WORLD BANK GROUP

Indonesia
Country Partnership Framework
FY2016-2020

The Performance and Learning Review

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INDONESIA
COUNTRY PARTNERSHIP FRAMEWORK
FY 2016 - 2020

The Performance and Learning Review

WORLD BANK GROUP

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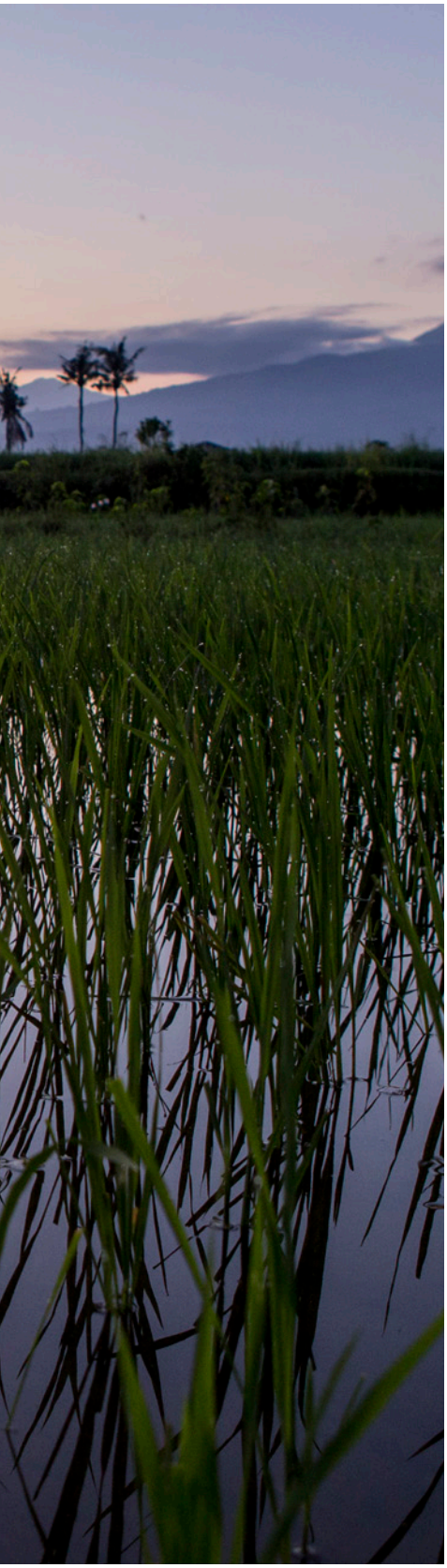
WBG GOALS

End Extreme Poverty by 2030

By reducing the share of the global population living on less than $1.90 a day

Boost Shared Prosperity

By increasing the incomes of the poorest 40 percent of people in every country



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Abbreviations

ADB	Asian Development Bank
AFD	French Development Bank (*Agence Française de Développement*)
AIIB	Asian Infrastructure Investment Bank
ASA	Advisory Services and Analytics
ASEAN	Association of Southeast Asian Nations
APBN	National Budget (*Anggaran Pendapatan and Belanja Negara*)
BAPPENAS	Ministry of National Development Planning (*Badan Perencanaan Pembangunan Nasional*)
BEPS	Base Erosion and Profit Shifting
BI	Indonesia's Central Bank (*Bank Indonesia*)
CIF	Climate Investment Funds
CMEA	Coordinating Ministry for Economic Affairs
COD	Commercial Operation Date
COP	Conference of the Parties
CPF	Country Partnership Framework
CPPR	Country Portfolio and Performance Review
CSO	Civil Society Organization
CTF	Climate Technology Funding
DAK	Specific Purpose Grants (*Dana Alokasi Khusus*)
DFAT	Australian Department of Foreign Affairs and Trade
DGM	Dedicated Grant Mechanism
DNI	Negative Investment List (*Daftar Negatif Investasi*)
DOISP	Dam Operational Improvement and Safety Project
DPL/DPF	Development Policy Loan/Financing
DPO	Development Policy Operation
E&S	Environmental and Social
ECA	Export Credit Agency
EDGE	Excellence in Design for Greater Efficiencies
EFC	Error, Fraud, and Corruption
ENV	Environment and Natural Resources
FDI	Foreign Direct Investment
FIP	Forest Investment Program
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
GoI	Government of Indonesia
GP	Global Practice
GSURR	Agriculture, Social, Urban, Rural, and Resilience
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IsDB	Islamic Development Bank
IFC	International Finance Corporation
IIFF	Indonesia Infrastructure Finance Facility
IIGF	Indonesia Infrastructure Guarantee Fund
IPF	Investment Project Financing
IPP	Independent Power Producer
ISR	Implementation Status and Results Report
ITMP	Integrated Tourism Master Plan
KfW	German Development Bank (*Kreditanstalt für Wiederaufbau*)
KUR	Credit for Business Program (*Kredit Usaha Rakyat*)
LKPP	National Procurement Agency (*Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah*)
MCA-I	Millennium Challenge Account-Indonesia

MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MMAF	Ministry of Marine Affairs and Fisheries
MNC	Multinational Corporation
MoF	Ministry of Finance
MoSA	Ministry of Social Affairs
MSMEs	Micro, Small, and Medium Enterprises
NBFI	Nonbanking Financial Institution
NHFO	Non-Honoring of Financial Obligation
NSUP	National Slum Upgrading Program
OECD	Organisation for Economic Co-operation and Development
PAD	Project Appraisal Document
PAMSIMAS	Water Supply and Sanitation for Low Income Communities Project
PCG	Partial Credit Guarantee
PDAM	Local Government-owned Water Utility (*Perusahaan Daerah Air Minum*)
PDO	Project Development Objective
PEFA	Public Expenditure Financial Accountability
PELINDO	Indonesia Port Corporation *(PT. Pelabuhan Indonesia)*
PERISAI	Program for Economic Resilience, Investment and Social Assistance
PFM	Public Financial Management
PforR	Program for Results
PIU	Program Implementation Unit
PKH	Conditional Cash Transfer Program (*Program Keluarga Harapan*)
PLN	State-Owned Electricity Utility (*Perusahaan Listrik Negara*)
PLR	Performance and Learning Review
PMU	Performance Management Unit
PNPM	National Program for Communities Empowerment (*Program Nasional Pemberdayaan Masyarakat*)
PRI	Political Risk Insurance
PPP	Public-Private Partnership
Puskesmas	Public Primary Health Facility (*Pusat Kesehatan Masyarakat*)
QSDS	Quantitative Service Delivery Survey
REDD+	Program to Reduce Emissions from Deforestation and Degradation
RPJMN	National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional*)
SCD	Systematic Country Diagnostic
SHS	Solar Home Systems
SIAP	Slum Improvement Action Plan
SJSN	Health Insurance-National Social Security System *(Sistem Jaminan Sosial Nasional)*
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
SPPB	Special Private Placement Bond
SRAS	Stunting Reduction Acceleration Strategy
Susenas	National Socio-Economic Survey *(Survei Sosial Ekonomi Nasional)*
UHC	Universal Health Coverage
USAID	U.S. Agency for International Development
VAT	Value Added Tax
WBG	World Bank Group
WISMP	Water Resources and Irrigation Sector Management Program
YOY	Year-over-Year
$	The United States Dollar


JAYA

CHAPTER 1

Introduction

This Performance and Learning Review (PLR) assesses progress to date on the implementation of the World Bank Group Country Partnership Framework (CPF) for the Republic of Indonesia, discussed by the Board of Executive Directors in December 2015. The CPF is firmly anchored in the pathways identified by the Systematic Country Diagnostic (SCD)[1] to address constraints to eliminating poverty and boosting shared prosperity and aligned with the government's own priorities. It puts forth an ambitious five-year program focused on six engagement areas: Engagement Area 1: Infrastructure Platforms at the National Level, Engagement Area 2: Sustainable Energy and Universal Access, Engagement Area 3: Maritime Economy and Connectivity, Engagement Area 4: Delivery of Local Services and Infrastructure, Engagement Area 5: Sustainable Landscape Management, and Engagement Area 6: Collecting More and Spending Better. Two supporting beams: Supporting Beam 1: Leveraging the Private Sector - Investment, Business Climate and Functioning of Markets, and Supporting Beam 2: Shared Prosperity, Equality, and Inclusion help provide the necessary underpinnings for efficient and effective delivery of the engagement areas. This PLR introduces changes to the CPF program in response to the evolving country context, implementation experience, and lessons learned to date.

The implementation of the CPF program is on track to achieve the ambitious objectives identified in the CPF, despite some delays and changing circumstances that necessitate revisions. Of the 18 objectives identified in the CPF Results Framework, 1 has been achieved, 14 are on track to be achieved by the end of the CPF period and 3 have been revised including being dropped or merged. Over the first 3 years of the CPF implementation, the World Bank Group has delivered a strong and diversified program, consistent in size and scope of that envisaged in the CPF. A defining feature of the World Bank Group Indonesia program is the strong efforts at delivering multisectoral development solutions, which has resulted in robust cross-Global Practice (GP) and 'One World Bank Group' collaborations. The breadth and depth of the World Bank Group's engagement and the successful implementation of the CPF would not be possible without the World Bank Group's continued strong partnership with bilateral and multilateral partners. Proactive portfolio management efforts over the CPF implementation period have led to improved portfolio performance, resulting in an IBRD portfolio that is generally healthy and has shown marked improvement in disbursement, proactivity, and risk since the end of FY15.

The CPF remains an effective framework for collaboration and engagement with the government and while the PLR confirms the relevance of the six engagement areas and two supporting beams, small adjustments have been made to the program. The adjustments reflect increased priority and demand for human capital development and maximizing finance for infrastructure development and improved focus on implementation through national programs and performance-based lending, as well as political economy constraints in certain sectors related to the environment, as compared with the situation at CPF preparation.

1 Systematic Country Diagnostic: Connecting the Bottom 40 Percent to the Prosperity Generation, 2015.


ALUR PELAYANAN

CHAPTER 2

Main Changes in Country Context

Changes to Poverty Reduction and Shared Prosperity

Indonesia continues to make progress on reducing poverty, with poverty rate falling to a single digit for the first time in 2018. In March 2015, Indonesia's poverty rate was 11.2 percent, and since then it gradually dropped to 10.9 percent in 2016, 10.6 percent in 2017 and 9.8 percent in March 2018. The poverty headcount also fell from 28.6 million people to 26.0 million people over the same period. The reduction during the last year was the largest year-on-year (yoy) decline since March 2011. This is partly the result of the recent expansion in social assistance programs which contributed to helping lower chronic poverty and also due to buoyant labor market conditions with employment rate reaching a two-decade high of 65.7 percent in February 2018, matched by falling unemployment rate to an 18-year low of 5.1 percent.

Table 1
Share of National Consumption, Percentage

Period	Bottom 40	Middle 40	Top 20
March 2016	17.1	34.7	48.2
March 2017	17.1	36.5	46.4
March 2018	17.3	36.6	46.1
Δ 2016–2018	+0.2	+1.9	-2.1

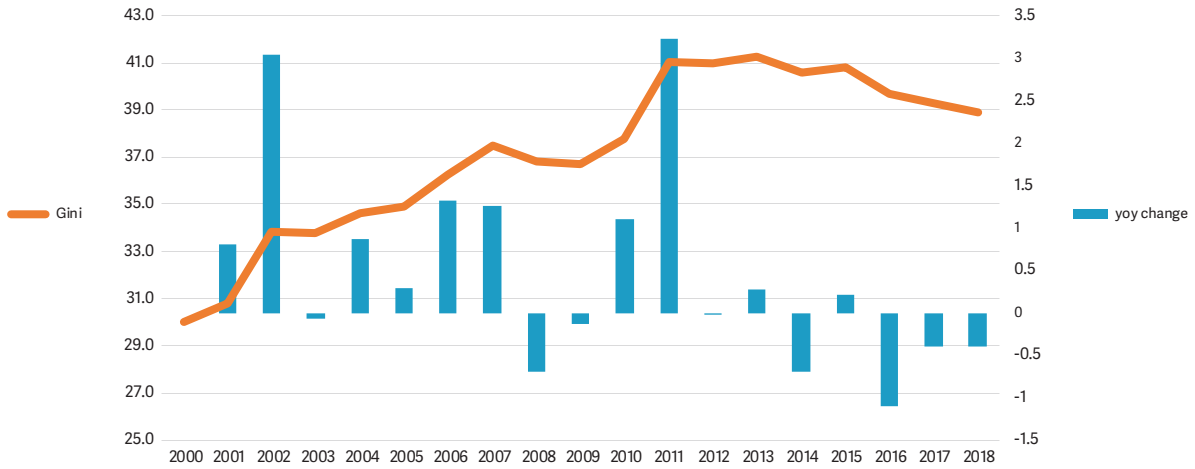
Source: SUSENAS

Inequality has begun to come down after several years of near stagnation, driven by improvements in the bottom and middle 40 percent. Following a long period of increase between 2000 and 2011, the Gini coefficient for consumption—a common measure of inequality in Indonesia—declined from its peak at 41 in 2014 to 38.9 in 2018 (see Figure 1). The reduction in the Gini was driven by improvements in the bottom 40 percent of the distribution (Quintiles 1 and 2) and the middle 40 percent (Quintiles 3 and 4). The national consumption share of the bottom 40 percent and the middle 40 percent strengthened by 0.2 percentage points and 1.9 percentage points respectively, at the expense of the top 20 percent (Quintile 5) (see Table 1). Providing equal opportunities for all Indonesians, enabling access to more and better jobs for all, building resilience to shocks, and making fiscal policy more inclusive will help Indonesia achieve its medium-term development plan goal of reducing the Gini coefficient to 36 by 2019.

Despite this progress, over one in five Indonesians remains vulnerable to poverty and two in five Indonesians lack the economic security to become a part of Indonesia's quickly growing middle class.[2] Indonesia's middle class—defined as the group with sufficient economic security to be at minimal risk of being vulnerable to falling into poverty—has grown from about 7 percent of the population in 2002 to 20 percent in 2016 (see Figure 2). This 10 percent compound annual growth rate over the period makes the middle class the

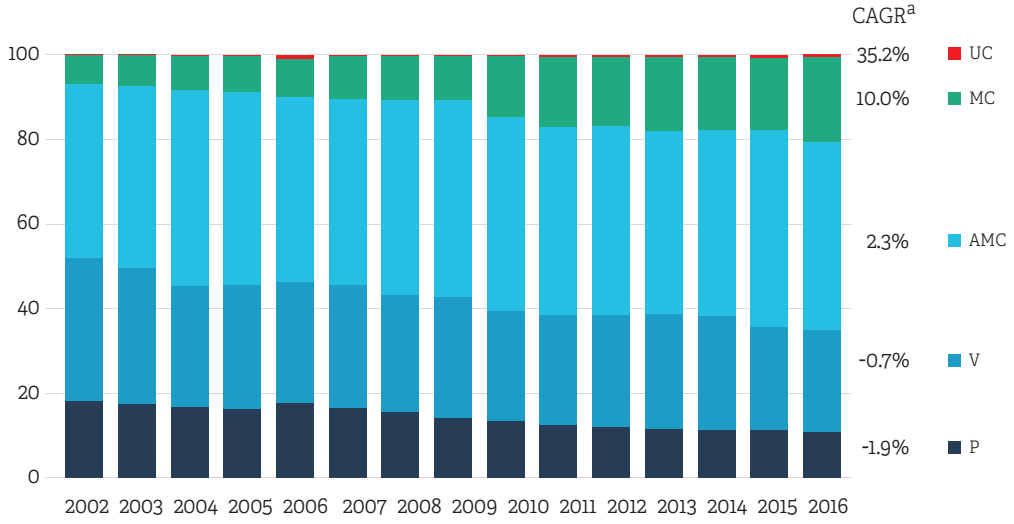
2 The World Bank. 2018. Aspiring Indonesia: Expanding the Middle Class, forthcoming.

Figure 1
Gini Coefficient, Points; Change in Gini, Points



Source: SUSENAS
Note: YOY = year-over-year. Data for recent years (2011-2018) are based on March SUSENAS survey

Figure 2
Consumption Distribution by Class, 2002–2016 (Percentage of Population)



Source: Susenas and the World Bank calculations; see 'Aspiring Indonesia: Expanding the Middle Class' 2018 for definitions and so on.
Note: a. CAGR is compound annual growth rate from 2002 to 2016. The class categories are poor (P), vulnerable (V), aspiring middle class (AMC), middle class (MC), and upper class (UC).

fastest growing major segment of the population, with the exception of the upper class, who grew at a higher rate albeit from a significantly lower base. Yet, two in five Indonesians remain in the aspiring middle-class group, and one in five remains directly vulnerable to falling into poverty. Translating the success in reducing poverty over the last two decades to building a large and vibrant middle class is a crucial frontier for Indonesia's aspirations to become a high-income country. This calls for policies to address entrenched pockets of chronic poverty, as well as policies to help those who make it out of poverty protect their gains and become increasingly productive as they engage in and contribute to the economy.

Indonesia's fast-growing urbanization is another important frontier for the next generation of policies to reduce poverty and build shared prosperity. Despite the faster pace of poverty reduction in recent years, rural poverty, at 13.2 percent in March 2018, remains higher than urban poverty (7.0 percent). However, this may change in the near future. Indonesia's urban population has grown from 17 percent in 1970 to 54 percent in 2016, making it one of the fastest urbanizing countries in the world. Population projections show that 58 percent of Indonesia's poor will reside in urban areas by 2025. However, Indonesia has not been able to benefit from urbanization as well as other countries in the region. Successfully harnessing the agglomeration benefits of urbanization while keeping to a minimum the negative spillovers such as congestion, pollution, and disaster vulnerability brought on by uncontrolled development in hazardous areas, will help Indonesia sustain and deepen its success in reducing poverty and boosting shared prosperity.

Human capital investments are critical for Indonesia to sustain growth and accelerate poverty reduction. Despite significant spending and improvements in access to health and education, Indonesia continues to lag peers in the quality of service delivery and human capital outcomes. Stunting is one of the most urgent public policy challenges and learning in schools is among the lowest in East Asia. Improving the efficiency of spending and impacts of investments in health, education, social protection, and skills development are high on Indonesia's development agenda and will be key to ensuring that the 2 million new entrants to the labor force every year contribute to Indonesia's future growth.

Translating the success in reducing poverty over the last two decades to building a large and vibrant middle class is a crucial frontier for Indonesia's aspirations to becoming a high-income country

Changes in Key Macroeconomic and Debt Developments

Economic fundamentals and the macroeconomic policy framework have been substantially strengthened since 2013. Economic growth has been averaging just above 5 percent YOY since 2016, and the current account deficit has narrowed to a six-year low of 1.7 percent of gross domestic product (GDP) in 2017 and 2.3 percent in H2 2018, from 2.9 percent in 2013. The continued recovery of commodity prices, particularly coal, has gradually lifted Indonesia's terms of trade. Inflation has remained within the Bank Indonesia (BI) target of 3–5 percent, compared to 5.2 percent in 2013. Fiscal policy has become more effective – with fuel subsidy spending reallocated to infrastructure – while credibility has been enhanced, with the 2018 budget not being revised. Reflecting improved macroeconomic fundamentals, Standard and Poor's upgraded Indonesia's sovereign bond rating to an investment grade in May 2017, while Fitch and the Japan Credit Rating Agency instituted similar upgrades in December 2017 and February 2018, respectively. Indonesia is now rated investment-grade by all major international credit rating agencies. See Annex 3 for more on Indonesia's Key Macroeconomic Indicators.

Indonesia's economic growth in the past two years has sustained its momentum, supported by sound private consumption, stronger investment, and rebound in the external sector. Real GDP growth has stood at an average of 5.1 percent yoy since 2015. While relatively robust, it is lower than that recorded at the beginning of the decade, as the economy continues to adjust to lower global commodity prices within a consistent macroeconomic framework – for example, credit growth has been modest (6.6 percent in 2018), and the exchange rate was not allowed to appreciate in 2017 despite pressures from capital inflows.

The growth outlook remains solid, with GDP growth projected to reach an average of 5.3 percent over the medium term. Underlying the modest pickup in growth is strengthening domestic demand that lifted the momentum in investment growth, supportive commodity prices, and a strong labor market. Net exports, however, will be a drag on economic growth as growth in major trading partners slows and imports of capital goods pick up along with investment.

Private consumption growth has been steady at around 5 percent yoy for the past 3 years and will continue to underlie overall growth. Strong labor market – as evidenced by the employment rate reaching its highest record level – low and stable inflation, and growth in agriculture and mining have supported consumption growth.

Inflation eased after 2015 and reached a record low in 2016, before increasing modestly in 2017, on the back of electricity tariff increases. Inflation averaged at 3.5 percent yoy in 2016, mostly due to stable rice prices and fuel prices. In 2017, headline inflation was up to 3.8 percent, mostly due to electricity tariff hikes in January, March, and May. However, the continued easing in food price inflation, which declined to 2.1 percent in 2017 from 6.7 percent in 2016, partly offset the effect of electricity tariff hikes, keeping annual inflation close to the lower bound of BI's target inflation range of 3–5 percent.

Investment growth has been robust and accelerated in recent quarters along with higher commodity prices. Gross fixed capital formation in Q2 2018 reached 9 percent yoy despite a slowdown in construction investment, partly due to the timing of the Eid al-Fitr holidays. The momentum in investment growth has been supported by commodity prices, the government's infrastructure push, and some improvements in the investment climate, such as the reduction in sectoral coverage of the Negative Investment List (DNI) restrictions between 2014 and 2016. Foreign direct investment (FDI) also recorded the largest net inflow in more than seven years in Q3 2017, though it is still lower as a share of GDP than many regional peers in line with Indonesia's high degree of FDI restrictiveness.

Export and import growth have rebounded as commodity prices continue to recover and global trade is firming. Export volumes grew 7.7 percent yoy and import volumes grew 15.2 percent in Q2 2018. The recovery in commodity prices lifted Indonesia's terms of trade through the six key commodities, crude oil, crude palm oil, rubber, coal, base metals, and liquefied natural gas. The turnaround in exports started in late 2016, and was mainly driven by higher external demand for coal, palm oil, processed commodities, and manufactured products such as vehicles, and rubber and chemical products. The turnaround in imports similarly started at the end of 2016, and was driven by non-oil and gas goods, especially raw materials and capital goods.

Indonesia's external position has generally strengthened since 2013, despite an investment-driven widening of the current account deficit in 2018. In 2017, the current account narrowed, and portfolio flows picked up. The narrowing current account deficit from 2.9 percent in 2013 to 2.0 percent of GDP in 2015 and 1.7 percent of GDP in 2017 was driven by larger trade surplus; similarly, the increase in the deficit in H1 2018 was driven by a smaller trade surplus, largely due to higher imports of capital and intermediate goods, but also reflecting the Indonesia's challenges in boosting exports in line with stronger global demand. The financial account surplus widened in 2017 to 2.9 percent of GDP, from 1.1 percent in 2015, due to significant inflows both in the FDI and portfolio investment, particularly on government bonds. Given the narrower current account and higher financial surplus, BI accumulated reserves, preventing excessive currency appreciation. External debt is low at 35 percent of GDP. External debt of the nonfinancial private sector is 15 percent of GDP, and since 2014 corporates are required to hedge a significant portion of the maturing foreign currency debt.

The efficiency and credibility of fiscal policy have improved. In 2017, fiscal performance was strong, with higher revenue collection mainly from value added taxes and oil and gas-related revenues. Expenditure outturns in 2017 also continued to reflect improved quality of spending with higher material, capital, and social spending, while subsidy spending continued to decline, in line with electricity tariff hikes. There has been no revision to the 2018 budget, reflecting improved credibility of the budget process.

Prices of Indonesian assets have been under pressure in Q2 and Q3 of 2018 due to external volatility. As the Fed has been raising interest rates and as 'trade wars' and fears of contagion from more vulnerable emerging markets increase uncertainty, portfolio flows have declined. Given Indonesia's low structural levels of FDI, which have been insufficient to cover the widening current account deficit, as well as its shallow financial markets, capital flow pressures have led to currency depreciation (about 10 percent year-to-date), reserve depletion (though reserves remain above the International Monetary Fund's adequacy requirements), and higher bond yields. The performance of Indonesia's stock prices and currency has been in line with other emerging markets, however, reflecting the strong and coordinated policy response by the authorities.

The strengthened macroeconomic policy framework provides a buffer to external pressures. Indonesia's macroeconomic policy framework has been strengthened when compared to the periods of the Taper Tantrum and the Asian Financial Crisis (see Table 2). Coming off from a record high at the beginning of the year, foreign reserves remain at a healthy 8.7 months' worth of imports. Despite intervening to minimize volatility, BI has been conserving reserves by allowing market-driven depreciation rather than defending the currency at a fixed exchange rate as it did in 1997. Monetary policy has also been tightened to maintain interest rate differentials with the United States to tame capital outflows. Likewise, fiscal policy has been prudent; deficits and debt levels remain low and have come down in 2018. Government debt is at less than half of the legal threshold of 60 percent GDP, of which 57 percent is denominated in local currency. At the same time, the banking and financial sector remains sound; credit growth is increasing but is not rampant, and banks are well capitalized with few non-performing loans. Macroprudential regulations implemented since 2013 have reduced risks of corporate balance sheet stress. Moreover, the government has access to about $ 250 billion in reserves and various bilateral and multilateral credit lines, about 10 times the annual current account deficit.

The authorities' commitment to stability enhances resilience to capital flow volatility, but policy tightening may dampen growth. Policy rates have increased by 125 bps this year despite on-target inflation and the budget deficit is declining in 2018 and 2019. Currency depreciation has been orderly and will support adjustment of the current account. As economic conditions and inflation in the United States continue to strengthen, U.S. monetary policy normalization may not only proceed but perhaps even accelerate. There is therefore a risk that pressures from capital outflows could intensify. In the face of accelerated capital outflows, the government is likely to further tighten both monetary and fiscal policy to stem the outflows, weighing on growth in the immediate and medium-term.

Recent measures aimed at restricting imports may also weigh on potential growth. To ease imports and therefore slow the widening current account deficit, the government has implemented measures that include sequencing infrastructure projects to reduce related capital goods imports, increasing withholding taxes on imports of consumer goods, and implementing import-substituting measures. Given the significant infrastructure gap in the country, these measures may have the unintended effects of weighing on potential growth and rendering longer-term consequences for the economy. Increasing tariffs on consumer goods could also lead to higher inflation, weighing on private consumption.

Table 2
Comparison of selected macroeconomic indicators, Indonesia Then and Now

	September 2018	Taper Tantrum (2013)	Asian Financial Crisis (1998)
GDP growth (% YOY)	5.1	6.0	7.9
Credit growth (% YOY)	8.7	23.5	..
Current Account Deficit (% of GDP)	-2.3	-3.0	-2.7
Reserves (months of goods imports)	8.7	6.9	..
External Debt (% GDP)	33.0	32.9	62.1
Inflation (% YOY)	3.4	4.2	5.2

Source: BPS, BI through CEIC; IIF
Note: Taper tantrum period started in May 2013 while Asian Financial Crisis period started in July 1997. Monthly variables: Credit growth, reserves, inflation (using 12-month average prior to the onset of the event). Quarterly variables: GDP growth, Current Account Deficit (using 4 quarter average prior to the onset of the event). Yearly variables: Fiscal balance, external debt (using a 1-year figure prior to the onset of the event). Reserves is computed as in Reserves in year t / Goods Imports in year t+1. Official reserve assets that include foreign currency reserves, IMF reserves position, Special drawing rights, Gold and other reserve assets.

Political Environment

Indonesia anticipates a dynamic election period, with parliamentary and presidential elections scheduled for April 2019. The Jakarta gubernatorial elections were held in February and April of 2017, following what was defined as one of the most polarizing election campaigns between incumbent interim governor Basuki Purnama (known as Ahok) and former Education Minister Anies Baswedan. The lead up to the elections and the subsequent ousting of Ahok, who would have become the first elected Chinese-Christian governor had he won, highlighted the profile of religious conservative groups and raised questions about the role of religion in politics in Indonesia. The regional elections where half of Indonesia's 34 provinces, 115 districts, and 39 cities went to polls simultaneously on June 27, 2018, offers insights into the extent to which conservative groups are able to influence Presidential election outcomes in April 2019, where President Joko Widodo (Jokowi) will seek a second term.

President Jokowi continues to enjoy popular support in the midst of a favorable external environment and well-earned macroeconomic stability. Several important reforms were undertaken by the Jokowi government, including reduction of energy subsidies, the moratorium on peatland development, refocus of government spending to social sectors, and a series of economic policy packages to encourage private sector participation and foreign investment. However, there has been slower progress in other areas including improving investment climate, accelerating institutional reform, enhancing governance, and fighting corruption—issues that Jokowi promoted during his campaign and first term in the office but are likely to remain difficult to tackle, especially during the campaign season leading up to the elections. Policies continued to be aligned with the World Bank Group's twin goals with a continuing focus on increasing growth addressing inequality and reducing poverty. Human capital development has come more strongly into focus with the promotion of noncash food assistance, cash-for-work programs, and price controls, as well as vocational education and training.

Government policies continued to be aligned with the World Bank Group's twin goals with a continuing focus on increasing growth addressing inequality and reducing poverty

CHAPTER 3

Summary of Program Implementation

Portfolio Performance

Over the first 3 years of the CPF implementation, the World Bank Group has delivered a strong and diversified program. Total IBRD approvals under the CPF until June of 2018 amounted to $5.2 billion corresponding to 18 new lending operations including the first World Bank project to be co-financed by Asian Infrastructure Investment Bank (AIIB), Indonesia's first Program for Results (PforR) operation, and the World Bank's first direct lending operation to an Indonesian state-owned enterprise (SOE). This is consistent with the CPF that envisaged IBRD lending of approximately $7.5 billion over the CPF period and brought the active portfolio[3] to $6.3 billion as of June 2018. During the same period, International Finance Corporation (IFC) Long-Term Fund (LTF) commitments amounted to $1.2 billion (including core mobilization of $704 million) bringing the committed investment portfolio to $1.84 billion as of June 30, 2018. In terms of knowledge products and technical assistance (TA), the World Bank Group presented to the government and the public a significant number of analytical reports, for example, Indonesia's Urbanization Story (2016), Social Assistance Public Expenditure Review (2017), Aspiring Indonesia: Expanding the Middle Class (2018), and Is Indonesia Ready to Serve? An Analysis of Indonesia's Primary Healthcare Supply Side Readiness (2018), and is supporting the government's ambitious reform efforts through TA in a wide range of sectors, including sustainable urbanization, worker protection, education, financial inclusion, public financial management, sustainable landscapes, and food policy. A vibrant and robust policy dialogue is firmly anchored in the broad scope of Advisory Services and Analytics (ASA) that the World Bank Group produces. IFC's engagement in knowledge products through Advisory Services comprises 16 projects and $35.2 million in funds under management.

The IBRD portfolio is generally healthy and performance has been steady with marked improvement in risk as compared with the end of FY15. As of June 2018, the portfolio consisted of 33 projects, including 28 loans and 7 trust funded grants (amounting to $350 million), with total commitment of $6.3 billion, of which $3.6 billion remains undisbursed. Portfolio risk at the end of FY15 was about 30 percent of projects and commitments at risk. The portfolio has since improved with only 15 percent of the projects at risk and 17 percent of the commitments at risk at the end of FY18. The disbursement ratio has increased since the end of FY15 from 15 percent to 18.3 percent at the end of FY18, peaking at 22.5 percent at the end of FY17. Proactivity has been steady at around 50 percent though it peaked at 83 percent at the end of FY17.

Proactive portfolio management efforts over the CPF implementation period have resulted in improved portfolio performance. The World Bank Group actively engaged counterparts, with the Country Director raising issues that could not be resolved at the team level to the ministerial level when appropriate, to improve project preparation and remove implementation bottlenecks. Regular monitoring of portfolio risk and disbursement performance and deploying country management unit staff to work alongside task teams to proactively manage (including restructuring) difficult projects has borne

3 Commitments including Development Policy and PforR operations less cancellations.

fruit. However, some systemic issues continue to be a challenge, in particular the reluctance of some parts of government to abide by: The World Bank Procurement Guidelines and the World Bank's advice on the correct application of its procurement procedures in favor of national procurement regulations. Thankfully, in the most recent Country Portfolio Performance Review exercise (August 2018), the government announced the passage of a new regulation that clarifies that the loan agreement is the controlling document for the purposes of procurement, and as such government officials must use the World Bank Procurement Guidelines in implementing the World Bank operations. In addition, weak capacity in financial management and social safeguards, and delay in provisioning counterpart financing have been observed.

The breadth and scope of the ASA has helped define the strategic focus of the World Bank Group's support, anchored the robust policy dialogue with government, and contributed to the design of proposed operations. The Nutrition ASA and 'The Cost of Fire' flagship report are good examples. Responding to Indonesia's 37.2 percent children stunting rate that is the fifth highest in the world, the World Bank developed a multisectoral framework ASA across six sectors to engage the highest levels of government. TA included analytics and diagnostics, as well as a knowledge exchange trip to learn from Peru's experience. Working closely with the World Bank, the government launched a National Stunting Reduction Acceleration Strategy (SRAS) in 2017 and an accompanying government coordination mechanism that includes participants from 16 government ministries. The implementation of the government's strategy is supported by a $400 million PforR operation. The flagship 'The Cost of Fire' provided an unprecedented economic analysis of Indonesia's 2015 forest fire crisis, which is estimated to cost $16.1 billion (2 percent of GDP). The findings were widely quoted by national and international media and facilitated a sensitive yet crucial dialogue on environmental and economic cost of these fires, leading to important policy changes such as the moratorium on peatland development and the government's Grand Design for the Prevention of Forest, Land, and Plantation Fire involving dozens of ministries, agencies, and local governments.

Over the first 3 years of the CPF implementation, the World Bank Group has delivered a strong and diversified program. The IBRD portfolio is generally healthy and performance has been steady with marked improvement in risk and IFC's portfolio has expanded over the last three years.

A defining feature of the World Bank Group Indonesia program is the strong efforts at delivering multisectoral development solutions, which has resulted in robust cross-Global Practice (GP) and 'One World Bank Group' collaborations. For example, the sustainable landscapes program is led by the Environment and Natural Resources (ENV) GP but includes colleagues from Agriculture, Social, Urban, Rural, and Resilience (GSURR) and Water GPs as well as IFC working together to bring knowledge and technical expertise from across sectors to support the government in addressing its complex, multisectoral sustainable landscapes challenges. The Nutrition Programmatic ASA is supported by five GPs and the related Investing in Nutrition in Early Years PforR operation is co-led by the GSURR and Health GPs and supported by an additional four GPs. The Infrastructure Sector Assessment Program (InfraSAP) is a 'One World Bank Group' product led by the World Bank but with active participation from the Multilateral Investment Guarantee Agency (MIGA) and IFC. The Tourism Development Project is led by the joint WBG Finance, Competitiveness, and Innovation GP and is supported by the Transport and Digital Development, ENV, GSURR, Water, Education, MTI, and Governance GPs.

IFC's portfolio has expanded over the last three years. New IFC engagements during the first three years of the CPF period ending June 30, 2018 amounted to $1.2 billion LTF commitment in 18 projects. Total committed LTF investment portfolio stood at $1.8 billion (own account plus core mobilization) in 28 clients as of June 2018 largely in financial markets, chemicals, and power sectors. Since the start of the CPF period, the appetite for equity, loans, guarantees, and mobilization has remained robust. In line with the CPF objectives, IFC has recently sharpened its focus by clustering its interventions into three key areas: inclusion, economic growth and sustainability. This approach should help diversify IFC's portfolio, further crowd in private sector funding and create markets. From its first investment in 1971 to June 2018, IFC has invested $7.7 billion in Indonesia (of which $4.6 billion for its own account) in over 200 projects. In the last 12 years, total IFC's LTF investment commitment is $5.1 billion ($2.8 billion was on own account-OA). Most of the commitments have been in the financial sector and in the Manufacturing, Agribusiness, and Services (MAS) cluster. IFC's Advisory portfolio stood at $35.2 million (funds under management) with 16 projects across various themes and sectors including sustainable agribusiness and forestry, infrastructure PPP, green buildings, ease of doing business, and financial sector, especially microfinance.

MIGA is currently supporting one project in Indonesia. MIGA currently has $200 million of outstanding exposure in Indonesia for the Rajamandala 47 MW hydropower project near Bandung (FY15). MIGA's guarantees, which cover the offtake obligations of state-owned electricity utility (*Perusahaan Listrik Negara*, PLN), helped catalyze additional stand-alone Export Credit Agency (ECA) financing support for PLN, thereby effecting the principle of maximizing financing for sustainable development. MIGA continues to capitalize on collaboration with the World Bank and IFC in Indonesia to deliver more private sector-driven solutions aimed at the government's priority development agenda, including identifying suitable opportunities to apply MIGA's Non-Honoring of Financial Obligation (NHFO) credit enhancement solution to support interest rate and cross-currency swap financing facilities for key government-backed financial entities such as Indonesia EXIM Bank.

Evolution of Partnerships and Leveraging

The Indonesia program has maintained its tradition of working with development partners by collaborating in policy dialogue, mobilizing bilateral and global financing and expertise to enhance and leverage traditional the World Bank Group products and pilot innovative development solutions during this CPF period. The $5.2 billion in IBRD financing approved since the start of the CPF period is supporting the execution of $32.2 billion in government financing, and has leveraged $3.2 billion in financing from other development partners and is expected to leverage an additional $2.2 billion from the private sector. The Platform Approach and Maximizing Finance for Development (MFD) are core principles of the CPF and how they have been applied is described in the following paragraphs.

Platform Approach. Specifically, the CPF provides under Engagement Area 1: Infrastructure Platforms at the National Level that the World Bank Group would work in sectors where it could have impact through 'platforms' in partnership with the government, development partners, and, where possible, the private sector to reach scale and achieve systemic impact. IBRD resources leverage government and development partner funding, in support of programs owned and led by the government. The programmatic engagement permits the World Bank Group to help Indonesia address its capacity challenges, particularly with regard to planning, budgeting, coordination, and implementation. All partners follow the same implementation arrangements, safeguards, and fiduciary requirements, avoiding redundant or contradictory interventions and reducing transactions costs for the government.

Through this Platform Approach, the World Bank is increasing development financing available to the government and improving the quality of public expenditure. However, the approach increases portfolio risk given the scale of these operations. The National Slum Upgrading Project, approved in FY16, is the first

World Bank project co-financed with AIIB and is an excellent example of the application of the platform approach. The project was financed in parallel by Islamic Development Bank (IsDB) and the Asian Development Bank (ADB) with the Australian Department of Foreign Affairs and Trade (DFAT) providing trust fund (TF) resources for TA and implementation support. The $216.5 million of IBRD financing leverages a program of $2.1 billion. Throughout CPF implementation, the Platform Approach has been scaled up across the program moving beyond a limited application to infrastructure and is now considered a core principle of the CPF, although it may be too early to draw credible lessons from implementation. The Social Assistance Reform Program is a good non-infrastructure example where $200 million of IBRD financing supports improvements in delivery systems, capacity, and quality of spending of the government's flagship $5.4 billion conditional cash transfer program (PKH). The PLR describes the traction gained from this engagement approach and outlines the corresponding risks.

Maximizing Finance for Development (MFD). MFD is about prioritizing private sector solutions and optimizing the use of scarce public resources in a way that is fiscally, environmentally, and socially sustainable. Indonesia is the World Bank Group MFD pilot country. To help operationalize MFD more fully, the World Bank Group team has prepared an InfraSAP that is a structured diagnostic that will inform how the government could improve infrastructure access and performance. It is focused on advising the government on how to leverage private sector solutions for infrastructure. Indonesia's InfraSAP covers four sectors: energy, transport, water supply, and urban development. It assesses four cross-cutting issues: the role of SOEs; project preparation, fiscal instruments and institutions to support public-private partnerships (PPPs); legal and regulatory framework for PPPs; and the financing landscape, including commercial banking, and capital market development. Deliverables during the CPF period and before the initiation of the InfraSAP have had an MFD orientation, including, for example, the $450 million Affordable Housing Project, part of the government's $1.1 billion public financing program that will leverage $1–1.5 billion in commercial and private mortgage finance. A proposed the World Bank Group Engagement Strategy has been prepared as a companion to the InfraSAP, which will be used to enhance the MFD focus of the FY19 and FY20 pipeline. It will serve as a basis for advisory services that address binding constraints to private sector engagement and for downstream projects that will crowd in private sector solutions. Such projects can be supported by the World Bank and/or IFC investments as well as IFC and MIGA risk mitigation instruments.

The breadth and depth of the World Bank Group's engagement and the successful implementation of the CPF would not be possible without the World Bank Group's continued strong partnership with bilateral and multilateral partners. Throughout the CPF period, the World Bank has collaborated with other development partners in policy dialogue and providing financial support for the implementation of government programs. In addition, to multiple co-financings with AIIB supporting slum upgrading, dam rehabilitation, regional infrastructure development and irrigation, the Sustainable and Inclusive Energy Development Policy Operation (DPO) was financed in parallel by ADB and French Development Bank (*Agence France de Development*, AFD) and the Maritime Logistics and Connectivity DPO was financed in parallel by the German government-owned development bank, *Kreditanstalt für Wiederaufbau* (KFW), among others.

TFs to which development partners contribute, are indispensable for the delivery of the Indonesia program and to promote development partner collaboration. TFs support project preparation, implementation support, ASA, as well as the implementation of critical pilots. As of end June 2018, the Indonesia TF portfolio consisted of 17 country specific TFs and grants from 35 global/corporate TF with combined contributions of $1 billion. Global climate TFs (such as BioCarbon Fund, Forest Investment Fund, Forest Carbon Partnership Facility, Dedicated Grant Mechanism [DGM], Global Environment Fund, and so on), for example, facilitate the World Bank's engagement and provide entry points in a sector that has long been reluctant to embrace lending. These funds allow the World Bank to provide strategic analytical and advisory support, as well as grant support, that helps the government navigate complex environmental and political economy challenges in an informed and flexible manner. Country-specific TFs account for $750 million or 74 percent of the total contributions and were raised from 10 active donors including Australia, the U.S. Agency for International Development (USAID), Millennium Challenge Account-Indonesia (MCA-I),

Switzerland, Canada, Norway, European Commission, the Netherlands, Denmark, and New Zealand. TFs are fully aligned with government and CPF priorities in core engagement areas of infrastructure, social development, service delivery, sustainable landscapes management, oceans and climate, financial sector development, trade, tourism, poverty reduction, and economic management. These partnerships enable the World Bank to maintain a robust policy dialogue and respond on time to government requests for technical support and analysis, which would not be possible if the program were to rely on limited the World Bank budget resources alone.

The World Bank Group has made efforts to step up its engagement with civil society organizations (CSOs), beyond conventional outreach during: (a) consultations for corporate and project-related purposes (for example, on the Environmental and Social Framework); (b) the preparation of country engagement products; and (c) visits by senior the World Bank Group officials. In line with the CSO engagement strategy that is under preparation, the World Bank Group systematically reached out to civil society inviting CSO representatives ranging from labor unions, faith-based groups, and indigenous groups, for small group discussions on topical issues and project implementation challenges, in hopes of building stronger ties and establishing another avenue for receiving feedback on the policies and programs supported by the World Bank Group and influencing voices at the grassroots levels advocating for improving the lives of the poor and vulnerable. Despite initial reservations on the part of local CSOs, those interactions have been very positively received and they will continue to be pursued throughout the remainder of the CPF period. In the recent past, the World Bank provided direct support (through grants) of influential civil society groups with innovative ideas, particularly related to citizen engagement and social accountability. These grants were well appreciated by CSOs and the World Bank will seek out opportunities for strategic collaboration in this vein in future.

Progress Toward Achieving CPF Objectives

The implementation of the CPF program is largely on track to achieve the majority of the objectives identified in the CPF, despite delays in some and necessity to make revisions in others. Of the 18 objectives identified in the CPF Results Framework, 1 has been achieved, 14 are on track to be achieved by 2020, 3 have been revised including being dropped or merged. A review of the major achievements and highlights of the CPF program implementation, by engagement area, is presented in the following paragraphs. In Box 1, Box 2, and Box 3, the World Bank's citizen engagement, climate change focus, and gender equality interventions during the CPF period are described, respectively.

Trust funds allow the World Bank to provide strategic analytical and advisory support, as well as grant support, that helps the government navigate complex environmental and political economy challenges in an informed and flexible manner

ENGAGEMENT AREA 1: INFRASTRUCTURE PLATFORMS AT THE NATIONAL LEVEL.

There has been steady progress toward **increasing access to water through irrigation and dam safety (Objective 1)**, through a series of projects supported by the World Bank during the CPF period aimed at modernizing irrigation infrastructure as well as rehabilitating existing and constructing new irrigation channels. Through the *Satu Juta Rumah* program, the government has set an ambitious target of delivering 1 million homes annually to help address the housing deficit. Since 2015, there has been steady progress toward **increasing access to affordable housing (Objective 2)** with approximately 905,000 houses built in 2017. The government has developed several policies in implementing *Satu Juta Rumah*: (a) a mandatory savings-for-housing scheme (*Tabungan Perumahan Rakyat,* TAPERA), passed into law in February 2016; (b) a new mortgage interest subsidy (*Subsidi Selisih Bunga,* SSB); and (c) an IDR 4 million subsidy to help allay the cost of the down payment for households accessing a combination of affordable mortgage finance incentives. The World Bank's support of the *Satu Juta Rumah* program through the National Affordable Housing Program aims at enhancing the effectiveness and efficiency of the program's delivery to better meet the needs of the targeted income segments and to encourage private sector financing of affordable housing projects.

While implementation was slower to start than anticipated, government commitment remains high. There has been good the World Bank and IFC collaboration, a high level of government commitment, and strong participation from development partners regarding the **development of integrated tourism destinations (Objective 3).** Through a preparation advance and grant, the procurement of firms to prepare three integrated tourism master plans (ITMPs) is in its final stages, and thus on track for delivery, with ITMPs for additional destinations expected to be supported during this CPF period. The World Bank-financed Tourism Development Project is important for the delivery of this objective as it addresses high-level client demand, institutional fragmentation, and the management of environmental and social assets that attract visitors but has experienced delays during preparation, while government expectations grew. Still, the establishment of more than one destination with its ITMP, coordination body, and implementation arrangements operational is on track with complementary IFC and IBRD advisory services in place.

ENGAGEMENT AREA 2: SUSTAINABLE ENERGY AND UNIVERSAL ACCESS.

There has been good progress toward **increasing the supply and access to energy (Objective 4)**. The World Bank program priorities remain strongly aligned with the government's objectives in the energy sector, including (a) ensuring financial sustainability of the sector, (b) improving investment climate, (c) removing barriers to expansion of renewable electricity, and (d) expanding access to modern energy. Over the first half of the CPF implementation, the government carried out various positive reforms in these areas as demonstrated by major progress in reducing subsidies and moving customers toward economic prices, new regulations clarifying renewal process for expiring domestic gas production rights, and implementing regulations for the 2014 Geothermal Law.

However, there has been some policy reversal, uncertainty and/or implementation slowdown over the last 18 months (related to financial sustainability of the sector and tariff regulations, least-cost generation regulations for renewable, and crowding in the private sector), which is likely to be exacerbated by political economy considerations in the lead up to elections. The first half of the CPF period has also been characterized by a huge effort to clean up the World Bank's energy portfolio demonstrated by the partial cancellation of $784 million from three of the ongoing loans (Upper Cisokan Pumped Storage Project and Indonesia Power Transmission Development Projects 1 and 2), which would necessitate a scale down of expected outcomes under this Engagement Area. The portfolio consists of a number of geothermal projects that are implementing well and contribute to climate mitigation co-benefits (see Box 2). IFC is increasing its support and mobilization efforts for climate-smart solutions and remains an active supporter of Indonesia's energy and infrastructure development. IFC committed investments in Medco Power operating 1,947 MW and Asahan I operating 180 MW hydro power generation projects, provided PPP advisory support for developing renewable and gas based IPPs and transmission, and engaged in renewable energy Business Development.

ENGAGEMENT AREA 3: MARITIME ECONOMY AND CONNECTIVITY.

There has been good progress toward the **improvement of maritime logistics and connectivity (Objective 5)** as the government reflected strong commitment to improving the quality of overall logistics policy making through key sector interventions and policy analysis and reducing logistics costs through the promotion of policy reforms. The World Bank delivered a solid policy advisory and TA program complemented by the Maritime, Logistics, Connectivity DPO series, but little progress was achieved in helping the government upgrade port infrastructure due to a change in key counterparts. In connectivity, IFC provided loan support to Jakarta International Container Terminal.

However, the **improvement of fisheries management practices (Objective 6)** has not advanced during the CPF period, due to weak government commitment and delays in the implementation of the World Bank's only engagement in this area, the Coral Reef Rehabilitation and Management Program, which has led to a significant restructuring of the project.

ENGAGEMENT AREA 4: DELIVERY OF LOCAL SERVICES AND INFRASTRUCTURE.

The government has steadily been enhancing the way central, provincial, district, and village governments work together to provide services and infrastructure, as well as improving local governments' capacity and accountability to deliver results on the ground. Good progress has been made toward **improving local service delivery (Objective 7)** with the World Bank supporting the establishment of a performance-based fiscal transfer system, the strengthening of the capacity of central government to support and oversee the performance of local governments, the improvement of the back-office functions of local government to deliver local services and infrastructure, and the provision of tools for citizens to monitor local service delivery. See Box 1 that provides a snapshot of how teacher performance and accountability is being improved through citizen engagement.

There has been mixed progress toward **improving access to basic services in targeted cities (Objective 8)** due in part to delays in the approval of planned operations in water supply, sanitation, and solid waste management and elimination of certain planned city-specific interventions. However, the World Bank supports the $1.8 billion National Slum Upgrading Program (NSUP) for which implementation is on track.

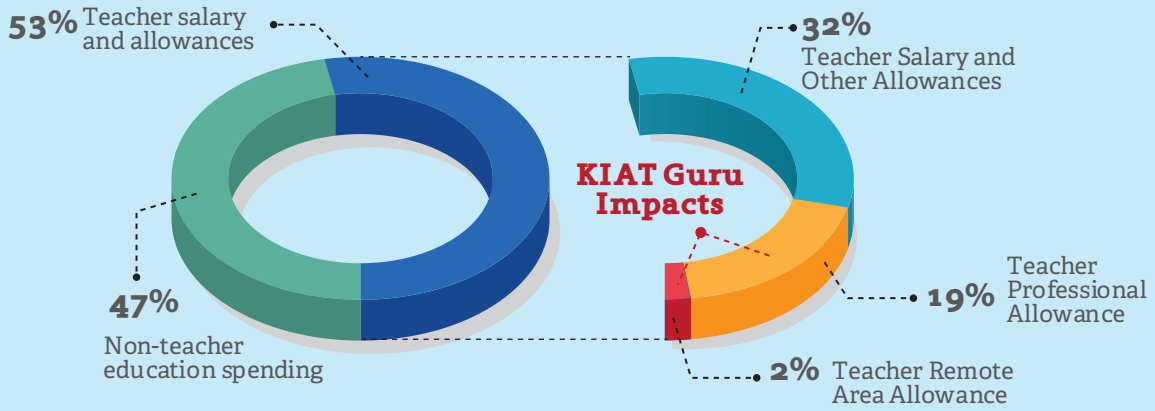
There has been marked progress in **improving access to quality education and health-related services in targeted rural areas (Objective 9)**. In particular, the World Bank engagement has supported the government's acceleration and improvement of investments in human capital, including for education and water supply and sanitation through the implementation and scale-up of large national government platform programs, such as the Water Supply and Sanitation for Low Income Communities Project (PAMSIMAS), National Program for Communities Empowerment (PNPM) Rural, and PNPM Generasi to which the World Bank contributes. In addition, analytical and advisory services have facilitated a dynamic policy dialogue and high-level buy-in and momentum for the human capital investment agenda, resulting in the government requesting performance-based programs in health, education, nutrition, and early childhood development to be delivered in FY18–19.

Box 1

KIAT Guru: Improving Teacher Performance and Accountability through Citizen Engagement and Performance-Based Pay

Half of Indonesia's 3 million registered teachers are certified and therefore receive the Teacher Professional Allowance. The Government of Indonesia (GoI) allocates 10 percent of the national budget, about $16.5 billion in 2016, to teachers' salaries and allowances. However, this significant expenditure has not yet led to improved teacher performance or student learning outcomes. As the GoI continues to focus on teacher quality and service delivery as well as certification, KIAT Guru is an approach to help improve education outcomes.

Education Expenditure



KIAT Guru, which stands for Teacher Performance and Accountability, is a pilot that aims to improve teacher presence, service performance, and student learning outcomes in remote areas of Indonesia. In remote areas, teachers are absent from school 19 percent of the time compared to 9 percent nationally, and Indonesian students continue to lag in international test rankings. A key feature of KIAT Guru is that it empowers communities, including parents, to hold teachers accountable and ties the payment of the Remote Area Allowance (1 × base salary) to teacher service performance. It does so by having community members verify: (a) teacher presence using an Android-based application, and (b) service delivery performance through community-led, scorecard-based evaluations.

Since the pilot launched in 2016, monitoring results indicate that teacher absenteeism from classrooms has fallen from 25 percent to 13 percent and community satisfaction of teacher service delivery performance, as measured by scorecards, improved from 56 percent to 93 percent. The World Bank will conduct a rigorous impact evaluation in mid-2018 to compare the pilot's results against a control group. The Ministry of Education and Culture has requested a new KIAT Guru Urban pilot to tie payment of the Teacher Professional Allowance (approximately $6 billion annually) to teacher performance.

ENGAGEMENT AREA 5: SUSTAINABLE LANDSCAPE MANAGEMENT.

Managing landscapes sustainably faces strong political economy and governance headwinds in the form of politically and economically powerful and entrenched interest in the oil palm, timber, pulp, and paper sectors; poor local governance across the high-risk lowland geographies in Sumatra, Kalimantan, and Papua; and challenges of cross agency collaboration on multisectoral agendas. As such, progress has been slow on **improving land management and spatial planning (Objective 10).** Since the approval of the CPF, the World Bank has approved two Climate Investment Funds (CIF) operations including the Forest Investment Program (FIP) supporting innovation in decentralized forest management in priority landscapes and the Dedicated Grant Mechanism (DGM) operation supporting forest-dwelling indigenous communities to secure land rights and promote sustainable forest-based livelihoods, which represent the first projects with on-the-ground investments with Minister of Environment and Forestry (MOEF) in the past 20 years. That said, through robust analytical work and TA, the World Bank has brought global attention to the magnitude of Indonesia's landscapes challenge, helped shape Indonesia's Conference of the Parties (COP) 21 commitments and post-fire response, and supported the government's development of a multisector fire and haze program. The World Bank has also provided analytical and policy advisory support that has led to the government's prioritization of land administration and mapping efforts in priority landscape provinces (including commitment to demarcate the Forest Estate boundary—a key driver of deforestation, fire, and conflict), as evidenced in Presidential Instruction No. 2, dated February 2018, setting the stage for forthcoming implementation of the World Bank-supported Acceleration Program of Agrarian Reform and One Map Policy Implementation Project.

There has been slow progress on **strengthening capacity in decentralized forest management (Objective 11)** as there have been substantial delays in project implementation due to capacity constraints. However, recent progress on the FIP and DGM-supported activities indicates continued commitment to decentralized forest management. The sustainable landscapes activities are strong contributors to climate mitigation co-benefits (see Box 2). IFC has an ongoing program in Indonesia Green Buildings Regulation, Southeast Asia Forestry Advice, Forestry Supply Chain, Palm Oil Development for Smallholders, and Social Capital Initiative in Plantations.

Box 2

Climate Change Focus of the Indonesia Program

The World Bank Group is supporting Indonesia to address challenges from climate change through an active portfolio of climate-relevant activities. With climate change as a thematic focus across all engagement areas of the current CPF, the World Bank has set a target of at least 31 percent of lending commitments with climate co-benefits. For FY18, this target is being achieved through active integration of greenhouse gas (GHG) emission reduction and climate resilience measures in lending projects across sectors, including irrigation, urban infrastructure, private sector development, and delivery of public services in water and sanitation, health, and nutrition. Among key lending activities under preparation for FY19–20 are investment programs on urban waste water management, fire management, forest carbon finance, and renewable energy from geothermal energy. Complementing this lending pipeline is cross-cutting advisory services on climate-relevant topics such as carbon pricing, power tariff reform, peatland restoration, sustainable lowland livelihoods, natural capital accounting, disaster risk management, urban growth diagnostics, and city planning labs.

Complementing the World Bank portfolio, IFC operations also incorporate a strong climate focus. IFC is working with private sector financial institutions to develop climate finance programs and products as well as robust pipelines of green projects. Through initiatives such as green bonds, IFC will help raise dedicated lines of finance for these projects and mobilize other investors to participate. In the infrastructure space, IFC's climate change program focuses on upstream efforts and investment projects in renewable energy, including geothermal energy, small-scale hydropower, solar energy, and waste-to-energy conversion. Further, IFC works with the government and private sector on implementing mandatory green building codes, setting voluntary resource efficiency standards for buildings with its Excellence in Design for Greater Efficiencies (EDGE) certification system and green property financing. Since FY13, through IFC's financial and technical support, more than 600 green buildings totaling more than 18 million m^2 have complied with green building codes or received EDGE certification and helped Indonesia save more than $70 million in energy costs and 720,000 tons of GHG emissions.

Going forward, the World Bank Group will continue to strengthen the climate agenda in future CPF engagement in Indonesia and assess key risks and uncertainties that could affect climate-relevant operations, particularly the political economy surrounding oil palm, renewable energy, and forest governance, and devise an adaptive engagement strategy.

ENGAGEMENT AREA 6: COLLECTING MORE AND SPENDING BETTER.

Overall, progress toward **improving revenue collection (Objective 12)** and **improving efficiency and effectiveness of spending (Objective 13)** has been made, though at a slower pace than targeted, especially regarding revenue collection. The Directorate General of Tax has undertaken steps to improve revenue administration under the umbrella of '*Tim Reformasi*', a high-profile tax reform committee established by the Finance Minister with participation of international observers including the World Bank. Concrete reforms implemented to date and supported by the World Bank's programmatic ASA include matching national and taxpayer IDs, introducing e-invoicing and e-filing, and undertaking enhanced compliance management efforts. These efforts have been supported by the tax amnesty program that concluded in Q3 2017, which resulted in the declaration of approximately $366 billion of assets, amounting to 39.3 percent of Indonesia's GDP in 2016, a new record for tax amnesty programs worldwide. Success in the tax amnesty program is linked to strong political support from the government, with the President and Finance Minister elevating enhanced tax compliance to a national priority. Significant investments to strengthen the underlying IT infrastructure for tax administration are only just beginning. On policy, the Ministry of Finance (MoF) undertook a series of reforms aimed at tackling base erosion and profit shifting (BEPS), making Indonesia one of the few developing economies to have met and signed the 'minimum standards' of the anti-BEPS agenda led by the Organisation for Economic Co-operation and Development (OECD). The 2018 tobacco excise regulation introduces a tier simplification road map for the first time and continues the policy of incremental, albeit limited, raising of tariffs YOY. There has been substantial improvement in the allocative efficiency of the budget, as a larger share of expenditure has been directed to priority sectors (health, social assistance, and infrastructure). This has been informed by the World Bank's earlier work on reforming fuel subsidies.

Challenges in public financial management systems, especially regarding budget credibility, continue to affect budget execution, especially in capital expenditures. As ministries expect revised budgets to be lower than the original budget, spending tends to adjust downward, and execution rates, even compared to revised budgets, are well below 100 percent. Through its programmatic ASAs on Macro and Fiscal Policy and on 'Strengthening Revenue and Budget Management', the World Bank continues to contribute to strengthening budget planning and execution through analytical and diagnostic work as well as TA, and related reforms have been supported throughout CPF implementation by the Fiscal Reform Development Policy Financing (DPF) series.

SUPPORTING BEAM 1: LEVERAGING THE PRIVATE SECTOR – INVESTMENT, BUSINESS CLIMATE, AND FUNCTIONING OF MARKETS.

The government is making significant progress toward **simplifying business licensing processes to support private sector (Objective 14).** It is committed to a growth strategy with the private sector as the main engine of growth, and creating more open and predictable markets with simplified business regulations has been at the core of its efforts. The World Bank Group has offered support through a significant lending, knowledge and TA program, and has contributed to the government launching 16 economic policy packages since September 2015. To further support these reforms, in 2017, the government initiated efforts to roll out wholesale approaches to improve the subnational business environment and strengthen regulatory governance, including through Presidential regulations and instructions that require policy impact assessments and improved inter-ministerial coordination. The Doing Business 2018 report recognized Indonesia since 2003 as one of the world's top 10 reformers, with 39 reforms adopted in 15 years and Indonesia's overall ranking improving to 72 in 2017 (in 2016 and 2017, of the 57 business environment recommendations made by the World Bank Group, 31 were implemented, 9 of which were captured in revised or new regulations). To increase private investment in Indonesia, however, it will be important to undertake politically more challenging, but much-needed, reforms for openness and competition. For instance, the World Bank analysis shows that several of Indonesia's Negative Investment List (*Daftar Negatif Investasi*, DNI) restrictions impose a strong deterrent effect on realized FDI, and an even larger deterrent effect on approved FDI.

Significant progress is being made in **increasing the role of private sector in national infrastructure investment (Objective 15)**, reflecting the government's strong emphasis on and commitment to this objective. The government is actively encouraging increased private investment in infrastructure both through PPPs and through the SOE's access to the capital markets. PLN and Jasa Marga (toll road service provider SOE) carried out two successful securitizations during the CPF period, one on the international bond markets. A few PPPs also reached financial closure in 2017, such as the Umbulan water project and Palapa Ring. New mechanisms or 'tools' to encourage more private investment in infrastructure have been launched, such as the land acquisition fund (*Lembaga Manajemen Aset Negara*, LMAN) and *Pembiayaan Investasi Non-Anggaran Pemerintah* (PINA), an entity designed to support projects that do not require any state budget funding. The World Bank has also supported the preparation of outlining business cases for toll roads, which are expected to be financed through a planned National Expressways Development Program using PPPs. Further, the World Bank Group through the preparation of the InfraSAP will provide advice aimed at enhancing private sector participation in the delivery of infrastructure. IFC has supported private sector involvement in infrastructure by providing upstream advocacies on Toll Road Concessions and Hydro Power Purchasing Agreement (PPA) with PLN.

There is also significant progress in **enhancing access to finance (Objective 16)**, where the World Bank Group program has been supporting, among others, the Coordinating Ministry for Economic Affairs (CMEA) to develop and successfully implement the National Strategy for Financial Inclusion, as well as the Financial Services Authority of Indonesia (*Otoritas Jasa Keuangan*, OJK) to design the Basic Saving Account to expand financial access, and inform the new Financial Stability Law and the regulations on micro-insurance. IFC has ongoing projects in: earthquake index insurance for microfinance portfolio protection, Environment & Social risk management for financial intermediaries, Indonesia Corporate Governance project, Indonesia Financial Infrastructure – Secured Transactions, Indonesia M Banking 2 Digital Inclusion, Ciputra Residence Bond Partial Credit Guarantee, and provided both investment and advisory support for several private sector clients.

SUPPORTING BEAM 2: SHARED PROSPERITY, EQUALITY, AND INCLUSION.

The World Bank has a dynamic and highly visible ASA program on poverty, equality, and inclusion, which helped elevate the importance of this agenda and shaped the policy dialogue at the highest levels. The launch of the flagship inequality report Indonesia's Rising Divide received wide coverage and was followed by the special cabinet meeting in December 2015, which paved the way for new areas of engagement in social protection, health, education, and nutrition. A significant piece of the work under this supporting beam relates to gender equality and a snapshot of that work is provided in Box 3.

Progress on **improving social protection programs for the poor and vulnerable (Objective 17)**, particularly relative to the expansion of coverage of some of the main social protection programs, has exceeded expectations. Indonesia is now implementing one of the largest social security reforms in the world, and improving the quality and coverage of the various social protection programs remains top priority for the government. Social assistance expenditure has been increasing steadily, with total central and subnational spending on permanent social assistance rising by 126 percent in real terms between 2009 and 2016, along with coverage and benefit levels of main social assistance programs—the social health insurance fee waiver program (*Jaminan Kesehatan Nasional-Penerima Bantuan Iuran*, JKN-PBI) had managed to enroll additional 16 million beneficiaries between 2013 and 2016, and the cash transfer for the poor and at-risk students (*Program Indonesia Pintar*, PIP) and the conditional cash transfer program (*Program Keluarga Harapan*, PKH) had increased more than 3 million beneficiaries during the same period. This ambitious agenda is being supported by a new PforR operation, the Indonesia Social Reform Program of $200 million, that supports the government's efforts to expand the PKH coverage, strengthen the program's delivery system, and improve its coordination with complementary social programs. Due to the PKH's high impact, the government decided to scale up its coverage from 3.5 million families in 2015 to 10 million families, or 15 percent of the population, which was achieved in early 2018. Companion TA has been supporting the Ministry of Social Affairs (MoSA), Ministry of National Development Planning (*Badan Perencanaan Pembangunan Nasional*, BAPPENAS), MoF, and other key stakeholders to review the social assistance policies, programs, and delivery systems and to support strengthening program effectiveness as well as building the capacity of implementation agencies.

On **supporting creation of and access to productive jobs (Objective 18)**, there has been some progress but increased progress is expected as the government has signaled that it is ready to undertake major labor reforms in the lead up to the 2019 elections. A window of opportunity for labor market policy reform, including skills development and monitoring, a modernization of worker protection policies, and policies/programs to support migrant workers and address youth unemployment, is emerging. CPF implementation has so far supported this agenda by building the evidence base and support for gradual reforms on unemployment insurance, skills reform and a strategy for vocational training, and policy reform for migrant workers. IFC is supporting jobs-rich sectors such as competitive manufacturing, agribusiness, and services such as tourism facilities and retail outlets.

Box 3

Gender Equality Interventions of the Indonesia Program

The World Bank's Indonesia Country Gender Action Plan identifies four priority areas: (a) low female participation in the labor force and access to finance, (b) high maternal mortality rate, (c) low female participation in decision-making processes, and (d) legal restrictions that discriminate against women. IBRD and IFC together support Indonesia's efforts to address these gaps through loans, grants, and analytics.

In May 2017, the World Bank provided policy recommendations to the Finance Minister on how the government could use the budget to increase female labor force employment and improve women's health and nutrition. Many of these recommendations were reflected in the Government's 2018 Macroeconomic Fiscal Framework. Other analytical work from the GPs and East Asia and Pacific Gender Innovation Lab is generating knowledge to help Indonesia close its gender gaps. The IFC Banking on Women project, with funding from the Umbrella Facility for Gender Equality (UFGE), is developing financial services, training, and networking opportunities for women entrepreneurs in supply chains. The UFGE is also supporting Indonesian women entrepreneurs with nonfinancial services to accelerate the growth of their businesses. The project is collaborating with *Bank Tabungan Pensiunan Nasional* (BTPN), a leading Indonesian bank, which has to date disbursed over 300 loans of over $109 million to women-owned small and medium enterprises (SMEs).

The lending and grant portfolio is helping to close gender gaps as well. The Generasi project is incentivizing women to attend prenatal and maternal classes and increase vitamin A uptake and immunizations in the poorest areas of Indonesia. Two FY18 PforR operations will build on the outcomes from Generasi to help address maternal mortality and maternal and child health and nutrition (including stunting), while the PAMSIMAS project is providing increased access to water and sanitation critical to the health of women and girls and promoting the participation of women on community decision-making bodies. The upcoming One Map Policy project will help increase the share of registered land rights belonging to women.

CHAPTER 4

Emerging Lessons

In a large country where available the World Bank resources are limited relative to demand, an approach that aims to leverage all available resources to improve policies, institutions, and/or systems in the delivery of national programs increases opportunities for transformational and sustainable impact. For Indonesia, scale matters for impact, so the World Bank targets national programs and aims to help the government build them where they do not exist. Further, Indonesia suffers from weak capacity with regard to planning, budgeting, coordination, and implementation, which is best tackled at the program level to ensure sustainability. Improving policies, institutions, and/or systems are required to sustain impact, and this CPF devotes knowledge, TA, and financial resources to this end through programmatic engagements. The Third Water Supply and Sanitation for Low Income Communities Project (PAMSIMAS) is a good example of this approach in action. The project supports the implementation of the government's Universal Access to Water Supply and Sanitation (100-0-100) program. The $300 million in IBRD lending leverages $1.09 billion including counterpart financing from government and communities ($769.4 million) and DFAT grant financing ($25 million). The project supports a platform to enable infrastructure spending, including capacity building, monitoring, and evaluation, using the Community-Driven Development (CDD) approach. Expected project results include 27,000 villages benefiting 22 million people with access to improved water and sanitation, development of district-level capacity-building plans, and establishment of a project monitoring structure that provides regular information on project implementation quality.

When a global best practice solution is not feasible or not fully aligned with the existing political, economic, or other incentive framework, the World Bank should be prepared to support efforts that are incremental steps toward an ideal outcome: deploying the full range of knowledge, policy advisory, and financing instruments; it has to match the needs and circumstances of the client in that context. Where the political cycle is an obstacle, the World Bank could consider working at the technical level to define and build support for a reform package that can be put to the legislature during the first few months after a new government takes office, when the political environment is most enabling. For example, during the political transition in 2014, the World Bank Group provided analytics and TA to help reduce the fuel subsidy and thereafter supported the reallocation of resources to social programs and productive investments.

Proactively identifying and continuously engaging champions at all levels of government is indispensable for program delivery and success. Political economy drivers affect the likelihood and direction of reform—government ownership, commitment, resources, and champions for reform agendas are major determinants of success. Successful program implementation requires not only engaging champions and securing commitment at the highest levels of government but also working with counterparts at the technical levels that have ownership, responsibility, and accountability for results. CPF implementation experience includes examples where having champions at high levels of government opened new areas of engagement (for example, in social assistance reform), as well as examples where implementation faced drawbacks when commitment waned or committed counterparts were lost (for example, in ports connectivity).

Adapting the World Bank knowledge to different audiences is essential for impact. The World Bank prepares flagship analytical pieces and just-in-time policy notes but has been progressively moving toward brief power point presentations with headline messages and accompanying infographics, graphs, and charts for senior officials. Additionally, the World Bank uses different vehicles to broaden dissemination of knowledge. For example, the World Bank's poverty team has become expert at translating its dense data-driven flagships into infographic-filled glossies that capture the eye and imagination of a broad audience. Indonesia's Rising Divide was the basis for a presentation to the senior government officials in the form of an informal discussion setting and was later repacked as a TED talk style presentation for an audience of over 3,000 young people accompanied by short vignettes in a Supermentor event. The Indonesia Economic Quarterly, a quarterly economic update (Part A) accompanied by a short topical sector specific note (Part B) is launched each quarter with key note speeches by Ministers of government, the World Bank Country Director, and sometimes Ambassadors of relevant bilateral partners, all of which are followed by a panel discussion on the sector topic. The report is further disseminated by email and through social media, and in December 2017, this resulted in over 1,000 downloads of the report in addition to the 800 hardcopies disseminated.

Successful program implementation requires not only engaging champions and securing commitment at the highest levels of government but also working with counterparts at the technical levels that have ownership, responsibility, and accountability for results.

Engaging with local sponsors before an opportunity for a deal emerges is a key success factor for IFC in delivering its programs. Early and proactive engagement with the local sponsors improves IFC's visibility in the market and helps IFC's positioning when potential collaborations emerge in the future. For example, to promote the climate change agenda, IFC has commenced preliminary discussions with targeted financial institutions on how to develop a green portfolio. IFC will lead this development by initially providing capacity-building support on portfolio origination, underwriting, and monitoring, with the eventual long-term aim to provide dedicated lines of financing to these financial institutions to support green lending. Other examples of current engagements with new investment clients include a leading food/agribusiness company supporting both the local micro, small, and medium enterprises (MSMEs) and export markets and a well-established local group supporting the industrial, tourism, and infrastructure sectors. The current engagements with these groups were developed over several years of continued interaction, with additional value propositions such as IFC advisory services also playing a key role.

Addressing the constraint in private sector engagement brought about by the continued dominance of SOEs requires a coherent the World Bank Group solution and the MFD approach provides a good platform. In sectors such as infrastructure, financial institutions, and heavy industries (for example, oil refineries, fertilizer, cement, steel), the government continues to rely heavily on SOEs to drive business and shows its preference by subsidizing these SOEs, such as the Credit for Business Program (*Kredit Usaha Rakyat*, KUR) in the microlending sector. This negatively affects the private sector's willingness to engage or participate in these sectors. The World Bank Group's MFD approach of preserving scarce public resources (such as subsidies for SOEs) by prioritizing private sector solutions should help address this constraint and crowd-in private sector participation.

CHAPTER 5

Adjustments to Country Partnership Framework

The CPF remains an effective framework for collaboration and engagement with the government, and while the PLR confirms the relevance of the six engagement areas and two supporting beams, a number of adjustments have been made to the program. The adjustments reflect increased priority and demand for human capital development and maximizing finance for infrastructure development, and improved focus on implementation through national programs and performance-based lending, as well as political economy constraints in certain sectors related to the environment, relative to the situation at CPF preparation. The adjustments include eliminating the focus on the mode of delivery (national/subnational, rural, or urban), as with the passage of time this distinction is no longer relevant; refining the scope of objectives because of changes in the timing or scope of operations due to political economy or other issues; and broadening the scope of certain objectives to include new urgent priorities. The results matrix has been modified accordingly, by reducing the number of objectives (merging or eliminating as necessary); redefining the objectives to reflect modification of scope; eliminating many indicators and introducing new indicators where necessary, and revising target dates and values. The revised Results Framework is provided in Annex 1.

Engagement Area 1 is being redefined as National Infrastructure for Growth and Development, reflecting an expanded scope and a de-emphasis of the delivery mode (national as opposed to subnational). Delivery mode was an organizing principle of the CPF with infrastructure programs delivered by the central government reflected in Engagement Area 1 and infrastructure delivered at the local government level reflected in Engagement Area 4. Throughout CPF implementation, this distinction has lost its relevance as the platform approach has been mainstreamed. The CPF will continue to seek opportunities to support significant government infrastructure investment programs that will affect the underlying drivers of growth and poverty reduction through this engagement area. The engagement area will also continue to support the implementation of broad platforms for delivery as well as a renewed focus on crowding in the private sector and enabling commercial and private financing of infrastructure as part of the corporate focus on MFD. Through the remainder of the CPF period, it is expected that the World Bank Group will support activities in integrated tourism development, dams and irrigation, and housing under this engagement area.

Engagement Area 3: Maritime and Connectivity has been revised to eliminate the objective relating to improving fisheries management practices and to expand connectivity to include marine and land based connectivity. The World Bank engaged intensively during the first half of the CPF period with the Ministry of Marine Affairs and Fisheries (MMAF) to structure a package of advisory and investment to support government efforts to promote sustainable fisheries management. However, the MMAF's priorities were exclusively focused on: (a) elimination of illegal fishing, and (b) increasing the economic productivity of the fisheries sector. As such, efforts to reach an agreement on a package of assistance on sustainable fisheries management was not welcomed by the MMAF, and thus, this CPF objective has been eliminated. During the CPF period, the World Bank Group engagement in this area will aim to support policy advisory and investment programs that increase both sea- and land-based connectivity. Ongoing and planned engagements through the remainder of the CPF period include policy-based instruments to improve the logistics sector and platform delivery programs to enhance the efficiency

of the national roads network on key logistics corridors as well as support for a PPP program on national expressways. The engagement area will continue to support Indonesia in its efforts to sustainably manage its marine and coastal resources, primarily through an advisory program on coastal and marine management and marine pollution.

Engagement Area 4: Delivery of Local Services and Infrastructure remains the same in principle, yet the objectives under that engagement area have been refined to align with the evolution of the activities. Objective 6: 'Strengthening the decentralization framework to improve local service delivery' has been revised to better reflect the focus of the indicators measuring achievement of that objective. Objective 7: 'Improving sustainable urbanization' has been revised to eliminate the reference to targeted cities, as planned and ongoing engagements throughout the remainder of the CPF period are national in scope and focus on water supply, urban development, transport, and solid waste, among others. Objective 8: 'Improved access to quality education and health related services' has been revised to de-emphasize an urban/rural distinction in interventions and to reflect expansion of the scope of the objective to include new interventions relating to nutrition, which is in effect a national crisis with 37 percent of children under 5 being stunted. These interventions are the result of strong advocacy on the part of the World Bank Group, which led to the development and launching of a National Nutrition Action Plan, implementation of which is led by the Vice President, all supported by policy, advisory, and investment programs.

Under Engagement Area 5: Sustainable Landscape Management, the two objectives have been merged. On reflection, the two objectives described two sides of the same coin. Further, as discussed in Section III, political economy and governance headwinds significantly slowed the preparation of the Acceleration Program of Agrarian Reform and One Map Policy Implementation project that would have been the main contributor to results related to improving security of land tenure and use as well as transparency over the boundaries of the Forest Estates. The resulting merged objective is 'strengthened capacity in decentralized forest and land management'. The ongoing and planned engagements during the remainder of the CPF period include policy advisory and investment programs that: (a) improve governance and management of land and forests, (b) address root causes of poverty and natural resource degradation by improving security of land tenure and use, and (c) ensure that vulnerable communities living in and around the Forest Estate are benefiting from those resources.

Under Supporting Beam 2, two objectives have been merged and the indicators and targets of the resulting objective have been revised to reflect the contribution of a lending operation not envisaged at CPF preparation. In the CPF results framework, Objective 18 under Supporting Beam 2 mistakenly included as part of its description access to finance for small and medium enterprises, identical elements to that reflected in Objective 16: Enhance access to finance. The related interventions will now be comprehensively reflected as part of the latter objective. The revised objective under Supporting Beam 2, "Improved social protection and access to productive jobs" reflects the scope of interventions that assist government to define and implement policies that protect the poor and help them move out of poverty and into productive lives. The revised objective will also include indicators and targets that measure the impact of a new contributing lending operation. The CPF outlined technical and analytical work in support of the improvement of social protection programs, but a breakthrough in dialogue led to a FY17 performance-based lending operation supporting the expansion and improvement of Indonesia's most effective poverty reducing social assistance program, that is, the conditional cash transfer program (*Program Keluarga Harapan*, PKH).

The PLR simplifies the results framework and strengthens the objectives, as a consequence it modifies a relatively large number of indicators, but this is not to be taken as evidence of a substantial shift in the program. In fact, the program is largely as outlined during CPF preparation. At that time, the CPF Results Framework focused largely on objectives supported by the projects under preparation in FY16. These projects' indicators were subsequently modified before the projects were approved by the Board, thus calling for modification of the indicators to align them with those that are being tracked under the projects. As the bulk of the lending provided during FY18–20 will generate results beyond this CPF period, the PLR captures only selected outcomes from a few of those operations.

Indicative World Bank Group Program

The IBRD pipeline for the remainder of the CPF period is strong and diversified. Having already delivered more than half of the envisaged program of $7.5 billion IBRD lending for the CPF period of FY16–20, the indicative pipeline for the outer years of the CPF, set forth in Table 3, is still quite robust. It includes infrastructure projects with strong MFD orientation, a suite of education projects responding to the heightened government priority towards human capital development, two development policy operations (DPO) reflecting realism as to the policy reform appetite over the election season (as compared with the five DPO in the first 3 years of the program) and operations supporting sustainable landscapes. The World Bank Group will maintain a broad and robust ASA program for the remainder of the CPF period. The government has actively sought the World Bank Group's advice on a variety of areas in the preparation of its national development strategy, the National Medium-Term Development Plan (RPJMN) for 2020–2024. Table 4 provides a summary of the main non-lending activities that the World Bank will be undertaking for FY19–20. Annex 2 lists the planned and compares the actual IBRD financing for the entire CPF period.

IFC is set to achieve its target of up to $3 billion new engagement by 2020, relying on the strong pipeline of equity, loans, guarantees, and mobilization to unleash private sector opportunities. In line with the CPF, IFC is focused on helping narrow the key development gaps where the private sector has a crucial role to play. These development gaps fall under three thematic areas: (i) *economic growth*; (ii) *inclusion*; and (iii) *sustainability*. To *foster economic growth*, IFC is leveraging the private sector to create more and better jobs in manufacturing, enhancing energy efficiency, improving logistics and connectivity, increasing access to network water and sanitation, and deepening capital markets. To promote *inclusion*, IFC is focusing on financial inclusion, tourism. health and education, agribusiness, and affordable housing. In the *sustainability* space, IFC is aiming to enhance the economic gains from the palm oil and forestry in a sustainable manner and promoting green building and green finance.

IFC is currently strengthening its project pipeline. Ongoing efforts cut across sectors including: (a) *power* sector, specifically in renewable energy (solar, wind, hydro, and geothermal); (b) *connectivity*, through logistics, ports, airports, roads and mass transit in larger cities such as Jakarta and Surabaya; (c) *water and sanitation*, largely in bulk water supply PPPs and waste-to-energy projects in key cities in Indonesia, and through engagement with the World Bank Group; and (d) *affordable housing* through low-cost housing townships; (e) *competitive manufacturing* by developing an industrial base to stimulate manufacturing investments, exports, and competitiveness; (f) *agribusiness* by financing expansion of modern and cost competitive food manufacturers, and promoting industry best practices for sustainability in the *palm and forest areas* through investment and advisory interventions; (g) *services*, specifically in education, health, tourism, and retail chains; (h) *financial sector* through MSMEs and women finance as well as digital finance/fintech applications to take advantage of high mobile phone ownership; (i) *climate* by promoting green bonds, developing green assets and providing training and capacity-building workshops on Climate Finance and Green Bond for financial institutions in collaboration with OJK; and (j) *capital market* by introducing new products in the local capital markets and playing an anchor role to catalyze new investors. In implementing the CPF, IFC is partnering with strong foreign and local sponsors and strategic clients who share the World Bank Group's development agenda in Indonesia.

Table 3
IBRD Indicative Lending Pipeline FY19–20[a]

No	Project/Program Title	Executing Agency	Amount in $ Million by Loan Instrument		
			IPF	DPF	PforR
Engagement Area 2: Sustainable Energy and Universal Access					
1.	Geothermal Resource Risk Mitigation Project (GREM)	PT. SMI	225		
Engagement Area 3: Maritime and Connectivity					
2.	National Expressway Development Program (PPP)	MPWH	100-300		
Engagement Area 4: Delivery of Local Services and Infrastructure					
3.	Institutional Strengthening for Improved Village Service Delivery	MoV			350
4.	Improving Efficiency and Effectiveness in Education Expenditure	MoEC			300
5.	Realizing Education's Promise in Indonesia	MoRA	100-250		
6.	Improvement of Solid Waste Management to Support Regional & Metropolitan Cities	MPWH	100		
7.	National Urban Waste Water Management Program	MPWH	200		
8.	Regional Infrastructure Development Fund (RIDF) II/AF	PT. SMI	200-400		
9.	National Urban Development Project (NUDP)	MPWH	50		
10.	National Urban Transport Program	TBD	250-500		
Engagement Area 5: Sustainable Landscape Management					
11.	Acceleration Program of Agrarian Reform and One Map Policy Implementation	MASP	200		
Engagement Area 6: Collecting More and Spending Better					
12.	Fiscal Reform DPF 3	MoF		300	
13.	Human Resource Development for Bureaucratic Reform Project	BAPPENAS	100-150		
Supporting Beam 1: Leveraging the Private Sector – Investment, Business Climate, and Functioning of Markets					
14.	Financial Sector DPF			150	
Supporting Beam 2 Shared Prosperity, Equality and Inclusion					
15.	Skills Development Project	MoM			200

Note: IPF = Investment Project Financing; MPWH = Ministry of Public Works and Housing; PT. SMI = PT. Sarana Multi Infrastruktur, SOE on Infrastructure; MoV = Ministry of Village; MoEC = Ministry of Education and Culture; MoRA = Ministry of Religious Affairs; MASP = Ministry of Agrarian and Spatial Planning; MoM = Ministry of Manpower; Bappenas = Ministry of National Development Planning; MoF = Ministry of Finance.

a. Financing amounts are indicative only and will be determined over the period. Total IBRD exposure cannot exceed the Single Borrowing Limit.

Table 4
A Summary of the Programmatic Non-Lending Activities

No	Task ID	Task Name	Lead GP/CCSA
Engagement Area 1: National Infrastructure for Growth and Development			
1	P153802	Indonesia Sustainable Urbanization Programmatic AAA[a]	Social, Urban, Rural, and Resilience
Engagement Area 2: Sustainable Energy and Universal Access			
2	P158183	Sustainable Energy and Universal Access Policy and Pipeline Development Program (SEAP)	Energy and Extractives
Engagement Area 4: Delivery of Local Services and Infrastructure			
3	P153219	Indonesia Village Law Programmatic AAA	Social, Urban, Rural, and Resilience
4	P153828	Indonesia PAAA to Support Universal Health Coverage (UHC)	Health, Nutrition, and Population
5	P154976	IN-Decentralization that Delivers: Improving Decentralization for a Better Service Delivery[b]	Governance
6	P156674	Strengthening frontline Early Childhood Education and Development (ECED) services in poor rural communities	Education
7	P157380	Supporting 12 years Quality Education for All	Education
8	P163590	Indonesia: Support for Strengthening Multi sectoral Responses to Nutrition	Health, Nutrition, and Population
9	P166489	ID - Supporting reforms to accelerate UHC	Health, Nutrition, and Population
Engagement Area 5: Sustainable Landscape Management			
10	P156489	Indonesia Integrated Landscapes Programmatic AAA	Environment and Natural Resources
Engagement Area 6: Collecting More and Spending Better			
11	P132241	Programmatic Macro and Fiscal Policy Engagement	Macroeconomics, Trade, and Investment
12	P155648	Strengthening Revenue and Budget Management in Indonesia	Governance
13	P156142	Indonesia Natural Resources for Development[c]	Macroeconomics, Trade, and Investment
Supporting Beam 1: The Business Climate and Functioning of Markets			
14	P157491	Indonesia Infrastructure Finance & Development	Public Private Partnership
15	P163296	Indonesia Financial Sector Technical Assistance	Finance, Competitiveness, and Innovation
Supporting Beam 2: Shared Prosperity, Equality, and Inclusion			
16	P159575	Inequality Policy Partnership	Poverty and Equity
17	P163964	Indonesia Jobs Action Program	Social Protection and Jobs

Note: CCSA = Cross-cutting Solution Area
a. This PASA also supports Engagement Area 4.
b. This PASA also supports Engagement Area 6.
c. This PASA also supports Engagement Area 2.

CHAPTER 6

Risks to CPF Program

The overall risk to the achievement of the CPF objectives remains Substantial. The PLR risk assessment across the eight risk categories of the Systematic Operations Risk-Rating Tool (SORT; see Table 5) remains broadly consistent with the assessment at the time of CPF preparation, with two exceptions. The first change is the upgrading of macroeconomic risk from Substantial to Moderate in view of the solid growth and strengthened monetary, macroprudential and fiscal policy frameworks vis-à-vis the status of the policy frameworks at the time of CPF approval. Second, fiduciary risk is downgraded from Moderate to Substantial. The PLR retains the ratings for risks on political and governance (substantial), institutional capacity for implementation (substantial), and environment and social (high).

Political and governance. There had been reform momentum addressing governance risks anticipated at the preparation of the CPF, especially on promoting investments in the infrastructure and energy sector. As of August 2017, the government has released a total of 16 economic policy deregulation packages in line with its effort to promote investment and create a more business-friendly environment. On the other hand, as the election season approaches, upcoming parliament and presidential elections scheduled for April 2019, the risk of slower implementation of the CPF program is heightened. Political competition is likely to intensify, making it difficult to pass vital economic and structural reforms. Pursuing CPF objectives relating to improving quality of life and business climate will be more palatable during this season, while those relating to sustainable landscapes management and sustainable energy will remain challenging. Potential shifts in government priorities in the aftermath of elections and turnover in key counterparts/reform champions could also pose challenges to the implementation progress of the CPF program. For example, the current administration has taken a bold stance on addressing the underlying drivers of Indonesia's sustainable landscapes challenges, especially related to fire and lowlands management, that have encountered resistance even within the administration. Losing key champions for reform in these areas, both at national and local/provincial levels, is a high risk for the sustainable landscapes program. The country team will continue to pay due attention to the political economy considerations and engage strategically and selectively using knowledge and TA, particularly through the preparation of the Development Policy Review and inputs to the RPJMN preparation process to engage at the political (both incumbent and opposition) and technical levels on the actions needed to achieve the CPF objectives.

Institutional capacity for implementation and sustainability. The risk as explained at the CPF preparation stage, namely, the government's struggle in executing large infrastructure projects, has receded including through changing critical regulations to enable multiyear contracts for large infrastructure (also supported by the Fiscal Reform DPF). However, the 2018 Country Portfolio and Performance Review (CPPR) identified systemic operational issues around interagency and local-central government coordination, weak Program Implementation Units (PIUs) and counterpart capacity, especially at the subnational levels, and challenges around understanding of and compliance with fiduciary and environmental and social safeguards. These challenges continue to delay program preparation and implementation, particularly for the large infrastructure projects. As mitigation efforts, the World Bank will continue working closely with the government (particularly with BAPPENAS and MoF) to provide implementation support including use of advance procurement and the project preparation facility, TA, and training to

counterparts and project teams. Looking forward, the remainder of the World Bank Group program will require continued and deeper collaboration across all three World Bank Group institutions and across GPs to be able to deliver on the ambitious CPF program. Similarly, project preparation and implementation will require the government to work across ministries and public and private institutions. The country management team will continue raising awareness of the program needs including country presence of global experts, deepening collaboration across the World Bank GPs and units, and raising resources, including Trust Funds, to support successful program implementation.

Fiduciary. During the CPF implementation period, the World Bank has observed strong preferences by key implementing agencies to use the national procurement regulations—instead of World Bank procurement/consultant guidelines—and the ill-equipped national e-procurement system for International Competitive Bidding (ICB). These preferences have negatively affected portfolio performance, leading to implementation delays, withdrawal of contract packages, and loan cancellations. Further, integrity lapses have been observed, particularly in relatively low-value contracts administered in a decentralized manner. In a few cases, there was reluctance to comply with the World Bank Anti-Corruption Guidelines or the World Bank's advice for correct application of the World Bank's guidelines. The government has passed a regulation clarifying that the World Bank Group's fiduciary guidelines are applicable to World Bank funded projects and the National Procurement Agency (*Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah, LKPP*) is socializing this regulation among project implementing agencies including at the joint World Bank Group and government CPPR exercise held in August 2018. The World Bank is working closely with LKPP to facilitate modifications in the e-procurement system to enable use under ICB method and providing relevant training to project implementation units and strengthening anti-corruption measures in project design and implementation which should go a long way toward mitigating these risks.

Table 5
Revised SORT: Risks to the CPF Objectives in Indonesia

Risk Categories	Rating
1. Political and governance	S
2. Macroeconomic	M
3. Sector strategies and policies	M
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	S
7. Environment and social	H
8. Stakeholders	L
Overall	S

Note: H = High; S = Substantial; M = Moderate; L = Low.

Environment and social. Increasing environmental and social (E&S) risk has arisen out of the mainstreaming of the 'platform' model across the portfolio. This model, whereby IBRD resources leverage government, development partners, and, in some cases, private sector funding in support of large programs owned and led by the government, increases risk as the World Bank monitors E&S safeguards compliance for large government programs and not just discrete portions financed by IBRD resources, for example, the ongoing PAMSIMAS and the Tourism Development Project. To mitigate this risk, the country management team will continue to advocate for sufficient and high-quality safeguards staff and will roll out more intensive E&S safeguards compliance capacity building for government counterparts, in particular through the proposed Indonesia Network of Learning Centers for Environmental and Social Sustainability. Finally, Indonesia experiences a high incidence of natural disasters such as earthquakes, volcano eruptions, and flooding, which continue to present risks to the program, as identified at the time of CPF preparation. The program maintains flexibility to refocus resources as needed in the face of a natural disaster.

ANNEXES

Annex 1
UPDATED CPF RESULTS FRAMEWORK

ENGAGEMENT AREA 1

NATIONAL INFRASTRUCTURE FOR GROWTH AND DEVELOPMENT

Definition of focus area

National Infrastructure for Growth and Development will focus on infrastructure sectors and cross-cutting issues that are critical to the overarching growth and development agenda. Public investment infrastructure has not kept pace with growth. Between 2005 and 2015, Indonesia's public capital stock grew at 2.8 percent annually, well below Vietnam (10.3 percent), China (6.7 percent) and Malaysia (3.7 percent). Average annual investment in core infrastructure capital stock grew by only 1.8 percent from 2001 to 2012. Had it grown by 5 percent, it is estimated Indonesia's GDP growth would have averaged 6 percent. A 5 percent rate would have also further reduced poverty by 2 percentage points. The CPF will continue to seek opportunities to support significant government infrastructure investment programs that will affect the underlying drivers of growth and poverty reduction through this engagement area. The engagement area will also continue to support the implementation of broad platforms for delivery as well as a renewed focus on crowding in the private sector and enabling commercial and private financing of infrastructure as part of the corporate focus on maximizing finance for development (MFD).

Links between the focus area and the twin goals

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

Country Development Goals

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

➔ Objective 1

INCREASE ACCESS TO WATER THROUGH IRRIGATION AND DAM SAFETY

Intervention Logic

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

CPF Objective Indicators

The number of people benefiting from improved irrigation and drainage

- Baseline: 4.5 million (2016)
- Target: 5.8 million (2020)

The number of people benefiting from improved dam safety

- Baseline: 3.1 million (2016)
- Target: 5.85 million (2020)

Supplementary Progress Indicators

Operational water user association created or strengthened

- Baseline: 1,913 (2016)
- Target: 2,065 (2018)

Number of dams rehabilitated

- Baseline: 35 (2016)
- Target: 90 (2020)

The World Bank Group Program

Ongoing:

- Dam Operational Improvement and Safety Project (DOISP) (P096532)
- Dam Operational Improvement and Safety Project Phase II (161514) approved FY17
- Water Resources and Irrigation Management Program 2 (WISMP-2) (P114348)
- Strategic Irrigation Modernization and Urgent Rehabilitation Project (SIMURP) (P157585) – approved FY18

➔ Objective 2

INCREASE ACCESS TO AFFORDABLE HOUSING

Intervention Logic

Access to housing is a critical challenge facing Indonesia, particularly in the urban areas. The current administration has made reducing the housing backlog and delivering affordable housing an explicit policy priority. With the *Satu Juta Rumah* (One Million Homes) initiative, launched in April 2015, the administration has set an ambitious target of delivering one million homes annually to meet new household demand and to address the housing deficit. The World Bank Group will aim to work both through the private and the public sectors to support the provision of affordable housing through a mix of lending and TA on both the supply and demand sides including encouraging private sector financing of affordable housing projects, as well as to support financial institutions in extending mortgages. IFC will also promote use of green building concepts among private sector housing developers.

CPF Objective Indicators

Number of targeted households assisted by the Program (BSPS) for affordable house ownership

- Baseline: 0 (2016)
- Target: 300,000 (2020)

Supplementary Progress Indicators

Amount of BP2BT (housing) assistance linked mortgage finance leveraged ($)

- Baseline: 0 (2017)
- Target: 105,000,000 (2020)

Number of housing units in compliance with the green building codes or received EDGE (Excellence in Design for Greater Efficiencies) green building certification

- Baseline (2014): 0
- Target (2020): 332,749

The World Bank Group Program

Ongoing:

- Land, Housing and Urban Settlements PAAA (P149874 - ACS completed).
- National Affordable Housing Program (P154948 - approved FY17; 2 financing windows: BP2BT for housing mortgage assistance and BSPS for affordable house ownership)
- IFC: Ciputra Residence Bond Partial Credit Guarantee (#33018)
- IFC: Ciputra Residence Loan (#37122)
- IFC: Indonesia Green Buildings Promotion-Phase II (#602197)

➔ Objective 3

DEVELOPMENT OF INTEGRATED TOURISM DESTINATIONS

Intervention Logic

Indonesia is endowed with spectacular and extensive natural and cultural resources that make tourism potentially one of the most important sectors for creating jobs, growth, and shared prosperity with a high proportion of employment for women and youth. Yet it lags well behind its neighboring countries in exploiting its competitive advantage. Indonesia is missing major opportunities in this key sector because of a number of severe infrastructure, institutional, and skills gaps. The World Bank Group is proposing to support the Government of Indonesia with a comprehensive approach, focusing on priority 'hub' destinations to start and later expand to more sites as part of a national tourism program. The program would draw on IBRD, IFC, and MIGA resources to support the development of integrated tourism destinations, which are based on integrated master plans and implementation strategies that are endorsed by a broad set of stakeholders. The development of integrated destinations would be through a continuous process of policy and planning coordination and would bring together (that is, integrate) the development of infrastructure, the promotion at the national and local levels, and skills and SME development. It would include private sector investments through IFC and MIGA financial products to support the tourism industry and to support local communities in delivering quality experiences, including SME financing and skills development needed to create a competitive tourism-based economy.

CPF Objective Indicators

Number of integrated tourism destinations with coordination body and implementation arrangements formalized by government decrees (*Surat Keputusan*, SK)

- Baseline: 0 (2016)
- Target: 1 (2020)

Supplementary Progress Indicators

Number of integrated tourism master plans prepared

- Baseline: 0 (2016)
- Target: 3 (2020)

The World Bank Group Program

Ongoing:

- Indonesia Tourism Development Project (P157599)
- Indonesia: Sustainable Tourism Development ASA (P164884)
- RETFs for further ITMPs financed by Sustainable Tourism Development MDTF (STD-MDTF, P164472)
- IFC: Indonesia: Investment Climate, Competition and Competitive Sectors (#602983) has a tourism component

ENGAGEMENT AREA 2

SUSTAINABLE ENERGY AND UNIVERSAL ACCESS

Definition of focus area

The government is looking to simultaneously increase overall generation to meet demand and prepare for growth, substantially increase the share of renewables in the energy mix, and provide universal access as a fundamental right of all Indonesians. Indonesia's power sector is facing a huge infrastructure deficit, and the government has projected that the country will need at least 35 GW of new generation capacity together with associated transmission and distribution capacity over the next ten years.

Links between the focus area and the twin goals

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

Country Development Goals

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

➔ Objective 4

INCREASE SUPPLY AND ACCESS TO ENERGY

Intervention Logic

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

CPF Objective Indicators

Number of people provided with new or improved electricity services

- Baseline: 11.18 million (2015)
- Target: 13.18 million (2020)

Incremental geothermal power generation installed capacity (MW)

- Baseline (2014): 0
- Target (2020): 150

Non-coal (hydro, gas) power produced (Gwh)[1]

- Baseline (2014): 1,175
- Target (2020): 2401

Supplementary Progress Indicators

The borrower issues a national approach to electrification with improved coordination of institutional responsibilities, financing mechanisms and planning

- Baseline (2015): No
- Target (2017): Yes

The borrower issues the implementing regulations for the 2014 Geothermal Law on the process to convert geothermal energy to electricity

- Baseline (2015): No
- Target (2017): Yes

The World Bank Group Program

Ongoing:

- Indonesia Power Transmission Development (P117323)
- Indonesia Second Power Transmission Development (P123994)
- Upper Cisokan Pumped Storage Hydro-Electrical Power (P112158)
- Geothermal Clean Energy Investment (P113078)
- Power Distribution Efficiency II - PforR (P154805) - approved FY16
- DPF Energy I (P154291) - approved and fully disbursed FY16
- Geothermal Energy Upstream Development (CTF/GEF P155047), approved FY17
- IFC's equity investment in Medco Power (#31462) - fully achieved
- IFC - BDSN (766617) Asahan I Hydropower - fully achieved
- IFC's investments to support clean IPPs and transmission projects (#39879)
- IFC's PPP advisory support for developing renewable and gas based IPPs and transmission
- IFC: Indonesia Renewable Energy Program - Business Development (#600118; Cross-Industry Advisory Services)
- MIGA - Rajamandala Hydropower IPP (guarantee issuance of $200 million)

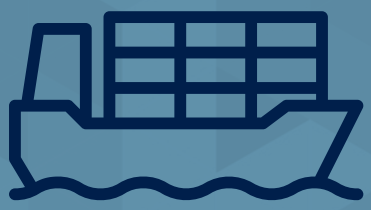
Planned Projects:

- Geothermal Risk Facility Management (P166071) - FY19
- DPF Energy II (P160394) - dropped
- IFC-Medco Power new investment (#40095)
- IFC-BDSN Asahan I Hydropower new investment (#40507)

1 Through IFC investment

ENGAGEMENT AREA 3

MARITIME AND CONNECTIVITY



Definition of focus area

Good connectivity is a vital prerequisite to supply domestic markets efficiently and to compete internationally. It is all the more important in an archipelagic nation such as Indonesia where the sea can become a tool of cohesion or a source of fragmentation and isolation. Good freight logistics—both in terms of speed and dependability—involves a wide range of elements including hard infrastructure and technology, good regulation and efficient operations, and the quality of human capital. Indonesia's connectivity challenges are largely driven by land-based sea-based connectivity considerations. During the CPF period, the World Bank Group engagement in this area will aim to support transformational policy advisory and investment programs that increase both sea- and land-based connectivity. Ongoing and planned engagements through the remainder of the CPF period include policy-based instruments to improve the logistics sector and support for a PPP program on national expressways. The engagement area will continue to support Indonesia in its efforts to sustainably manage its marine and coastal resources. Through the remainder of the CPF period, the engagement area will support this objective primarily through a policy and advisory program on coastal and marine management and marine pollution.

Links between the focus area and the twin goals

This engagement links with SCD Pathway 1 Job Creation by addressing one of the main constraints to growth and the creation of high productivity jobs, Pathway 2 Service Delivery and Opportunity for All, and Pathway 3 in providing infrastructure and regulatory environment to make use of natural resources, especially in coastal areas, more sustainable and the benefits more evenly shared.

Country Development Goals

The current RPJMN 2015–2019 calls for improvement of port efficiency and clear targets are set for the reduction of dwell time in major ports in Indonesia. The government is preparing several Presidential Decrees on upgrading ports, building new ports, and improving port efficiency, among other key investments. The RPJMN includes clear targets for mangrove restoration and increased management of protected areas and specific species. The government has already issued a number of critically important regulations to improve governance and management of its marine and coastal natural resources.

➔ Objective 5

IMPROVE MARITIME LOGISTICS AND CONNECTIVITY

Intervention Logic

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

CPF Objective Indicators

Reduction in dwelling time in the two main ports

- Baseline: 5.5 days in Tanjung Priok and 6.3 days in Tanjung Perak (2015)
- Target: 3 days (2020) in both ports

Increase in the number of new foreign licenses for freight forwarders warehousing and cold storage service providers

- Baseline (2015): 20 for freight forwarders and 3 for warehousing and cold storage
- Target (2020): 25 for freight forwarders and 18 for warehousing and cold storage

Supplementary Progress Indicators

Increase in the number of ports handling more than 2,000 TEU vessels in the 14 main containerized cargo ports across the 4 Indonesia Ports (Pelindo) [2]

- Baseline (2015): 3
- Target (2020): 11

The World Bank Group Program

Ongoing:

- Western Indonesia National Roads (P090990)
- Managing Logistics Costs in Indonesia (P146261) - closed FY16
- Trade and logistics PA (P156780) - dropped FY16
- DPF Maritime, logistics & connectivity (MLC I) (P158140) - closed FY18.
- DPF Maritime, logistics & connectivity (MLC II) (P163973) - approved FY18
- IFC's loan support to Jakarta International Container Terminal (#27117) - fully achieved
- Bali Sustainable Transport and Connectivity Initiative (P165320)
- Eastern Indonesia Port Development Platform (P160693) - dropped FY18
- Coral Reef Rehabilitation and Management Program-Coral Triangle Initiative (COREMAP-CTI) (P127813)

Planned New:

- National Expressway Development Program (P162300) – FY20
- IFC's investments with private sector ports developers and operators

2 These ports are the largest secondary ports for each of the Pelindos where containerized cargo is dominant: Tanjung Priok, Tanjung Perak, Belawan, Makassar, Balikpapan, Bitung, Ambon, Tanjung Emas, Banjarmasin, Pontianak, Teluk Bayur, Jayapura, Ternate, and Kendari.

ENGAGEMENT AREA 4

DELIVERY OF LOCAL SERVICES AND INFRASTRUCTURE

Definition of focus area

More than a decade after decentralization, which transferred the responsibility for the provision of most basic services to district governments, and despite significant increases in decentralized public spending (about half of total government spending), the quality of services remains persistently low and unevenly distributed across regions. Most local governments do not have adequate capacity to deliver services, nor are they accountable for results to the central government and their citizens. Improving local service delivery requires building the capacities of local governments to deliver services, moving toward a more performance-based transfer system, and providing the tools for citizens to monitor local service delivery, as well as differentiated approaches to different types of regions. Ultimately, improving local service delivery is about enhancing the way central, provincial, district, and village governments work together to deliver results on the ground. The engagement area will also renew focus on crowding in the private sector and enabling commercial and private financing of infrastructure as part of the corporate focus on maximizing finance for development (MFD).

Links between the focus area and the twin goals

Eliminating extreme poverty and boosting shared prosperity in the longer-term require improving opportunities today particularly strengthening human capital through investments in education, health, and nutrition to ensure a healthy and productive population in the future. This engagement links with SCD Pathway 2 Service Delivery and Opportunity for All in accelerating human capital accumulation and supporting improvements in quality of, access to, and accountability for health, education, sanitation, and other infrastructure provided through local governments.

Country Development Goals

The National Medium-Term Plan (RPJMN) aims to improve the quality of human life and address disparity and inequality. One of the three development dimensions is territorial and equity dimension that aims to ensure that development could be equally distributed among income groups and across regions.

➔ Objective 6

STRENGTHENING THE DECENTRALIZATION FRAMEWORK TO IMPROVE LOCAL SERVICE DELIVERY

Intervention Logic

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

CPF Objective Indicators

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

- Baseline: 72 (2016)
- Target: 88 (2018)

Supplementary Progress Indicators

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

- Baseline: No (2016)
- Target: Yes (2018)

The World Bank Group Program

Ongoing:

- Local Government DAK (P111577) - closed FY18
- AF for the Local Government and Dec. Project (P123940) - closed FY18
- PASA Decentralization that Delivers (P154976)
- Investing in Nutrition and Early Years (P164686) - approved FY18

➔ Objective 7

IMPROVING SUSTAINABLE URBANIZATION

Intervention Logic

The World Bank Group will support national programs that provide results-based financing and technical assistance to cities to provide basic services to all citizens, including water supply and sanitation, urban development, transport, and solid waste. To achieve this objective, the World Bank Group will introduce schemes to increase the leverage of commercial and private financing.

CPF Objective Indicators

People provided with improved infrastructure under the National Slum Upgrading Project

- Baseline: 0 (2016)
- Target: 7.5 million (2020)

Female beneficiaries under the National Slum Upgrading Project

- Baseline (2016): 0
- Target (2020):
  - Female members in community decision-making body: 30%
  - Female participants in planning and implementation stages: 40%
  - Female community members obtained capacity building: 30%

Supplementary Progress Indicators

Percentage of local governments that have completed Slum Improvement Action Plans (SIAPs) which have been approved by Bupati/Walikota

- Baseline: 0 (2016)
- Target: 70 (2020)

Volume of dredge material removed from the floodways, canals, and retention basins (including solid waste) (cubic meter, m3)

- Baseline: 1,986,229 (2016)
- Target: 3,400,000 (2020)

The World Bank Group Program

Ongoing:

- Jakarta Urgent Flood Mitigation Project (P111034)
- Surabaya Urban Corridor Development BETF (P148821) - dropped FY17
- Sustainable urbanization PASA (P153802)
- ID-WSSLIC III (PAMSIMAS) (P085375)
- National Slum Upgrading Program (P154782) - approved FY17
- Regional Infrastructure Development Fund (RIDF) (P154947) - approved FY17
- National Urban Water Supply Program (P156125) – approved FY18

Planned New:

- Improvement of Solid Waste Management to Support Regional and Metropolitan Cities (P157245) – FY19
- National Urban Development Project (P163896) - FY19
- National Urban Waste Water Management Program (P158310) – FY20
- Regional Infrastructure Development Fund (RIDF) II/AF – FY20
- National Urban Transport Program – FY20
- IFC's investment to support Jakarta Waste-to-Energy project

➔ Objective 8

IMPROVED ACCESS TO QUALITY EDUCATION AND HEALTH-RELATED SERVICES

Intervention Logic

The World Bank Group will support national programs that promote human capital development by providing performance-based funds and technical assistance to districts and villages for education and health-related services (including water and sanitation) that meet minimum quality standards. IFC will seek private sector models for utilizing new technologies to expand health care and education services to the base of the pyramid populations in remote regions.

CPF Objective Indicators

Percentage of pregnant women receiving four prenatal care visits in 5,761 villages
¬ Baseline: 68 (2016) . ¬ Target: 80 (2020)

National Stunting Reduction Coordination mechanism launched and operational
¬ Baseline: No (2018) . ¬ Target: Yes (2020)

Number of districts implementing district based, community focused training system for early childhood education (ECED) teachers
¬ Baseline: 0 (2016) . ¬ Target: 75 (2020)

Number of people having access to improved water services in targeted areas, disaggregated by gender
¬ Baseline: 7.9 million, with 4 million women (2016)
¬ Target: 22 million, with 11 million women (2020)

Number of people having access to improved sanitation services in targeted areas, disaggregated by gender
¬ Baseline: 7.7 million, with 3.9 million women (2016)
¬ Target: 14.9 million, with 7.45 million women (2020)

Female beneficiaries under the new PAMSIMAS project
¬ Baseline (2016): 0 . ¬ Target (2020):
- Female members in the community decision making body: 30%
- Female participants in the planning and implementation stages: 30%
- Female community members obtained capacity building: 30%

Supplementary Progress Indicators

Puskesmas that have received higher levels of accreditation
¬ Baseline: 500 (2018) . ¬ Target: 700 (2020)

National Stunting Reduction Acceleration Strategy launched, with detailed Results Framework and Implementation Plan
¬ Baseline: No (2018) . ¬ Target: Yes (2020)

Number of villages developing community water supply and sanitation action plans
¬ Baseline: 10,000 (2016) . ¬ Target: 27,000 (2020)

The World Bank Group Program

Ongoing:
¬ PNPM Rural 2012–2015 (P128832) - Village Innovation Program (P128832)
¬ PNPM-Generasi (P132585)
¬ Indonesia PASA to support UHC (P153828)
¬ Village Law PASA (P153219)
¬ Village Governance and Community Empowerment Study (P154636)
¬ ECED Frontline PASA (P156674)
¬ PNPM-Generasi Impact Evaluation (P152466)
¬ ID PAMSIMAS Support Trust Fund (P116236)
¬ ID-WSSLIC III (PAMSIMAS) (P085375)
¬ AF-National Water and Sanitation Program (PAMSIMAS 2)
¬ Supporting 12 years Quality Education for All (P157380)
¬ AF-National Water and Sanitation Program (PAMSIMAS 3) (P129486) - approved FY16
¬ Indonesia - Supporting Primary Health Care Reform PforR (I-SPHERE) Program (P164277) - approved FY18
¬ Investing in Nutrition and Early Years (P164686) – approved FY18

Planned New:
¬ Primary Health Care Project (P157150) - dropped
¬ Improving Efficiency and Effectiveness of Education Expenditure (PforR) (P163217) - FY19
¬ Institutional Strengthening for Improved Village Service Delivery PforR (P165543) – FY20
¬ Realizing Education's Promise in Indonesia IPF – FY20

ENGAGEMENT AREA 5

SUSTAINABLE LANDSCAPE MANAGEMENT

Definition of focus area

Better harnessing potential of natural assets (land, water, forests) for sustainable and inclusive growth through improved spatial planning and land administration, improving governance and management of the Forest Estate, integration of a landscape approach into the portfolio and pipeline, making growth inclusive, through targeting the vulnerable and promoting equity, and enhancing cross-sectoral coordination and integration for landscape management. This focus area covers support for design and implementation of a Landscape Program focused on improving management of, and benefits from, terrestrial natural assets.

Links between the focus area and the twin goals

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

Country Development Goals

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

➔ Objective 9

STRENGTHENED CAPACITY IN DECENTRALIZED FOREST AND LAND MANAGEMENT

Intervention Logic

The indicative portfolio provides support to the government in developing some of the core fundamentals for better harnessing the potential of natural assets as a source of sustainable economic growth, jobs, and livelihoods. Specifically, these activities (a) improve governance and management of land and forests with a focus on improved land administration and decentralized forest management; (b) address root causes of poverty and natural degradation by improving security of land tenure and use; and (c) make growth inclusive and equitable, through ensuring that vulnerable communities living in and around the Forest Estate are benefiting from those resources. The activities were selected based on their criticality to reducing poverty in and around forest areas and improving forest-related revenue collection and management as a driver of broader growth, which reflect ongoing engagement areas between the World Bank and related ministries. Likewise, the portfolio under preparation reflects areas critical to success where the government has demonstrated interest in engaging. While these areas are considered critical for engagement, important risks do remain given the challenging political economy of the sector and the weak coordination between ministries and local government.

CPF Objective Indicators

Land area supported by forest management units with improved management effectiveness (hectare)

- Baseline (2016): 0
- Target (2020): 177,000

Supplementary Progress Indicators

Forest Management Units (KPH) with forest boundaries that have been delineated in spatial plans and submitted to geospatial agency for being included in 'One Map'

- Baseline: 0 (2016)
- Target: 5 (2020)

Forest management units governed by long-term management plans prepared with community participation (numbers)

- Baseline: 0 (2016)
- Target: 2 (2020)

The World Bank Group Program

Ongoing:

- Promoting Sustainable CBNRM and Institutional Development (P144269)
- Strengthening Rights and Economies of Adat and Local Communities Project - DGM (P156473)
- PAAA Green Development Support Program (P148318) - dropped FY18.
- REDD+ Support Facility (P149183) - closed FY17
- Indonesia Integrated Landscapes PASA (P156489)
- Strengthening of Social Forestry in Indonesia—GEF Social Forestry (P165742)
- REDD+ Sustainable Landscapes Program in East Kalimantan—Forest Carbon Partnership Facility (P166244)
- REDD+ Sustainable Landscapes Program in Jambi—BioCarbon Fund ISFL (P166672)
- IFC: Indonesia Green Buildings Regulation (#589167; Trade and Competitiveness)
- IFC: SE Asia Forestry Advice (#600431; Manufacturing, Agribusiness & Services)
- IFC: Forestry Supply Chain Indonesia (#600124; Manufacturing, Agribusiness & Services)
- IFC: Indonesia Palm Oil Development Smallholders (#594007; Manufacturing, Agribusiness & Services)
- IFC: Follow on Palm Oil Project No. 2: SCI in Plantations (#593807; Manufacturing, Agribusiness & Services)

Planned New:

- Acceleration Program of Agrarian Reform and One Map Policy Implementation (P160661) – FY19

ENGAGEMENT AREA 6

COLLECTING MORE AND SPENDING BETTER

Definition of focus area

Indonesia's revenue-to-GDP (14.4 percent in 2014) and tax-to-GDP (11.3 percent in 2014) ratios are very low by international standards. This is not due to lower tax potential; by one estimate, Indonesia is collecting less than 50 percent of its total potential tax revenue. The 50 percent of tax revenue not being collected is a result of suboptimal tax policy (policy gap) and weak administration (compliance gap). Just as important as collecting more, however, is 'spending better', that is, improving both the composition and delivery/execution of spending. Before the introduction of a major fuel subsidy reform, the central government's public spending on infrastructure and health programs were significantly crowded out by large energy subsidies. In 2014, spending on energy subsidies accounted for more than one-fifth of the central government's budget and more than three times the allocation for infrastructure and health. Subnational governments now spend a bit more than half of the national budget (net of subsidies and interest payments). In general, subnational governments' spending is excessively dominated by spending on administration and personnel over productive sectors and capital spending. Improving the composition of local government spending and reallocating more resources to frontline service delivery are important steps toward improving the provision of key services to the population.

Links between the focus area and the twin goals

Fiscal policy in its revenue mobilization and quality of spending functions was identified in the SCD as key to poverty reduction and shared prosperity. The SCD also identifies transparency and accountability in the use of public funds as one of the key ingredients in improving service delivery. This engagement links with Pathway 2 by providing both increased revenue and better spending for the delivery of services opportunities for all and Pathway 3 that seeks to improve the way revenue from Indonesia's abundant natural resources can be captured and shared to improve sustainability and share resources more equitably.

Country Development Goals

RPJMN 2015–2019 emphasizes: (a) strengthening state revenue administration capacity and improving tax policy to increase the state revenue from tax and nontax sources, and (b) strengthening planning and budgeting institutions to improve budget execution, allocative efficiency, and the effectiveness (impact) of public expenditure.

➔ Objective 10

IMPROVE REVENUE COLLECTION

Intervention Logic

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

CPF Objective Indicators

VAT-to-GDP ratio
- Baseline (2015): 3.7%
- Target (2020): 4.0%

Non-oil & Gas Income Tax-to-GDP ratio
- Baseline (2015): 4.7%
- Target (2020): 5.0%

Supplementary Progress Indicators

Regulation fully implemented to eliminate duplicate tax IDs
- Baseline: No (2014)
- Target: Yes (2016)

Annual filing ratio for taxpayers
- Baseline (2015): 60.6% (individual); 58.0% (corporate)
- Target (2019): 80.0% (individual); 75.0% (corporate)

Registered individual taxpayers as a percent of the labor force
- Baseline (2015): 24.7%
- Target (2019): 30.0%

The World Bank Group Program

Ongoing:
- TA-Revenue and Budget Management (P155648)
- Tax policy TA (part of macro-fiscal PA P132241)
- Non-tax revenue policy and administration TA (part of Natural Resources for Development PA P156142)
- Fiscal Reform DPF 1 (P132241)
- Indonesia Fiscal Reform DPF 2 (P161475)
- Scholarship SPIRIT (P118150) - closed FY18

Planned New:
- Fiscal DPF3 – Tax Policy and Tax Admin and Public Financial Management - FY19

➔ Objective 11

IMPROVE EFFICIENCY AND EFFECTIVENESS OF SPENDING

Intervention Logic

By improving the allocative and technical efficiency of public expenditure, the government will be able to reduce economic distortions and lower administration costs to allow for more optimal mix of public spending such as infrastructure, health, and education. Ongoing and upcoming portfolio items are designed to provide multiple instruments to support the government's spending better agenda. Specifically, the World Bank Group aims to help the government in the following key areas: (a) advancing energy (fuel and electricity) subsidy reforms through consistent implementation and improved transparency; (b) improving quality of spending (allocative efficiency, effectiveness, and implementation) in key areas; (c) improving quality of spending and service delivery of selected subnational governments; and (d) strengthening institutional capacity to modernize procurement and contract management and to improve the control environment.

CPF Objective Indicators

Central government spending on health, capital expenditure (proxy for infrastructure), and social assistance (percentage of total expenditure of approved national budget excluding transfers to subnational governments)

- Baseline: health at 2.7 percent (2014); capital expenditure at 12.2 percent (2014); social assistance at 3.2 percent (2014)
- Target (2016 onward): positive growth

Central budget execution rates (realized as a percentage of APBN) of capital spending

- Baseline: 80 percent (2014)
- Target: 90 percent (2020)

Supplementary Progress Indicators

Change regulations (including at least PMK 157/2013) to better enable large infrastructure contracts, including multi-year contracts

- Baseline: No (2015)
- Target: Yes (2017)

Improvement in the opinion expressed in audited annual central government financial statements

- Baseline: Qualified (2015)
- Target: Unqualified (2017)

The World Bank Group Program

Ongoing:

- PERISAI DPL-DDO (P130048) - closed
- Expenditure policy TA (part of macro-fiscal policy PA P132241)
- DPF Fiscal Reform I and II (P156655) - closed
- Sub-national fiscal TA, including in resource rich regions (part of macro-fiscal policy PA P132241 and Decentralization PA)
- Fiscal Reform DPF 1 (P132241)
- Indonesia Fiscal Reform DPF 2 (P161475)
- Scholarship SPIRIT (P118150) - closed FY18
- Public Procurement Statistics Capacity-Building in Indonesia (P163517) - Open Contracting Pilot with the city of Bandung in collaboration with LKPP

Planned New:

- Fiscal DPF3 – Tax Policy and Tax Admin and Public Financial Management - FY19
- Human Resource Development for Bureaucratic Reform Project includes support for procurement professionalization and capacity building (P159461) - FY19
- PFM-MDTF: Assessment of Indonesia's Public Procurement System using the revised OECD-DAC Methodology for Assessing Procurement Systems (MAPS-II, 2017) to identify the strengths and weaknesses and recommend actions for improvement 'Strengthening Budget and Revenue Management in Indonesia' (P155648) - FY19

SUPPORTING BEAM 1

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

Definition of focus area

As set out in the SCD, growth, jobs and poverty reduction will depend a great deal on a growth strategy that is supported by the private sector as the engine of growth. The government plays a critical role by devising and implementing appropriate policies and regulations. While addressing some key constraints (such as the infrastructure and skills gap) through the various engagement areas, the unifying factor—a weak business and financing environment—is seen as one that cuts very broadly across the economy and affects the efficiency and efficacy of many of the development solutions. The symptoms of the weak business and financing environment are evidenced by investment and trade regulations that are generally restrictive, often inconsistent (including across different levels of governments), and uncertain; obtaining permits and licenses is time-consuming and costly.

Links between the focus area and the twin goals

This engagement links with SCD Pathway 1 Job Creation by helping to stimulate investment, and improving the business climate and functioning of markets to attract private sector capital that is essential for the creation of jobs and for helping finance the country's vast infrastructure needs.

Country Development Goals

The goals set forth in the RPJMN can only be achieved by successfully leveraging private capital to do so the government must take steps to reform the regulatory environment and otherwise to improve the business climate and the functioning of markets. These efforts will impact all engagement areas including National and Local infrastructure, Energy, Maritime, and Landscape Management.

➔ Objective 12

SIMPLIFY BUSINESS REGULATIONS

Intervention Logic

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

CPF Objective Indicators

Implemented reforms supporting private sector development

- Baseline: 0 (2018)
- Target: 5 (2020)

Supplementary Progress Indicators

Total time required for processing of all licenses in IPP

- Baseline: 735 days (2015)
- Target: 435 days (2017)

The World Bank Group Program

Ongoing:

- Indonesia Private Sector Development Reform Project (P144680) - completed
- Research and Innovation in Science and Technology Project (P121842)
- Indonesia Private Sector Reform II ASA (P160793)
- Review Economic Packages Released by the Indonesian Government (P160406)
- Sustainable Management of Agricultural Research and Technology Dissemination (P117243)
- Indonesia Investment Climate, Competitive Sectors and Competition (602128, IFC Advisory, Umbrella Program, with related projects: 602983 and 602984; Delivery: FY22)

Planned New:

- Indonesia Private Sector Competitiveness and Innovation III

➔ Objective 13

INCREASE THE ROLE OF THE PRIVATE SECTOR IN NATIONAL INFRASTRUCTURE INVESTMENT

Intervention Logic

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

CPF Objective Indicators

Amount of PPP investment in infrastructure

- Baseline: $327.4 million (2014)
- Target: $5,000 million (2020)

The World Bank Group operations that directly crowd in private investments in addition to public and the World Bank Group financing

- Baseline (2015): 1 operation
- Target (2020): 4 operations

Supplementary Progress Indicators

A reformed regulation clarifying Perpres (presidential regulation) 75 & 38

- Baseline: 0 (2016)
- Target: 1 (2020)

Number of infrastructure sub-projects financed by IIFF

- Baseline: 0 (2017)
- Target: 3 (2019)

Number of projects appraised by IIGF[3] in accordance with approved operations manual

- Baseline: 0 (2017)
- Target: 3 (2019)

The World Bank Group Program

Ongoing:

- Infrastructure Finance Facility IIFF (P092218), AF-Infrastructure Finance Facility IIFF (P154779) - approved FY17
- Indonesia Infrastructure Finance Development (P157490 - approved FY16) and P157491
- Indonesia Infrastructure Guarantee Fund (P118916)
- IFC: Upstream advocacies on Toll Road Concessions and Hydro Power Purchasing Agreement (PPA) with PLN

Planned New:

- National Expressway Development Program (P162300) – FY20
- Capital market development, especially in area of infrastructure finance
- IFC: PCG to support bond issuance of toll road companies

3 IIGF = Indonesia Infrastructure Guarantee Fund.

➔ Objective 14

ENHANCE ACCESS TO FINANCE

Intervention Logic

This objective will be supported through financial and knowledge advisory services by assisting the design and implementation of government policies and programs and strengthening the capacity of various institutions involved in policy-making to increase access to finance for the underserved, ensure the resilience of the financial sector, and facilitate private financing of investment, particularly infrastructure. Financial access and inclusion – individuals and SMEs: analysis of financial infrastructures (payment systems, credit reporting system) and support implementation of reforms (agent banking to expand access to financial services), digitizing government payments, improving other deposit-taking institutions (cooperatives/ microfinance institutions), enhancing consumer protection and their financial capability. WBG services on enhancing access to finance is complemented by work on financial stability and financial deepening, which aims at building a stronger financial system and developing financial markets (with a link to infrastructure finance and disaster risk financing). Policy work and the private sector investment and advisory work are complementary to support the objective. IFC expects to provide financing to banks and financial institutions to extend their support to small and medium enterprises, helping create livelihoods and jobs for poor people. IFC will also continue to work with larger corporations in infrastructure, manufacturing, food products, and services sectors to support them in securing jobs, procuring raw materials, and producing high-quality goods for the poor people through its focus on inclusive business models.

CPF Objective Indicators

Percentage adults (age 15+) with an account at formal financial institutions

- Baseline: 36 percent (2014)
- Target: 65 percent (2020)

Number of Microloans disbursed disaggregated by gender[4]

- Baseline (2014): 0
- Target (2020): 3,000,000 (of which 50 percent women)

Number of SMEs reached with financial services[5]

- Baseline (2014): 0
- Target (2020): 3,800[6]

Supplementary Progress Indicators

Increase of financial literacy

- Baseline: 21 percent (2013)
- Target: 2 percent increase per year until 2017

Value of Financing Facilitated[7]

- Baseline (2015): $561.8 million
- Target (2019): $3.2 billion

The World Bank Group Program

Ongoing:

- Indonesia Payments Systems Upgrade (156536) - closed FY16
- Indonesia Digital Payments (P151368) – closed FY17
- Indonesia Financial Sector TA (P163296)
- Indonesia Promoting Financial Access and Inclusion (P166791)
- IFC: Earth Quake Index Insurance (EQII) for Microfinance Portfolio Protection (#599136; Finance and Markets)
- IFC: Environmental & Social Risk Management for Financial Institutions (#591447; Financial Institutions Group)
- IFC: Indonesia Corporate Governance Project (#590107; Environment, Social and Governance)
- IFC: Indonesia Financial Infrastructure - Secured Transactions (#597607; Finance and Markets)
- IFC: Indonesia M Banking 2 Digital Inclusion (#600401; Finance and Markets)

4 Through IFC investment
5 Through IFC investment
6 IFC estimate as of March 2018.
7 Through IFC investment

- IFC: Ciputra Residence Bond Partial Credit Guarantee (#33018)
- IFC's investments and advisory support for various private sector clients

Planned New:
- Financial Sector DPF – FY20
- Indonesia Financial Infrastructure - Credit Reporting (#598967; Finance and Markets)
- Indonesia Microfinance (#599772; Financial Institutions Group)
- Indonesia Mobile Banking Phase 2 (Digital Financial Inclusion) (#599875; Financial Institutions Group)
- IFC investment support for private companies to issue bonds or stocks on capital markets
- Capital market development, especially in area of infrastructure finance
- IFC: Partial Credit Guarantee (PCG) to support bond issuance of toll road companies

SUPPORTING BEAM 2

SHARED PROSPERITY, EQUALITY AND INCLUSION

Definition of focus area:
All the policies supported by the other CPF engagement areas, if designed and implemented properly, can significantly contribute to the twin goals. However, dedicated policies are also needed now to protect today's poor and vulnerable and to help them move into productive lives. Indonesia has been building a safety net system since the 1997 Asian Financial Crisis, but in 2015 coverage remained low and benefits were too small to make a sustainable difference. Indonesia is now implementing one of the largest social security reforms in the world, but in 2015 coverage was still very limited, with fraud and corruption already apparent; high employer contributions are being compounded by high minimum wages and severance pay that are hurting formal employment. Policies to help move the poor out of poverty into productive lives, such as through the provision of credit and savings and employment support, were very limited, but the new government has made them a priority, as they are complementary policies to promote the creation of more productive jobs.

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

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

➔ Objective 15

IMPROVE SOCIAL PROTECTION AND ACCESS TO PRODUCTIVE JOBS

Intervention Logic

This objective will be supported through financial and knowledge services: (a) poverty and inequality focus: analysis of poverty and inequality and support to specific policies and programs supported by the CPF to improve poverty and inequality reduction; (b) safety nets: development of common systems for social assistance programs through targeting and payments, reform of the Rice for the Poor Program (Rastra) to improve access of the poor to nutritious foods, expansion and improvement of Indonesia's Conditional Cash Transfer program (PKH), and improvement of PKH coordination with other complementary social assistance programs; (c) social security: design, finance, and build capacity to manage the Health Insurance-National Social Security System (SJSN) employment programs, safeguard the system against error, fraud, and corruption (EFC), and high labor taxes, as well as introducing monitoring and evaluation system and socializing the employment programs; (d) addressing employment services, including for effective jobs search functions; (e) improving the skills of the workforce; (f) improving worker protection without discouraging formal employment; (g) improving the protection and quality of employment of Indonesians migrating abroad; and (h) developing the financial infrastructure to increase access to credit, savings, and insurance among the poor and vulnerable across Indonesia.

CPF Objective Indicators

Total PKH beneficiary families
- Baseline: 5.9 million (2016)
- Target: 8 million (2020)

Share of PKH beneficiaries receiving other social assistance program benefits (percentage)
- Baseline: 13.6 (2016)
- Target: 85 (2020)

Supplementary Progress Indicators

Strategic paper to inform the expansion and improvement of PKH prepared
- Baseline: No (2016)
- Target: Yes (2018)

Introduce dynamic updating of the Unified Database (used for poverty targeting)
- Baseline: No (2016)
- Target: Yes (2019)

Guidelines and action plan for improving system to prevent, detect and correct EFC developed and implemented
- Baseline: No (2016)
- Target: Yes (2020)

Formula Based minimum wage setting introduced
- Baseline (2016): No
- Target (2020): Yes

The World Bank Group Program

Ongoing:

- Partnership for Knowledge-based Poverty Reduction PASA (P132247) - completed
- Strengthening Indonesian Statistics Project (STATCAP) - closed FY18
- Consumption Module Simulation SUSENAS (P153589) - closed FY17
- Social assistance reform TA (P117975) - closed FY16, Indonesia Social Assistance Strengthening TA (P160590)
- Social Security PAAA (P144677) - completed
- Social Assistance Reform Program (PforR - P160665) - approved FY17
- Indonesia Digital Payments (P151368) - closed FY17
- Jobs PASA (P146480) - closed, Indonesia Jobs Action Program (P163964) Active, completion 2020
- PASA Financial Sector Technical Assistance (P163295)
- Developing Skills in Indonesia (P166241)
- Supporting Worker Protection Reform in Indonesia (P166241)
- International Labor Migration Study and TA in Indonesia (P150164) - closed FY16,
- Vulnerable and Excluded Workers in Indonesia (P159694)
- Indonesia #C007 Payments Systems Upgrade (P156536) - closed FY16
- Indonesia Digital Payments (P151368) - closed FY17
- IFC: Indonesia Agribusiness Business Development (#600483; Manufacturing, Agribusiness & Services)
- FHP Indonesia II (#36865, Collective Investment Vehicles, $40m) - fully achieved
- MIGA- Rajamandala Hydropower IPP (guarantee issuance of $200 million)

Planned New:

- Skills Development Project PforR – FY20
- IFC: Indonesia M Banking 2 Digital Inclusion (#600401; Finance and Markets)
- IFC: Agricultural Finance AS to Bank Muamalat (#600480; Financial Institutions Group)
- IFC: Danamon Agriculture Finance (#600755; Financial Institutions Group)
- IFC: Indonesia Responsible Microfinance (#601066; Finance and Markets)

Annex 2

PLANNED AND ACTUAL IBRD FINANCING FY16-20

update as of June 30, 2018

Engagement Area 1
INFRASTRUCTURE PLATFORMS AT THE NATIONAL LEVEL

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	Dam Operations Rehabilitation & Safety Improvement Project-2 (DORSIP-2) – IPF	125	150-200	Approved on 2/27/17, under implementation, with AIIB co-financing of $125m
2	Urgent Rehabilitation of Irrigation Project (URIP) – IPF	250	150-150	Approved on 6/21/18. These two projects have been merged into one project: Strategic Irrigation Modernization and Urgent Rehabilitation Project – IPF, $250m IBRD with AIIB co-financing of $250m
3	Modernization Strategic Irrigation Project (MISP) – IPF		150	
4	National Affordable Housing Program – IPF	450	150	Approved on 3/17/17, under implementation
5	Tourism Infrastructure Development – IPF	300	100-150	Approved on 5/30/18

Engagement Area 2
SUSTAINABLE ENERGY AND UNIVERSAL ACCESS

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	DPF Energy I – DPF	500	500	Approved on 12/1/15, closed
2	DPF Energy II – DPF	n/a	300	Dropped
3	AF-Upper Cisokan 1040MW – IPF		150-200	Dropped
4	Power Distribution Efficiency P4R (PT PLN) – PforR	500	500	Approved on 4/22/16, under implementation
5	Poko Hydro Power 130MW (PLN) – IPF	n/a	200-250	Dropped
6	Geothermal II 150MW (PT PGE/ Pertamina) – IPF	225	100-150	The focus of geothermal financing support has been changed from downstream to upstream investment and was initiated with Geothermal Energy upstream development project (GEUDP), two grants amounting $55.25m
7	Geothermal Resource Risk Mitigation Project (GREM)**	n/a	225	Planned for FY19
8	Power Distribution Efficiency II P4R (PT PLN) – PforR	n/a	250	Postponed

Engagement Area 3
MARITIME AND CONNECTIVITY

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	Road improvement to support integrated land and sea toll way – Northern area – IPF	n/a	150-200	Dropped
2	DPF Maritime, Logistics & Connectivity (MLC) – DPF	400	300	Approved on 11/2/16, closed
3	DPF Maritime, Logistics & Connectivity (MLC II) – DPF	300	300	Approved on 6/28/18
4	Eastern Ports Development (PT Pelindo) – IPF	n/a	200	Dropped
5	National Program for Blue Economy – IPF	n/a	100	Dropped
6	National Expressway Development Program (PPP) – IPF**	n/a	100-300	Planned FY20 (potential for co-financing)

Engagement Area 4
DELIVERY OF LOCAL SERVICES AND INFRASTRUCTURE

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	Regional Infrastructure Development Funds (RIDF) – IPF	100	100	Approved on 3/10/17, under implementation, with AIIB co-financing of $100m
2	AF-National Rural Water & Sanitation (PAMSIMAS 3) - IPF	300	300	Approved on 1/8/16, under implementation
3	National Slum Upgrading – IPF	216.5	200	Approved on 7/12/16, under implementation, with AIIB co-financing of $216.5m
4	Improvement of Primary Health Care – PforR	150	250	Approved on 6/13/18
5	Improvement of Solid Waste Management to Support Regional & Metro Cities – IPF	n/a	100	Planned FY19. Project title changed to Indonesian Solid Waste Management Improvement Project
6	National Urban Water Supply Program – IPF	100	100	Approved on 6/6/18
7	Regional Water supply in Benteng Kobema & Durolis – IPF	n/a	100	Dropped
8	Surabaya Urban Transport – IPF	n/a	100	Dropped
9	National Urban Waste Water Management Program (Sewerage system development and development of sewerage treatment plant facility) – IPF	n/a	200	Planned FY19. Project title changed to National Urban Waste Water Management Program (potential for co-financing)
10	Support for Delivery of Village Infrastructure and Basic Services – PforR	350	150	Planned FY20. Project title changed to Institutional Strengthening for Improved Village Service Delivery. The instrument changed from IPF to PforR.
11	National Urban Development Program (NUDP) – Sustainable Urban Development – IPF	50	100	Planned FY19
12	DAK Reform Program – IPF	n/a	100-150	Postponed
13	Quality Education in Disadvantaged Regions – IPF	n/a	100-150	Dropped
14	Investing in Nutrition and Early Years – PforR**	400	0	Approved on 6/21/18
15	Improving Efficiency and Effectiveness in Education Expenditure – PforR**	n/a	300	Planned FY19
16	Realizing Education's Promise in Indonesia – IPF**	n/a	100-250	Planned FY20
17	Regional Infrastructure Development Funds (RIDF) II/AF – IPF**	n/a	200-400	Planned FY20 (potential for co-financing)
18	National Urban Transport Program**	n/a	250-500	Planned FY20 (potential for co-financing)

Engagement Area 5
SUSTAINABLE LANDSCAPE MANAGEMENT

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	Forestry Investment Program – IPF	22	100	Approved on 5/27/16, financed by grant
2	National Land Administration and Spatial Planning – IPF	n/a	200	Planned FY19. Title changed to Acceleration Program of Agrarian Reform and One Map Policy Implementation

Engagement Area 6
COLLECTING MORE AND SPENDING BETTER

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	DPF Revenue Collection	400	300	Approved on 5/31/16, closed. Title changed to Indonesia Fiscal Reform DPF
2	Modernization of Tax Collection Project – IPF	n/a	100	Dropped
3	DPF Revenue Collection II	300	300	Approved on 10/31/17, under implementation. Title changed to Indonesia Fiscal Reform DPF II
4	Development of Capacity, Quality and Competency HR (SPIRIT II) – IPF	n/a	100-150	Planned FY19. Title changed to Human Resource Development for Bureaucratic Reform Project
5	Indonesia Fiscal Reform DPF III**	n/a	300	Planned FY19

Supporting Beam 1
LEVERAGING THE PRIVATE SECTOR – INVESTMENT, BUSINESS CLIMATE AND FUNCTIONING OF MARKETS

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	AF Indonesia Infrastructure Financing Facility – IPF	200	150	Approved on 6/24/09, under implementation
2	Financial Sector DPF**	n/a	150	Planned FY20

Supporting Beam 2
SHARED PROSPERITY, EQUALITY AND INCLUSION

No	Project/Program Title	Actual $ million	Planned* $ million	Status
1	Skills Development Project – PforR**	n/a	100-200	Planned FY20
2	Social Assistance Reform Project**	200	0	Approved on 5/9/17, under implementation

Notes: * Amounts will be determined during preparation in consultation with the government
** Projects that were not contemplated at CPF preparation and were added subsequently

Annex 3
KEY MACROECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018f	2019f	2020f
REAL ECONOMY	Annual percentage change, unless otherwise indicated								
Real GDP	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.2	5.3
Per Capita GDI (USD Atlas Method)	3,599	3,759	3,654	3,515	3,514	..	..	..	..
Contributions to GDP growth (ppt):									
Consumption	3.1	3.0	2.9	2.7	2.8	2.8	2.8	2.8	2.9
Investment	2.9	1.6	1.4	1.6	1.4	2.0	2.1	2.3	2.4
Net exports	-1.5	0.6	-0.2	0.9	0.2	0.3	-0.5	-0.3	-0.2
Imports (real growth)	8.0	1.9	2.1	-6.2	-2.4	8.1	9.5	8.7	8.5
Exports (real growth)	1.6	4.2	1.1	-2.1	-1.6	9.1	6.5	6.8	7.0
Unemployment rate (ILO definition)	6.1	6.2	5.9	6.2	5.6	5.5	3.9	3.4	2.9
GDP deflator (avg.)	3.8	5.0	5.4	4.0	2.5	4.2	0.5	4.9	5.7
CPI (avg.)	4.0	6.4	6.4	6.4	3.5	3.8	3.4	3.7	3.7
FISCAL ACCOUNTS*	Percentage of GDP								
Expenditure	17.3	17.3	16.8	15.7	15.0	14.8	14.6	14.7	14.8
Revenue	15.5	15.1	14.7	13.1	12.5	12.3	12.6	12.8	12.8
General Government Balance	-1.8	-2.2	-2.1	-2.6	-2.5	-2.5	-2.1	-1.8	-2.0
General Government Debt	22.9	24.8	24.7	27.0	27.9	29.4	28.8	28.9	29.0
SELECTED MONETARY ACCOUNTS	Annual percentage change								
Base Money (M2)	15.0	12.8	11.9	9.0	10.0	8.3	10.7	8.9	7.6
Credit to non-government (eop)	22.4	22.1	14.2	..	..	..	..	..	..
Interest (key policy interest rate), eop**	5.8	7.5	7.8	7.5	4.6	3.3	..	..	..
BALANCE OF PAYMENTS	Percentage of GDP, unless otherwise indicated								
Current Account Balance	-2.7	-3.2	-3.1	-2.0	-1.8	-1.7	-2.4	-2.3	-2.4
Imports	23.2	23.2	22.7	19.3	17.1	18.0	20.0	20.8	21.4
Exports	23.0	22.5	22.3	19.9	18.0	19.1	20.5	21.2	21.7
Direct Investment (net, $ billion)	13.7	12.2	14.7	10.7	16.1	19.2	19.4	23.2	27.9
Gross Reserves ($ million, eop)	112.8	99.4	111.9	105.9	116.4	130.2	114.6	108.8	106.7
Months' import cover (goods)	7.7	7.1	9.9	9.8	9.3	9.7	8.0	7.1	..
As % of short-term external debt	206.4	176.6	188.8	190.9	212.7	237.5	..	..	..
External Debt	27.5	29.1	32.9	36.1	34.3	34.8	..	..	..
Term of Trade (index 2015=100)	102.1	98.2	99.4	100.0	101.4	102.5	102.1	102.9	103.9
Exchange Rate (average) IDR/$	9,387	10,461	11,865	13,389	13,308	13,381	..	..	..
MEMO ITEMS									
GDP nominal in (in billion $)	918	913	891	861	932	1,016	1,018	1,110	1,216

Note: Using revised and 2010-rebased GDP. *Fiscal accounts for 2018-2020 are the World Bank staff projections. **Bank Indonesia strengthened monetary operations by introducing a new policy rate known as the BI 7-Day (Reverse) Repo Rate, effective from 19th August 2016.

Source: BPS; Ministry of Finance; BI; The World Bank staff projections for 2018-2020.

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