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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

AND THE

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY ASSISTANCE STRATEGY PROGRESS REPORT

FOR

REPUBLIC OF INDONESIA

September 5, 2006

Indonesia Country Team, World Bank
East Asia and Pacific Region

The International Finance Corporation
East Asia and Pacific Department

The Multilateral Investment Guarantee Agency

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The Country Assistance Strategy Report No. 27108-IND was discussed by the Board on November 25, 2003.

CURRENCY EQUIVALENTS

Currency unit: Rupiah (Rp) as of August 15, 2006
\$1 = Rp. 9,077.00

FISCAL YEAR

Until March 31, 2000: April 1 to March 31
Until December 31, 2000: April 1 to December 31
From January 1, 2001: January 1 to December 31

“The development of our nation and state cannot possibly be separated from the effort to create a just and democratic society. It is within that context that we are determined to develop and uphold law, eradicate corruption, and solidify the consolidation of democracy”.

“The alleviation of poverty does not merely require high economic growth, but it also necessitates a quality of growth that reaches directly to the betterment of the plight of the poor people”.

State Address of the President of the Republic of Indonesia before the Plenary Session of the House of Representatives on 16th August 2006 –the Eve of the Sixty-First Anniversary of Indonesia’s Independence.

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
AHI	Avian and Human Influenza
AML	Anti Money Laundering law
BPK	Supreme Audit Agency
BPKP	State Internal Audit Commission
BRA	Executing Agency for Reconciliation and Reintegration
BRR	Executing Agency for Rehabilitation and Reconstruction – Badan Rehabilitasi dan Rekonstruksi (BRR) NAD-Nias
CAS	Country Assistance Strategy
CCT	Conditional Cash Transfer
CAS PR	Country Assistance Strategy Progress Report
CDD	Community Demand Driven
CPIA	Country Policy and Institutional Assessment
DFID	Department for International Development (United Kingdom)
DPL	Development Policy Loan
DSF	Decentralization Support Facility
EC	European Commission
ECD	Early Childhood Development
FDI	Foreign Direct Investment
FY	Fiscal Year
GAM	Free Aceh Movement
GDP	Gross Domestic Product
GOI	Government of Indonesia
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
INT	Department of Institutional Integrity
JSDF	Japan Social Development Fund
KDP	Kecamatan Development Project
KPK	Anti-Corruption Commission
LG	Local Government
MDF	Multi-Donor Fund
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
MOF	Ministry of Finance
NBFI	Non-Bank Financial Institution
NGO	Non-Government Organization
PAMSIMAS	Water and Sanitation Program for Poor Communities
PENSA	Program for Eastern Indonesia SME Assistance (IFC)
PEP	Private Enterprise Partnership (IFC)
PHP	Provincial Health Project
PGN	Indonesia's Natural Gas Utility Company
PPP	Public-Private Partnership
SME	Small- and Medium-size Enterprise
TA	Technical Assistance
TF	Trust Fund
UCT	Unconditional Cash Transfer
UK	United Kingdom

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REPUBLIC OF INDONESIA MAP (IBRD No. 34976)

I. OVERVIEW

1. Since the Board discussion of the FY2004-07 CAS¹, Indonesia's transition from economic crisis and towards democratic governance has progressed strongly. Indonesia has moved into post-program monitoring with the IMF; held its first direct Presidential and local executive elections; and reduced poverty to below pre-crisis levels. While governance issues remain a serious impediment to development, prospects of genuine reform are also now better than in decades. Against this background, an unprecedented series of natural disasters (the Aceh tsunami of December 2004, the Nias earthquake of March 2005, the earthquake in Yogyakarta and Central Java in May 2006, the tsunami in West Java in July 2006), and the growing threat of avian influenza have placed an extraordinary burden on the new Government of President Yudhoyono, which already had its hands full with an ambitious development agenda.

2. The Bank Group's CAS focuses on addressing the two fundamental problems impeding rapid poverty reduction: (i) a weak investment climate; and (ii) low quality service delivery to the poor. The common root – weak governance—is hence the underlying focus of the CAS. Progress at varying rates has been made in each of these areas, and triggers for the High Case met. But, both the Government of Indonesia (GOI) and the Bank Group recognize that the task ahead remains very large. Implementation of the CAS is largely on course, although the engagement in post-tsunami recovery has expanded the Bank program, and required redeployment of resources.

3. The Bank Group's strategy is strongly aligned to that of the government's, and the CAS program remains relevant. It is thus proposed that the CAS period be extended by one year, which would correspond to Indonesia's scheduled graduation from IDA access at end-FY08. It is proposed that the CAS' strategic thrust and annual lending envelope remain unchanged, but that an additional emphasis is given to natural disaster management. It is also proposed that the Government's request for additional policy-based lending be supported over the remaining two years of the CAS period—justified on the basis of improved creditworthiness, progress on the reform agenda, and special financing needs caused by recent disasters.

II. PROGRESS IN ACHIEVING CAS OBJECTIVES

4. **Implementation of the CAS is broadly on-track, although delays in some areas arose from the Bank's extensive engagement in the post-tsunami effort.** Table 1 summarizes the progress towards CAS outcomes (details in Annex B9). Some 56 original outcome indicators have been regrouped into 27 key outcomes for monitoring purposes. Five additional areas are added to capture Bank engagement in the reconstruction of Aceh-Nias and Yogyakarta; support to Aceh peace process; and to avian and human influenza (AHI) response.

¹ CAS Report No. 27108-IND was discussed by the Board on November 25, 2003.

Table 1: CAS Program Implementation: Summary of Progress Towards CAS Outcomes

Pillar	On-track	On-track with delay	Marginal/Slow progress
Improving the Investment Climate	<ul style="list-style-type: none"> • Fiscal discipline • Fuel subsidies • Capital and social budget • Stability of financial sector • Coastal zone mgt 	<ul style="list-style-type: none"> • Access to finance • Improved Investment Climate • Improved Invest Climate at local level • Tax Services • Customs Services • Land titles 	<ul style="list-style-type: none"> • Energy/gas sector • Road sector • Water utilities • Rural Productive Services/Incomes • Labor regulations
Service delivery to the poor	<ul style="list-style-type: none"> • Access to basic education • Community-based infrastructure & service 	<ul style="list-style-type: none"> • Early Child Educ • Quality of education 	<ul style="list-style-type: none"> • Health Service Effectiveness • Sanitation
Governance	<ul style="list-style-type: none"> • Participatory development • Public Financial Mgmt • Anticorruption Institutional framework 	<ul style="list-style-type: none"> • Local Governance 	<ul style="list-style-type: none"> • Decentralization Regulatory Framework
Disaster Risk Management	<ul style="list-style-type: none"> • Reconstruction of Aceh & Nias • Support to Peace Process in Aceh • Yogya Response (early stage) 		<ul style="list-style-type: none"> • Avian & Human Influenza • Disaster Risk Management framework

The Core CAS Objective: Addressing the Underlying Issue of Governance

5. **Constitutional reforms securing direct elections are creating a new accountability framework at all levels.** Decentralization is bringing control over resources closer to communities, providing new opportunities for participation and monitoring of service delivery. The opening up of the media and surge of new collective organizations within civil society are giving rise to voices for good governance. The results of these remarkable changes are evident in a new level of participation, competition, and transparency in public life. But, while governance indicators show some evidence of improvement, there remains considerable public demand for broader improvements in public services delivery.

6. **Over the CAS period, the Government has triggered genuine momentum in the fight against corruption.** The main driver of the anti-corruption effort has been a new set of powerful independent oversight and prosecutorial institutions such as the Anti-Corruption Commission (KPK), Anti-Corruption Court, Judicial Commission, Police Commission, and the Prosecutorial Commission. Mostly established under the previous administration, these new institutions have begun to deliver tangible results with strong support of the President, who has made governance a key theme of his administration. In addition, existing institutions like the Supreme Audit Agency (BPK), the Financial Transaction and Analysis Centre (PPTAK), and the Attorney General's Office are more active. High profile corruption investigations have been launched, leading to a number of successful prosecutions.

7. **The Government is now turning to deeper institutional reforms, although the judiciary is lagging.** Promising initiatives in civil service reform are being launched in select ministries and are expected to lead to a more comprehensive reform. But progress has been

much less evident in the critical area of legal and judicial reform, where the adoption of an impressive blueprint for reform of the court system has not been followed through with effective implementation. Also, despite good success in prosecuting corruption, there has been less progress in implementing a coherent, well-focused anti-corruption strategy. The area of greatest progress has been in public finances; a number of laws have been passed, strengthening management and oversight, though fiduciary reforms need to be deepened at Local Government (LG) levels. The sensitive areas of political party and electoral financing are yet to be addressed.

8. **Governance indicators are slowly improving.** In the most comprehensive survey to date of the impact of decentralization on public service delivery, between 60 to 65 percent cited improvements in quality of local administration and public education and health services². However, the survey also showed that corruption and inefficiency continue to threaten higher quality public services. At the same time, while most global surveys still place Indonesia near the bottom on a range of indicators, there are recent signs of progress. Surveys show that, compared with 2003, firms are now less likely to cite as obstacles to doing business, a range of governance categories, including corruption, legal system, conflict resolution, and tax administration. The improvement is particularly pronounced regarding national level corruption. The 2005 Transparency International Global Corruption Barometer found that 81 percent of Indonesians believed that corruption would decrease over the next 3 years – the highest share of optimists of 69 countries surveyed.

9. **The Bank’s “Governance CAS” has led to a mainstreaming of governance engagement across all sectors of the Bank’s program.** Governance concerns have been a major driver of the CAS High Case scenario, project selectivity and design, partnerships and AAA. This is reinforced by cross-cutting business platforms or CAS delivery mechanisms that seek to link analytics and financing to governance reform at each level of government – community, sub-national, and central government.

10. **The Bank’s large Community Driven Development (CDD) portfolio seeks to combine high-return investments with innovations in participation, planning and monitoring, designed to improve governance in sub-districts and villages.** The CDD platform has performed very strongly over the CAS period, improving access to community level infrastructure and services, while contributing to improvements in transparency and accountability in over half of Indonesia’s villages and towns. The CDD platform is now in broad use for delivering, among others, local level infrastructure, rural water and sanitation, early childhood development, and coastal zone management. The CDD network of facilitators has played a central role in the reconstruction of Aceh and Nias, and the approach has been chosen by the government for the massive housing reconstruction program in Yogyakarta and Central Java. The government has announced its plans to scale up and apply the approach as a nationwide, pro-poor service delivery program.

11. **Progress on local governance has been less than hoped; a multi-donor Decentralization Support Facility (DSF) has been established to help support reforms.** With some 440 local governments now undertaking 50 percent of public spending, Indonesia’s

² *Governance and Decentralization Survey 2004*; Center for Population & Policy Studies - Gajah Mada University and World Bank

governance challenge has largely “gone local”. Capacity problems at the local level remain severe, and slow progress on elaborating a clear, consistent intra-governmental fiscal framework has obstructed the flow of development resources. To help focus and harmonize donor support for this major issue, the DSF was established in 2004. Financed by the DfID (UK), with the engagement of a growing number of key donors, and managed by the Bank, the DSF is providing analytics, capacity-building, policy and program inputs for improved LG service delivery. The DSF collaborates closely with a new generation of Bank-financed projects, targeting reform-minded districts that seek to enhance accountability, transparency and participation. Three new Bank-supported projects are engaging about 100 rural and urban districts on a broad program of governance capacity building and investments. In tandem, IFC’s business environment program targets the reform of LG procedures that impede investment. In contrast to the CDD platform, progress on LG reform has not been as great as hoped for, in part due to slow progress in clarifying on-lending/on-granting policies, and in part due to redeployment of Bank staff to Aceh. It nevertheless remains a very high priority ahead, in the CAS.

12. At the national level, there has been progress on public financial management and fiduciary reforms, with strong Bank support. A series of governance-oriented Development Policy Loans is helping define and implement important actions for improving public procurement, budgetary processes, accounting standards and treasury systems. The institutional framework for addressing corruption at the Ministry of Finance (MOF) has also been strengthened and is operational. A complementary \$60 million Government Financial Management and Revenue Administration Project is assisting in an ambitious restructuring of MOF, and is strengthening accountability, streamlining and modernizing processes, systems and capacities in budget, treasury and revenue areas.

13. By mobilizing substantial trust funds, the Bank Group has been able to expand the reach of its governance program, and include areas generally outside a “standard” program. Thus, the Bank’s AAA program has included the measurement and monitoring of governance through a 100-district governance and decentralization survey, experiments to test the impact of community participation on corruption, and direct monitoring of corruption e.g., by placing monitors in trucks to count bribe payments on Aceh routes. Other recent work includes civil service reform, support for anti-corruption institutions (KPK, BPK), post-conflict reconciliation/reintegration, and increased access to justice for the poor. A joint IFC-Bank team is exploring ways to assist with the setting up of a special court or arbitration body to support the objective of resolution of commercial disputes.

14. In response to serious and high-profile discoveries of corruption, the Bank has introduced a rigorous fiduciary framework across the entire portfolio. Within the Bank, a Jakarta-based anti-corruption team assists in the design and monitoring of anti-corruption plans, which are required for every project. These plans identify corruption risks and seek to embed risk mitigation strategies in the project design, including oversight and monitoring mechanisms, complaints handling, increased disclosure requirements and specific sanctions. The Country Team works closely with Bank’s Department for Institutional Integrity (INT) and other Bank units, as well as KPK, BPK, and the State Internal Audit Commission (BPKP), to investigate allegations and to use the results to leverage policy and institutional reforms in relevant ministries.

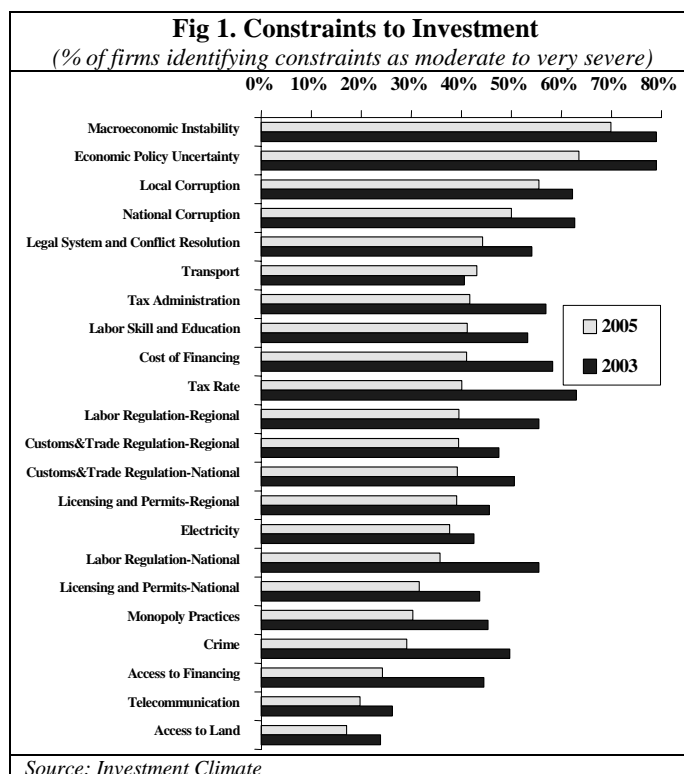
Improving the Climate for High Quality Investment and Growth

15. **In response to improved policies, growth is slowly rising, and poverty is falling.** Growth was 5.6 percent in 2005—the highest in eight years. Growth softened in the first half of 2006 due to higher fuel prices and interest rates, but a rebound is expected. Annual growth is projected at 5.5 percent for 2006, rising to 6-7 percent in 2007-8. Macroeconomic policy performance is strong; the deficit fell to 0.8 percent of GDP in 2005; and public debt/GDP fell to 47 percent (from some 100 percent in 1999). GOI's debt/GDP target of 30-35 percent by 2009 is well within reach. Public debt service as a share of the budget has fallen to 24 percent in 2006 (below pre-crisis levels). Increased growth is not yet translating into formal employment -- open unemployment reached 10.4 percent in 2006, posing significant socio-political risks -- and rural and regional poverty pockets remain a challenge. But the national poverty head-count fell to 16 percent (below pre-crisis levels) in early 2005; more than 13 million people have been lifted out of poverty since 1999 – a 7.5 percent improvement over this period.

16. **Fundamental weaknesses in the investment climate are being gradually addressed, leading to higher confidence and stronger sovereign credit ratings.** The investment rate has increased over the CAS period (22 percent in 2005, up from around 19 percent in 2003), gross FDI inflows have recently risen (to nearly \$16 billion in 2005), and businesses state that investment obstacles are less intense than they were two years ago (Figure 1). While serious bottlenecks, including inadequate infrastructure, a weak legal system, and bureaucratic red tape remain, overall, confidence is up, raising the value of the Rupiah, and making the Jakarta Stock Market one of the best regional performers over 2 years. Citing improved policy record, Moody's and S&P raised ratings to B1 and BB-, respectively, although still below investment grade.

17. **The health of the banking sector has improved, but state banks remain vulnerable, and there is a need for greater financial sector diversification.**

Commercial banks' performance has improved considerably post-crisis; and they are now among the most profitable in the region. Capital adequacy ratios are stronger for the vast majority of banks, but some state banks have demonstrated loan portfolio weaknesses. The Anti-Money Laundering Law (AML) was successfully amended and the Deposit Insurance Corporation has been launched, and Bank Indonesia has promoted improved corporate governance in the sector. Diversity in the sector through development of non-bank financial institutions (NBFIs) and capital markets is being pursued, but the share of NBFIs sector has remained at around 19 percent, and access to finance for underserved sections of the



economy, remains limited. A major new package of financial reforms was announced in July 2006, marking the next wave of reform.

18. A series of annual Development Policy Loans, coupled with a large AAA program and IFC interventions, are supporting policy and institutional reforms for higher growth. Reforms supported by DPLs have reduced inefficient public expenditures; strengthened tax administration and debt management; enhanced competitiveness of the financial sector; supported governance and fiduciary reforms; and are putting in place the building blocks for a better business climate and service delivery. Technical Assistance (TA) is being provided on key issues: regulations for investment law implementation; improved efficiency of domestic and international trade; a diversified, healthy financial sector; public procurement; enhanced legal certainty and anti-corruption measures. Via its Municipal Simplification Program, IFC is helping build LG capacity and improve business licensing and registration. IFC is also supporting several initiatives devoted to developing SMEs (Box 2).

Box 1. IFC and MIGA Activities over the CAS Period

IFC: IFC's program has grown steadily over the last 2 years, and Indonesia is now the 2nd largest exposure in IFC's East Asia region portfolio (around 17 percent of total). As of June 30, 2006 IFC's committed portfolio stood at \$747.3 million in 32 institutions. During FY04-05, IFC committed \$300 million in 13 projects, including \$65 million in 3 agribusiness projects with strong backward linkages and \$95 million to banking and NBFIs to strengthen their SME operations. In FY06, a new three year three year growth phase was launched to enhance IFC's impact even further; \$246 million was committed in 8 projects in FY06.

MIGA: Its outstanding portfolio consists of 2 projects in infrastructure and services sectors. The total outstanding gross exposure is \$50.9 million. Over the CAS period, MIGA continued its support for the Paiton Power Generating Complex. MIGA seeks to encourage FDI flows by profiling potential opportunities via its online investment promotion services. MIGA is prepared to support inflows in priority sectors (including oil and gas), and is actively looking at investments in the infrastructure and mining sectors.

19. Inadequate infrastructure remains a major impediment to investment and poverty reduction; the Bank Group is delivering strong support to address this. Major projects have been financed to support infrastructure at every level, including national roads, power and gas development, and urban and community level infrastructure. A major program of advisory services is also supporting the Government's efforts to establish policies and institutions for private investment in infrastructure, which will need to play a major role in Indonesia's planned \$12 billion annual infrastructure program. TA from the Bank has helped in setting up of new public private partnership (PPP) and risk management units, regulatory reforms, new legislation on Toll Roads and Land Acquisition. A strategy to mobilize long-term private financing (through NBFIs) has been developed; work to design major funds for infrastructure guarantees and financing is ongoing. IFC has been supporting captive infrastructure solutions and is developing local currency mechanism for financing infrastructure. The second Indonesia Infrastructure Summit in November 2006, to be held with Bank Group support, will seek to re-launch Indonesia's engagement with private investors.

20. Higher investment in rural areas is essential for poverty reduction; it remains a priority for the Bank Group. A major Rural Investment Climate Survey has been recently completed by the Bank, and confirms that special interventions in rural areas remain essential. Current Bank Group activities include a set of projects to help modernize the provision of services to farmers and fishers (extension, research, irrigation, credit, and property rights) within

the new decentralized context. Projects in water management, agricultural services, land titling, and coral reef protection are implemented by different ministries, but pursue a common approach to reform – making services more responsive to the end user, linking producers to markets and offering sustainable alternatives. IFC via PEP (Private Enterprise Partnerships) Indonesia is a key part of the Bank Group effort, supporting business linkages in the seaweed, cocoa and agribusiness sectors. Results of the overall program include system-wide reform in some sub-sectors (e.g. irrigation, coral reef protection), and demonstrated income increases in project areas. Needed progress in some areas – e.g. agricultural services – remains difficult.

Making Service Delivery Responsive to the Poor

21. **While performance on several MDGs (e.g. primary education completion, infant mortality) is strong, there is slow movement in others (e.g. water and sanitation, maternal mortality)** (Annex A2). A major report: “Making Services Work for the Poor” has just been completed by the Bank, and its ideas are being disseminated to a nationwide audience through a 12-part television series. The report provides a diagnosis of how Indonesia’s economic crisis, decentralization and democratization have combined to have different effects in different sectors and regions. Success has been generally greatest when the decentralization is used to enable service providers – schools, clinics etc – to be more genuinely responsive to the needs of the poor. This is more likely in an environment in which progress is monitored and local opinions are translated into decision-making by local and central officials. There are already some remarkable examples of success over the past five years (e.g. school-based management with community participation), but also some failures (e.g. some immunization programs). The Bank’s program seeks to help the Government apply the successful models at a scaled up level. The recent major reduction in fuel subsidies has enabled a major pro-poor increase in public spending on health and education services (Box 2).

22. **The past three years have seen important progress in educational policy, and in the Bank’s program of support.** A major review of the sector has led to a new generation of Bank programs emphasizing responsiveness to parents and students requirements, access, educational quality, teacher reform, and competition. Advisory services have supported, for example, transition to district block grants mechanism; direct funding of grants to schools; scholarships to poor students; community-led school rehabilitation/construction program (reducing construction time and costs); and integration of Early Childhood development (ECD) in the Education Act. Bank programs have also piloted the increased participation of communities in the delivery of education services, by supporting the establishment of school committees associated with the provision of direct funding of grants to schools. There has been a resultant improvement in district planning capacity and school management. The creation of autonomous, effective and accountable tertiary education institutions; and a pilot new approach to improve ECD access are being supported. Evaluation of the ECD project has found significant gains in school readiness and enrollment, with stronger outcomes for poorest children. Seven basic education projects were restructured to help establish more transparent budgeting, planning, and management; and rolling out new policies on teacher management and performance. These regionally focused projects are contributing to high enrollments, maintaining transition rates from primary to junior secondary, and aiding teacher development.

23. **While there is some progress in health services for the poor in Bank targeted provinces, broader evidence of improvements in healthcare has yet to materialize.** A series of Provincial Health Projects (PHP) were designed to help clarify the roles of government levels and build capabilities in nine provinces. Several rounds of block grants have been completed, and support for building district government capacity to implement pro-poor planning, monitoring and reporting of health services and outputs is ongoing. At the center, work on drug and food control systems and public accountability measures is underway. A competency-based curriculum for primary care physicians was prepared to be used across medical schools, and training for close to 5,000 medical students was provided.

24. **The Bank's portfolio includes the world's largest share of CDD projects, which are increasingly being used to deliver basic education, health care and clean water to poor communities.** CDD interventions encompass 30 of Indonesia's 33 provinces and cover close to 55 percent of its rural and urban villages and towns. These have built or rehabilitated schools, health facilities, water and sanitation systems, roads, bridges, markets and electrification systems. Their unique design involves engagement of social and technical facilitators who know the communities well (Box 2). Over the past year this approach has been used to launch a major new program in ECD (see above), and to scale up the successful community water and sanitation program. Functioning water supply systems have been established in over 1,020 villages (covering over 2 m villagers). The approach is being scaled up via the 3rd phase PAMSIMAS (Water and Sanitation Program for Poor Communities), which will benefit some 5,000 communities with a population of around 12.5 million.

Responding to Disasters in Aceh and Nias

25. **Reconstruction efforts after the Tsunami have become a major part of the Bank Group's program.** In the immediate aftermath of the tragedy, the Bank was asked to lead the international team in preparing the Damage and Loss Assessment (prepared in three weeks, and measuring in detail the precise scale of the damage). Bank staffs were seconded to help GOI prepare plans for reconstruction, including the setting up of the Reconstruction Agency (BRR) and by mobilizing funds for a Multi-Donor Fund (MDF) for Aceh and Nias, which quickly raised \$538 million in grants from 15 donors, including a \$25 million grant from the World Bank's net income (Box 2). In partnership with the Dutch Government, the Bank established a multi-donor office in Banda Aceh and made the facilities available to all donors.

26. **The Bank Group quickly developed a portfolio of grant operations, technical assistance, policy dialogue and analytical work equal in scale to a full-fledged country program.** With financing from the MDF, JSDF (Japan Social Development Fund), IDA credits and co-financing, the Bank is currently supervising a portfolio of about 20 projects, providing over \$320 million for reconstruction and development including in formerly conflict affected areas, covering a range of reconstruction needs. Many of these draw upon the Bank's CDD network, which has now been extended to every village in Aceh and Nias, with the Bank-supported projects generating over 2 million work days thus far in the affected areas. The Bank's Aceh and Nias program has been delivered with very modest additional Bank administrative resources, financed by redeployment of regional and country budgets. However, by mobilizing an additional \$12 million in bilateral trust funds the Bank has been able to field a team of over 50 professionals in Banda Aceh, delivering strategic and technical support to the

BRR, monitoring reconstruction progress, maintaining a local communications network across the region, and developing a medium term reconstruction expenditure framework. IFC has also launched a PEP Aceh-Nias, a three year US\$6 million initiative, to revitalize SMEs. Via a matching grant scheme, IFC has supported 3 private initiatives to assist with the recovery efforts.

Box 2. Examples of Bank Group’s Assistance to Indonesia

<p>Fighting Poverty via Broad-based Community Level Programs: Kecamatan Development & Urban Poverty Programs (KDP and UPP) are the hallmark of Indonesia’s CDD interventions. KDP (which began in 1998) is now the largest Bank-financed CDD program in the world. Under these programs some 38,000 Indonesian villages and cities have benefited, with 75 percent of funds going for socio-economic infrastructure and 25 percent for economic activities. Over 3 million villagers earned direct short-term employment through these interventions with some 2/3rd of the workforce from the poorest parts of the community. KDP was the only program successfully operating throughout the entire martial law period in Aceh. As part of post-tsunami support, 1,450 KDP facilitators are supervising over 11,000 volunteers in over 6,000 villages to select, design, build and monitor infrastructure. Overall, evaluations and international audits of these projects show that return rates average some 35-50 percent; costs are less than half that spent on these works, when built through government contracting; and levels of corruption in the micro-projects are relatively low.</p>
<p>Replacing Regressive Fuel Subsidies with Pro-poor Expenditures: As international oil prices rose in 2005, GOI took the bold and politically difficult decision on a two-pronged course of action: reduce fuel subsidies, but provide compensatory targeted assistance to poor Indonesians. GOI’s ambitious unconditional cash transfer (UCT) program is the world’s largest ever cash transfer program (in coverage and total volume) and was rolled-out in record time of about two months, reaching some 19.2 million poor and near-poor households (some 34 percent of the national population, well in excess of the poverty level of 16 percent). The significance of GOI’s efforts goes beyond targeted compensation to the poor, in that it also applied about \$10 billion in 2006 in budgetary savings to strategic pro-poor programs including reduction of school fees and scholarships for poor students; basic health care and health insurance for the poor; and, the provision of rural infrastructure. Having followed fuel subsidy policy implications over time, the Bank was well placed to provide technical expertise around this difficult reform. GOI valued and drew on the Bank’s analysis of the impact of various scenarios on the budget, inflation, poverty, and sought advice on policy sequencing and on the reallocation. The GOI-Bank team briefed the Vice-President and Cabinet members on options and provided just-in-time support to GOI’s decision to rapidly roll-out a UCT program. Further support on designing a conditional cash transfer (CCT) scheme is underway.</p>
<p>Helping Aceh & Nias Recover: This largest trust fund in the East Asia Region (and among the largest Bank-wide), the MDF, offers an effective, flexible mechanism for bringing together key members of the donor community, GOI and civil society to support post-disaster recovery. Within its first year of operation, of the total MDF amount of \$538 million, about \$492 million had been committed to projects, while close to 45 percent of the resources under active projects had been disbursed. Other than providing project financing, it has become a forum for coordination and policy dialogue among relevant stakeholders. Some innovative features include a governance structure (Steering Committee) that represents the interests of partners (GOI, donors, civil society, and the World Bank as the trustee), management by three co-chairs (with specialized terms of reference), and use of partner agencies to appraise and supervise projects. An integrated approach that includes land titling, housing, infrastructure, flood control, environmental protection, and building social capital, is being employed, with a key role played by communities in reconstruction and rehabilitation. A pro-active communications strategy has helped to strengthen relationships with beneficiaries. Recently, a strategy was approved for the use of remaining funds that includes co-financing of MDF-funded projects by the GOI Reconstruction Agency (BRR) – an innovative approach— uncommon in developing countries.</p>
<p>Supporting SME Development: IFC has provided over \$200 million to banks and a finance company to support their SME and micro-lending operations. Its largest local currency facility offering to a client globally and the largest single transaction to date in Indonesia, was successfully concluded in May 2006, with \$140 million equivalent provided to Bank Danamon – a leading SME and consumer lending bank in Indonesia. This will enable Bank Danamon to increase the scale of its microfinance, and lending activities to SMEs, and diversify its funding base. IFC’s Promoting Enterprise Access to Credit (PEAC) program, jointly with Swisscontact, has facilitated \$11 million in loans to over 150 SMEs. Moreover, IFC’s Program for Eastern Indonesia SME Assistance (IFC-PENSA) is a key provider of TA, capacity building and advisory support, and is another example of a strong partnership (jointly funded by IFC with 6 donors). The PEP-Aceh-Nias, co-funded with Australia, aims to revitalize the SME sector, post-tsunami.</p>

27. **Following the historic Aceh peace accord of August 2005, the Bank embarked upon a major program of support for post-conflict reintegration and development.** The Bank led a major “Needs Assessment” for demobilizing ex-combatants and supporting war-torn villages, and is providing TA to the Reconciliation Agency (BRA), focused on their strategic planning and mechanisms for delivering assistance to conflict-affected communities and individuals. A socialization program has been supported, and the village level network is used to monitor conflict incidents. On the first anniversary of the peace accord (August 15, 2006), plans were announced to use the CDD facilitators to channel development funds to all affected villages. To date the peace agreement has been highly successful, improving the quality of life and outlook of the Province, and sharply increasing the prospects of a successful reconstruction.

28. **Nearly a year after the BRR and the MDF were set up, the pace of recovery in Aceh is strengthening, but many challenges remain.** Houses are being built in large numbers (nearly 45,000 of some 120,000 destroyed units were rebuilt by end-June); farmers and fishers are returning to their livelihoods, the school year has started normally, and health services are available across the affected areas. Around \$1.5 billion has already been disbursed for rehabilitation and reconstruction by a wide array of donors and NGOs (see Annex 7). But despite progress, the environment for reconstruction remains difficult. The pace of infrastructure reconstruction is lagging behind the housing program. Land titling is facing administrative bottlenecks. Inflation and unemployment are stubbornly high. Restoring livelihoods remains a serious problem, particularly for women. And, peace is still fragile.

Managing the Bank’s Portfolio

29. **Important gains in overall portfolio quality have been achieved, but continued hands-on management is essential.** Over this CAS cycle, the Bank has delivered a total of some \$2.13 billion in loans and credits, of which 75 percent was on IBRD terms, and \$700 million was in the form of program support. As of June 30, 2006, the Bank’s active portfolio comprised 25 projects with total net commitments of \$2.3 billion. All projects but one (96 percent of total) were rated satisfactory. The ratio of “at risk” to total projects (by commitments) has improved from 20 percent in FY04 to 8 percent in FY06. The risk factors include weaknesses in project management, corruption and misuse of funds, delays in counterpart funds release by GOI, procurement problems and M&E issues. These are being addressed actively including via: project restructuring, loan cancellations, follow-up on counterpart funds, application of remedies for misuse of funds; and procurement/financial and project management improvements.

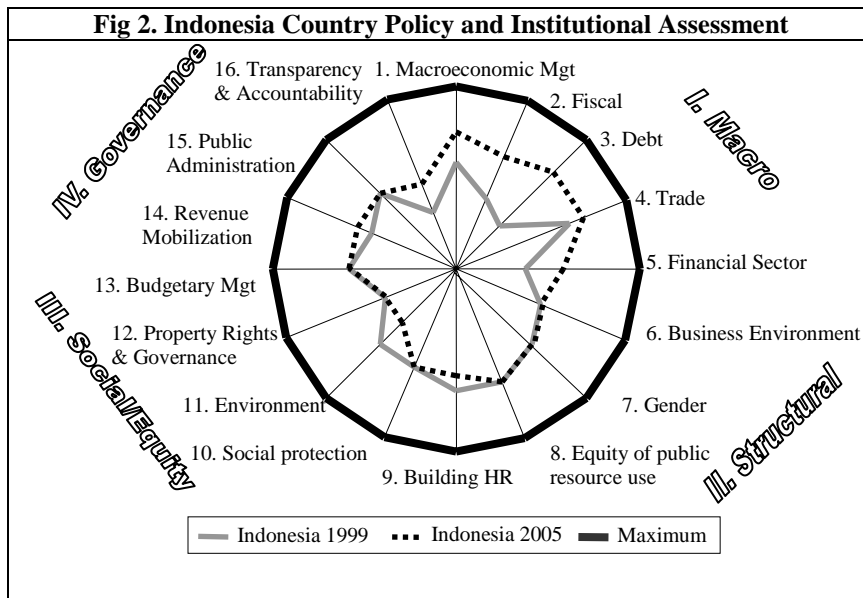
30. **A large trust fund (TF) program over the CAS period enabled the Bank to quadruple advisory and capacity building services to the Government.** The TF portfolio includes over 130 TFs under Bank oversight for a total of nearly \$850 million; a number of programmatic Jumbo TFs of \$10 million or more are included. Given this scale, special measures are being taken to ensure effective management. A trust fund unit has been established at the Bank in Jakarta, to facilitate systematic monitoring, identification and application of specific risk mitigation measures. A recent TF portfolio review indicates that TF programs place the strongest emphasis on activities related to responsive service delivery, followed by governance issues, and the improvement of the investment climate. The reconstruction of Aceh and Nias has also become a substantial focal area. Over the past few years, the Bank has seen

real benefits from genuine partnerships, including: improved aid coordination; high-quality research and policy dialogue; and enhanced knowledge dissemination.

III. NEW DIRECTIONS IN THE WORLD BANK GROUP PROGRAM

The High Case and IBRD Exposure

31. **The Bank’s program is in the “High Case”.** Indonesia has achieved both the CAS high-case indicators (Table 2), and the DPL triggers (Annex 5), as well as registered improvements across several areas of the Country Policy and Institutional Assessment (CPIA; Annex 4). Indonesia’s overall CPIA rating reached 3.7 in 2005, having registered systematic improvements across key categories since 1999, led by sharp improvements in the macro-economy (Fig. 2). But the 2001 decentralization made management of some areas (e.g. environment) far more difficult, and these remain weaker than pre-crisis.



32. **Indonesian debt to IBRD has been declining since 2001, as agreed between the Government and the Bank.** In view of the extraordinary borrowing at the time of the financial crisis, and Indonesia’s very high debt levels, it was appropriate that the Bank’s exposure should fall. Even with increased disbursement projections (arising from the proposed increase in quick-disbursing budget support), the Bank’s IBRD exposure will continue to decline steadily from \$9.78 billion at end-2003 to \$6.36 billion in 2008, and IBRD debt service/exports is projected to decline from 2.6 percent in 2003 to 1.1 percent in 2008. Indonesia’s share of total IBRD exposure has also declined from 9 percent in FY03 to 7.3 percent in FY06.

Recalibrating Bank Group Support for Indonesia’s Development

33. **Planned new lending remains within the original CAS parameters – of up to \$1.4 billion (IBRD and IDA) per year under the High Case – and will be calibrated to progress on key reforms and financing needs.** Given the strong continuing relevance of the current CAS, and Indonesia’s impending graduation from IDA-IBRD Blend to IBRD status by end-FY08, it is proposed that the CAS period be extended by one year. The High Case FY08 triggers are set out in Annex 2. Given Government’s strong commitment to accelerate reform, it is expected that Indonesia would remain in the High Case. But in the event that the High Case triggers, most significantly those pertaining to the macroeconomic framework, are not achieved, the IBRD lending envelope would shrink to the Base Case levels. If reform progress stalls or

there are policy reversals, IBRD lending would fall further to Low Case levels. In this event, IDA commitments will be reduced below the present allocation (Annex 3). Table 3 profiles the Bank program. The CAS Results Framework (Annex B9) is revised to reflect mid-course adjustments.

34. **While the broad thrust of the CAS remains unchanged, the program will be deepened in four specific ways:** (i) a stronger support for governance reform via civil service reform and transparent, nationwide poverty programs; (ii) a focus on disaster risk management; (iii) increase in program financing for the remainder of this CAS period; (iv) stronger partnerships, including among the Bank Group.

35. **While IFC's strategic priorities remain broadly the same, in FY06 IFC entered a new growth phase in its activities in Indonesia.** Experienced staff was added to the country team and a new sectoral approach was launched. The growth phase prioritizes: (i) financial markets; (ii) infrastructure; (iii) agribusiness and resource-based industries; (iv) SMEs, and (v) investment climate, as strategic sectors. IFC's investment program is expected to grow from US\$250 million in FY06 to US\$350 million in FY08. Financial markets, infrastructure, resource-based industries and general manufacturing each are expected to account for about a quarter of the overall IFC Indonesia investment program.

Furthering the Governance Agenda

36. **The Yudhoyono administration is extending its governance agenda to include much-needed civil service and administrative reforms.** Significant pilot initiatives are planned in the Ministries of Finance and Education that could serve as models for a more comprehensive strategy of civil service reform at the national level. GOI is planning to launch an independent remuneration commission to advise on pay scales and the design of a more transparent compensation package for higher level officials (*Pejabat Negara*) that is planned to be extended to all civil servants eventually. Moreover, a Cabinet level unit to assist on implementation of reforms is planned. The Bank has mobilized substantial TFs to support these important efforts as a key addition to the overall governance program in the CAS.

37. **Local-level governance reforms for improved service delivery and infrastructure development will be pursued in concert with partners.** The Bank will leverage its policy dialogue underpinning the DPL, TA and capacity support including via the DSF, to assist GOI in making progress, including on the issues of intra-governmental fiscal framework implementation. A package of key fiduciary and accountability reforms, in areas of public participation, transparency, financial management, and procurement, is being pursued via a set of operations targeting reform-minded districts across 21 provinces. Lessons from these recent launched operations will help shape Bank support to strengthening LG capacity and performance.

38. **The Government has recently announced plans for nation-wide village level CDD and Conditional Cash Transfer (CCT) Programs, targeting poor communities and households.** The experience of the Bank-supported KDP and UPP programs, which have been implemented in over half of Indonesia's villages, is helping inform the proposed CDD program. In addition, GOI plans to convert its successful experience in UCT into a grant program that will be conditional upon household actions. The two complementary interventions seek to improve

access to health and education services, via transparent, participatory, effective resource transfers. The Bank will continue to provide TA and requisite financing.

Table 2: Achievement of CAS High Case Triggers

Reform Area	Result/Status	
Macroeconomic stability and creditworthiness		
Cutting inefficient spending	Exceeded	Reduced fuel subsidies; savings to pro-poor programs/cash transfers. Fuel price adjustments saved \$15 billion in public funds over 2005-6.
Reduce reliance on debt financing	Exceeded	Prudent fiscal management. Public debt/GDP ratio down to 47% from 100% in 1999. Debt service burden at 23.6% is lowest burden since 1994. Budget deficit projected at 0.8% of GDP in 2005 and 2006 deficit also projected below 1%
Investment Climate		
Strengthen financial sector	Fulfilled	Deposit Insurance Corp in place. Capital Mrkt Supervision Agency & Dir. Gen'l Finan. Inst. merged to strengthen regulation, supervision. Indonesia off non-compliant countries list of Financial Action Task Force. GOI Financial Sector Reform Package launched.
Increase private investment to power	Substituted & Fulfilled	<i>Electricity law was annulled by Constitutional Court, requiring substitution of the original trigger.</i> Major legislations passed (Toll Road; Land Acquisition; Inter-ministerial Committee on Infra., PPP; Risk Management Units established). Infra. Reform Package (153 policy actions) launched.
Reduce transaction costs for business	On Track	Investment Law signed; implementing regulations being drafted. New Customs Law drafted. Nat'l Export & Invest. Agency (PEPI) with problem solving authority for investment issues established. Progress has been made in reducing number of days for business start-up. Investment Climate Reform Package (85 policy actions on taxation, customs, excise, SMEs, labor etc.) launched.
Public procurement/ financial management		
Strongly improve fiduciary management	Fulfilled	Completed: Finance regulations, MOF restructuring, new budget procedures, public procurement standards. Passed Finance, Treasury and Audit laws. Other audit and treasury measures at different stages of development. Anti-corruption committee, Anti-corruption Court, Financial Transactions Analysis Center, Business Competition Spn. Commiss. operational. GOI elaborated Nat'l Action Plan for Corrupt Eradication. Yudhoyono's anti-corruption instrument to the Executive. UN anti-corruption convention signed.
Decentralization		
Improve local fiscal accountability	Fulfilled	Completed: local debt restructuring; rescheduling; write-offs; framework for own-source revenues, regional Bonds underway. Largely clean local elections creating accountability framework.
Justice sector and legal reform		
Improve governance in the justice sector	Fulfilled	Attorney General's Office reform blueprint launched. Judicial Commission operational. Anti Corruption Court and independent oversight commissions for AGO/Prosecutions and the Police created & given considerable autonomy and authority. Many high profile public figures -- including a governor, dozens of councilors and General Elections Commission staff—convicted and are in prison.
Service delivery		
Improve service delivery to poor, publish standards for public service delivery units	Fulfilled	Large increase in education and health spending since 2000. Fuel subsidy savings funded social services for the poor; early program implementation assessments favorable. Minimum service standards in education and health in place. Decree on free health; block grants to schools for free education to poor. Public service quality at facility level improving, per decentralization surveys.
Poverty reduction strategy		
Improve poverty orientation of public spending	Exceeded	Issued medium term plan (RPJM) and annual work plan (RKP) for 2006 budget. Increased allocation for sectors prioritized for poverty reduction in 2005 revised budget and 2006 budget. Fuel subsidy savings reallocated to core social programs. Regions to account for > 50% of total public investments in 2006.
Aid effectiveness		
Improve implementation of decentralization framework	Partially Fulfilled	On-lending/on-granting decrees revised and issued. Several other laws on implementation of decentralization are finalized and at various stages of review

39. **The Bank will seek stronger partnerships with Indonesian anti-corruption and audit institutions to prevent and detect fraud and corruption in Bank and other projects.** While the Bank's INT unit will continue to take the lead in investigating corruption allegations in Bank projects, the Country Team will pilot (beginning with the roads sector), a new framework to identify and flag fraud and corruption risks at an early stage through external monitoring experts and auditors working in close cooperation with the BPK and the KPK. The Bank will also work with GOI to operationalize a "10 Step Program" to curb illegal logging and achieve sustainable forest sector governance, enhance law enforcement and public information, and combat corruption. Support will be provided for AML and asset forfeiture laws to combat illegal logging. The Bank will also support GOI in implementing the Extractive Industry Transparency Initiative (EITI); a staff member will be seconded to the Jakarta Office, supported by DfID.

Disaster Risk Management: A New CAS Pillar

40. **Aceh and Nias will require ongoing heavy engagement throughout the next two years and beyond.** A comprehensive strategy, for engaging LG in reconstruction and oversight of local infrastructure development has been approved by BRR. The Bank's Aceh MDF portfolio is expected to grow to around 12-14 projects and IFC is pursuing the creation of new financing opportunities for SMEs in Aceh/Nias. The role of the MDF is expected to grow as some NGO programs begin to phase down, and as the BRR seeks to directly co-finance MDF projects with its own funds, to benefit from design and supervision quality.

41. **Lessons from Aceh are being applied to reconstruction of Yogyakarta and Central Java, following the May 27 earthquake.** The scale of the damage is estimated at some US\$3.1 billion—among the most costly natural disasters in the developing world over the past decade. About 157,000 houses were completely destroyed, and over 200,000 were damaged. GOI has chosen a community-driven housing program modeled in many ways on the MDF-financed Bank program in Aceh. The Bank is already using reallocated funds from the ongoing UPP to move forward with the first 6,000 houses, which are now underway. While most of the housing grants are expected to come from GOI, the Bank is currently putting together a MDF for donor grant co-financing. So far, six donors have expressed commitment.

42. **Indonesia has become the epicenter for Avian and Human Influenza (AHI) risks.** The H5N1 virus is now considered endemic in poultry in most provinces. With 46 AHI-related human deaths (as of August 23, 2006), Indonesia overtakes Vietnam (whose last AI death was recorded in 2005), as the country with the most human fatalities from the virus. While tests indicate that so far there has been no significant mutation of the virus, the risk remains significant. Indonesia's response to date is not regarded as fully adequate. Control measures, including vaccination and culling of infected stocks, are seriously underfinanced and fraught with implementation problems. But recently a consensus has emerged between the Government and international specialists on a detailed plan of action, which was endorsed at a major GOI-donor meeting in August 2006. As a result, it is hoped that a credible response can now be scaled up, supported by significantly increased donor financing. As a first step, the Bank will mobilize \$15 million in grant resources, including through the AHI multi-donor trust fund facility.

Table 3: Indonesia Program at a Glance

IBRD/IDA Lending (\$ million)				Trust Funds (\$ million)			
Sector	Active Loans	Planned Projects		Existing Grants Volume		Expected New Grants FY07-FY08	
		FY07	FY08				
<u>Policy Loans</u>				Key Co-financing/Project linked TFs			
Development Policy Loan (DPL)	--	X	X	<u>Multi Donor</u> - MDF Aceh & Nias - Canada/UK/Australia (KDP- Aceh) - ODS Phase out - GEF	538 14 37 12	<u>Multi Donor</u> - EC/Netherlands (GFMRAP) - MDF(Avian & Human Influenza Facility) - MDF (Trade) - MDF (Yogyakarta) - MDF (Education)	19 15 15 76 300
Infrastructure DPL			X				
Sub-Total		600	600				
<u>Investment Loans</u>				Key TA & AAA linked Trust Funds			
Governance	238	X		<u>Single Donor</u> - Japan (PHRD-Variou) - UK (ILGRIP) - Netherlands (Kecamatan Development Project, Early Childhood Education, Water resource & Irrigation) - Australia (Water & sanitation – low income communities)	17 13 98 8	<u>Single Donor</u> - Japan (PHRD-Variou) - Netherlands (teacher management)	13 40
Transport	200	X	X				
Other Infra/public works (incl. housing)	238	X	X				
Health	462	X	X				
Education	171	X	X				
NRM/Rural Devt	192	X	X				
Community Dev.	810	X	X				
Sub-Total	2,311	400-800	400-800				
Total Commitments	2,311	1,000-1,400	1,000-1,400	<u>Single Donor</u> - UK (Decentralization Support Facility 1, Poverty Reduction Partnership) - Netherlands (Institutional Development, Water & Sanitation) - Belgium (NTB Water Resource Based Poverty Alleviation) <u>Other Grants</u> JSDF, IDF, etc	26 46 11 30	<u>Multi Donor</u> - Canada/UK/Australia (Decentraliz Support Facility 2) -EC/Netherlands (Basic Education) <u>Single Donor</u> - Netherlands (multi-purpose for education) - Sweden(Governance Partnership) <u>Other Grants</u> JSDF, IDF, others	47 50 11 5 5
Tot. Undisbursed	1,616			Current TF Volume	850	New TF Volume	596
Total Disburs. (Actual/Expected)	730	750-850	750-850	Total Undisbursed	580	Expected Disburs.	275
Key AAA							
Completed in CAS period FY04-FY06				Expected New AAA FY07-FY08			
National Governance Breakthrough							
Sectoral Perspectives on Corruption, Regional Public Expenditure Review				Public Expenditure Review, Public Financial Mgmt Measure. Framework, Good Environ. Governance, Corruption Monit. Surveys			
Local Government Platform							
Local Environment Governance (AMDAL review), Justice for the Poor, Governance and Decentralization Survey 1				Governance and Decentralization Survey 2			
Investment Climate Breakthrough							
Averting an Infrastructure Crisis; 1 st Infra Summit, Investment Climate Analysis, NBFI Study, Rural Invest. Climate Survey				Employment Study, Improving Investment Climate, Infra Summit			
Reducing Poverty							
PRSP Support, Poverty Assess, Fuel Savings/Unconditional Cash transfer				Conditional Cash Transfer, Migration and Remittances, Conflict & poverty			
Improving Service Delivery							
Edu. Sector Study, Makg Srvices Work for Poor, ECED Sector Report				Social Protection Study, Health workforce, Teacher Management			
Responding to Disasters							
Damage & Loss Assess Aceh, Aceh & Nias 9 months & 1 year report, Damage and Loss Yogya				Aceh Expenditure Review, Aceh 2-year Review, Aceh/Yogya Donor Coordination., Poultry Sector Strategy			

43. **These recent events, together with the country's high level of hazard vulnerability, reinforce the pressing need for a disaster risk management framework.** GOI is taking steps to reduce disaster risk and to promote better coordination of emergency response and recovery efforts. The Bank is exploring with partners ways to support the operationalization of the new legislation and institutional arrangements, while integrating improved disaster risk reduction into its sectoral work. Joint TA in select key areas will be provided, including developing national and LG capacity for assessing disaster damage, losses, and needs; assessing capacity to absorb catastrophic events; and supporting development of a social protection system to manage sources of vulnerability; designing instruments for financial risk transfer and flexible risk financing.

Program Support & Innovative Modalities

44. **Increased program support would be provided in FY07 and FY08 in response to a request from Government, if the country remains in the High Case.** This is justified on grounds of special needs arising from the recent natural disasters, a steady improvement in Indonesia's macroeconomic performance, good progress on structural reforms, and clear policies on important socio-economic and governance issues. Recent natural disasters have placed a large financial burden on GOI. Even in Aceh, where the donor response was very generous, GOI will incur over \$3 billion in costs. In the case of the Yogyakarta disaster, donor financing support is limited (in part because the impressive Government response has taken the huge disaster off the radar screen). It is thus proposed that program support through the annual DPL be raised from \$250 million p.a. in the original CAS to \$600 million p.a. in FY07 and FY08. In FY08 part of this amount may be via the vehicle of a special Infrastructure DPL, which would be co-financed with the Asian Development Bank. In the case of both the core DPL and the Infrastructure DPL, the lending decision would depend upon progress on the Government's stated reform program. Beyond this CAS period, in the normal course of events, a reduction of IBRD DPL volumes from the levels agreed in FY07-08 is expected. The aggregate lending envelope and the program share therein will be carefully reviewed during the preparation of the next Indonesia CAS and will be based on country context and other relevant factors, including IBRD exposure and credit risk concerns.

45. **Indonesia's growing sophistication calls for a richer set of instruments.** The use of local currency financing, IBRD hedging products, and Shariyah financing are under review, as is an assessment of Carbon Offset and GEF products. To help fill the large financing gap in infrastructure the Bank is working with GOI on the design of a Guarantee Fund and an Infrastructure Fund to catalyze and mobilize additional private capital. A joint IFC-Bank team has prepared the first "sub-national" IFC corporate loan in Indonesia, for PGN –a natural gas distribution company. This is a useful mechanism for combining IFC's market expertise with the World Bank's public policy experience. It would help PGN further transition to more market based sources of financing. Finally, in education and possibly in the CDD program, engagement is to shift from stand-alone projects to sector wide interventions, supported by several donors. A basic education operation will aim for universal primary enrollment and 75 percent enrollment in junior secondary education by 2009; a time-slice financing concept is under consideration, whereby, funding would be released according to specified outcomes.

Deeper Partnerships: A Better Way of Doing Business in a Complex Environment

46. **Over the past few years the Bank Group program has seen real benefits from genuine partnerships; these will be extended further.** This has occurred more dramatically in the reconstruction of Aceh and Nias, where the MDF has provided a whole much greater than the sum of the parts. Two new multi-donor funds are being created – for Yogyakarta, and for public financial management. The Bank is also strengthening partnerships to help improve delivery of core services. Notably, the new education project (see above) is planned as a multi-donor program. The Bank is also working with partners to coordinate assistance to higher education through its support for a "Presidential Scholars Program"; it supports promising young academics' PhD studies abroad and encourages them to take up faculty or research positions in emerging "centers of excellence", on their return. The same synergy is now being seen in two of the multi-donor offices – the DSF office in Jakarta, and the Eastern Indonesia office in Makassar. Both of these are two years old, and are beginning to demonstrate that for highly complex areas or regions it is simply more efficient and effective to work together. Both of these offices are managed by the Bank, but funded by other donors. In the coming years, it is likely that the Bank would join other such ventures that other partners would lead.

47. **The World Bank Group members will work in closer partnership on (i) business environment, (ii) sub-sovereign finance, (iii) infrastructure development, and (iv) Aceh's reconstruction.**

- Following joint analytics on the Investment Law, IFC and the Bank will support development of related implementing decrees, and collaborate in the development of non-bank finance mechanisms (e.g., venture capital). IFC is also helping several municipalities reduce the business licensing red tape.
- At the sub-national level, the joint Municipal Fund is exploring opportunities to work with selected provinces to improve governance, finances, and management processes. MIGA is collaborating in efforts to strengthen the institutional capacity of sub-national investment promotion intermediaries.
- Infrastructure development support by the Bank and IFC continues to focus on policy reform, financial sector and institutional strengthening, promotion of PPP and specific project investments. MIGA is exploring suitable opportunities for provision of non-commercial guarantees to foreign investors.
- In Aceh/Nias, IFC is working closely with BRR on the rebuilding of livelihoods, which helps multiply the impact of Bank efforts to support sustainable recovery.

IV. MANAGING RISKS

48. The original CAS placed primary emphasis on the risk that GOI would demonstrate insufficient political will to tackle the issues of governance. The election of President Yudhoyono, who has placed good governance at the center of his platform, has changed the nature of political risks in Indonesia. In the coming year, the risks will be focused largely on the difficulties of translating political will into concrete policies that will be implemented across Indonesia's fractious bureaucracy. In particular, the two most salient risks are:

49. **Policy formation:** Though Indonesia is a presidential system, the Office of the President lacks a significant policymaking apparatus, leaving policy formation with ministries. While the President clearly and consistently sets out his administration's priorities, their translation into actionable policy programs has been very uneven across the ministries. And reform-minded ministers often lack the technical support within their own ministries to address major policy and institutional reforms. These risks have been exacerbated by the fact that the Cabinet ministers come from a broad range of political parties weakening the coherence of the overall government program. The Bank team has sought to mitigate these risks by mobilizing a major program of TA for key ministers in developing their policy programs across the CAS pillars.

50. **Policy implementation:** The implementation of reforms depends upon a bureaucracy that is itself widely recognized as the most significant obstacle to change in Indonesia. Major reforms are required in the recruitment, promotion, compensation, size, and culture of the civil service. And decentralization has added an additional layer of complexity to this problem. Indonesia has recently begun its first direct elections for governors and district heads across the country which may make it more difficult for the President to push his priorities across Indonesia's 440 districts. GOI is beginning to address these risks by developing a program for civil service reform with Bank assistance. Recently MOF issued decrees related to on-granting and on-lending, and the Bank is working to strengthen reform programs at the decentralized level through the DSF and three LG focused operations, supported by the Eastern Indonesia multi-donor office.

51. Other risks identified in the initial CAS document in macroeconomic performance, financial sector, fraud and corruption, and security remain relevant. GOI is focused on addressing all these challenges and the Bank is working with other key partners to support sustained progress on macroeconomic performance and in the financial sector. Transparency and accountability measures are built strongly into the Bank's program and implemented rigorously; the Bank program is additionally supporting stronger public financial management, anti-corruption initiatives and institutional reforms focused on good governance. In addition, the terrible natural tragedies in Aceh, Nias, Yogyakarta and elsewhere highlight Indonesia's unusual vulnerability to such risks. The additional pillar in this CAS update is designed to mitigate these, as well as seek to address the AHI pandemic threat.

ANNEXES

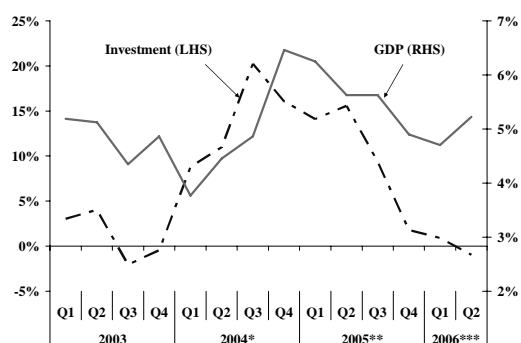
Recent Macroeconomic, Poverty and Sector Developments

Economy

In recent years, Indonesia has achieved sustained macroeconomic stability and economic growth, effectively closing the chapter on the 1998 financial crisis and its calamitous aftermath. Maintaining economic fundamentals and creating a more inviting investment climate are critical to reclaiming impressive levels of pre-crisis economic growth and poverty reduction.

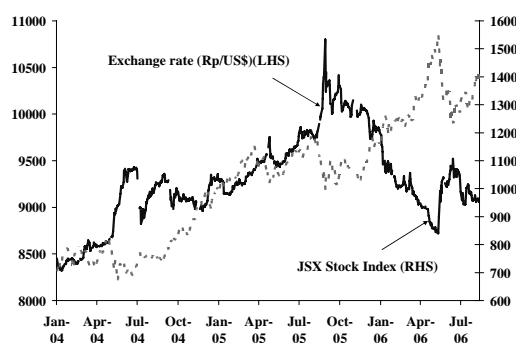
Growth reached a post-crisis high of 5.6 percent in 2005 – the highest growth rate in the region – with investment growth relatively high at 9.9 percent (Figure 1). However, slower than budgeted government spending, turbulence in currency markets, and dramatic increases in subsidies affected market confidence, leading to a short-term bout of volatility (Figure 2). In response, the government raised interest rates and cut fuel subsidies, leading to a monetary and fiscal tightening that slowed growth in the fourth quarter.

Fig 1.1. Growth and Investment
(year-on-year growth rate, percent)



Source: BPS, World Bank

Fig 1.2. Market confidence strengthens
(Rupiah exchange rate against US\$)



Source: CEIC, World Bank staff

The Bank projects a growth rate of 5.5 percent in 2006. Government spending from reduced subsidies should provide more of a fiscal stimulus especially later in the year. This should be accompanied by falling interest rates and a pickup in investment and consumer durable spending. Assuming progress on infrastructure and investment reforms, these trends could be reinforced by an increase in private investment. Assuming good progress on the reform agenda and a favorable world environment, growth should accelerate to above 6 percent in 2007.

On the external front, the exchange rate depreciated to above Rp. 10,000 against the US dollar in August 2005 for the first time since 2002, fueled by a loss of market confidence in macroeconomic management (e.g. monetary policy) and concerns over the impact of high oil prices on the economy (Figure 2). The authorities' decisions to tighten monetary policy and to substantially cut fuel subsidies restored market confidence and the Rupiah has strengthened dramatically. As of August 14, 2006, the exchange rate stood at Rp.9,090, for a gain of more than 10 percent since the October fuel price increase.

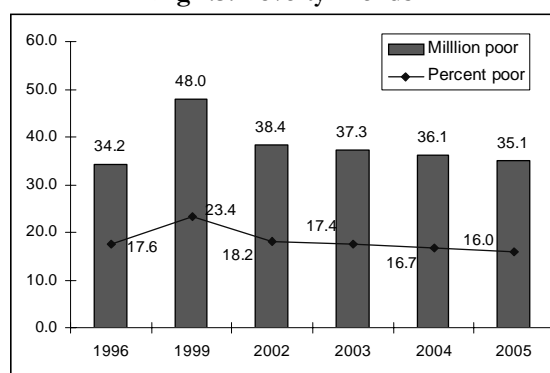
In 2005, the budget deficit-to-GDP ratio improved to -0.5 percent, while the government debt-to-GDP ratio improved to 47 percent from 100 percent in 1999, contributing to improved

macroeconomic stability. The improvement in tax administration helped improve the non-oil and gas revenue-to-GDP ratio, from 9 percent in 2001 to 11 percent in 2005. A series of cuts in fuel subsidies in 2005 freed up more than US\$10 billion in government resources. The lower deficit in 2005 is also due to low expenditures resulting from delayed disbursements, especially of capital spending. This was due to the change in administration and efforts to improve fiscal management (e.g., reorganization of Ministry of Finance and new public financial management systems).

Poverty

After the spike during the economic crisis, poverty is back to pre-crisis levels. The poverty rate has been reduced to about 16 percent in 2005, following a peak of over 23 percent in 1999 as a result of the economic crisis (Figure 3). Macroeconomic stabilization underpinned this recovery, bringing down the price of goods such as rice that are important to the consumption of the poor. However, the rate of poverty reduction has slowed down in the first half of this decade. Average growth rates in the last 5 years (4.7 percent) have not been as fast paced as in the decade pre-crisis (7.6 percent).

Fig 1.3. Poverty Trends



Source: BPS, World Bank

Inequality in Indonesia, however, has remained stable and relatively low (with a Gini coefficient of about 0.33).

Regional disparities in poverty are significant. While most of Indonesia's poor live in the densely populated western part of the archipelago, poverty incidence is higher in eastern Indonesia and in more remote areas. Services are unequally distributed across regions, with an undersupply of facilities in remote areas. There are considerable variations between regions in the distance to health facilities.

Some non-income dimensions of poverty remain a challenge. Despite progress on the income poverty MDG, Indonesia has made slower progress on select non-income indicators of poverty – such as maternal mortality rates (MMR), infant mortality rates (IMR) and malnutrition. Indonesia's MMR (307 deaths in 100,000 births) is three times that of Vietnam and six times that of China and Malaysia. Only about 68 percent of births in Indonesia are accompanied by skilled birth attendants while poor women tend to use traditional birth attendants. One-fourth of children

Indonesia is characterized by high numbers of “near poor”. The national poverty rate masks the large numbers of people who live just above the national poverty line. While only some 16 percent of Indonesians live under the national poverty line (of about US\$1.5 a day), close to half of all Indonesians (over 110 million people) live on less than US\$2 a day. There is a high degree of vulnerability and movement of households in and out of poverty. One-third of Indonesia's poor and near-poor live in urban areas which makes them particularly vulnerable to food price shocks.

below the age of 5 are malnourished in Indonesia, with malnutrition rates stagnating despite reductions in poverty.

The current government has set its sights on the reduction of poverty by prioritizing poverty reduction in its medium-term and annual plans. It also developed a poverty reduction strategy which fed into its planning process. Indonesia has set ambitious targets toward reaching its MDG-related development goals, including the reduction of poverty to 8.2 percent by 2009. To achieve these objectives, the Government's annual work-program for 2006 emphasizes a focus on agriculture and rural development, job creation, health, education, infrastructure, security, and the reconstruction of Aceh and Nias as priorities.

The recent reallocation of the fuel subsidy into poverty related programs reflects Government poverty reduction priorities. In the face of soaring oil prices in 2005, the new Government took a bold move by increasing fuel prices by a total of some 160 percent over the course of the year (in March and October) to reduce a fuel subsidy that had ballooned to more than the amount spent in key development sectors. The Government reallocated about US\$2 billion of these funds in 2005 and about US\$3 billion in 2006 to four major poverty programs including basic education, health, village infrastructure and social protection. The social protection program was set up as a targeted unconditional cash transfer (UCT) meant to protect the poor from the impact of the fuel price hike. The UCT was designed to reach the poorer one-third of households in Indonesia with a transfer of US\$30 every 3 months. The Government has indicated that the UCT program will only run through one year, after which they may transition into a Conditional Cash Transfer (CCT) program.

Investment Climate

Indonesia has been suffering from slow recovery in private investments compared with other crisis affected regional economies. The 1998 financial crisis and subsequent instability led to a large drop, particularly in private investments. A non-conducive business climate has prevented a stronger recovery of private investments, even as the political and macroeconomic situation has improved. Indonesia currently has one of the least business-friendly environments in the region – ranking below China, Malaysia, the Philippines, Thailand and Vietnam, with the time and cost of starting a business exceeding every major regional economy.

Corruption, a weak legal system, and bureaucratic red tape have been barriers to improvement of the investment climate. In a cross-country study for the 2005 Corruption Perception Index, Indonesia ranked as 137th out of 157 countries surveyed. The 2006 Doing Business report ranked Indonesia as 115th out of 155 on the 'ease of doing business': a more detailed look reveals Indonesia in 14th position in ease of starting a business, and 145th in enforcing contracts. At the same time, corporate governance is generally weak. However, as conglomerates move to second generation transition, measures to improve this situation are being initiated.

Improving the investment climate is one of the top priorities set by Indonesia's new government. GOI has focused its efforts on five key policy areas: taxation, customs, labor regulation, infrastructure, and investment policy. The President has repeatedly stressed the importance of

simplifying the business environment. A target of reducing business start up time from the current 151 days to 30 days has been incorporated in GOI's 2006 Annual Plan (RKP). The administration is putting in efforts on improving the investment climate through strengthening the judiciary system, improving accountability and enhancing transparency.

There are signs that the government's commitment to reform is beginning to pay off. In surveys conducted end-2005, businesses viewed investment climate obstacles as less severe than two years earlier. In the latest TI Global Corruption Barometer 2005, 81 percent of Indonesians surveyed believed that corruption would decrease over the next 3 years – the largest share in all 69 countries surveyed. The government's efforts has resulted in the increasing trend of FDI inflows (in 2005 inflows were some US\$ 2.3 billion, well above the US\$1.0 billion in 2004). Investment growth rate was 10 percent in 2005, compared with only 1.6 percent in 2003.

Financial Sector

Indonesia's financial sector traditionally was and continues to be bank dominated – 81 percent of financial sector assets are in commercial banks. The banking sector was the center of the 1998 crisis – the recapitalization of banks cost the Government 50 percent of GDP – one of the costliest in the world. Indonesia took major steps to recapitalize and consolidate the banking industry through state-owned asset management company – The Indonesian Bank Restructuring Agency (IBRA).

The performance of the banking sector since the crisis has improved substantially. Bank Indonesia continues to strengthen its supervision and regulation of the banking sector and is widely considered to be far stronger than before. In January 2006, Bank Indonesia introduced comprehensive regulations pertaining to good Corporate Governance (CG), aiming at reduced costs of banking supervision, enhanced effectiveness in overseeing and managing banks, absence of misuse of corporate assets, improved public confidence in the banking sector and ensured safety of deposits. Indonesia's banks are now among the most profitable in the region. Foreign ownership of banks has increased substantially, and correspondingly, quality of management has also improved. Milestones marking the end of the crisis are being observed. IBRA closed in 2004 after six years of operation – with a realized recovery rate of about 28 percent on the face value (about US\$60 billion) of the assets under its mandate. A deposit insurance agency has been put in place and a schedule for the gradual withdrawal of the blanket deposit guarantee has been announced. Another major positive development was Indonesia's removal from the list of Non-Compliant Countries and Territories of the Financial Action Task Force as regards measures to counter money laundering and combat the financing of terrorism. The Jakarta Stock Exchange was home to one of the best performing equity markets in the region in 2004 and 2005, with US-dollar returns of 45 percent and 16 percent, respectively.

The Government recognizes the need to diversify the financial sector through development of Non-bank financial institutions (NBFIs) and capital markets. Regulations and supervision of NBFIs need to be further improved. Mutual funds in Indonesia had a rough year in 2005 – with total assets under management declining from a high of nearly US\$13 billion in March 2005 to less than US\$3 billion now. The Government is taking steps to address underlying concerns.

Indonesia has large needs for infrastructure financing. The government hopes to mobilize some of the resources from domestic capital markets and institutional investors through mechanisms such as infrastructure funds. Improving access to finance for underserved sections of the economy is also a Government objective.

Infrastructure

Recognizing the need for infrastructure to promote economic growth, to connect the archipelago, and to tackle its large poverty agenda, the new administration has made infrastructure its highest economic priority. It is responding to the fact that Indonesia has among the lowest levels of access to infrastructure in the region. Infrastructure performance has actually deteriorated in some sectors (water, provincial and local roads), and there has been a dramatic decrease in infrastructure investment since 1996. While public spending has bounced back since 2000, the private sector is yet to return.

Actions are needed to improve the public management of infrastructure and to provide conditions conducive to private participation in infrastructure. A committee of government ministers, National Committee on Policy for Accelerating Infrastructure Provision (KKPPI) was established in 2005. The KKPPI is tasked with inducing private public partnership in infrastructure. The 91 transactions offered during the First Summit have met with very limited private sector response, suggesting the need for greater preparation in terms of both transaction specific details and the general investment climate. Decentralization has not lived up to its full potential, as procedures for financial transfer from the center to local governments do not provide incentives to local governments to improve their performance; and regional governments do not have the authority and financial resources needed to effectively provide provincial infrastructure.

In the roads sub-sector, the national network is in relatively good condition; the provincial road network is also predominantly in good/fair condition; but the district and urban road networks are of much poorer quality and generally in poor/bad condition. The situation is worst in Eastern Indonesia. While road conditions are good on the main heavily trafficked roads, 43 percent of the network on Java, and more in Jakarta, is currently congested with related high travel times and costs. Congestion is expected to increase to 55 percent of the network by 2010. Financing of the road sector falls short of what is needed by about 2 billion US\$/year. Road sector projects have also had ongoing problems of corruption, which is predominantly in the public procurement process. Despite the new law on procurement, there are still a number of implementation problems in the Ministry of Public Works, in spite of the ministry's new willingness and commitment to address these issues.

Indonesia's growth is highly energy dependent and demand is expected to grow by about 5 percent each year – more than twice the pace of the rest of the world. Even after the reduction in fuel subsidies, prices in the energy sector remain distorted. In some instances, higher fuel costs have yet to be transferred to final consumers in government controlled sectors such as electricity (PLN). Investments in the energy sector have been lagging behind for a number of years despite

momentous needs. Investment of more than US\$5 billion annually is needed for power, gas, and coal development. While recent investments have been funded through public channels, attracting private investors is the only viable way forward in the sector.

Access to water supply and sanitation in Indonesia is among the lowest in the region, and financing is inadequate. The system of financial transfers from central government to decentralized authorities needs to be streamlined. Investments in the water and sanitation sector have sharply declined since the financial crisis, from an average of US\$400 million in 1990s to under US\$45 million in 2005. Government spending for the sector is about ten times lower than needed to achieve 2015 MDG targets. Tariff reform and restructuring of water utilities are desperately needed.

While access to improved sanitation is estimated at 71 percent, actual sewerage coverage (estimated at 1.3 percent) is among the lowest in Asia. Impact of inadequate access is particularly adverse on the poor who suffer from high incidences of water-borne diseases. Sanitation facilities, including waste water treatment and disposal sites, and public health and hygiene awareness campaigns are needed with strong local government and community participation. Community-based sanitation system, piloted over recent years, provides an Indonesian model for urban sanitation that is feasible and affordable and can be developed alongside more conventional approaches and on-site sanitation.

Rural Development and Agriculture

Agriculture employs 45 percent of Indonesians and contributes 17.5 percent to GDP, but growth is stagnating. Growth has averaged only 0.9 percent/year during 1993-2000 (down from nearly 4 percent through the early '90s). Revitalizing the rural economy will require an emphasis on new directions and renewed attention to the fundamentals: (i) focus on high value commodities and diversification; (ii) rebuilding the research and extension systems; (iii) sustainable natural resources management; and (iv) securing land ownership.

President Yudhoyono has taken a leadership role in developing an agenda for the revitalization of agriculture, fisheries, and forestry that was formally launched in June 2005. In supporting this agenda, Ministry of Agriculture is focusing on the quality of agriculture services, promoting the adoption of improved technologies, building partnerships with agribusiness and the private sector and supporting smallholders. In natural resources management, while the government has undertaken measures to strengthen institutional arrangements, and develop updated policy, regulatory and administrative frameworks, there are a number of key issues that need to be tackled.

Environment and Natural Resources Management

Over the past two years Indonesia has made progress in addressing the challenge of balancing 'growth requirements' with sound environmental and natural resources management.

Important steps have been taken, particularly in forest governance, where Indonesia is spearheading unprecedented initiatives. Following President Yudhoyono's decision give top priority to curbing corruption, he has directed relevant government agencies to accelerate efforts to control illegal logging. As a consequence, the Ministry of Forestry and other relevant institutions have begun two parallel, complementary initiatives designed to improve the fundamental pillars of forest governance: (i) *Promoting Transparency in the Forest Sector Initiative* to provide relevant, reliable, accurate and up-to-date forest sector information continuously to decision makers as well as to the public; and (ii) *Promoting Law Enforcement in the Forest Sector* to implement and support a systematic, comprehensive framework of prevention, detection and suppression of forest crimes and to effectively curb illegal logging and improve law enforcement. These initiatives have been developed in consultation with civil society, donor agencies and the private sector. GoI is also collaborating with the Mining Policy and Reform Division of the Bank on sustainable mining development, with particular focus on social, environmental and land use to improve the investment climate in the mining sector, and also on ensuring that local communities have a greater share in the economic benefits of mining.

Furthermore, Indonesia's national effort towards the Asia Forest Law Enforcement and Governance process (FLEG) is setting a constructive pace for progress in the region, creating a momentum and serving as a model for other countries seeking to improve forest governance.

Public information disclosure programs are proving to be the most effective policy tools for improving the level and quality of environmental management in Indonesia. The Program for Pollution Control Evaluation and Rating (PROPER) with its 466 rating of industrial enterprises, is helping the Minister of Environment to pursue polluters. The Good Environmental Governance Program is strengthening efforts of the Ministry of Environment (KLH) to improve the quality of environmental governance at the local level. The Bank has been supporting the design and scaling up of these activities under an Asia-Europe Meeting (ASEM) Grant in FY05 and 06. Finally, through the reform of the Environmental Impact Analysis Procedures (AMDAL) system financed by a World Bank Technical Assistance program, KLH has also started to address the challenges and demands of decentralized environmental management, and improve its policy dialogue with local governments at district and provincial levels. Coordination among concerned ministries and agencies remains a challenge for deepening these reforms.

Progress on service coverage indicators for water supply and sewerage has been limited relative to other comparators in the region. The Bank's lending operations have helped bring about improvements in public participation and transparency in solid waste management and drainage in cities and industrial areas.

Health

Despite significant investments in the public sector by GOI and donors, the performance of the sector has not improved. Greater GOI focus on managing the entire health system (including the substantial private health system), is required. It must improve key lagging outcomes (maternal mortality); better control communicable diseases (polio, TB, HIV/AIDS); and address changing disease pattern (rising non-communicable diseases). The emergence of new diseases (such as

HIV/AIDS and avian influenza) and the re-emergence of old diseases (e.g. polio) present new challenges for the sector in disease surveillance, control and immunizations. The HIV/AIDS epidemic is at crossroads with rising prevalence among high risk groups (sex workers, drugs users, and in Papua), while there is little focus on decreasing transmission.

Adjusting to decentralization is a large, unfinished agenda: the significantly reduced role of provinces since 2001 and increased role of districts in service provision needs rebalancing. Post-decentralization, basic public services such as immunization have dropped to less than 50 percent as a result of unclear responsibilities among levels of governments. Epidemiological transition to non-communicable diseases is increasingly important, but infectious diseases remain a significant part of the disease-burden.

Recognizing the role of the private sector, shifting public sector focus from provider to regulator of private health services, in a decentralized context is the key. More people seek care in the private sector for critical services and this proportion is rising, even among the poor. Ministry of Health should ensure quality/accountability including via regulation and licensing. The poor face high out-of-pocket payments and insurance coverage is very low; health financing needs improvement.

Education

Progress on primary and secondary enrollment rates in Indonesia over the years has been remarkable. Net primary enrollment is at about 92.5 percent, and the gross enrollment rate for secondary education has been consistently rising and is now 83 percent in Junior Secondary and 54 percent in Senior Secondary. However, it tends to lag behind in Early Childhood Education and Higher Education, with gross enrollment rates of 21 percent and 17 percent respectively.

Indonesia is currently facing challenges in improving quality and increasing equal access across the country. Only four of Indonesia's higher education institutions made the Asiaweek 200 ranking of top Asian universities, with the best ranking only 61 out of 77. Wide regional differences of enrollment and inequality across income groups remain. Decentralization process has left responsibility and accountability for many education areas vague. There is no clear and efficient definition and assignment of roles and responsibilities, and there is a lack of effective management system and skills to implement the reform in the sector.

The Government issued the Teacher Law in 2005 to improve teacher quality and distribution. Implementation of this law through upgrading and certification process for over 2 million teachers over 10 years will be a monumental task. There are inefficiencies and imbalances of teachers among urban and rural areas. The government is attempting to define incentives (financial, housing) to encourage teachers to locate to more remote areas. The Ministry of National Education recently finalized a five year plan (2005-2009), RENSTRA, focusing on equity and expansion of access, quality relevance and competitiveness, and governance and accountability.

Indonesia CAS High Case Benchmarks, FY08

Objective (Strategy)	Indicative Triggers (to be achieved by end-2007)
<i>I. Improve Investment Climate for Growth</i>	
Consolidate macroeconomic stability (by pursuing prudent monetary and fiscal policies)	<ul style="list-style-type: none"> ▪ Pursue macroeconomic and fiscal framework that continues to reduce public debt to GDP below 40% and to restore inflation to single digits on a sustainable basis
Promote private sector development (by issuing simplified, transparent, and sensible regulations that reduce transaction costs to business and by improving infrastructure provision)	<ul style="list-style-type: none"> ▪ Issue implementing regulations for the new Investment Law ▪ Stipulate clear criteria to consistently carry out customs regulations concerning use of priority, green, and red lanes ▪ Significantly improve the policy framework for SMEs through policies aimed at increasing access to finance, improving agri-business linkages, improving availability of human resources and regulatory reforms ▪ Risk Management unit fully operational, making decisions on public support for infrastructure investments
Strengthen the financial sector (by improving regulatory framework, adopting acceptable standards, and promoting competition)	<ul style="list-style-type: none"> ▪ Continue implementation of the financial sector safety net, including continued phased withdrawal of the deposit guarantee in line with government targets. ▪ Strengthen insurance industry by improving the regulatory and supervisory framework and developing a strategy to deal with insolvent insurance firms
<i>II. Governance and Anti-Corruption</i>	
Enhance public financial management (by improving budget planning and execution, and making systems more transparent and effective)	<ul style="list-style-type: none"> ▪ Improve budget disbursement rate on capital and material expenditures ▪ Consolidate from nearly zero to at least 50% of core government cash operations into Treasury Single Account (TSA) ▪ Monitor implementation of the new Indonesian Government Accounting Standards in central government financial statements, and show clear progress towards full implementation.
Address root causes of poor governance and corruption (by strengthening institutional and legal framework and launching civil service reform efforts)	<ul style="list-style-type: none"> ▪ Issue implementing regulations on Witness Protection Law and Freedom of Information Act ▪ Establishment of national remuneration commission that reviews civil service salaries and transparency of pay packages ▪ Positive trend in the number of investigations leading to prosecution
<i>III. Making Services Work for the Poor</i>	
Enhance pro-poor service delivery (through improved public expenditure and implementation of programs that benefit the poor within Indonesia's decentralized context)	<ul style="list-style-type: none"> ▪ Use evaluation findings of pilot fuel subsidy financed health, education and village infrastructure programs to inform design of future compensation schemes in a decentralized context ▪ Commence pilot conditional cash transfer (CCT) program ▪ Issue implementing regulations for Law on Teachers and Lecturers, particularly in regard to teacher performance and decertification
<i>IV. Enhanced Disaster Risk Management</i>	
Enhance disaster risk preparedness and response (by strengthening institutional capacity and framework)	<ul style="list-style-type: none"> ▪ Commence designing a coordinated, pro-active public risk management framework

Indonesia
IBRD & IDA Lending Envelope and Scenarios FY07-FY08 (US\$ million)

	High Case	Base Case	Low Case
FY07 IBRD Envelope	885	620	300
<i>o/w Development Policy Operations</i>	530	200	0
FY07 IDA* Envelope	365	204	TBD**
<i>o/w Development Policy Operations</i>	70	-	-
FY07 Total	1250	824	
<i>o/w Development Policy Operations</i>	600	200	0
FY08 IBRD Envelope	885	620	300
<i>o/w Development Policy Operations</i>	530	200	0
FY08 IDA* Envelope	362	201	TBD**
<i>o/w Development Policy Operations</i>	70	-	-
FY08 Total	1247	821	
<i>o/w Development Policy Operations</i>	600	200	0

* The IDA envelope is denominated in SDR. A current exchange rate of US\$1.46/SDR has been applied to determine the equivalent US\$ amount. IDA amounts for Indonesia were agreed upon at the time of the IDA14 replenishment negotiations.

** In the event of significant policy slippages or reversals, and based on the context, actual IDA commitments will be lower than the allocated amount.

Indonesia

Country Policy and Institutional Assessment (CPIA) Rating, 2005

	Indonesia 2005	Blend¹ 2005
1. Macroeconomic management	4.5	3.9
2. Fiscal Policy	4.0	3.5
3. Debt Policy	4.5	3.7
4. Trade	4.5	3.9
5. Financial Sector	3.5	3.5
6. Business Regulatory Environment	3.0	3.5
7. Gender	3.5	3.7
8. Equity of public resource use	4.0	3.4
9. Building human resources	3.5	3.5
10. Social protection and labor	3.5	3.3
11. Policies and institutions for environmental sustainability	2.5	3.1
12. property rights and rule-based governance	2.5	3.0
13. Quality of budgetary and financial management	3.5	3.5
14. Efficiency of revenue mobilization	3.5	3.6
15. Quality of public administration	3.5	3.3
16. Transparency, accountability and corruption in the public sector	3.0	3.1
Economic management (1-3)	4.3	3.7
Structural policy (4-6)	3.7	3.6
Policy for social inclusion and equity (7-11)	3.4	3.4
Public sector management and institution (12-16)	3.2	3.3
Overall score	3.7	3.5

¹ IBRD-IDA Blend Countries Cohort.

Progress in Fulfilling DPL Triggers

Fulfilled Triggers for DPL1	Fulfilled Triggers for DPL2
DPL Core Policy Area I: Macroeconomic Stability and Creditworthiness	
<ul style="list-style-type: none"> • Reduction of government debt to GDP to below 60 % • Issuance of international bond • Divestment of majority shares in all IBRA banks 	<ul style="list-style-type: none"> • Progress in reducing subsidies to the non-poor • Make tax revenue administration more efficient through expansion of modern tax offices • Develop and implement a debt management strategy • Implement law 33/04 by drafting government regulations including the re-design of KMK 35
DPL Core Policy Area II: Improved Investment Climate	
<ul style="list-style-type: none"> • Progress in establishing a financial sector safety net • Effective functioning of the Investment Team • Progress in tax administration and customs reforms 	<ul style="list-style-type: none"> • Complete draft amendment of Law 34 • Continue establishing a financial safety net including implementing the first phase of the removal of the deposit guarantee and clarify roles with respect to bank closing and emergency operations • <i>Develop strategy to strengthen non-bank financial institutions (partially fulfilled)</i> • Develop a medium-term plan for infrastructure development that encourages public-private partnerships • Develop a medium-term action plan and effective framework to coordinate the development of SMEs
DPL Core Policy Area III: Improved Financial Management and Anti-Corruption	
<ul style="list-style-type: none"> • Issuance of implementing regulations for State Finance Law • Organizational reform at the Ministry of Finance, including first steps to establish a Treasury Single Account • Presidential Decree on Government Procurement issued • Continuation of special audits program for SOEs 	<ul style="list-style-type: none"> • Issue additional implementing regulations for State Finance Law, Treasury Law and State Audit Law • Treasury single account timetable and activity plan adopted for the consolidation of bank accounts • Investigation unit is established and fully operational in the IG MOF, vested with the necessary legal powers to investigate all MOF employees

Indonesia: Key Environmental Indicators

	Group data		
	Country data	East Asia & Pacific	Lower middle income
Population (millions)	217.6	1,870	2,442
Urban population (% of total)	46.7	40.6	48.7
GDP (\$ billions)	257.6	2,651	4,165
GNI per capita, <i>World Bank Atlas</i> method (\$)	1,140	1,416	1,686
Agriculture			
Land area (1,000 sq. km)	1,812	15,885	38,470
Agricultural land (% of land area)	25	51	43
Irrigated land (% of cropland)	13.1	..	23.1
Fertilizer consumption (100 grams/ha of arable land)	1,460	2,296	1,530
Population density, rural (people/sq. km of arable land)	557	559	523
Forests and biodiversity			
Forest area (% of land area)	48.8	28.4	30.7
Annual deforestation (% change, 1990–2005)	1.6	-0.2	0.1
Nationally protected areas (% of total land area)	20.6	..	7.7
Mammal species, total known	667		
Mammal species, threatened	146		
Bird species, total known	1,604		
Bird species, threatened	121		
GEF benefits index for biodiversity (0–100)	90.0		
Energy			
GDP per unit of energy use (2000 PPP \$/kg oil equiv)	4.3	4.6	4.6
Energy use per capita (kg oil equiv)	753	1,007	1,090
Energy from combustible renewables & waste (% of tot.)	26.8	17.7	14.6
Energy imports, net (% of energy use)	-55	-2	-14
Electric power consumption per capita (kWh)	440	1,184	1,329
Electricity generated by coal (% of total)	41.1	69.4	49.4
Emissions and pollution			
CO ₂ emissions per unit of GDP (kg/2000 PPP \$ of GDP)	0.4	0.5	0.5
CO ₂ emissions per capita (metric tons)	1.4	2.4	2.6
Particulate matter (urban-pop.-weighted avg., µg/cu. m)	114	80	70
Passenger cars (per 1,000 people)	..	12	29
Water and sanitation			
Internal freshwater resources per capita (cu. m)	13,043	5,062	7,295
Freshwater withdrawal			
Total (% of internal resources)	2.9	10.2	7.7
Agriculture (% of total freshwater withdrawal)	91	74	75
Access to improved water source (% of total population)			
Rural (% of rural population)	69	69	70
Urban (% of urban population)	89	92	93
Access to improved sanitation (% of total population)			
Rural (% of rural population)	38	35	39
Urban (% of urban population)	71	72	78
Environment and health			
ARI prevalence (% of children under age 5)	..		
Diarrhea prevalence (% of children under age 5)	..		
Under-five mortality rate (per 1,000 live births)	38	37	40
National accounting aggregates, 2004			
Gross savings (% of GNI)	24.6	39.1	32.1
Consumption of fixed capital (% of GNI)	10.4	10.5	10.8
Education expenditure (% of GNI)	1.1	2.3	2.9
Energy depletion (% of GNI)	9.4	4.1	6.5
Mineral depletion (% of GNI)	1.6	0.4	0.5
Net forest depletion (% of GNI)	0.0	0.0	0.0
CO ₂ damage (% of GNI)	0.7	1.2	1.1
Particulate emission damage (% of GNI)	0.9	1.2	1.0
Adjusted net savings (% of GNI)	2.6	23.9	15.1

Framework for Strengthening Monitoring & Evaluation of Results

The Bank's results and monitoring and evaluation (M&E) strategy in Indonesia focuses on three main areas:

- **Government Systems** – enhancing the capacity of key Government ministries to measure and monitor for results both at the national and local levels.
- **Bank Portfolio** – strengthening the results focus and M&E systems for ongoing and pipeline projects.
- **Partners (other donors and civil society)** – collaborating with other donors and partner organizations that are working on building M&E capacity in Indonesia.

Enhancing Government Systems – The Bank has supported efforts to strengthen government systems at both the national and local levels. The Bank has undertaken several initiatives to improve the government's monitoring of results and outcomes using a mixture of trust fund assistance, project-specific support, and policy guidance. Progress on measuring results has been made on several fronts:

- 1) Through the Dutch Trust Fund, the Bank provided technical guidance to support the Ministry of Home Affairs' efforts to monitor decentralization and track the performance of local governments.
- 2) The Bank team provided assistance to Bappenas (Ministry of Planning) on how to monitor Poverty Reduction Strategy Paper (PRSP) implementation and other major poverty reduction programs.
- 3) The country team has provided technical M&E expertise to various ministries to establish baselines, measurable progress indicators, management information systems, reporting systems, and rigorous evaluations including select impact evaluations across several projects. The Bank has also been encouraging the Government and other donors to harmonize technical approaches and performance indicators across key sectors such as education and water and sanitation.
- 4) The country team has been working with the national and district governments to develop performance measurement frameworks, especially focused upon public financial management, fiscal health, service delivery, investment climate and governance reforms. This framework will allow the Government and donors to map capacity building needs in these areas as well as assess the performance of local governments.
- 5) The Bank is working with the Government across the various community-driven developments (CDD) programs to coordinate approaches and undertake cross-project impact evaluations. Findings from these evaluations will be used to inform future programming for national CDD programs. Bappenas is leading this effort.
- 6) The Government requested the Bank's technical expertise in evaluating four large fuel compensation schemes worth \$1.5 billion in 2005 in order to improve the implementation

of future rounds of these projects in 2006, and influence the 2007 budget allocations for pro-poor programming.

- 7) Indonesia is currently implementing a Bank administered Trust Fund for Statistical Capacity (TFSCB) to prepare the national strategy for development of statistics (NSDS).
- 8) Finally, in tsunami-ravaged Aceh, the Bank has provided real-time M&E guidance to the Government's newly established Aceh and Nias Reconstruction Agency (BRR) to establish M&E systems, reporting guidelines, and analyze survey data.

Strengthening the Results Focus within the Bank portfolio – The country team made a concerted effort to improve the results focus within projects. All eight projects approved in FY05 and most projects for FY06 gave special attention to M&E strategies and strengthened systems, including baseline data collection. The CDD platform projects completed or are in the process of finalizing over 12 evaluations and studies examining results and lessons learned from these operations. The local service platform, especially the three new district level projects, ILGRP, USDRP, and SPADA are currently preparing their baseline activities. In addition, the country office is strengthening its trust funds management to focus and report upon results and outcomes of grant-financed activities.

Working with Partners - Working with other development actors such as donors and NGOs is critical for harmonization of systems and accountability. The Bank has discussed collaboration with other donors in monitoring of MDGs at the district level. In Aceh, the Bank has assisted in coordinating M&E efforts for Aceh reconstruction including joint survey work with UNDP, Oxfam and other development agencies. In cooperation with NGOs, the Bank has begun work to build the capacity of Indonesian social research organizations and universities for M&E and qualitative research. There are also numerous NGOs involved in monitoring independently Bank-supported activities, such as the Kecamatan Development Program.

There is still, however, much to be done in the remaining CAS period. The aforementioned activities will continue, but greater engagement and leadership by the Government on these issues is needed. Over the next few years, the Bank will support the Government in its efforts to monitor the implementation of their medium-term development strategy and poverty reduction programs. This includes a greater emphasis on poverty monitoring and evaluating the effectiveness of major national and district-level poverty reduction programs.

Second, much more can be done in terms of harmonizing M&E systems within a sector (e.g. health) and in geographical areas (e.g. Aceh). Efforts in M&E have paid-off in the context of yielding a balanced account of progress towards the CAS outcomes.

Lastly, the emphasis on rigorous results frameworks and M&E systems for Bank projects as a way to better manage the bank portfolio for result should continue.

Strategic Partnerships

Efforts in recent years to harmonize aid delivery mechanisms in Indonesia are leading to new ways of doing business. Bilateral donors and multilateral institutions have engaged in several major “strategic partnerships” which are helping the government to carry out development work in areas such as decentralization. These types of partnerships allow the Bank and donors to collaborate on development issues in areas that fall within their assistance strategies and the Bank’s CAS.

These strategic partnerships, which often involve financial support through trust funds¹, are becoming a growing line of business for the Indonesia’s country program. They help complement traditional Bank lending operations for activities where grant funding is more suitable. For example, strategic partnerships are supporting emergency response operations, CDD pilots for future scaling up and replication, and joint analytical work with donors and other multilateral organizations.

Many benefits have been gained through these partnerships, including: (i) improved aid coordination; (ii) pooling of development funds; (iii) direct assistance at the sub-national level; (iv) high-quality research and policy dialogue; and (v) knowledge dissemination. With help from donor funding, the Bank has also established multi-donor offices, which function as “intellectual centers” through partnering with other development players, government officials and NGO staff. For example, the multi-donor office in Jakarta provides an opportunity for UNDP and ADB and bilateral donors (e.g., DFID, Japan, AusAID, and the Dutch) to work on a day-to-day basis with the Bank. These offices are used for conferences and seminars on emerging issues, impromptu discussions with officials from different parts of Indonesia and cultural events whose theme is a major development topic. The offices also serve as public information and dissemination centers that provide access to a broad range of information on Indonesia’s development agenda and progress.

The Bank is working with all major development players in Indonesia on these partnerships. Major bilateral partners include the European Commission, United Kingdom, Netherlands, Japan, and Australia. In particular, the United Kingdom and Netherlands have strong engagement with the Bank on AAA work. Joint activities between these two donors and the Bank are helping influence education, trade policy and investment climate policy reforms of the government. There is also convergence in thinking amongst the key partners on implementing governance reforms and a new partnership is expected to be established in FY07 with the European Commission as the lead player.

Financial support for these strategic partnerships, provided mainly by bilateral donors, has helped the Bank to leverage its limited resources. For example, only around one quarter of the annual AAA program (\$10-12 million) for Indonesia is funded by the Bank’s budget, with the

¹ Indonesia is one of the largest recipients of Bank-administered trust funds. The Indonesia portfolio consists of 130 trust funds totaling \$850 million, including the Multi-Donor Fund for Aceh and Nias.

remainder being funded from several different programmatic trust funds. This type of external funding from donors is also useful for large assistance programs which are owned and implemented by the government. For example, joint operations are seeing ADB, Japan and the Bank teaming up in support of the government's policy reform agenda. Recently, ADB and Japan co-financed the Second Development Policy Loan with \$200 million and \$100 million respectively (out of a total \$700 million program).

The table below provides additional examples of strategic partnerships where the Bank has been able to mobilize significant external resources.

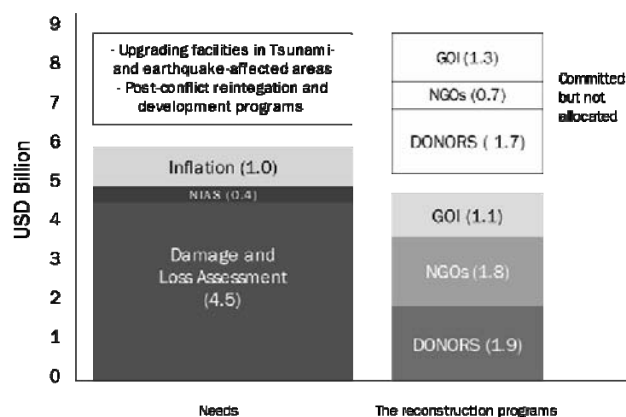
Strategic Partnership	Amount (US\$ million)	Major Donors	Focus Areas
Multi-Donor Fund for Aceh and Nias (MDF)	538	European Commission, Netherlands, & United Kingdom	Rehabilitation and reconstruction of Aceh and Nias in the wake of the earthquake and tsunami in December 2004
Decentralization Support Facility	53.1	United Kingdom	Formation and functioning of the Local Services Platform while at the same time promoting a harmonized donor approach to supporting Indonesia's sub-national governance reform program.
Program for Institutional Development and Capacity Building	24.2	Netherlands	Governance, investment climate, legal and justice sector reform, civil service reform, Eastern Indonesia, public expenditure framework and education
Indonesia Water and Sanitation Program	22.0	Netherlands	Improvement of water and sanitation services using demand driven approaches
Strategic Poverty Partnership for Indonesia	13.1	United Kingdom	Deepen understanding of poverty implications of broad-based, national-level policy issues

Aceh & Nias: Progress on Recovery & Reconciliation

Enough money has been pledged and committed for the reconstruction in Aceh, but disbursements, while rising significantly since September 2005, are still slow in reaching beneficiaries and inflation is increasing costs. \$8.5 billion has been pledged by the Government, donors and NGOs, enough not only to replace what was damaged or lost (\$5.8 billion), but largely adequate to “build back better” in most sectors, though inflation will continue to erode budgets and reduce planned results.

Overall progress to date: After a slow start, the pace of reconstruction has picked up markedly since September 2005, though critical gaps are still apparent. Of up to the

Fig 9.1. Reconstruction Needs and Commitments (US\$ billion)



120,000 houses needed, 45,000 have been completed; new housing starts are at 3,500-5,000 per month. Of 127 health facilities damaged or destroyed, 113 have been completed. Of 2,000 schools damaged, more than 520 have been completed. Nearly all children have returned to school, though many are in temporary facilities. Over 2,400 new teachers have been trained and mobilized. Of the 7,000 boats lost or damaged, more than 6,000 have been replaced.

Over 60 percent of damaged farmland has been restored and replanted. In total, over 1,100 reconstruction projects are underway by over 300 donors and NGOs. (See table next page for more progress indicators.)

The main challenge now is to address the “missing middle” of district-level infrastructure that will connect houses into communities -- feeder roads, drainage, water and sanitation, waste management, power, and sea defenses. Remaining Multi-Donor Fund resources will be devoted to this issue—district-level infrastructure needs. Though the construction sector is booming, livelihoods remain under-addressed. Unemployment is currently at 7.3 percent for men and 20.8 percent for women with high risks of longer term unemployment as the construction boom subsides.

By end-June 2006, \$4.8 billion had been committed to specific reconstruction projects and over \$1.5 billion had been disbursed (in addition to the funds disbursed for relief work). Since October 2005, disbursements have exceeded on average \$150 million per month. By end-June 2006, NGOs had disbursed 45 percent of their commitments, donors – 20 percent, and the BRR – 29 percent. Yet both “on-budget” and “off-budget” donors alike continue to complain of disbursement delays. Budgets for 2006 were delivered to BRR on January 2, 2006. Slow disbursements were caused in part by the sheer scale and scope of the reconstruction process. But “business as usual” procedures (by both government and donor agencies) for project approvals,

mobilization of project implementation units, and procurement in addition to poor inter-agency communications still undermine the need for speed. Inflation (39 percent over the past 12 months) has revised costs of reconstruction (especially housing) substantially.

Progress indicators (as of April 2006)

Category	Damages/Needs	Recovery Progress (as of April 2006)
Housing	120,000 units	45,000 units ^a
Schools	2,006 units	524 units
Teachers	2,500 died	2,400 new teachers/replacements
Health	127 units	113 units
Facilities		
Roads	3,000 km.	490 km.
Bridges	120	41
Sea ports	14	2 (complete), 3 (under construction)
Airports	11 airports/air strips	5 airports/air strips ^b
Fishing boats	7,000 units	6,160 units
Fish ponds	20,000 hectares	9,258 hectares (rehabilitated)
Rice fields and plantations	60,000 hectares	37,926 hectares ^c

Source: BRR.

a June 2006 estimate

b All key airports/airstrips are however now serviceable.

c The affected rice fields were able to be replanted much quicker than initially anticipated, and without high investment.

The BRR is taking a stronger leadership role, but central and local government agencies are still not fully engaged. BRR has “institutionalized urgency” into the reconstruction process, but is still trying to define its own role and operating procedures. Though initially created to coordinate other donors’ efforts, the BRR is now the largest donor itself controlling over \$900 million in GoI funds in 2005-06 with a total program of \$2.1 billion through 2009. BRR does not yet have sufficient capacity to implement or monitor a portfolio of this magnitude (over 193 projects in 2005) and is planning to outsource key project design, planning and management functions. BRR has a new anti-corruption unit and a strong system for complaints handling and investigations, though its monitoring system for ongoing projects is still weak, creating high corruption and performance risks. Though BRR enjoyed a brief honeymoon with the people of Aceh and Nias, this is inevitably ending and local criticism is rising, exacerbated by a communications strategy oriented more towards donors and national media than local constituencies, ordinary villagers and IDPs.

With a relatively modest Bank contribution of \$25 million in grants and \$1 million in Bank budget (compared to the ADB’s \$300 million grant or the >\$100 million pledges of Australia, Dutch, EC, Japan, and US), the team has sought to maximize our leverage by mobilizing other donor and government resources. The Bank has mobilized \$598 million for reconstruction, including the Multi-Donor Fund (MDF) with 15 contributors, restructured IDA projects, donor

co-financing of IDA projects, and Japan Social Development Fund grants. The Jakarta Office raised over \$8 million from donors to supplement our budget to support over 164 staff and consultants providing TA to the BRR and other government agencies.

As of July 2006, the MDF has committed \$330 million to 13 projects. A further 4 projects valued at \$402 million is currently under development. These projects will be co-financed by the MDF (\$162 million) and the BRR (\$240 million). The MDF has already disbursed \$146 million to projects on the ground. The Bank's largest projects are for housing construction (\$85 million), land administration and titling (\$28.5 million), community-driven infrastructure in rural areas (\$64.7 million) and in urban areas (\$18 million). Most Bank projects deliver assistance through an extensive community-based network of facilitators and volunteers, reaching every village in Aceh and Nias and all tsunami-affected areas. 1,450 facilitators supervise over 11,000 volunteers in over 6,000 villages to develop, select, design, build and monitor infrastructure projects financed through block grants disbursed directly to the communities. In early 2006, an innovative strategy was approved for the use of remaining MDF funds via co-financing of bank administered infrastructure and capacity building projects. This brings an additional \$200 million in reconstruction financing from GOI's own budget to meet the huge infrastructure gaps and engage local government more pro-actively in the reconstruction of district level facilities. The BRR is also co-financing with the MDF the Support for Poor and Disadvantaged Areas (SPADA) and an extension of the KDP in Nias to build 5,000 houses through community-driven processes (KRRP). It is hoped that through the extensive engagement of the local governments and building of local capacity, this will encourage them to use their own resources to finance some of the infrastructure activities.

Existing donor coordination mechanisms are too focused on trying to reach out to all donors rather than engaging the largest donors on joint programming and problem-solving that could have a larger impact on results. The top 10 donors and NGOs (including BRR) hold 75 percent of the existing projects allocated for Aceh and Nias. Closely coordinating this group will have much higher returns than the search for a more comprehensive coordination system. BRR is taking a "more muscular" approach to donors and NGOs, planning on taking over slow or non-disbursing donor projects and publicly pressuring others for results.

So far in 2006, there have been no violent incidents between GAM and the Indonesian National Military (TNI) or police, capping off what had been a significant decline in reported incidents over the last half of 2005. A local human rights monitoring organization, Koalisi HAM, reported that human rights violations declined dramatically throughout 2005. There has been no increase this year. In a sign of increased confidence, more than 8 times the anticipated number of ex-GAM have returned to their villages, and conflict affected Internally Displaced Persons (IDPs) have also been returning from across Aceh and elsewhere. Initial tensions caused by the large number of returning IDPs have quickly stabilized.

Table 1. Pledges and contributions and cash paid into the Multi Donor Fund as of 30 June 2006			
Source	Pledge amount in \$ million	Contribution Agreements signed \$ Million	Cash Received \$ Million
European Commission*	247.58	247.58	53.27
Government of Netherlands	100.00	100.00	60.00
Government of United Kingdom*	47.96	10.00	10.00
World Bank	25.00	25.00	25.00
Government of Denmark	18.03	18.03	18.03
Government of Norway	17.96	17.96	17.96
Government of Canada	11.04	11.04	11.04
Government of Sweden	10.44	10.44	10.44
Asian Development Bank	10.00	10.00	10.00
Government of United States	10.00	10.00	10.00
Government of Germany	10.00	10.00	7.40
Government of Finland*	9.82	9.82	4.28
Government of Belgium*	9.82	9.82	2.55
Government of New Zealand	8.80	8.80	2.20
Government of Ireland	1.20	1.20	1.20
Total Contributions	537.67	499.70	243.38

* Exchange rate as at 30 June 2006; Source: Bank Indonesia

Table 2: Multi Donor Fund Projects and Concepts as of 30 June 2006				
	Partner Agency	Budget \$ million	Actual \$ million	%
Total Pledges/Receipts		537.67	243.38	45%
Projects				
Reconstruction of Aceh Land Administration System Project	World Bank	28.50	11.70	41%
Community Recovery Through The Kecamatan Development Project (KDP)	World Bank	64.70	49.00	76%
Community Recovery Through the Urban Poverty Program (UPP)	World Bank	17.96	6.55	36%
Community-Based Settlement Rehabilitation and Reconstruction Project for NAD and Nias	World Bank	85.00	21.44	25%
Technical Support for Badan Rehabilitasi Rekonstruksi (BRR) NAD-Nias	UNDP	14.74	11.00	75%
Tsunami Recovery Waste Management Program	UNDP	14.43	11.00	76%
Support to Strengthen the Role and Capacity of CSOs in the Recovery of Aceh	UNDP	6.00	3.00	50%
Labor-based Rural Road Rehabilitation in Aceh	UNDP	6.42	2.42	38%
WFP Shipping Service	WFP	24.70	24.70	100%
Reconstruction and Rehabilitation of Ports	UNDP	3.58	3.58	100%
Aceh Forest and Environment Project	World Bank	17.53	1.60	9%
Flood Mitigation Program for Banda Aceh	World Bank	4.50	0.00	0%
Infrastructure Reconstruction Enabling Program	World Bank	42.00	0.00	
Total Projects		330.06	145.99	44%
Concepts				
Road and Bridge Repair Lamno-Calang	World Bank	11.50	0.00	
Nias Kecamatan-Based Recovery and Planning Project	World Bank	25.75	0.00	
Support for Poor and Disadvantaged Areas	World Bank	25.00	0.00	
Infrastructure Reconstruction Enabling Financing Facility	World Bank	100.00	0.00	
Total Concepts		162.25		
Total Allocations to Projects and Concepts		492.31	145.99	
Estimated Investment Income		12.50	4.34	35%
Estimated Administration, Appraisal and Supervision Costs		13.35	1.84	14%
Total Unallocated Funds*/Cash Remaining		44.51	99.88	

* Total unallocated funds may fluctuate depending on exchange rates and rate of investment and actual costs of administration, appraisal and supervision.

INDONESIA
Key Economic & Program Indicators - Change from Last CAS

Economy (CY)	CAS 2004-2007 Projection			Actual			Updated Forecast 2006-2008		
	2003	2004	2005	2003	2004	2005	2006	2007	2008
Growth rates (%)									
GDP	3.5	4.0	4.5	4.8	5.1	5.6	5.5	6.2	6.5
Exports (Merchandise FOB) ^a	4.4	0.9	2.7	8.4	12.6	20.1	22.7	8.5	4.9
Imports (Merchandise FOB) ^a	12.8	1.8	4.5	9.0	28.0	26.2	10.6	11.8	9.1
Inflation (CPI annual average, %)	6.5	6.0	5.0	7.2	6.1	10.5	13.6	6.2	4.9
National accounts (% GDP)									
Consumption	80	80	80	75	76	74	72	69	69
Gross investment	20	20	21	19	22	22	23	24	24
Balance of Payments (% GDP)									
Current account balance	2.5	1.5	1.6	3.4	1.2	1.1	1.4	1.6	1.0
Public finance (% GDP)									
Fiscal balance	-1.9	-1.3	-0.8	-1.7	-1.0	-0.5	-1.5	-0.9	-0.5
Foreign financing	0.2	-0.8	-0.9	-0.3	-1.3	-0.4	-0.2	-0.4	-0.5
International reserves (as months of imports (Goods))	6.7	6.2	6.0	11.0	8.6	6.5	7.3	7.3	7.5
Program (Bank's FY)	FY04	FY05	FY06	FY04	FY05	FY06	FY07	FY08	FY09^b
Lending (\$ million)	525	800	850	322	917	686	1,000-1,400	1,000-1,400	
Gross disbursements (\$ million)	500	600	450	422	637	752	750-850	750-850	

a. Nominal Value of Export and Import growth in US\$.

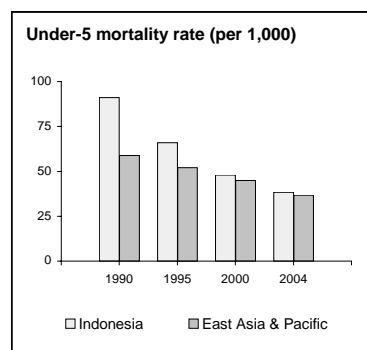
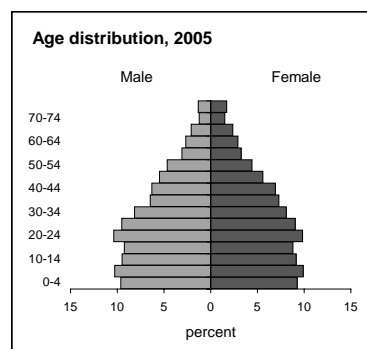
b. FY09 is not included in the current CAS period.

Indonesia at a glance

Key Development Indicators	Indonesia	East Asia & Pacific	Lower middle income
<i>(2005)</i>			
Population, mid-year (millions)	220.6	1,885	2,475
Surface area (thousand sq. km)	1,905	16,301	39,946
Population growth (%)	1.4	0.8	1.0
Urban population (% of total population)	48	42	49
GNI (Atlas method, US\$ billions)	282.2	3,067	4,746
GNI per capita (Atlas method, US\$)	1,280	1,627	1,918
GNI per capita (PPP, international \$)	3,720	5,914	6,313
GDP growth (%)	5.6	8.7	6.9
GDP per capita growth (%)	4.2	7.8	5.9

(most recent estimate, 2000–2005)

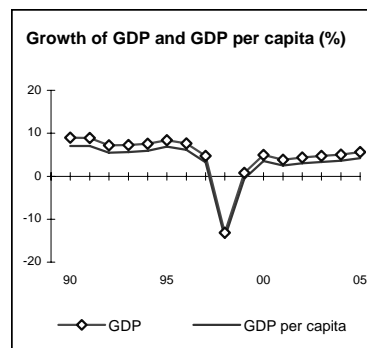
Poverty headcount ratio at \$1 a day (PPP, %)	8	12	..
Poverty headcount ratio at \$2 a day (PPP, %)	52	41	..
Life expectancy at birth (years)	67	70	70
Infant mortality (per 1,000 live births)	30	29	33
Child malnutrition (% of children under 5)	28	15	12
Adult literacy, male (% of ages 15 and older)	94	95	93
Adult literacy, female (% of ages 15 and older)	87	87	85
Gross primary enrollment, male (% of age group)	118	116	115
Gross primary enrollment, female (% of age group)	116	114	113
Access to an improved water source (% of population)	77	79	82
Access to improved sanitation facilities (% of population)	55	51	57



Net Aid Flows	1980	1990	2000	2005 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	945	1,722	1,658	84
<i>Top 3 donors (in 2004):</i>				
Australia	48	77	72	106
United States	117	31	174	69
Spain	..	23	66	11
Aid (% of GNI)	1.3	1.6	1.1	0.0
Aid per capita (US\$)	6	10	8	0

Long-Term Economic Trends

Consumer prices (annual % change)	18.0	7.8	3.7	10.5
GDP implicit deflator (annual % change)	31.0	7.7	20.4	13.7
Exchange rate (annual average, local per US\$)	627.0	1,842.8	8,421.8	9,504.0
Terms of trade index (2000 = 100)	..	95	100	90



Population, mid-year (millions)	148.3	178.2	206.3	220.6
GDP (US\$ millions)	78,013	114,426	165,020	287,217
<i>(% of GDP)</i>				
Agriculture	24.0	19.4	15.6	14.0
Industry	41.7	39.1	45.9	40.7
Manufacturing	13.0	20.7	27.7	28.7
Services	34.3	41.5	38.5	45.3
Household final consumption expenditure	51.4	58.9	61.6	63.9
General gov't final consumption expenditure	10.5	8.8	6.5	7.5
Gross capital formation	24.1	30.7	21.4	23.4
Exports of goods and services	34.2	25.3	41.0	37.7
Imports of goods and services	20.2	23.7	30.5	32.6
Gross savings	25.7	28.1	26.4	29.8

1980–90 1990–2000 2000–05

(average annual growth %)

1.8	1.5	1.3
6.1	4.2	4.7

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates. .. indicates data are not available. a. Aid data are for 2004.

Balance of Payments and Trade*(US\$ millions)*

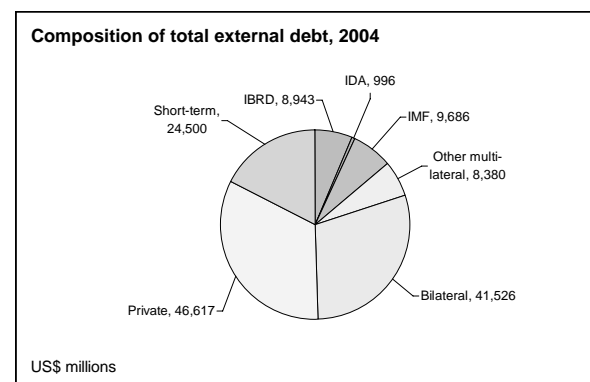
	2000	2005
Total merchandise exports (fob)	62,124	88,845
Total merchandise imports (cif)	33,515	62,195
Net trade in goods and services	15,243	14,718
Workers' remittances and compensation of employees (receipts)	1,190	1,866
Current account balance as a % of GDP	7.998	2.691
	4.8	0.9
Reserves, including gold	29,268	47,088

Central Government Finance*(% of GDP)*

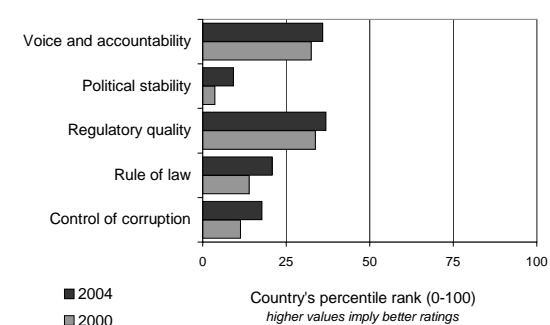
	2000	2005
Revenue	18.3	18.6
Tax revenue	11.3	12.5
Expense	16.3	17.0
Cash surplus/deficit	-2.5	-1.1
Highest marginal tax rate (%)		
Individual	35	35
Corporate	30	30

External Debt and Resource Flows*(US\$ millions)*

	2000	2005
Total debt outstanding and disbursed	144,424	140,649
Total debt service	16,681	20,464
HIPC and MDRI debt relief (expected; flow)	-	-
Total debt (% of GDP)	87.5	55.3
Total debt service (% of exports)	22.5	22.1
Foreign direct investment (net inflows)	-4,550	1,023
Portfolio equity (net inflows)	-1,021	2,129

Composition of total external debt, 2004**Private Sector Development**

	2000	2005
Time required to start a business (days)	-	151
Cost to start a business (% of GNI per capita)	-	101.7
Time required to register property (days)	-	42
Ranked as a major constraint to business (% of managers surveyed who agreed)		
Macroeconomic instability	..	50.1
Economic and regulatory policy uncertainty	..	48.2
Stock market capitalization (% of GDP)	16.3	28.4
Bank branches (per 100,000 people)	..	8.4

Governance indicators, 2000 and 2004

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure

	2000	2004
Paved roads (% of total)	57.1	58.0
Fixed line and mobile phone subscribers (per 1,000 people)	50	184
High technology exports (% of manufactured exports)	16.2	16.1

Environment

	2000	2005
Agricultural land (% of land area)	25	25
Forest area (% of land area, 2000 and 2005)	54.0	48.8
Nationally protected areas (% of land area)	..	20.6
Freshwater resources per capita (cu. meters)	..	13,043
Freshwater withdrawal (% of internal resources)	..	2.9
CO2 emissions per capita (mt)	1.1	1.4
GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	4.4	4.3
Energy use per capita (kg of oil equivalent)	695	753

World Bank Group portfolio*(US\$ millions)*

	2000	2005
IBRD		
Total debt outstanding and disbursed	11,715	8,132
Disbursements	1,051	585
Principal repayments	761	1,390
Interest payments	950	481
IDA		
Total debt outstanding and disbursed	714	1,001
Disbursements	59	67
Total debt service	31	36
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	880	470
Disbursements for IFC own account	480	310
Disbursements for IFC own account	20	53
Portfolio sales, prepayments and repayments for IFC own account	43	39
MIGA		
Gross exposure	56	53
New guarantees	0	1

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates.

.. indicates data are not available. - indicates observation is not applicable.

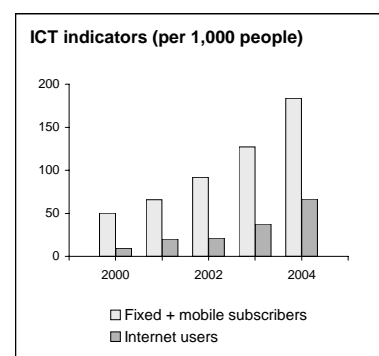
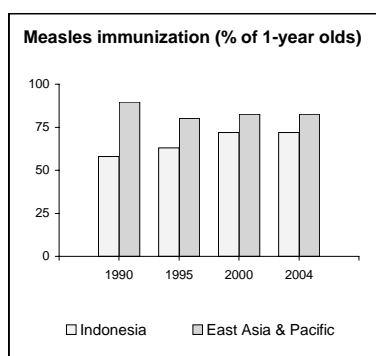
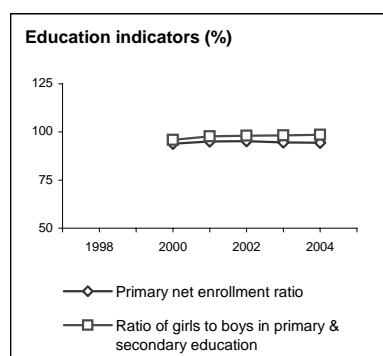
Millennium Development Goals

Indonesia

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Indonesia			
	1990	1995	2000	2004
Goal 1: halve the rates for \$1 a day poverty and malnutrition				
Poverty headcount ratio at \$1 a day (PPP, % of population)	..	13.9	7.2	7.5
Poverty headcount ratio at national poverty line (% of population)	..	15.7	27.1	..
Share of income or consumption to the poorest quintile (%)	..	..	..	8.4
Prevalence of malnutrition (% of children under 5)	..	34	25	28
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	97	..	94	94
Primary completion rate (% of relevant age group)	94	96	95	101
Secondary school enrollment (gross, %)	46	..	55	64
Youth literacy rate (% of people ages 15-24)	95	..	..	99
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	93	..	96	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	29	29	32	31
Proportion of seats held by women in national parliament (%)	12	13	8	11
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	91	66	48	38
Infant mortality rate (per 1,000 live births)	60	48	36	30
Measles immunization (proportion of one-year olds immunized, %)	58	63	72	72
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	230	..
Births attended by skilled health staff (% of total)	32	37	64	72
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.1
Contraceptive prevalence (% of women ages 15-49)	50	55	57	57
Incidence of tuberculosis (per 100,000 people)	343	..	..	245
Tuberculosis cases detected under DOTS (%)	..	1	20	53
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	72	..	..	77
Access to improved sanitation facilities (% of population)	46	..	..	55
Forest area (% of total land area)	64.3	..	54.0	48.8
Nationally protected areas (% of total land area)	..	..	..	20.6
CO2 emissions (metric tons per capita)	0.9	1.0	1.1	1.4
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	4.2	4.7	4.4	4.3
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	6	18	50	184
Internet users (per 1,000 people)	0	0	9	67
Personal computers (per 1,000 people)	1	5	10	14
Youth unemployment (% of total labor force ages 15-24)	8.9	13.4	..	..



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

Development Economics, Development Data Group (DECDG).

**CAS Annex B2 -
Selected Indicators* of Bank Portfolio Performance and Management**

As Of Date 06/30/2006

Indicator	2003	2004	2005	2006
Portfolio Assessment				
Number of Projects Under Implementation ^a	40	32	31	26
Average Implementation Period (years) ^b	4.4	4.3	3.2	3.2
Percent of Problem Projects by Number ^{a, c}	12.5	18.8	9.7	3.8
Percent of Problem Projects by Amount ^{a, c}	7.7	20.1	7.4	4.4
Percent of Projects at Risk by Number ^{a, d}	17.5	18.8	12.9	7.7
Percent of Projects at Risk by Amount ^{a, d}	12.4	20.1	9.8	4.5
Disbursement Ratio (%) ^e	22.1	27.2	23.0	20.9
Portfolio Management				
CPPR during the year (yes/no)	Yes	Yes	Yes	Yes
Supervision Resources (total US\$)	4,412	3,854	3,712	3062
Average Supervision (US\$/project)	83	94	93	117

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by IEG by Number	259	33
Proj Eval by IEG by Amt (US\$ millions)	22,783.7	2,308.5
% of IEG Projects Rated U or HU by Number	24.1	33.3
% of IEG Projects Rated U or HU by Amt	22.2	17.6

- 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.

IBRD/IDA Loans, Credits and Key Grants Programs, FY2004-2008

Fiscal year	Proj ID ^b	US\$(millions)				Strategic Rewards (H/M/L)	Implementation Risks ^b (H/M/L)
		IBRD	IDA ^c	Grant	Grant Donors		
2004	Loans/Credits						
actual	Coral Reef Rehabilitation and Management (APL 2)	33	23			M	M
Base Case	Land Management & Policy Development	33	33			H	H
	Eastern Indonesia Region Transport 2	200				H	M
	Total	266	56				
2005	Loans/Credits						
actual	Urban Poverty Project 3 (UPP3)	67	71			H	M
Enhanced Base Case	Support for Poor and Disadvantaged Areas (SPADA)	69	35			H	H
	Initiatives for Local Governance Reform (ILGRP)	15	15	13	UK	H	H
	Urban Sector Development and Reform Program (USDRP)	45		5	Japan	H	H
	Higher Education Project	50	30			M	H
	Kecamatan Development Project 3B (KDP 3B)	80	80			H	M
	Government Financial Management & Revenue Admin.	55	5	5	Japan	H	H
	First Development Policy Loan	300				H	H
	Grants						
	MDF - Land Titling in Aceh (RALAS)			29	Multi Donors	H	H
	Water Resource Management (WISMP) Cofinancing			14	Netherlands	H	H
	Total	681	236	66			
2006	Loans/Credits						
actual	Domestic Gas Sector Restructuring	80				M	H
High Case	Second Development Policy Loan	400				H	H
	Water Supply & Sanit. for Low Income Communities 3		138			H	M
	Early Childhood Education and Development		68	25	Netherlands	H	H
	Grants						
	MDF- Community Reconstruction through KDP			65	Multi Donors	H	H
	MDF - Community Reconstruction through UPP			18		H	H
	MDF- Community Based Housing			85		H	H
	MDF- Aceh Forest & Environment			18		H	H
	MDF- Banda Aceh Flood Relief			5		H	H
	MDF- Infrastructure Reconstruction Enabling program			42		H	H
	Kecamatan Development Program 3 Aceh Cofinancing			14	Canada/UK/Aust	H	H
	Total	480	206	271			
2007	Loans/Credits						
High Case	Strategic Roads Infrastructure (SRIP)	208				H	H
	Yogyakarta Earthquake Housing Reconstruction ^d		110	76	Multi Donors	H	H
	National Agency for Drug and Food Control	40	10			M	M
	Fisheries Revitalization Project	40	40			H	M
	Farmer's Empowerment & Technology	70	30			M	M
	Urban Water Supply & Sanitation Imprv. & Expansion	35	35			H	H
	Third Development Policy Loan	530	70			H	H
	Teacher Management (BERMUTU)	70	70	40	Netherlands	H	H
	Standby Projects 2007						
	Private Infrastructure Finance	60				H	H
	Government Financial Management & Revenue Admin. 2	60				H	H
	Grants						
	Avian and Human Influenza Facility			15	Multi Donors	H	H
	MDF-Infrastructure Reconstruction Financing Facility			100	Multi Donors	H	H
	MDF-Kecamatan Recov and Reconstruction Planning Nias			26		H	H
	MDF-SPADA Aceh/Nias			25		H	H
	MDF-Roads Lamno-Calang			12		H	H
	Total	1,113	365	293			

Expect Delivery of 9-10 projects for \$1 - \$1.4 bln.

IBRD/IDA Loans, Credits and Key Grants Programs, FY2004-2008

Fiscal year	Proj ID ^b	US\$(millions)				Strategic Rewards (H/M/L)	Implementation Risks ^b (H/M/L)
		IBRD	IDA ^c	Grant	Grant Donors		
2008	Loan/Credits						
High Case	Development Policy Loan 4	430	70			H	H
	Infrastructure DPL	100				H	H
	Dam Operational Improvement	80	20			M	M
	Agricultural Export Competitiveness	70				M	M
	West Tarum Canal	80	20			M	H
	Basic Education	120	80	300	Multi Donors	H	M
	Electricity Access for Rural	100	52			H	H
	National Roads Improvement Project	300				H	H
	Youth Employment Program	40	40			H	M
	CCT to the poor / DAK for CDD Operations	80	80			H	H
Infrastructure Guarantee Fund	50				H	H	
	Total	1,450	362	300			
Expect Delivery of 9-10 projects for \$1 - \$1.4 bln.							

Other Possible Projects under Discussion for FY08-FY10

East Java Development Reform Program; Improving Health Outcomes, School Quality Assurance; Teacher Professional Development, ICT in Education, Protection for Migrant Workers, Geothermal Energy, Kalimantan Java Gas, Urban Slum Improvement, Urban Sanitation, Umbulan Spring, Freeway Program Development, West Java Environmental Management 2, Local Government Project (USDRP2/ILGRP2, SPADA2)

a. This table presents the actual program for FY04-06 and proposed program for FY07-08. Includes IBRD overprogramming.

b. Note that project titles are subject to modification as projects are further developed over the CAS period.

c. IBRD/IDA breakdown for FY07-08 is indicative. The IDA envelope is denominated in SDR. A current exchange rate of US\$1.46/SDR has been applied to determine the equivalent US\$ amount. IDA amounts for Indonesia were agreed upon at the time of the IDA14 replenishment negotiations.

d. GOI is currently assessing need to borrow

CAS Annex B3 (IFC & MIGA) for Indonesia				
Indonesia - IFC and MIGA Program, FY 2003-2006				
	2003	2004	2005	2006
IFC approvals (US\$m)	74.00	190.25	106.75	205.65
Sector (%)				
Agriculture and Forestry	35	16		22
Finance and Insurance	20	18	54	78
Food and Beverages		18		
Industrial and Consumer Goods	27		23	
Oil, gas, and Mining	11			
Prof., Scient., and Tech.		18	23	
Textiles, Apparel, and Leather	7	5		
Transportation and Warehouse		25		
Wholes. and Retail Trade				
Total	100	100	100	100
Investment instrument(%)				
Loans	46	84	60	95
Equity	47		19	
Quasi-Equity				
Other	7	16	21	5
Total	100	100	100	100
MIGA Guarantees Gross Outstanding (US\$m)	52.40	52.4	52.4	50.9

Summary of Nonlending Services - INDONESIA

(FY04-08)

as of June 30, 2006

<i>Product</i>	<i>Completion FY</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions			
Sectoral Perspectives on Corruption	2004	Government, Bank, Public	KG
Justice and the Poor	2004	Government, Bank, Public	PS,KG
Education Sector Study	2004	Government, Bank, Public	PD,KG
Forest Policy Strategy	2004	Government, Public	PD,KG
Averting an Infrastructure Crisis	2004	Government, Bank, Public	PS,KG
Trade Competitiveness Study	2004	Government, Public	PS,KG
CGI Brief	2004-05	Government, Donors, Public	PS
Mining Indonesia's Wealth Responsibly	2005	Government, Bank, Public	PS,KG
Policy Briefs for Incoming Government**	2005	Government, Public	PS,KG
Investment Climate Analysis	2005	Government, Bank	PS,KG
Rural Electricity Access	2005	Government, Donors, Public, Bank	PS,KG
Papua Public Expenditure Analysis	2005	Government	PS,KG
Preliminary Loss and Damage Assmt. For Aceh	2005	Government, Donors, Public	PS
Notes on Aceh Reconstruction	2005	Government, Donors, Public	PS
CGI Brief	2006	Government, Donors, Public	PS
Fuel Savings/Unconditional Cash Transfer	2006	Government, Bank	PS
Rebuilding Better Aceh & Nias - CFAN report	2006	Government, Donors, Public	PS
Aceh & Nias one year after the Tsunami	2006	Government, Donors, Public	PS
ICTs for Rural Development	2006	Government	PS,KG
Local Environment Governance (AMDAL review)	2006	Government, Bank	PS,KG
Accounting ROSC	2006	Government	PS,KG
ECED Sector Report	2006	Government, Bank	PS, KG
Making Services Work for the Poor	2006	Government, Bank, Public	PS,PD
PRSP support	2006	Government	PD,KG
Rural Investment Climate Survey	2006	Government, Bank	PS,KG
Local Government Financial Management	2006	Government, Bank, Public	KG, PS
Public Private Partnerships in Agriculture	2006	Government, Bank, Donors	PS,KG
NBFI Study	2006	Government, Bank	PS,KG
Yogya Damage and Loss Assessment	2006	Government, Bank, Donors	PS
Underway*			
Poverty Assessment	2007	Government, Bank, Donors	PS,PD
Improving Rural Productivity	2007	Government, Bank, Public	PS,PD
Social Aspects of Poverty Reduction	2007	Government, Bank, Public	PS,PD
Public Expenditure Review	2007	Government, Bank, Donors	PS,KG
PFM Measurement Framework	2007	Government, Bank	PS, KG
Governance and Decentralization Survey 2	2007	Government, Donors, Public	PS
Conflict and Poverty	2007	Government, Bank	PS,KG
Creating a Diversified Financial System	2007	Government, Bank, Donors	PS,KG
Conditional Cash Transfer	2007	Government, Bank	PS
Migration and Remittances	2007	Government, Bank, Donors	PS,KG
Good Environment Governance	2007	Government, Bank	PS, KG
Infrastructure Summit	2007	Government, Bank, Donors	PD, PS
Social Protection Study	2007	Government, Bank	PS,KG
HIV/AIDS	2007	Government, Bank, Donors	PS,KG
Poultry Sector Strategy	2007	Government, Bank, Donors, Public	PS, PD
Aceh Expenditure Review	2007	Government, Bank, Donors	PS,KG
Aceh Program Implementation	2007	Government, Bank, Donors	PS
Aceh BRR Support and Donor Coordination	2008	Government, Bank, Donors	PS
Planned*			
WBI Capacity Building Pgm. for the Govt.	2005-2007	Government, Bank	PS,KG
Investment Climate Flagship**	2004-2008***	Government, Bank, Donors, Public	PS,KG
Local Government Platform Flagship**	2004-2008***	Government, Bank	PS,KG
National Governance Flagship**	2004-2008***	Government, Bank	PS,KG
Reducing Poverty Flagship**	2004-2008***	Government, Bank	PS,KG
Improving Service Delivery**	2004-2008***	Government, Bank	PS,KG
CGI Brief/DPR	2006-2008	Government, Donors, Public	PS
Governance Civil Service Dialogue	2007	Government, Bank	KG,PS
Improving Investment Climate	2007	Government, Bank	PS,KG
Public Financial Mgmt Measure Framework	2007	Government, Bank	KG, PS
Country Procurement Assessment Report	2007	Government, Bank	PS
Corruption Monitoring Surveys	2007	Government, Bank	KG
Health Workforce & Improving Service Delivery	2007	Government, Bank, Public	PS, KG
Teacher Management	2007	Government, Bank	PS, KG
Aceh 2-year Report	2007	Government, Donors, Public	PS
Employment Study	2008	Government, Donors, Public, Bank	PS,KG

a. Government, donor, Bank, public dissemination.

b. Knowledge generation (KG), public debate (PD), problem-solving (PS).

** Included other sub-tasks not listed in this annex. Budget ranging from \$10k to \$100k per task.

*** Thematic tasks ongoing throughout the CAS period, with a series of deliverables.

Indonesia Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1990-05	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (<i>millions</i>)	148.3	178.2	221.3	1,870.2	2,430.3
Growth rate (<i>% annual average for period</i>)	2.2	1.8	1.4	0.9	1.0
Urban population (<i>% of population</i>)	22.1	30.6	46.0	40.6	48.6
Total fertility rate (<i>births per woman</i>)	4.8	3.1	2.4	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	16.7	..	..
Urban headcount index	..	..	12.1	..	..
Rural headcount index	..	..	20.1	..	..
INCOME					
GNI per capita (<i>US\$</i>)	500	620	1,250	1,280	1,580
Consumer price index (<i>1995=100</i>)	29	65	351	..	..
Food price index (<i>1995=100</i>)	..	62	364	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	33.0	..	..
Lowest quintile (<i>% of income or consumption</i>)	..	..	8.6	..	..
Highest quintile (<i>% of income or consumption</i>)	..	..	43.1	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (<i>% of GDP</i>)	..	..	1.2	1.9	2.5
Education (<i>% of GNI</i>)	..	..	..	3.0	3.5
Social security and welfare (<i>% of GDP</i>)	..	..	1.1	..	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	97	93	..	..
Male	..	99	93	..	..
Female	..	95	92	..	..
Access to an improved water source					
<i>(% of population)</i>					
Total	..	71	70	78	81
Urban	..	92	89	92	93
Rural	..	62	57	69	70
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	58	77	82	86
DPT	..	60	70	86	88
Child malnutrition (<i>% under 5 years</i>)	..	40	27	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	53	62	66	70	70
Male	52	60	65	68	68
Female	54	64	69	71	72
Mortality					
Infant (<i>per 1,000 live births</i>)	79	60	31	32	33
Under 5 (<i>per 1,000</i>)	125	91	41	41	42
Adult (15-59)					
Male (<i>per 1,000 population</i>)	368	275	227	179	192
Female (<i>per 1,000 population</i>)	308	219	175	122	123
Maternal (<i>per 100,000 live births</i>)	..	..	230	41	111
Births attended by skilled health staff (%)	..	36	72	87	86

This table was produced from the CMU LDB system.

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

Indonesia - Key Economic Indicators

Indicator	<----- Actual ----->				<----- Projection ----->		
	2002	2003	2004	2005	2006	2007	2008
National accounts (% of GDP at market prices)							
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	15.5	15.2	14.6	13.4	12.3	12.0	11.7
Industry	44.6	43.8	44.0	45.8	47.6	47.7	47.6
Services	40.0	41.0	41.4	40.8	40.1	40.3	40.7
Total Consumption	73.2	75.1	75.8	73.7	71.9	68.6	68.7
Gross domestic fixed capital formation	19.0	18.9	21.7	22.0	23.1	24.0	24.2
Exports (GNFS) ^a	32.0	30.1	32.1	33.5	33.3	32.7	31.7
Imports (GNFS)	25.8	22.7	27.4	29.2	29.8	28.9	28.8
Gross domestic savings	26.8	24.9	24.2	26.3	28.1	31.4	31.3
Gross national savings ^b	27.6	25.5	24.9	28.6	29.1	32.7	32.7
<i>Memorandum items</i>							
GDP (US\$ billion at current prices)	200	237	254	281	353	397	426
GNP per capita (US\$, Atlas method)	830	940	1,140	1,250	1,400	1,610	1,840
Real annual growth rates (% , based on 2000 prices)							
Gross domestic product	4.5	4.8	5.1	5.6	5.5	6.2	6.5
Real annual per capita growth rates (% , calculated from 2000 prices)							
Gross domestic product at market prices	3.0	3.3	3.5	3.9	4.1	4.8	5.1
Total consumption	3.4	3.0	3.5	2.7	4.0	0.8	5.2
Private consumption	2.5	2.4	3.6	2.2	0.7	2.6	3.1
Balance of Payments (US\$ billion)							
Exports (GNFS) ^a	64.6	68.3	93.4	105.2	117.8	129.5	135.5
Merchandise FOB	59.2	64.1	72.2	86.6	98.6	109.3	114.7
Imports (GNFS) ^a	51.0	55.6	90.4	95.0	105.1	114.7	123.0
Merchandise FOB	35.7	39.5	50.6	63.9	70.6	79.0	86.2
Current account balance	7.8	8.1	3.1	3.0	4.9	6.4	4.2
Public finance (as % of GDP)							
Total revenues	16.8	16.7	17.6	18.2	19.4	19.0	18.9
Total expenditures	16.9	18.4	18.7	18.7	20.9	19.9	19.4
Overall balance surplus (+) or deficit (-)	-0.9	-1.7	-1.0	-0.5	-1.5	-0.9	-0.5
Foreign financing	0.9	-0.3	-1.3	-0.4	-0.2	-0.4	-0.5
Government debt/GDP (excl. IMF)	69.2	60.2	54.6	46.8	37.8	34.4	32.3
Monetary indicators							
M2/GDP	47	47	45	44	42	42	42
Growth of M2 (%)	4.6	8.1	8.2	17.0	12.9	12.4	11.3
Price indices(Year 2000 =100)							
Real exchange rate (US\$/LCU) ^c	93.1	83.6	84.4	82.8	72.0	70.5	72.2
Consumer price index (% change)	11.9	6.8	6.1	10.5	13.6	6.2	4.9
GDP deflator (% change)	6.0	4.7	5.9	13.7	15.1	7.9	4.9

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

b. Includes net unrequited transfers excluding official capital grants.

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

Indonesia - Key Exposure Indicators

Indicator	<----- Actual ----->				<Estimate><----- Projection ----->		
	2002	2003	2004	2005	2006	2007	2008
Total external debt outstanding (TDO) (US\$m) ^a	131,343	132,852	139,000	133,482	127,927	123,683	120,368
Net disbursements (US\$m) ^a	-9,605	2,563	-1,695	-57	-3,667	-2,480	-3,911
Total debt service (TDS) (US\$m) ^b	24,978	24,251	21,293	20,605	21,697	18,722	19,107
Debt and debt service indicators (%)							
TDO/XGS ^c	174	170	143	121	103	89	76
TDO/GDP	66	56	55	47	36	31	28
TDS/XGS	4	3	2	2	2	1	1
Concessional/TDO	25	28	28	29	29	29	28
IBRD exposure indicators (%)							
IBRD DS/public DS	21	22	17	16	17	19	17
Preferred creditor DS/public DS (%) ^d	65	49	35	35	38	45	43
IBRD DS/XGS	2.5	2.6	2.0	1.7	1.5	1.3	1.1
IBRD TDO (US\$m) ^e	10,729	9,779	8,943	8,132	7,450	6,806	6,365
Share in Total IBRD Exposure (%)	8.8%	8.5%	8.1%	7.8%	-	-	-
IDA TDO (US\$m) ^e	794	880	996	1,001	1,224	1,370	1,516
IFC (US\$m)							
Loans	224.0						
Equity and quasi-equity ^f	137.0						
MIGA							
MIGA guarantees (US\$m)	56.5	52.4	52.4	52.4	50.9		

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

b. Debt services include debt services from projected new loans.

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

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

e. Includes present value of guarantees.

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

CAS Annex B8 - Indonesia
Operations Portfolio (IBRD/IDA and Grants)
As Of 06/30/2006

Closed Projects 294

IBRD/IDA *	
Total Disbursed (Active)	727.72
of which has been repaid	1.72
Total Disbursed (Closed)	24,578.15
of which has been repaid	18,567.74
Total Disbursed (Active + Closed)	25,305.87
of which has been repaid	18,569.46
Total Undisbursed (Active)	1,616.01
Total Undisbursed (Closed)	14.11
Total Undisbursed (Active + Closed)	1,630.12

Active Projects

Project ID	Project Name	Development Objectives	Supervision Rating	Implementation Progress	Fiscal Year	IBRD	IDA	Original Amount in US\$ Millions		Cancel.	Undisb.	Difference Between Expected and Actual Disbursements ^{a/}
								GRANT	Firm Rev'd			
P085133	Govt Finl Mgt & Revenue Admin Project	S	S	S	2005	55	5	55.74	5.84			
P071318	ID - Coral Reef Rehab and Management II	S	S	S	2004			7.02	1.02			
P071316	ID - Coral Reef Rehab and Mgmt Prog II	S	S	S	2004	33.2	23	51.01	5.48	0.17		
P003701	ID ODS I- UMBRELLA	HS	S	S	1995			14.78	7.39			6.67
P079156	ID Third Kecamatan Development Project	MS	S	S	2003	45.5	45.5	13.58	-14.08			
P077175	ID-Domestic Gas Market Development Proj.	S	S	S	2006	80		79.80	-0.20			
P074290	ID-E. IND REG TRANSPT 2	MS	S	MS	2004	200		173.00	59.00	1.00		
P036049	ID-EARLY CHILD DEVELOPMENT	S	S	S	1999	21.5		10.65	0.77	10.65		11.43
P089479	ID-Early Childhood Education and Dev	#	#	#	2006			67.91				
P073970	ID-GLOBAL DEV LEARNING (LIL)	S	S	S	2002	2.66		1.30				1.30
P085374	ID-HIGHER EDUCATION	S	S	S	2005	50	30	75.63				
P073772	ID-Health Workforce & Services (PHP 3)	MS	S	S	2003	31.1	74.5	90.32	50.58			
P076174	ID-Initiatives for Local Govern. Reform	S	S	S	2005	14.5	15	26.66	2.83			
P063913	ID-Java-Bali Pwr Sector & Strength	MS	S	MS	2003	141		132.76	104.56			-1.49
P064728	ID-LAND MANAGEMENT & POLICY DEVT PROJECT	MS	S	MS	2004	32.8	32.8	57.82	11.67	0.16		
P076271	ID-PPITA	S	S	S	2003	17.1		7.69	6.99			
P049545	ID-PROVINCIAL HEALTH I	S	S	S	2000	63.2	38	11.98	9.53			1.17
P049539	ID-PROVINCIAL HEALTH II	MS	U	U	2001	208.9	40	73.90	67.83			
P073025	ID-SECOND KECAMATAN DEVELOPMENT PROJECT	S	S	S	2001	111.3	111.3	18.95	4.31			
P072852	ID-UPP2	S	S	S	2002	29.5	70.5	30.12	2.50			
P084583	ID-UPP3	MS	S	MS	2005	67.3	71.4	125.57	-0.34			
P071296	ID-USDRP	S	S	S	2005	45		44.78	0.48			
P059477	ID-WSSLIC II	S	S	S	2000		77.4	26.54	21.90			
P085375	ID-WSSLIC III	#	#	#	2006		137.5	138.32				
P059931	ID-Water Resources & Irr.Sector Mgt Prog	MS	S	MS	2003	45	25	65.20	41.12			0.00
P092019	Kecamatan Development Project 3B	S	S	S	2005	80	80	120.18	38.70			
P078070	Support for Poor and Disadvantaged Areas	S	S	S	2005	69	35	102.68	2.25	11.98		17.78
Overall Result						1332.26	979.4	1616.01	438.48	11.98	44.05	17.78

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

CAS Annex B8 (IFC) for Indonesia

Indonesia :Statement of IFC's Held and Disbursed Portfolio

As of 04/30/2006

(In US Dollars Millions)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2006	Bank Danamon	5	0	0	0	0	0	0	0
2004	BonaVista School	1	0	0	0	1	0	0	0
2006	Buana Bank	5	0	0	0	0	0	0	0
2006	Centralpertiwi	45	0	0	0	0	0	0	0
2004	Medan NP School	1.75	0	0	0	0	0	0	0
2002	P.T. Gawi	11.05	0	0	3.49	4.9	0	0	3.49
1989	PT Agro Muko	0	2.2	0	0	0	2.2	0	0
1997	PT Alumindo	2.73	0	0	0	2.73	0	0	0
1989	PT Astra	0	0.2	0	0	0	0.2	0	0
1994	PT Astra	0	0.19	0	0	0	0.19	0	0
2003	PT Astra	0	0.12	0	0	0	0.12	0	0
	PT Astra Otopart	0	0.7	0	0	0	0.7	0	0
2005	PT Astra Otopart	24	0	0	0	24	0	0	0
2005	PT Austindo N...	15.23	0	0	0	2.23	0	0	0
2000	PT Bank NISP	0	2.85	2.86	0	0	2.85	2.83	0
2002	PT Bank NISP	0	2.04	0	0	0	2.04	0	0
2004	PT Bank NISP	35	0	0	0	35	0	0	0
1997	PT Berlian	0	3.35	0	0	0	0	0	0
1993	PT Bina Danatama	0.06	0	0	0	0.06	0	0	0
1996	PT Bina Danatama	0	0	3.1	5.77	0	0	3.1	5.77
2004	PT Ecogreen	30	0	0	0	30	0	0	0
2005	PT Ecogreen	25	0	0	0	15	0	0	0
	PT Grahawita	0	0	3.75	0	0	0	3.75	0
1991	PT Indo-Rama	0	3.82	0	0	0	3.82	0	0
1995	PT Indo-Rama	0	1.57	0	0	0	1.57	0	0
1999	PT Indo-Rama	0	0.81	0	0	0	0.81	0	0
2001	PT Indo-Rama	20	0	0	0	0.33	0	0	0
2003	PT Indo-Rama	5	0	0	0	4.88	0	0	0
2004	PT Indo-Rama	48	0	0	0	36	0	0	0
1992	PT KIA Keramik	0.23	0	0	2	0.23	0	0	2
1996	PT KIA Keramik	1.65	0	0	53.49	1.65	0	0	53.49
1995	PT KIA Serpih	4.5	0	0	49.5	4.5	0	0	49.5
1997	PT Kalimantan	9.38	0	0	0	9.38	0	0	0
	PT Karunia (KAS)	18.1	0	0	4.16	18.1	0	0	4.16
	PT Makro	0	2.34	0	0	0	2.34	0	0
2000	PT Makro	0	1.23	0	0	0	0.71	0	0
2006	PT Makro	0	0.65	0	0	0	0	0	0
1998	PT Megaplast	3.5	2.5	0	0	3.5	2.5	0	0
1993	PT Nusantara	0	0	10.16	7.9	0	0	10.16	7.9
2004	PT Prakars (PAS)	16.9	0	0	3.73	16.9	0	0	3.73
1997	PT Sayap	1.67	0	0	0	1.67	0	0	0
2001	PT Sigma	0	1.03	0	0	0	1.03	0	0
1995	PT Viscose	7.81	0	0	0	7.81	0	0	0
2004	PT Viscose	9.5	0	0	0	9.5	0	0	0
1997	PT Wings	1.45	0	0	0	1.45	0	0	0
2003	SMM	3	0	0	0	0	0	0	0
2001	Sunson	11.62	0	0	7.35	11.62	0	0	7.35
2005	WOM	0	20	0	0	0	19.93	0	0
2004	Wilmar	33.33	0	0	0	33.33	0	0	0
	Total Portfolio:	396.46	45.6	19.87	137.39	275.77	41.01	19.84	137.39

Approvals Pending Commitment

	Loan	Equity	Quasi	Partic
2005	Bank NISP SELF	30	0	0
2006	Bank Danamon Tbk	150	0	0
	Total Pending Commitment:	180	0	0

Annex B9 – CAS Results Framework Monitoring Matrix

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
<p>Maintain macroeconomic stability</p> <ul style="list-style-type: none"> Inflation below 7%; reached 15% in 2005 but expected to go down to 7% by mid-2008 Debt to GDP below 60%; 47% in 2005, debt dynamics assessed as sustainable. Investment as % of GDP above 30%; 22% in 2005 Growth of at least 5%; 5.1% in 2004, 5.6% in 2005 	<p>Consolidate macroeconomic stability and focus increasingly on the microeconomic foundations of growth</p> <p>Goal is to improve effectiveness and targeting of compensation schemes.</p> <p>Focus will be on improving pace and quality of public spending</p>	<p>Pillar One: Improving the Climate for High Quality Investment and Growth</p> <ul style="list-style-type: none"> Deficit of 1.2 % of GDP in 2004, 1% in 2005. (<i>Exceeded, was 1.0% in 2004 and 0.5% in 2005</i>) Reduce debt/GDP ratio to below 40% (<i>47% in 2005</i>) Non-oil tax revenue to GDP up 1% point (<i>Exceeded, was up 2% point from 2001 to 2005</i>) Decrease in tax arrears (<i>done</i>) Fuel prices get closer to market level (<i>Fuel subsidies reduced in March and October 2005</i>) Gradual increase in capital and social spending to 3.5% of GDP (<i>was budgeted at 3.2% of GDP in 2005. Expected to be 3.7% of GDP in 2006. This does not capture substantial regional spending.</i>) 		<p>Ongoing Lending</p> <ul style="list-style-type: none"> GFM RAP DPL1 and DPL2 <p>Proposed Lending</p> <ul style="list-style-type: none"> DPL3, DPL4, GFM RAP2 <p>AAA</p> <ul style="list-style-type: none"> Briefings for new Gvt CGI Briefs, PERS, DPR Debt Management ASEM Fiscal policy analysis WTO advice, Fuel Subsidy Reduction Advice <p>Partners ADB, JBIC, IMF, AusAID debt mgt, USAID trade</p>
		<p>Outcome remains valid; weak governance of state banks remains a critical issue</p> <p>Outcome remains valid</p> <p>Reduction of Blanket Guarantee needs to be pursued</p> <p>BI role as a lender of last resort has to be enacted by law</p>	<p>Increase stability of finance sector</p> <ul style="list-style-type: none"> At least 20% private ownership of all state-owned banks (<i>private ownership exceeds 20% for 2 of the 4 state-owned banks.</i>) Indonesia in broad compliance with international standards (<i>BI has made serious efforts to comply with BCP, others such as NBFIs are still lagging behind. However, growing acceptance and interest seen on the importance of enhancing compliances.</i>) Financial sector safety net implementation continued (<i>Blanket Guarantee is reduced gradually to all public deposits. Newly established Deposit Insurance Corporation began removal of coverage on inter-bank loans.</i>) 	<ul style="list-style-type: none"> Financial Stability Forum formed and MOU between BI and MoF on emergency lending signed (<i>done</i>) Indonesia taken off the list of non-cooperative countries of the FATF (<i>done</i>)	AAA - Ongoing Financial sector monitoring AAA - Planned Preparation work for FSAP Ongoing Lending IFC investments in banks and non-banking financial institutions IFC SME lending program Proposed Lending DPL 3 and 4 Partners IMF – Strengthening bank supervision and creation of financial sector safety net

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
Pillar One: Improving the Climate for High Quality Investment and Growth				
	<p>Outcome remains valid: Recommendations in NIBFI report provide a basis for policy dialogue Weak supervision in non-banking sectors remains a challenge Inadequate financial access to SME sector Weak insurance industry</p>	<p>Improve access to finance</p> <ul style="list-style-type: none"> Increase in non-bank financial sector's share of financial system assets beyond 10% (<i>share of NBFIs has remained stable, at around 19%, despite mutual fund redemption</i>) No. of SMEs with increased access to finance (<i>total credit realization by SMEs from commercial banks, as measured by BI¹, increased by 82% from 2003 to 2005</i>) Strengthen insurance industry regulatory and supervisory framework and develop a strategy to deal with insolvent firms (<i>Financial and Investment climate reform packages issued by GOI</i>) 	<ul style="list-style-type: none"> Pension fund industry re-organized and restructured (<i>slower than expected</i>) Unviable insurance firms resolved (<i>slower than expected</i>) Bapepam's regulatory and supervisory capacity strengthened (<i>slower than expected –Bapepam's merger with DGGFI is done</i>) 	<p>AAA – Ongoing</p> <ul style="list-style-type: none"> NBFI report provides recommendation to Government
Supportive environment for competitive private sector	<p>Outcome remains valid. Implementing regulations of the new Inv. Law have yet to be completed Number of licenses in ministries needs to be reduced Transactions costs to business need to be reduced</p>	<ul style="list-style-type: none"> Overall improvement in investment climate (<i>all major obstacles faced by businesses have declined consistently between 2003 and 2005, but remain high</i>) Reduce business start-up time from 151 to 30 days (<i>has become one of the Government's top priorities</i>) 	<ul style="list-style-type: none"> Draft Investment Law sent to Parliament (<i>done</i>) Enactment of implementing regulations (<i>slower than expected</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> GFMRAP, DPL1 and 2 AAA - Ongoing Business Environment Surveys (bi-annual) Review draft Customs Law Background notes on International Best practices for implementing regulations of Inv. Law Value chain studies Investment related labor market analysis Background notes on trade policy reforms Corporate sector monitoring
	<p>Outcome remains valid. New indicators monitored by working group on inv. climate:</p> <ul style="list-style-type: none"> Time & cost to obtain VAT refunds (<i>currently 6.1 months</i>) Time required to file monthly tax returns (<i>currently 45 man days</i>) <p>Clearance process has to be exclusively computerized Outcome remains valid. New indicator monitored by working group on inv. climate:</p> <ul style="list-style-type: none"> Improvement in average import clearance time (<i>currently 7.5 days for containers inspected</i>) 	<ul style="list-style-type: none"> More effective tax services: % of businesses identifying tax administration as a moderate, severe and very severe problem decreased by around 15% from 2003 to 2005 (<i>still at just above 40%</i>) More effective customs services: % of businesses identifying customs and trade regulations as a moderate, severe and very severe problem decreased by around 10% from 2003 to 2005 (<i>at just below 40%</i>) Clear criteria to implement customs regulations concerning use of priority, green, and red lanes stipulated (<i>part of the Investment package issued by GOI</i>) 	<ul style="list-style-type: none"> Roll out of tax administration reforms (<i>on-track, 3 tax laws have been introduced to Parliament. Modern tax offices have expanded. 170 local nuisance taxes & fees were abolished over the past year</i>) Decrease the share of containers going through inspection (Red Lane) from 40% to 10% (<i>starting</i>) 	<p>AAA – Proposed</p> <ul style="list-style-type: none"> TA for GEG Program IFC PENSA – technical assistance for improving activities to finance and

¹ It should be noted that BI doesn't have specific classifications for SMEs, hence the increase includes also that of consumer financing

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
Pillar One: Improving the Climate for High Quality Investment and Growth				
Rigid labor regulations discourage jobs creation in the formal sector	<ul style="list-style-type: none"> Implement flexible labor regulations. <i>New draft labor law being reformulated – had stalled following strong resistance by Labor Unions</i> 	<ul style="list-style-type: none"> Clarity of functions of central and local governments towards private sector development (<i>Draft amendment to move from negative to positive list for regional tax items and to restrict the creation of nuisance and/or economically harmful charges and levies has been completed</i>) Investment climate in about 40 regions participating in local services platform projects above the national average (<i>Survey underway</i>) 	<ul style="list-style-type: none"> Implementing regulations for Laws 22 and 25 (<i>slower than expected</i>) <i>Revisions in Law 25/99 to Law 33/04 lays the groundwork for regional governments to borrow from a wide range of domestic sources.</i> 	business enabling environment <ul style="list-style-type: none"> Business Environment Program Partners ILO Youth Employment Network
Outcome remains valid Impact of new regulations on investment has yet to materialize				

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
Refurbished infrastructure	Pillar One: Improving the Climate for High Quality Investment and Growth			
	<p>GoI has established a framework to develop infrastructure, as a key national priority. The Bank plans to support this program through a new DPL.</p> <ul style="list-style-type: none"> Remove policy road-blocks to public and private infrastructure investment. (Increase infrastructure investment is expected to be in the order of 1% of GDP over the next three years) Increase connections in four key sectors (Roads, Water and Sanitation, Energy and Telecommunication). Specific sector targets are currently being discussed in the context of the preparation of the infrastructure oriented DPL Ensure adequate social and environmental management of infrastructure investment (as measured by reviews of sample projects) 	<p>Improving the environment for infrastructure development</p> <p>No original end-CAS outcome captured what is now the highest economic priority of SBY's new administration. The following steps have been taken by the GoI</p> <ul style="list-style-type: none"> A national committee on Policy for Accelerating Infrastructure Provision (KKPPI) was established in 2005 PPP Unit is being established within KKPPI as a center of technical expertise in project preparation Risk Management unit fully operational, making decisions on public support to infrastructure investments. (<i>Risk Management Unit has been established in MOF</i>) 	<ul style="list-style-type: none"> Issuance of "white paper" on infrastructure (<i>done</i>) Infrastructure Summit to bring together potential private investors (<i>done: A first summit that drew a large participation from Private investors was held in January 2005; a follow-up summit is planned in late 2006.</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> Priv. Provision of Infra TA <p>Planned Lending</p> <ul style="list-style-type: none"> DPL3 and 4; Infrastructure DPL <p>AAA - Ongoing</p> <ul style="list-style-type: none"> Infrastructure Summit <p>Partners</p> <p>IFC, MIGA, JBIC, ADB</p>
<p>Lack of bankable projects limits the no of PPP</p> <p>Going forward, focus will be in particular on supporting the following government objectives</p> <ul style="list-style-type: none"> Reduce the incidence of corruption in public and private roads projects Establish public financing mechanisms to support sustainable maintenance of the national road network. Specific targets are currently being discussed in the context of the preparation of the infra DPL. 	<p>Road sector</p> <ul style="list-style-type: none"> Improved institutional arrangements established for toll roads (<i>Done; Institutional arrangements for toll roads are in place: establishment of Toll Regulatory Agency and Implementing Agency as separate entities. A new Model Concession Agreement has been prepared and has yet to be approved.</i>) Improve the condition of national and other strategic arterial roads. <i>The quality of the road network in Sumatra has been preserved with Bank support (corresponding to about 24,000km) and subprojects implemented with Bank support have led to more than 1500 km of improved roads and 4500 meters of bridges in Eastern Indonesia.</i> 	<ul style="list-style-type: none"> Pilot road fund and road board scheme established (<i>ailed</i>) Improved road user charges regime implemented (<i>limited to reduction in fuel subsidies</i>) Automatic tariff adjustment mechanisms for toll roads (<i>done</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> East I. Reg. Transport 1,2 Sumatra Reg. Roads Project Strategic Road Infrastructure <p>Lending - Proposed</p> <ul style="list-style-type: none"> Nat. Roads Improvement E. Java Reg. Development West Java APL2 Infra DPL <p>Partners</p> <ul style="list-style-type: none"> IFC, MIGA, JBIC, ADB 	

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
	Pillar One: Improving the Climate for High Quality Investment and Growth			
	<p>Outcome remains valid</p> <p>Institutional improvements have yet to result in a significant increase in the number of actors</p> <p>Since Electricity Law was annulled in 2002, there is a lack of clear vision in the sector.</p>	<p><u>Energy sector</u></p> <ul style="list-style-type: none"> Increased no. of actors in the oil & gas sectors (<i>Not yet</i>). Improved tariff structure for gas sector (<i>Gas pricing study is underway</i>) Partial privatization of key infrastructure SOEs, e.g. PGN (<i>Done for PGN where share of Govt is 39%</i>) Increased no. of actors in power sector (<i>some private sector participation in power generation</i>) More efficient power sector 	<ul style="list-style-type: none"> Issuance of regulations for oil and gas law (<i>All elements for opening oil and gas sector to competition, such as regulator and implementing rules and regulations are in place</i>) Cost-reflective tariff / user charges policies (<i>slower than expected</i>) Automatic tariff adjustment mechanisms for power. (<i>a consistent tariff adjustment was made quarterly for 7 quarters until 2003</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> Domestic Gas Market Development <p>Lending - Proposed</p> <ul style="list-style-type: none"> Kalimantan Java Gas <p>Lending - Ongoing</p> <ul style="list-style-type: none"> Java-Bali Power Project <p>IFC & MIGA</p> <ul style="list-style-type: none"> Support investments in power and telecommunication
Sustainable income-creating opportunities for poorer households	<p>Outcome remains valid</p>	<ul style="list-style-type: none"> 2.5 million new titles issued (50% in women's names) in project-assisted areas. (<i>Issuance of titles nationwide has been slow (255,506 titles distributed as of April 30) but the new Aceh project has had a successful start; 52,915 community maps submitted. 52,915 parcels officially surveyed; 50,980 land parcels adjudicated, 50,500 publicly notified. 2,608 land titles distributed as of mid-2006</i>) 	<ul style="list-style-type: none"> Land rights policies and legislation with emphasis on traditional tenure systems are reformed and implemented (<i>ongoing</i>) 	<p>Lending - Ongoing</p> <p>Land Management Policy Dev. Project, Aceh RALAS</p> <p>AAA - Ongoing</p> <p>National land policy strategy dialogue</p>
	<p>Outcome remains valid</p>	<ul style="list-style-type: none"> Avg. income per capita of target groups of coastal communities increases by 5% per year in real terms (<i>Too early to measure</i>) 	<ul style="list-style-type: none"> Viable reef management systems established in priority sites in 10 provinces (<i>More than 50% reduction in illegal and destructive fishing and coral mining in most of COREMAP1 pilot areas. Public awareness of the dangers of coral reef degradation increased from 39% to 75%</i>) 	<p>Lending - Ongoing</p> <p>COREMAP2</p> <p>Lending - Proposed</p> <p>Fisheries Revitalization Project</p>
	<p>Outcome remains valid</p>	<ul style="list-style-type: none"> 30,000 villages/cities with improved access to roads, bridges, irrigation and other infrastructure through participatory planning and financing (<i>38,000 villages & cities thru CDD programs have engaged in a participatory planning and financing process, increasing access to vital infrastructure</i>) 	<ul style="list-style-type: none"> Increased role of local government and stakeholder groups in planning and monitoring service delivery and funds utilization (<i>ongoing through CDD programs; district level programs which include accountability mechanisms have been</i> 	<p>Lending - Ongoing</p> <p>Bengkulu Regional Dev. Project, KDP, UPP, Support for Poor and Disadvantaged Areas (SPADA), ILGRP</p> <p>AAA - Ongoing</p>

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
	Pillar One: Improving the Climate for High Quality Investment and Growth			
		<p><i>and water/sanitation resources)</i></p> <ul style="list-style-type: none"> Increased household income levels in the targeted 30,000 areas (<i>Villages covered by KDP showing significant HH expenditure impact as compared to non-KDP areas.</i>) 	<p><i>delayed but will begin implementation this year)</i></p> <ul style="list-style-type: none"> <i>An average of 33% of households in 680 villages adopting new technologies with increases in incomes ranging from 35-60% from improved crop and livestock productivity</i> <i>250,000ha of irrigated area benefiting from improved water management, and some 500,000ha from repairs and rehabilitation to the physical infrastructure</i> 	<p>Poverty Assessment</p>
	Outcome remains valid	<ul style="list-style-type: none"> Increase in incomes, yields and adoption rates of technologies in 55 project-assisted districts. (<i>Too early to measure</i>) 20 % increase in income levels for farmers in the areas of improved irrigation systems. (<i>Too early to measure</i>) 		<p>Lending - Ongoing Water Res. & Irrigation Sector Mgmt, DAFEP</p> <p>Lending – Proposed Farmers Empowerment through Agr. Technology and Inf (FEAT)</p> <p>AAA - Ongoing Rural Investment Climate Survey follow-up</p> <p>Partners ADB, DFID, Dutch Trust Fund, JICA, EU, GEF</p>

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period		Bank and Partner Interventions in the Thematic Area	
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)		Mid-term indicators and progress to date (in italics)
Pillar Two: Making Service Delivery Responsive to the Poor				
In Bank-assisted areas, improved quality, coverage, and utilization of basic education services, especially for the poorest 40%:				
Better education outcomes for the poor	<p>Outcome remains valid</p> <p>Poverty targeting of ECED programs improved</p>	<p><u>Improved access to ECED services</u></p> <ul style="list-style-type: none"> Increased number of quality ECED service in targeted poor areas (600 integrated ECED centers were established across 12 districts with Bank support. Major new ECED program prepared and negotiated with GOI) 	<ul style="list-style-type: none"> Increase in level of public financing for ECED and basic education (<i>on-track</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> Early Child Development Project ECED <p>AAA - Ongoing</p> <ul style="list-style-type: none"> ECE and Development sector report
<ul style="list-style-type: none"> Increases in primary and junior secondary school net enrollment & completion rates 	<p>Outcome remains valid with a particular focus on access to secondary education</p>	<p><u>Improved access to education services</u></p> <ul style="list-style-type: none"> Increased enrollment rates at primary and jr. secondary school level (<i>Net enrollment rates at primary school increased marginally from 91.8% to 92.8% for the poorest 40% between 2002 and 2004. For jr high they increased from 52.5% to 56.0%.</i>) Commence pilot conditional cash transfer program (<i>being designed</i>) 	<ul style="list-style-type: none"> Govt. adoption of new budgeting, financing, planning, and management procedures for education delivery (including financing mechanisms to guarantee access for the poor) (<i>Ongoing</i>) Increased participation of communities in the delivery of education services (<i>ongoing</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> Sulawesi & Eastern Islands and Sumatra Basic Education Projects CDD Projects (SPADA, KDP) <p>Lending – Proposed</p> <ul style="list-style-type: none"> Universal Basic Education Teacher Training/BERMUTU <p>AAA - Ongoing</p> <ul style="list-style-type: none"> Education sector notes on: Free basic education, teacher management Statistical Capacity Building Support <p>AAA – Proposed</p> <ul style="list-style-type: none"> Delivering Local Services Private Sector Constraints in HD Services Teacher Management <p>Partners</p> <ul style="list-style-type: none"> IFC Supporting private investment in primary education, EU
<ul style="list-style-type: none"> Improvement in Indonesia's performance in international standardized assessment (e.g. TIMSS) (<i>no evidence yet</i>) 	<p>Outcome remains valid.</p> <p>Impact on actual improvement in teachers quality and rebalance of deployment to be seen</p>	<p><u>Improved quality of education services</u></p> <ul style="list-style-type: none"> Improvements in test scores, using international standards. (<i>Bank is in discussions with Government and other donors about implementing a high quality, uniform national testing system.</i>) Increase in the proportion of primary and jr. secondary schools which meet govt. quality standards Issue implementing regulations for Law on Teachers and Lecturers 	<ul style="list-style-type: none"> New policies on teacher management and performance adopted and implemented (<i>Teacher Law to improve teacher quality and deployment was enacted.</i>) 	

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period		Bank and Partner Interventions in the Thematic Area	
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)		Mid-term indicators and progress to date (in italics)
Pillar Two: Making Service Delivery Responsive to the Poor				
Improved health outcomes for the poor	<p>Outcome remains valid. The decentralization process in the health sector suffers from lack of clarity in roles and responsibilities between central and decentralized levels. New shocks have increased the pressure on the Min Of Health to deliver quality services and rapid responses (avian flu risk, earthquakes). The fuel-subsidies have provided the sector with new resources. However since the policy reform has not yet taken place the effectiveness of these new resources into the sector have not yet demonstrated impact. MOH has restated its commitment to achieving the MDGs and has made reducing maternal and child mortality key priorities, but policies addressing improved service delivery to achieve these objectives remain weak. Effective design and implementation of public expenditure and programs that benefit the poor</p>	<ul style="list-style-type: none"> Increase in utilization rates of health services in targeted provinces. (<i>Evidence shows that increased financing for priority health programs has translated into improved services in West Java and Banten where increase in utilization of services has been observed between 2001 and 2005. However in other provinces, the poorer ones, evidence has yet to materialize.</i>) Increased % institutional deliveries assisted by trained health workers. (<i>The percentage of birth attended by trained health workers increased from 66% to 72% between 2002 and 2004. Recent DHS data show increase in institutional deliveries among the poorest 40% of the population from less than 5% in 1991 to 18% in 2002</i>) Increased % of childhood immunizations (<i>Immunization with BCG and measles vaccine exceeded 80% in 2004 but the percentage of children completing DPT, polio vaccine and HepB was less than 50%. Outbreaks of polio were recorded in 2005.</i>) Improved nutritional status, especially for children under 5 (<i>The percentage of children under-five classified as malnourished by weight for age remained at 25% between 2002 and 2004, but severe malnutrition has risen from 7.5% to 9.7% over the same period. The percentage underweight among the poorest 40% is 29% in 2001. Recently renewed attention to malnutrition issues may help address the problem better in near future, however current policies are not in line with internationally recognized best practices.</i>) Commence pilot conditional cash transfer program (<i>being designed</i>) 	<ul style="list-style-type: none"> Increase in level and efficiency of public financing for priority health programs (<i>three rounds of block grants have been completed in Yogyakarta and Lampung provinces and have resulted in increased level of financing and results for poorest quintile</i>) Increase in number of district governments with the capacity to implement pro-poor planning, monitoring and reporting of health services and outputs (<i>ongoing in 9 provinces supported by Bank projects, restructuring discussions ongoing to adapt projects to new reality and MOH stated key-priorities</i>) New policies on management of health workforce performance adopted and implemented (<i>underway in Yogyakarta, but less progress in other provinces</i>) Evaluation findings of pilot fuel subsidy funded health, education & village infrastructure programs used to inform design of future compensation schemes in a decentralized context 	<p>Lending – Ongoing</p> <ul style="list-style-type: none"> Provincial Health I and II, Health Workforce & Services (PHP 3) WSSLIC 2 and WSSLIC 3/PAMSIMAS <p>Lending – Proposed</p> <ul style="list-style-type: none"> National Agency for Drug and Food Control Improving Health Outcomes <p>AAA - Ongoing</p> <ul style="list-style-type: none"> Decentralization, Private Sector Environment, PROPER Analytic and Policy Basis of HIV Control Statistical Capacity Building Support <p>AAA – Proposed</p> <ul style="list-style-type: none"> Health Workforce and Improving Services Delivery WBI Capacity Building – Integrated Water Resources Management <p>Partners ADB, JBIC, JICA, Netherlands, AusAID, USAID, Unesco, Unicef, WHO, EU, DFID, WASPOLA</p>

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
<ul style="list-style-type: none"> Increase in proportion of population with sustainable access to an improved water source and proper sanitation (urban./rural) <i>(no recent data)</i> 	<p>Scaling-up the successful approach in access to water is a priority</p> <p>Improving sanitation remains a challenge</p>	<ul style="list-style-type: none"> Increased % of households with access to safe drinking water and sanitation in 2000 villages & 20 urban areas (<i>Functioning water supply systems have been established in 1021 villages (covering 2.08 million villagers) – the target has been raised to 2500 villages by the end of the CAS period. The successful approach is being scaled up</i>) Increased % of households practicing improved key hygiene practices in target areas. <i>(not yet evidence of improvements)</i> 	<ul style="list-style-type: none"> Central and % of local governments adopting enabling legal, regulatory & policy frameworks for community-managed WSS services. <i>(done for central, in progress for local government)</i> 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> WSSLIC 2 and WSSLIC 3/PAMSIMAS <p>Lending – Proposed</p> <ul style="list-style-type: none"> Improving Health Outcomes <p>AAA - Ongoing</p> <ul style="list-style-type: none"> Statistical Capacity Building Support

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
Development planning is responsive to constituents	Pillar Three: The Core CAS Objective: Addressing the underlying Issue of Governance			
	<p>Outcome remains valid</p> <p>Civil society involvement in government policy-making and planning has increased but is still spotty.</p>	<ul style="list-style-type: none"> Core group of at least 40 regions participating in local services platform projects records significant improvements in governance outcomes (<i>Bank-supported activities have been delayed because Bank resources have been shifted towards Aceh reconstruction. Key inputs have been delivered nonetheless: 28 Bank-supported local governments adopted Local Governance Framework. 15 of the districts completed regional PRSPs. It is too early to assess impact but a baseline is available through a Governance Decentralization Survey2 – GDS2</i>) 	<ul style="list-style-type: none"> Enhanced disclosure and reporting procedures for policy-making and planning decisions are implemented (<i>on-going</i>) Implementation of an effective independent monitoring system for verification and evaluation of government reform commitments as set out in the “White Paper” (<i>on-going</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> ILGRP, USDRP, SPADA <p>AAA - Ongoing</p> <ul style="list-style-type: none"> GDS2 Measurement Framework for Financial Management of Local Governments completed <p>AAA – Proposed</p> <ul style="list-style-type: none"> Governance and Anti-Corruption Flagship Local Government Flagship <p>Lending - Ongoing</p> <ul style="list-style-type: none"> KDP, UPP, WISMP, ILGRP <p>Lending – Proposed</p> <ul style="list-style-type: none"> FEATI <p>AAA - Ongoing</p> <ul style="list-style-type: none"> Poverty Assessment Project M&E systems <p>Partners</p> <p>DFID, ADB, Netherlands, Japan, Partnership for Governance Reform</p>
		<ul style="list-style-type: none"> One third of all villages in Indonesia engage in a participatory approach to development planning, execution, and oversight. (<i>38,000 villages/ cities in CDD areas (@50% of total) engage in a participatory process of planning and budgeting.</i>) 	<ul style="list-style-type: none"> No. of local governments that open their budgeting, planning and financial mgmt. practices to greater public participation and scrutiny (<i>ongoing; 15 local governments in the process of undertaking with NGOs participatory budgeting and citizen scorecards; development of larger scale public financial management measurement tool for districts underway.</i>) Increase in civil society involvement in government policy-making and planning (<i>see above</i>) Two thirds of the districts and cities participating in KDP and UPP projects adopt PERDAS Enhanced disclosure and reporting procedures for policy-making and planning decisions are implemented (<i>13 local governments have</i> 	

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
Pillar Three: The Core CAS Objective: Addressing the underlying Issue of Governance <i>passed disclosure regulations)</i>				
Regulated and transparent public financial management	Automated Treasury Payment system is a new outcome expected to be delivered by 2008	<ul style="list-style-type: none"> Automated Treasury Payment system enables accurate and timely financial reporting and reduces incidence and size of idle cash balances (<i>TSA and account consolidation underway; pilot to test TSA and zero balance bank accounts began in July 2005</i>) Consolidate from nearly zero to at least 50% of core government cash operations into TSA 	<ul style="list-style-type: none"> Regulations required under State Finance Law 17/03 (<i>done</i>). 	Lending - Ongoing <ul style="list-style-type: none"> DPL1, DPL2, GFMRAP Lending - Proposed <ul style="list-style-type: none"> DPL3 and 4, GFMRAP2 AAA - Ongoing <ul style="list-style-type: none"> World Bank Dutch Trust Fund for Decentralization Technical Assistance and Advisory Services DFID supported Decentralization Support Facility. Governance and Decentralization Survey 2 Partners GTZ, Netherlands, DFID, JBIC, ADB, CIDA.
An efficient and streamlined Civil Service	Outcome remains valid Address root causes of poor public sector governance and corruption by instituting civil service reforms	<ul style="list-style-type: none"> All line ministries prepare financial statement using new Government accounting standards (<i>A consolidated financial statement for the Central Govt was completed for 2004 for the first time, and completed again in 2005</i>) Establishment of national remuneration commission that reviews civil service salaries and transparency of pay packages (<i>GOI has launched pilots in Ministry of Finance and Education with the intent of designing a comprehensive CSR program</i>) Reduced leakage in expenditure flows to end-users as measured by Public Expenditure Tracking Surveys (<i>Bappenas assessment of compensation programs and GDS2 should provide baseline in lieu of PETS for measuring improvement in effectiveness of public expenditure. Public expenditure reviews completed in Papua; ongoing in Aceh and Gorontalo provinces; several more PERs are expected within the year.</i>) 		
Effective implementation of decentralization	Going forward focus is going to be on engaging sector ministries (health, education, environment and Public works) in the preparation of ministerial decrees	<ul style="list-style-type: none"> Greater clarity of functions at each level of Government (<i>limited progress</i>) 		Local Governments adopt sound public financial management and procurement practices (<i>underway</i>)

Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)	Mid-term indicators and progress to date (in italics)	
Pillar Three: The Core CAS Objective: Addressing the underlying Issue of Governance				
<p>Establishment of a credible and impartial justice sector</p> <ul style="list-style-type: none"> Significant improvements in corruption perception measures and in survey-based measurements of popular trust in court system in project-assisted areas : <i>Corruption perception index and governance indicators (TI, WBI) point to a slight improvement since 2002</i> 	<p>Remove DAU hold-harmless provisions as scheduled in 2008. Increase funds for DAK in APBN, especially for social sectors. Speed up transfer of natural resource revenue shares (NRRS) to sub-national governments. Outcome remains valid</p>	<p>Improved mechanisms for fiscal transfer</p> <ul style="list-style-type: none"> Enhance fiscal equalization performance of general purpose transfers (DAU). (<i>Conflicting evolutions are being observed: transitory increase in DAU size in 2006 has partly outweighed the negative impact on fiscal equalization of the decision to use the DAU to cover regional service civil wages.</i>) Implement clear and consistent provisions for on-granting and on-lending donor finance. (<i>ongoing</i>) 	<ul style="list-style-type: none"> Issue Ministerial Decrees on On-Granting. (<i>Ministry of Finance Decree on On-Lending and On-Granting has been issued</i>) 	
	<p>Given more rapid progress than anticipated on establishment of Anti-Corruption Commission (KPK) and Anti-Corruption Court, End-CAS outcome can be expanded to include cases investigated by KPK</p> <p>Outcome remains valid Institutional and legal framework needs further strengthening</p>	<ul style="list-style-type: none"> Positive trend in the number of <i>Investigative Units have been established in IG and are operational. Anti-Corruption Commission and Court are operational and have taken on several high-profile corruption cases (Bank Mandiri, Election Commission, Aceh governor conviction). Law expanding legal mandate of BPK for auditing public finance passed – implementing regulations awaited</i> Full compliance with wealth declarations by public officials as established by law (<i>not complied with</i>) Increased %of poorer households and SMEs using legal, paralegal and alternative dispute mechanisms in at least 40 districts (<i>20 districts (6 in conflict areas) have started building networks of paralegal and ALD assistance. Impact on access is too early to tell</i>) Issue implementing regulations on Witness Protection Law and Freedom of Information Act. 	<ul style="list-style-type: none"> Effective functioning of institutional framework for investigating and prosecuting corruption cases including: <ol style="list-style-type: none"> Anti-Corruption Commission (<i>done</i>) Anti-Corruption Court (<i>done</i>) Restructuring of Attorney General's Office (<i>in progress</i>) Establishment of a network of paralegal assistance, alternative dispute resolution mechanisms, and legal literacy training, with special focus on conflict areas (<i>two pilots in progress; expansion of pilots expected in 5 provinces over next year</i>) Barriers lowered for entry into the formal court system by reducing costs of accessing justice sector. (<i>limited progress</i>) 	<p>Lending - Ongoing</p> <ul style="list-style-type: none"> SPADA AAA - Ongoing Justice for the Poor Partnership for Governance Reform Governance & Decentralization Survey 2 Anti-Corruption Studies AAA – Proposed High courts TA IFC PENSA – TA on the development of legal security of microfinance institutions Partners Partnership for Governance Reform, DFID,

Strategic and Longer Term Country Outcomes		Outcomes Influenced by the CAS Program During the 5 Year Period			Bank and Partner Interventions in the Thematic Area
Remaining Challenges and Adjustment to CAS Outcomes		End-CAS Outcome(s) and progress to date (in italics)	CAS mid-term targets and progress to date (in italics)		
Pillar Four: Disaster Risk Management					
Rebuilding a Better Aceh and Nias					
Restored economic growth (GDP) and sustainable livelihoods	The main challenge is to address the missing middle of district level infrastructure that will connect houses into communities.	<ul style="list-style-type: none"> Decreased number of displaced people living in tents, barracks and with host families. <i>(52,000 living in tents, 50,000 in barracks, 75,000 with host families)</i> Transparency and efficiency of reconstruction process. <i>(The process of reconstruction is well underway: 45,000 new houses were completed by June 2006 of which 1,500 by the Bank, 20 community health clinics and 133 schools built or repaired by WB. 410 bridges repaired; 1,050 kms village roads and 28 km of urban roads rebuilt, 1,156 irrigation and drainage projects, 570 clean water systems and sanitation units by WB. Over 2 million workdays generated through the above Bank-supported infrastructure work as of mid-2006.)</i> Decreased rate of unemployment among tsunami affected populations, ex-combatants and others. <i>(About 18% of individuals aged 15 years or older were seeking or available for work in August 2005)</i> Also see Pillar 1 for land survey, adjudication and title distribution progress under MDF Project on Reconstruction of Aceh Land Administration System 	<ul style="list-style-type: none"> Creation of a multidonor framework <i>(done through the Aceh-Nias Multi-Donor Trust Fund)</i> Establishment of an institutional framework for managing the reconstruction process <i>(done, capacity building ongoing)</i> Initial damage and loss assessment <i>(done)</i> and regular progress monitoring <i>(continuous, but problems with project reporting systems)</i> Separatist group (GAM) reintegration needs assessment <i>(done)</i> 	<p>Lending/Grants - Ongoing CDD projects (KDP, UPP), SPADA MDF (housing, land, technical assistance, waste management, infrastructure and environment)</p> <p>AAA GDS, STAR, Disaster Risk Management Framework</p> <p>Partners MDF: ADB, Canada, Denmark, EU, Finland, Germany, Netherlands, New Zealand, Norway, Sweden, UK, USA, Belgium, Ireland</p>	
Inflation in line with national average	Sustaining the peace process will depend on meeting GAM reintegration needs				
Reduced percentage of population living in poverty (household expenditure)					
Responding to Yogyakarta & Central Java Earthquake					
Rebuild housing		<ul style="list-style-type: none"> Reduced number of households without a house rebuilt 	<ul style="list-style-type: none"> Initial damage and loss assessment <i>(done, number of destroyed or damaged houses are over 350,000)</i> Establishment of a platform for the construction of 50,000 houses <i>(ongoing, using UPP facilitators)</i> 		

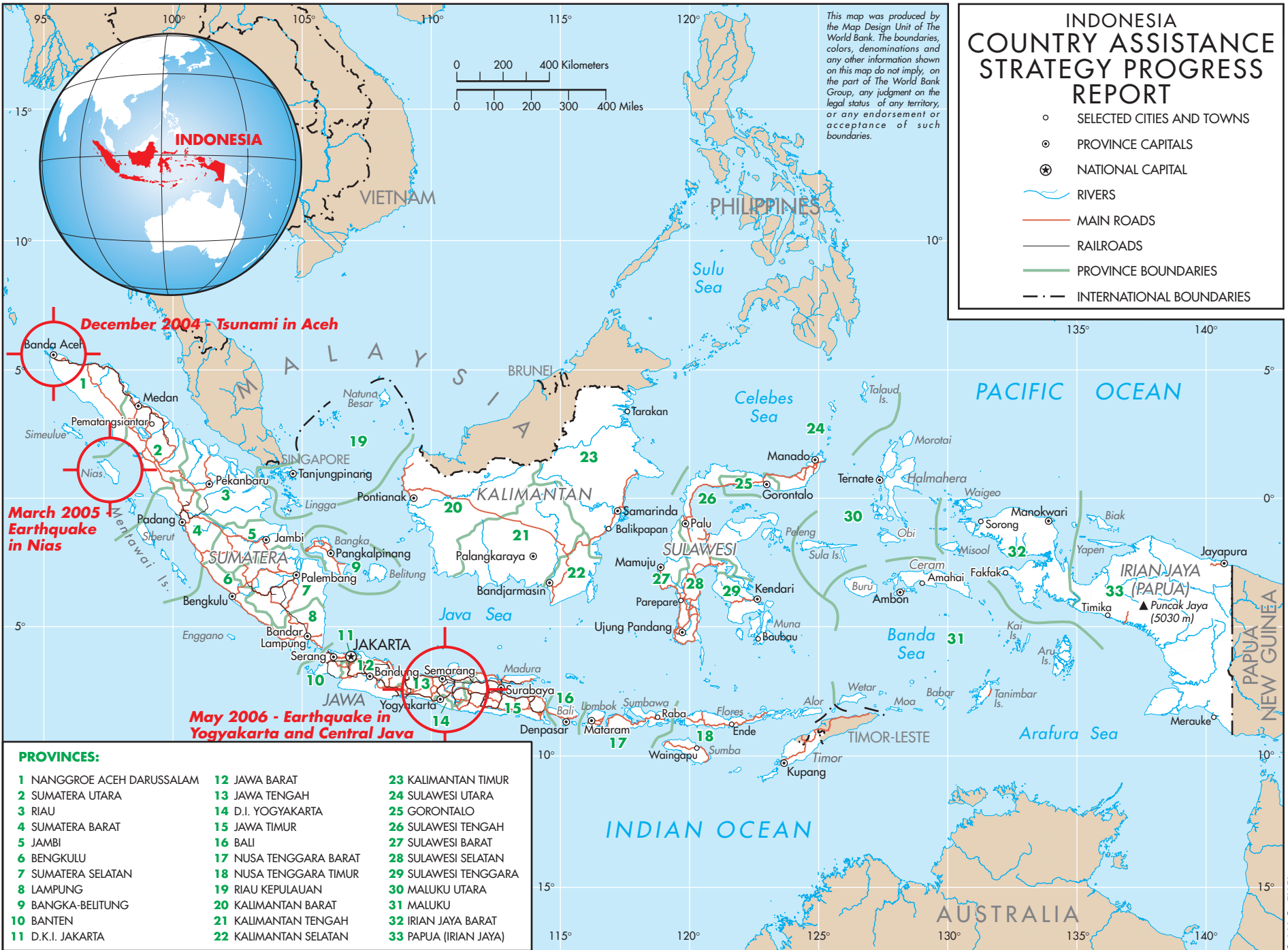
Strategic and Longer Term Country Outcomes	Outcomes Influenced by the CAS Program During the 5 Year Period		Bank and Partner Interventions in the Thematic Area
	Remaining Challenges and Adjustment to CAS Outcomes	End-CAS Outcome(s) and progress to date (in italics)		CAS mid-term targets and progress to date (in italics)
Pillar Four: Disaster Risk Management			
Avian and Human Influenza and other Emergent Crises			
Sustainable income-creating opportunities for poorer households	Government strategy to respond to HPAI threat has yet to be clarified	While overall outcome is to improve the effectiveness of Government services to respond to HPAI risks and actual outbreaks, specific targets have yet to be defined in the context of ongoing discussions with the Government.	<p>Analytical Poultry Sector Strategy</p> <p>Trust Fund Avian and Human Influenza Facility</p>
			<p>Projects and programs developed with GoI and other agencies to respond appropriately to emerging issues. <i>Ongoing; priorities have been identified for Bank support (to be confirmed by Government) and include (i) to improve public awareness and understanding of HPAI, (ii) to enhance Surveillance Systems for Animal and Human Health, (iii) to build response team capacity at district and provincial levels, (iv) to improve capacity to provide safe working conditions for virus isolation and adequate, sustained diagnostic capacity; (v) to increase vaccination coverage to achieve effective flock immunity at least in sector 4 poultry; (vi) to monitor progress in HPAI control and to identify interventions to reduce infection in man and poultry; (vii) to implement poultry sector restructuring to reduce the risk to human and poultry health by modifying current management and marketing practices.</i></p>
Improved Institutional Framework for Disaster Risk Management			
Strengthened Capacity for Disaster Risk Management	GOI and donors have been responding to the devastating disasters, but a coordinated proactive risk management framework needed. <i>GOI disaster risk management legislation is pending approval from Parliament</i>	Technical and capacity building support at national and local level for assessing post-disaster damage and needs	<p>AAA - Planned</p> <ul style="list-style-type: none"> • Suitable financial risk transfer and flexible risk financing mechanisms • Initial damage and needs assessment training for State Planning Ministry

MAP SECTION

INDONESIA COUNTRY ASSISTANCE STRATEGY PROGRESS REPORT

- SELECTED CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊛ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

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PROVINCES:

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|----------------------------|------------------------|-----------------------|
| 1 NANGGROE ACEH DARUSSALAM | 12 JAWA BARAT | 23 KALIMANTAN TIMUR |
| 2 SUMATERA UTARA | 13 JAWA TENGAH | 24 SULAWESI UTARA |
| 3 RIAU | 14 D.I. YOGYAKARTA | 25 GORONTALO |
| 4 SUMATERA BARAT | 15 JAWA TIMUR | 26 SULAWESI TENGAH |
| 5 JAMBI | 16 BALI | 27 SULAWESI BARAT |
| 6 BENGKULU | 17 NUSA TENGGARA BARAT | 28 SULAWESI SELATAN |
| 7 SUMATERA SELATAN | 18 NUSA TENGGARA TIMUR | 29 SULAWESI TENGGARA |
| 8 LAMPUNG | 19 RIAU KEPULAUAN | 30 MALUKU UTARA |
| 9 BANGKA-BELITUNG | 20 KALIMANTAN BARAT | 31 MALUKU |
| 10 BANTEN | 21 KALIMANTAN TENGAH | 32 IRIAN JAYA BARAT |
| 11 D.K.I. JAKARTA | 22 KALIMANTAN SELATAN | 33 PAPUA (IRIAN JAYA) |