience of implementing the FY13–15 World Bank Group Country Partnership Strategy (CPS) for the Republic of Indonesia (Report No. 72906, Date: December 13, 2012).** The document provides a self-assessment of: (i) the extent to which the CPS was successful in achieving its stated objectives; (ii) the WGB performance in terms of the design and implementation of the program; (iii) the CPS contribution to the Corporate Twin Goals of eliminating poverty and boosting shared prosperity of the bottom forty percent of the population; and (iv) lessons learned from the implementation of the CPS program that should be considered during the preparation of the new Country Partnership Framework FY16-20. In addition to discussions with the country team and Government counterparts, this assessment is based on reference documents such as the CPS, the CPS Progress Report, Project Appraisal Documents, Implementation Status Reports, ICRs, supervision reports, and reports related to Economic and Sector Work. The findings of the CPSCLR have informed the preparation of the FY16-FY20 CPF.

SUMMARY OF KEY FINDINGS AND RATINGS

2. **The CPS was prepared in FY12 on the heels of a decade long period of growth, supported by a boom in commodity exports and increased capital inflows. Output growth averaged 5.5 percent per year from 2002 to 2012, on the back of strong domestic consumption and generally robust growth in primarily commodities exports.** Strong economic growth supported gains in poverty reduction and contributed to a growing middle class. Prudent economic management resulted in low budget deficits, a much reduced public debt-to-GDP ratio, and manageable inflation.

3. **These tail winds, however, were beginning to turn during the CPS period and the possibility of finding itself unable to maintain momentum and escaping the middle-income trap became a growing threat for Indonesia.** Despite the significant gains in poverty reduction, Indonesia still has a poor population of 30 million (almost 12 percent) below the national poverty line (PPP\$1.25 a day) and amongst the highest rates of growth in inequality in the region as measured by the Gini co-efficient. Regulatory constraints, limited access to finance (particularly among small and medium size enterprises), and large infrastructure gaps were limiting the potential of the private sector to generate jobs while the education system was not able to supply the skills needed to meet the demands of the market. Fuel subsidies absorbed budget that might otherwise be available for infrastructure and social spending. Public spending and indicators on health were significantly below comparators and the poor were particularly vulnerable to health shocks. Financial markets remained vulnerable to changes in international investor sentiment, as witnessed by the macro turbulence experienced during the second semester of 2013. Poor

governance and capacity to implement were a drag on effective spending and delivery of services and infrastructure particularly as the economy slowed. Additionally, the period of strong growth had been at the cost of significant environmental degradation and accelerated depletion of Indonesia's natural resource base. The adverse social consequences of this "brown growth model" were showing in the vulnerability of particularly poor households to environmental shocks and natural disasters ranging from flooding in urban areas to forest fires and land use disputes in rural space to overfishing, marine pollution and coastal ecosystem degradation.

4. **The FY13-15 CPS was aligned with the Government's development priorities identified in the Medium Term Development Plan (2010-2014) and was anchored around themes of pro-growth, pro-jobs, pro-poor and pro-green.** Together with the cross cutting themes of gender and governance, these focus areas aimed to support government efforts in addressing Indonesia's key development challenges in collaboration with the private sector including (i) boosting growth and job creation by facilitating the supply response to a rising middle class and urbanization (pro-growth and pro-jobs agenda); (ii) accelerating the pace of poverty reduction and providing greater economic security for the vulnerable so that growing prosperity could be shared more widely (pro-poor and pro-jobs agenda) and (iii) enhancing sustainability in natural resource management (pro-green agenda).

5. **The CPS Overall Development Outcome is rated Moderately Satisfactory.** This rating is based on an aggregate assessment of the achievements under the four pillars and 15 result areas as well as the individual outcomes which formed the basis of the CPS Results Framework (Attachment 1). The program proceeded largely as anticipated and the CPS remained relevant to the country's development challenges in promoting poverty reduction and shared prosperity.

6. **The overall rating of the WBG performance is Good.** Building up on its six-decade long partnership, the WBG maintained its strong collaboration with the GoI and the development partner of choice. The Bank's work program was focused on delivering the CPS objectives, the majority of which were either mostly or partially achieved as measured by the results framework. The Bank Group delivered financial products (lending, equity, debt and guarantees), knowledge services and technical assistance which it managed in a flexible way in order to maximize development impact to the extent possible. A number of flagship knowledge products (including but not limited to Development Policy Review; Indonesia Economic Quarterly, Smallholder Survey for the Palm Oil Sector, Inequality and Shared Prosperity, Teacher Quality, Education Financing, Protecting Poor and Vulnerable Households in Indonesia, Targeting Poor and Vulnerable Households in Indonesia) as well as long-term engagements in programs such as the PNPM program which were able to influence the technical aspects of the implementation of the Village Law, were particularly relevant and directly impacted the formulation of government policy even beyond what was set out in the Results framework.

7. **Although the CPS preceded the articulation of the Corporate Twin Goals, the WBG engagement in Indonesia over the CPS period was closely aligned with the Twin Goals of eliminating extreme poverty and boosting shared prosperity.** Indeed, the Development Policy Review and the Systematic Country Diagnostic that were prepared in the second half of the CPS implementation period explained the limited window of opportunity for Indonesia to reach high per capita income levels. To keep up with a young population entering the labor market, Indonesia’s economy must create some 2 million new jobs annually and will need an accelerated growth path of some 8 percent over the coming years. Accordingly, the SCD identified three pathways (private sector led growth and job creation; service delivery and opportunity for all; natural resource management) and seven priority reform areas. The CPS areas are broadly consistent with these 3 pathways and provide a degree of continuity in the new CPF in terms of WBG focus areas to advance progress towards the twin goals.

8. **There are a number of lessons from the interim FY13-15 CPS to be applied to the FY16-20 CPF.** These include the importance of alignment with the country's priorities in a selective way, identification of reform champions through dialogue and partnership with a broad range of stakeholders including the private sector, maintaining a clear focus on a more limited number of areas where impactful results can be achieved, the value of combining knowledge products for reform and financing, as well as of combining WBG’s complementary products and services across the three institutions—IBRD, IFC and MIGA – in improving the chances for achievement of results. These are articulated later in this CLR.

II. CPS DEVELOPMENT OUTCOME

The overall CPS Development Outcome is rated *Moderately Satisfactory* according to the ratings per pillar in the table below.

Outcome Rating by Pillars				Development Outcome Rating
Pillar 1	Pillar 2	Pillar 3	Pillar 4	
Moderately Satisfactory	Satisfactory	Satisfactory	Moderately Satisfactory	Moderately Satisfactory

Pillar I. Pro-Growth: Rated Moderately Satisfactory

Objective: Promoting Prosperity

9. **Under this engagement area, the WBG objective was to support development results to promote prosperity and growth across multiple sectors.** This included results in macroeconomic stability and financial crisis management, the quality of public spending and financial management, increased financial access, improved competitiveness and innovation at the macro level and also within individual private companies, connectivity and logistics performance, and investment in infrastructure including through the leveraging of private sector participation. Although there were some notable successes under this pillar, the results were not uniform across all these areas. This has led to an objective rating of *moderately satisfactory* (see description of

achievements and performance ratings against pro-growth indicators in Sub-annex 3.1a).

10. **Development milestones to promote prosperity were mostly met.** Macroeconomic management was broadly sound. The financial sector was strengthened through a variety of WBG lending and knowledge services which supported stability and crisis preparedness, as well as diversification and financial inclusion. Banking sector indicators remained sound with LDR at almost 90 percent in September 2014, above the target of 80 percent. With support from the WBG, Indonesia's Financial Services Authority (OJK) became fully operational during this CPS period. The Financial System Stability Coordination Forum (FKSSK) was established and met on a monthly basis. During the CPS period, the Bank's knowledge services and policy dialogue (referenced also under the Pillar "Pro-Poor"), the Bank was able to help the new Government in November 2014 usher in one of the most significant policy reforms in reallocation of budget resources away from US\$2.8 billion annual fuel subsidies to temporary and long-term social assistance programs and productive investment in infrastructure.

11. **In support of macro stability and crisis management, the IBRD was the lead development partner in a contingency fiscal financing package called Program for Economic Resilience, Investment and Social Assistance (PERISAI) – a DPL-DDO which lasted throughout the CPS period (closing December 2015).** The DDO has been a major contributor in helping GOI weather the financial crisis with the Bank providing \$2 billion in an overall package with ADB, Australia and Japan of US\$5 billion. In addition, with knowledge services provided by IBRD, GoI was able to maintain continued access to market financing with net securities issuance reaching more than 100 percent of the target based on the revised budget in December 2014. In the event of a crisis, the Government was on track to use provisions in the Budget Laws to revise expenditures and/or financing sources under streamlined parliamentary approval process. To strengthen the balance sheets of companies in the private sector, IFC introduced long term financing including through equity injections. This was especially beneficial to the financial services sector with several banks such as PT Bank Danamon Tbk, PT Bank Tabungan Pensiunan Nasional Tbk, PT Bank Mayora took advantage of IFC's longer term loan financings. IFC also continued to support the country's digital financial inclusion agenda by assisting the OJK in launching branchless banking reforms and in convening private sector institutions to develop common codes for transactions.

12. **The WBG supported the connectivity agenda through development policy lending (Connectivity DPL series), knowledge and advisory services, and support to the private sector.** While there were some indications of marginal improvement—Indonesia's Logistics Performance Index (LPI) ranking was improved to 53 in 2014 from 59 in 2012 and broadband penetration rate deepened and is expected to reach the target of 30 percent by end of CY2015, and IFC provided financing to one of the leading telecommunication tower companies in Indonesia to improve telecom and internet connectivity in remote islands, these successes were largely overshadowed by the inability to make a larger scale impact. Overall Indonesia's logistics sector continued its poor performance and has acted as a significant drag on the economy, discouraged investment in manufacturing and failed to improve in order to have a positive impact on equality, jobs and growth.

13. **Outcomes in relation to improving the overall environment for the private sector were mixed.** Whilst the IBRD and IFC joint support for the Indonesia Infrastructure Financing Fund (IIFF) was a notable success of the CPS period, the support of WBG for the creation of institutions and agencies to facilitate PPPs failed to make an impact. No PPP was launched in Indonesia during the CPS period. In terms of the business environment, Indonesia was able to improve its ranking in Doing Business to 114 in 2015, compared to 128 in 2013. At the same time, however, the CPS period witnessed a general deterioration in terms of trade policies and the regulatory environment.

WB SUPPORT TO PPPs

Despite intensified effort during the CPS period through TA delivered through the Bank and advisory services by IFC, the PPP framework remains underdeveloped and has not been able yet to leverage the private sector to support any PPP vehicle. To illustrate, GOI established the Perpres 66/ 2013 and the 3rd amendment of the Perpres 67/ 2005 concerning PPP process, the application manual of VGF (MOF Decree No. Permen 143/ 2013), the establishment of the KPPIP (through the Perpres 75/ 2014), and through the KPPIP has identified 56 projects for funding through PPP schemes, defining 22 of them as priority projects, for a total value of US\$51.2 billion in the period 2010-15. By 2012, however, only three projects were considered “ready for offer” and none of these have come to fruition.

Key Challenges:

- While the institutional and legislative developments have laid the foundation for a PPP framework, and include a set of critical PPP supporting instruments, the PPP framework requires higher-level convening power in order to become functional.
- Significant capacity constraints at all levels of government vis-à-vis project structuring, implementation and monitoring hinders progress on the PPP framework implementation, deals preparation and award.
- Land Acquisition is a major obstacle. Without faster and less conflict-ridden acquisition of land, implementation of both public and PPP infrastructure projects will remain uncertain and costly, and result in significant delays.

Key Lessons:

- Not having a clearly designated lead agency, tasked with moving the PPP agenda forward can create implementation risks.
- Lack of coordination among the central and local Governments and between ministries will slow down deal closure.
- Low GCA capacity results in poor project selection and preparation.
- Lengthy and unclear process of land acquisition will likely continue hinder implementation of infrastructure projects.

14. **The Bank’s support for public financial management (PFM) had a number of positive outcomes.** The DPL series of Institutional, Tax Administration, Social and Investment (INSTANSI), which concluded in December 2014, was instrumental in helping MoF strengthen financial management and budget processes in collaboration with other development partners including the EU, the Netherlands, and Switzerland. These improvements include development and use of medium-term budget forecasting tools, M&E processes to inform future budget allocations and regulations for accrual based accounting policies and chart of accounts. The roll out of the automated treasury payment and budget preparation information system (SPAN) in February 2015, after more than five years of effort, was a milestone. Other work with the procurement agency strengthening, improving e-procurement, limiting the use of unnecessary pre-qualification, and improving the capacity of the audit agencies have all contributed to PFM goals.

15. **The local government area focused on strengthening capacity and accountability of local government institutions and increasing the level and impact of public spending on service delivery.** The subnational PFM program, Public Expenditure Analysis and Capacity Harmonization (PEACH), closed in August 2014 delivering six provincial updated PERs and the Sulawesi Development Diagnostics. The ongoing Local Government and Decentralization Project (LGDP/DAK), as well as the Additional Financing for LGDP/DAK, delivered during the CPS period supported improved quality of public spending on infrastructure at the local level. The 2014 mid-term evaluation for LGDP found that the performance-based design of the program incentivized participating local governments to increase matching capital investment from own-sources at a much higher rate than non-participating local governments. In the last year of the CPS a well-targeted set of subnational service delivery support initiatives, including using tools (RAAP and MiGestion) and global experience from the LCR region, were initiated. These are expected to continue in the next CPF.

16. **In the infrastructure sector^[1], there were some notable successes in the WBG program.** A number of projects, including Pamsimas and PNPM programs, reached their objectives in providing community level infrastructure, water and sanitation with satisfactory technical quality and usually at very significant savings compared to the costs if done by private contractors or through national level infrastructure programs. Under the PAMSIMAS program, access to clean water and sanitation, a major cause of child stunting in Indonesia, advanced substantially with some 7.8 million more people provided with water and 7.62 million people with improved sanitation through the program. IFC also arranged financing of US\$85 million for a private sector operator providing clean water to public water utilities. Similarly, the PNPM Urban program reached 5.5 million household beneficiaries and provided 9,115 kilometers of roads, 3349 km of drainage and irrigation canals, 131,520 units of solid waste and sanitation facilities, 1,497 community health facilities, 85,437 reconstructed poorest houses in thousands of urban wards across the country. In the water resource sector, WISMP 2 made seven national and provincial basin agencies fully functional and increased irrigated areas by 177,363 hectares. The Dam Rehabilitation project (DOISP) finalized 22 dam portfolio risk assessments and established 56 government dam portfolio management programs. In transport, a roads project (WINRIP) improved the average passenger time by large buses by 19.5% and by heavy truck by 17.5%. In flood control in Jakarta, JUFMP although still under implementation has so far removed 1,988,020 meters cubic of sludge from floodways, canal, and retention basins, repaired 29 km of embankment and 15.8 km of canals.

17. **IFC also had success through its investment in individual companies associated with providing private sector finance for infrastructure.** This included a hydro power project and an under-development wind farm project. IFC also successfully assisted PT Indonesia Infrastructure Finance Tbk in raising commercial financing from international banks for the first time. A number of flagship knowledge products were highly relevant in support of government reform areas. This included work related to helping the country move to a lower-carbon future by making better use of its renewable energy sources in geothermal and hydro and it gas. In terms of knowledge services, work related to access to affordable land and housing for the poor and

^[1] The CPS structure and the Results Framework included several of the infrastructure projects under the Pro-Poor pillar. For the purposes of the CLR these projects are evaluated under the Infrastructure results area of the Pro-Growth pillar to provide a more balanced view of the WBG's engagement in the infrastructure sector.

vulnerable living in Indonesia's cities helped inform GoI policies and programs with a view towards increasing the access of affordable land and housing for poor and vulnerable Indonesians. Although it is still too early to show results, the launching of a programmatic Sustainable Urbanization AAA that will inform GOI policies and programs on the issue of urban infrastructure gaps particularly in transport systems, water supply and sanitation, drainage, urban flood and disaster risk management, slum upgrading and informal settlements and solid waste management.

18. On the other hand, chronic delays in infrastructure project implementation limited the results during the CPS period. In particular, the CPS results framework measured the decrease in power interruption as a proxy for energy outcomes and in this the CPS missed its target. Despite a relatively large number of power sector projects in the IBRD portfolio, all were still under implementation during the CPS period and were not yet yielding significant results. Because the CPS framework had only 5 indicators related to infrastructure, with many of these included in the pro-poor pillar, it is somewhat difficult in this CLR to measure well the cumulative impact of the infrastructure program on Pillar 1 of the CPS.

19. As discussed in the DPR and the SCD, Indonesia's overall investment in infrastructure reached only 3-4 percent of GDP during the CPS period. Moreover, the level of the investment that was made generally did not have a commiserate impact on the provision of infrastructure in the sector. For example, nationally, spending on roads increased three fold, but only 20% additional kilometers of roadway were constructed. Similar results were found in water and sanitation with the overall percentage of the urban population's access to clean water dropping despite increases in spending. This situation, well documented in the DPR and the SCD, was the result of a combination of issues including inadequate project preparation and technical design, poor coordination, particularly across ministries or between central and local governments, slow procurement processes, governance challenges, and particularly extreme difficulty in land acquisition despite the issuance of new regulations. Challenges to private sector investment in infrastructure, discussed above, was another binding constraint and contributor to the growing infrastructure gap. Several ongoing Bank-financed infrastructure projects suffered from many of these same constraints including experiencing extremely prolonged periods of virtually no disbursement whilst line ministries or SOE implementing agencies completed project preparation and procurement. Lack of coordination across different layers of Government caused delays in road and irrigation construction as did problems with land acquisition and procurement in power and transmission. The lessons learnt from these challenges will be a core part of the design and implementation of the future CPF particularly given its strong infrastructure focus.

Pillar II. Pro-Jobs: Rated Satisfactory

Objective: Enhancing Skills and Technology, and Improving Social Protection

20. The pro-jobs pillar complements that of the pro-growth pillar to focus on human capital development to reduce a large skills gap. While sustained growth can work to absorb more workers into the market and investment can enhance the equity of growth, improving human development is fundamental for increasing labor productivity and shared prosperity. The share of the population of productive age relative to older people is large in Indonesia, and will remain so for the next 15 years. This demographic dividend presents a window of opportunity but also one

of Indonesia's greatest challenges. The focus of WBG engagement was to support strengthening the overall governance and management of the education system, improving the education quality and performance of teachers, enhancing human resource capacity in R&D, and facilitating the institutional transformation required to implement a nation-wide social insurance reform. Overall rating for the pro-jobs engagements is *satisfactory* (see description of achievements and performance ratings against pro-jobs indicators in Sub-annex 3.1b).

21. IFC and MIGA had a direct role in job creation through engagement with individual companies and support to the SME sector. IFC in addition to its support for access to finance, worked directly with manufacturing companies that generated good quality jobs as well as with SMEs to develop supply chain linkages. IFC's financing for food products companies had links also to hundreds of thousands of small retail and trading chain partners for these companies. IFC financing to banks such as PT Bank Danamon Tbk and PT Bank Mayora were to expand their SME financing, whereas to others such as PT Mitra Bisnis Keluarga Tbk and Bank BTPN was for expanding their microfinancing operations. IFC also provided equity support to PT Blue Bird Tbk, the leading taxi services operator in Indonesia which provides employment to tens of thousands of near poor drivers. MIGA had three active projects guaranteed for investment during the CPS period: the Rajamandala Hydropower IPP (guarantee issuance of US\$200 million), the PT Natrindo Telpon Selular Network Rollout (guarantee issuance of US\$450 million) and the PT Weda Bay Nickel (guarantee issuance of US\$207 million).

22. The WBG also supported government efforts to increase access to quality education and training. Education has been a development priority for the Government, with public spending in education reaching 20 percent of the total budget. While Government made significant strides in education access and equity, the quality of education remains low and unevenly distributed across regions. Through a program of knowledge services, supported primarily by the Netherlands and the EU, the WBG helped to identify challenges and develop solutions to improve the quality and management of teachers, education financing and the local delivery of education services, which were incorporated in the 2015-2019 RPJMN. The BERMUTU project, which supported the implementation of the Teacher Law, contributed to increasing the number of teachers with at least S1 (bachelor) degree by more than 800,000 by the end of CY2015, well above the target. The WBG also helped the government develop a blueprint for reforming the skills training system in order to address the skills shortage in the short term. The Bank's intervention in quality and affordable Early Childhood Education and Development (ECED) targeted local level service delivery concentrating on 6,000 ECED centers in 3,000 poor villages, increasing preschool enrollment and school readiness, particularly among poor children. During this CPS period, two operations—RISET and SMARTD—were initiated to support research and innovation and to enhance technology development and uptake. Both operations are on track to reach their targets to enhance staff capacity but it is too early to judge the impact of either operation on the pro-jobs agenda. Overall, whilst improvements in educational quality in the country are lagging, the analytic work undertaken by the Bank has provided the data and set the agenda for the next 5 year period.

23. A notable achievement of the Bank's program under the pro-jobs pillar was in the area of social security reform. GoI is attempting a reform which will be amongst the biggest in the world and requested that the Bank assist it through a large program of knowledge services

supported by Australian trust fund financing. The national social security reform (SJSN) aims to provide national health insurance to all Indonesians (by 2019) and cover all workers under the national employment programs (pension, old age savings, work accident, death) at the latest by 2029. During the CPS period, the Bank worked with multiple government ministries and agencies, building capacity and contributing to the development of the roadmap for the implementation of the SJSN. Continuation of this work will be an important part of the Inclusion agenda in the next CPF.

Pillar III. Pro-Poor: Rated Satisfactory

Objective: Promoting Communities, Protecting the Vulnerable and Improving Their Health Outcomes

24. **This pillar was focused on targeted interventions to improve the social welfare of the poor and vulnerable through livelihoods and access to finance and services.** Policy reform efforts supported by the Bank were aimed at improving the effectiveness of poverty reduction programs and addressing the problems associated with high levels of vulnerability by improving and extending safety nets. The WBG aimed to support development results that would enhance the design and performance of household-targeted and community development programs, improve food security through interventions in the private sector, improve health and nutrition outcomes through improved access to quality health care, including maternal and child health services, enhanced HIV/AIDS surveillance, and increased access to safe water and sanitation. The overall rating for the pro-poor pillar is *satisfactory* (see description of achievements and performance ratings against pro-poor indicators in Sub-annex 3.1c).

25. **Development outcomes mostly achieved during this CPS period with the poverty targeting component as the top performer.** Through an extensive knowledge services engagement and with support from the INSTANSI DPL, the Bank helped the government to adopt and implement reforms which were proposed in the flagship report, Targeting Poor and Vulnerable Households in Indonesia released in 2012, a series of ‘just in time’ policy notes, the Development Policy Review and a long-term dialogue established between the Bank and the Ministry of Finance. By bringing together the Bank’s high quality macroeconomic policy support with its technical assistance in creating a unified database of more than 24 million poor and vulnerable households, the Bank was able to help the new Government in November 2014 usher in one of the most significant policy reforms in reallocation of budget resources away from US\$2.8 billion annual fuel subsidies to temporary and long-term social assistance programs and productive investment in infrastructure. Coverage for BSM (financial assistance for poor students) doubled from 8.7 million to 16.6 million beneficiaries, coverage for the PKH (conditional cash transfers) expanded from 1.5 million households in 2012 to 3.2 million households by 2014, and 15.5 million social protection cards were distributed to households extracted from the unified database. Assistance was also being provided to government partners to mitigate household vulnerability by developing a permanent shock/crisis monitoring system. The WBG also helped to develop a national crisis monitoring system to improve responsiveness to shocks. Finally, a major study on inequality and shared prosperity was completed, informing government policies to reduce inequality.

26. **The community-based PNPM programs—Rural, Urban and Generasi—that began over a decade ago and expanded across every rural and urban community during the period of the CPS continued to anchor the WBG’s efforts in improving sub-district and village level governance, quality of service delivery, and socio-economic conditions in rural and urban areas.** With the support of the WBG and other development partners, especially the Government of Australia, PNPM has been an effective platform for channeling development resources, empowering communities and ultimately improving socio-economic conditions in the villages and urban districts where it operates. PNPM demonstrated that quality and cost effective investments in infrastructure and service delivery could be achieved by funneling financing from the central government to the local level by embedding facilitation and community participatory processes in the planning, budgeting, and implementation of activities. PNPM provided the basis for the new Village Law, which the WBG has begun to help implement under the CPS period although the deeper engagement in this area will fall into the new CPF period. The Village Law aims to substantially increase the resources available to and responsibilities of villages while strengthening the systems developed by PNPM to maximize the impact of those resources on rural development. Targets set for direct participation of community members, women involvement in decision-making, and improved community access to and utilization of health and education services in targeted areas were broadly achieved or exceeded.

27. **The delivery towards enhanced food security during this CPS period came primarily through interventions with the private sector supported by IFC.** Knowledge services in FY13 were used to identify (i) the causes of palm oil smallholder productivity gaps and potential solutions; (ii) current company practices and guidance for community engagement and investment in the sub-sector; and (iii) best practices and funding models to assist smallholders to access certified markets. The WBG joined the Partnership for Indonesian Sustainable Agriculture (PISAgro) with IFC leading the working group on agri-finance, and engaging a partner bank to provide a credit package for cocoa smallholders to increase productivity and farmer income. A Country Situation Analysis (CSA) for engagement in the palm oil sector was initiated to explore sustainable practices for small farmers. A Canadian supported Agribusiness Program was established at IFC for working with private banks to implement a rural business model to manage agricultural risks integral to small farmers and rural business markets. Implementation of the Bank’s Water Resources and Irrigation Management Project II, noted in the infrastructure section under the Pro-Growth pillar above, made seven national and provincial basin agencies fully functional and increased irrigated areas to 177363 hectare.

28. **The WBG supported, through knowledge services and financing, government efforts to improve health outcomes** particularly in the latter part of the CPS implementation period. Government introduced in January 2014 the National Health Insurance Program (JKN), which aims to provide universal health insurance by 2019. A major WBG study identified significant gaps in primary health facilities, both in terms of inputs and human resources including key services to address the persistent high levels of maternal mortality and child malnutrition. This analysis and the policy recommendations that emerged from it have substantially informed the 2015-19 RPMJM as well as ongoing efforts to increase public funding for health and to improve health service delivery. Through the HPEQ project, the WBG helped develop the first competency-focused accreditation system for health training institutions, with 168 schools being accredited by the end of CY14 and improvements in the percentage of graduates that pass the national

competency test. Through its support to PNPM Generasi, the WBG supported the improvement of maternal and child health throughout 5,400 villages. As mentioned in the infrastructure section of “Pro-Growth”, the WBG supported major progress in the provision of clean water and sanitation which has a direct impact on health outcomes particularly given the prevalence of open defecation in Indonesia.

29. **In the case of access to finance**, the WBG’s long-term engagement with Bank Indonesia and OJK resulted in the almost doubling of universal financial access from 20% in 2011 to 36% in 2014 (FINDEX database). The WBG was instrumental in assisting the GoI to re-design its basic savings account (Tabungan-Ku) and the launch of a basic micro-insurance product. Seven million new accounts were established in the first few months after the launch.

Pillar IV. Pro-Green: Rated Moderately Satisfactory

Objective: Ensuring Sustainable Green Growth and Improving Disaster Resilience

30. **Indonesia is well-endowed with natural capital and is a steward to some of the world’s greatest terrestrial and marine biodiversity.** However, its natural wealth, resources, and quality of life are increasingly threatened by rapid, unsustainable development compounded with over-exploitation of forests and marine ecosystems. Indonesia’s total greenhouse gas emissions are estimated to account for over six percent of the global total. Forestry and land use emissions are by far the largest source. Indonesia’s emissions from energy consumption are also growing. Severe and annual forest fires, connected with the largely illegal clearing of forests and draining of peat lands, have immensely negative economic, health, and environmental impact on Indonesia and neighboring countries. Insufficient investment in institutional capacity, corruption, and inconsistent policies and practices, are contributors to these problems.

31. **WBG engagements during the CPS period sought to promote sustainable green growth, climate change adaptation and mitigation, and disaster risk resilience.** Bank programs were designed to promote sustainable natural resources management, mainstream adoption of green growth parameters across core growth sectors, uptake of sector specific climate change adaptation and mitigation efforts and disaster risk management actions aimed at reversing the negative consequences that have plagued the poor and vulnerable living in rural (in particular forest dependent communities and fisher and coastal communities, both amongst the poorest of the poor in Indonesia) and marginal urban areas.

32. **Development targets set for the disaster risk management engagement were largely achieved.** Six mid-sized cities and four high risk provinces mainstreamed adaptation and resilience measures into their respective urban development, investment, and community driven development programs. Resilience was also mainstreamed in the government funded school rehabilitation program through the formulation of technical guidelines and building capacity on earthquake resistant construction. The government-led disaster management fund (IMDFF-DR) is on track as a mechanism to institutionalize donor support in case of large scale natural disasters for which Indonesia may want assistance. US\$5 million was pledged to complement the government’s US\$500 million annual public reconstruction spending.

33. **Four out of five pro-Green targets during this CPS period were achieved.** There were three key milestone deliverables under the sustaining the environment and climate change adaptation sub-engagement area. The REDD+ Support Facility MDTF was established at the Bank to assist the government to set up a national trust fund to implement a strategy to reduce emissions and improve governance and accountability in the forest and land sectors. The national trust fund, however, is not yet on line due to the new administration's institutional reorganization efforts to embed the REDD+ Agenda and financing package within existing Government structures, including the newly merged Ministries of Environment and Forestry (rather than in a stand-alone REDD+ Agency). The third phase of the Coral Reef Rehabilitation and Management Program-Coral Triangle Initiative (CORMAP-CTI) was approved during this CPS period, representing the third phase of the world's largest coral reef management and conservation program and the Bank's Flagship engagement in marine affairs and fisheries in Indonesia. The Bank also began a strategic policy dialogue with central ministries on mainstreaming green growth principles into medium and long term investment and development planning. This work has influenced greening of the five year Medium Term Development Plan (2015-2019) with clear targets for a number of key sectors including agriculture, energy, forestry, transport, urban development, industry and marine and fisheries, among others. It has also supported engagement with the private sector through the Indonesia Chamber of Commerce and its broad membership to influence and support private sector collaboration and commitment to adopt green growth elements in their investments alongside the public sector financing.

34. **IFC progressed with its Green Buildings Program.** IFC's knowledge and advisory services resulted in the Government of Jakarta launching the Green Building code for environmental and energy efficient buildings. Now, IFC is engaging with the Ministry of Public Works and with the cities of Bandung and Makassar to expand these codes to other cities. In parallel, IFC launched its EDGE certification program in Indonesia, a voluntary program allowing private sector developers to obtain green buildings certification sponsored by IFC. One of IFC's property development clients – PT Ciputra Residences Tbk, issued a bond wherein the company committed to invest money towards green buildings projects, and they achieved EDGE certification for three of their housing development projects.

35. **At the same time, however, the CPS period marked a period of very substantial loss of forest cover, continued desecration of coral reefs and fisheries, and increasing GHG emissions.** Over the last 10 years, 12 million ha of forest was lost and more than 70 million ha has been degraded. 75% of main rivers, and 15 main lake eco-systems are heavily polluted by agriculture, mining and industry. Some 65% of Indonesia's coral reefs are considered threatened from over-fishing and almost half are threatened from destructive fishing practices. Indonesians, especially the 150 million who live in coastal and forest areas, suffer from this the most without reaping any benefit. Forests which should generate over US\$4 billion annually in revenue are only contributing \$300 million and some \$20 billion in potential revenue for local fishing communities is being lost to illegal fishing. On a global scale, Indonesia is the fifth-largest emitter of GHG when its land-use change and forestry (LUCF) emissions are included in its profile and the eighth-largest emitter when these emissions are excluded. The vast majority (62%) come from LUCF, with emissions from this sector increasing 65% in absolute terms since 1995. The activities primarily responsible for this are deforestation and peat degradation, most recently associated with the expansion of palm oil plantations. Greenhouse gases from mangrove and sea grass

destruction are a potentially important, but not currently counted, source of emissions. Given this situation, it is essential to question whether WBG has been ambitious enough, or indeed whether we have been able to engage and have an impact on the “pro-green” agenda in a way that could impact on this downward spiral. The fact that the targets in the results framework for the CPS were largely met at the same time that the environmental and climate change indicators deteriorated so substantially, indicates that our interventions may have been at the margins. For that reason, although the results framework indicators were largely achieved, the overall rating for the pro-green pillar is rated *moderately satisfactory*. In addition, per the ‘lessons learnt’ section below, addressing this limitation in the WBG impact should be taken into account for the next CPF period through a more comprehensive approach for helping government make a meaningful impact on these enormous challenges. (see description of achievements and performance ratings against pro-green indicators in Sub-annex 3.1d).

Cross cutting area: Gender

36. **Under the CPS, WBG strived to scale up efforts to advance the gender agenda.** A Country Gender Action Plan (CGAP) was developed to identify, coordinate and monitor activities to promote gender issues in the broader engagement with Indonesia as well as in specific operations and knowledge products. The CGAP worked across four dimensions of gender equality: endowment, economic opportunities, voice and agency, and emerging risks areas. Areas with a particular gender focus included financial sector development, community development and poverty targeting, education, and environmental sustainability and disaster mitigation. CGAP met its initial target of ensuring 100 percent (from 80 percent) of the operations delivered in FY13 were gender informed.

37. **IFC launched the EAP Women in Business program to increase access to finance for women entrepreneurs by providing advisory services to financial institutions (FIs) and demonstrating that woman entrepreneurs were a profitable market segment.** The program worked with women and other stakeholders (women business associations, business development service providers) to address some of the demand side obstacles to greater access to financial services for women. IFC provided finance in Indonesia is expected to result in at least 19,000 SME loans and a US\$797 million portfolio catering to women entrepreneurs by the end of 2018 as well as technical assistance with regard to non-financial services to its SME customers, in particular women-owned businesses. WBG in partnership with Bank Indonesia launched a study to (i) understand the strengths and weaknesses of women entrepreneurs; (ii) address the challenges women entrepreneurs face in starting and growing their businesses; (iii) identify the kind of products (both financial and non-financial) needed by women entrepreneurs; and (iv) help develop/drive insights into policy and gender implications of SME banking.

Cross cutting area: Governance and Anti-corruption

38. **Poor governance and corruption are a binding constraint to better development outcomes across the economy.** This enormous challenge is well recognized by Indonesia's government and the SCD describes well its impact on slowing the elimination of poverty and sharing more widely Indonesia's prosperity. The CPS looked at governance and anti-corruption as a cross-cutting area and aimed to help Government by focusing on transparency and efficiency in PFM, greater efficiency in public service delivery, promoting open and transparent competition, and strengthening subnational governments. The engagement for public service delivery, scaled up to include local communities under PNPM, focused on improved systems (including procurement) and citizen feedback mechanisms. In some of these interventions, the Bank partnered with Indonesian institutions and engaged with CSOs to strengthen accountability. To promote open and transparent competition, the Bank focused on natural resources through the Extractive Industries Transparency Initiative (EITI) and REDD+. These initiatives, as well as Indonesia's leadership in the Open Governance Partnership (OGP), and participation in UNCAC, went some way to support Government's efforts. Indonesia also participated in the Global Partnership for Social Accountability (GPSA) toward creating space for citizen participation. After long delays, towards the end of the end of the CPS period, direct assistance began with the Indonesia's premier corruption fighting agency, the KPK, through support for improving the wealth reporting of Indonesian politicians and senior civil servants. Whilst it is too early to judge the results of this work, it can be expected to be extended in the next CPF.

39. **IFC complemented these public sector oriented activities by promoting enhanced standards of corporate governance in the private sector.** Toward this end, IFC launched a new corporate governance advisory services initiative, and worked with regulatory agencies to establish model corporate governance practices in selected private sector companies and the launching of the Indonesian Corporate Governance Roadmap and the Indonesia's Corporate Governance Manual as a practical guidance to companies.

40. **Despite these many individual efforts by the WBG, poor governance and corruption continued to be a major break on the country's prospects from infrastructure development from the delivery of services to environmental degradation to the ability to attract private sector investment needed to create job.** This was a result not of the failure of any of the WBG interventions, but rather the inability to make measurable headway on a problem that was beyond the Bank Group's scale.

III. WORLD BANK GROUP PERFORMANCE

41. **The WBG's overall performance is rated *Good*.** The program proceeded largely as anticipated and the CPS was relevant to the country's development challenges in alleviating poverty reduction and promoting shared prosperity. The World Bank Group contributed solidly to the CPS results, the majority of which were either achieved or mostly achieved (see summary table below). These results were achieved in the context of global economic challenges as well as the political transition leading up to and following the 2014 elections. The work during the CPS period

showed strong delivery of WBG financing, knowledge and convening power, and was managed in a flexible way to work where we could and maximize development impact.

Engagement Areas	Number of Indicators per CLR Rating Level			
	Achieved	Mostly Achieved	Partially Achieved	Not Achieved
Pro-Growth (17 indicators)	7	2	5	3
Pro-Jobs (4 indicators)	2	1	1	0
Pro-Poor (11 indicators)	5	4	1	1
Pro Green (5 indicators)	3	1	1	0
<i>Total Number across all 4 Engagement Areas</i>	17	8	8	4
<i>Percentage for each Rating Level</i>	45.95%	21.62%	21.62%	10.81%

42. A Client Survey was conducted over the period of March to May 2015. Views of the WBG were relatively positive. Stakeholders reported that the Bank was effective in its collaboration with government, citing positive developments in responsiveness and staff accessibility. The survey reported that participating stakeholders viewed governance and education as development priorities, followed by rural development, transport, and corruption.

DESIGN OF THE CPS PROGRAM

43. **Relevance & Alignment with the GoI Program:** The CPS covered the last two years of President Susilo Bambang Yudhoyono’s (SBY) administration and the first year of President Joko Widodo’s (Jokowi) new administration that started in October 2014. In 2011, GoI launched the Master Plan for “Acceleration and Expansion of Indonesia’s Economic Development 2011-2025” (MP3EI). The CPS was specifically designed to mirror the Government’s development priorities in their pro-growth, pro-jobs, pro-poor, and pro-green focus. Figure 1 indicates the areas where WBG support was expected to contribute to development results. Cross-cutting themes included gender equity and governance and anti-corruption. A wide range of instruments and financing tools were brought to bear. The Indonesia business model looked, where possible, for the program to serve as a strategic and administrative platform for the delivery of third party financing, including multi-donor and bilateral donor trust funds and project financing which allowed the Bank to provide knowledge services on a larger scale compared to most other countries. These knowledge services helped underpin the delivery of IBRD financing for policy based and investment lending, but even more so to support economic and sector work that helped inform Government policy making.

44. **Lessons Learned from the Previous CPS:** The CPS design and implementation reflected the lessons learned from the Bank’s past engagement, as noted in the CPS Completion Report for FY09-12. These included (i) full alignment of the Bank program with Indonesia’s development priorities; (ii) programmatic policy lending support to allow for incremental reform progress; (iii) adopting an evidence based approach gained from sustained engagement over several years; (iv) effective knowledge products and convening power to underpin policy debate and consensus building, even in areas of diminished need for financing, diffused leadership, or poor coordination.

45. **Selectivity and Flexibility of the Program during CPS Design:** Given its long partnership with GoI and other donors, a strong team on the ground and benefiting from lessons of experience, the WBG selectively took on new engagements while exiting others as priorities on the ground shifted. Disaster response programs for Aceh, Nias, and Java successfully closed during the CPS period and transformed into a non-location specific government-led standing trust fund mechanism with UN and World Bank windows, the IMDFF-DR. The Bank Group program signaled a scale down in Education and Agriculture lending in response to Government request and ramping up in infrastructure, energy, connectivity and competitiveness to align with government priorities and funding requirements during the CPS period. The design took advantage of long-standing relationships of trust with Government to work in policy areas and supported the wide scope of the program on the basis of strong partnerships with other development partners, many of whom had in place country specific trust fund agreements and financing.

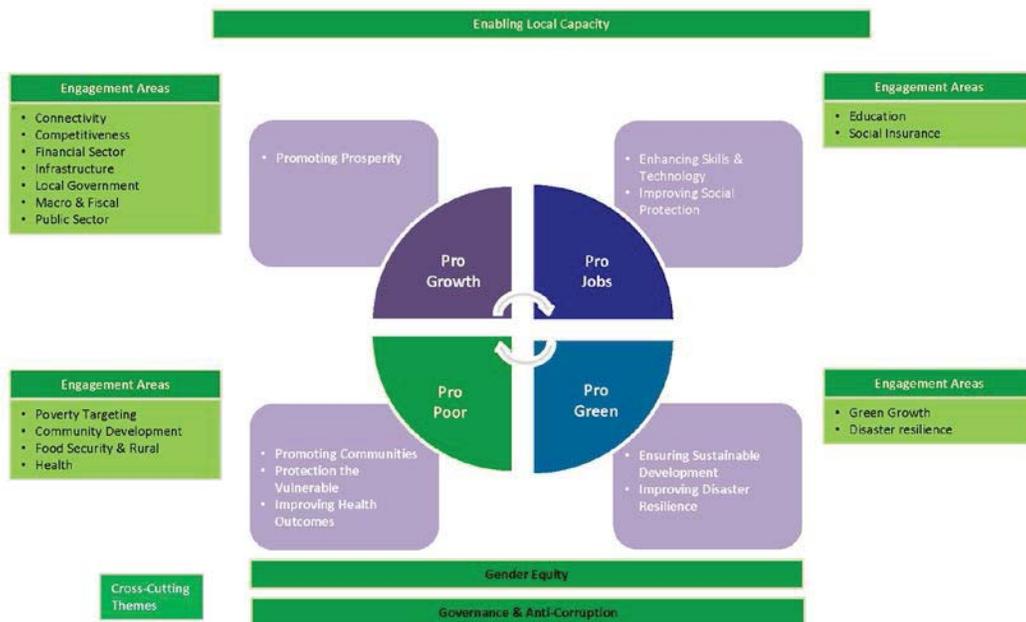
46. **Results Framework:** The CPS was meant to be an interim strategy in anticipation of a new administration towards the end of the CPS period in FY15. Accordingly, the CPS leveraged on-going WBG engagements to prepare itself for supporting the new Government's development and reform agenda. The CPS tried to maintain this flexibility by creating a relatively large number of engagement areas (a total of 15 engagements under 4 pillars plus 2 cross cutting areas) and a results framework that had a mix of clearly defined and measurable targets and others with relatively small deliverables or outcomes. This led to some lapses in the logic of the results chains and some project level indicators and milestones used as proxies for higher level CPS objective indicators. While this may have been inevitable during the design stage, the CPS Progress Report missed an opportunity to more aggressively revise the expected results and interim indicators for the CPS focus areas, and bring more specificity and realism to the results framework. The main change in the results indicators at mid-stream was for road maintenance and development, where the IBRD's ability to contribute was reduced by delays in implementation of the ongoing operation and in processing an additional operation.

IMPLEMENTATION OF THE CPS PROGRAM

47. **Selectivity and Flexibility during Implementation:** Given WBG's partnership with other development partners, the Indonesia country program was able to maintain a strong team on the ground and relatively flexible financing sources. This proved useful in helping WBG to respond to emerging needs and priorities. This was particularly essential given the changes in Government style and priorities that came from the handover of the 10 year administration of SBY to that of Joko Widodo in the third year of the CPS. This can be seen in the exit from some areas and the scaling up in others which will be reflected more strongly in the new CPF. Some notable examples of this include: (i) the successful closing of the disaster response programs for Aceh, Nias, and Java, (ii) the change in focus of the PNPM Support Facility (PSF) trust fund financing from piloting smaller interventions in CCD and supporting Government implementation of PNPM to a concentration on the emerging Village Law program and ensuring that the lessons learnt from years of successful facilitation and community engagement from PNPM Rural and Urban were incorporated into this potentially much larger village law program; (iii) preparing for a ramping up of infrastructure investment, but with a clearer focus on scalability and the challenges of implementation, and (iv) looking for ways where the Bank Group's engagements in some critical

areas could potentially have greater impact in critical areas such as in environment and good governance.

Figure 1: WBG Support For Pro-Growth, Pro-Jobs, Pro-Poor, And Pro-Green



48. **WBG Commitments and Portfolio:** During the CPS period, IBRD delivered US\$3.8 billion in new loans, of which US\$2.1 billion was Investment Project Financing and US\$1.7 billion policy based support through DPLs. The overall size of the IBRD portfolio by the end of the CPS period was lower in USD terms and in the number of projects compared to the start of the period. This reflected the general approach of ‘no new borrowing’ that marked the last years of the SBY administration and the hesitancy of the Government and the Bank to make commitments to programs that may not be priorities of the incoming administration. Projects which remained in the Bank’s preparation pipeline at the end of the SBY period were almost all dropped to make space for new priorities. IFC’s total commitments reached US\$2.1 billion across 29 projects, of which US\$1.1 billion for IFC’s own account and US\$1 billion through mobilization from commercial banks. IFC’s portfolio accelerated particularly in the final year of the CPS with US\$1.1 billion in new commitments (including US\$415 million mobilization). As of June 30, 2015, IFC’s committed portfolio grew 82 percent of the CPS period (from end-FY2012), reaching US\$2.3 billion, of which US\$846 million was syndicated from partners under IFC’s B-Loan program. As of the end of FY15, MIGA had two active guarantees for a total of US\$407 million in the energy and extractive industries. During the CPS period, one guarantee was terminated and one new guarantee was issued.

49. **IBRD Portfolio Performance:** As of end of June 2015, there were 26 open projects totaling a net commitment of US\$7.2 billion with an undisbursed balance of US\$5.2 billion. Disbursement for FY15 was US\$985 million, the lowest in five years, with a disbursement ratio of 16 percent which was below historic trends of about 20%. As mentioned above, the relative decline in new lending was a conscious choice of the Government and the Bank in anticipation of the change in Government for the first time in 10 years. At the same time, this slow-down impacted the disbursement rate which had typically been higher in Indonesia than the Bank average. This reflected the change in the composition of the portfolio towards one with more policy based lending (which disburse instantly but are not included in the disbursement ratio calculation), the winding down of annual ‘reimbursable’ programs such as BOS-KITA in education and PNPM Rural, and a proportional increase in infrastructure projects and institutional reform projects which, as mentioned earlier in the CLR, suffered from long delays between loan signing and first disbursements.

50. **In an effort to proactively manage the portfolio, several restructurings and cancellations occurred during the CPS period, including the first cancellation ever in Indonesia of the PINTAR project which had failed to disburse after almost 7 years.** As noted in the table below, Indonesia’s realism index had been trending upward over the CPS period, but suffered from some disconnect with the introduction of changes in IEG’s rating approach in the last year. The number of problem projects (IP) had dropped to 11 percent in FY14, but increased to 31 percent in FY15 as a result of the changes in the size and composition of the portfolio as already discussed above. The number of projects rated as problems also reflects in part greater rigor in assessing performance. During the CPS period, additional attention was brought to systemic issues in preparation, implementation, management oversight, and ownership. The FY14 CPPR was a year-long, highly detailed and collaborative process led by Bappenas and MoF in close collaboration with the Bank’s Country Team. The review identified lapses in project readiness including extremely limited advance procurement, lack of attention and understanding of safeguard mitigation measures and M&E, and unclear ownership/commitment within implementing ministries as systemic issues that determined the speed and success of project implementation. These are prominent issues, especially for large infrastructure projects, which need to be taken into account in the design and scope of the future CPF. Proactivity remained the largest challenge during the CPS period and will be the first priority in portfolio management during the start of the new CPF period.

Key Indicator	FY13	FY14	FY15
Number of Projects	37	32	26
Net Commitment (US\$m)	7,884	6,653	7,240
Number of Projects at Risk	6	9	8
Commitment at Risk (US\$m)	810	1,939	2,106
Problem Projects (DO)	9.1%	8.6%	19%
Problem Projects (IP)	12.1%	11.4%	31%
Realism Index	44%	90%	91%
Proactivity Ratio	80%	40%	56%
Disbursement Ratio	17%	24%	16%
Disbursement Amount (US\$m)	988	1,575	985

51. **Knowledge Programs:** The large program in AAA, with the vast majority of it financed through country specific trust-funds, was implemented largely as anticipated (see table below and

Annex B4). During the CPS period, a total of 77 stand-alone ESW/TA and 6 programmatic ESW/TA were delivered with a delivery rate of 87.5% for FY13 and 77.8% for FY14. Due to the WBG corporate-wide restructuring exercise that started in FY14, there was no agreed MOU for FY15 and 37 standalone ESW/TAs and 4 programmatic EWS/TAs were delivered during this time. There were also 2 RAS for the first time in Indonesia for US\$1.5 million. At the same time, a large number of ‘stale’ AAA and those not well connected to the program, especially at the start of the new administration, were dropped or closed.

Type		MOU			Actual Deliverables		
		FY13	FY14	FY15	FY13	FY14	FY15
Stand Alone	ESW	4	4	TBA	6	3	2
	TA	20	18	TBA	15	16	35
IE				TBA			
KP/RF				TBA			1
TE				TBA			1
Programmatic ESW/TA			5	TBA		2	4
Total:		24	27	TBA	21	21	43

52. **IFC Portfolio:** Driven by high commitment volumes during the CPS period, IFC’s investments in Indonesia reached US\$1.1 billion in new commitments by FY15, which included US\$415 million mobilization. As of June 30, 2015, IFC’s committed portfolio grew 52% year-on-year as of June 30, 2015, reaching US\$2.3 billion, of which US\$846 million was syndicated from partners under IFC’s B-Loan program. The portfolio is dominated by finance and insurance sector (US\$1.18 billion), followed by chemicals (US\$597 million) and electric power (US\$239 million). In terms of product composition, loans account for 84 percent (US\$1.2 billion, own account only) while equity products account for 16 percent (US\$228 million). The loan portfolio performed reasonably well during the review period, with one non-performing loan.

53. **MIGA Portfolio:** MIGA’s overall corporate focus is on supporting transformational projects, energy efficiency and climate change, and middle income countries. In Indonesia during the CPS period, MIGA was supporting guarantees in excess of US\$850 million on a gross basis. This comprised two projects in the energy and extractive industries and one in the telecommunications sector. The ongoing Weda Bay Nickel project (US\$207M) at issuance prior to the CPS period supports the exploration phase for a cobalt-nickel mine with a hydrometallurgical processing plant, in an innovative effort to improve social and environmental safeguards by applying MIGA Performance Standards. Eventual development of the project would allow Indonesia to become one of the world’s leading nickel producers, and would serve as a demonstration on how a major natural resource project could be developed in a socially and environmentally sustainable way to bring benefits to the local populace. This guarantee is set to expire in FY16. The ongoing Rajamandala Hydropower project (\$200M at issuance during the CPS period) targets the building of Indonesia’s energy capacity to sustain its economic progress, while moving away from traditional reliance on carbon-based generation. The US\$450 million guarantee in support of PT Natrindo Telpon Selular was prematurely terminated in FY14.

54. **Partnerships:** The WBG’s strong collaboration with development partners continued throughout the CPS period. Despite its middle income status, Indonesia continues to attract large amounts of grant assistance for particular high priority areas including poverty alleviation, strengthening of the business climate, infrastructure development, better management of natural

resources and extractives, disaster risk management, environment and climate change, social protection and improving public financial management and governance. The WBG has been extremely fortunate to be able to partner with bilateral donors in support of Government programs and CPS objectives. These partnerships, particularly with Governments of Australia, Canada, Denmark, EU, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK and the US, have been instrumental in delivering on the CPS results. The Indonesia program also benefitted from partnering with a number of global trust funds including in areas of environment and climate change, financial stability and natural resource governance (CTF, CIF, FIP, EITI and FIRST amongst others). Disbursement from Bank executed trust funds in the entire Indonesian portfolio amounted to US\$61 million during the CPS implementation period, primarily in the form of Bank Executed Trust Funds (BETF). Cumulatively grants for ongoing recipient executed trust funds (RETFs) totaled some US\$304 million as of June 30, 2015 (see table below).

	FY13	FY14	FY15	Total
Disbursement				
BETF (US\$m)	18.8	22.5	19.8	61.1
RETF (US\$m)	55.9	78.9	31.3	166.2
Active Grants as of June 30, 2015				
BETF (US\$m)			142.8	
RETF (US\$m)			304.1	

55. **Risks and Mitigation Measures:** The risks to the program identified by the CPS and endorsed by the CPS Progress Report, including vulnerability to economic shocks, natural disasters, weak institutional coordination and governance arrangements, persisted throughout the CPS implementation period but were managed in a way that kept the programs largely on track. Measures taken during the CPS period by Government to maintain macro and financial stability showed that policy makers had the tools and the support necessary to navigate these risks. Similarly, experience gained in managing natural disasters, combined with the localization of impact of disasters during the CPS period, helped to mitigate the impacts from earthquakes, volcanic eruptions, floods and landslides that plagued the country during the CPS period. To manage the institutional and governance risks, the WBG strived to engage where it had confidence in its counterparts and supported measures to strengthen accountability and build fiduciary capacity, including in financial management and procurement, when possible. The WBG continued to emphasize governance and anti-corruption measures in all its operations through implementation support and supervision arrangements and working closely with INT, GOI accountability organizations and Government counterparts when malfeasance was found.

IV. ALIGNMENT WITH WBG CORPORATE GOALS

56. **While the CPS predated the WBG’s twin goals, both the country’s own development program and the CPS were well aligned with eliminating severe poverty and sharing prosperity more widely. In particular:**

- a. The *Pro-Growth* pillar sought to broaden growth to include the bottom 40 percent through connectivity with lagging regions and external markets and infrastructure development. Competitiveness and financial market development sought to promote business development and access to finance for women and micro, small

and medium sized enterprises. Support for central and subnational governments sought to enhance the quality of public spending and redirect regressive fuel subsidies toward infrastructure, social protection, including strengthening the safety net for mitigating shocks to the poor and vulnerable, and public service delivery benefiting the lower 40 percent.

- b. *Pro-Jobs* pillar sought to enhance labor productivity and broaden social insurance to support equality of opportunity and the access to good jobs which the SCD identifies as a major pathway to enhanced equality.
- c. Engagements under *Pro-Poor* pillar enhanced targeting of the poor with social assistance, support for community development programs that have been proven to reduce poverty and promote the welfare of the vulnerable. Health interventions sought to promote universal health coverage to the poor who are particularly vulnerable to health shocks, and improve water and sanitation services to fight maternal and child mortality and the high rates of childhood stunting.
- d. *Pro-Green* engagements sought to promote sustainable green growth, climate change adaptation and mitigation, and disaster risk management whose negative consequences disproportionately impact the poor.

V. LESSONS AND SUGGESTIONS FOR FY16-20 CPF

57. **The analysis of the implementation of the FY13-15 CPS together with the key finding of the Development Policy Review and the SCD** suggests that there are a number of important lessons that should be used to help inform the design and implementation of the CPF.

58. In particular, the following should be considered in the content and the implementation planning for the new CPF:

- **Reform requires a clearer understanding of and ability to impact political economy drivers:** Political economy drivers, as much as technical constraints, impact the likelihood and direction of reform. Understanding these constraints and the risks they involve should be considered in determining whether and how WBG can provide support in a way that will make a meaningful difference. Government ownership, commitment, resources and champions for the reform agenda, and coordination are major determinants of success. This is demonstrated, for example, in a number of institution building projects such as PINTAR where dialogue around better revenue collection continued throughout the CPS period, but the project itself lacked sufficient support for implementation. In practice, this means that project design and external implementation support cannot substitute for the ability to engage with the right level of Government and with a dedicated counterpart with the requisite responsibility and accountability to deliver. These dimensions should be considered in determining the future engagement areas and interventions in the next CPF.

- **Comprehensive approach for impactful results.** Indonesia is the 4th largest in the world with a heterogeneous society, wide disparity in income and an extraordinary degree of geographic dispersion. Therefore, a small or one-off intervention, even if highly successful, is not likely to make a meaningful impact unless it can be brought to scale. The CPS has successful examples of such impact including through PNPM Urban, PNPM Rural, PAMSIMAS and DAK, all of which started as smaller engagements with WBG support and went on to become platforms for delivery of services nationwide. However, the CPS implementation period also included several interventions where there have been ‘micro-level’ successes which did not trigger or contribute to transformational change in the sector. Our engagement in governance is one such example – while the Bank has been active and engaged for many years in a variety of interventions, the cumulative impact is not reflected in a fundamental national change. “Comprehensive” does not necessarily mean ‘bigger’ –in governance, for example, governance reform could be ‘mainstreamed’ where there is a potentially stronger incentive to bring results in individual sectors such as when investment operations are combined with regulatory improvements. In the critical area of environment and climate change, where individual results under the CPS were largely successful whilst overall the country saw very serious deterioration, indicates that an incremental approach may make relatively little impact whilst a more comprehensive landscape management approach could help bring together stakeholders in a way that results can be more visible and impactful and the interactions across disparate sectors and actors can be better coordinated. It also means emphasizing the WBG value proposition in the combination of financial products, knowledge services and implementation support, including through the strategic use of country specific trust funds, and employing the synergies amongst IBRD, IFC, and MIGA in large or complex engagement areas as relevant.
- **Disaster Risk readiness, in terms of both assessment and mitigation, should remain a part of any WBG strategy in Indonesia.** Indonesia’s poor and near poor are highly vulnerable to shocks both economic and physical. Natural disasters such as earthquakes, tsunamis and volcanic eruptions pose a constant risk at a national or more likely, a local level. Past experience has contributed to greater disaster preparedness over time, and events such as the recent eruption of Mount Kelud have been localized in terms of socio-economic impacts and have shown that mechanisms for disaster mitigation including redirection of IBRD support, can be effective in relieving economic and social costs. In cases where the disaster is more extreme, initiating IFC’s earthquake index protection insurance could help financial institutions recover quickly from the severe impact of natural disasters. Going forward, any CPF should include disaster preparedness activities as well as an awareness in its risks assessment that programs may have to be redirected on short notice in case of natural disaster.
- **Implementation will be one of the key indicators of success during the next CPF.** Implementation constraints are a major deterrent to the achievement of development outcomes in the WBG program. This is particularly true for programs that are heavy in infrastructure and institution building. Experience from the current CPS has shown that shortcomings in project readiness – particularly in terms of advance procurement,

land acquisition safeguard requirements, sponsor commitment, and ownership/commitment—contribute to long delays in implementation and sometimes in project failure. Therefore, the next CPF must be cognizant of these issues and work to address constraints upfront with Government counterparts. One example could be the need to work directly with SOEs using direct lending with Government guarantee, rather than through Subsidiary Loan Agreements (SLAs) which slow implementation and cloud accountability. Government counterparts should also be prepared to provide sufficient upfront funding for project preparation and to change internal processes that have generally stalled advancing procurement preparation especially in large infrastructure projects.

- **Greater Selectivity:** Cumulatively, these lessons suggest that the next CPF will have to be genuinely more selective in its design. Whilst the Government’s development agenda is necessarily broad, and the needs great, by definition, WBG will have to have fewer engagements if it is to bring scale and impact to bear on the program over the next four years. This will entail some difficult choices up front and a willingness to correct course during the CPF period.

APPENDICES AND ANNEXES
Sub-annex 3:1 Indonesia CPS FY13-15 Results Matrix

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
Pro-Growth – Promoting Prosperity				
<p>Connectivity</p> <p>Accelerate growth and enhance equity through domestic connectivity</p>	<p>Lack of policy coordination to implement policy reforms in the connectivity agenda</p> <p>Regulatory barriers that inhibit better provision of connectivity services</p> <p>Inefficient use of public finance and management practice for provision of connectivity infrastructure</p> <p>Private sector participation not being leveraged for the agenda of growth and connectivity</p>	<p>1. Improved ranking of Indonesia's Logistics Performance Index</p> <p><i>Baseline:</i> in 2012 Indonesia ranked at 59</p> <p>2. Increase access for broadband internet services for population.</p> <p><i>Baseline:</i> 5 percent in 2011 <i>Target:</i> 30 percent by 2015</p> <p>3. Reduced cost and time to export and import, as indicated in the Doing Business Survey</p> <p><i>Baseline:</i> 2012: Export: 17 days, US\$644 per container; Import: 27 days, US\$660 per container</p>	<p>Achieved. Indonesia's 2014 LPI ranking has improved to 53</p> <p>Achieved. By end of CY2014: Broadband: 34.5% The sector is growing fast and a 37% penetration by end of CY2015 is expected</p> <p>Not Achieved. Doing Business 2015: Export: 17 days, US\$572/container Import: 26 days, US\$647/container</p>	<p>Financing: Connectivity DPL I & II; IFC US\$50 million to Protelindo, a telecom tower operator; IFC financed Wintermar to procure offshore service vessels. Blue Bird Taxi service provider for urban transportation.</p> <p>Knowledge: analytic and advisory work ongoing funded by AUSAID and MDFTIC (Dutch, Swiss, and USAID); ESW on logistics and trade facilitation; policy notes on logistics; regulatory reform, managing openness. AAA on ICT regulatory reform underway</p> <p>Advisory: RAS for Pelindo II; digital financial inclusion</p>
<p>Competitiveness</p>	<p>1. Policy framework adopted to</p>		<p>Achieved. 2014 LPI on logistics competence: 3.21; LPI</p>	<p>Financing: Connectivity I & II and FIRM DPL delivered.</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Enhance competitiveness through improved environment, including open, competitive, sustainable and inclusive markets for business to expand and increase productivity</p>	<p>Bottlenecks and underdeveloped in trade logistics are hurting profitability and undermining firms' productivity; complex regulatory environment inhibits private sector investment; time consuming and costly procedures to establish companies, and clear imports; weak coordination among government institutions for investment policy; pressure to use protectionist measures to protect domestic vested interest; private sector companies are undertaking projects which will not be cost-competitive versus global competition in their target markets; policy decisions are taken without sufficient analysis of alternatives and of their costs and benefits inadequate infrastructure and incentive regime have limited capacity and have not encouraged innovation in private sector.</p>	<p>improve competitiveness through better trade logistics</p> <p><i>Baseline:</i> Score in 2012 Logistics Performance Indicators (LPI) for logistics quality competence of 2.85 for border management of 2.53</p> <p><i>Target:</i> Improved 2014 LPI score on logistics competence of 3.00 and border management of 2.7, National Single Window acting as the single reference for cross-border trade and introduction of single sign-on for all participating agencies</p> <p>2. Improved regulatory environment, interagency coordination, and consultative process in business environment that affect competitiveness of Indonesia's private sector, facilitate innovation and investment facilitation and services.</p> <p><i>Baseline:</i> 50 days to start a company; 570 days to enforce contract; weak consultative processes prior to issuance of regulations; uncoordinated investment policy; weak investor inquiry handling</p> <p><i>Targets:</i> 30 days to start a company; less than 500 days to enforce contract; coordinated investment policy and improved transparency in</p>	<p>on border management: 2.87; INSW task force and steering committee set up by a Presidential Regulation; SSO mechanism used by 6 agencies</p> <p>Partially Achieved. Doing Business 2015: 52.5 days to start a company; 471 days to enforce a contract; consultative regulatory making process remains weak; investment policy coordination improved during the negative investment list (DNI) process; investor inquiry handling system improved at the Investment Coordination Board (BKPM); the law was reformed in 2015 but DB methodology recorded only the practice, but not changes in the law, which requires a 29 day reduction from 52.5 to 33.5 days.</p>	<p>IFC financed Panca Amara Utama with US\$540 million own account financing and syndication; financed Wings' and Mayora's food processing operations; IFC provided up to US\$375 million loan financing and mobilization support for Indorama's fertilizer facility in Nigeria – Eleme Fertilizers. IFC financed the Wings Group's detergent plant in Nigeria through loan financing.</p> <p>Knowledge: AAA supported by MDFTIC to drive policy reforms in logistics and trade facilitation, enhance reform agenda to improve the business regulatory environment</p> <p>Advisory: IFC Advisory Services – Investment Climate Program (sub-national Doing Business; corporate governance; financial infrastructure) Innovation, Investment Generation Technology, and Entrepreneurship; Report and policy dialogue on Indonesia's manufacturing sector; Report and policy</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Financial Sector</p> <p>Promote the development of a stable, efficient and inclusive financial sector in Indonesia in order to foster accelerated economic growth, reduce poverty and strengthen economic competitiveness on a sustainable basis.</p>	<p>Banks intermediation has improved but it is still low to the size of economy; Bank loans need to increase further to support economic growth</p> <p>Non-Bank Financial Institution (NBF) assets need to grow further to increase efficiency and reduce risk in financial sector and create long-term domestic financial resources/savings</p> <p>Persistent issues of limited access to finance for underserved groups (MSMEs and households)</p> <p>Indonesia's new Financial Services Authority (OJK) must function effectively as the integrated financial sector authority; the transition period has to be managed properly</p> <p>The financial safety net framework and legal basis for financial crisis management need to be strengthened;</p> <p>Limited local infrastructure financing capacity</p>	<p>regulatory making; improved performance of investor inquiry handling</p> <p>1. Maintain financial sector stability, deepened financial sector and strengthened private sector through: improved regulatory and supervisory frameworks; maintained soundness of banking sector.</p> <p><i>Baseline:</i> Key financial ratios of banks (Capital Adequacy Ratio (CAR), Non-Performing Loan ratio (NPL), Net Interest Margin (NIM) are sound and LDR (Loan to Deposit Ratio) is 75% (Dec. 2011);</p> <p><i>Targets:</i> Banking financial indicators remain sound and LDR at minimum 80%</p> <p>2. Growing capital market and NBF and a higher access to formal financial services by the Micro-SMEs and underserved populations</p> <p><i>Baseline:</i> 41% of households have access to bank accounts; banking loan to SMEs is 50% (2011), disbursed KUR (credit program for SME) amounted to IDR 63 trillion (2011)</p>	<p>Achieved. As of Mar 2015, NPLs are at a sound 2.3%. CAR is at a sound 20%. NIM stable, LDR above 80% the whole period</p> <p>Achieved. KUR exceeded target in 2013 & 2014 through Oct, disbursement reached IDR 33.1 trillion or 90% of 2014 target. There was 1.7 million new account holders of Tabunganku in the first semester of 2014. OJK is fully operational as an integrated financial sector authority as of Jan 2014; the Coordination Forum for Financial System Stability</p>	<p>dialogue on managing openness.</p> <p>Financing: FIRM DPL delivered; IFC committed loans of up to US\$75 million to Bank Danamon and up to US\$30 million to Bank Hana Indonesia for expanding access to finance for SMEs, and provided financing of up to US\$8.9 million for Mitra Bisnis Keluarga Ventura (MBK), a micro-finance institution in Indonesia. Financial support to Bank Tabungan Pensiunan Nasional (BTPN) totaled US\$500 million including syndications. IFC FIG is supporting BTPN in developing and extending non-financial services to SMEs. IFC pilot to extend housing micro-loans is in execution in partnership with Holcim Indonesia (a leading cement sector company) and Bina Artha Ventura (a micro-finance institution). IFC is further supporting Danamon Bank and Bank Muamalat to develop and extend innovative agri-financial</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
	<p><i>Targets:</i> Bank loans to SME continue to grow and are maintained at 50% of total bank loans; proportion of households with savings account increased</p>	<p>(FKSSK) is operational. FKSSK meeting is quarterly & the Deputies FKSSK meeting is monthly.</p> <p>Infrastructure Finance Facility is providing long term financing for infrastructure projects; as of end Sep 2014, IIFF, the sole project implementing agency, has entered into IDR 3.2 trillion credit commitments for various infrastructure projects such as toll road, telecommunications, power generation and aircraft maintenance facility. Altogether, these commitments leveraged about IDR 29 trillion total financing from all participating lenders</p>	<p>services to SMEs in rural areas.</p> <p>IFC has also supported the establishment of a new private equity fund manager (Falcon House Partners) that will expand the availability of growth capital to the medium-sized companies in Indonesia.</p> <p>IFC assisted companies such as PT Ciputra Residences Tbk and PT Blue Bird Tbk in issuing capital market instruments. In the case of Ciputra, IFC issued a partial credit guarantee for the company's bond offering; for Blue Bird, IFC played the key lead investor role during the company's initial public offering.</p> <p>Advisory Services in the areas of digital financial inclusion, responsible microfinance, financial infrastructure (credit reporting and secured transactions), capital markets development for infrastructure finance, and insurance (earthquake index insurance project) support development and expansion of innovative, inclusive and</p>	

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
				<p>sustainable financial services to low income households and MSMEs.</p> <p>Knowledge: Financial Sector Policy dialogues; Financial Sector Assessment Program (FSAP); Microinsurance Marketplace; Review on KUR (Kredit Usaha Rakyat); Deposit Insurance Company (LPS); Improving access to Financial Services in Indonesia Empowering Female Migrant Workers; support to establish OJK; Fiscal Policy Office on developing a crisis management protocol ; Saving and Loan Cooperatives; SME access to Islamic Finance; Capacity building of Secretariat of Financial System Stability Forum.</p> <p>IFC in partnership with Bank Indonesia is conducting a women-owned SME market study to investigate the enabling environment, supply and demand factors impacting women-owned SMEs access to finance.</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Infrastructure</p> <p>Increase the level and efficiency of public and private investments in infrastructure to meet needs and strengthen competitiveness.</p>	<p>Lack of investment in infrastructure, which has not kept pace with economic growth; investment in infrastructure fell from about 6% of GDP in 1997 to 2% in 2000, but recovered to about 4% of GDP by 2011</p> <p>Indonesia's infrastructure delivery requirements are massive, and beyond what can be supported through public investment alone</p>	<p>1. Increased effective km of national roads maintained and developed.</p> <p><i>Baseline:</i> 1500 km maintained through betterment works and 3000 km developed (2005)</p> <p><i>Target:</i> Increase by 25% /year over 2011-2015 period.</p> <p>2. Reduced power infrastructure bottlenecks to meet demand and increase access</p> <p><i>Target:</i> Reduce power supply interruption time per customer from 5h/year to 2h/year (2012-2015).</p> <p>3. Increased private investment in infrastructure through the PPP framework</p>	<p>Partially Achieved.</p> <p>Cumulative Maintenance Achievement 2011-2014: 4,792 km (44% of target), of which 3% contributed by WBG;</p> <p>Cumulative Road Development Achievement 2011-2014: 12,270 km (57% of target), of which 1% contributed by WBG; Data for 2015 not yet available</p> <p>Not Achieved. 5.76 hour/customer</p> <p>Partially Achieved. Expected to be on track once Viability Gap Funding (VGF) approved for Lampung or Umbulan water supply</p>	<p>Financing: Investment; Infrastructure Guarantee Fund and Power Transmission II delivered; Investments by IFC in renewable/clean power, water and sanitation, ports, shipping and logistics, telecom, oil and gas. IFC supported Dharma Asahan – 1 with US\$282.5 billion of equity, loans and syndications. IFC also provided up to US\$2 million of project development capital to Asia Green Ventures, an underdeveloped wind farm in Sulawesi. IFC has raised \$250 m syndication for Indonesia Infrastructure Finance (IIF).</p> <p>Knowledge: Assessment of Road Construction Industry; Roads and Railways PER; Development of the Framework and Policies for Infrastructure ESW; Advisory service on energy service and subsidy; Gas Development Master Plan; Lampung Water Distribution PPP Review; Technical Review and Support for Jakarta Flood Mgt System; Viability Gap Financing; Low-income Housing Policy and Finance;</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Local Government</p> <p>Strengthen local government institutions to improve accountability and increase the level and impact of public spending on service delivery and support metropolitan areas and medium-sized cities to improve infrastructure</p>	<p>Insufficient coordination and leadership of the decentralization agenda at the central level; a limited and unclear role for the provinces</p> <p>A fiscal decentralization framework that does not provide appropriate incentives for increased and higher quality spending</p> <p>Weak capacity of local governments (LG) to manage assets and service delivery</p> <p>An inadequate framework for and insufficient financing of multi-year large scale infrastructure programs</p> <p>Lack of coordination in planning, management and investment at the metropolitan and regional in larger urban agglomerations</p>	<ol style="list-style-type: none"> 1. Improved fiduciary, social and environmental management as well as technical performance of LGs in the delivery of basic services financed using DAK transfers [through expanding PEACH to additional provinces] 2. Improved capacity of research institutions, media and CSOs to assess and monitor sub-national PFM (PEACH): enhanced capacity of local institutions to analyze and monitor public expenditure and PFM and to demand better local government performance in these areas [through PEACH initiative] 	<p>Partially Achieved. PEACH program was not continued, and a new engagement on local service delivery is currently being finalized</p> <p>Mostly Achieved. PEACH program completed in Aug 2014 with all deliverables including 6 provincial update PERs delivered</p>	<p>Geothermal Power Support Program; IFC Advisory services for structuring and bidding Public Private Partnership projects.</p> <p>Financing: Local Government and Decentralization Project (DAK) I&AF; Urban Sector Development and Reform Project (USDRP)</p> <p>Knowledge: Report on Urban Agglomerations; PEACH PERs; PEACH PFM Technical Assistance and Capacity Building activities; Sulawesi Development Diagnostic Report; Subnational Workshops on Gender responsive Budgeting and Planning</p> <p>Advisory: IFC Advisory services for Sub-National Doing Business reforms and PPP structuring for local governments.</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Macroeconomic and Fiscal Management</p> <p>Strengthen central government capacity for implementing contingency financing, crisis management and quality evidence-based macro and fiscal policy</p>	<p>Indonesia's fiscal financing position remains vulnerable to changes in investor sentiment.</p> <p>Despite Indonesia's strong recent economic performance, significant challenges in fiscal and macro policy remain in terms of the allocation of spending (with subsidies accounting for almost one quarter of central government spending in the proposed 2013 Budget) and its efficiency and over recent years there has also been fiscal pressures from weakening revenue growth.</p>	<ol style="list-style-type: none"> Enhanced Government ability to meet its financing needs and maintain critical public expenditures, as measured by continued access to markets, and level of maintenance and capital expenditures. Budget allocations informed by monitoring and evaluation. Increase in the number of line ministries and agencies reporting through BRISA (the monitoring and evaluation system) from a baseline of zero in FY11. 	<p>Achieved. Targets met for 2012 and 2013 and on track in 2014 with net securities issuance reached 104% of the target based on the revised budget, with gross securities issuance at 100%</p> <p>Mostly Achieved. Forecasting tools in place with expanded discussion of medium-term macro fiscal sensitivity analysis and projections in the annual budget financial note. However, expenditure allocations from the MTFF of the previous year are not used as the starting point for discussions on the budget in the following year. Options to strengthen the institutional arrangement within the MoF for preparing the MTFF are being examined in the context of ongoing training engagement.</p> <p>BRISA is a web-based Bureaucratic Reform (BR) Monitoring and Evaluation System which was launched nationally in 2012. The administrator of BRISA is the National BR Management Unit called UPRBN under the Ministry of Administrative and Bureaucracy Reform</p>	<p>Financing: INSTANSI I & II delivered. Program for Economic Resilience, Investment and Social Assistance in Indonesia (PERISAI) ongoing</p> <p>Knowledge: Development Policy Review; Support for Enhanced Macro and Fiscal Policy Analysis institutional strengthening program; Analytical and Capacity Support to Improve Expenditure and Revenue Policy including public expenditure review analysis; resource revenues policy and administration technical assistance; Indonesia Economic Quarterly report</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Strengthening the Public Sector</p> <p>Strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures.</p>	<p>The budget system is input-based, excessively detailed and inflexible and strictly annual, hampering implementation of multi-year projects.</p> <p>Controls in budget execution processes are generally inadequate and could jeopardize gains from improvements made in other areas of PFM.</p> <p>The public procurement system is deficient as is the capacity of procurement practitioners; collusion and corrupt practices in the bidding process continue to exist, causing leakages and losses in the system.</p> <p>Increasing demand for improved quality, timeliness and responsiveness of data</p>	<p>1. Strengthened multi-year perspective in fiscal planning, expenditure policy and budgeting Baseline: PEFA PI-12 rating C+ in 2011 <i>Target:</i> improve PEFA PI-12 rating to at least a B+ by 2015</p> <p>2. Number of line ministries receiving unqualified opinions for their annual financial statements: <i>Baseline:</i> 63% of Ministries and Agencies in Financial Statement. <i>Target:</i> 85% of Ministries and Agencies in Financial Statement for FY2013</p> <p>3. Implement new Financial Management Information System in all 177 Treasury Local Offices</p>	<p>(MenPAN-RB). Until mid of 2013, there had been more than 70 line ministries and agencies that have reported their BR progress to the MenPAN-RB. However, with change of leadership, this M&E system has been made inactive since end of 2013.</p>	
			<p>Not Achieved. No new PEFA assessment conducted. While there was some progress on improving the transparency of the MTEF process, it is unlikely to be sufficient to improve the C+ rating for PI-12</p> <p>Partially Achieved. 76%</p>	<p>Financing: INSTANSI DPLs; Government Financial Management and Revenue Administration Project (GFMRA); Scholarships Program for Strengthening Reforming Institutions Project (SPIRIT); STATCAP-CERDAS</p> <p>Knowledge: Public Financial Management (PFM) Multi Donor Trust Fund (PFM MDTF);</p>
			<p>Achieved. System development completed in 2013; SPAN rolled out to all 222 treasury offices with 100% of all financial transactions</p>	

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
	availability are hampered by poor ICT infrastructure and data management and inefficient business processes.		conducted through the system as of Feb 2015	
<i>Pro-Jobs – Enhancing Skills and Technology, and Improving Social Protection</i>				
Education Provide good quality education to all Indonesians and to produce a smart and competitive workforce. Enhance research and development, science and technology	Despite significant increases in education spending the quality of education remains low. Low participation rates in early childhood education and development programs Low teacher competency Inefficient allocation of public education spending Weak management of education at the district and school level under incomplete decentralization framework Weak links between education sector and labor market including skill mismatches and weak firm based training Indonesia ranks poorly on competitiveness and knowledge economy indices Research and Development (R&D) outputs remain low	1. Improved education quality and performance of teachers; Increased number of basic education teachers meets academic qualification mandated by the Teacher Law <i>Baseline</i> (2011): 35% of teachers in primary and 80% of junior secondary schools hold S1 degree or more. <i>Target</i> : 82% of primary and 98% junior secondary school teachers hold S1 degree or more. (Target revised based on updated baseline data) 2. Improved public R&D human resource capacity. <i>Target</i> : Masters or PhD degree holders in public research institutes (LPNK) increases from 15% to 17% LPNK institutional assessments completed and reform milestones set	Partially Achieved. Data from the 2014 NUPTK database: 64% of SD and 88% of SMP teachers with an S1 degree	Financing: BOS-KITA II (closed on Dec 31, 2012), Early Childhood Education and Development (ECED); Better Education through Reformed Management and Universal Teacher Upgrading (BERMUTU); Indonesia Higher Education for Relevance and Efficiency (IMHERE-closed on Dec 31, 2012); Research and Innovation in Science and Technology Project (RISET) Knowledge: The Role of Politics and Evidenced Based Policy Making: The Case of Teacher Reform in Indonesia; Education PER; Indonesian School Grants Program Review; Expanding Opportunities and Bld Competencies for Young; Indonesia Life Long Learning; Local Governance
			Achieved. As per the RISET Project Annual Work Plan 2015, the number of staff with S2 and S3 degrees is about 3,100 out of 14,498 total staff, or about 21%	

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Social Insurance Provide universal coverage of social insurance to protect workers and the poor</p>	<p>Only 50% of the population currently has health insurance and only about 12% of the population has any kind of pension, old age savings,</p>	<p>1. Conversion of Jamsostek to a not-for-profit institution that can administer the SJSN pension and old age savings programs</p>	<p>Achieved. Roadmap has been completed and launched. Government regulations regarding the roadmap has been issued</p>	<p>Capacity Assessment Survey; Survey Video Study; Impact evaluation of teacher certification; Impact evaluation of ECED project with a focus on school readiness; Projections and assessment of skills demand; Higher education studies on funding modalities and labor market linkages, Infrastructure assessment, Accreditation and quality assurance and equity and access to higher education; TA on skills development fund; Support for 2015 five year development; Strengthening Public Financing of Indonesia's Knowledge Sector; ICT in Education; Building capacity awareness on safe schools.</p> <p>Advisory: IFC advisory services to train farmers for improving their yields and to financial sector employees for launching new financial products</p>
<p>Social Insurance Provide universal coverage of social insurance to protect workers and the poor</p>	<p>Only 50% of the population currently has health insurance and only about 12% of the population has any kind of pension, old age savings,</p>	<p>1. Conversion of Jamsostek to a not-for-profit institution that can administer the SJSN pension and old age savings programs</p>	<p>Achieved. Roadmap has been completed and launched. Government regulations regarding the roadmap has been issued</p>	<p>Knowledge: Advisory services to Bappenas, DJSN (national social security council), the Ministry of</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>from adverse life events or external shocks through the five national social insurance (SI) programs outlined in the SJSN (national social security system) Law and the BPJS (national social security administrators) Law, covering all formal and informal sector workers.</p>	<p>death benefit or work accident insurance.</p> <p>Complexity of assuring fiscal sustainability including proper investment of program assets.</p> <p>Need to quickly transform the legal structure and business processes of the administrators.</p> <p>Complexity of expanding membership and collecting contributions from the formal and informal sectors and properly tracking those contributions over time.</p> <p>Lack of government capacity and experience with managing the risks of SI programs.</p>	<p>2. Expand membership and improve contribution collection from the formal and informal sectors.</p>	<p>Partially Achieved. The SJSN Health program began on January 1, 2014 and is not expected to achieve universal coverage until the end of 2019. Most efforts were focused on institutional transformation and program consolidation. Nevertheless, some progress was made in enrolling informal sector workers and expanding the number of workers paid for by the government. Membership expansion will receive more attention in CY15 and CY16. The BPJS Employment programs do not begin until July 1, 2015, and therefore membership expansion is not yet an issue. According to the government roadmap, membership expansion will take place more slowly, by 2019.</p>	<p>Labor, the Ministry of Finance and others</p> <p>Pension and old age savings roadmap</p> <p>Draft White Paper on SJSN pension completed. Others in progress)</p> <p>Background papers on retirement age, coverage of the poor in employment programs, and use of surplus in administrators and social insurance funds completed)</p> <p>Modeling completed. Input files needed for testing alternative assumptions and designs in place</p> <p>Development of Policy Notes on various aspects of SJSN (five Policy Notes completed and published so far)</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
Pro-Poor – Promoting Communities, Protecting the Vulnerable and Improving Health Outcomes				
<p>Poverty Targeting</p> <p>Reduce absolute poverty and improve income distribution through social protection that is based on the family, community empowerment and expansion of economic opportunities of the low income population. From 12% poverty in 2012, Government is targeting for single digits by 2014.</p>	<p>Around 110 million people still live under US\$2 a day (Bank estimate); large number of urban and rural poor due to lack of income and inadequate productive employment opportunities; lack of quality service delivery to poor people; access to early childhood education remains low, particularly for the poor; wide regional disparities (particularly, eastern provinces); poor are vulnerable to shocks such as food price increases, natural disasters</p>	<p>1. National shock monitoring system developed and operational.</p> <p>2. Poverty programs management units using the national registry of poor and vulnerable households to identify beneficiaries.</p> <p><i>Target: 4 programs by 2015</i></p>	<p>Achieved. A national crisis monitoring system was completed and adopted by the National Team for the Acceleration of Poverty Reduction (TNP2K), housed in the Office of the Vice President. The dashboard was uploaded to their internal website during early 2014 and is now in use.</p> <p>Achieved. 4 programs used the registry to identify beneficiaries:</p> <p>1) The UDB was used in 2013 for identification of the 15.5 million households that received a social protection card (<i>Kartu Perlindungan Sosial</i>), which entitled them to receive a temporary unconditional cash transfer (<i>Bantuan Langsung Sementara Masyarakat</i>, BLSM)</p> <p>(ii) additional allocations of rice distributed through the Rice for the Poor (<i>Beras Miskin</i>, Raskin) program</p> <p>(iii) financial assistance for poor students (<i>Bantuan untuk Siswa Miskin</i>, BSM)</p>	<p>Financing: INSTANSI DPPL; ECED STATCAP-CERDAS, and IFC investments into microfinance institutions</p> <p>Knowledge: AAA supporting Household shock monitoring and response project; integration of poverty reduction programs; social assistance reform; PNPM Rural Economic Impact Simulation; Village Infrastructure Census; Incidence of Benefits of Households; IFC advisory services for benefiting small farmers and out-growers.</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Community Development</p> <p>Improved local-level (<i>sub-districts and villages</i>) governance, quality of service delivery and socio-economic conditions in rural areas through wider implementation of poverty reduction and community empowerment programs and the provision of investment resources to support proposals developed by communities, using a</p>	<p>Community Development through the PNPM program has been expanded to reach over 60,000 villages. Impact evaluation shows it to be an effective program, but it needs to consolidate program management, enhance participation, particularly by women and marginalized groups.</p>	<p>3. Increased participation in ECED services particularly for the poor <i>Baseline</i> (2010): Gross enrollment rate of 33 % of 4-6 year olds enrolled in ECED <i>Target: 72%</i></p>	<p>(iv) the database was also used to extract beneficiary lists for the expansion of <i>Program Keluarga Harapan</i> (PKH), the conditional cash transfer program. Mostly Achieved. Based on Data Pokok PAUD 2014: GER for 3-6 year-olds is 65.16% (since the figure of 65.16% is for 3-6 rather than 4-6 and with 3 year-olds less likely to be in ECED programs, the 72% target for 4-6 year-olds may have actually been met)</p>	
<p>Improved local-level (<i>sub-districts and villages</i>) governance, quality of service delivery and socio-economic conditions in rural areas through wider implementation of poverty reduction and community empowerment programs and the provision of investment resources to support proposals developed by communities, using a</p>	<p>Community Development through the PNPM program has been expanded to reach over 60,000 villages. Impact evaluation shows it to be an effective program, but it needs to consolidate program management, enhance participation, particularly by women and marginalized groups.</p>	<p>1. 2.5m community members participate directly in meetings; 80% beneficiaries feel that project investments reflected their needs; >50% of poorest communities involved in planning and decision-making; 35% of villages provided feedback on health and education</p> <p>2. Women actively involved in decision-making <i>Target: 50% of women in planning/decision-making meetings; 30% of women in community oversight teams</i></p>	<p>Mostly Achieved. No data on beneficiaries' opinions on whether project investments reflected their needs; 50% of poorest communities involved in planning and decision-making meetings; 33% of villages provided feedback on health and education services Mostly Achieved. 45% of women in planning/decision-making meetings; 32% of women in community oversight teams</p>	<p>Financing: PNPM Rural IV; PNPM Rural 2012-2015; PNPM Generasi;; PSF MDTF; JSDF; KDP Sulawesi; Justice for the Poor; CPDA; IFC investment in MBK is expected to assist this micro-finance institution to reach one million low-income women entrepreneurs at the base of the pyramid by 2017. Similarly, IFC's engagement with BTPN is expected to also lead to significant reach of MSME clients. Knowledge: PNPM Rural Economic Impact Simulation;</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>participatory planning process.</p> <p>Enhance access to health and education services among the poor</p>		<p>3. Improved community access to and utilization of health and education services in the targeted areas.</p> <p><i>Targets:</i> >80% of pregnant women receiving 4 prenatal care visit; 80% of children under 5 weighed monthly; 50% of pregnant women attending nutrition counseling session; 50% of caregivers of children under 2 attending nutrition counseling session; 70% junior secondary enrollment rate</p>	<p>Mostly Achieved. 91% of pregnant women receiving 4 prenatal care visit; 75% of children under 5 weighed monthly; no data on pregnant women attending nutrition counseling session; no data on caregivers of children under 2 attending nutrition counseling session; 90% junior secondary enrollment rate</p>	<p>Village Infrastructure Census; Incidence of Benefits of Households; Local Level Institutions III; Community Management of Development Portfolio; Revolving Loan Fund Study; Governance Review; Integrated MIS for PNPMP; TA to Pokja Pengendali, Bappenas, KPDT; TA to Aceh Local Government; Papua analytical work; PNPMP Rural Sentinel Village Study</p>
<p>Food Security and Rural Development</p> <p>Increase food security and continue the revitalization of agriculture to enhance self-reliance in food, increase the competitiveness of agricultural products, increase the income level of farmers, and conserve environment and natural resources</p> <p>Reduce dependence on imports for staple foods while diversifying food consumption</p>	<p>The policy of rice self-sufficiency limits the amount of resources available for farm diversification and agricultural development systems.</p> <p>Limited access to technology and marketing services due to weak capacity of local and national government R&D and extension services prevents the emergence of viable agribusiness enterprises and farm diversification.</p> <p>Commodities are exported with limited domestic value addition and issues of quality, market positioning, and</p>	<p>1. Modernized client and market oriented marketing and extension services accessible by smallholders.</p> <p><i>Baseline:</i> less than 10% of farmers' access technology and market information through ICT.</p> <p>2. Increased value addition in smallholder-based agricultural export value chains (e.g. coffee, cocoa, and tea) coupled with higher productivity and more efficient marketing systems.</p> <p><i>Baseline:</i> Regulatory and policy framework of value chains of smallholder-based exportable commodities is weak with low capacity of support systems.</p>	<p>Achieved. 10% of IAARD's research and management staff undertook advanced training in accredited foreign institutions thru the SMARTD program</p> <p>Achieved. MoT launched Action Plans for enhancing the sustainability and competitiveness of at least one small-holder based beverage crop (e.g. coffee, cocoa, or tea)</p>	<p>Financing: Farmer Empowerment through Agricultural Technology and Information (FEATI) to enhance access to technology and market information for farmers; Sustainable Management of Agricultural Research and Technology Dissemination Project (SMART-D) to enhance R&D and technology dissemination in Agriculture; Water Resources and Irrigation Sector Mgmt (WISMP2) to enhance water security and water service delivery in 14 provinces and 101 districts;</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Improve income of smallholders and expand opportunities for nonfarm income activities.</p>	<p>competitiveness in the value chains persist.</p> <p>Mechanisms to promote improved service provision and planning in irrigation and water resources management not yet operational.</p>	<p>3. Improved water resource and irrigation infrastructure and service delivery and participatory and planning and coordination mechanisms established.</p> <p><i>Target:</i> Water security improved in at least 50 irrigation Districts.</p>	<p>Partially Achieved. The Government issues a service oriented irrigation policy and establishes a concept for modernization of irrigation management of large scale national irrigation systems.</p>	<p>Dam Operational Improvement and Safety Project (DOISP); to enhance safety and water security in areas covered by 34 dams and reservoirs;</p> <p>IFC investments in agribusiness companies with a view to enhance food security or to provide sustainable livelihoods to poor farmers. IFC's investment in the Wings Group and Mayora Indah support the production of new food and nutritional products.</p> <p>Knowledge: TA on Food Security to MoA; TA to the MoPW on irrigation management modernization [report submitted Nov 2013] and policy development; Enhancing Sustainability of Ind's Major Agricultural;</p> <p>Advisory: IFC advisory services work in sustainable palm oil to improve sustainable livelihoods for outgrowers</p>
<p>Health Outcomes</p>	<p>High out-of-pocket spending for health.</p>	<p>1. Quality assurance policies governing the education of health professionals with establishment of</p>	<p>Not Achieved. Comprehensive analysis of supply side availability and readiness</p>	<p>Financing: Ongoing and delivered: Health Professionals Education</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Improved population health outcomes, including improvements in life expectancy and reductions in maternal mortality and malnutrition to meet MDG targets by 2015</p> <p>Access to safe water and sanitation is a major factor in the health and overall welfare of Indonesians and expanding coverage is a priority</p>	<p>Low and variable levels, distribution and supply of health services, especially in poor and rural areas.</p> <p>Rising HIV/AIDS epidemic, especially in select provinces</p> <p>Slow reduction in maternal mortality, despite relatively high levels of skilled birth attendance and institutional deliveries</p> <p>Chronic malnutrition and stunting rates</p> <p>Access to safe water has stagnated since 2001 at less than half the population, in particular urban coverage from 60 percent to about 50 percent by 2009</p> <p>Access to sanitary facilities significantly lower than other comparable countries in the region</p>	<p>independent National Accreditation Agency, and National Agency for Competency; accreditation of 7 health professional schools.</p> <p>2. 7 million people provided with piped water supply and 3.4 million people provided with improved sanitation under PAMSIMAS</p>	<p>completed; study of human resources for health (HRH) policies completed; analysis of Jampersal/Jamkesmas policies to achieve UHC of maternal health care completed; second Integrated Biological and Behavioral Survey (IBBS) in Papua provinces completed; economic analysis of HIV/AIDS programs completed; analysis of multisectoral determinants of double burden of malnutrition (DBM) completed.</p> <p>Achieved. 7.8 million provided with piped water supply and 7.69 million with improved sanitation under the PAMSIMAS program</p>	<p>Quality; PAMSIMAS AF; Urban Water Supply & Sanitation TF; GPOBA Jakarta and Surabaya ; WASAP;</p> <p>IFC arranged financing of US\$85 million for Moya Water, a private sector operator providing clean water to Tangareng and other public water utilities, which was subsequently cancelled</p> <p>Knowledge: Policy dialogue on universal health coverage; supply side availability and readiness assessment; HRH study; HIV/AIDS IBBS survey; HIV/AIDS economic analysis; DBM analysis.</p> <p>Total Sanitation and Sanitation Marketing, Urban Wastewater Management; Surabaya water policy advice; WASAP; Water and Sanitation Financing Program; Assessment for Water Financing Facility; Lampung water project TAs. IFC advisory services for structuring water sector PPP projects</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<i>Pro-Green – Ensuring Sustainable Development and Improving Disaster Resilience</i>				
<p>Environment, Natural Resources and Climate Change</p> <p>Conservation and utilization of the natural environment that supports sustainable economic growth and increased welfare of the people</p> <p>GHG emission reduction of 26% by 2020 accompanied by the control and management of disaster risks, in order to prepare for the expected impacts of climate change.</p> <p>Promote renewable energy sources as part of a sustainable development strategy</p>	<p>Deforestation, peat burning, habitat loss; globally significant emissions: forests and land use change.</p> <p>Fragmented, overlapping and decentralized land use authority hampers ability to manage forest and peat lands.</p> <p>Climate change: threat to development, especially the poor; vulnerability in agriculture, water management, health, preparedness, resilience.</p>	<ol style="list-style-type: none"> 1. Fund for REDD established with legal, technical and managerial capacity to support and finance Indonesia's National REDD+ Strategy 2. Phase III of COREMAP providing expanded support for coral and marine protection. 3. Government of Jakarta launching green buildings code for commercial buildings in the city. 	<p>Partially Achieved. REDD+ Support Facility MDTF established at the WB to support GoI to set up a national TF for REDD+ implementation</p> <p>Achieved. Phase III of COREMAP delivered and under implementation</p> <p>Achieved. Government of Jakarta launched Green Building regulation number 38, effective 2013</p>	<p>Financing: REDD+ Support Facility MDTF; Green Growth Development Support Program; FCPF Readiness Grant; AMAN – Grant with JSDF Support; AAA on Mapping and Customary Land rights; FIP Forest Management Development Project; FMU support system MDTF (co-funding FIP fund); DGM for Indigenous Peoples and Local Communities (under preparation with FIP fund); Dayak development Project – Grant (under preparation with JSDF Support); Partnership for Market Readiness (PRM) grant was under preparation; Indo-WAVES Program was under preparation; HCFC Phase Out Management Plan; COREMAP CTI Phase 3; CCRES (GEF); Solid Waste Management Improvement Project for Regional and Metropolitan Cities was under preparation (might not make it into the blue book];</p>

	<p>Great renewable energy potential relatively untapped due to need for improved pricing and investment climate incentives.</p> <p>Power sector is fastest growing source of emissions, mainly from coal based power generation.</p> <p>Lack of coordination of policies and incentives for environmental improvement and climate change mitigation; weak economic incentives; policy distortions.</p> <p>Limited incentives for firms to develop forest plantation and climate change mitigation program on degraded grasslands and to apply best practices because of high costs and risks, as well as lack of knowledge and experience in blending forest-based climate change mitigation and commercial forestry investment</p> <p>Limited access to finance for private sector forestry enterprise, particularly along supply chains between upstream and downstream activities.</p>		<p>Landfill Gas Recovery project;</p> <p>IFC completed the four-year <i>Indonesia Sustainable Forestry Project</i>, with industrial forest plantation firms and the Indonesia Wood Producers Association. IFC supported for Ciputra Developments, for select Green buildings.</p> <p>IFC supported Ciputra Residence , in developing Green Buildings projects.</p> <p>Private sector FIP financing for forestry enterprise</p> <p>Knowledge: REDD+ Advisory Services on FREDDI (AAA and TA); REDD+ Support Facility to support National REDD+ implementation;</p> <p>Policy dialogue and AAA on Green Growth Development Support to BAPPENAS on key policy recommendations for the next RPJMN; AAA on Forest and Non-Forest Land; Forest Carbon Partnership Facility (AAA and TA); WAVES Program to support Green Development Agenda was under preparation; AAA on Benefit Sharing; TA and Inputs to ongoing Partnership for Market Readiness (PMR), AAA on mapping, and customary land Rights</p>
--	---	--	---

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
<p>Disaster Risk Management</p> <p>Enhance capabilities to improve disaster risk preparedness, mitigation measures, and post-disaster recovery and reconstruction responsiveness to strengthen sustainability</p>	<p>Duplication of efforts due to the plethora of development partners in Disaster Risk Reduction (DRR); new Disaster Management Agency structure may not have the capacity to mainstream DRR</p>	<ol style="list-style-type: none"> 1. Create evidence-based examples of practical and concrete disaster and climate risk reduction and adaptation measures (e.g., safer schools, resilient villages and urban wards with DRR plan and investment program) that can be scaled up and replicated nationally 2. Community-based settlement reconstruction incorporated as a Government program 	<p>Achieved. Mainstreaming adaptation and resilience issues into PNPM in urban areas in 4 high risk provinces, and in safe school rehabilitation using Government's DAK</p> <p>Mostly Achieved. GoI led disaster fund (IMDFF-DR) as new mechanism to institutionalize donor support with Disaster Management Fund (DMF) established and operational with World Bank as trustee, providing grant co-finance to government recovery program</p>	<p>IFC advisory services in areas of clean energy development, sustainable energy finance, green banking, sustainable forestry/ agribusiness, green building development etc.</p> <p>Financing: Ongoing Zero Contingent and Disaster Mitigation Components in WINRIP and PNPM Urban III; PNPM Rural III AF. Co-financing of GFDRR in PNPM-Urban III for community based prevention and preparedness investment, Additional Financing from Disaster Management Fund (DMF) to CSRRP for housing and settlement rehabilitation in Mt. Merapi</p> <p>Knowledge: GFDRR National risk assessment study/mapping as the basis for GoI's National Disaster Management Plan 2009-2014 and National Action Plan for DRR 2009-2014. Indonesia Disaster Risk Financing Study and policy dialogue, Capacity Building module on PDNA and Post Disaster Recovery; IFC advisory services to PT Asuransi Maipark Indonesia to develop a new index-based insurance</p>

Indonesia's Longer-term Objectives	Issues and Obstacles	Development Results To Which the WBG Will Contribute	Actual Achievements at end of CPS Period	WBG Modes of Engagement
				product called Earthquake Index Insurance. Development and utilization of InaSAFE risk analysis geospatial tool including methodology for hazard mapping. Publication of Safe School Technical Guidelines.

Sub-annex 3:1a: Achievements for the Pro-Growth Engagement

1. Under this engagement area, the WBG objective was to support development results to promote prosperity and growth across multiple sectors: strengthened macro stability and crisis management, improved the quality of public spending and financial management, maintained financial sector stability while enhancing access, improved the regulatory environment for competition and innovation, supported private sector companies in increasing competitiveness, improved connectivity and logistics performance, and increased the quantity and efficiency of investment in infrastructure while leveraging private sector participation. Overall performance under the pro-growth engagements was uneven resulting in an objective rating to be *moderately satisfactory* (see performance ratings against pro-growth indicators in the table below).
2. In support of **macro stability and crisis management**, the IBRD provided knowledge services to support crisis preparedness and led in late FY11 a package of contingency fiscal financing of approximately US\$5 billion that included US\$2 billion Program for Economic Resilience, Investment and Social Assistance (PERISAI) DPL-DDO, around US\$3 billion from the Government of Japan (JPY120 billion), AUD1 billion from the Government of Australia, and US\$500 million from the Asian Development Bank. Monitoring and coordination mechanisms facilitated a flexible response, including crisis-related provisions in the budget that allowed revision for expenditures and financing sources under a streamlined parliamentary approval process. The PERISAI DPL-DDO has been extended a number of times with the current closing date in December 2015.
3. IBRD engagement on the quality of spending and institutional capacity included development policy lending and knowledge services. There was a significant breakthrough on the fiscal side, with dialogue and knowledge services supporting politically difficult and long delayed measures to reduce fuel subsidies. Following the one-off 34 percent average gasoline and diesel price increase in November 2014, a new fuel subsidy scheme came into effect on January 1, 2015 under a Presidential Regulation (Perpres No. 191/2014). This adjustment is expected to help improve the quality of spending by switching resources to needed investment in infrastructure and social protection, among other areas. Still, shortfalls in executing the capital budget highlight continuing challenges in implementing public infrastructure, which is plagued by poor coordination, slow procurement processes, and delays in regulating new land acquisition legislation.
4. Bank support through the DPL series of Institutional, Tax Administration, Social and Investment (INSTANSI), supported by AAA financed by the EU, the Netherlands, and Switzerland, concluded in December 2014. This policy based lending helped strengthen financial management and budget processes. GoI has introduced medium-term budget forecasting tools and M&E processes to inform future budget allocations and regulations for accrual based accounting policies and chart of accounts. The roll out of the integrated budget and treasury management information system (SPAN) to 222 treasury offices was completed and the system operational since February 2015. AAA and TA provided by the Bank through Swiss trust fund financing introduce support to a Government Debt and Risk Management (DGRM) advisory program for risk modeling, contingent liabilities and asset liability management. Bank technical assistance also successfully supported a government/data portal and regulation on e-government/e-services.

5. Other institution building interventions during the CPS were somewhat less successful including for improved tax administration (Project for Indonesia Tax Administration Reform/PINTAR) which had to be cancelled and data sharing and coordination (Statistical Capacity Building Change and Reform for the Development of Statistics Project/STATCAP-CERDAS) which continues to struggle despite a restructuring.

6. The subnational PFM program, Public Expenditure Analysis and Capacity Harmonization (PEACH), closed in August 2014 after delivering six provincial updated PERs and the Sulawesi Development Diagnostics. IBRD lending supported the Local Government and Decentralization Project (DAK) program which is successfully providing incentives to local governments for better quality local infrastructure delivery. This is likely to become one of the Government flagship programs aimed at the one of the core problems of infrastructure delivery with additional financing provided in 2014 to further scale up the program and further extension expected in the next CPF period. This will be augmented by a better targeted set of subnational service delivery support using innovative tools first used by the Bank in LCR (RAAP and MIGESTION). IFC worked subnationally through subnational Doing Business reforms and PPP structuring for local governments.

7. Financial Sector - The WBG delivered a variety of lending and knowledge services to support financial sector stability and crisis preparedness, diversification, financial inclusion and support for economic development in collaboration with Australia, Canada, Finland, the Netherlands, Switzerland, and the USA. Box 1 describes the joint IBRD/IFC program to help transform the financial sector.

Box 1: The World Bank-IFC Joint Approach in the Financial Sector

❖ **Drawing upon the full range of WBG products for the financial sector.**

- For the World Bank, this included extensive use of AAA products such as sector diagnostics, policy notes, policy advice, and discrete technical assistance, investment lending and development policy lending in support of the GoI's medium-term reform agenda.
- For IFC, this included US\$525 million Investment Services committed in FY15 for expanding access to finance for micro and agri-finance, micro, small and medium enterprises & sustainable finance. In FY15, IFC FIG AS supported BTPN in developing and extending non-financial services to SMEs. IFC pilot to extend housing micro-loans was a partnership with Holcim Indonesia (a leading cement sector company) and Bina Artha Ventura (a micro-finance institution). IFC further supported Danamon Bank and Bank Muamalat to develop and extend innovative agri-financial services to SMEs in rural areas. IFC had also supported the establishment of a few new private equity fund managers (e.g. Falcon House Partners) that would expand the availability of growth capital to the medium-sized companies in Indonesia.
- F&M GP (IFC) supported development and expansion of innovative, inclusive and sustainable financial services to low income households and MSMEs in the areas of digital financial inclusion, responsible microfinance, financial infrastructure (credit reporting and secured transactions), capital markets development for infrastructure finance, and insurance (earthquake index insurance project).

❖ **Strengthening synergies.**

- With a focus on active collaboration, as well as coordination, the IBRD took the lead on legislative and regulatory reforms and institutional development, while the IFC focused on building private sector capacity. The financial sector policy dialogue was led respectively by IBRD with the relevant regulators and GoI while IFC facilitated feedback from private sector stakeholders on the policy making process.
- In selected areas, IBRD and IFC joined their resources to provide advice and support under single engagements with financial regulators. The most recent example was the advisory services engagement with Bank Indonesia where both IFC and IBRD experts were deployed in 2012 to produce a joint report with findings and recommendations related to “branchless banking”/agent banking reforms. These recommendations were taken into account by BI in its guiding principles for the five bank pilots in “branchless banking”/agent banking in 2013. In 2014, IBRD and IFC continued to join their resources in supporting the BI and OJK to issue the respective regulations. IBRD and IFC continued to collaborate closely in all areas of the financial sector development under the joint IBRD-IFC Finance and Markets Global Practice Group.

❖ **Expected Impact**

- Efforts were expected to have a transformational influence on the financial sector and supported the GoI in building a sound, stable and inclusive financial sector. The expected long term impact are: (i) Increased resilience and stability of the financial sector; and (ii) A deeper financial sector supporting an inclusive and sustainable growth. (Specific targets for the CPS period are found in the Results Matrix).

8. Development milestones were mostly met and reflected a stable banking sector that has continued to increase lending in a sound manner, with credit growth of 21 percent in 2013. The reformed fuel pricing system allowed lower economic fuel prices to be transmitted to consumers at 34 percent average increase in gasoline and diesel prices in November 2014. Inflation pressures were subsequently contained with credit growth decelerated to 11.4 percent year-on-year in December 2014, almost halving its 2013 high. Non-bank financial institutions kept pace and represented around 20 percent of financial assets.

9. Indonesia’s new Financial Services Authority (OJK) became fully operational and the Financial System Stability Coordination Forum (FKSSK) started to function. With the support of IBRD and Toronto Centre, the FKSSK conducted a financial crisis simulation, which identified gaps in the GoI crisis management framework. The PERISAI DPL-DDO and the Financial Sector Reform and Modernization DPL (FIRM) supported this process with the latter completed in December 2013. IFC assisted OJK in launching a Corporate Governance Road Map, which detailed a series of planned regulatory changes expected to enhance corporate governance performance in capital markets. To promote greater access, IFC had committed almost US\$637 million to five financial institutions targeting SME and micro-finance in the past three years. IFC supported pilots for a new financial instrument to provide micro-lending to small farmers, and partnering with a leading cement sector company and a micro-finance institution to extend micro-housing loans.

10. The WBG supported a greater role for the financial sector in economic development through the joint IBRD-IFC financed Indonesia Infrastructure Finance Facility (IIFF) for long term financing. In 2013, IIFF leveraged IDR2.5 trillion in commitments to a number of projects in the transportation, energy, and telecommunications. The WBG also assisted Bank Indonesia in facilitating a market study relating to proposed branchless banking regulations.

11. Competitiveness - The WBG engagement, in collaboration with Australia, Canada, Finland, the Netherlands, New Zealand, Switzerland, and the USA, focused on contributing to improving competitiveness through better trade logistics and ease in Doing Business. IBRD support went beyond expectation of the Investors Relation Unit to include investment facilitation more broadly, some of which had shown positive impact. These were now part of a broader set of reforms included in a policy package announced in October 2013. This accelerated effort to improve the business environment, especially related to small- and medium-enterprises, consisted of 17 actions across eight Doing Business areas. IFC had been supporting the Jakarta Provincial Government in streamlining business start-up procedures and cutting the time from 29 days down to 3 days.

12. However, despite the reform measures outlined above, significant concern remains with regard to the investment climate. A series of measures resulted in increased regulatory uncertainty. The government finally issued the long-awaited revised Negative Investment List (DNI). The new regulation includes provisions to further open a few sectors to foreign investment (increases in foreign ownership limits) and to facilitate PPPs in some sectors (e.g. energy). At the same time, new restrictions to foreign investment are added in many sectors, including energy and mineral resources, trade/distribution and horticulture. In addition, a number of legislative and regulatory changes have added to uncertainty and could worsen the investment climate overall, depending on how they are regulated and implemented. A new industry law was issued that provides the Ministry of Industry with authority to potentially intervene in the market and even in individual firm's decisions. Legislation in the mining sector designed to enhance local value-added has similarly resulted in uncertainty among investors.

13. Connectivity - The connectivity agenda had moved forward with WBG support through development policy lending (Connectivity DPL series) and knowledge services. A National Logistics Blueprint guided relevant agencies; logistics indicators for monitoring progress in policy reform was drafted; and an action plan identified 15 quick wins. Private sector participation in logistics and telecom was advancing. The GoI issued a National Port Masterplan; new ports in Makassar and Surabaya were being tendered to private investors; and a scheduling system would improve freight shipment. IFC financed one of the country's leading telecom tower operators to expand their services to remote areas. IFC also provided equity capital to Blue Bird, the largest taxi company in Indonesia. Regulations governing railways were enhanced to attract the private sector and use of existing infrastructure. Furthermore, performance-based contracting was being promoted for the road sector.

14. ICT has benefited from knowledge services for improved management of radio spectrum to support mobile broadband rollout in underserved areas; introduction of unified/open licensing regime; open access to passive infrastructure to support more competitive fixed broadband market. IFC provided US\$50 million loan funding for a telecom tower operator to assist in establishing telecom towers and connectivity across the country, including in frontier regions. However, a broadband project in eastern Indonesia was put on hold due to a corruption case with Ministry of Communications. Overall, broadband penetration rate reached the target of 30% in 2014.

15. Infrastructure – New projects in the infrastructure sector for IBRD in the CPS period included Power Transmission II and Infrastructure Guarantee Fund (IIGF). **In energy**, implementation of a large portfolio of ongoing projects continued throughout the CPS period in addition to the signing of the new Power Transmission II. Although overall the energy portfolio suffered from serious disbursement lags, particularly in the Upper Cisokan Pumped Storage, progress started to be seen in the Geothermal Clean Energy Investment Project where PGE has developed 170MW of new geothermal capacity. In addition several pieces of important technical and advisory work were delivered including a gas development master plan, an energy efficiency financing program and just in time policy advice on tariff structures and other regulatory reforms in the sector. This work is having a direct impact on energy sector policy and has laid the foundation for the Energy sector DPL series under the proposed future CPF.

16. During FY13-14, IFC invested close to US\$400 million (including mobilization) in infrastructure projects including wind and hydro power, water, logistics, and telecommunication towers sectors. MIGA's two guarantees were also in the energy and extractives sector.

17. In other areas of infrastructure, implementation continued in projects associated with irrigation, in dam improvement, roads and flood control (Water Resources and Irrigation Management (WISMP II), Dam Operational Improvement (DIOSP) and Western Indonesian Road Improvement Project (WINRIP), and flood control (Jakarta Urgent Flood Mitigation Project). While all suffered from implementation delays, important intermediate results were achieved. In the irrigation sector, the program supported the rehabilitation of 29 large dams and the improvement of more than 200,000 hectares in irrigated command area, improving water security and contributing to continued irrigation production. On flood management in Jakarta, initial progress was made to initiating complex dredging operations on floodways, canals and retention basins. In the case of roads, with the implementation delays of WINRIP, the results indicator for expected outcomes was reduced in the Results Matrix to a more feasible level at mid-term of this CPS period. The WINRIP program successfully supported 87 kilometers of road improvements, with contracts for a further 550 kilometers of road improvements under a bidding process or implementation at the close of the CPS period.

18. In addition to IBRD lending, a large body of AAA and TA, primarily financed by and with technical support from Government of Australia, provided assistance to the Government at the central and local levels on a number of critical infrastructure issues. In urban transport, the Bank supported the city of Surabaya to develop a feasibility study for an integrated transit-oriented development (TOD) concept plan as part of the Surabaya Mass Transit System (SMART) under development. Additionally, in the roads sector, the findings of the Road Sector Public Expenditure Review (2012) supported the Ministry of Public Works, Directorate General of Highways, to focus on critical weaknesses in the maintenance of national, provincial and district roads. On infrastructure finance, the Bank has supported the development of a detailed business plan and operational model for a Regional Infrastructure Development Fund (RIDF) that will be implemented through PT. SMI to support access to debt financing for local governments for economically viable infrastructure projects. Bank supported AAA during the CPS period helped Bappenas develop a Roadmap for Housing Policy (2015), which serves as the technical and policy foundation for the GoI National Affordable Housing Program.

19. IFC also faced challenges in the ability to provide financing for certain infrastructure projects. For example, the financing of toll roads could not go forward given the risk allocation, in connection with areas such as termination compensation, rendered the concession agreements non-bankable according to international standards. In the water sector, IFC successfully syndicated project financing for bulk water supply to the Tangerang utility company (PDAM) alongside Indonesia Infrastructure Finance (IIF) and PT Sarana Multi Infrastruktur - Persero (PT. SMI). However, the project was put on hold after local elections, when the newly elected mayor launched an investigation of the award of the service agreement. The sponsor decided to cancel the loan while the investigation was in progress.

20. PPPs: The IIGF was established to support the institutional framework for PPPs in infrastructure and complementary IFC advisory services provide support for structuring PPP projects in water and power sector projects. Supported by knowledge services, a Government Viability Gap Funding (VGF) mechanism also became operational. However, regulatory uncertainty and lack of coordination at the national level as described in main text of this CLR continue to impact negatively on PPPs and of the writing of this CLR, no PPP has yet succeeded in Indonesia. It is too soon to judge whether the WBG investment in the VGF will bear fruit.

Summary of Achievements under the Pro-Growth Pillar

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale			
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved
<i>1. Connectivity: Accelerate growth and enhance equity through domestic connectivity</i>						
1.1) Improved ranking of Indonesia's Logistics Performance Index	<i>Baseline (2012):</i> Indonesia ranked at 59	Indonesia's 2014 LPI ranking has improved to 53	X			
1.2) Increased access for broadband internet services for population	<i>Baseline:</i> 5% in 2011 <i>Target:</i> 30% by 2015	By end of CY2014: Broadband: 34.5% The sector is growing fast and a 37% penetration by end of CY2015 is expected	X			
1.3) Reduced cost and time to export and import, as indicated in the Doing Business Survey	<i>Baseline (2012):</i> Export: 17 days, US\$644 per container; Import: 27 days, US\$660 per container	Doing Business 2015: Export: 17 days, US\$572 per container; Import: 26 days, US\$647 per container				X
<i>2. Competitiveness: Enhance competitiveness through improved environment, including open, competitive sustainable and inclusive markets for business to expand and increase productivity</i>						
2.1) Policy framework adopted to improve competitiveness through better trade logistics	<i>Baseline:</i> Score in 2012 Logistics Performance Indicators (LPI) for logistics quality competence of 2.85 for border management of 2.53 <i>Target:</i> Improved 2014 LPI score on logistics competence of 3.00 and border management of 2.7; National Single Window acting as the single reference for cross-border trade and introduction of	2014 LPI on logistics competence: 3.21; LPI on border management: 2.87; INSW task force and steering committee set up by a Presidential Regulation; SSO mechanism used by 6 agencies	X			

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale			
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
2.2) Improved regulatory environment, interagency coordination, and consultative process in business environment that affect competitiveness of Indonesia's private sector, facilitate innovation and investment facilitation and services	single sign-on for all participating agencies <i>Baseline:</i> 50 days to start a company; 570 days to enforce contract; weak consultative processes prior to issuance of regulations; uncoordinated investment policy; weak investor inquiry handling <i>Targets:</i> 30 days to start a company; less than 500 days to enforce contract; coordinated investment policy and improved transparency in regulatory making; improved performance of investor inquiry handling	Doing Business 2015: 52.5 days to start a company; 471 days to enforce a contract; consultative regulatory making process remains weak; investment policy coordination improved during the negative investment list (DNI) process; investor inquiry handling system improved at the Investment Coordination Board (BKPM); the law was reformed in 2015 but DB methodology recorded only the practice, but not changes in the law, which requires a 29 day reduction, from 52.5 to 33.5 days		X		
3. Financial Sector: Promote the development of a stable, efficient and inclusive financial sector in Indonesia in order to foster accelerated economic growth, reduce poverty and strengthen economic competitiveness on a sustainable basis						
3.1) Maintain financial sector stability, deepened financial sector and strengthened private sector through improved regulatory and supervisory frameworks; maintained soundness of banking sector	<i>Baseline:</i> Key financial ratios of banks (CAR, NPL, NIM) are sound and LDR is 75% (Dec 2011)	As of Mar 2015, NPLs are at a sound 2.3%. CAR is at a sound 20%. NIM stable, LDR above 80% the whole period	X			

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
3.2) Growing capital market and NBFI and a higher access to formal financial services by the Micro-SMEs and underserved populations	<p><i>Targets:</i> Banking financial indicators remain sound and LDR at minimum 80%</p> <p><i>Baseline:</i> 41% of households have access to bank accounts; banking loan to SMEs is 50% (2011); disbursed KUR (credit program for SME) amounted to IDR 63 trillion (2011)</p> <p><i>Targets:</i> Bank loans to SME continue to grow and are maintained at 50% of total bank loans; proportion of households with savings account increased</p>	<p>KUR exceeded target in 2013 & 2014 through Oct, disbursement reached IDR 33.1 trillion or 90% of 2014 target. There was 1.7 million new account holders of Tabunganku in the first semester of 2014. OJK is fully operational as an integrated financial sector authority as of Jan 2014; the Coordination Forum for Financial System Stability (FKSSK) is operational. FKSSK meeting is quarterly & the Deputies FKSSK meeting is monthly. Infrastructure Finance Facility is providing long term financing for infrastructure projects; as of end Sep 2014, IFF, the sole project implementing agency, has entered into IDR 3.2 trillion credit commitments for various infrastructure projects such as toll road, telecommunications, power generation and aircraft maintenance facility. Altogether, these commitments leveraged</p>	X				

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale					
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified	
		about IDR 29 trillion total financing from all participating lenders						
<i>4. Infrastructure: Increase the level and efficiency of public and private investments in infrastructure to meet needs and strengthen competitiveness</i>								
4.1) Increased effective km of national roads maintained and developed	Baseline: 1500 Km maintained through betterment works and 3000 km developed (2005) Target: Increase by 25%/year over 2011-2015 period	Cumulative Maintenance Achievement 2011-2014: 4,792 km (44% of target), of which 3% contributed by WBG Cumulative Road Development Achievement 2011-2014: 12,270 km (57% of target), of which 1% contributed by WBG Data for 2015 not yet available		X				
4.2) Reduced power infrastructure bottlenecks to meet demand and increase access	Target: Reduce power supply interruption time per customer from 5h/year to 2h/year (2012-2015)	2013: 5.76h/customer				X		
4.3) Increased private investment in infrastructure through the PPP framework		Expected to be on track once Viability Gap Funding (VGF) approved for Lampung or Umbulan water supply		X				
<i>5. Local Government: Strengthen local government institutions to improve accountability and increase the level and of impact public spending on service delivery and support metropolitan areas and medium-sized cities to improve infrastructure</i>								
5.1) Improved fiduciary, social and environmental management as well as technical performance of LGs in the delivery of basic services financed using DAK transfers	Expand PEACH to additional provinces	PEACH program was not continued, and a new engagement on local service delivery is currently being finalized			X			

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale			
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved
5.2) Improved capacity of research institutions, media and CSOs to assess and monitor sub-national PFM (PEACH): enhanced capacity of local institutions to analyze and monitor public expenditure and PFM and to demand better local government performance in these areas	Through the PEACH initiative	PEACH program completed in Aug 2014 with all deliverables including 6 provincial update PERs delivered		X		
6. Macroeconomic and Fiscal Management: Strengthen central government capacity for implementing contingency financing, crisis management and quality evidence-based macro and fiscal policy						
6.1) Enhanced Government's ability to meet its financing needs and maintain critical public expenditures, as measured by continued access to markets, and level of maintenance and capital expenditures		Targets met for 2012 and 2013 and on track in 2014 with net securities issuance reached 104% of the target based on the revised budget, with gross securities issuance at 100%	X			
6.2) Budget allocations informed by monitoring and evaluation. Increase in the number of line ministries and agencies reporting through BRISA (the monitoring and evaluation system) from a baseline of zero in FY11		Forecasting tools in place with expanded discussion of medium-term macro fiscal sensitivity analysis and projections in the annual budget financial note. However, expenditure allocations from the MTFF of the previous year are not used as the starting point for discussions on the budget in the following year. Options to strengthen the institutional arrangement within the MoF for preparing the MTFF are being examined in the		X		

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
		<p>context of ongoing training engagement.</p> <p>BRISA is a web-based Bureaucratic Reform (BR) Monitoring and Evaluation System which was launched nationally in 2012. The administrator of BRISA is the National BR Management Unit called UPRBN under the Ministry of Administrative and Bureaucracy Reform (MenPAN-RB). Until mid of 2013, there had been more than 70 line ministries and agencies that have reported their BR progress to the MenPAN-RB. However, with change of leadership, this M&E system has been made inactive since end of 2013.</p>					
<p><i>7. Strengthening the Public Sector: Strengthen central government institutions and systems to enhance public financial management and governance to increase the development impact of priority budget expenditures</i></p>							
7.1) Strengthened multi-year perspective in fiscal planning, expenditure policy and budgeting	<p><i>Target:</i> improve PEFA PI-12 rating to at least a B+ by 2015</p>	<p>No new PEFA assessment conducted. While there was some progress on improving the transparency of the MTEF process, it is unlikely to be sufficient to improve the C+ rating for PI-12</p>				X	
7.2) Number of line ministries receiving unqualified opinions for their annual financial statements	<p><i>Baseline:</i> 63% of Ministries & Agencies in Financial Statement <i>Target:</i> 85% of Ministries &</p>	<p>76%</p>		X			

Indicator	Target/ Baseline	Achieved	Rating as per CPF CLR Rating Scale					
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified	
7.3) Implement new Financial Management Information System in all 177 Treasury Local Offices	Agencies in Financial Statement for FY2013	System development completed in 2013; SPAN rolled out to all 222 treasury offices with 100% of all financial transactions conducted through the system as of Feb 2015	X					
<i>Total for Pro-Growth Engagement:</i>	NA	NA	7	2	5	3	0	
<i>Percentage of Target Indicators for Pro-Growth Engagement:</i>	NA	NA	41.18%	11.76%	29.41%	17.65%	0%	

Sub-annex 3:1b: Achievements for the Pro-Jobs Engagement

1. **The pro-jobs engagement area complements that of the pro-growth to focus on human capital development to reduce a large skills gap.** While sustained growth can work to absorb more workers into the market and investment can enhance the equity of growth, improving human development is fundamental for increasing labor productivity and shared prosperity. The share of the population of “productive” age relative to older people is large in Indonesia, and will remain so for the next 15 years. This demographic dividend presents a window of opportunity. The focus of WBG engagement was to support strengthening the overall governance and management of the education system, improving the education quality and performance of teachers, enhancing human resource capacity in R&D, and facilitating the institutional transformation required to implement a nation-wide social insurance reform. With a more direct role in job creation, IFC, apart from its support for access to finance, worked directly with manufacturing companies that generated good quality jobs as well as with SMEs to develop supply chain linkages. Overall rating for the pro-jobs engagements is *satisfactory* (see performance ratings against pro-jobs indicators in the table below).

2. IFC and MIGA had a direct role in job creation through engagement with individual companies and support to the SME sector. IFC in addition to its support for access to finance, worked directly with manufacturing companies that generated good quality jobs as well as with SMEs to develop supply chain linkages. Investments in companies such as PT Panca Amara Utama (greenfield ammonia manufacturing facilities) supported direct job creation in remote islands. Investments in PT Mayora Indah Tbk and the Wings Group supported job creation in hundreds of thousands of SMEs in their supply chains. IFC’s financing for food products companies had links also to hundreds of thousands of small retail and trading chain partners for these companies. IFC financing to banks such as PT Bank Danamon Tbk and PT Bank Mayora were to expand their SME financing, whereas to others such as PT Mitra Bisnis Keluarga Tbk and Bank BTPN was for expanding their microfinancing operations. IFC also provided equity support to PT Blue Bird Tbk, the leading taxi services operator in Indonesia which provides employment to tens of thousands of near poor drivers. MIGA had two active projects guaranteed for investment during the CPS period: the Rajamandala Hydropower IPP (guarantee issuance of US\$200 million) and the Weda Bay Nickel (guarantee issuance of US\$207 million).

3. The WBG also supported government efforts to increase access to quality education and training. The Government has made education a priority, and since 2009 allocated 20 percent of the national budget to the sector. While increases in investment have led to significant improvements in education access and equity, the quality of basic education remained persistently low and unevenly distributed across regions. In the latest OECD PISA international learning assessments, three-quarters of Indonesian 15 year olds were rated at or below the lowest benchmark—a level associated with only rudimentary levels of proficiency and a lack of higher order thinking skills. Improving access and quality of secondary education, as well as making better use of existing resources, including improvements in teacher competency, remains as significant challenges in the sector. To illustrate, student teacher ratios are very low in Indonesia compared with other middle income countries. Recent analytical work shows that raising basic education student-teacher ratios to the average for lower middle income countries could save as much as 16% of the total education budget.

4. Through a program of knowledge services, supported primarily by the Netherlands and the EU, the WBG helped to identify challenges and develop solutions to improve the quality and management of teachers, education financing and the local delivery of education services, which were incorporated in the 2015-2019 RPJMN. The BERMUTU project, which supported the implementation of the Teacher Law, contributed to increasing the number of teachers with at least S1 (bachelor) degree by more than 800,000 by the end of CY2015, well above the target. The WBG also helped the government develop a blueprint for reforming the skills training system in order to address the skills shortage in the short term. The Bank's intervention in quality and affordable Early Childhood Education and Development (ECED) targeted local level service delivery concentrating on 6,000 ECED centers in 3,000 poor villages, increasing preschool enrollment and school readiness, particularly among poor children. During this CPS period, two operations— Research and Innovation in Science and Technology Project (RISET) and Sustainable Management of Agriculture Research and Dissemination Project (SMARTD)—were initiated to support research and innovation and to enhance technology development and uptake. Both operations are on track to reach their targets to enhance staff capacity but it is too early to judge the impact of either operation on the pro-jobs agenda. Overall, whilst improvements in educational quality in the country are lagging, the analytic work undertaken by the Bank has provided the data and set the agenda for the next 5 year period.

5. The WBG has also been the leading partner in assisting the government with the reform of its social security system. This is arguably the biggest and most extensive social security reform in the world, and the most intensive engagement on social insurance reform anywhere in the Bank. The Bank worked with multiple ministries and organizations, including Ministry of National Development Planning/National Development Planning Agency (Bappenas), National Social Security Council (Dewan Jaminan Sosial Nasional or DJSN), Financial Services Authority (Otoritas Jasa Keuangan or OJK), Ministry of Finance, Ministry of Labor, Coordinating Ministry for Human Development and Culture (Kemenko PMK) and Coordinating Ministry for Economic Affairs (Kemenko Ekonomi), as well as other partners including ADB, Australia, Germany, and the ILO, to deliver a large program of knowledge, technical assistance and capacity building services. The Bank team provided extensive assistance with capacity building, communication and consensus building and assisted the government with the design of the system and provided extensive inputs to the Roadmap for Implementation of the Employment Programs, which was launched by the government in April 2014 and was subsequently issued as part of a Presidential Regulation. Key areas of support included membership expansion, contribution collection, risk management training, improvements in governance, reductions in error, fraud and corruption (EFC) risk, and use of the unique ID (NIK) in social security administration. The Bank team used the Bank's PROST model to provide extensive analysis of the cost, required contributions and long-term fiscal sustainability of the SJSN programs.

Summary of Achievements under the Pro-Jobs Engagement

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale			
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved
<i>1. Education: Provide good quality education to all Indonesians and to produce a smart and competitive work force; enhance research and development, science and technology</i>						
1.1) Improved education quality and performance of teachers; increased number of basic education teachers meets academic qualification mandated by the Teacher Law	<p><i>Baseline (2011):</i> 35% of teachers in primary and 80% of junior secondary schools hold S1 degree or more</p> <p><i>Target:</i> 82% of primary and 98% junior secondary school teachers hold S1 degree or more. [Target revised based on updated baseline data]</p>	Data from the 2014 NUPTK database: 64% of SD and 88% of SMP teachers with an S1 degree			X	
1.2) Improved public R&D human resource capacity	<p><i>Target:</i> Masters or PhD degree holders in public research institutes (LPNK) increases from 15% to 17%</p> <p>LPNK institutional assessments completed and reform milestones set</p>	As per the Riset Project Annual Work Plan 2015, the number of staff with S2 and S3 degrees is about 3,100 out of 14,498 total staff, or about 21%	X			
<i>2. Social Insurance: Provide universal coverage of social insurance to protect workers and the poor from adverse life events or external shocks through the five national social insurance (SI) programs outlined in the SJSN (national social security system) Law and the BPJS (national social security administrators) Law, covering all formal and informal sector workers</i>						
2.1) Conversion of Jamsostek to a not-for-profit institution that can administer the SJSN pension and old age savings programs	Roadmap covering SJSN pension and old age savings programs completed	Roadmap has been completed and launched. Government regulations regarding the roadmap has been issued	X			

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
2.2) Expand membership and improved contribution collection from the formal and informal sectors	Design and financing strategy, including investment policy, for SJSN pension and old age savings plans finalized.	The SJSN Health program began on January 1, 2014 and is not expected to achieve universal coverage until the end of 2019. Most efforts were focused on institutional transformation and program consolidation. Nevertheless, some progress was made in enrolling informal sector workers and expanding the number of workers paid for by the government. Membership expansion will receive more attention in CY15 and CY16. The BPJS Employment programs do not begin until July 1, 2015, and therefore membership expansion is not yet an issue. According to the government roadmap, membership expansion will take place more slowly, by 2019.		X			
<i>Total for Pro-Jobs Engagement:</i>	NA	NA	2	1	1	0	0
<i>Percentage of Target Indicators for Pro-Jobs Engagement:</i>	NA	NA	50%	25%	25%	0%	0%

Sub-annex 3:1c: Achievements under the Pro-Poor Engagement

1. This engagement area was designed to target the poor and vulnerable with interventions to improve their social welfare, livelihoods, and access to finance and services.

Policy reform efforts were aimed at improving the effectiveness of poverty reduction programs and addressing the problems associated with high levels of vulnerability by improving and extending safety nets. The WBG aimed to support development results that would enhance the design and performance of household-targeted and community development programs, improve food security through interventions in the private sector, improve health and nutrition outcomes through improved access to quality health care, including maternal and child health services, enhance HIV/AIDS surveillance, and increase access to safe water and sanitation. Overall rating for the pro-poor engagements is *satisfactory* (see performance ratings against pro-poor indicators in the table below).

2. **Poverty Targeting:** Through an extensive knowledge services engagement and with support from the INSTANSI DPL, the Bank helped the government to adopt and implement reforms which were proposed in the flagship report, Targeting Poor and Vulnerable Households in Indonesia released in 2012, a series of ‘just in time’ policy notes, the Development Policy Review and a long-term dialogue established between the Bank and the Ministry of Finance. A unified database of more than 24 million poor and vulnerable households, which was created with IBRD support, was used to select beneficiaries for the largest national social assistance programs: (i) health fee waivers (Jamkesmas), (ii) financial assistance for poor students (BSM), (iii) expansion of the conditional cash transfer programs (PKH), and (iv) subsidized rice distribution (Raskin), as well as a number of local government programs.

3. By bringing together the Bank’s high quality macroeconomic policy support with its technical assistance in creating a unified database of more than 24 million poor and vulnerable households, the Bank was able to help the new Government in November 2014 usher in one of the most significant policy reforms in reallocation of budget resources away from US\$2.8 billion annual fuel subsidies to temporary and long-term social assistance programs and productive investment in infrastructure. Coverage for BSM (financial assistance for poor students) doubled from 8.7 million to 16.6 million beneficiaries, coverage for the PKH (conditional cash transfers) expanded from 1.5 million households in 2012 to 3.2 million households by 2014, and 15.5 million social protection cards were distributed to households extracted from the unified database. Assistance was also being provided to government partners to mitigate household vulnerability by developing a permanent shock/crisis monitoring system. The WBG also helped to develop a national crisis monitoring system to improve responsiveness to shocks. This national crisis monitoring system was completed and adopted by the National Team for the Acceleration of Poverty Reduction (TNP2K) and is housed in the Office of the Vice President. Finally, a major study on inequality and shared prosperity was completed, informing government policies to reduce inequality.

4. The community-based National Community Empowerment Program (PNPM) programs—Rural, Urban and Generasi—that began over a decade ago and expanded across every rural and urban community during the period of the CPS continued to anchor the WBG’s efforts in improving sub-district and village level governance, quality of service delivery, and socio-

economic conditions in rural and urban areas. With the support of the WBG and other development partners, including ADB, Australia, Canada, Denmark, the EC, IsDB, Japan, the Netherlands, the UK and the USA, PNPM has been an effective platform for channeling development resources, empowering communities and ultimately improving socio-economic conditions in the villages and urban districts where it operates. PNPM demonstrated that quality and cost effective investments in infrastructure and service delivery could be achieved by funneling financing from the central government to the local level by embedding facilitation and community participatory processes in the planning, budgeting, and implementation of activities. PNPM provided the basis for the new Village Law, which the WBG has begun to help implement under the CPS period although the deeper engagement in this area will fall into the new CPF period. The Village Law aims to substantially increase the resources available to and responsibilities of villages while strengthening the systems developed by PNPM to maximize the impact of those resources on rural development. Targets set for direct participation of community members, women involvement in decision-making, and improved community access to and utilization of health and education services in targeted areas were broadly achieved or exceeded.

5. Specifically, PNPM Rural helped finance community driven development projects in around 70,000 villages throughout the country and raised incomes, reduced poverty rates, and increased access to services, especially in poorer households and communities. The PNPM Urban program reached 5.5 million household beneficiaries and provided 9,115 kilometers of roads, 3349 km of drainage and irrigation canals, 131,520 units of solid waste and sanitation facilities, 1,497 community health facilities, 85,437 reconstructed poorest houses in thousands of urban wards across the country. The PNPM Generasi program supported a range of innovative activities around inclusion, frontline service delivery and local governance. The use of incentivized block grants to increase utilization of basic health and education services was tested in 5,400 poor rural villages. The WBG continued to work with donor partners, the ministries of Health and Education, and local governments to improve the quality of health and education services and foster accountability in local service delivery, and partnered with the Millennium Challenge Corporation (MCC) and the Millennium Challenge Account-Indonesia in focusing on nutrition and reducing stunting. IFC's investment in micro-finance has been supportive and is expected to reach one million low-income women entrepreneurs by 2017.

6. The delivery towards enhanced food security during this CPS period came primarily through interventions with the private sector supported by IFC. Knowledge services in FY13 were used to identify (i) the causes of palm oil smallholder productivity gaps and potential solutions; (ii) current company practices and guidance for community engagement and investment in the sub-sector; and (iii) best practices and funding models to assist smallholders to access certified markets. The WBG joined the Partnership for Indonesian Sustainable Agriculture (PISAgro) with IFC leading the working group on agri-finance, and engaging a partner bank to provide a credit package for cocoa smallholders to increase productivity and farmer income. A Country Situation Analysis (CSA) for engagement in the palm oil sector was initiated to explore sustainable practices for small farmers. A Canadian supported Agribusiness Program was established at IFC for working with private banks to implement a rural business model to manage agricultural risks integral to small farmers and rural business markets. Implementation of the Bank's Water Resources and Irrigation Management Project II, noted in the infrastructure section under the Pro-Growth pillar above, made seven national and provincial basin agencies fully functional and increased irrigated areas to

177363 hectare. In collaboration with ADB, Government of Australia, FAO, and Government of Switzerland, WB also delivered knowledge services that helped to define the medium term plan in anticipation of rapid transformations in the economy, increasing competition for resources (land and water), and the transition for subsistence agriculture to commercially viable farming. A tea revitalization report, in the form of a road map, and coffee value chain assessment were submitted to the Ministry of Trade, Coordinating Ministry for Economic Affairs, Ministry of Industry, Bappenas, Ministry of Agriculture, and Ministry of State Own Enterprises in October 2014 and April 2015, respectively.

7. The WBG supported, through knowledge services³² and financing, government efforts to improve health outcomes particularly in the latter part of the CPS implementation period. Government introduced in January 2014 the National Health Insurance Program (JKN), which aims to provide universal health insurance by 2019. A major WBG study identified significant gaps in primary health facilities, both in terms of inputs and human resources including key services to address the persistent high levels of maternal mortality and child malnutrition. This analysis and the policy recommendations that emerged from it have substantially informed the 2015-19 RPMJM as well as ongoing efforts to increase public funding for health and to improve health service delivery. Through the HPEQ project, the WBG helped develop the first competency-focused accreditation system for health training institutions, with 168 schools being accredited by the end of CY14 and improvements in the percentage of graduates that pass the national competency test. Access to clean water advanced with additional financing for the Rural Water and Sanitation Program (PAMSIMAS). Some 5.1 million people were provided with water and 5.6 million people in 20,000 villages with improved sanitation through the program. IFC had arranged financing of US\$85 million for a private sector operator providing clean water to public water utilities, but this was subsequently cancelled. Technical support for an investment financing facility for local water companies is underway, but its establishment is delayed. Discussion is also underway for a linked operation to support urban water supply and sanitation.

8. In the case of access to finance, the WBG's long-term engagement with Bank Indonesia and OJK resulted in the almost doubling of universal financial access from 20% in 2011 to 36% in 2014 (FINDEX database). The WBG was instrumental in assisting the GoI to re-design its basic savings account (Tabungan-Ku) and launching of the basic micro-insurance product. Seven million new accounts were established in the first few months after the launch.

³²The knowledge services program included a comprehensive analysis of supply side service availability and readiness, covering maternal health and non-communicable diseases; a study of human resources for health policies; an analysis of measures under the universal health insurance program to help promote improved maternal health care; an analysis of central government expenditures to help identify lessons and inform financing options for future expansion of UHC; an economic analysis of HIV/AIDS programs; second Integrated Biological and Behavioral Survey (IBBS) in Papua provinces; Donor funding for an analysis of multisectoral determinants of double burden of malnutrition (DBM) was not realized, but the issue was brought to the attention of policymakers and the public through a comprehensive study focused on DBM in Indonesia and through the Indonesia Economic Quarterly (IEQ) released in July 2013.

Summary of Achievements under the Pro-Poor Engagement

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale			
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved
<p><i>1. Poverty Targeting: Reduce absolute poverty and improve income distribution through social protection that is based on the family, community empowerment and expansion of economic opportunities of the low income population. From 12% poverty in 2012, Government is targeting for single digits by 2014</i></p>						
1.1) National shock monitoring system developed and operational		A national crisis monitoring system was completed and adopted by the National Team for the Acceleration of Poverty Reduction (TNP2K), housed in the Office of the Vice-President. The dashboard was uploaded to their internal website during early 2014 and is now in use.	X			
1.2) Poverty programs management units using the national registry of poor and vulnerable households to identify beneficiaries	4 programs by 2015	4 programs used the registry to identify beneficiaries: 1) The UDB was used in 2013 for identification of the 15.5 million households that received a social protection card (<i>Kartu Perlindungan Sosial</i>), which entitled them to receive a temporary unconditional cash transfer (<i>Bantuan Langsung Sementara Masyarakat, BLSM</i>) (ii) additional allocations of rice distributed through the Rice for the Poor (<i>Beras Miskin, Raskin</i>) program (iii) financial assistance for poor students (<i>Bantuan untuk Siswa Miskin, BSM</i>) (iv) the database was also used to extract beneficiary lists for the expansion of	X			

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
1.3) Increased participation in ECED services particularly for the poor	<i>Baseline (2010):</i> Gross enrollment rate of 33 % of 4-6 year olds enrolled in ECED <i>Target: 72%</i>	<i>Program Keluarga Harapan (PKH), the conditional cash transfer program.</i> Based on Data Pokok PAUD 2014, gross enrollment rate for 3-6 year olds: 65.16% (Since the figure of 65.16% is for 3-6 rather than 4-6 and with 3 year-olds are probably less likely to be in ECED programs, the 72% target for 4-6 year olds may have actually been met)		X			
2. Community Development: Improved local-level (sub-districts and villages) governance, quality of service delivery and socio-economic conditions in rural areas through wider implementation of poverty reduction and community empowerment programs and the provision of investment resources to support proposals developed by communities, using a participatory planning process. Enhance access to health and education services among the poor.							
2.1) Direct participation of 2.5m community members	<i>Targets: 80%</i> beneficiaries feel that project investments reflected their needs; >50% of poorest communities involved in planning and decision-making meetings; 35% of villages provided feedback on health and education services	No data on beneficiaries' opinions on whether project investments reflected their needs; 50% of poorest communities involved in planning and decision-making meetings; 33% of villages provided feedback on health and education services		X			
2.2) Women actively involved in decision-making	<i>Target: 50%</i> of women in planning/decision-making meetings; 30% of women in community oversight teams	45% of women in planning/decision-making meetings; 32% of women in community oversight teams		X			

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
2.3) Improved community access to and utilization of health and education services in the targeted areas	<i>Targets:</i> >80% of pregnant women receiving 4 prenatal care visit; 80% of children under 5 weighed monthly; 50% of pregnant women attending nutrition counseling session; 50% of caregivers of children under 2 attending nutrition counseling session; 70% junior secondary enrollment rate	91% of pregnant women receiving 4 prenatal care visit; 75% of children under 5 weighed monthly; no data on pregnant women attending nutrition counseling session; no data on caregivers of children under 2 attending nutrition counseling session; 90% junior secondary enrollment rate		X			
3. Food Security and Rural Development: Increase food security and continue the revitalization of agriculture to enhance self-reliance in food, increase the competitiveness of agricultural products, increase the income level of farmers, and conserve environment and natural resources. Reduce dependence on imports for staple foods while diversifying food consumption. Improve income of smallholders and expand opportunities for nonfarm income activities.							
3.1) Modernized client and market oriented marketing and extension services accessible by smallholders	<i>Baseline:</i> less than 10% of farmers access technology and market information through ICT.	10% of IAARD's research and management staff undertook advanced training in accredited foreign institutions thru the SMARTD program	X				
3.2) Increased value addition in smallholder-based agricultural export value chains (e.g. coffee, cocoa, and tea) coupled with higher productivity and more efficient marketing systems	<i>Baseline:</i> Regulatory and policy framework of value chains of smallholder-based exportable commodities is weak with low capacity of support systems.	MoT launched Action Plans for enhancing the sustainability and competitiveness of at least one small-holder based beverage crop (e.g. coffee, cocoa, or tea). [On track]	X				

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
3.3) Improved water resource and irrigation infrastructure and service delivery and participatory planning and coordination mechanisms established	<i>Target:</i> Water security improved in at least 50 irrigation Districts.	The Government issues a service oriented irrigation policy and establishes a concept for modernization of irrigation management of large scale national irrigation systems			X		
4. Health Outcomes: Improved population health outcomes, including improvements in life expectancy and reductions in maternal mortality and malnutrition to meet MDG targets by 2015.							
4.1) Quality assurance policies governing the education of health professionals with establishment of independent National Accreditation Agency, and National Agency for Competency	<i>Target:</i> accreditation of 7 health professional schools	<p>Comprehensive analysis of supply side availability and readiness completed.</p> <p>Study of human resources for health (HRH) policies completed.</p> <p>Analysis of Jampersal/Jamkesmas policies to achieve UHC of maternal health care completed.</p> <p>Second Integrated Biological and Behavioral Survey (IBBS) in Papua provinces completed.</p> <p>Economic analysis of HIV/AIDS programs completed.</p> <p>Analysis of multisectoral determinants of double burden of malnutrition (DBM) completed.</p>				X	

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale				
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified
4.2) Improved sanitation	<i>Targets:</i> 7 million people provided with piped water supply and 3.4 million people provided with improved sanitation under PAMSIMAS	7.8 million provided with piped water supply and 7.69 million with improved sanitation under the PAMSIMAS program Financing facility to support PDAM technical assistance and investments is delayed until FY15.	X				
<i>Total for Pro-Poor Engagement:</i>	NA	NA	5	4	1	1	0
<i>Percentage of Target Indicators for Pro-Poor Engagement:</i>	NA	NA	45.45%	36.36%	9.09%	9.09%	0%

Sub-annex 3:1d: Summary of Achievements for the Pro-Green Engagement

1. **Indonesia is well-endowed with natural capital and is a steward to some of the world's greatest terrestrial and marine biodiversity.** However, its natural wealth, resources, and quality of life are increasingly threatened by rapid, unsustainable development compounded with over-exploitation of forests and marine ecosystems. Indonesia's total greenhouse gas emissions are estimated to account for over six percent of the global total. Forestry and land use emissions are by far the largest source. Indonesia's emissions from energy consumption are also growing. Severe and annual forest fires, connected with the largely illegal clearing of forests and draining of peat lands, have immensely negative economic, health, and environmental impact on Indonesia and neighboring countries. Insufficient investment in institutional capacity, corruption, and inconsistent policies and practices, are contributors to these problems. WBG engagements sought to promote sustainable green growth, climate change adaptation and mitigation, and disaster risk management. Bank programs were designed to promote sustainable natural resources management, mainstream adoption of green growth parameters across core growth sectors, uptake of sector specific climate change adaptation and mitigation efforts and disaster risk management actions aimed at reversing the negative consequences that have plagued the poor and vulnerable living in rural (in particular forest dependent communities and fisher and coastal communities, both amongst the poorest of the poor in Indonesia) and marginal urban areas. Four out of five pro-green targets were achieved during the CPS period.

2. Under the sustaining the environment and climate change adaptation sub-engagement area there were three key milestones, two of which were achieved and one was partially achieved. At the request of GoI, the Bank took a lead role in supporting and advising on the establishment of the REDD+ Agency and its institutional and funding mechanisms to facilitate mobilization of a \$1 billion grant from Norway for the REDD+ Partnership. The REDD+ Support Facility MDTF was established at the Bank to assist the government to set up a national trust fund to implement a strategy to reduce emissions and improve governance and accountability in the forest and land sectors. The national trust fund, however, is not yet on line due to the new administration's institutional reorganization efforts to embed the REDD+ Agenda and financing package within existing Government structures, including the newly merged Ministries of Environment and Forestry (rather than in a stand-alone REDD+ Agency). This result area is rated partially achieved.

3. The third phase of the Coral Reef Rehabilitation and Management Program-Coral Triangle Initiative was approved and is under implementation building on ten years of successful engagement in the sector. The third phase of this Program is designed to strengthen communities' capacity to manage their natural resources and improve their livelihoods as well as better adapt to climate change impacts through increased economic and ecological resilience, more sustainable local livelihoods, and education and awareness. The proposed Sumatra Habitat Conservation to support terrestrial biodiversity project was transferred to UNDP for implementation due to selectivity measures to support programmatic engagement rather than small stand-alone projects during the Bank Group's reorganization. The project is currently being implemented by UNDP. COREMAP II project focused on supporting coastal communities to sustainably co-manage use of coral reef resources to enhance community welfare in priority districts. 84% of fisher and coastal communities in program management areas confirmed that COREMAP II had a positive impact on their welfare. Target indicator was 70%. At EOP, COREMAP 2 project areas showed an

average increase in income of 21% since 2008, more than twice the original project target for this indicator.

4. The Bank also began a policy dialogue with central ministries on mainstreaming green growth principles into medium and long term investment and development planning. This work has influenced greening of the five year Medium Term Development Plan (2015-2019) with targets for a number of key sectors including agriculture, energy, forestry, transport, urban development, industry and marine and fisheries, among others. It has also supported engagement with the private sector through the Indonesia Chamber of Commerce and its broad membership to influence and support private sector collaboration and commitment to adopt green growth elements in their investments alongside the public sector financing.

5. IFC achieved progress on its Green Buildings Program. IFC's knowledge and advisory services resulted in the Government of Jakarta launching the Green Building code for environmental and energy efficient buildings. Now, IFC is engaging with the Ministry of Public Works and with the cities of Bandung and Makassar to expand these codes to other cities. In parallel, IFC launched its EDGE certification program in Indonesia, a voluntary program allowing private sector developers to obtain green buildings certification sponsored by IFC. One of IFC's property development clients – PT Ciputra Residences Tbk, issued a bond wherein the company committed to invest money towards green buildings projects, and they achieved EDGE certification for three of their housing development projects. Implementation of the ongoing Geothermal Clean Energy Development Project is advancing with several large tenders anticipated this year with support from New Zealand. IFC provided infra-venture development financing of US\$2 million to a wind-energy project developer in Sulawesi, the first private sector grid-connected wind power project in Indonesia. IFC is also planning to finalize an investment of US\$292 million of equity, loan and mobilized financing for a hydro power project in FY14.

6. IFC through its Environmental and Social Risk Management for Financial Institutions (ESRM for FIs) program worked with Otoritas Jasa Keuangan (OJK) since June 2013 to promote and implement a sustainable finance program. The program supported OJK with development of the "Roadmap on Sustainable Finance in Indonesia", which was launched in December 2014. The program supported OJK on the issuance of sustainable finance policy in Indonesia. The program also supported individual banks to apply Environmental and Social (E&S) best practices when providing financing. In the long term, increasing financing screening through improved E&S standards will contribute to more sustainable green economic growth.

7. During the CPS period, the WBG's support also expanded into forest governance. Indonesia is one of eight pilot countries of the US\$70 million Forest Investment Program (FIP) of the Climate Investment Funds (CIF). IBRD and IFC worked to develop new public and private sector projects under the FIP-CIF. The Forest Carbon Partnership Facility-REDD+ Readiness Project was implemented to assist, among other activities, in developing reference scenarios and verification systems adapted to local realities. The Forestry and Non-Forestry Lands AAA, completed in FY14, reviewed policies and issues pertaining to the allocation of land rights. A grant from the Japan Social Development Fund (JSDF) Support Program was approved with the objective of helping government improve governance and participatory land mapping for indigenous communities. Building on the recently completed Indonesia Sustainable Forestry

Project, IFC engaged with a large private sector plantation forestry and wood processing company to further strengthen and demonstrate sound environmental and social management systems. The WBG also leveraged international climate finance in assisting Indonesia to manage its solid waste and capture methane in the CF Makassar Landfill Gas Project and CF Bekasi Landfill Gas Flaring Project. The WBG supervised the HCFC Phase-Out in the PU Foam Sector Project which aimed to help Indonesia fulfill its obligations under the Montreal Protocol. The proposed GEF supported Chiller Energy Efficiency Project, however, was dropped due to a lack of agreement on the financing mechanism.

8. Development targets under the disaster risk management engagement were largely achieved. The Bank worked in collaboration with the governments of Australia, Japan and New Zealand to support advances in mainstreaming adaptation and resilience, leveraging multi-donor contributions with government reconstruction spending, and setting regulations for executing sovereign disaster insurance. Six mid-sized cities and four high risk provinces mainstreamed adaptation and resilience measures into their respective urban development, investment, and community driven development programs. Resilience was also mainstreamed in the government funded school rehabilitation program through the formulation of technical guidelines and building capacity on earthquake resistant construction. The government-led disaster management fund (IMDFF-DR) is on track as a mechanism to institutionalize donor support in case of large scale natural disasters for which Indonesia may want assistance. US\$5 million was pledged to complement the government's US\$500 million annual public reconstruction spending.

9. At the same time, however, the CPS period marked a period of very substantial loss of forest cover, continued desecration of coral reefs and fisheries, and increasing GHG emissions. Over the last 10 years, 12 million ha of forest was lost and more than 70 million ha has been degraded. 75% of main rivers, and 15 main lake eco-systems are heavily polluted by agriculture, mining and industry. Some 65% of Indonesia's coral reefs are considered threatened from over-fishing and almost half are threatened from destructive fishing practices. Indonesians, especially the 150 million who live in coastal and forest areas, suffer from this the most without reaping any benefit. Forests which should generate over US\$4 billion annually in revenue are only contributing \$300 million and some \$20 billion in potential revenue for local fishing communities is being lost to illegal fishing. On a global scale, Indonesia is the fifth-largest emitter of GHG when its land-use change and forestry (LUCF) emissions are included in its profile and the eighth-largest emitter when these emissions are excluded. The vast majority (62%) come from LUCF, with emissions from this sector increasing 65% in absolute terms since 1995. The activities primarily responsible for this are deforestation and peat degradation, most recently associated with the expansion of palm oil plantations. Greenhouse gases from mangrove and sea grass destruction are a potentially important, but not currently counted, source of emissions. Given this situation, it is essential to question whether WBG has been ambitious enough, or indeed whether we have been able to engage and have an impact on the "pro-green" agenda in a way that could impact on this downward spiral. The fact that the targets in the results framework for the CPS were largely met at the same time that the environmental and climate change indicators deteriorated so substantially, indicates that our interventions may have been at the margins. For that reason, although the results framework indicators were largely achieved, the overall rating for the pro-green pillar is rated *moderately satisfactory*. Seeking out a more ambitious agenda for the environment in the next CPF is included in the 'lessons learnt' section.

Summary of Achievements under the Pro-Green Engagement

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale			
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved
<p><i>1. Environment, Natural Resources and Climate Change: Conservation and utilization of the natural environment that supports sustainable economic growth and increased welfare of the people. GHG emission reduction of 26% by 2020 accompanied by the control and management of disaster risks, in order to prepare for the expected impacts of climate change. Promote renewable energy sources as part of a sustainable development strategy.</i></p>						
1.1) Fund for REDD established with legal, technical and managerial capacity to support and finance Indonesia's National REDD+ Strategy		REDD+ Support Facility MDTF established at the WB to support GoI to set up a national TF for REDD+ implementation			X	
1.2) Phase III of COREMAP providing expanded support for coral and marine protection		Phase III of COREMAP delivered and under implementation	X			
1.3) Government of Jakarta launching green buildings code for commercial buildings in the city		Government of Jakarta launched Green Building regulation number 38, effective 2013	X			
<p><i>2. Disaster Risk Management: Enhance capabilities to improve disaster risk preparedness, mitigation measures, and post-disaster recovery and reconstruction responsiveness to strengthen sustainability</i></p>						
2.1) Create evidence-based examples of practical and concrete disaster and climate risk reduction and adaptation measures (e.g. safer schools, resilient villages and urban wards with DRR plan and investment program) that can be scaled up and replicated nationally	<p><i>Targets:</i></p> <p>Disaster resilience is integrated into CDD, in post disaster reconstruction, and in Government DAK funded school rehabilitation</p>	<p>Mainstreaming adaptation and resilience issues into PNPM in urban areas in 4 high risk provinces, and in safe school rehabilitation using Government's DAK</p>	X			
2.2) Community-based settlement reconstruction incorporated as a Government program	<p><i>Targets:</i></p> <p>Community-based housing reconstruction is adopted as standard mechanism for Government funded post disaster reconstruction</p>	<p>GoI led disaster fund (IMDFF-DR) as new mechanism to institutionalize donor support with Disaster Management Fund (DMF) established and operational with World Bank as trustee, providing grant co-finance to</p>		X		

Indicator	Target/ Baseline	Actual	Rating as per CPF CLR Rating Scale					
			Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Not Verified	
		government recovery program						
<i>Total for Pro-Green Engagement:</i>	NA	NA	3	1	1	0	0	
<i>Percentage of Target Indicators for Pro-Green E333ngagement:</i>	NA	NA	60%	20%	20%	0%	0%	

Sub-annex 3:2: Key Economic & Program Indicators

	Forecast in Last CAS				Actual		Current CPF forecast	
	2012 ^a	2013 ^b	2014 ^b	2015 ^b	2013	2014	2015	2016
Economy (CY)								
Growth rates (%)								
GDP	6.0	6.3	5.3	5.5	5.6	5.0	4.7	5.3
Exports	2.8	5.7	5.7	5.3	4.2	1.0	-0.2	4.7
Imports	7.1	4.7	4.8	6.9	1.9	2.2	-3.2	3.6
Inflation (%)	4.4	5.1	6.2	5.2	6.4	6.4	6.8	5.5
National accounts (% GDP)								
Current account balance	-2.3	-1.6	-2.9	-2.1	-3.2	-2.9	-2.0	-2.6
Gross investment	32.7	34.5	33.9	33.8	32.1	32.6	32.3	32.0
Public finance (% GDP)								
Fiscal balance	-2.4	-1.7	-2.6	-2.1	-2.2	-2.2	-1.9	-2.1
Foreign financing	0.7	0.6	-0.5	-0.4	0.5	0.5		
International reserves								
(as months of imports)	6.4	6.7	6.8	6.9	5.6	6.7		
Program (Bank's FY)	FY13	FY14	FY15	FY16	FY14	FY15	FY16	FY17
Lending (\$ million)	1701	750	1000		1072	500		
Gross disbursements (\$ million)	1000	1000	1322		1100	1125		

Estimated year

Projected year

Sub-annex 3:3 Portfolio Performance and Management

As of Date 08/21/2015

Indicator	FY15	FY13	FY14	FY16
Portfolio Assessment				
Number of Projects Under Implementation ^a	22.0	29.0	26.0	22.0
Average Implementation Period (years) ^b	4.2	3.6	3.5	4.4
Percent of Problem Projects by Number ^{a,c}	31.8	17.2	34.6	31.8
Percent of Problem Projects by Amount ^{a,c}	31.0	10.6	28.3	31.0
Percent of Projects at Risk by Number ^{a,d}	31.8	17.2	34.6	31.8
Percent of Projects at Risk by Amount ^{a,d}	31.0	10.6	28.3	31.0
Disbursement Ratio (%) ^e	14.4	15.5	23.2	1.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
<hr/>				
Memorandum Item	Since FY80	Last Five FYs		
Proj Eval by OED by Number		330	29	
Proj Eval by OED by Amt (US\$ millions)		33,557.7	4,907.5	
% of OED Projects Rated U or HU by Number		27.7	41.4	
% of OED Projects Rated U or HU by Amt		23.6	29.4	

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.

Sub-annex 3:4 Analytical and Advisory Activities, FY13-15

Product	TF Support	Engagement Area
FY13		
Economic and Sector Work		
Expanding Opportunities and Bld Competencies for Young	—	Pro-Jobs
Indonesia Life Long Learning	—	Pro-Jobs
Development of the Framework and Policies for Infrastructure	√	Pro-Growth
PPIAF Surabaya NRW Management Strategy	√	Pro-Poor
PER: Financing Local Governments in ID	—	Pro-Growth
Teacher Reform in Indonesia	—	Pro-Jobs

Technical Assistance		
Jakarta Fiscal and Bond Issue	√	Pro-Growth
Mainstreaming DRR in Indonesia	√	Pro-Green
Promoting Development Effectiveness: Mediation and Community Legal Empowerment Program	√	Pro-Poor
TF-Aceh Response TA Facility	√	Pro-Growth
Supporting Ind Anti-Corruption Institution	√	GAC
ID - Health & Conflict Prevention	√	Pro-Poor
Indonesia Energy Sector Policy Dialogue	√	Pro-Growth
Enhancing Sustainability of Ind.'s Major Agricultural E	√	Pro-Poor
Support for Bureaucracy Reform	—	Pro-Growth
Indonesia's Non Tarriff Measures	√	Pro-Growth
Policy Dialogue on Services	√	Pro-Growth
Formulation and Implementation of Indonesian Investment Policies	√	Pro-Growth
Geothermal Power Support Program	√	Pro-Growth
Indonesia Viability Gap Financing	√	Pro-Growth
Low-income Housing Policy and Finance	√	Pro-Poor

Product	TF Support	Engagement Area
FY14		
Economic and Sector Work		
Local Level Institutions III	—	Pro-Poor
Indonesia: Urban Poverty Analysis	√	Pro-Poor
Indonesia: Avoiding the Trap	—	Pro-Growth

Technical Assistance		
Energy Efficiency Financing Program	√	Pro-Growth
Gas Development Master Plan	√	Pro-Growth
Rapid Response Supp. on Fin. Sec. Policy	√	Pro-Growth
Disaster Risk Financing	—	Pro-Green
Corruption Prevention Supports	—	GAC
REDD Special Advisory Service	—	Pro-Green

ID - Logistics and Connectivity	√	Pro-Growth
Supp. for Dev. Gender Engagement in ID	—	Gender
Support for Social Security Reform	√	Pro-Jobs
Indonesia SP Engagement TA	—	Pro-Jobs
Rapid Response Supp. on Trade Mon. & Pol	√	Pro-Growth
Jakarta Metro Transport Agency Workshop	—	Pro-Growth
WSP-Advisory Services	√	Pro-Poor
ID-TF Local Government Capacity Development	√	Pro-Growth
WSP - Program Administration	√	Pro-Poor
Lampung Water Distribution PPP Review	√	Pro-Growth

Programmatic		
Supporting ID Corruption Prevention Supports	√	GAC
ID-TF CPDA Implementation Support	√	Pro-Poor

□

Product	TF Support	Engagement Area
FY15		
Economic and Sector Work		
ID-HE Strategic Studies	—	Pro-Jobs
Indonesia Forestry and Non-Forestry Land Policy Stocktaking	—	Pro-Green

Technical Assistance		
ID - Higher Educ Intro/Dissemination	—	Pro-Jobs
EITI CSO support Indonesia	√	Pro-Growth
Indonesia Clean Stove Initiative	√	Pro-Green
Indonesia Beverage Crops Value Chains TA	√	Pro-Poor
TA- Food Security Policies in Indonesia	√	Pro-Poor
Technical Assistance to KPDT	√	Pro-Poor
Indonesia #10249 Payment System Strengthening #10249	√	Pro-Growth
Access to Islamic Finance for SMEs	√	Pro-Growth
Supporting Financial Sector Development	√	Pro-Growth
PNPM Mandiri RLF Capacity Bldg & Sust.	√	Pro-Poor
Supp. for Strengthening Sub-National PFM	—	Pro-Growth
Technical Review and Support for Jakarta Flood Management System	√	Pro-Growth
Support for BR Implementation and M/E	—	Pro-Growth
ID HIV Economic Analysis	√	Pro-Poor
ID-TF PNPM Supv. and Monitoring (Urban)	√	Pro-Poor
PNPM Field Operations	√	Pro-Poor
ID-TF for PNPM Communication Strategy	√	Pro-Poor
Disaster and Climate Risk Review	√	Pro-Green
ID: eServices Secure Govt Network	√	Pro-Growth
Radio Spectrum Management for Broadband	√	Pro-Growth
Broadband-ICT Fund-Advisory Support	√	Pro-Growth
Indonesia Port and Road Sector Dialogue	—	Pro-Growth
Structure Assessment and Dev. Op. Procedure for the Ind. Water and Sanitation Invst.	√	Pro-Poor
Ind - Modernizing Water Management Systems	√	Pro-Poor
Rural Sanitation Capacity Building	√	Pro-Poor

Strengthening the Ind. National Water & Sanitation Info Services Center for Improved Planning	√	Pro-Poor
Indon. Rural Sanitation Market Expansion	√	Pro-Poor
Support the implementation of Indonesia National Strategy on Access Justice	√	Pro-Poor
Prep. Of Technical Guidelines for Safe Schools	—	Pro-Green
TA and Support to Bappenas and Kemenko Kesra (POKJA Pengendalian PNPM Mandiri)	√	Pro-Poor
Technical Review and Support for Jakarta Flood Mgt System	√	Pro-Growth
Supporting the transition of Key Lessons of WASPOLA Facility	√	Pro-Poor
	<input type="checkbox"/>	
Knowledge Management Product		
Learning from the Updated Political Economy on Sanitation in Indonesia	√	Pro-Poor
	<input type="checkbox"/>	
External Training		
Building Performance Audit Capacity of BPK	√	Pro-Growth
	<input type="checkbox"/>	
Programmatic		
Raising the quality of education	—	Pro-Jobs
Early Childhood Education & Development	—	Pro-Jobs
Improving PFM at the Subnational Level	—	Pro-Growth
Indonesia Health Programmatic AAA	√	Pro-Poor

Sub-annex 3.5a: Operations Portfolio (IBRD/IDA and Grants)

As of Date 07/31/2015

Closed Projects		355											
IBRD/IDA*		1,550.79	47.74										
Total Disbursed (Active)													
of which has been repaid													
Total Disbursed (Closed)		13,886.68	13,133.01										
of which has been repaid		15,437.48	13,180.76										
Total Disbursed (Active + Closed)		4,855.55	0.00										
Total Undisbursed (Active)		4,855.55											
Total Undisbursed (Closed)													
Total Undisbursed (Active + Closed)													
Active Projects													
Project ID	Project Name	Development Objectiv	Last PSR Supervision Rating Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd	Difference Between Expected and Actual Disbursements ^a	
P127813	COREMAP 3	S	MS	2014	47.4	0.0	0.0	0.0	40.9	9.1	0.0		
P130389	Coremap III	S	MS	2014			10.0	0.0	8.7	1.9	0.0		
P113078	Geothermal Clean Energy Investment F	S	MS	2012	175.0	0.0		0.0	170.2	289.5	27.7		
P085133	Govt Finl Mgt & Revenue Admin Project	MS	S	2005	55.0	5.0		0.0	0.7	0.7	0.7		
P096532	ID: Dam Operational Improvement (DO	MS	MS	2009	50.0	0.0		0.0	7.6	7.6	7.6		
P115763	ID-HCFC Phase-out in the PU Foam St	S	MS	2014			2.7	0.0	1.1	0.8	0.0		
P092218	ID- Indo Infrastructure Finance Facility	S	S	2009	100.0	0.0		0.0	0.1	-99.9	0.0		
P111577	ID-Local Government and Decentraliz	S	S	2010	720.0	0.0		0.0	454.1	-45.9	14.1		
P128832	ID-PNPM RURAL 2012-2015	S	MU	2013	650.0	0.0		0.0	253.4	239.4	38.4		
P121842	ID-Research and innovation in S&T	MU	MU	2013	95.0	0.0		0.0	83.0	28.5	0.0		
P085375	ID-WSSLIC III (PAMSIMAS)	S	S	2006	99.9	137.5		0.0	36.4	-72.0	-12.5		
P118916	Indonesia Infrastructure Guarantee Fur	S	S	2013	29.6	0.0		0.0	28.6	2.4	0.0		
P117323	Indonesia Power Transmission Develo	MU	MU	2011	225.0	0.0		0.0	155.7	0.0	0.0		
P111034	Jakarta Urgent Flood Mitigation Project	MS	MS	2012	139.6	0.0		0.0	102.7	58.9	0.0		
P125405	National Community Empowerment Pr	S	MS	2013	266.0	0.0		0.0	86.2	86.2	0.0		
P130048	Progr for Econ Resilience, Inv & Soc As	MS	S	2012	2,000.0	0.0		0.0	2,000.0	0.0	0.0		
P118150	Scholarships Program	MS	MS	2011	112.7	0.0		0.0	54.6	0.0	0.0		
P123994	Second Power Transmission Developr	MS	MS	2014	325.0	0.0		0.0	325.0	106.7	0.0		
P106384	Strengthening Indonesian Statistics	MU	MU	2011	65.0	0.0		18.0	45.7	52.6	3.8		
P117243	Sustainable Management of Ag Resear	MU	MU	2013	80.0	0.0		0.0	57.1	33.7	0.0		
P112158	Upper Cisokan Pumped Storage Hydro	MU	MU	2011	640.0	0.0		0.0	634.0	369.0	259.0		
P114348	Water Resources and Irr Mgmt Progr	MS	MS	2011	150.0	0.0		0.0	97.4	77.6	0.0		
P090990	Western Indonesia National Roads Imt	MU	MU	2011	250.0	0.0		0.0	222.1	157.1	0.0		
Overall Result					6,275.2	142.5	12.7	18.0	4,865.3	1,304.0	338.8		

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Sub-annex 3:5b Committed and Disbursed Outstanding Investment Portfolio (IFC)

As of 07/31/2015 (In USD Millions)

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	TOTAL Cmtd - IFC	TOTAL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	TOTAL Out - IFC	TOTAL Out - Part
2014	BDSN	69.34	7.50	0	0	0	76.84	136.53	69.34	7.50	0	0	0	76.84	136.53
2010/ 2012/ 2014/ 2015	BTPN	582.80	28.99	0	0	0	611.79	0	282.80	28.99	0	0	0	311.79	0.00
2013	BUK	3.55	3.24	0	0	0	6.78	0	0	2.96	0	0	0	2.96	0.00
2006/ 2012/ 2014	Bank Danamora	58.33	0	0	0	5.00	63.33	0	58.33	0	0	0	0	58.33	0.00
2007/ 2011	Bank Intl Indo	75.00	0	0	0	0	75.00	0	0	0	0	0	0	0	0.00
2008/ 2010/ 2012	Bank Andara	0	8.15	0	0	0	8.15	0	0	7.91	0	0	0	7.91	0.00
2011	Bank Mayora	0	22.64	0	0	0	22.64	0	0	20.95	0	0	0	20.95	0.00
2015	BioCarbon	0	3.00	0	0	0	3.00	0	0	3.00	0	0	0	3.00	0.00
2015	Blue Bird	0	8.62	0	0	0	8.62	0	0	2.28	0	0	0	2.28	0.00
2012	CIMB Niaga	68.18	0	0	0	0	68.18	0	68.18	0	0	0	0	68.18	0.00
2014	Ciputra Res	0	0	0	7.39	0	7.39	0	0	0	0	7.39	0	7.39	0.00
2012	FHP Indonesia	0	24.88	0	0	0	24.88	0	0	12.80	0	0	0	12.80	0.00
2014/ 2015	Fluidic Energy	0	7.52	0.52	0	0	8.04	0	0	7.52	0	0	0	7.52	0.00
2009/ 2014	IIF	30.00	39.15	0	0	0	69.15	197.50	4.20	37.57	0	0	0	41.77	27.65
2014	Indo Wind Pow	0	0	0.94	0	0	0.94	0	0	0	0	0	0	0	0.00
2010	JICI	15.00	0	0	0	0	15.00	0	15.00	0	0	0	0	15.00	0.00
2014/ 2015	KEB Hana Indo	9.71	31.91	0	0	0	41.61	0	9.71	30.12	0	0	0	39.82	0.00
2014	MAYORA	30.00	0	0	0	0	30.00	0	0	0	0	0	0	0	0.00
2012/ 2015	Medco Power	0	25.04	0	0	0	25.04	0	0	25.04	0	0	0	25.04	0.00
2009/ 2011	OTO Finance	4.17	0	0	0	0	4.17	0	4.17	0	0	0	0	4.17	0.00
1993/ 1996/ 2004/ 2009/ 2011	PT Viscose	21.67	0	0	0	0	21.67	55.00	21.67	0	0	0	0	21.67	55.00
2006/ 2008/ 2013	PT IAS	9.55	0	0	0	0	9.55	8.81	9.55	0	0	0	0	9.55	8.81
2008/ 2009	PT TVS	1.82	0	6.55	0	0	8.37	0	1.82	8.37	6.55	0	0	8.37	0.00
2013	PT HAS	11.17	0	0	0	0	11.17	10.31	11.17	0	0	0	0	11.17	10.31
2013	PT MAS	3.86	0	0	0	0	3.86	3.56	3.86	0	0	0	0	3.86	3.56
2014/ 2015/ 2016	Pirelli & C. SPA	0	0	0	16.10	0	16.10	0	0	0	0	16.10	0	16.10	0.00
2015	Pt PAU	94.00	0	0	0	0	94.00	415.00	0	0	0	0	0	0	0.00
2008/ 2009	Saratoga Asia J	0	10.18	0	0	0	10.18	0	0	0.34	0	0	0	0.34	0.00
2013	Savap Mas Uta	11.17	0	0	0	0	11.17	10.31	11.17	0	0	0	0	11.17	10.31
2010	Trada	30.57	0	0	0	0	30.57	0	30.57	0	0	0	0	30.57	0.00
2012/ 2013/ 2014	Wintermar	27.97	4.71	0	0	0	32.67	0	27.97	4.71	0	0	0	32.67	0.00
Total Portfolio		1,157.84	225.52	8.01	23.50	5.00	1,419.87	837.03	629.50	191.69	6.55	23.49	0	851.22	252.18

ANNEX 4. SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

As of Date 10/02/2015

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation ^a	29.0	26.0	22.0	22.0
Average Implementation Period (years) ^b	3.6	3.5	4.2	4.5
Percent of Problem Projects by Number ^{a,c}	17.2	34.6	31.8	31.8
Percent of Problem Projects by Amount ^{a,c}	10.6	28.3	31.0	31.0
Percent of Projects at Risk by Number ^{a,d}	17.2	34.6	31.8	31.8
Percent of Projects at Risk by Amount ^{a,d}	10.6	28.3	31.0	31.0
Disbursement Ratio (%) ^e	15.5	23.2	14.4	1.9
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	331	30
Proj Eval by OED by Amt (US\$ millions)	33,708.4	5,058.2
% of OED Projects Rated U or HU by Number	27.7	40.0
% of OED Projects Rated U or HU by Amt	23.5	28.5

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 5. OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS)

As of 08/31/2015

Closed Projects	355
IBRD/IDA*	
Total Disbursed (Active)	1,562.07
of which has been repaid	47.74
Total Disbursed (Closed)	13,886.68
of which has been repaid	13,162.57
Total Disbursed (Active + Closed)	15,448.75
of which has been repaid	13,210.31
Total Undisbursed (Active)	2,830.84
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	2,830.84

Active Projects		Last PSR			Original Amount in US\$ Millions					Difference Between Expected and Actual Disbursements^a		
Project ID	Project Name	Supervision Rating	Fiscal Year	Development Objectives	Implementation Progress	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P127813	COREMAP 3	S	MS	2014		47.4	0.0		0.0	39.9	9.1	0.0
P130389	Coremap III	S	MS	2014				10.0	0.0	8.5	1.9	0.0
P113078	Geothermal Clean Energy Investment Pro	S	MS	2012		175.0	0.0		0.0	170.2	295.2	29.4
P085133	Govt Finl Mgt & Revenue Admin Project	MS	S	2005		55.0	5.0		0.0	0.0	0.0	0.0
P096532	ID: Dam Operational Improvement (DOISf	MS	MS	2009		50.0	0.0		0.0	5.4	5.4	5.4
P115763	ID-HCFC Phase-out in the PU Foam Sect	S	MS	2014				2.7	0.0	1.1	0.8	0.0
P092218	ID- Indo Infrastructure Finance Facility	S	S	2009		100.0	0.0		0.0	0.1	-99.9	0.0
P111577	ID-Local Government and Decentralizati	S	MS	2010		720.0	0.0		0.0	454.1	-45.9	14.1
P128832	ID-PNPMRURAL 2012-2015	MS	MU	2013		650.0	0.0		0.0	253.4	253.4	55.9
P121842	ID-Research and Innovation in S&T	MU	MU	2013		95.0	0.0		0.0	83.0	30.2	0.0
P085375	ID-WSSLIC III (PAMSIMAS)	S	S	2006		99.9	137.5		0.0	36.4	-72.0	-9.2
P118916	Indonesia Infrastructure Guarantee Fund	S	S	2013		29.6	0.0		0.0	28.6	2.5	0.0
P117323	Indonesia Power Transmission Developn	MU	MU	2011		225.0	0.0		0.0	148.5	0.0	0.0
P111034	Jakarta Urgent Flood Mitigation Project	MS	MS	2012		139.6	0.0		0.0	102.5	61.6	0.0
P125405	National Community Empowerment Progi	S	MS	2013		266.0	0.0		0.0	86.2	86.2	0.0
P130048	Progr for Econ Resilience, Inv & Soc Ass	MS	S	2012		2,000.0	0.0		0.0	0.0	0.0	0.0
P118150	Scholarships Program	MS	MS	2011		112.7	0.0		0.0	47.1	0.0	0.0
P123994	Second Power Transmission Developme	MS	MS	2014		325.0	0.0		0.0	325.0	115.0	0.0
P106384	Strengthening Indonesian Statistics	MU	MU	2011		65.0	0.0		18.0	45.6	53.6	4.4
P117243	Sustainable Management of Ag Research	MU	MU	2013		80.0	0.0		0.0	55.2	32.7	0.0
P112158	Upper Cisokan Pumped Storage Hydro-E	MU	MU	2011		640.0	0.0		0.0	633.5	381.0	271.0
P114348	Water Resources and Irr Mgmt Program ;	MS	MS	2011		150.0	0.0		0.0	97.4	78.9	0.0
P090990	Western Indonesia National Roads Imprc	MU	MU	2011		250.0	0.0		0.0	218.8	156.3	0.0
Overall Result						6,275.2	142.5	12.7	18.0	2,840.4	1,346.0	371.0

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

ANNEX 6 STATEMENT OF IFC'S HELD AND DISBURSED PORTFOLIO COMMITTED AND OUTSTANDING PORTFOLIO

As of 08/31/2015
(In USD Millions)

Commitment Fiscal Year	Institution Short Name	LN Cmt'd - IFC	LN Repayment - IFC	ET Cmt'd - IFC	QL + QE Cmt'd - IFC	GT Cmt'd - IFC	RM Cmt'd - IFC	ALL Cmt'd - IFC	ALL Cmt'd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2014	BDSN	69.34	2.17	7.50	0	0	0	76.84	136.53	69.34	7.50	0	0	0	76.84	136.53
2010/ 2012/ 2014/ 2015	BTPN	572.28	208.55	28.99	0	0	0	601.27	0	272.28	28.99	0	0	0	301.27	0.00
2013	BUK	3.42	0	3.22	0	0	0	6.64	0	0	2.96	0	0	0	2.96	0.00
2006/ 2012/ 2014	Bank Danamon	58.33	160.27	0	0	0	5.00	63.33	0	58.33	0	0	0	0	58.33	0.00
2007/ 2011	Bank Inti Indo	75.00	118.99	0	0	0	0	75.00	0	0	0	0	0	0	0	0.00
2008/ 2010/ 2012	Bank Andara	0	0	8.14	0	0	0	8.14	0	0	7.91	0	0	0	7.91	0.00
2015	Bank Mayora	0	0	22.57	0	0	0	22.57	0	0	20.95	0	0	0	20.95	0.00
2011	BicCamon	0	0	3.00	0	0	0	3.00	0	0	3.00	0	0	0	3.00	0.00
2015	Blue Bird	0	0	8.23	0	0	0	8.23	0	0	2.13	0	0	0	2.13	0.00
2012	CIMB Niaga	68.18	6.82	0	0	0	0	68.18	0	68.18	0	0	0	0	68.18	0.00
2014	Cipta Res	0	0	0	0	7.12	0	7.12	0	0	0	0	7.12	0	7.12	0.00
2012	FHP Indonesia I	0	0	24.88	0	0	0	24.88	0	0	12.80	0	0	0	12.80	0.00
2014/ 2015	Fujiic Energy	0	0	7.52	0.52	0	0	8.04	0	0	7.52	0	0	0	7.52	0.00
2009/ 2014	JIF	30.00	0	39.15	0	0	0	69.15	197.50	4.20	37.57	0	0	0	41.77	27.65
2014	Indo Wind Power	0	0	0	0.94	0	0	0.94	0	0	0	0	0	0	0	0.00
2010	JICT	15.00	15.00	0	0	0	0	15.00	0	15.00	0	0	0	0	15.00	0.00
2014/ 2015	KER Hana Indo	9.71	19.41	31.84	0	0	0	41.55	0	9.71	30.12	0	0	0	39.82	0.00
2014	MAYORA	30.00	0	0	0	0	0	30.00	0	0	0	0	0	0	0	0.00
2012/ 2015	Medco Power	0	0	25.04	0	0	0	25.04	0	0	25.04	0	0	0	25.04	0.00
2009/ 2011	OTO Finance	4.17	110.36	0	0	0	0	4.17	0	4.17	0	0	0	0	4.17	0.00
1993/ 1996/ 2004/ 2009/ 2011	PT Viscose	21.67	99.04	0	0	0	0	21.67	55.00	21.67	0	0	0	0	21.67	55.00
2006/ 2008/ 2013	PT TAG	9.55	18.20	0	0	0	0	9.55	8.81	9.55	0	0	0	0	9.55	8.81
2008/ 2009	PT TVS	1.82	18.18	0	6.55	0	0	8.37	0	1.82	0	6.55	0	0	8.37	0.00
2013	PT HAS	11.17	2.58	0	0	0	0	11.17	10.31	11.17	0	0	0	0	11.17	10.31
2013	PT MAS	3.86	0.89	0	0	0	0	3.86	3.56	3.86	0	0	0	0	3.86	3.56
2014/ 2015/ 2016	Pirelli & C. SPA	0	0	0	0	16.15	0	16.15	0	0	0	0	16.14	0	16.14	0.00
2015	PLPAU	94.00	0	0	0	0	0	94.00	415.00	0	0	0	0	0	0	0.00
2008/ 2009	Saratoga Asia II	0	0	10.18	0	0	0	10.18	0	0	0.34	0	0	0	0.34	0.00
2013	Sayap Mas Utama	11.17	2.58	0	0	0	0	11.17	10.31	11.17	0	0	0	0	11.17	10.31
2010	Trada	30.57	4.43	0	0	0	0	30.57	0	30.57	0	0	0	0	30.57	0.00
2012/ 2013/ 2014	Wintemar	27.97	17.03	4.71	0	0	0	32.67	0	27.97	4.71	0	0	0	32.67	0.00
Total Portfolio		1,147.20	804.51	224.98	8.01	23.26	5.00	1,408.45	837.03	618.98	191.53	6.55	23.26	0	840.32	252.18

ANNEX 7. CONSULTATIONS OF THE DRAFT CPF

The World Bank Group carried out wide-ranging consultations with cross-section of stakeholders including civil society organizations, faith-based organizations, the private sector, and development partners. The following is a summary of comments from the consultations:

With Civil Society

- **Consultations with the civil society organizations were conducted on September 21, 2015 in Jakarta, on September 29, 2015 in Makassar, on October 8, 2015 in Yogyakarta, and on October 12, 2015 in Jakarta.** Over 160 participants attended in these four sessions.
- **Civil society participants emphasized concern for the unmet needs and the inequality of access suffered by people living in the forest, coastal, and remote areas.** It was felt that central government-led programs were not able to reach the neediest and that WBG program should prioritize interventions at the local government level and support holistic strategies to reduce inequality, especially in these remote areas. There should be a clear strategy for regional development, especially for Eastern Indonesia, where the tourism sector could thrive.
- **Poverty should be viewed at the household level and not at the individual level.** Programs may be more effective if they have mechanisms in place to help families manage external shocks such as rice price increases. The WBG should increase its role in optimizing the national social insurance system and improving programs to safeguard the poor and vulnerable, including groups with disabilities.
- **Enhanced investment in human capital, including vocational training and capacity building should be a priority and more investment could improve local service delivery.** CSOs expressed strong support for improving the quality of local services, particularly teacher quality and access to quality healthcare. Several civil society organizations highlighted the need to strengthen the quality of teachers through the use of technology. Others suggested that the WBG should work directly with local governments to build their capacity. Many CSOs urged the WBG to assist in the effective implementation of the Village Law to ensure better governance and service delivery.
- **Some CSOs emphasized that the ‘Landscape Management’ engagement area should be careful not to marginalize farmers.** 43 percent of land in Indonesia is affected by contradicting regulations and the WBG was encouraged to work directly with farmers.
- **Improving energy access is a priority,** and the WBG could support bottom-up approaches including empowering villages and sending engineers to remote and coastal areas to teach villagers to build their own energy capacity. CSOs would also like the WBG to explore investments in solar energy and hydropower.
- **Governance issues were raised and it was suggested that proposed programs, particularly related to revenue collection and public spending, should put in place mechanisms to address potential irregularities.** The CSOs also suggested that the WBG should encourage more public participation in pushing for social accountability in this sector.
- **CSOs familiar with project implementation urged the WBG to focus as much on ‘process’ as on outcomes.** At the design stage, they proposed that the project approval process be streamlined to realize results sooner, and that continuity should be part of the selectivity filter for project selection. CSOs also recommended more participation of local communities and non-governmental organizations at the project planning stage and that equal attention should be paid to social cohesion as well as targets for economic growth. Consistent reviews of previous programs and proper planning for an ‘exit strategy’ was also encouraged so that programs could successfully continue without WBG involvement.

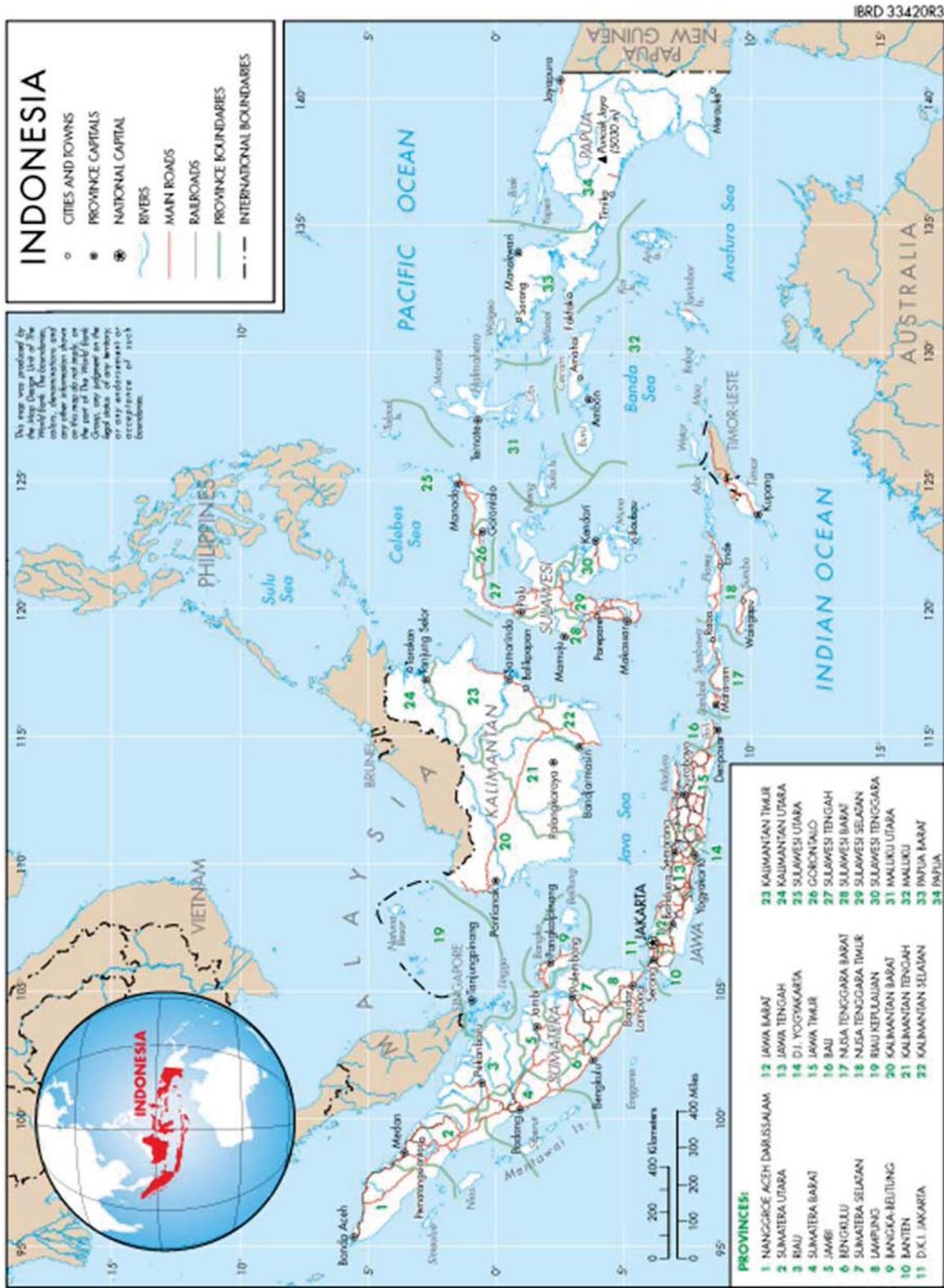
With the Private Sector

- **Leaders of the private sector expressed concern about the lack of proper education and skills of the Indonesian workforce.** They stressed the need for government to improve the educational system to deliver the specialized skills needed in a modern economy. They also highlighted the lack of investment in essential infrastructure including power generation and transmission and the slow progress in the regulatory reform necessary to unlock private capital for investment. Those from the manufacturing sector were particularly concerned about the need to improve Indonesia's competitiveness, particularly compared to regional competitors, through better infrastructure, logistics, skills and incentives (including tax).

With Development Partners

- **Consultations with the development partners were conducted on September 16, 2015** with 20 participants.
- **Development partners supported the analysis in the SCD and the ambitiousness of the engagement areas.** They looked to WBG to lead the way on some of the most difficult development challenges where progress had been disappointing over the last several years including in the areas of environment, implementation of large scale infrastructure, the business climate and public sector reform. They agreed that the mode of delivery was important and that filters regarding impact, accountability and government ownership would be determinants of success. They expressed interest in working closely with WBG, supporting the implementation models where bilateral grant assistance either through World Bank trust fund or in parallel programs were leveraged by WBG investment projects and implementation support.
- **With an ambitious program that involved substantial investment, a strong accountability framework to assess progress would be needed.**

Map of Indonesia



IBRD 33420R3