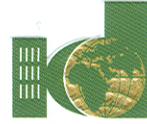




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المؤسسة الإسلامية لتنمية القطاع الخاص
ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR
SOCIÉTÉ ISLAMIQUE POUR LE DÉVELOPPEMENT DU SECTEUR PRIVÉ



ISLAMIC DEVELOPMENT BANK GROUP



Member Country Partnership Strategy Republic of Indonesia: Harnessing the Regional Potential, 2011-2014

Safar 1432H (January 2011)

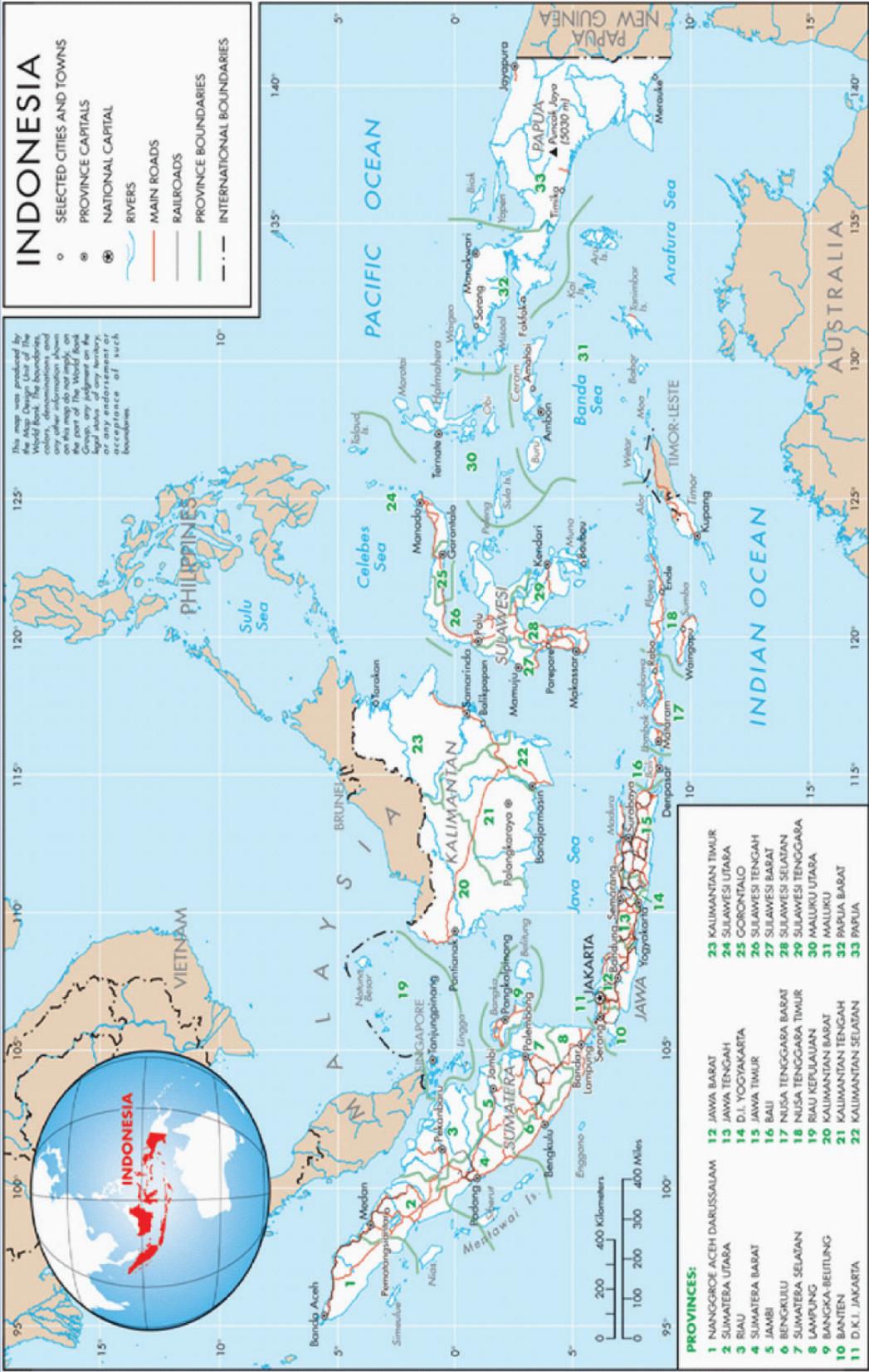


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Member Country Partnership Strategy Republic of Indonesia: Harnessing the Regional Potential, 2011 - 2014

Safar 1432H (January 2011)

Map of the Republic of Indonesia



Source: World Bank: 'Investing in Indonesia's Institutions', Country Partnership Strategy for 2009-2012, [July 2008].

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(US dollar is represented by \$ and Indonesian Rupiah by IDR throughout this Report)

Fiscal Year (Indonesia)

January 1 – December 31

Abbreviations and Acronyms

AsDB	: Asian Development Bank
ASEAN	: Association of the South East Asian Nations
BAZNAS	: Badan Amil Zakat Nasional (National Board of Zakat)
BI	: Bank Indonesia (central bank)
BIMP-EAGA	: Brunei, Indonesia, Malaysia, Philippines – East ASEAN Growth Area
CDD	: Community Driven Development
GCC	: Gulf Cooperation Council
Gol	: Government of Indonesia
ICT	: Information Communication Technology
ID	: Islamic Dinar of the IDB
IDB-OCR	: Ordinary Capital Resources of the IDB
IFSI	: Islamic Financial Services Industry
ILO	: International Labor Organization
JBIC	: Japan Bank for International Cooperation
JICA	: Japan International Cooperation Agency
MDBs	: Multilateral Development Banks
MDGs	: Millennium Development Goals
MSMEs	: Micro, Small and Medium Enterprises
PIUs	: Project Implementation Units
PNPM-Mandiri	: Program Nasional Pemberdayaan Masyarakat Mandiri (National Poverty Alleviation Program)
PPP	: Public Private Partnership
RPJM, 2010-14	: Rencana Pembangunan Jangka Menengah (RPJM) Nasional 2010-2014 (Second Medium-term Development Plan, 2010-14)
SANIMAS	: Sanitasi Oleh Masyarakat (Community-based Sanitation Program)
SMEs	: Small and Medium Enterprises
SOEs	: State-owned Enterprises
TVET	: Technical, Vocational Education and Training
USRI Program	: Urban Sanitation and Rural Infrastructure Program

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Executive Summary

In the post-reform IDB, ‘Member Country Partnership Strategy (MCPS)’ has been adopted as the Group’s principal engagement tool with member countries. MCPS aims to achieve alignment between the medium-term strategic priorities under IDB Vision 1440H and the member countries’ development priorities. This, in turn, requires a *critical understanding* of implementation obstacles and, then, to directly target the IDB Group assistance which alleviates the *binding constraints* so as to achieve the desired *developmental impact*. Finally, *partnership pillar* in the MCPS approach requires mobilization of knowledge and financial resources, both from domestic stakeholders and external development partners.

Work on the MCPS for the Republic of Indonesia started in earnest from April 2010 and concluded in October 2010. The process involved IDB Group participation in diagnostic analysis of key developmental challenges faced by Indonesia, formal consultations with a variety of stakeholders both through national and regional workshops and informal contacts, and donors’ coordination in and outside Indonesia.

Developmental Challenges and Opportunities

With robust public finances and external balances, Indonesia faced the headwinds of the global financial crisis with front-loaded fiscal stimulus. After the hiatus in 2009, economic growth is projected at 5.8 percent in 2010 and is expected to return to its trend rate of 6%-plus thereafter. In the medium-term, the quality of growth is expected to further improve mainly through two channels: (i) *balanced* growth in terms of regional economic development, and (ii) *inclusive* in terms of enhanced opportunities for jobs creation and poverty reduction.

Unless strong efforts are expended in addressing key developmental constraints, favorable macroeconomic outlook could be jeopardized and achieving the targets of the Second Medium-term Development Plan (covering the period 2010-2014) could be a formidable challenge. On the one hand, many developed and developing countries are experiencing economic slowdown and their

outlook is also uncertain. On the other hand, with exceptionally low borrowing costs in international capital markets, funding PPP-based investments to rehabilitate and to create modern infrastructure in Indonesia appears to be a promising strategy for underpinning longer-term and sustainable economic growth. However, poor institutional capacities, difficulties in land acquisitions, and inadequate volume of skilled workforce have limited the efficacy of investment-led economic growth potential in Indonesia.

So far, IDB Group operations have been mainly concentrated, in regional terms in the Java-Bali and Sumatra regions, and in sectoral terms, in (higher) education. **Rebalancing these concentration and expanding the IDB Group Program to other regions /sectors of Indonesia is a centerpiece approach of this MCPS.** In addition, IDB Group has played a significant role in expanding Islamic financial and capital markets in Indonesia, particularly through equity investments in Bank Muamalat, advisory services in the launching of sukuk bonds market, and capacity development through training courses and conferences. In the aftermath of the Tsunami that struck Indonesia in December 2004, IDB also joined with the international community in rebuilding the Aceh region.

The dictates of geography – Indonesia being a vast archipelago comprising of about 17,508 islands – makes it imperative to be highly selective in regional terms. The challenge of fostering regional economic development is critical because, over the past five decades, Indonesia has faced multifaceted threats to its political, economic and social stability. In part, severe interregional socio-economic disparities have contributed to this challenge. Also, the core approach of the Second Plan targets to *accelerate* regional economic growth and to *deepen* interregional transportation and trade connectivity. The Second Plan key emphasis is to foster *localization economies* – investments based on regions’ natural resources. Unless Government policy also reinforces *agglomeration economies* – efficient and low cost access to production inputs – then attracting private sector investments in response to urbanization and market expansion opportunities could be limited.

MCPS Engagement Process and Program

Through a careful process of alignment, selectivity and focus with the Second Plan's Regional Strategies and Priorities and stakeholders' consultation, the MCPS approach is to combine the four Core Engagement Areas and the two major Cross-Cutting Pillars to deliver (i) Multi-Sector Work Program, and (ii) Area-Focused Program. These two types of Programs are aimed at addressing key binding constraints and support implementation of growth accelerators at the regional level. With the support of Indonesian authorities, five IDB-Gol consultation workshops were organized during September 2010. The goals of these consultation workshops were to: (i) explain the MCPS consultation process, (ii) achieve common understanding on alignment opportunities as well as selectivity and focus between Regional Development Strategy and IDB Group priorities, (iii) develop better understanding of implementation issues at the regional level, and (iv) synchronize IDB Group program with other development partners.

The core of the MCPS Program is to identify the most important sector-level binding constraints which, if appropriately addressed, will unleash the potential of regional economic development.

Within the context of the MCPS, the role of IDB Group, along with others development partners, is to assist the Governments, both national and provincial, and other stakeholders to identify and support "high-impact growth trigger" programs. Therefore, this MCPS proposes to align and support emerging developmental opportunities at the regional level in critical areas such as building of highly efficient interregional connectivity; urban development particularly focusing on well organized urban land markets, water supply / distribution networks; achieving food security through agriculture and rural development; and assisting the private sector development, particularly the SMEs, through low cost access to critical inputs such as skills development of the workforce, electricity and investment/ trade financing.

Building on past successes and lessons learnt, the MCPS Program is expected to be further augmented by knowledge and financial resources under the two major Cross-Cutting Pillars: (i) leveraging Islamic finance, and (ii) mobilizing Partnerships. In particular, IDB Group will optimize its institutional knowledge to support accelerated growth of Islamic financial industry in Indonesia through the development of an Islamic financial architecture, garner equity

investments in Islamic financial institutions and assist in the deepening of Islamic capital market. IDB Group will also utilize its Partnerships platform to help attract bilateral donors and FDI, particularly from the GCC region, and through co-financing arrangements with other MDBs in support of the implementation of the MCPS Program in Indonesia. In addition, Capacity development, including Reverse Linkages, activities is expected to facilitate implementation of the MCPS Program and scale up exchange of knowledge and best practices between Indonesia and other member countries.

Indicative Financing Envelope and Implementation Issues

The indicative (notional) financing envelope for the MCPS period (2011-14) has been estimated in the range of \$3-3.3 billion. In line with sectoral strategy, the distribution of the indicative envelope is estimated as follows: the private sector development is expected to receive maximum share of 34.7 percent, followed by infrastructure at 26.3 percent, education and skills at 19.8 percent, and agriculture and rural development at 17.5 percent. The regional distribution of the indicative envelope is 64 percent for financing programs in the three selected regions viz. Sumatra, Kalimantan and Sulawesi. About one-third of the total indicative financing is expected to be provided by the private sector financing Entities of the IDB Group. Going forward, the indicative (notional) financing envelope will be firmed up during the Programming phase of the MCPS process. The size of MCPS financial envelope will be eventually determined by the borrowing appetite of the Gol, identification of implementable / bankable projects, and IDB Group operational risk ceilings.

This MCPS is proposing scope of work and volume of financing for Indonesia which is perhaps unprecedented. The ambitious scaling up of IDB Group support to Indonesia critically depends on a number of enabling and supportive factors, both at the policy and operational levels. Going forward, a key success factor for ensuring successful implementation of the envisaged MCPS work program will be to establish a Country Office in Indonesia. This pre-requisite is necessitated by the need to operationally deal with the complex bureaucracy in Indonesia itself, the intense competition among donors with their own Country Offices, and requirements for robust project-level monitoring and resolving related difficulties.



Country Context and Macroeconomic Performance

1. Introduction

1. In the post-reform IDB, 'Member Country Partnership Strategy (MCPS)' has been adopted as the Group's principal engagement tool with member countries. MCPS aims to achieve alignment between the medium-term strategic priorities under IDB Vision 1440H and the member countries' development priorities. By designing an IDB Group-level investment program and knowledge delivery, MCPS is underpinned by important features: *pro-activeness* of the IDB Group requiring a thorough understanding of member countries' developmental priorities whose achievement is linked to implementing a results-based framework. This, in turn, requires a *critical understanding* of implementation obstacles and, then, to directly target the IDB Group assistance which alleviates the *binding constraints* so as to achieve the desired *developmental impact*. Finally, *partnership approach* by the IDB Group requires mobilization of financial and knowledge support from a variety of domestic stakeholders (i.e. Government, civil society, think-tanks etc) and external development partners (MDBs, Coordination Group, private sector etc).

2. The decision to undertake an IDB Group Partnership Strategy Paper for Indonesia was cleared by the Management in March 2010¹, followed by Country Department memorandum which formally initiated the MCPS process for Indonesia. The first Group-wide consultative meeting held on April 2, 2010, marked the actual launching of the process, in which the road map, and the activities and tasks were identified and the division of work agreed upon. The MCPS consultative process involved the following: (i) In late-March 2010, the Vice President (Operations) led a Policy Dialogue mission to Indonesia. Initial discussions held with the Ministry of Finance and the National Planning Agency (Bappenas) centered on identifying broad contours of core

engagement areas within the MCPS framework, (ii) Reconnaissance Mission to Indonesia (carried during 26 June – 2 July 2010) aimed at setting the stage for undertaking the Main Mission and wider consultation, (iii) Preparation of the Concept Note (discussed and approved during the Operations Committee Meeting (held on 3 August 2010), (iv) Internal Consultation (three Group-wide consultation meetings and dry-runs for Regional Workshops were held prior to the Main Mission), and (v) Main Mission to Indonesia (during 20 September to 2 October 2010) covering consultations at sector and regional levels through five Workshops (Inception and National in Jakarta, Three Regional Workshops in Palembang (South Sumatra), Pontianak (West Kalimantan) and Manado (North Sulawesi)).

3. This Main Report builds on common understanding reached between the IDB and the Indonesian authorities in terms of Core Engagement Areas during the Regional and National Workshops. These discussions were held to identify critical developmental needs during the implementation of the Second Medium-term Development Plan period (2010-14) and match them with the Strategic Priorities of the IDB Group. The GoI welcomed the opportunity to engage with the IDB Group and the discussion centered on 'priorities alignment' within the context of the 'MCPS framework'.

2. Country Context

4. Indonesia is a vast archipelago comprising of about 17,508 islands with a population of 240 million. The people of Indonesia comprises of around 500 ethnic groups who speak more than 600 languages. The Javanese people are the largest and politically the dominant ethnic group. Through trading relationships, Islam arrived in northern Sumatra in early 13th century. Indonesia was under the Dutch colonial rule for three and a half centuries. The country gained independence after the Second World War. Administratively, Indonesia comprises of 33 provinces divided in seven regions.

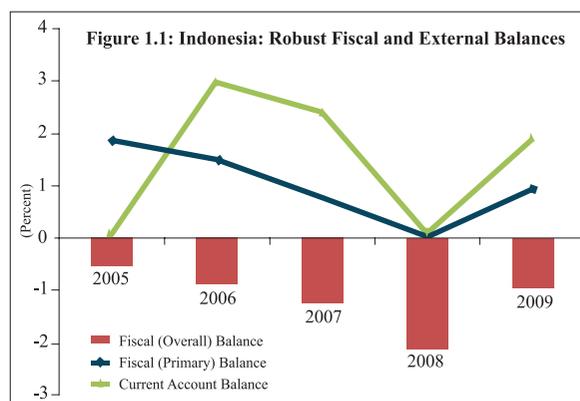
¹The Country Department's memorandum No. CTY/CD2/85 dated 23 Muharram 1431H and instructions of the GMCM held on Wednesday 25 Rabi' Awwal 1431H (10 March 2010).

5. In the past five decades, Indonesia appears to have finally turned the corner from political turmoil, dictatorships, and crony capitalism to democracy, decentralization and economic liberalism. In the 1960s, Indonesia was trapped under economic mismanagement characterized by low growth, massive poverty, hyperinflation, and low rates of investment. After political turmoil, Indonesia in 1970s began economic recovery characterized by high economic growth – it came to be bracketed as one of the “Asian miracles”. However, the high growth period was also characterized by massive concentration of wealth and high income inequality. In 1997-98, when the Asian financial crisis hit the region, Indonesia was the least prepared country, therefore, was the worst affected. The economy contracted by 13 percent in 1998.

6. The Asian financial crisis in 1997-98 not only led to major structural adjustment but also had the effect of unraveling the authoritarian-based political system and giving impetus to the democratization of the society. President Jusuf Habibie took office in May 1998 and rapidly moved with the economic stabilization and recovery program. After President Abdurrahman Wahid was forced to resign in 2001, the country experienced another brief albeit tumultuous period of political instability. President Susilo Bambang Yudhoyono was elected in the first direct presidential election in 2004. President Yudhoyono was again elected for the second term in 2009. So far, political stability during the two terms of President Yudhoyono is marked by rapid consolidation of democratic, institutional and economic reforms. As a member of ASEAN and G20, Indonesia’s political and economic weight is now increasingly perceived as an important Muslim voice in international and regional forums.

3. Recent Macroeconomic Developments

7. **With robust public finances and external balances, Indonesia faced the headwinds of global financial crisis with front-loaded fiscal stimulus** (Figure 1.1). After the hiatus in 2009, economic growth is projected at 5.8 percent in 2010 and is expected to return to its trend rate of 6%-plus thereafter. Following the recent global financial crisis in 2008/09, economic growth decelerated from 6.1 percent in 2008 to 4.5 percent in 2009. The economic resilience was mainly due to the buoyancy of the domestic



Source: Bappenas/Ministry of Finance, June 2010.

demand which offset the falloff of export demand as well as supported the performance of the non-tradable sector (Annex A-Tables 1.1 and 1.2). Household consumption, which accounts for 58 percent of GDP, grew at 5 percent-plus during 2007 to 2009. This growth was partly fuelled by fiscal stimulus and election-related spending; growth in Government consumption exploded from 4 percent in 2007 to 10 percent in 2008 and 16 percent in 2009. The multiplier impact of Government spending largely spurred growth in non-tradable sectors such as electricity, gas and water supply, transportation and communication and construction. Growth in manufacturing sector, which accounted for 83 percent of total exports, decelerated from 5 percent in 2007 to barely 2 percent, where it accounted for 76 percent, in 2009.

8. The 2009 fiscal stimulus, which originally amounted to 1.4 percent of GDP, utilized tax and subsidy instruments to target: (i) increasing purchasing power through raising salaries of public sector employees, (ii) improving business and exports competitiveness, and (iii) improving labor intensive infrastructure;² that is, those areas of private sector and infrastructure development were targeted which will help to improve the long-term growth prospects of Indonesia. Since 2005, primary fiscal balance was in surplus at 1.8 percent of GDP in 2005; more recently it posted a surplus at 0.1 percent in 2009. The current account balance, as percent of GDP, had been in surplus over the past five years ranging from 3 percent in 2006, 2.4 percent in 2007, balanced in 2008 to 1.9 percent in 2009. Total public debt, as

² However, the 2009 budget outturn amounted to 0.6 percent of GDP, mainly on account of 14 percent savings achieved on the fuel subsidy due to fall in oil prices and lower debt servicing costs by 14.4 percent due to currency appreciation.

percent of GDP, declined from 39 percent in 2006 to 28.3 percent in 2009. In the medium-term, the quality of growth is expected to further improve mainly through two channels: (i) balanced growth in terms of regional economic development, and (ii) inclusive in terms of enhanced opportunities for jobs creation and poverty reduction.

4. Economic Growth Prospects during the Second Medium-term Development Plan

9. **Unless efforts are expended in addressing key developmental constraints, achieving economic outturn close to the Second Plan targets will be a formidable challenge.** The Second Medium-term Development Plan, covering the period 2010 to 2014, is currently in its first year of implementation. The global financial and economic crises in 2008 and 2009 have clouded the achievement of planned economic growth of Indonesia. On the one hand, major export markets of Indonesia are experiencing slowdown in economic growth. On the other hand, with exceptionally low borrowing costs in international capital markets, funding PPP-based investments to rehabilitate and to create modern infrastructure in Indonesia appears to be a promising strategy for underpinning longer-term and sustainable economic growth. However, slower spending by the line Ministries, poor institutional capacity of provincial governments, difficulties in land acquisitions and inadequate volume of skilled workforce have limited the efficacy of investment-led economic growth potential in Indonesia.

10. **Likely robust economic growth performance during 2010 continues to mask underlying structural and developmental challenges.** The World Bank has estimated economic growth in Q2 of 2010 at 6.2 percent (y-o-y basis), compared to 5.7 percent in Q1.³ The World Bank forecasts that overall economic growth will be 6 percent in 2010 and 6.2 percent in 2011. In Q2, economic growth was mainly underpinned by a rise of 5 percent in Q2 (y-o-y basis) in private consumption, which in turn, was mainly fuelled by strong growth in consumers' credit. On the other hand, investment growth in Q2 slowed at 1.2 percent (y-o-y basis) from 2 percent in Q1; even this growth could be partly attributed to the price effect of appreciating exchange rate for capital goods

import. In addition, the Government has reduced its projected deficit to 1.5 percent of GDP in 2010 mainly due to strong growth in tax revenues and slower disbursements; in fact, disbursements by line Ministries during first six months of 2010 were lower than 2008 and 2009 spending levels on comparable basis.⁴

11. **Given the uncertain and weak global economic conditions, achievements of the Second Plan economic targets in 2010 and 2011 appear to be tenuous.** Under the Second Plan, the average economic growth target has been set at 6.3-6.8 percent over the period 2010 to 2014.⁵ On the expenditure-side, growth in government consumption is expected to decelerate from benchmark of 15.7 percent in 2009 to 10.9 percent in 2010 and 11.2 percent in 2011. Investment growth, on the other hand, is targeted to accelerate from benchmark of 3.3 percent in 2009 (and an average of 7.5 percent over 2005-09) to 7.3 percent in 2010 and 10.9 percent in 2011.⁶ On the production-side, manufacturing (whose share in GDP was 26 percent in 2009) is expected to grow from benchmark of 2.1 percent in 2009 to 4.3 percent in 2010 and 5.4 percent in 2011. **Overall, acceleration of foreign and domestic investments rates is critical for the success of the Second Plan, which, in turn, requires forceful implementation of second-generation reforms aimed at addressing critical institutional, infrastructure and labor market related constraints.**

5. Country Risk Rating and Outlook

12. The country risk outlook for Indonesia ranges between positive and stable from the viewpoint of the three top international ratings agencies. These ratings are summarized in Table 1.2 and assessments are briefly reported below.

Standard & Poor's Assessment: The positive outlook reflects Standard & Poor's expectation that a stable political environment will give rise to a more effective policy setting to address

³World Bank (2010): Indonesia Economic Quarterly: Looking Forward; September 2010

⁴According to World Bank, the top ten line Ministries, which account for 91 percent of total budgeted capital expenditures, had spent only 16.5 percent of their budgeted expenditure in 2010 compared to 30 percent in 2009. Some of the major reasons for slower disbursements, which also reflect institutional bottlenecks, are: delays in appointment of heads of implementing units, lack of proper project planning, procurement plans and disbursement procedures.

⁵In Annex E-Table 1.3, annual sectoral targets over the Second Plan period are presented.

⁶*Ibid*; World Bank estimates that if the total factor productivity increases by 3 percent over the Second Plan period, then GDP growth could average to around 7 percent.

	Long-term	Short-term	Outlook
Standard & Poor's	BB	B	Positive
Moody's	Ba2		Stable
Fitch	BB+	B	Stable

Source: Rating Agencies, September 2010.

structural problems, while debt reduction and underlying fiscal prudence will remain key elements of macroeconomic policy.

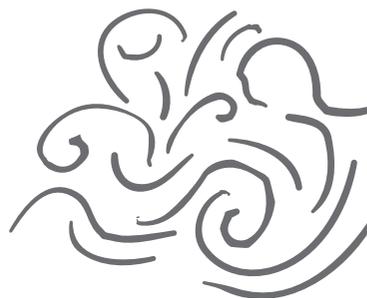
Moody's Assessment: A deepening of the country's domestic capital markets and stable external payments position are key to complementing and sustaining headline improvements in credit ratios and anchoring market confidence.

Fitch Ratings Assessment: With the current macroeconomic path and fiscal policy framework, Indonesia's public debt/GDP ratio looks set to continue on a downward trend. There is fiscal flexibility to embark on an ambitious agenda to tackle longer-term developmental issues, such as addressing infrastructure constraints and investment promotion as well as raising industrial and export competitiveness.

Economists Intelligence Unit (EIU) Assessment: The budget deficit is expected to widen to an average of 1.9 percent of GDP in 2010 as a planned rise in the fuel subsidy bill outweighs a recovery in tax revenues. The large energy subsidy bill is a concern, given that it fluctuates with global oil prices. The Government has demonstrated the political will to make ad hoc adjustments to fuel prices to contain the budget deficit when global oil prices have soared. Indonesia will have the option of accessing borrowing facilities with bilateral and multilateral lenders in the medium-term. But these options may not be exercised given that investor sentiment towards Indonesian debt is positive.

13. Indonesian authorities are hopeful of obtaining an investment-grade sovereign rating in 2011. In recent months, accelerated foreign portfolio inflow is indicative of rising confidence in the economy. Although S&P raised Indonesia's sovereign rating from BB- to BB, both S&P and Moody's rank Indonesia two levels below investment grade, while Fitch Rating is only one step below the investment grade⁷. In order

to strengthen its bid for investment grade, the Government is committed to prudent fiscal management by increasing tax collections, which will help to put public finances on a sustainable path. With further demonstrated improvements in macroeconomic fundamentals and robust rise in overall investments, the policy goal of achieving investment grade sovereign rating could be well within reach sooner rather later.



⁷Japan Credit Rating Agency (JCRA) raised its credit rating for Indonesia to investment grade (BBB-) with effect from 13 July 2010.



Indonesia’s Economic Development Strategy: RPJM National Agenda and the MCPS Alignment

14. In this Chapter, a case for *MCPS alignment* with the National Agenda of the Second Medium-term Development Plan (RPJM 2010-2014) is developed. The rationale for supporting **Regional Strategies and Priorities** of the Second Plan, which is a key element of the National Agenda, along with major economic implications is analyzed in this Chapter. The next Chapter will present analysis of achieving *MCPS selectivity* with respect to Sectoral Priorities of the Second Plan and its mapping with the IDB Group Strategic Priorities.

1. Review of the First Medium-term Development Plan (2005-2009)

15. The First Medium-term Development Plan (2005-2009) concentrated national efforts and resources at reforming and developing Indonesian society that is safe and peaceful, just and democratic, and that has an increasingly prosperous population. It was the first phase of implementation of the 2005-2025 Long-Term National Development Plan (RPJPN 2005-2025). Beginning from 2001, an ambitious “big bang” decentralization of political and economic spheres was devolved from the central government to provincial and district governments. The aim of this devolution of power was to re-build and create trust in public institutions by balancing government-society relations and preserving integrity of the country.

16. In the face of slippages in First Plan achievements, rising population and workforce combined with vulnerability of the poor is taxing both the availability and the provision of basic commodities – such as, energy, food, and water. Therefore, it is imperative to accelerate growth that must be secured within the framework of economic and environmental sustainability. Against the backdrop of rapid governance and decentralization reforms, it was inevitable that there would be ‘confusion’ in economic policy formulation and execution. Resultantly, the

outcome of the First Plan in overall economic terms achieved limited success. The First Plan targeted economic growth of 7.6 percent over the period 2005-2009; the outturn averaged 5.6 percent. The average annual investment growth at 7.5 percent fell short of the target growth at 12.8 percent. On the production-side, the non-oil & gas sector grew by 5.1 percent against the target of 10.2 percent. Inflation target was 3 percent while it averaged at 9 percent during the Plan period. The target for reduction in poverty incidence was to halve it from 16 percent in 2005 to 8 percent in 2009; however, it averaged at 16 percent for the Plan period. On the fiscal side, the outturn of the average primary balance and the reduction in stock of government debt were close to the First Plan targets.

2. Second Medium-term Development Plan: Regional Development and the MCPS Alignment

17. **In the face of a highly competitive economic environment of the ASEAN region, Indonesia will need to harness both external partnership and domestic regional development opportunities in order to accelerate the growth momentum and achieve balanced and inclusive economic development.** The Second Medium-term Development Plan, covering the period 2010 to 2014, aims to implement **eleven National Priorities** (Box 2.1). The Second Plan also states ‘General Policy Direction of National Development’ covering a number of key elements of the National Agenda. The most important and relevant element of the National Agenda is the implementation of the eleven National Priorities which is to be achieved through **Regional Strategies and Priorities**. Robust implementation of the National Agenda is vital to mitigate long-term threats to political and social stability in Indonesia.

18. **The centerpiece of the Second Plan is the twining of Eleven National Priorities with the**

implementation of Regional Strategies and Priorities. This approach of the Second Plan can be stylized as “Balanced and Inclusive Growth” objective. The Second Plan explains the objectives of achieving **Balanced and Inclusive Economic Growth** in following words (p.60):¹

“the regional development directions and policies comprise the following: (i) inducing growth of potential regions outside Java, Bali and Sumatra while maintaining the momentum of growth in Java, Bali and Sumatra, (ii) increasing the inter-regional linkages by increasing inter-island trade in order to support the domestic economy, (iii) increasing the competitiveness of regions through the development of the selected sectors of each region, (iv) encouraging the accelerated development of left-behind regions, strategic and fast-growing areas, border areas, frontier areas, outermost areas, and natural disaster prone areas, and (v) inducing the development of marine regions and marine sectors.”

19. There are two major elements of national policy response to mitigate regional disparity challenge: (i) massive political and fiscal decentralization process, which is also accompanied by (ii) exceptionally large fiscal transfers to provincial governments. Since 2005, an average of 32 percent of total Government expenditure, which is equivalent to about 6.2



percent of GDP, are being annually transferred to provincial governments. However, the World Bank points out that ‘Currently, the national and local governments devote less than four percent of gross regional domestic product to infrastructure – about half of what is necessary

¹ RPJM 2010-14; English translation version.

to promote accelerated economic growth.² This funding gap highlights the need for scaling up of resource transfers and achieving better targeting to address urgent and prioritized needs for economic development at the regional level. Within the context of this MCPS, the role of IDB Group, along with other development partners, is to assist the Governments, both national and provincial, and other stakeholders to identify and support “high-impact growth trigger” opportunities.

20. It is, therefore, clear that implementation of Sectoral Priorities of the Second Plan – *MCPS selectivity* – will require twinning with the National Agenda of Regional Strategies and Priorities – *MCPS alignment* – for supporting “high-impact growth” opportunities. The dictates of geography – Indonesia being a vast archipelago comprising of about 17,508 islands – makes it imperative to be highly selective in regional terms. **So far, the IDB Group operations have been mainly concentrated in the Java-Bali and Sumatra regions. Rebalancing this concentration and expanding development assistance to the other regions of Indonesia is a centerpiece approach of this MCPS.** This is to be achieved through alignment with the two pillars of the Regional Strategies and Priorities of the Second Plan: IDB Group sector-level programs that target major binding constraints so as to assist in – (i) *maintaining development momentum in Java, Bali and Sumatra regions*, and (ii) *accelerating development in Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Papua regions*.

21. That is, the MCPS Program aims to identify the most important sector-level binding constraints, which, if appropriately addressed, will unleash the potential through a multiplier impact on development activities at the regional level. Translating the MCPS alignment with the second pillar of the National Agenda of Regional Strategies and Priorities requires choosing amongst the *Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Papua* regions. All these regions are, to varying degrees, relatively less developed in terms of a number of socio-economic indicators. The MCPS alignment proposal to support Regional Strategies and Priorities of *Sumatra, Kalimantan and Sulawesi* regions, which was also endorsed by the Indonesian authorities, is a judgment based on following considerations: (i) review

² *Ibid*; (p.53).

of economic performance indicators related to regional/ provincial GDP growth, unemployment, poverty incidence, and educational attainment; (ii) need to avoid overlapping of sectoral work of other donors at the regional level; (iii) exploring public/private sector opportunities for supporting development/investment programs; (iv) given the likely size of MCPS resource envelope, to then coalesce *alignment, selectivity and focus* principles for achieving development impact / effectiveness; and (v) potential opportunities for the utilization of Ordinary financing operations. The 'Regional Strategies and Priorities' of Sumatra, Kalimantan and Sulawesi are summarized in Annex B. The key areas identified in Regional Priorities form the basis for undertaking sectoral diagnostics (Annex C) and the development of Multi-Sector Program to implement focused Core Engagement Areas at the regional level.

3. MCPS Alignment with 'Regional Strategies and Priorities': Expected Development Outcomes

22. **In the context of Indonesia, a critical dimension of achieving "balanced and inclusive growth" objective becomes 'reshaping economic geography without fighting economic concentration'.**³ Economic assessment of the Second Plan clearly suggests that achievement of key targets is critically dependent on building an enabling environment for accelerated domestic and foreign private sector investment. Therefore, MCPS Program seeks to mobilize investment resources, both by the IDB Group and through Partnerships platform, to support "high-impact growth" programs which are aligned with the following goals of 'Regional Strategies and Priorities': (i) improving interregional connectivity, (ii) reducing intraregional disparities, and (iii) promoting key elements of competitiveness such as urban development particularly focusing on well organized urban land markets, water supply / distribution networks; fostering food security and reducing poverty through agriculture and rural development; and assisting the private sector development, particularly the SMEs, through low cost access to critical inputs such as skills development of the workforce, electricity and investment / trade financing.

³World Bank (2010): 'Indonesia Economic Quarterly: Looking Forward', September 2010 (p.52).

23. Thus, besides strengthening political and social cohesion, supporting this key economic development objective in Indonesia is likely to have three additional advantages: (i) it will ultimately lead to newer sources of domestic demand which will further help to maintain the overall economic growth momentum, (ii) it is likely to lead to reverse migration to Java-Bali region and thereby alleviate pressures on social and physical infrastructure,⁴ and (iii) foster effective participation and realize benefits from sub-ASEAN regional integration initiatives.

⁴The GoI announced, on 25th October 2010, 'Indonesia Economic Corridor 2011' with an amount of \$60 billion. This plan will support creation of six economic development zones and industrial clusters across Indonesia. One of the goals of this plan is to support creation of job opportunities for locals at the regional level and to discourage migrant workers from other regions.



Designing the IDB Group MCPS: Achieving Selectivity and Focus Through Stakeholders Consultations

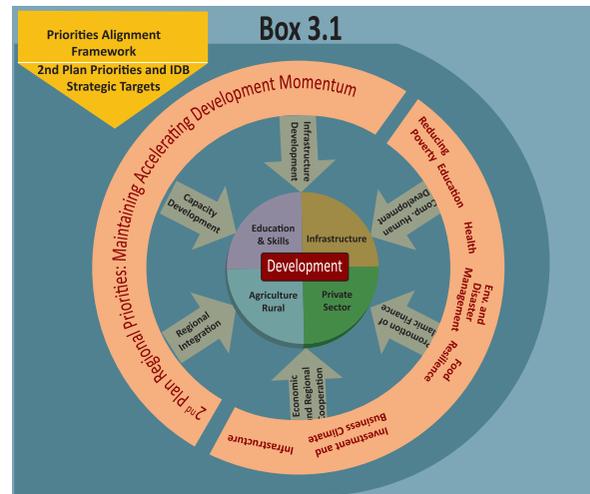
24. The MCPS for Indonesia aims at “Harnessing the Regional Potential” – meaning that the Core Engagement Areas will support “high-impact growth” programs. Specifically, the goal is to design an integrated MCPS Program that will have a multiplier development impact in the targeted regions. The MCPS framework can be thought of as two-stage process: (i) an *alignment* exercise with the key goal of the National Agenda of the Second Medium-term Development Plan. In Chapter 2, rationale for alignment with ‘Regional Strategies and Priorities’ was discussed, and (ii) *selectivity* which distills common intersection between the Eleven National Priorities of the Second Plan and the Strategic Priorities under the IDB Vision 1440H (2020). In this Chapter, key steps leading to the (i) identification of Core Engagement Areas and Cross-Cutting Pillars, and (ii) outcomes of wide-ranging stakeholders consultations are presented. The next Chapter will present the Results Matrix which is the culmination of the diagnostic work and a key step within the MCPS framework.

1. Identification of Core Engagement Areas and Cross-Cutting Pillars

25. In Chapter 2, the rationale for alignment with ‘Regional Strategies and Priorities’ of the Second Plan covering Java-Bali region (termed as the National-level Programs) and Sumatra, Kalimantan and Sulawesi (termed as the Regional-level Programs) was presented. However, the spread of geography and the sheer volume of investments required to support implementation of Regional Strategies dictates that the MCPS framework also applies *selectivity* principle – not only in terms of regions but also in terms of sectoral work program.

26. In order to develop MCPS Program, the next stage is to develop *selectivity* and *focus* in Core Engagement Areas. This process is guided by three sets of inter-related activities: (i) identification of binding constraints based on diagnostic studies in Core Engagement Areas, (ii) identification of

knowledge- financing- and partnership-based delivery mechanisms, and (iii) an envelopment of processes and activities with consultations at different levels and stakeholders.



27. In Annex B, sector level strategic challenges and priorities for Sumatra, Kalimantan and Sulawesi regions were summarized. A more detailed diagnostics of growth, poverty and relevant sector level challenges and priorities, particularly at the level of regions, are analyzed in Annex C. A key insight of this analysis is that interregional disparities cannot be addressed only by exploiting their natural resources on endowments. In fact, supportive policies and adequate public investments are required to provide low cost access to critical inputs, such as electricity and skilled labor, and building a highly efficient interregional connectivity to attract new industries. The centrifugal forces arising from the sheer physical limits in the economic heartland of the Java-Bali region have given rise to emerging urbanization opportunities elsewhere in Indonesia.

28. On the basis of the diagnostics of binding constraints, mapping between the Regional Priorities of the Second Plan and the IDB Group

Strategic Priorities are carried out (Box 3.1). As an outcome of this exercise, the following Core Engagement Areas are identified, which together with Cross-Cutting Pillars, will aim to help accelerate growth drivers at the regional level:

Core Engagement Areas:	Multi-Sector Program aimed at addressing (i) agriculture and rural development needs, (ii) education and skill development constraints, (iii) infrastructure constraints, and (iv) addressing private sector development needs.
Area-Focused Program(s):	Selecting focused area either at provincial or district level; selection criteria based on (i) poverty incidence, (ii) HDI ranking, (iii) investment climate, and (iv) cost of doing business, convergence of criteria, diagnostic work and packaging of IDB Group work program.
Cross-Cutting Pillars:	(i) Islamic finance, (ii) Partnerships, (iii) Capacity development, and (iv) Reverse linkages.

29. In addition, a critical review of past IDB Group operations in Indonesia was carried out. In Annex D, past successes and lessons learnt of IDB Group operations offer insights on building an MCPS Program which is implementable and impact-oriented. In addition, a review of the prospective activities of major donors in Indonesia during the next three to four years indicates that the MCPS Program is unique and distinctive in its approach and yet there are opportunities for forging Partnership arrangements and joint activities in the development work.

30. In summary, through a careful process of alignment, selectivity and focus with 'Regional Strategies and Priorities' and stakeholders' consultations, the MCPS framework aims to combine Core Engagement Areas and Cross Cutting Pillars to deliver (i) Multi-Sector Program, and (ii) Area-Focused Program. These two types of Programs are aimed at addressing key binding constraints and support implementation of potentially high-growth priorities in order to help accelerate growth drivers at the regional level i.e. support the Second Plan objective of promoting *Balanced and Inclusive Growth*.

2. Embedding Cross-Cutting Pillars in the MCPS Framework

31. A strategic element in the MCPS framework is to utilize institutional strengths of the IDB Group, i.e. cross-cutting pillars, to bring about greater effectiveness and impact of (i) Multi-Sector Program, and (ii) Area-Focused Program.

The following Cross-Cutting Pillars are embedded in the MCPS framework: (i) Islamic finance, (ii) Partnerships, (iii) Capacity development, and (iv) Reverse Linkages. The role of each of these Cross-Cutting Pillars is briefly explained below:

Islamic finance: Up streaming the role of Islamic finance in Indonesia means that the IDB Group will play a pro-active role in assisting the development of a medium-term vision (or a road map), delivering knowledge-based products and services, and bringing partners from outside Indonesia to assist in transfer of best practices, skills and resources.

Partnerships: As part of the MCPS framework, IDB Group will optimize resources and networking within and outside Indonesia to support scaling up of its Programs. In particular, IDB Group will leverage its networking to help attract FDI, particularly from the GCC region and regional capital markets, to support implementation of its Program.

Capacity development: The successful implementation of results-oriented Programs will require the IDB Group to provide Capacity development assistance in critically needed areas, particularly in support of building institutional capacity at the regional level and preparation for formulation and implementation of programs/projects. In other words, the goal of Capacity development activities will be to facilitate implementation of the MCPS Programs. Undoubtedly, institutions, expertise and skills that are available within Indonesia will be employed in support of Capacity development activities.

Reverse Linkages: A unique feature of the MCPS framework is to identify and partner with centers of excellence to help in transfer of knowledge and best practices to other IDB member countries. In

this way, the MCPS approach will foster two-way partnerships amongst the member countries. Indonesia is already designated by the G20 to act as a focal point for the promoting South-South cooperation and runs a technical cooperation program for the least developed countries. These ongoing programs and activities of the centers of excellence will be utilized to help in transfer of best practices and expertise to other member countries.

3. Validation of MCPS Program through Regional Consultations

32. With the support of Indonesian authorities, five IDB-Gol consultation workshops were organized during September 2010. The goals of these consultation workshops were to: (i) explain the MCPS consultation process, (ii) achieve common understanding on alignment opportunities as well as selectivity and focus between Regional Development and IDB Group Strategic priorities, (iii) develop better understanding of implementation issues at the regional level, and (iv) synchronize IDB Group program with other development partners at the

regional level.

33. The MCPS Mission jointly conducted five consultation workshops with senior officials from the Ministry of Finance and Bappenas. Typically, participants in the workshops hailed from national and regional Planning agencies, line Ministries, private sector representatives, eminent national and regional economists, civil society members and the donors' community. Major outcomes of the consultation workshops are briefly noted below:

i. Inception Workshop held on 20 September 2010, Jakarta

34. The purpose of the Inception Workshop was to (i) present IDB Group understanding of regional developmental challenges faced by Indonesia, (ii) obtain feedback on the MCPS Program for 2011-2014, and (iii) prepare grounds for regional consultations. The following are the major points covered during the Workshop proceedings:

i. The GoI priorities suggested for IDB's consideration are: education (especially higher), infrastructure (especially electricity



(from top left) Dr. Lukita Dinarsyah Tuwo (Vice Minister of Bappenas) and Dr. Dewo Broto Joko Putranto (Director, Bappenas) addressing the IDB Delegation, representatives of line Ministries, donors and civil society in the MCPS Inception Workshop held in Jakarta on September 20. Prof. Anggito Abimanyu (Gadjah Mada University) moderated the Q&A session.

through PPP financing), poverty alleviation (especially through CDD programs), Islamic banking, agriculture and rural development, regional disparities (especially through decentralization and promotion of local governments in the development process), strengthening domestic inter-island connectivity (especially through trade- and market-related infrastructure) and new urban growth areas (especially through major economic hubs), focus on green growth, electricity generation through coal-based and geothermal, and construction of regional roads.

- ii. Indonesia is a member of G20 Development Forum and it is a focal point for South-South knowledge sharing. It thereby provides an opportunity for promoting activities under Reverse Linkages.
- iii. Prioritization of MCPS Program in consultation with regional authorities and provincial governments is also critical.

ii. First Regional Workshop in Palembang, held on 22 September 2010

35. The following are the major points covered during the Workshop proceedings:

- i. The major strategic areas for regional development are improving (a) access to electricity, (b) electricity generation capacity, (c) transportation network, and (d) quality of human resources. The major challenges are long term financing, supportive government regulations and division of authority/responsibility between central and provincial governments.
- ii. Learn from the experience of other donors in terms of how fiscal transfers from central to provincial governments are made and what are the basis for foreign loans to be lent on either on-granting or on-loan terms.
- iii. Develop programs for poor students to improve their affordability to secondary school education.



(from top left) Vice Governor (South Sumatra Province), articulating about regional priorities during the MCPS Regional Workshop held in Palembang on September 22. Dr. Arifin Rudiyanto (Director, Bappenas) and Prof. Bernadette Robiani (UNSRI) joined the panel as Resource Persons. Dr. Andin Hadiyanto (Director, MoF) moderated the Q&A session. The Workshop was attended by regional officials and civil society members.

- iv. Consider supporting a developmental package for the Jambi province, which is specializing in rubber plantation, particularly in Shariah banking and vocational education.
- v. Develop a sustainable program which comprises of an integrated rural development, microfinance, SMEs development, and higher education.

iii. Second Regional Workshop in Pontianak, held on 24 September 2010

36. The following are the major points covered during the Workshop proceeding:

- i. Kalimantan is endowed with rich natural and human resources combined with good investment climate. This makes Kalimantan as third ranking region after Java and Bali regions in terms of various regional economic indicators.
- ii. The role of Islamic banking can be enhanced to support SME sector. Besides, infrastructure and capacity to strengthen vocational training

centers, faculty of Shariah economics in state university, entrepreneurship training for youth, and irrigation infrastructure along with water catchment project, supply of clean drinking water, and re-forestation of state lands were identified as critical needs.

iii. Supporting building of road networks will help regional connectivity, both in the ASEAN context and intra-regional trade.

iv. Support a program which targets improving access to finance of farmers and fishermen that will also have poverty alleviation impact and development of microenterprises.

iv. Third Regional Workshop in Manado, held on 27 September 2010

37. The following are the major points covered during the Workshop proceeding:

- i. Main areas for support in the education sector are teachers' skills, vocational training, and capacity building of local governments. In agriculture sector, main priority areas are



(from top left) IDB sector specialists listening attentively to the voices from the field during the MCPS Regional Workshop held in Pontianak on September 24. Vice Governor (West Sulawesi Province), regional officials and civil society members discussed alignment of MCPS Program with regional priorities.



(from top right) Mr Hatta Latief, Head of the Regional Planning Agency in West Sulawesi sharing his perspective about IDB role in addressing developmental challenges and regional priorities during MCPS Regional Workshop held in Manado on September 27. Dr. Noldy Tuerah (University of Sam Ratulangi) joined the panel as a Resource Person. Mr Zaenal Arifin (Deputy Director, Bappens) moderated the Q&A session. The Workshop was attended by regional officials and civil society members.

irrigation infrastructure, rural development, and microfinance facilities to fishermen. In urban development, main priority areas are geothermal energy, water and sanitation, coastal protection, utilizing land collateral as improving economic rights of the poor. In transportation sector, development of trans-Sulawesi and airport/seaports are important priority areas.

- ii. An innovative “Agripolitan” approach was proposed which integrates increasing crop production, area/urban and infrastructure development.
- iii. Developing a program whose focus is to help the palm oil farmers rather than processing companies.
- iv. Discussion also took place on how IDB financing can be combined with financing from central and provincial governments in infrastructure (road and geothermal) and higher education sectors.

38. The Regional Workshops helped to develop a shared understanding of how the MCPS Work Program can best address major challenges and potential solutions at the regional level. It

also helped the IDB Mission to develop a basis for preparing MCPS resource envelope and its sectoral distribution.

v. National Workshop in Jakarta, held on 30 September 2010

39. The national- and regional-level MCPS Program was presented in the National Workshop. At the national-level, various presentations were made by the IDB mission covering the following themes: (a) mainstreaming Islamic finance, (b) leveraging resource mobilization, (c) re-engaging IDB support in electricity sector, (d) structuring PPP-financing for infrastructure development, and (e) aligning capacity development needs with MCPS priorities. At the regional-level, design of MCPS Program emanating from the Regional Workshops was also presented.

40. The participants corroborated the growth multiplier elements of the MCPS national- and regional-level programs. The participants appreciated that IDB Group in Indonesia has centre-staged addressing regional disparities which is the core theme of the Second Medium-term Development Plan.



(second from top left) Mr. Dewo Broto Joko Putranto (Director, Bappenas) and Dr. Rami Mahmoud Saeed (Director, IDB) co-chaired the National Workshop held in Jakarta on September 30. IDB sector specialists responded to the questions about presentations made on Islamic finance, partnership and resource mobilization, renewable energy, and public-private-partnerships. Representatives of line Ministries, private sector, donors, academia and civil society participated in a lively discussion about the MCPS Program.

vi. Highlights of Important Side-Meetings

41. Besides the consultation workshops, some important side-meetings were held with eminent personalities and stakeholders.¹ The purpose of these meetings was to solicit guidance on the overall MCPS framework and its sectoral priorities. These meetings also provided an opportunity to learn about socio-economic development challenges in outer islands and disadvantaged areas; supporting higher education institutions in the private sector; leveraging S&T expertise of Indonesia for supporting 'Reverse Linkages' with other member countries; trans-regional highway, industrial area development, coal mining and export facilities; and Islamic higher education. In addition, various Sector Specialists from the IDB Group held various side meetings with the line Ministries, Government bodies in infrastructure sector, Asian Development Bank, World Bank, Japan International Cooperation Agency and the

¹ Important side meetings were held with Excellency Dr. Alwi Shihab, President of Indonesia's Envoy to the Middle East; Excellency Jusuf Habibie, former President of Indonesia; Governor of South Sumatra, headquartered in Palembang; Dr Marzan Iskandar, Chairman of the Agency for the Assessment and Application of Technology (BPPT); Excellency Agus Salim Dasuki, Deputy Minister for Infrastructure Improvement and Dr Rusnadi Padjung, Head of Bureau for Planning and Overseas Cooperation, Ministry for Development of Disadvantaged Regions.



MCPS Mission members enjoying a lighter moment during work and joining with the dignitaries at the end of the National Workshop.

US Agency for International Aid. These meetings covered donors' insight of regional challenges, their work programs and possibilities for joint work.



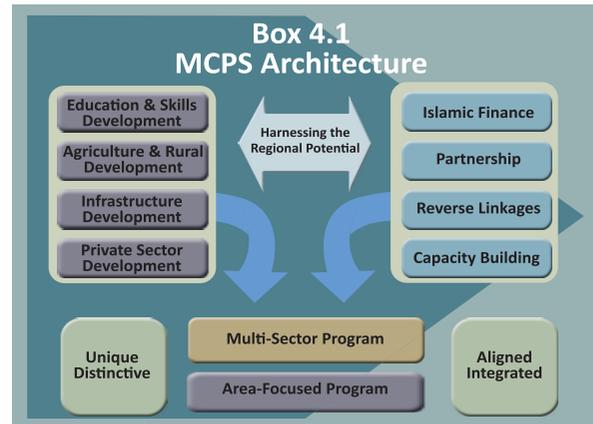
IDB Group MCPS Program in Core Engagement Areas: Harnessing the Regional Potential

42. Through the MCPS Program, IDB Group, in close consultation with the Government of Indonesia (GoI), Regional Governments, development partners, and other key stakeholders, has developed a mutually agreed strategy for interventions in core engagement areas. During the MCPS period (2011-2014), the instruments of IDB Group support to GoI will not only be through direct financing and knowledge-based diagnostics but also to mobilize local and external partnerships to address development challenges in order to make development impact on the lives of the people in the largest Muslim member country. These interventions will be within the mandate, strategic thrusts, scope, and resource envelope of the various entities of IDB Group. A distinctive feature of Group interventions will be to develop institutional and human capacity in the core areas, which is one of the key challenges and priorities of the GoI. In addition, the IDB interventions will also aim to assist the Government in fixing the binding constraints facing the country both at national and regional levels, in collaboration with other development partners. The MCPS program will also identify “Reverse Linkages” that Indonesia can provide to other IDB member countries.

1. MCPS Architecture

43. Through a careful process of alignment, selectivity and focus with regional strategies and priorities and stakeholders’ consultations, the MCPS framework combines Core Engagement Areas and Cross-Cutting Pillars to deliver (i) Multi-Sector Program, and (ii) Area-Focused Program. These unique and distinctive two types of Programs are aimed at addressing key binding constraints and support implementation of potentially high-growth priorities in order to help accelerate growth drivers at the regional level, i.e. balanced and inclusive growth.

44. During the MCPS period (2011-2014), Multi-Sector Program at the regional level comprises of



four Core Engagement Areas: (i) Education and Skills Development; (ii) Agricultural and Rural Development; (iii) Infrastructure Development; and (iv) Private Sector Development (Box 4.1). A strategic element in the MCPS approach is also to utilize institutional strengths of IDB Group, i.e. cross-cutting pillars, to bring about greater effectiveness and impact of (i) Multi-Sector Work Program, and (ii) Area-Focused Program. The four Cross-Cutting Pillars embedded in the MCPS framework are: (i) leveraging Islamic Finance, (ii) mobilizing Partnerships, (iii) supporting Capacity building, and (iv) transferring knowledge and best practices to other member countries through Reverse linkages.

45. The Result Matrices of the four Core Engagement Areas to be implemented at the regional level are given in Annex E-Tables 4.1–4.4, which is summarized in Table 4.1. Also, the Result Matrices of four Cross-Cutting Pillars, which are given in Annex E-Tables 4.5 - 4.7, is mainly related to the national-level program. Therefore, discussion of the MCPS Program first begins with the national level followed by the regional level.

2. MCPS Program at the National Level

46. IDB Group will optimize its institutional knowledge to support accelerated growth of Islamic financial industry in Indonesia through the

development of an Islamic financial architecture, garner equity investments in Islamic financial institutions and assist in the deepening of Islamic capital markets. IDB Group will also utilize its Partnerships platform to help attract bilateral aid donors and FDI, particularly from the GCC region, and through co-financing with other MDBs in support of the implementation of the MCPS Multi-Sector Program at the regional level in Indonesia.

i. Cross-Cutting Pillar 1: Promoting Islamic Financial Sector Development

47. **In short- to medium-term, IDB Group will support Indonesia address a number of challenges facing Islamic financial sector.** The key binding constraint for the growth of Islamic financial sector is the severe dearth of skilled human capital. In addition, financial deepening through new types of Shariah-compliant modes of financing and efficiency improvements which makes their financing charges competitive; building a stronger capital base of Islamic banks to further improve their resilience to shocks in the real sector; and improving the capacity and quality of supervisory infrastructure, particularly in relation to the lending by Islamic banks to the MSMEs are some of the critical medium-term issues.

48. Up streaming the role of Islamic finance in Indonesia will mean developing a medium-term vision (or a road map) for the development and wider integration of various segments of the financial sector. IDB will participate in the launching of a diagnostic study on major binding constraints for scaling up of Islamic financial intermediation. In addition, the Bank will play a catalytic role in establishing Islamic bank(s), investment fund, microfinance fund, lines of financing, two-step Murabaha and factoring financing for trade, and issuance of long-term Sukuks in local currency. These multi-faceted interventions will not only assist in deepening and accelerating growth of Islamic financial sector but will also address a range of niche needs such as improving access of the poor to competitive financing, assisting producers of strategic commodities in targeted regions to increasing their exports and supporting private sector investments in PPP-type infrastructure projects.

ii. Cross-Cutting Pillar 2: Leveraging Partnerships for Enhancing Resource Flows

49. **In stimulating PPP-based investments, IDB Group will leverage its networking to help attract FDI, particularly from the GCC region, in Multi-Sector Programs at the regional level.** Promoting Islamic capital markets especially through issuance of long-term Sukuks will help financing of PPP-based infrastructure projects and private sector development. The Group will increase ratio of Islamic/ long-term finance for PPP-based projects and the number of local currency financed projects during the MCPS period. However, issues related to regulatory constraints and instruments for mobilizing long-term funds will need to be addressed on a priority basis. IDB Group will also make efforts to increase the use of Shariah-compliant modes of financing during the MCPS period. The Group will partner and co-finance with MDBs, Multi-Country Funds and the Arab Coordination Group for investments in PPP-based infrastructure projects.

iii. Cross-Cutting Pillars 3 and 4: Capacity Building and Reverse Linkage Programs

50. **IDB Group will support critically needed capacity development activities in the four Core Engagement Areas.** For institutional development at regional levels, the Group will develop common capacity building programs for training of officials from executing agencies and provincial governments to familiarize them with IDB procurement processes and international best practices, and preparation of bankable projects. For knowledge delivery, a diagnostic study covering effectiveness of IDB support to higher education sector in Indonesia, needs assessment, key binding constraints, regional benchmarking, and sequencing of next steps (covering policy reforms and investment requirements) will be undertaken.

51. Through partnership with centers of excellence in Indonesia, IDB will develop Reverse linkages programs aimed at transferring knowledge and skills to other member countries. For instance, in the area of social safety nets, the National Board of Zakat (BAZNAS) has been running a highly successful program of Zakah administration and distribution, combined with Islamic microfinance, has helped the ultra-poor to exit poverty trap. The BAZNAS model offers

best practices which can be shared with similar other institutions in member countries. Other potential areas for Reverse linkages include poverty reduction programs, family planning, palm oil agribusiness, rehabilitation of disabled persons, microfinance, agriculture extension, artificial insemination on dairy cattle, and disaster management.

3. Multi-Sector Program at the Regional Level

52. The goal of the Multi-Sector Program is to identify the most important sector-level binding constraints at the regional level, which, if appropriately addressed, will unleash the potential of regional economic development. Within the context of the MCPS, the role of IDB Group, along with other development partners, will be to assist the Regional Governments and other stakeholders to identify and support “high-impact growth trigger” programs at the regional level. Therefore, this MCPS proposes to align and support emerging developmental opportunities at the regional level in critical areas. The Result Matrices of Core Engagement Areas (Annex E-Tables 4.1 – 4.4) highlight IDB Group sector level activities in Sumatra, Kalimantan and Sulawesi regions (Table 4.1).

i. Core Engagement Area 1: Improving Education and Skills Development

53. **IDB strategy will mainly focus on improving the access and quality of higher, technical and vocational education to develop competitive workforce which is relevant to skills requirement in emerging sectors.** In this context, focused support will be provided to the regional governments to enhance the access, quality and relevance of the Islamic higher education (IHE) through expanding the existing infrastructure; developing curriculum; enhancing the accreditation ranking of the universities; and providing skills development for the staff, management and lecturers as well as improving the research and development of the IHE institutions. In particular, the role and output of IHE will be aligned to address critical needs of the Islamic financial sector in Indonesia.

54. With regard to enhancing the quality of teachers, IDB will provide support to programs covering infrastructure, teaching facilities and materials, textbooks and ICT needs for the teacher

education institutions at the regional levels. This program will be cascaded to the renovation and expanding the Technical, Vocational Education and Training (TVET) colleges, and Polytechnic Development of Mining in South Kalimantan. Furthermore, IDB will support programs to assist in the establishment of vocational centers, polytechnics specializing in geothermal technology in North and South Sulawesi provinces, and skills development programs for SMEs, mechanical, electrical, water, and health workers in Central, South and West Kalimantan. In this context, partnership opportunities with other donors, such as AsDB and JICA, will be explored.

55. Building on past experiences (Annex D-Box 1), IDB will support upgrading, expanding and enhancing the curriculum, teaching system and materials of the Madrasas education. An integrated Madrasas and vocational education program, replicating Madrasah Aliyah experience, will enable the students to have practical skills to seek employment opportunities.

ii. Core Engagement Area 2: Enhancing Agriculture and Rural Development

56. **IDB assistance will mainly focus on achieving food resilience through expanding irrigation infrastructure, supporting initiatives aimed at increasing productivity and efficiency of staple/basic food, investing in value chain enhancement activities, and poverty alleviation through Community-driven Development programs.** For Sumatra, the main focus will be to increase productivity and efficiency of staple/basic food and strategic crops by addressing the irrigation infrastructure constraints and providing support for value chain enhancement. In Kalimantan, the drive will be to support the Natural Resource Management (NRM), initiative especially in the water sector, as well as to support rural electrification through a rural renewable energy program. Agropolitan-regional agricultural hubs and fisheries sector development (through the Integrated Area Development approach) will be the areas of focus in Sulawesi during the MCPS period. Building on successful experience, IDB will continue to support the national flagship poverty alleviation program (PNPM-Mandiri) in the regions of Sumatra, West Kalimantan and West Java. An important lesson learnt from the implementation experience of PNPM-Mandiri is the inadequate access of the poor to banks’ financing. In this

Table 4.1: MCPS Multi-Sector Program During 2011-2014

Core Engagement Areas	Sumatra	Kalimantan	Sulawesi	National
Education and Skills Development	<ul style="list-style-type: none"> Higher education Islamic higher education Vocational education Teachers education Madrasa education 	<ul style="list-style-type: none"> Higher education Islamic higher education Technical, vocational education and training Teachers education Madrasa education 	<ul style="list-style-type: none"> Higher education Islamic higher education Vocational education Teachers education Madrasa education 	<ul style="list-style-type: none"> Higher education Teachers education institutions
Agriculture and Rural Development	<ul style="list-style-type: none"> Boosting agricultural productivity and efficiency of staple/basic food and strategic crops PNPM (ICDD) 	<ul style="list-style-type: none"> Irrigation and water harvesting and management Renewable energy PNPM (ICDD) 	<ul style="list-style-type: none"> Fisheries infrastructure Value chain enhancement Development of "Agropolitan" centres 	<ul style="list-style-type: none"> PNPM (ICDD) Shariah microfinance Islamic financial services industry Disadvantaged and border areas development
Infrastructure Development	<ul style="list-style-type: none"> Geothermal Water and sanitation 	<ul style="list-style-type: none"> Multimodal transport networks Water and sanitation 	<ul style="list-style-type: none"> Geothermal Water and sanitation 	<ul style="list-style-type: none"> Regional roads Toll roads - PPP Electricity distribution Geothermal Renewable energy (RE) Energy efficiency enhancement (EEE) Water and sanitation
Private Sector Development	<ul style="list-style-type: none"> Trade financing SMEs Supply chain financing to agri-business Export credit insurance Foreign investment insurance 	<ul style="list-style-type: none"> Trade financing SMEs Supply chain financing to agri-business Export credit insurance Foreign investment insurance 	<ul style="list-style-type: none"> Trade financing SMEs Supply chain financing to agri-business Export credit insurance Foreign investment insurance 	<ul style="list-style-type: none"> Islamic financial channels New Islamic bank(s) Islamic Investment Fund(s) Line of financing Trade financing Export credit insurance Foreign investment insurance

context, IDB is considering to strengthen PNPM-Mandiri by introducing a Shariah Microfinance Program, which will aim to create greater financial inclusion and empowerment of the targeted communities. In order to galvanize the socio-economic development of marginalized areas/groups, IDB will also consider integrating the PNPM-Mandiri with the Disadvantaged and Border Areas Development Program.

iii. Core Engagement Area 3: Strengthening Infrastructure Development

57. IDB support will mainly focus on addressing key dimensions of regional disparities by augmenting interregional connectivity through modernizing and rehabilitating roads and ports infrastructure; strengthening competitiveness of emerging urban areas through increasing access to clean water and basic sanitation; and improving low cost access to clean energy to attract private investments. The inadequate and poor quality of infrastructure at the national and

regional levels is a major bottleneck in accelerating economic growth in Indonesia.

58. A key step to reducing regional disparities is to support the development of multimodal transportation networks. The rehabilitation, capacity expansion and new construction of roads will improve regional connectivity, which will improve access to markets and thereby attract local and foreign investments. In the transport sector, IDB is already engaged in supporting Phase-I of the "AsDB-IDB Regional Roads Development Project" in Java. The Phase-II of this project is likely to see engagement of IDB outside the Java-Bali region. Improved road connections from Kalimantan to adjoining countries will support Brunei, Indonesia, Malaysia, Philippines -- East ASEAN Growth Area (BIMP-EAGA) transport initiatives -- to develop two land-based transport corridors that will improve connectivity and reduce transport costs. Improvement of roads linking with the Malaysian border will compliment other BIMP-EAGA programs aimed

at reducing non-physical barriers to trade by improving customs, immigration, quarantine and security processes.

59. By participating in overhead transmission project in the Java-Bali region, IDB is re-engaging in the energy sector after a gap of thirteen years in Indonesia. Currently, IDB is exploring partnership opportunities with other donors in Energy Efficiency Enhancement (EEE) initiative and the development of Renewable Energy (RE), particularly geothermal power projects in Java, Sumatra and Sulawesi regions.

60. Indonesia is seriously slipping in achieving MDG-related target of access to clean water and basic sanitation, which is mainly due to rapid rise in urbanization. IDB will support the development of Bandar Lampung (South-East Sumatra province) Water Supply Project, which will improve health conditions in low income communities in densely populated areas, and better sanitation infrastructure. Furthermore, IDB is likely to support the community-based national sanitation development program (SANIMAS) for implementation in Java, Sumatra, and Kalimantan regions.

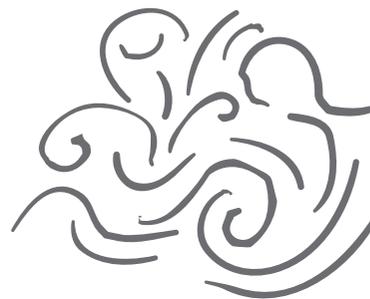
iv. Core Engagement Area 4: Promoting Private Sector Development

61. For private sector development, IDB Group will provide assistance mainly through its three Entities; namely Islamic Corporation for the Development of the Private Sector (ICD), International Islamic Trade Finance Corporation (ITFC), and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). ICD engagement strategy will be to provide lines of financing to banks in Indonesia for supporting investments and working capital requirements, particularly to the SMEs, both at national and regional levels. In addition, ICD is likely to support establishment of new Islamic banks, investment funds and arrange or participate in syndication of long-term co-financing arrangements. ITFC lending strategy will focus on unsecured lending to top-tier exporters; structured financing in the strategic sectors; 2-Step Murabaha financing for the banking sector and factoring facilities for exporters in Sumatra, Kalimantan, and Sulawesi regions. Further, ITFC is likely to provide export credit through the local banks to the SMEs. ICIEC will underpin private sector development through

export credit and investment insurance coverage aimed at attracting FDI inflows to Indonesia. Put together, the lending strategies of the private sector Entities of IDB Group will help to broaden the role of Islamic financial sector in Indonesia as well as promote investments by the corporate sector.

4. Area-Focused Program at the Regional Level

62. Selecting focused areas either at provincial or district level is based on (i) poverty incidence, (ii) HDI ranking, (iii) investment climate, and (iv) cost of doing business. This will help IDB Group to develop area-focused integrated development strategy at either provincial or district levels during the MCPS period, which will mainly address intra-regional disparities.





MCPS Program Implementation and The Way Forward

63. According to the Second Medium-term Development Plan, Indonesia requires a total investment of \$1.29 trillion – \$1.35 trillion over a period of five years (2010-2014) in order to be able to execute the Plan. The Government will contribute only 18 percent of the total investment requirement. The remaining will need to be fulfilled from the investment by the private sector (which includes FDI and domestic investment), banking lending, and mobilization from the capital market. In this context, IDB Group plans to mobilize its own resources and optimize its Partnerships platform to bring additionality of resources in order to support the implementation of the Second Plan.

1. Indicative Financing Envelope for the MCPS Program

64. **Through the MCPS Program, IDB Group has indicated (notional) financing envelope between \$3.0 - 3.3 billion to contribute to financing the implementation of the Second Medium-term Development Plan.** This initial estimate is based on stakeholders’ consultations which will be firmed up during the Programming phase of the MCPS process. The size of MCPS financial envelope will be eventually determined by the borrowing appetite of the Gol, identification of implementable / bankable projects, and IDB Group operational risk ceilings.

65. **Among the four Core Engagement Areas, out of total estimated financing envelope of \$3.0 - 3.3 billion, the private sector development will get the maximum share of about 35 percent.** The other Core Engagement Areas such as infrastructure development is likely to receive 26 percent; education and skills development 20 percent, and agriculture and rural development 18 percent during the MCPS period.

66. **In order to ‘Harness the Regional Potential’, the Regional Program will mainly focus on three selected regions (i.e. Sumatra, Kalimantan and Sulawesi) and they are estimated to receive the major financing share of 64 percent, while the**

indicative financing for the National Program will be 36 percent during the next four years. Among the targeted regions, Kalimantan is likely to receive the maximum share of the total regional program (Table 5.1).

67. **Out of IDB Group total indicative financing, about 61 percent is estimated to be earmarked for sovereign lending** while the remaining 39 percent is likely to finance Programs of non-sovereigns.

2. Key Success Factors: IDB Group

68. During discussions with the various Ministries, SOEs, development partners and other key stakeholders, a number of implementation issues emerged. The following policy and operations-related issues to be addressed in order to ensure success of the MCPS Program. The most critical issues include the following:

i. Establishment of IDB Country Office

69. **There is a strong demand and clear expectation from the Government of Indonesia that IDB, as part of the MCPS process, will enhance its presence by rapidly establishing a Country Office.** It will be critical to follow-up on the implementation and effectiveness of projects as well as to identify new opportunities for IDB Group engagement in an effective and efficient manner. In that case, local representation in the form of IDB Country Office will be a critical success factor in achieving effective implementation of the MCPS Program. The expected support from the Government in the provision of a land for the Country Office will certainly expedite the establishment process in the foreseeable future. Furthermore, the presence of the Country Office will also help the Bank Group to better coordinate with complex bureaucracy processes in Indonesia. In particular, implementing Programs at the regional level will require high-level coordination with National and Provincial authorities and then to follow through to preparatory stages of the “Blue Book”. In addition, all other MDBs

Table 5.1
Indonesia: IDB Group Indicative/Notional MCPS Financing Program for 2011-2014
(% of Indicative/Notional Financing for MCPS Program \$3.3 billion)

	IDB Group Proposed Financing ¹	National	Regional			Total Regional	Sovereign	Non-Sovereign
			Overall Regional	Sumatra	Kalimantan				Sulawesi
Education and Skills Development	19.8	6.1	9.4		3.2	1.1	13.7	19.8
Agriculture and Rural Development	17.5	7.6		3.0	3.0	3.8	9.9	17.5
Infrastructure Development	26.3	17.0		1.9	7.3		9.2	23.2
Of which Transport Sector	12.8	7.3			5.5		5.5	9.7
Power Sector	9.1	9.1						9.1
Urban Development	4.4	0.6		1.9	1.8		3.8	4.4
Private Sector Development	34.7	3.5	31.2				31.2	34.7
Of which ICD	3.3	2.0	1.3				1.3	3.3
ITFC	30.0		30.0				30.0	30.0
IDB-PPP	1.5	1.5						1.5
Islamic Financial Sector Development	1.6	1.6					0.1	1.5
Total	100.0	35.9	40.7	5.0	13.5	4.9	64.1	60.7

¹. Also includes technical assistance financing for Capacity development activities, which will mainly facilitate MCPS implementation, i.e. standard project preparation work in Core Engagement Areas, institutional and S&T development (at National and Regional levels, and Reverse linkages programs).

and major donors have their Country Offices in Indonesia. This has led to intense competition for quality projects amongst the donors. Besides, with a Country Office, IDB is likely to benefit from strong coordination and collaboration, and more visibility, particularly in terms of co-financing activities in the country.

ii. Effective Implementation of Jakarta Commitment

70. In pursuit of effectively utilizing foreign borrowings, the Government is committed to implementing the agenda of the Paris Declaration which addresses various aspects of improving aid effectiveness. The agenda of the Paris Declaration has been incorporated into the Jakarta Commitment which was adopted by IDB on 27 January 2009. The implications for IDB are that project procurement, monitoring evaluation and implementation will be carried out within the national systems. IDB will review the compatibility of national procurement guidelines of GoI for MCPS Program implementation.

iii. Competitive Pricing Policy

71. During the MCPS engagement process, the pricing issue was also highlighted by the Government (also raised through the IDB Field Office in Jakarta) where it was indicated that the mark up charged by IDB Group is not competitive with other MDBs and donors in the country. Therefore, IDB Group needs to address pricing policy issues.

iv. Resolving the Issue of Letter of Comfort

72. The main obstacle that ITFC faces in 2-Step Murahaba Financing in Indonesia is the risk management guidelines requirement for a Letter of Comfort (LoC) from state-owned banks. It is difficult to obtain LoC; in the past, it has generated some political controversies. Basically, the Government considers issuing LoC as its guarantee for a bank in Indonesia. In 1430H, this issue has caused the approved financing for Bank Ekspor Indonesia to be cancelled. Therefore, this issue needs to be resolved at IDB Group level in

order to materialize the notional trade financing envelope of about 30 percent of total estimated financing by the ITFC during the MCPS period.

v. Providing Technical Assistance for Project Preparation

73. In order to help the Government agencies to prepare bankable projects, IDB Group needs to provide Technical Assistance for Project Preparation (TAPP) on a regular basis. Other MDBs, such as the AsDB provides Project Preparation Technical Assistance (PPTA) and the World Bank also provide Project Preparation Facility (PPF) to the various Government agencies.

3. Key Success Factors: Government Support for the MCPS Program

i. Streamlining Program-related Governance

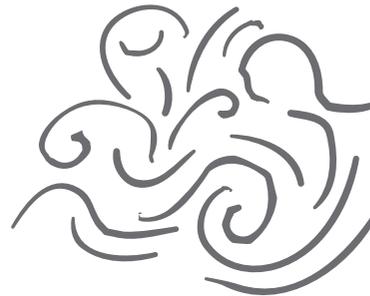
74. Governance has been a recurrent issue in Indonesia. Various issues have caused considerable delays in the implementation of the on-going IDB Programs. Decisions to award contracts are often made after a long process and rounds of clarifications and exchange of correspondence with the Bank, culminating in some cases with a re-launching of the bidding process. Although, the authorities are fully supportive of expediting implementation of IDB programs, a consultative round will be needed to resolve decisions making process under the ambit of Jakarta commitment. Similarly, resolving issues of land acquisition through effective implementation of existing laws (or promulgating the new land acquisition law awaiting approval by the Parliament) will be the key success factor for IDB Group funded infrastructure projects.

ii. Streamlining PPP-related Issues

75. In the past, IDB efforts to mobilize PPP-based investments for Indonesia, particularly from the GCC-based private equity funds, have met with some difficulties. A vexing issue has been the lack of bankable projects along with supportive exit steps for private equity funds. Resolving this issue will require roundtable consultation among the relevant Government agencies, private equity fund managers and the IDB Group. Mutual understanding in this area will assist the Bank Group to mobilize PPP-based investments.

iii. Government Support to IDB Group Entities and Funds

76. The Government of Indonesia has been fully supportive of IDB Group Entities and Funds. As part of the MCPS “Reverse Linkages” initiative, the Government could consider partnering with the Islamic Solidarity Fund for Development (ISFD) through supporting in-kind activities in the least developed member countries of the IDB. In addition, it is expected that the Government will expedite the contribution of Indonesia to the capital resources of the ISFD.



ANNEXES

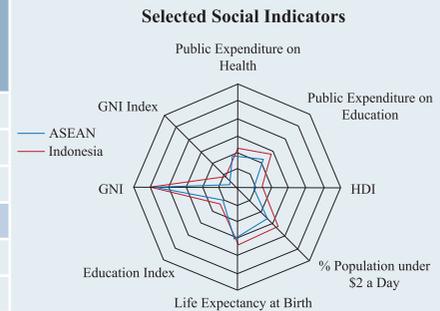
- Annex A: Statistical Tables
- Annex B: Summary of Key Elements of ‘Regional Strategies and Priorities’ under the Second Medium-term Development Plan
- Annex C: Indonesia’s Economic Growth and Sectoral Diagnostics of MCPS Core Engagement Areas
- Annex D: Partnership with IDB Group and Role of Other Donors: Lessons Learnt
- Annex E: Results Matrix
- Annex F: Indonesia: Overview of Status of MDGs Targets



Annex A

Table 1.1: Indonesia at a Glance

POVERTY & SOCIAL	Indonesia	East Asia & Pacific Region	Lower Middle Income countries
Population, mid-year (millions)	228.2	1,931	3,702
GNI per capita (Atlas method, \$)	1,870	2,631	2,078
GNI (Atlas method, \$ billions)	426.8	5,081	7,692
Average Annual Growth, 2002-08			
Population (%)	1.2	0.8	1.2
Labor force (%)	1.9	1.2	1.6
Most Recent Estimate (latest year available, 2002-08)			
Poverty (% of population below national poverty line)	17	..	..
Urban population (% of total population)	48	44	41
Life expectancy at birth (years)	71	72	68
Infant mortality (per 1,000 live births)	31	22	46
Child malnutrition (% of children under 5)	20	13	26
Access to an improved water source (% of population)	80	87	86
Literacy (% of population age 15+)	92	93	83
Gross primary enrollment (% of school-age population)	121	111	109
Male	123	112	112
Female	118	110	106



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1988	1998	2007	2008	2009
GDP (\$ billion)	88.8	95.4	431.9	510.7	
Gross capital formation/GDP	28.8	16.8	24.9	27.8	
Gross national savings/GDP	27.2	24.2	18.2	18.5	
Current account balance/GDP	-6.2	4.3	2.4	0.1	
Exports of goods and services/GDP	23.8	53.0	29.4	29.8	
Total debt/GDP	60.9	158.7	33.0	29.5	
Total debt service/exports	40.3	15.9	16.3	12.4	
STRUCTURE of the ECONOMY (% of GDP)	1988	1998	2007	2008	2009
Agriculture	22.5	18.1	13.7	14.4	
Industry	37.3	45.2	46.8	48.1	
Manufacturing	19.7	25.0	27.1	27.9	
Services	40.3	36.7	39.5	37.5	
Household final consumption expenditure	59.9	67.8	62.7	62.6	
General Govt. final consumption expenditure	8.5	5.7	8.3	8.4	
Imports of goods and services	21.1	43.2	25.4	28.6	

Table 1.1: Indonesia at a Glance (Continued)

Average Annual Growth (% change)	1988-98	1998-08	2007	2008	2009
GDP	6.6	4.9	6.3	6.1	4.5
GDP per capita	5.0	3.5	5.1	4.8	3.6
Agriculture	2.6	3.2	3.4	4.8	
Industry	8.3	4.1	4.7	3.7	
Manufacturing	9.4	4.9	4.7	3.7	
Services	6.9	6.3	8.8	8.9	
Household final consumption expenditure	8.7	4.3	8.2	2.9	
General Govt. final consumption expenditure	2.2	7.6	3.9	10.4	
Gross capital formation	6.2	5.2	2.0	12.6	
Exports of goods and services	9.4	6.8	8.5	9.5	3.0
Imports of goods and services	12.7	7.2	9.0	10.0	
PRICES & GOVERNMENT FINANCE	1988	1998	2007	2008	2009
Inflation (% change)					
Consumer prices	8.5	58.5	6.4	9.8	
Implicit GDP deflator	12.7	75.3	11.3	18.3	
Government Finance (% of GDP, includes current grants)					
Current revenue	..	..	17.9	19.4	
Current budget balance	..	..	6.8	6.1	
Overall surplus/deficit	..	..	-1.3	-0.8	
TRADE (\$ million)	1988	1998	2007	2008	2009
Total exports (fob)	19,335	48,848	118,015	139,605	
Fuel	7,696	8,079	22,518	29,329	
Estate crop	2,070	3,974	6,329	8,467	
Manufactures	5,693	20,088	46,140	50,588	
Total imports (cif)	15,279	35,286	94,187	128,907	
Food	642	2,612	6,884	7,927	
Fuel and energy	959	2,686	21,994	38,038	
Capital goods	5,096	9,932	19,038	42,397	
Export price index (2000=100)	32	76	133	146	
Import price index (2000=100)	126	107	206	263	
Terms of trade (2000=100)	25	71	65	56	
BALANCE of PAYMENTS (\$ million)	1988	1998	2007	2008	2009
Exports of goods and services	20,878	105,221	130,501	154,849	
Imports of goods and services	18,437	87,933	109,588	144,681	
Resource balance	2,441	17,288	20,913	10,168	
Net income	-8,184	-16,378	-15,525	-15,253	
Net current transfers	254	3,184	5,104	5,385	
Current account balance	-5,489	4,094	10,493	300	
Financing items (net)	5,263	-7,531	2,223 -	2,244	
Changes in net reserves	226	3,437	-12,715	1,945	
Memo:					
Reserves including gold (\$ million)	4,814	23,516	55,798	81,110	
Exchange rate IDR per \$	1,685.7	10,013.6	9,143.4	9,699.9	

Table 1.1: Indonesia at a Glance (Continued)

EXTERNAL DEBT and RESOURCE FLOWS (\$ million)	1988	1998	2007	2008	2009
Total debt outstanding and disbursed	54,078	151,484	142,638	150,851	
Total debt service	8,642	18,314	22,805	22,150	
Composition of net resource flows					
Official grants	201	279	991	837	
Official creditors	2,876	2,754 -	1,849 -	1,119	
Private creditors	63 -	3,281	2,558	7,092	
Foreign direct investment (net inflows)	576 -	241	6,928	8,698	
Portfolio equity (net inflows)	0	-4,371	3,559	322	
Foreign Debts (\$ million)		2006	2007	2008	2009
Government and Central Bank		75,820	80,615	86,600	99,265
Government		73,055	76,920	85,136	90,853
Bilateral		31,833	32,141	35,751	33,715
Multilateral		18,837	19,055	20,337	21,529
Export Credit Facility		11,220	10,983	10,553	9,508
Commercial		62	58	45	268
Leasing		70	16	2	0
Securities/Bonds		4,945	6,370	10,446	14,343
Domestic Securities owned by non-resident		6,089	8,298	8,001	11,489
Central Bank		2,765	3,695	1,465	8,412
Private		56,813	60,565	68,480	73,606
Banks		8,459	9,934	11,583	9,530
Non-Banks		48,354	50,631	56,879	64,075
Financial Institutions		2,017	2,114	3,891	3,066
Non Financial Institutions		46,337	48,517	53,005	61,009

Source: World Bank and Bank Indonesia as of end July 2010.

Table 1.2: GDP Growth by Expenditure and Production (in %)												
	2007	2008							2009			
		I	II	III	IV	Total	I	II	III	IV	Total	
GDP Growth	6.3	6.2	6.3	6.3	5.3	6.0	4.5	4.1	4.2	5.4	4.6	
Expenditure												
Total Consumption	4.9	5.5	5.5	6.3	6.4	5.9	7.3	6.3	5.4	5.9	6.2	
Private Consumption	5.0	5.7	5.5	5.3	4.8	5.3	6.0	4.8	4.8	4.0	4.9	
Government Consumption	3.9	3.6	5.3	14.1	16.4	10.4	19.3	17.0	10.3	17.0	15.7	
Investment	1.9	18.6	10.9	9.7	11.2	12.4	-0.9	3.0	4.4	4.5	2.8	
Domestic Demand	4.1	8.7	6.9	7.2	7.6	7.6	5.1	5.4	5.2	5.6	5.3	
Net Exports	6.5	-1.7	-1.9	8.4	27.7	7.6	5.3	9.4	25.2	10.6	12.4	
Exports of Goods & Services	8.5	13.6	12.4	10.6	2.0	9.5	-18.7	-15.5	-8.0	3.7	-9.7	
Imports of Goods & Services	9.1	18.0	16.1	11.1	-3.7	10.0	-24.4	-21.0	-14.7	1.6	-15.0	
Production												
Agriculture	3.5	6.4	4.8	3.3	5.1	4.8	5.9	3.0	3.3	4.6	4.1	
Mining & Quarrying	1.9	-1.6	-0.4	2.3	2.4	0.7	2.6	3.4	6.2	5.2	4.4	
Manufacturing	4.7	4.3	4.2	4.3	1.9	3.7	1.5	1.5	1.3	4.2	2.1	
Electricity, Gas and Water Supply	10.3	12.3	11.8	10.4	9.3	10.9	11.3	15.3	14.5	14.0	13.8	
Construction	8.5	8.2	8.3	7.8	5.9	7.5	6.3	6.1	7.7	8.0	7.1	
Trade, Hotel and Restaurant	8.9	6.8	7.7	7.6	5.5	6.9	0.6	-0.02	-0.2	4.2	1.1	
Transportation & Communication	14.0	18.1	16.6	15.6	16.1	16.6	16.8	17.0	16.5	12.2	15.5	
Finance, Rental and Business Services	8.0	8.3	8.7	8.6	7.4	8.2	6.3	5.3	4.9	3.8	5.1	
Services	6.4	5.5	6.5	7.0	5.9	6.2	6.7	7.2	6.0	5.7	6.4	

Source: Annual Report of Bank Indonesia, 2009

Table 1.3: Indonesia: Targets under the Second Medium-Term Development Plan (in %)

	2010	2011	2012	2013	2014	Average 2010-2014
Economic Growth	5.5-5.6	6.0-6.3	6.4-6.9	6.7-7.4	7.0-7.7	6.3-6.8
Expenditure Side						
Private Consumption	5.2	5.2-5.3	5.3-5.4	5.3-5.4	5.3-5.4	5.3-5.4
Govt. Consumption	10.8-10.9	10.9-11.2	12.9-13.2	10.2-13.5	8.1-9.8	10.6-11.7
Investment	7.2-7.3	7.9-10.9	8.4-11.5	10.2-12.0	11.7-12.1	9.1-10.8
Exports of Goods and Services	6.4-6.5	9.7-10.6	11.4-12.0	12.3-13.4	13.5-15.6	10.7-11.6
Imports of Goods and Services	9.2-9.3	12.7-15.2	14.3-15.9	15.0-16.5	16.0-17.4	13.4-14.9
Production Side						
Agriculture, Plantation, Livestock, Forestry, and Fisheries	3.3-3.4	3.4-3.5	3.5-3.7	3.6-3.8	3.7-3.9	3.6-3.7
Mining and Quarrying	2.0-2.1	2.1-2.3	2.3-2.4	2.4-2.5	2.5-2.6	2.2-2.4
Manufacturing Industry	4.2-4.3	5.0-5.4	5.7-6.5	6.2-6.8	6.5-7.3	5.5-6.0
Non-Oil and Gas Industry	4.8-4.9	5.6-6.1	6.3-7.0	6.8-7.5	7.1-7.8	6.1-6.7
Electricity, Gas and Water	13.4-13.5	13.7-13.8	13.8-13.9	13.9-14.0	14.1-14.2	13.8-13.9
Construction	7.1-7.2	8.4-8.5	8.8-9.3	8.9-10.1	9.1-11.1	8.4-9.2
Trade, Hotels, and Restaurants	4.0-4.1	4.2-4.8	4.4-5.2	4.5-6.4	4.6-6.6	4.3-5.4
Transportation and Telecommunications	14.3-14.8	14.5-15.2	14.7-15.4	14.9-15.6	15.1-16.1	14.7-15.4
Finance, Real Estate, and Corporate Services	6.5-6.6	6.6-6.7	6.8-7.0	6.9-7.0	7.2-7.3	6.8-6.9
Services	6.7-6.9	6.9-7.0	7.0-7.1	7.1-7.2	7.2-7.4	6.9-7.1

**Table 2.1 (a): Regional Growth, Unemployment and Poverty Incidence:
% Deviation from the National Average**

	2004			2005			2006			2007			2008		
	Growth	Unemp.	Poverty Incidence	Growth	Unemp.	Poverty Incidence	Growth	Unemp.	Poverty Incidence	Growth	Unemp.	Poverty Incidence	Growth	Unemp.	Poverty Incidence
Sumatera	-1.50	0.1	-1.8	-1.81	-0.2	-1.8	0.08	1.5	-0.2	-0.72	-0.2	-1.8	-0.68	0.5	-1.8
Jawa & Bali	0.95	0.1	-3.7	0.37	0.3	-3.7	0.58	0	0.4	0.51	0.4	-3.7	0.29	0.2	-3.7
Kalimantan	-1.42	2.8	-7.3	-1.45	1.7	-7.3	-1.38	0.3	0.1	-2.13	0.1	-7.3	-0.34	0.5	-7.3
Sulawesi	5.86	-3.9	1.4	0.90	-3.2	1.4	1.64	-3.5	-4	1.21	-4	1.4	2.12	-4.2	1.4
Nusa Tenggara	1.27	-2.4	8.5	-2.79	-2.9	8.5	-1.26	-2.1	-1.9	-0.64	-1.9	8.5	-1.88	-1.3	8.5
Maluku	0.13	0	4.3	-0.29	0.5	4.3	0.33	2.1	2	0.14	2	4.3	-0.49	0.7	4.3
Papua	-12.01	-1.9	19.9	16.22	-3.2	19.9	-11.48	-4.4	-3.2	-0.03	-3.2	19.9	-2.67	-2.7	19.9
National	4.44	9.90	16.2	5.38	10.30	16.2	5.18	10.40	9.80	5.67	9.80	16.2	5.59	8.60	16.2

Source: Bappenas database, 2010.

Table 2.1 (b): Regional Contribution to GDP Growth (%)

	Sumatra	Java-Bali	Kalimantan	Sulawesi	Maluku, Nusa Tenggara and Papua
2000-01	11.8	65.9	10.8	5.4	6.2
2001-02	31.7	58.0	9.2	4.7	-3.6
2002-03	21.0	60.9	5.4	4.6	8.0
2003-04	15.5	76.4	6.7	5.7	-4.3
2004-05	14.8	65.1	6.8	5.1	8.2
2005-06	22.2	68.0	6.7	5.8	-2.7
2006-07	19.1	67.1	5.6	5.4	2.8
2007-08	19.1	65.0	8.3	6.2	1.3

Source: Indonesia: Critical Development Constraints, Country Diagnostic Studies, prepared jointly by IDB, AsDB and ILO (2010).

Table 2.2 (a)
Second Plan Targets for Regional Economic Growth, Poverty Incidence and Unemployment (in %)

	Province	Economic Growth		Poverty Incidence		Unemployment	
		2010	2014	2010	2014	2010	2014
Java-Bali Region¹		6.2	7.3	9.4	6.0	9.4	8.0
1	DKI Jakarta	6.5 – 7.1	6.9 – 7.7	2.75 – 2.69	0.54 – 0.53	10.3 – 11.4	8.3 – 9.2
2	West Java	5.0 – 5.6	6.2 – 6.8	9.12 – 8.91	4.15 – 4.12	10.4 – 11.5	8.8 – 9.8
3	Central Java	6.2 – 6.8	7.1 – 7.7	14.92 – 14.34	11.58 – 11.37	7.1 – 7.8	5.4 – 6.0
4	D.I. Yogyakarta	4.8 – 5.3	6.2 – 6.9	15.36 – 15.03	11.87 – 10.76	5.5 – 6.1	4.3 – 4.7
5	East Java	5.8 – 6.4	7.1 – 7.8	14.62 – 14.24	11.23 – 10.95	6.5 – 7.2	5.7 – 6.3
6	Banten	5.9 – 6.4	6.5 – 7.2	6.79 – 6.23	3.13 – 3.09	15.4 – 17.0	14.9 – 16.5
7	Bali	5.8 – 6.1	6.8 – 7.3	4.12 – 4.01	1.12 – 1.11	4.4 – 4.9	3.4 – 3.7
Sumatra Region¹		5.8	7.1	11.4	7.9	6.5	5.5
8	Nanggroe Aceh Darussalam	4.5 – 5.0	5.5 – 6.1	20.55 – 20.01	14.47 – 14.06	7.4 – 8.2	5.7 – 6.3
9	North Sumatra	6.4 – 7.1	6.9 – 7.6	10.53 – 10.05	7.04 – 6.98	10.3 – 11.4	9.4 – 10.4
10	West Sumatra	4.4 – 4.8	6.0 – 6.5	7.73 – 7.24	4.51 – 4.44	8.4 – 9.3	7.5 – 8.3
11	Riau	4.6 – 5.0	6.5 – 7.2	8.51 – 8.11	5.47 – 5.32	5.8 – 6.4	5.6 – 6.2
12	Jambi	4.8 – 5.3	6.9 – 7.6	7.65 – 7.12	4.27 – 4.22	4.2 – 4.7	3.1 – 3.5
13	South Sumatra	5.5 – 6.0	6.2 – 6.9	15.34 – 14.04	11.39 – 10.89	7.9 – 8.7	6.8 – 7.6
14	Bengkulu	4.5 – 5.5	6.2 – 6.9	16.51 – 16.07	12.03 – 11.91	2.6 – 2.9	1.6 – 1.9
15	Lampung	5.5 – 6.1	6.2 – 6.9	18.29 – 17.84	13.99 – 13.24	5.4 – 6.0	4.7 – 5.2
16	Bangka Belitung	4.9 – 5.5	6.1 – 6.7	6.37 – 6.01	3.68 – 3.55	3.7 – 4.1	2.4 – 2.7
17	Riau Islands	7.0 – 7.4	7.5 – 8.2	7.66 – 7.13	4.46 – 4.21	3.3 – 3.7	1.5 – 2.4
Kalimantan Region¹		5.1	5.8	5.0	2.8	6.3	4.8
18	West Kalimantan	4.7 – 5.2	4.8 – 5.4	8.03 – 7.94	4.66 – 4.59	5.7 – 6.2	4.9 – 5.4
19	Central Kalimantan	5.0 – 5.6	6.1 – 6.7	6.94 – 6.61	3.61 – 3.57	3.9 – 4.3	2.9 – 3.3
20	South Kalimantan	5.5 – 5.9	6.3 – 6.9	4.01 – 3.85	1.01 – 1.01	5.1 – 5.6	3.9 – 4.3
21	East Kalimantan	3.0 – 3.5	3.6 – 4.1	5.87 – 5.52	2.03 – 2.01	8.2 – 9.1	5.5 – 6.1
Sulawesi Region¹		7.4	8.4	15.3	10.6	6.6	4.9
22	North Sulawesi	5.7 – 6.3	7.1 – 7.8	9.17 – 8.86	3.05 – 3.02	9.9 – 11.0	8.2 – 9.0
23	Central Sulawesi	8.5 – 9.0	9.0 – 10.1	17.33 – 16.93	12.09 – 11.96	6.4 – 7.1	5.9 – 6.5
24	South Sulawesi	6.2 – 7.2	7.5 – 8.3	11.28 – 10.87	6.29 – 6.04	6.8 – 7.6	4.7 – 5.2
25	Southeast Sulawesi	7.5 – 7.9	8.0 – 8.5	17.95 – 17.49	14.14 – 14.01	3.7 – 4.1	2.1 – 2.3
26	Gorontalo	6.8 – 7.3	7.0 – 8.5	24.13 – 23.98	19.49 – 18.56	4.6 – 5.0	2.9 – 3.2
27	West Sulawesi	5.8 – 6.5	6.2 – 7.0	14.06 – 13.93	10.03 – 9.99	4.1 – 4.5	2.7 – 3.0
Nusa Tenggara Region¹		4.7	5.2	21.5	15.9	2.9	1.9
28	NTB	3.0 – 3.5	3.6 – 4.0	21.42 – 20.93	15.94 – 14.88	3.6 – 3.9	2.2 – 2.4
29	NTT	5.4 – 5.9	5.8 – 6.4	22.64 – 22.12	16.95 – 16.87	1.7 – 1.9	1.2 – 1.4
Maluku Region¹		5.9	6.4	17.9	13.4	6.8	4.6
30	Maluku	4.9 – 5.4	5.4 – 6.0	27.04 – 26.75	22.23 – 21.76	7.7 – 8.5	5.2 – 5.8
31	North Maluku	5.5 – 6.3	6.0 – 6.8	9.45 – 9.07	5.38 – 5.02	4.7 – 5.1	3.0 – 3.3
Papua Region¹		6.3	7.2	35.6	20.2	6.0	6.1
32	West Papua	6.2 – 6.8	7.0 – 7.6	34.94 – 34.23	19.94 – 18.78	7.2 – 7.9	5.1 – 5.6
33	Papua	5.3 – 5.8	6.2 – 6.7	37.01 – 36.88	22.95 – 21.56	3.7 – 4.1	2.7 – 6.5
National-level Average Targets (for 2010-14)			6.3 – 6.8		8 - 10		5 - 6

1: Regional averages are obtained from the upper bound of the ranges in each province.
Source: RPJM (2010-14); Bappenas, Government of Indonesia.

Table 2.2 (b)
Second Plan Targets: Standard Deviation Measurement of Underlying Intra-regional Disparities

Regions	Economic Growth		Poverty Incidence		Unemployment	
	2010	2014	2010	2014	2010	2014
Java-Bali	0.6	0.4	5.2	4.9	4.2	4.3
Sumatra	0.9	0.6	5.2	4.2	2.8	2.8
Kalimantan	1.1	1.3	1.7	1.6	2.0	1.2
Sulawesi	1.0	1.0	5.4	5.6	2.6	2.6

Source: RPJM (2010 - 14); Bappenas; IDB staff calculations.

Table 2.3 (a): Gross Domestic Product at 2000 Constant Market Prices by Origin (in % share)

Industrial Origin	2004	2005	2006	2007	2008	2009
1. Agriculture, Livestock, Forestry and Fishery	14.9	14.5	14.2	13.8	18.7	13.6
a. Food Crops	7.4	7.2	7.0	6.8	6.8	6.8
b. Estate Crops	2.3	2.3	2.2	2.2	2.2	2.1
c. Livestock and its Product	1.9	1.8	1.8	1.7	1.7	1.7
d. Forestry	1.1	1.0	0.9	0.8	0.8	0.8
e. Fishery	2.2	2.2	2.2	2.2	2.2	2.2
2. Mining and Quarrying	9.7	9.4	9.1	8.7	8.3	8.3
a. Oil and Gas Mining	6.0	5.5	5.2	4.8	4.6	4.4
b. Non-Oil and Gas Mining	2.8	3.0	3.0	3.0	2.8	2.9
c. Quarrying	0.9	0.9	0.9	0.9	0.9	1.0
3. Manufacturing Industry	28.4	28.1	27.8	27.4	26.8	26.2
a. Oil and Gas Manufacturing Industry	3.1	2.8	2.6	2.4	2.3	2.1
1. Petroleum Refinery	1.3	1.2	1.1	1.1	1.0	1.0
2. Liquefied Natural Gas (LNG)	1.8	1.6	1.5	1.4	1.3	1.2
b. Non-Oil and Gas Manufacturing Industry	25.3	25.3	25.2	25.0	24.5	24.0
1. Food, Beverages and Tobacco Industries	7.1	6.9	7.0	7.0	6.7	7.2
2. Textile, Leather Products and Footwear Industries	3.2	3.1	3.0	2.7	2.4	2.4
3. Wood and Other Products Industries	1.2	1.2	1.1	1.0	1.0	0.9
4. Paper and Printing Products Industries	1.4	1.4	1.3	1.3	1.2	1.2
5. Fertilizers, Chemical and Rubber Products Industries	3.3	3.4	3.4	3.3	3.3	3.2
6. Cement, and Non-Metalic Quarr Product Industries	0.9	0.9	0.8	0.8	0.8	0.7
7. Iron and Steel Basic Metal Industries	0.5	0.4	0.4	0.4	0.4	0.4
8. Transport Equip, Machinery & Apparatus Industries	7.3	7.8	8.0	8.2	8.5	7.9
9. Other Manufacturing Products	0.2	0.2	0.2	0.2	0.2	0.2
4. Electricity, Gas and Water Supply	0.7	0.7	0.7	0.7	0.7	0.8
a. Electricity	0.5	0.5	0.5	0.5	0.5	0.5
b. City Gas	0.1	0.1	0.1	0.1	0.2	0.2
c. Water Supply	0.1	0.1	0.1	0.1	0.1	0.1
5. Construction	5.8	5.9	6.1	6.2	6.3	6.4
6. Trade, Hotel and Restaurants	16.4	16.8	16.9	17.3	17.5	16.9
a. Wholesale and Retail Trade	13.4	13.8	14.0	14.4	14.5	13.9
b. Hotels	0.7	0.7	0.7	0.7	0.7	0.7
c. Restaurants	2.2	2.3	2.3	2.3	2.3	2.4
7. Transport and Communication	5.8	6.2	6.8	7.2	8.0	8.8
a. Transport	3.8	3.8	3.8	3.7	3.6	3.6
1. Railways Transport	0.04	0.03	0.03	0.03	0.03	0.03
2. Road Transport	1.6	1.6	1.6	1.6	1.6	1.6
3. Sea Transport	0.5	0.5	0.5	0.5	0.4	0.4
4. River, Lake and Ferry Transport	0.1	0.1	0.1	0.1	0.1	0.1
5. Air Transport	0.6	0.6	0.6	0.6	0.6	0.7
6. Services Allied to Transport	0.9	0.9	0.9	0.9	0.8	0.8
b. Communication	2.1	2.4	2.9	3.5	4.4	5.2
8. Finance, Real Estate and Business Services	9.1	9.2	9.2	9.3	9.5	9.6
a. Bank	4.1	4.1	3.9	4.0	4.0	4.0
b. Non-Bank Financial Institutions	0.7	0.7	0.8	0.8	0.8	0.8
c. Services Allied to Finance	0.1	0.1	0.1	0.1	0.1	0.1
d. Real Estate	2.7	2.7	2.8	2.8	2.9	2.9
e. Business Services	1.5	1.6	1.7	1.7	1.7	1.8
9. Services	9.2	9.2	9.2	9.3	9.3	9.4
a. General Government	4.4	4.2	4.1	4.1	4.1	4.1
1. Government Administration and Defence	2.8	2.7	2.6	2.6	2.6	2.6
2. Other Government Services	1.6	1.5	1.5	1.5	1.5	1.5
b. Private	4.9	5.0	5.1	5.1	5.2	5.4
1. Social and Community Services	1.3	1.3	1.3	1.3	1.3	1.4
2. Amusement and Recreational Services	0.4	0.4	0.4	0.4	0.4	0.4
3. Personal and Household Services	3.2	3.3	3.4	3.4	3.5	3.6
Gross Domestic Product without Oil and Gas	90.9	91.7	92.2	92.7	93.1	93.5
GDP Growth (annual percent change)	-	6.6	6.1	6.9	6.5	4.9
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0
GDP Growth (annual percent change0	-	5.7	5.5	6.3	6.0	4.5

Source: BPS-Statistics Indonesia.

Table 2.3 (b): Indonesia: Sources of Investment Financing (in % share)

	1995	2000	2005	2007	2008
Gross fixed capital formation (% of GDP)	28.0	20.0	24.0	25.0	28.0
Sources					
Government	26.0	10.6	11.8	13.6	13.2
Banking Loans	31.8	10.1	12.3	15.4	16.1
Foreign Financing	21.3	30.7	26.0	20.7	17.8
FDI, Equity Capital & Retained Earnings	4.8	2.9	11.6	7.0	5.0
FDI, Loan Disbursements	5.7	6.4	2.4	5.1	5.9
Other, Loan Disbursements	10.8	21.3	11.9	8.6	6.9
Stock Issuance	6.9	7.0	1.5	4.8	5.8
Bond Issuance	1.6	2.0	1.2	3.2	1.0
Internal Fund	12.4	39.5	47.1	42.3	46.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Annual Report of Bank Indonesia, 2009.

Table 2.4: Performance Indicators of Islamic Financial Institutions in Indonesia

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Sept. 2009
Number of Islamic Financial Institutions										
Islamic Commercial Bank	2	2	2	2	3	3	3	3	5	5
Islamic Banking Unit	3	3	6	8	15	19	20	26	27	24
Islamic Rural Banks	79	81	83	84	88	92	105	114	131	137
Relative Size of Islamic Financial Institutions										
Total Assets (\$ million)	212.56	264.97	434.45	916.26	1,714.54	2,151.51	2,922.93	3,997.12	5,109.32	5,585.63
Share of Islamic Banks in Total Banks' Deposits (%)	0.15	0.23	0.35	0.64	1.23	1.38	1.61	1.85	2.10	2.38 (Aug' 09)
Share of Islamic Banks in Total Banks' Assets (%)	0.17	0.25	0.36	0.74	1.20	1.42	1.58	1.84	2.14	2.39 (Aug' 09)
Islamic Banks in Total Banks' Financing (%)	0.40	0.57	0.80	1.16	1.93	2.19	2.58	1.68	2.92	3.21 (Aug' 09)
Performance Indicators (in %)										
Islamic Bank Non Performing Financing (Gross)	12.96	4.01	4.12	2.34	2.35	2.82	4.75	2.46	2.18	2.95
Commercial Bank Non-Performing Loan	--	18.76	12.10	8.09	8.20	5.80	7.60	6.07	4.07	3.98
Return on Asset (yearly)	--	3.7	1.6	0.7	1.41	1.35	1.55	1.78	1.42	1.38
Return on Equity (yearly)	--	15.9	10.3	7.0	24.80	26.71	36.94	53.91	37.94	34.14

Source: Indonesian Islamic Banking Outlook, 2010 published by Directorate of Islamic Banking, Bank Indonesia.

Table 2.5: IDB GROUP NET APPROVALS*
INDONESIA

(Amount in million)

Mode of Financing	1429H			1430H			1431H (9 Months)			1396H-1431H (Q3)***		
	No.	ID	US\$	No.	ID	US\$	No.	ID	US\$	No.	ID	US\$
Project financing - Tech. Assistance	5	32.3	51.0	14	166.4	258.3	6	77.6	117.5	99	833.5	1,209.9
Loan	1	2.1	3.4	1	9.4	14.4	0	0.0	0.0	17	95.0	130.3
Equity	2	14.9	23.0	0	0.0	0.0	1	20.1	30.0	10	61.9	88.8
OCR	0	0.0	0.0	0	0.0	0.0	1	20.1	30.0	8	47.0	65.8
ICD	1	6.5	10.0	0	0.0	0.0	0	0.0	0.0	1	6.5	10.0
UIF	1	8.4	13.0	0	0.0	0.0	0	0.0	0.0	1	8.4	13.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Leasing	1	1.9	3.0	0	0.0	0.0	0	0.0	0.0	6	41.9	60.9
OCR	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	5	40.0	57.9
ICD	1	1.9	3.0	0	0.0	0.0	0	0.0	0.0	1	1.9	3.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Instaiments Sale	0	0.0	0.0	1	20.6	32.7	1	5.5	8.2	27	205.5	294.9
OCR	0	0.0	0.0	1	20.6	32.7	1	5.5	8.2	27	205.5	294.9
ICD	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Combined Lines of Financing	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
OCR	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
ICD	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Profit Sharing (Musharaka)	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
OCR	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
ICD	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Istisna's	1	13.3	21.6	2	101.0	155.6	3	51.4	78.3	21	292.3	577.3
OCR	1	13.3	21.6	2	101.0	155.6	3	51.4	78.3	21	292.3	577.3
ICD	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Others**	0	0.0	0.0	8	35.0	55.0	0	0.0	0.0	8	35.0	55.0
OCR	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
ICD	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Treasury operations	0	0.0	0.0	8	0.0	55.0	0	0.0	0.0	8	35.0	55.0
Technical Assistance (TA)	0	0.0	0.0	2	0.4	0.6	1	0.6	1.0	10	1.8	2.7
Trade Financing	2	5.7	8.8	2	31.8	50.0	6	85.6	130.0	38	629.3	877.3
ITFC	0	0.0	0.0	2	31.8	50.0	6	85.6	130.0	8	117.4	180.0
UIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	2	19.1	25.0
APIF	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	1	1.5	2.0
ICD	2	5.7	8.8	0	0.0	0.0	0	0.0	0.0	2	5.7	8.8
Treasury Operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Previous Trade Financing Activities	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	25	485.7	661.5
Special Assistance Operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	4	2.9	4.4
Net Approvals for the Country	7	38.0	59.8	16	198.2	308.3	12	163.2	247.6	141	1,465.7	2,091.6
Memorandum Items												
IDB Group Net Approvals	396	3,444.0	5,456.2	464	4,501.3	6,935.8	268	3,666.3	5,585.9	6,794	48,752.6	68,863.9
(a)+(b)+(c)+(d)												
Project Financing (a)	150	1,950.5	3,080.7	243	3,004.7	4,648.9	102	2,300.8	3,528.9	2,205	21,766.6	31,457.4
Technical Assistance (TA) (b)	111	26.5	41.9	106	23.4	36.1	71	12.3	18.6	1,051	245.8	342.7
Trade financing ©	80	1,453.8	2,313.1	65	1,460.7	2,231.4	52	1,342.5	2,022.2	2,207	26,200.2	36,364.4
Specials Assistance operations (d)	55	13.2	20.5	50	12.6	19.4	43	10.8	16.2	1,331	540.0	699.5
OCR Net Approvals (PPMS)	175	1,600.9	2,541.5	180	2,111.5	3,245.4	141	2,114.3	3,250.6	2,595	17,176.2	24,682.9
ICD Net Approvals	33	213.1	329.1	22	183.9	288.9	14	86.7	129.6	182	915.8	1,381.5
ITFC Net Approvals	61	1,357.6	2,164.5	49	1,305.6	1,987.8	51	1,339.2	2,017.2	161	4,002.4	6,169.6
UIF Net Approvals	18	97.0	149.8	16	94.8	149.0	2	12.3	18.3	243	1,609.7	2,311.1
APIF Net Approvals	5	64.3	99.3	8	98.7	155.0	3	14.9	22.3	81	497.9	761.0
Treasury net Approvals	49	97.9	151.6	139	694.2	1,090.4	14	88.1	131.7	300	2,201.2	3,309.4
ICIEC : Insurance Commitments		1,083	1,672		1,423	2,135		1,641	2,495		6,997	10,538
Business insured		935	1,444		687	1,030		750	1,140		4,872	7,368

* Cut-off-date for data reported in this table was 9 September 2010 ** mainly ICD, UIF and Treasury Operations "0" or "0.00" or ".." refers to no approvals *** Figures may not add up to the total due to fund that was closed (i.e IBP)



**Summary of Key Elements of ‘Regional Strategies and Priorities’
under the Second Medium-term Development Plan**

In this Annex, a summary of major developmental challenges faced by Sumatra, Kalimantan and Sulawesi regions are presented. Under the ‘Regional Strategies and Priorities’ of the Second Plan, the proposed Spatial Policies and Sectoral Priorities aim to accelerate economic development and growth in these regions. The MCPS Program seeks to identify growth accelerators and an alignment with these Policies and Priorities at the regional level.

i. Sumatra Region: Development Issues and Priorities

Sumatra is one of Indonesia’s main islands that holds the potential to accelerate overall economic development. Geographically, the island is situated in the western part of Indonesia, and directly faces East Asia, which is one of the economic centers of the world, and has the interregional connectivity with Java-Bali

Strategic Issues	Regional Spatial Policies	Sector Priorities
Commodities, in which the region has competitive advantage, are palm oil, rubber, pulp, food crops and horticulture. However, the value added of these commodities in the region is relatively small because of less development of processing industry chain.	Promoting the development of reliable land, sea and air transport network system to further enhance trade flows with the ASEAN countries.	Productivity improvements in agriculture and plantation sectors especially in food crops, fisheries and seafood, horticulture, palm, and rubber.
The network capacity of electricity power plants in the region has to be urgently improved. To meet current demand, frequent blackouts often occur during peak load. The region needs reliable and integrated network electricity system.	Fostering urban residential centers along with the development of service centers.	Development of competitive industrial clusters: PKN Medan, Batam, Pekanbaru and Palembang.
Development of intermodal transportation network is necessary for enhancing regional trade and industrial clusters. Current conditions indicate poor quality of Sumatra highway network capacity as well as intermodal system of road, railways, river transport, sea and air.	Developing transportation connectivity in West and East coasts of Sumatra as the center for fishery, tourism, oil and gas, and international marketing center.	Expansion of oil and gas industry sector especially through (i) optimal mix of oil, gas, and coal, and (ii) developing alternative energy resources.
Structural transformation of the regional economy will require quality work force which is also competitive at national as well as ASEAN norms. Improving quality of human resources is constrained by high level of poverty incidence in some provinces: Nanggroe Aceh Darussalam, South Sumatra, Bengkulu and Lampung. Increasing access to education and health services for poor households will help to develop competitive workforce.	Preserving at least 40 percent of the total conservation area in Sumatra to reduce the risk of natural disaster impact on the population.	Developing an integrated electricity network system through (i) increasing electricity generating capacity, (ii) improving electricity network system integration, and (iii) diversifying of sources for electricity generation.

Strategic Issues	Regional Spatial Policies	Sector Priorities
Improving quality of bureaucracy and good governance of provincial governments will help to attract investment flows. There are two major issues: (i) simplification of licensing and clarity of investment regulations, and (ii) reducing cost for poor households in accessing public services.	Developing highly competitive areas through cross-sector and provincial coordination in the areas of management and marketing in order to enhance independent access to global markets.	Improving intermodal transport system through (i) integration of land transportation networks across Sumatra: West Cross-Central Cross-East Cross, (ii) capacity expansion of the seaports, (iii) capacity expansion of airports, and (iv) modernizing river transportation network.
	Strengthening inter-connectivity amongst the major urban centers and with the Growth Triangles in sub-regional ASEAN and Asia Pacific regions.	Developing highly qualified and competitive workforce in the ASEAN region through (i) improving access to primary, secondary, and higher education, (ii) extending the reach of health services especially to poor households, (iii) improving access to job skills training, and (iv) improving effectiveness of poverty reduction programs in reaching poor households.
		Bureaucracy and governance reforms through (i) improving the quality of legislation, (ii) improving law enforcement, human rights and combating corruption, and (iii) improving the quality of public services which are measurable and accountable.

region. The region is also situated at the confluence of the Earth's plates (ring of fire), thereby it is regularly affected by volcano eruptions and earthquakes. This aspect of regular threat of natural disasters at any time affects the quality of social and economic life of people and society in Sumatra region.

The Table below summarizes the Regional Strategies and Priorities for the Sumatra region:

ii. Kalimantan Region: Development Issues and Priorities

Kalimantan is geographically located in the center of Indonesia. The region has a strategic geographical position in western and central Indonesia, which borders with neighboring Malaysia. With this strategic advantage, Kalimantan also possesses vast natural

Strategic Issues	Regional Spatial Policies	Sector Priorities
In terms of GDP per capita, the Province of East Kalimantan is one of the richest provinces nationwide. Per capita GDP of the Province of East Kalimantan is about six times the per capita GDP of other provinces. By using non-oil per capita GDP as a measure, per capita GDP of the Province of East Kalimantan is still about three times the other provinces in Kalimantan, which makes intraregional gap a critical issue.	Preserve and recover areas that are critical for environmental sustainability such as forest, mining, agriculture, marine, coastal and islets resources utilization.	Productivity improvement of agricultural, plantation, forestry, and fisheries.

resources which can potentially transform the region as the hub of interregional interconnectivity.

The Table below summarizes the Regional Strategies and Priorities for the Kalimantan region:

Strategic Issues	Regional Spatial Policies	Sector Priorities
<p>Prospects of economic development in the region suffers from low investment, uncertain land status and permission, the complexity of the business licensing, limited network of production facilities and infrastructure, the limited supply of energy and electricity, and lack of inter-regional cooperation in developing and marketing key products.</p>	<p>Accelerate economic development of interstate border areas with Malaysia in order to benefit from the BIMP-EAGA (Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area) sub-regional economic cooperation initiative.</p>	<p>Development of industrial clusters, based on value added processing, in Pontianak, Palangkaraya, Banjarmasin, and Balikpapan.</p>
<p>Regional economy, especially the Province of East Kalimantan and South Kalimantan, have a high dependence on non-renewable natural resources. On the other hand, the industrial structure is based on low value added of agricultural, plantation, forestry and fisheries commodities.</p>	<p>Enhance internal accessibility in region through synergistic development of river transport, sea transport, railway network and air transport.</p>	<p>Large scale development of energy sector through (i) increasing capacity of oil-and-gas and mining sectors in a sustainable manner, and (ii) promoting expansion of alternative renewable energy industry.</p>
<p>Road networks in the region are limited and not fully integrated with other transportation networks. Quality of various types of roads is lightly to heavily damaged. River transportation routes traditionally rely on tidal river upstream, which results in limited accessibility of the villages in the interior.</p>	<p>Develop processing industry that is based on marine, agricultural, plantation, mining, and forestry sector in a sustainable manner.</p>	<p>Development and quality improvement of multimodal transport system at intra- and inter-regional levels. Regional interconnectivity will require investments in roads, sea and river networks services, air transport and telecommunication services.</p>
<p>Rate of forest conversion into plantations and agricultural land is high, which is compounded by illegal logging and illegal mining. The impact of land conversion is the high scale damage at the riverbank areas, increasing floods and damaging river transportation system.</p>	<p>Foster urban residential centers along with the development of service centers.</p>	<p>Developing highly qualified and competitive workforce in the ASEAN region through (i) improving access to primary, secondary, and higher education, (ii) extending the reach of health services especially to poor households, (iii) improving access to job skills training, and (iv) improving effectiveness of poverty reduction programs in reaching poor households.</p>
<p>Kalimantan receives enormous fiscal funds stemming from profit sharing of national resources. However, fiscal management and utilization is not optimal enough to systematically increase public service and social welfare. Provincial authorities need to work towards harmonization and consistency of law and regulations between the central and local governments in order to improve the local investment climate. Good governance and capacity improvement of provincial authorities are critical bottlenecks.</p>		<p>Development of a transparent, accountable, and public service-oriented system, especially in improving the quality of legislation and regulation, law enforcement, human rights, corruption eradication, public service quality.</p>

iii. Sulawesi Region: Development Issues and Priorities

As one of the largest islands, combined with access to trade routes, development of the Sulawesi region is important for promoting inclusive or pro-poor economic growth. The region also possesses rich

and unique biodiversity that differs from the Asian or Australian flora and fauna. This region is also vulnerable to disasters due to frequent volcanic and tectonic activities.

The Table below summarizes the Regional Strategies and Priorities for the Sulawesi region:

Strategic Issues	Regional Spatial Policies	Sector Priorities
Share of domestic investment in the region was 1.1 percent in 2004 and, in the year of 2008, it increased to 5.6 percent. Share of foreign investment in the region is relatively small in scale: it was 0.6 percent in 2004 and 0.4 percent in 2008.	Fostering the development of Sulawesi's role as one of the areas with high external opportunities.	Development of agricultural sector to serve national food security goals based on (i) improving productivity of food crops and plantations, and (ii) improving production and efficiency in catch-based fisheries.
Agriculture sector contributes over 33 percent to regional GDP. Major commodities are rice, cocoa and corn. Besides agriculture, region's economy is also driven by commerce, hotel and restaurants, as well as the service sectors. The central role of the agriculture sector highlights the potential for supporting national food security goals. However, the role and share of value added processing industry is minimal. Irrigation infrastructure is the key to region's development strategy: according to 2006 data, irrigated areas in Sulawesi comprises of over 21 percent of the national irrigated areas; in South Sulawesi of over 69 percent, Central Sulawesi of 16 percent, Southeast Sulawesi of 7 percent, North Sulawesi of over 6 percent, and Gorontalo of over 2 percent.	Developing Sulawesi's key commodity that is competitive through cross-sector and provincial coordination in management and marketing.	Development of value added industrial clusters based on (i) promoting Manado-Bitung as marine-based processing industry centers, (ii) promoting Gorontalo, Palu, Kendari, and Mamuju as food crops and horticultural processing industry centers, and (iii) promoting Maminasata metropolis as agriculture and plantation-based processing industry centers.
Region faces enormous problems in dealing with transportation infrastructure: inequality in infrastructure development, inadequateness in quality, and low level of interregional multimodal transportation network integration. Networks among the ports of Makassar, Bitung, Pantoloan, Kendari, Bau-bau, and Anggrek are strategically important to improve trade, both within the region and the whole eastern Indonesia. Sulawesi interregional interconnectivity is also faced with challenges of road and air integration.	Prioritizing the disadvantaged areas and border areas in order to attain the equity of inter-regional development rate, including the development of islets and group of islands.	Development of regional interconnectivity based on (i) promoting trans-Sulawesi land transport network system integration, and (ii) modernizing air and sea ports infrastructure, particularly capacity expansion of ports Makassar and Bitung.

Strategic Issues	Regional Spatial Policies	Sector Priorities
<p>Region is faced with limited electric supply. In 2007, electrification ratio in North Sulawesi was of 6.6 percent, Central Sulawesi: 48.7 percent, South and West Sulawesi: 54.9 percent, and Southeast Sulawesi: 38.2 percent. Power supply is generated from North Sulawesi, Central Sulawesi, and Gorontalo systems of electricity as well as South, Southeast, and West Sulawesi systems of electricity.</p>	<p>Utilizing the land and marine resource potential optimally.</p>	<p>Development of human resources based on (i) improving access to education and professional skills training, (ii) widening the range of health care services, and (iii) improving effectiveness and synergy of poverty alleviation and social security program.</p>
<p>Improving social capital (i.e. mutual trust among the population and between the people and the government) is paramount to increase effectiveness in development programs. Improving mutual trusts also intended to smoothen productive cooperation, lessen transaction costs, and strengthen the people's social resilient in addressing sensitive issues.</p>	<p>Maintaining national food production centers, especially the rice fields with technical irrigation, from the threat of land conversion. Developing processing industry that is based on marine, agricultural, plantation, mining, and forestry sectors in sustainable manner.</p>	<p>Achieving improvement of power network system by (i) expansion of system capacity, and (ii) by promoting diversification and expansion of alternative renewable energy industry.</p>
	<p>Strengthening the interconnectivity between key regions and cultivation areas with international trade centers.</p>	<p>Strengthening of people's resilience and harmonization to be achieved through (i) improving local wisdom and institutions, and (ii) improving inter-religious, inter-tribe, inter-racial, and people-to-government cooperation.</p>
	<p>Preserving and rehabilitating conservation area to at least 40 percent of the total area of the region in order to achieve environmentally sustainable growth.</p>	<p>Strengthening of autonomous regions and public service quality through (i) improving quality of legislation and regulations, (ii) improving law enforcement, human rights, and corruption eradication, and (iii) improving public service quality.</p>



Indonesia's Economic Growth and Sectoral Diagnostics of MCPS Core Engagement Areas

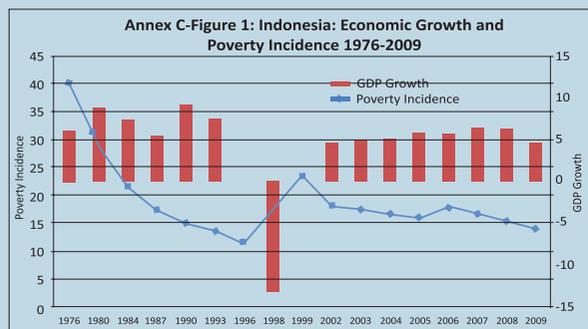
The Second Medium-term Development Plan key platform is to implement the National Priorities through Regional Strategies and Priorities. This key platform of the Second Plan will help to mitigate Indonesia's long-term threats to political and social stability through balanced and inclusive growth. The focus of this Annex is put together an analysis of key drivers of interregional disparities and its underlying structural challenges.

I. Growth and Poverty Diagnostics¹

Over the past three decades, the size of the Indonesian economy has risen by more than six times which is higher than Turkey (3½ times), similar to Thailand (6½ times) and Malaysia (7 times) but it pales in comparison to Singapore (9 times). The annual growth of real per capita GDP averaged at 5.4 percent during 1971-1980, 4.5 percent during 1981-1990, 2.9 percent during

to GDP growth over the past five decades has declined; the growth of the services sector accelerated while the growth of the agriculture sector remained more or less stagnant over the same period. Within industry, the growth of the manufacturing sub-sector and its contribution to GDP growth has slowed down over the past five decades.

The mainstay of growth performance over the past five decades in Indonesia has been the (private sector) consumption expenditure. Except for 1971-1980 period, investment and export growth and their contributions to GDP growth has consistently declined. From the peak of 17.7 percent during 1971-1980, investment growth slowed to 6.1 percent during 2001-08. Similarly, export growth slowed from 9.2 percent during 1971-1980 to 7.7 percent during 2001-08. In overall terms, it is clear that the lackluster role of investments in Indonesia has significantly affected the long-term economic performance.



1991-2000, and recovered to 3.9 percent during 2001-2008. It is projected that, at 3.9 percent per capita growth, Indonesia would need 18 years to double its GDP or 23 years to catch up with Thailand's GDP in 2008. Right up to the eve of the Asian financial crisis in 1998, the economic growth averaged over 6½ percent, but since then the growth has averaged about 5 percent. On the basis of growth diagnostics, the broad trend is that both the growth of industry and its contribution

A key characteristic of Indonesian social indicators is the substantial disparity between regions in terms of population distribution, poverty profile and progress in achieving MDGs targets. The variation in the population distribution and heterogeneity of natural resource endowments result in high dispersion of both the incidence of poverty and the number of poor. The three provinces of Java, with 58 percent share of population, accounted for the bulk of the poor in 2009 were East Java (7.3 million), Central Java (6.8 million) and West Java (4.7 million). Together, these provinces also account for more than 57 percent of Indonesia's poor. Other provinces with a high magnitude of poverty incidence in 2009 were North Sumatra (1.8 million), Lampung (1.6 million), South Sumatra (1.4 million), South Sulawesi (1.2 million), Aceh (1.2 million), East Nusa Tenggara (1.2 million) and West Nusa Tenggara (1 million). These seven provinces account for about 29 percent of Indonesia's poor. In contrast to poverty incidence of 4 percent

¹ This Section is mainly based on the analysis in IDB, ADB and ILO (2010): Chapter 2: Development Performance, 'Indonesia: Critical Development Constraints', Country Diagnostic Studies Series.

in Jakarta and 20 percent in West Java, other provinces with the highest poverty incidence tend to be regions outside the Java-Bali region. Aceh's poverty incidence sharply increased from 15 percent in 1999 to a (pre-tsunami) 2004 rate of 28 percent, mainly as a result of the violent separatist conflict. In 2009 (post-tsunami & reconstruction), poverty rate remained higher than the national average and stood at about 22 percent. In 2009, poverty incidence had declined significantly in North Sulawesi to only 9 percent and in South Sulawesi to 12 percent. The areas that remained much poorer than the national poverty average were Southeast Sulawesi (19 percent), Central Sulawesi (19 percent) and the newly formed Gorontalo province (split off from North Sulawesi) at 25 percent.

Except for hunger and access to clean drinking water and basic sanitation, Indonesia is well on its way in achieving most of the MDGs targets by 2015.² The proportion of population below the minimum level of dietary energy consumption ranges from 14.5 percent (1400 kcal/capita/day) and 61.9 percent (2000 kcal/capita/day) in 2009 compared to MDGs target of 8.5 percent and 35.3 percent, respectively. This is mainly due to unbalanced food consumption by the population, which is dominated by rice while intake of meat and vegetable is low. Although access of household to clean drinking water and basic sanitation has continued to rise but it has not been able to match with rise in population. However, the data reveals wide gap among the provinces and urban and rural areas of household access to clean drinking water and basic sanitation across Indonesia.

Broadly, Indonesian social indicators are fairly similar to its regional East Asian peers and low middle-income group. There has been steady progress in lowering of poverty incidence, yet compared to its peers, poverty profile appears to be extremely vulnerable to income shocks. As of end-March-2010, an estimated 31 million people, or 13.3 percent of total population, were living below the national poverty line, which represents a reduction of 1.5 million people since last year. This mainly resulted from deceleration in core inflation, lowering of administered prices, and widening of social safety nets, including direct cash aid programs. Population living under \$2-a-day

² Bappenas (2010): 'Report in the Achievement of the MDGs Indonesia 2010'. See Annex F for details.

**Annex C-Table 1
Comparative Poverty Incidence and
Vulnerability of the Poor**

	Survey Year	Headcount Index			
		\$1/day	\$1.25/day	\$1.35/day	\$2/day
Indonesia	2005	10	21	26	54
Cambodia	2004	26	40	45	68
Lao, PDR	2002	28	44	50	77
Malaysia	2004	0	1	1	8
Philippines	2006	14	23	26	45
Thailand	2004	0	0	1	12
Vietnam	2006	12	23	25	50

IDB, AsDB and ILO (2010): Indonesia Critical Development Constraints, Country Diagnostic Studies Series (p.15)

in Indonesia stood at 54 percent (in 2005). The latest data is only available for Indonesia for 2007; population living under \$2-a-day has gone up to 60 percent.³ Compared to its peers, extreme poverty in Indonesia is on low side, yet relatively higher proportion of the population appears to be vulnerable and chronically poor. Fundamentally addressing this vulnerability requires skill development of the poor, especially in the rural areas.

II. Diagnostics of Regional Disparities: Structural Challenges and Emerging Opportunities

Reducing regional economic disparity in Indonesia presents the most important challenge for political stability and social cohesion. Though the 'trickle down' effect of overall GDP growth on reducing poverty incidence is clearly in works but, in recent years, its rate has declined. Therefore, a critical challenge is to engender quality of growth in a way that yields greater spatial and income distribution gains. Economic growth in eastern regions, comprising of Kalimantan; Sulawesi; Nusa Tenggara; and Maluku & Papua regions, has been typically below the national average which then leads to a stagnant economic performance and development. This, inevitably, leads to major differences in employment opportunities, poverty incidence, developments in MDGs-related indicators, private sector investments, physical infrastructure etc. It is convenient to

³ World Development Indicators database, accessed in July 2010.

classify regional development issues in Indonesia in three categories – endowment, performance and structural challenges – which are briefly analyzed below.

In terms of *economic endowment*, the Java-Bali and Sumatra regions together account for about 84 percent of total output in Indonesia. It is, therefore, inevitable that such huge disparity creates political and dialectical issues of dominance and dissension, power and disempowerment, exclusiveness and inclusiveness, and, more critically integrative and secessionist tendencies, in a highly ethnic-based complex country. A sustained and regionally broad-based *economic performance* can partly mitigate the fissiparous tendencies in Indonesia. In recent years, economic growth and unemployment in the Java-Bali region has remained stable (Annex A-Table 2.1 (a)). But, outside the Java-Bali region, economic growth, unemployment and poverty incidence is characterized by relatively high volatility during the period 2004 to 2008. This volatility is also reflected in the instability of relative contributions of the various regions to the overall GDP growth in Indonesia (Annex A-Table 2.1 (b)). Other than the Java-Bali region, relative contribution of Sumatra region to the overall GDP growth appears to have almost doubled during the period 2000 to 2008. Relative contribution of Kalimantan and Sulawesi regions appears to have declined and stagnated, respectively, over the same period. The remaining regions (i.e. Maluku, Nusa Tenggara, and Papua) appear to be chronically underperforming the national growth performance.

The principal reason of interregional disparities in Indonesia is the uneven investment distribution. In 2008, about 60 percent of the domestic investment was concentrated in Java-Bali and 24 percent in the Sumatra region. Similarly, 92 percent of foreign direct investment (FDI) flows in 2008 were concentrated in the Java-Bali region followed by about 7 percent in Sumatra region. Therefore, a major challenge during the Second Plan period is to build supportive physical infrastructure, pro-business environment and promote interregional connectivity that will foster investment activity outside the Java-Bali region.

In Annex A-Tables 2.2(a) and 2.2(b), Second Plan targets for economic growth, poverty incidence, unemployment, and other socio-economic indicators for provinces / regions are

presented. Underlying the Second Plan targets (in terms of economic growth, poverty incidence, unemployment etc) is a clear recognition to reduce intraregional disparity as well. This recognition is reflected in reduced standard deviations, between 2010 and 2014, of economic growth, poverty incidence and unemployment targets for provinces / regions. Therefore, there are two dimensions of regional disparities viz. interregional and intraregional. The relative underperformance of economic growth outside the Java-Bali region dampens regional investment and trade activities. The vicious circle is completed when the poor quality of physical infrastructure and human capital outside the Java-Bali region makes it unattractive for the private sector to invest in non-natural resource activities. The outcome of myriad *structural challenges* outside the Java-Bali region is manifested in the form of lop-sided interregional trade flows that is concentrated in Java-Sumatra axis while other trade axes are both relatively small and highly underdeveloped.

Set against the above structural challenges, there is an emerging urbanization trend in Indonesia. According to the UN estimates, two-thirds of population in Indonesia by 2050 will be living in urban areas and that the rural population will start to decline in absolute terms between 2025 and 2030.⁴ A notable part of this trend is that large urban areas, such as the Jakarta Metropolitan Region (JMR) with share of urban population of 8.9 percent in 2010, are projected to grow *albeit* slowly and their share will remain either stable or decline slightly. However, excluding the six largest urban areas, the urban population concentration in Indonesia is set to spread: the share of 'other' urban population centers is projected to rise from 81.7 percent in 2010 to 82.8 percent in 2020. The World Bank presents evidence that, while the share of output produced in the JMR remained stable (25.1 percent in 1993 and 25.5 percent in 2006), the share of output accounted for by small and medium urban areas grew rapidly: from 8.7 percent in 1993 to 11.3 percent in 2006. As an example, some industrial activities, such as simple manufacturing, food and beverages production, have started to decentralize or relocate their production to small and medium urban areas.

⁴ World Bank (2010): 'Indonesia Economic Quarterly: Looking Forward', September 2010 (p.52).

Therefore, market opportunities to foster *localization economies* – investments based on regions’ natural resources – can be further reinforced through *agglomeration economies* – efficient and low cost access to production inputs – which, in turn, could attract investments in diversified sectors. **To put this point simply: regional development cannot be alone based on its natural resources; it will also require providing low cost access to critical inputs, such as electricity and skilled labor, and building of highly efficient interregional connectivity to attract new industries.** The translation of these urbanization opportunities into reality will necessarily require Government and donors support in critical areas such as building of highly efficient interregional connectivity, balanced intraregional development, well organized urban land markets, and water supply and distribution networks. These key elements of the ‘Regional Strategies and Priorities’ for Sumatra, Kalimantan and Sulawesi regions are presented in Annex B.

	Core	Food	Administered Prices	CPI Inflation
	Inflation			
2005	9.5	15.5	41.7	17.1
2006	6.0	15.3	1.8	6.6
2007	6.3	11.4	3.3	6.6
2008	8.3	16.5	16.0	11.1
2009	4.3	4.0	-3.3	2.8

Source: Economic Report on Indonesia by Bank Indonesia, 2009.

III. Sectoral Diagnostics: Real and Trade Sector

i. Food Inflation and Agriculture Sector

Underlying causes of food inflation in Indonesia, which arise from structural bottlenecks in the agriculture sector, is one of the major vulnerabilities regularly buffeting an otherwise robust macroeconomic performance and income shocks for the poor. The weight of food items and tradable goods in the CPI basket is 38 percent and 60 percent, respectively. Thus, the volatility in food inflation, which is much more relevant to the poor, and the exchange rate movements, which have relatively greater influence on core inflation, together determines the inflation outturn. The fiscal subsidy program and core inflation

targeting are the two major policy instruments used to stabilize the overall inflation in Indonesia. However, these two policy instruments cannot address the structural causes of volatility in food prices; namely, stagnating productivity in the agriculture sector, weather-related output shortfall in food crops,⁵ and an inefficient food distribution channel in the private sector.⁶

Despite the increased public spending in the agriculture sector, its productivity has remained stagnant. Value-added in the Indonesian agricultural sector has grown much slower than in the non-farm economy. From 1990 to 2005, agricultural GDP grew at only 2.3 percent annually, less than half the overall growth in aggregate GDP over this period. Despite the significant decline in the share of agriculture in overall GDP, from 23 percent in 1988 to 14 percent in 2008, agricultural value added per worker increased from about \$450 in 1970 to over \$700 in 2000 (1995 prices). However, nearly all the growth in productivity occurred between 1968 and 1992. By the mid-1990s, agricultural growth again relied almost entirely on bringing new land under cultivation. Government policy remains centered on achieving self-sufficiency in staple foods, driven in part by food security concerns that were exacerbated by the global food price crises of 2008. However, despite the increased public spending in agriculture sector, its output has remained stagnant. During 2001–09, public spending in agriculture sector grew by an average of 12 percent a year in real terms; as a result, its share in the budget doubled from 3 percent in 2001 to 6 percent by 2008, corresponding to 1 percent of GDP. However, agricultural production rose by an average of 3 percent between 2001 and 2009. Public spending trends in agriculture sector show that resources are being directed toward provision of subsidized private goods at the expense of providing public infrastructure. In 2009, 56 percent of budgetary expenditure in

⁵ See World Bank (2010): ‘Indonesia Economic Quarterly: Looking Forward’, September (p. 10-12) for analysis of weather-related causes of food price shocks, impact of import prohibition of rice resulting in price divergence between domestic and international rice prices, and the relative importance of food and rice in per capita expenditures of poor households. In particular, it is noted that “Food items make up 63 percent of poor households’ consumption basket on average, and the relatively strong in these prices lifted the poverty basket inflation rate above 10 percent for the first time since 2008. At 11.3 percent the poverty basket inflation rate is around 5 percentage points higher than the headline rate – the largest gap between the two series since 2007.’

⁶ See Bank Indonesia (2009): ‘2009 Economic Report on Indonesia’, (p. 96-98), which analyzes the impact of imperfect market structure in the manufacturing sector and distribution channels in the agricultural sector for downward price rigidities – the phenomenon of inflation persistence.

the agriculture sector was spent on subsidizing private goods: fertilizer subsidies accounted for almost half, and the remainder was allocated to seeds, and agriculture credit. In contrast, public investment in irrigation infrastructure has been flat since 2001. Although this pattern of public expenditure within the agriculture sector may be useful in providing income support to poorer farmers, it is unlikely to lead to significant increases in agricultural productivity.

financed by Government and the remaining is to be funded by the private sector. Realization of this target for the private sector investments is hampered by the following challenges and constraints:⁸ (i) recent experience in terms of Government efforts to promote infrastructure investments, mainly through establishing a new financing company and investors conferences, appear to have met with limited success,⁹ (ii) difficulties in land acquisitions have delayed

Location	Road	Electricity	Telecommunication	Water Supply	Harbor	Irrigation
National	0.884	0.839	0.610	0.220	0.259	1.264
Sumatra	0.143	0.119	0.092	0.043	0.087	0.374
Java & Bali	0.590	0.641	0.437	0.149	0.104	0.541
Kalimantan	0.044	0.032	0.027	0.011	0.041	0.070
Sulawesi	0.039	0.036	0.023	0.013	0.014	0.155

Source: Economic Report on Indonesia by Bank Indonesia, 2009.

ii. Infrastructure Sector and Investment Constraints

Debottlenecking infrastructure constraints in Indonesia, especially in irrigation, energy and roads, are the key to accelerating private sector investments, improving business competitiveness and achieving higher growth trajectory. According to the Global Competitiveness Report, 2009-2010, the quality of infrastructure in Indonesia is ranked 96th out of 133 countries. In terms of its regional peers, Indonesia is ranked way behind Singapore (2nd), Malaysia (27th), Thailand (41st) and China (66th). According to IsDB Diagnostic Study on Indonesia⁷, a 1 percent increase in infrastructure investment in Indonesia contributes to 0.3 percent of its economic growth. Increasing infrastructure investments in irrigation, roads and electricity are the three key sectors with the highest potential impact on economic growth. In terms of regional development, the potential for highest growth impact is evident for Java & Bali followed by Sumatra regions. The Second Medium-term Development Plan (2010-14) estimates an overall infrastructure investment requirement of \$144 billion; of which 31 percent is expected to be

scheduled project implementation, particularly in roads and electricity sub-sectors (iii) weak technical staff and institutional capacity, which has become exacerbated due to the decentralization process, has produced few bankable projects, (iv) underdeveloped capital markets have resulted in mismatch between long-term funding needs and available tenure of funds in the capital market (mainly short-term funds of the banking sector), and (v) corruption and poor governance has increased the cost of doing business. These binding constraints have frustrated efforts to scale up private sector investments in infrastructure in Indonesia.

iii. Labor Market and Skills Development

Engendering inclusive economic growth (i.e. pro-jobs and pro-poor) is being hampered by

⁸ *ibid*

⁹ Although the Government established a 'Project Development Facility' in late-2006 to help prepare PPP projects, it has so far led to only 7 project transactions. PPP projects are focused on electricity, toll roads, coal mining, railways and urban infrastructure. The main constraint that has hindered a major surge in private sector investments is the issue of complex land rights and land compensation arrangements which results in reclamation of land needed for PPP projects in roads, railways etc., being significantly delayed. However, some breakthrough regulations have been recently enacted such as establishing electronic information on investment regulations at central and local government levels and revoking some local government regulations hampering investment climate.

⁷ IsDB Diagnostic Study (2010): Indonesia: Critical Constraints to Infrastructure Development, available both in English and Bahasa languages.

structural impediments and misalignments in the labor market. Indonesia's 15+ population currently stands at about 169 million, to which about 2.7 million young people are being annually added. Concomitantly, labor force is also rapidly growing by about 1.8 percent from 110 million in 2007 to 114 million in 2009. During the past five years, open unemployment rate has ranged between 8 to 10 percent. But more critically, unemployment in the lower end of the labor market (i.e. low skilled to unskilled laborers) appears to be intersected by a number of dimensions: (i) in recent years, underemployment has been around 31 million people, (ii) the ratio of employment in formal and informal sectors typically averages around 30:70 percent, (iii) among the educated young, the 'depth' of unemployment is particularly severe after completion of high school, (iv) there does not appear to be a structural breakthrough in formal employment; in fact, the agriculture sector has remained the largest employer while growth in share of employment in 'community, social and personal services' sector could well reflect underemployment, (v) the role of micro, small, medium enterprises (MSMEs) is unique in the economy as they contribute 55.6 percent to total GDP and account for 97 percent of labor absorption (with value added share exceeding 95 percent and 73 percent labor absorption in agriculture, trade and services sector), and (vi) since 2006, ratio of rural poor to total poor has hovered around 63 percent while population living under \$2-a-day in Indonesia stood at 54 percent (in 2005). **All these key considerations suggest that skills development, particularly for rural youth, will help directly contribute to improving labor productivity and efficiency in the MSME sector, stabilize rural incomes and achieve poverty reduction, and overall enhance economic resilience.**

iv. Incipient 'Bubble' in the Construction Sector

If the recent trends in sectoral output shares are to persist in the near term, then it is likely that Indonesia could be heading towards build-up of an incipient 'bubble' in its economy. The overall investment rate since 2000 has jumped by 8 percentage points of GDP in 2008 (Annex A-Table 2.3(a)). But this substantial flow of investments funds is not reflected in a rise in output shares of agriculture or non-oil manufacturing or LNG or

infrastructure sectors; instead, the two sectors that have seen their output shares going up are construction and communication. The output share of these two sectors in 2008 is fairly close to the output share of agriculture sector alone (11.4 percent versus 13.6 percent, respectively). In fact, it is surprising that, during the past six years, the output share of the financial services has remained relatively unchanged (see Sub-section IV below).

v. Leveraging Intra-Trade Opportunities

Indonesian exports have grown more than 7 times since 1988 reaching \$120 billion in 2009. However, in recent years, the non-oil / gas export drive appears to be mainly reliant on increasing share of primary commodities viz. Coal, palm oil, and copper. The share of Indonesia's intra-trade with IDB member countries has gradually risen from 10.5 percent in 2003 to 14.8 percent, or \$39 billion, in 2008. Compared to Indonesia's major other trading partners such as Japan (12.4 percent) and China (9 percent), the relatively lower volume of intra-trade with IDB member countries is probably resulting from lower values for trade complementarities and intra-industry trade volumes. Indonesia's important trade partners are mostly Asian countries as 65 percent of trade is mainly with Japan, China, Singapore and India while trade with the USA and EU (UK & Germany) is between 12-14 percent, respectively. Over the last five years, the deficit in services and income has been more than compensated by the surplus from goods and remittances. However, despite recovery of the trade surplus, estimated at \$21 billion in 2009, growth in Indonesian exports averaged at 20 percent over 2005-2008, which was above the average for comparator ASEAN¹⁰ countries at 9 percent; only Vietnam's export grew higher by 24 percent. The major items exported by Indonesia are manufacturing (such as textiles, palm oil products, metal products & electrical appliances), mining products (such as coal and copper) and agriculture & marine (such as cocoa, coffee, and shrimps). Over the last five years, the slight decline in manufacturing export products (mainly textile & wood products) has been compensated by growth in exports of mining products. Like many other developing countries, Indonesian imports mainly comprise of consumption and capital goods.

¹⁰ Malaysia, Philippines, Thailand & Vietnam

**Annex C-Table 4:
Indonesia: Unemployment by Educational Attainment in Selected Years**

	2004	2006	2008	2009
Educational Attainment	(% share)			
Under Primary School	9.8	7.6	5.8	28.3
Primary School	22.2	24.1	22.4	22.2
Junior High School	26.2	25.8	21.0	23.0
Senior High School	36.0	36.4	40.6	14.4
Diploma I/II/III/Academy	2.3	2.7	3.9	5.3
University	3.4	3.4	6.4	6.8
Total (in number)	10,251,351	11,104,693	9,394,515	9,258,964

Indonesia: % Share of Employment in Selected Years

Sectors	2004	2006	2008	2009
Agriculture, Forestry, Hunting and Fishery	43.3	42.0	40.3	41.2
Mining and Quarrying	1.1	1.0	1.0	1.1
Manufacturing Industry	11.8	12.5	12.2	12.1
Electricity, Gas, and Water	0.2	0.2	0.2	0.2
Construction	4.8	4.9	5.3	4.4
Wholesale Trade, Retail Trade, Restaurants and Hotels	20.4	20.1	20.7	20.9
Transportation, Storage, and Communications	5.8	5.9	6.0	5.7
Financing, Insurance, Real Estate and Business Services	1.2	1.4	1.4	1.4
Community, Social and Personal Services	11.2	11.9	12.8	13.0
Total (in number)	93,722,036	95,456,935	102,552,750	104,485,444

Source: Bappenas, July 2010.

IV. Sectoral Diagnostics: Financial Sector

i. Disconnect between Financial and Real Sectors

Recent trends of investment financing suggest a relative preference towards ‘autarkic’ financing, which is indicative of a major emerging disconnect between the real and financial sectors. As already noted above, the overall investment rate since 2000 has jumped by 8 percentage points of GDP in 2008 (Annex A-Table 2.3(b)). In fact, it is surprising that, during the past six years, the output share of the financial services has remained stable close to an average of 9½ percent. This puzzle is resolved by examining structural shifts that have taken place in the sources of investment financing (Annex A-Table 2.3(b)). In 1995, banking loans and FDI accounted for about 53 percent of the total investment financing which declined to about 34 percent in 2008. On the other hand, use of own funds by businesses increased significantly from 12 percent in 1995 to 46 percent in 2008. There could be two intersecting explanations for this structural

shift: the phenomenal rise of the MSMEs in Indonesia has led to greater use of internal funds by businesses to finance their growth or greater transparency and public accountability has forced oligarch owners of industrial oligopolies to rely on own funds for their business expansion.¹¹ In any event, these structural imbalances within the real sector as well as relatively ‘autarkic’ financing of investments are fraught with grave implications for the investors’ confidence and the economic stability.

¹¹ IDB, AsDB and ILO (2010): ‘Indonesia: Critical Development Constraints’, Country Diagnostic Studies Series (p. 23-26): independently arrives at a similar assessment. The Study notes with concern that, despite robust economic growth, the level of financial intermediation has declined. For instance, domestic credit as a share of GDP declined from 62.1 percent in 1999 to 36.7 percent in 2008. Lack of banks’ funding sources and health of banking sector (as measured by trends in nonperforming loans and capital adequacy) are suggested as possible reasons for apparent financial disintermediation. A possible explanation is the high spread between lending and deposit rates, which could incentivize prime corporate borrowers to access international financial markets. The spreads have declined from 7.7 percentage points in 2004 to 5.1 percentage points in 2008. The percentage points spread in comparator countries in 2009 are as follows: 3 for Malaysia, 4.9 for Thailand, and 5.1 for Singapore.

ii. Subdued Role of Islamic Financial Intermediation

Compared to many developing countries, Indonesian access to formal finance is moderate. Although there is a highly conducive political and economic environment for the growth of Islamic finance in Indonesia, its financial intermediation role across the entire spectrum has remained subdued. The 26 times growth of Islamic financial institutions is unprecedented - from a modest size of \$213 million in total assets in 2000 to \$5.6 billion in 2009. The annual growth of total assets of Islamic financial institutions, during 2006 to 2008, has ranged from 28 percent to 37 percent. Yet, in relative terms, the size of Islamic banks constitutes only 2.4 percent of the total banking sector assets in the country (Annex A-Table 2.4). The highly unusual return on equity of Islamic financial institutions appears to suggest non-competitive practices and/or high barriers to entry, which needs to be addressed through policy measures to ensure longer term and sustainable growth of the Islamic financial industry. Despite its predominantly rural nature, Islamic banking services, with 4.5 million account holders, now cover 89 districts and cities in all 33 provinces of Indonesia.¹² The share of Islamic banks financing to the MSMEs stood at about 54 percent of their portfolio in 2009; mainly in the form of house financing, trade sector, and services such as hotel and restaurants. During 2009, slowdown in Indonesian economy also affected the quality of Islamic banks portfolio, who were additionally constrained by funding and liquidity issues. In terms of regulatory developments, the Government has recently enacted supportive regulatory measures and launched a media campaign aimed at enhancing business image of Islamic banking. In the area of Islamic capital markets, the Government has a well structured sukuk issuance program; these sukuks have been granted tax exemption (for double taxation) by the tax authorities.¹³ Furthermore, based on Bapepam LK Annual Report in 2009, there have been 43 sukuk issuances in the corporate sector. At this stage, there appears to be a slight legislative ambiguity concerning exemption from

¹² A survey by Bank Indonesia in 2008 found that 82 percent of people living in rural areas did not have a bank account.

¹³ According to recent press reports, auctions of Government Sukuks fell short of target amounts apparently due to concerns by investors over insufficient trading volume. The Government plans to mobilize resources through Sukuks have faced difficulties due to relatively higher pricing expectations by investors over conventional bonds for similar tenor.

double taxation in the issuance of sukuks by corporate sector.

In the short-to medium-term, a number of challenges facing Islamic financial sector need to be addressed. In particular, financial deepening through new types of Shariah-compliant modes of financing and efficiency improvements which makes their financing charges competitive; building a stronger capital base of Islamic banks to further improve their resilience to shocks in the real sector; and improving the quality of supervisory infrastructure as well as capacity, particularly in relation to the lending by Islamic banks to the MSMEs. Addressing longer-term issues that are likely to help in the growth of Islamic financial intermediation include initiating a diagnostic study on binding constraints for scaling up of Islamic financial intermediation; adoption of best international standards and practices, and development of a roadmap for policy framework and institutional architecture; capacity development, especially in terms of human capital development and strengthening of risk-based lending practices/supervision in Islamic financial industry; and further development of Islamic capital markets, particularly issuance of longer-term Sukuks which is critically needed for financing of PPP-based infrastructure projects.¹⁴

¹⁴ The AsDB Headquarters is close to issuing local currency bonds in Indonesia. Based on AsDB's experience, IDB may also consider launching a local currency sukuk for financing longer-term infrastructure projects which will also support capital market development.



Annex D

Partnership with IDB Group and Role of Other Donors: Lessons Learnt

I. Overview of IDB Group Intervention in Indonesia

IDB's interventions in Indonesia during the early days of engagement was demand driven, whereby the Bank typically received an official request to finance a project considered a priority by the GoI. When the Bank adopted its "Strategic Agenda for the Medium-Term" in 1415 H (1994), it adopted a three-year rolling operation plan based on Country Assistance Strategy Study (CASS) – a

Operations. Since IDB does not provide budget support, the bulk of the IDB financing went to public sector projects and trade financing. To date, IDB Group net approvals totaled about \$2 billion; of which the share of IDB-OCR is 57.8 percent and trade financing constitutes about 42 percent. Annex D-Table 1 shows a brief summary of IDB Group net approvals in Indonesia is given in the Annex A - Table 2.5. The following sections briefly discuss how IDB's operations have helped Indonesia achieve development outcomes.

Annex D-Table 1: IDB Group Net Approvals in Indonesia

Mode of Financing	1429H (2008)			1430H (2009)			1431H (2010) [9 Months]			1396H-1431H (Q3)* (1976-2010)		
	No.	ID mil.	\$ mil.	No.	ID mil.	\$ mil.	No.	ID mill	\$ mil.	No.	ID mil.	\$ mil.
Project financing + Technical Assistance	5	32.3	51.0	14	166.4	258.3	6	77.6	117.5	99	833.5	1,209.9
Trade Financing	2	5.7	8.8	2	31.8	50.0	6	85.6	130.0	38	629.3	877.3
Special Assistance Operations	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	4	2.9	4.4
Net Approvals	7	38.0	59.8	16	198.2	308.3	12	163.2	247.5	141	1,465.7	2,091.6

* Cut-off-date for data reported in this Table is Sept 09, 2010.

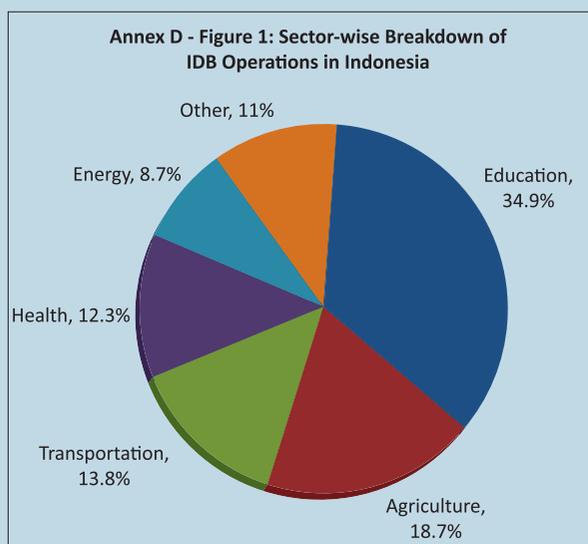
comprehensive diagnosis of the development challenges facing the country – to formulate its interventions in the member countries. The CASS selected a set of projects linked to the country's development strategy. The CASS exercise was later terminated and a Three-Year Work Program (TYWP) was adopted.

Each TYWP had to be approved by both the GoI and IDB and was reviewed and updated annually according to priorities of the GoI. In many cases, some line Ministries opted for financing from other donors if their projects were scheduled in the 2nd or 3rd year of the TYWP. As a result of cancellations of such projects, on average only 60 percent of projects included in the TYWPs were implemented.

IDB operations in Indonesia can be divided into three main categories: IDB-OCR operations, Private Sector Operations, and Trade Financing

II. IDB-OCR Operations

The IDB-OCR portfolio comprises of 99 operations. Currently, 28 operations are still under implementation. These operations primarily focused on social sector, agriculture & rural development, transport and communication, and Islamic finance. Financing from IDB-OCR is heavily tilted, in regional terms, towards Java & Bali and Sumatra regions, and, in sectoral terms, towards tertiary education. The share of education sector in IDB-OCR financing is at 35 percent followed by the agriculture sector at 19 percent and transportation at 14 percent. In terms of partnership with other donors in Indonesia, IDB has leveraged co-financing in the ratio of \$1:\$3.3. About 59 percent of the education sector approvals were committed to Islamic education institutions under the Ministry of Religious Affairs whilst 41 percent was committed to institutions under the Ministry of



National Education (Annex D - Box 1). Currently, IDB is participating in the implementation of the Indonesian flagship national poverty reduction program – PNPM Mandiri – amounting to about \$83 million. This program is focused on community driven development (CDD) projects in 4,871 villages across 14 provinces in Sumatra, Java and Kalimantan regions.

Since inception, IDB’s special assistance to Indonesia accounted for \$4.4 million. This comprised of 44 scholarships given to students amounting to \$1 million, and support for relief operations in earthquakes of 2004, 2005, and 2006 amounting to \$3.4 million.

III. Private Sector Operations

Since their inception, various private sector arms of the IDB Group have also played an active role in Indonesia. **Islamic Corporation for the Development of Private Sector (ICD)** has been active in Indonesia since 1428H and has approved a total of six operations, of which one has been completed and five are on-going. Total financing for these operations amounted to \$84.8 million. These operations have been for telecom and energy sectors and line of financing for the SMEs. **Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)** has issued approvals for insurance cover for Indonesian imports and exports amounting to \$34.0 million. **International Islamic Trade and Finance Corporation (ITFC)**¹ has also been active in Indonesia since its inception. Trade financing

¹ Prior to the establishment of ITFC, trade operations were carried out under IDB-OCR.

Annex D-Box 1 Vocational Training in Indonesia

In 1995, IDB approved a vocational training project in Indonesia. The project aimed at reducing poverty among the families of the Madrassah students who were predominantly poor, by preparing graduates to seek gainful employment in public and private sector industries. The students studying in Madrassahs were from the poor families who could not afford to send their children to the academic institutions and schools of the Ministry of National Education, and had very limited chances of receiving higher education or good jobs. The IDB’s assistance was for the establishment of vocational training workshops in 82 Madrassah Aliyah in 27 provinces. The project was financed by IDB leasing and instalment sale financing of \$18.2 million (76 percent) and Government of Indonesia (GoI) financing of \$5.6 million (24 percent).

The project facilitated the construction of vocational workshops equipped with necessary tools and machinery for vocational training. It was completed in December 2001 and became fully operational in the beginning of the 2002-2003 academic year. The project was able to significantly improve both student enrolment and generate employment opportunities for the Madrassah Aliyah graduates. It contributed to increasing the total enrolment in the vocational training program from 550 students in 1995 to 82,333 in 2003 for all 575 public Madrassah Aliyah in 30 provinces. The introduction of the vocational component in Madrassah education system has led to a significant reduction in the drop-out rate for the last two years, and in the 12 Madrassahs Aliyah the drop-out ratio reached almost zero of the enrolled students. The project has enabled Madrassah Aliyah graduates to seek employment in the private or public sectors or become self-employed. The track record of students after graduation shows that almost 72 percent of Madrassah Aliyah graduates are either employed or got enrolled for higher education.

An IDB post-evaluation study, undertaken in May 2004, rated the project as successful in terms of achieving its objectives.

Source: IDB, Operations Evaluation Office, Post Evaluation Report on Madrasah Aliyah Vocational Training Project, Indonesia, August 2004.

Quoted in IDB Annual Report, 1425H (2004-2005)

amounting to \$877.3 million, or 42 percent of total Group portfolio, was approved for Indonesia.

IV. Structural Transformation in IDB Operations in Indonesia

During the early years of its engagement with the country, IDB focused its support on public sector projects and trade financing. Prior to the Asian financial crisis of 1997-98, the Indonesian economy was experiencing rapid economic growth funded by oil/gas and forestry revenues, loans from MDBs, and foreign direct investment. IDB was one of the main donors during the period preceding the Asian financial crisis. During the two decades before the Asian financial crisis (i.e. 1976-1996), IDB approvals in Indonesia were dominated by trade financing, accounting for 41 percent of total approvals. The project portfolio, on the other hand, was dominated by social sector (education & health), which accounted for 18 percent of total approvals, followed by transport and communications (14 percent), agriculture and rural development (10 percent), industry & mining (9 percent), public utilities (5 percent), and NDFIs/Islamic banks (3percent).

The bulk of IDB committed funds to Indonesia was approved during the post-crisis period, 1419-1430H (1998-2009). This trend clearly highlights the structural transformation of IDB operations in Indonesia. A total of \$897 million, or 78 percent of total approvals, was committed to finance nine sectors and sub-sectors. The post-crisis period is characterized by increased financing to all sectors, except industry and mining which did not receive any financing. In particular, approvals to social sector increased from 16 percent to 25 percent of total approval. The bulk of funding for social sector went to education, which increased from \$42 million (10 percent of total funding) during pre-crisis period to \$336 million (23 percent of total funding) during the post-crisis period. On the other hand, support to health, agriculture, and transport & communication also increased in absolute value but decreased in relative term.

In addition, IDB has played a significant role in expanding the role of Islamic financial and capital markets in Indonesia, particularly through equity investments in Bank Muamalat Indonesia (BMI), advisory services in the launching of sukuk bonds market, and capacity development through training courses and conferences. IDB support to BMI has been instrumental in the revival and development of Islamic finance in

Indonesia (Annex C-Box 3). Aside from supporting BMI, in 2004, IDB participated in the equity of one non-banking financial institution (“NBFI”) namely Syariah Takaful Indonesia (“STI”) for an amount of \$3.5 million representing 26.4 percent shareholding. STI was established in 1994 as a holding company to provide Shariah-based Takaful life and general insurance through its operating companies PT Asuransi Takaful Keluarga (ATK) and PT Asuransi Takaful Umum (ATU).

The trade financing operations increased from \$162 million in 1998 to \$568 million in 2009. The post-crisis period is also characterized by IDB’s relief support to the people affected by the Tsunami that struck Aceh and Sumatra in December 2004. The Tsunami package targeted the Housing & Urban Development sector, focusing on construction and rehabilitation of infrastructure devastated by the Tsunami.

V. Special Initiatives during Crises

Asian Financial Crisis

During the Asian financial crisis which occurred in 1997-98 and severely affected the Indonesian economy, IDB played an important role, especially when other multilateral and bilateral financial institutions were hesitant to invest in the Indonesian capital markets. IDB approved two facilities: Mudaraba facility of \$25 million, of which half was actually disbursed, and Murabaha facility of \$75 million. Investments were made through DANAREKSA for the purpose of investing in shares quoted in the Jakarta Stock Exchange. These timely investments by IDB helped to send a positive signal to the local and foreign investors about the medium-term economic prospects of the Indonesian corporate sector.

Relief and Reconstruction Package after Tsunami

IDB stood shoulder to shoulder with the Indonesian people in the aftermath of Tsunami in 2004. It quickly responded to the emergency and launched its relief operations to cope with the severe impact of the Tsunami, in both urban and rural areas of Nanggroe Aceh Darussalam. In addition to an urgent relief of \$3 million, six OCR operations (amounting to \$97.7 million) and two trade operations (amounting to \$40 million) were approved. OCR approvals in the Tsunami relief package were in the sectors of education, agriculture, and transportation. In addition, IDB is also managing the Saudi Charity Campaign Fund

Annex D-Box 2

IDB's Role in Strengthening the Performance of Bank Muamalat Indonesia ("BMI")

BMI was established in 1991 at the initiative of the Indonesian Council of Ulema and later supported by a group of local entrepreneurs and Muslim intellectuals. It started its operations in May 1992 with a paid-up capital of IDR89.8 billion. The BMI focused on the provision of Shari'ah-compliant financing facilities. The BMI customer base comprised of small and medium size enterprises (SMEs) and retail consumers.

During the Asian financial crisis, BMI suffered a major increase in its non-performing loans, leading to a substantial write-down of its paid-up capital. At this critical juncture, IDB was invited to participate in the equity capital of BMI. In June 1999, IDB acquired a stake in BMI with an initial investment of \$2.7 million with a view to strengthening the financial position of the BMI at a critical time. The main aim of IDB's participation in the capital of BMI was firstly, to ensure continued survival of the Bank during the Asian financial crisis and secondly, to stabilize the fundamentals in order to lay foundations for future growth. Accordingly, in 2003, IDB acquired additional equity stock in BMI equivalent to \$6.3 million, which increased its stake to one third in the paid-up capital. IDB supported upgrading of the BMI's Strategic Business Plan as well as to conform to the prudential framework of the Bank Indonesia (the central bank). The key BMI business initiative was to enter into an alliance with the Indonesian postal network to offer banking facilities at the retail level. Over a short period, BMI succeeded in attracting new domestic investors, depositors and clients which helped the Bank grow its operations significantly and to become a profitable entity.

Pursuing the aims further, IDB invested a further \$4.9 million in 2005 for a total stake of \$13.9 million. IDB also invited Boubyan Bank (based in Kuwait) and SEDCO (a private wealth management based in Jeddah, Saudi Arabia) to participate in the capital of BMI to further enhance the shareholder base. As of end-2009, IDB held 28 percent of the paid-up capital.

At present, BMI has a network of 75 branches, 63 sub-branches, 132 cash offices and 43 outlets and it offers its clients a wide range of products and services such as retail and corporate financing, foreign trade, debit cards, demand and time deposit accounts, FX trading, local and international money transfer etc.

During the course of its 18 year history, BMI has successfully established a solid reputation as one of the premier Islamic banks in Indonesia. Its target is to not only become the leading Islamic bank but also to grow to rank among the top Islamic banks in the South East Asian region.

IDB's participation in the paid-up capital is in line with its strategic thrust to establish and expand the Islamic financial services industry by supporting establishment of well-capitalized Islamic financial institutions. IDB's support to BMI is a successful example of rehabilitating Islamic financial institutions facing operational difficulties. Through proper diagnostic assessment and demonstrated support by way of making available equity investments at the appropriate time, it is indeed possible to revive fledgling Islamic financing institutions even in a highly competitive banking environment.



for Tsunami, amounting to \$44.7 million allocated for 7 projects. Overall, the reconstruction package has been marked by significant delays in project implementation.

VI. Knowledge Delivery

In addition to its assistance in the form of OCR funding and private sector development, IDB Group has been active in delivering knowledge products to Indonesia. In this regard, **Islamic Research and Training Institute (IRTI)** has carried out a number of research and training activities during the last three decades. The first ever intervention of IRTI in Indonesia was a training program on 'project implementation and supervision' that was held in 1410H (1989). Altogether, a total of 12 training activities have been organized by IRTI in Indonesia, in close collaboration with government agencies, universities, and partners in the banking sector. Majority of these trainings, held during 1420-1429H (1999-2008), were focused on Islamic Banking and Finance sector (67 percent). Four training activities are in the proposal stage.

Research activities of IRTI in Indonesia mainly comprised of conferences, seminars, forums, and roundtable discussions. The first research activity was a seminar on Islamic Banking and Finance in 2003. Since then, a total of nine research

activities have been conducted. As part of these research activities, International Conference on Islamic Capital Markets was held in Indonesia in 2010, in collaboration with Securities Exchange Commission of Indonesia and Malaysia.

There have been other knowledge products that IDB Group delivered to Indonesia as part of its technical assistance. Among these is a recent study on critical development constraints, which was jointly carried out by AsDB, IDB and ILO, which conducted an in-depth analysis of critical constraints in infrastructure development in Indonesia. Another report underscores how IDB interventions can help Indonesia achieve sustained social and economic development. Finally, IDB-Gol cooperation strategy papers have been prepared to highlight IDB's long-standing involvement in and contribution to the development of its largest member country.

VII. Key Lessons Learnt

Various evaluation studies have been carried out to assess IDB Group assistance to Indonesia during the last five years. These studies have focused on sectors including education, health, agriculture, transport and communication, and trade. A detailed study of Country Assistance Evaluation was also carried out in 1430H (2009). These studies have provided critical insights into efficiency and effectiveness of IDB Group assistance to Indonesia. While these studies provide many success stories and present encouraging accounts of development outcomes resulting from IDB Group assistance to Indonesia, lessons learnt through the years have also been included in these studies with the intent to improve the performance of IDB Group portfolio, keep it relevant, and achieve the desired development outcomes.

Studies have shown that past interventions of IDB Group in agriculture and rural development are aligned with the government's strategy. Following sections discuss some key lessons learnt through the years.

Strategy-level Issues

- i. Lack of strategic approach driven by in-depth macroeconomic diagnostics is very clear during the past interventions of IDB Group, which were mainly demand driven and reactive.

Annex-D-Box 3

Delays in Project Implementation in Indonesia

The projects financed by the donors, particularly by the IDB, World Bank and ADB, experience significant delays due to a number of factors mainly related to weak human and institutional capacity in Indonesia. Delays in project implementation increase costs, lead to poor project performance, and slow the delivery of benefits to the beneficiaries.

In terms of projects financed by the IDB, Completion Reports of a number of infrastructure projects reveal that there were delays between 3 to 5 years in project implementation. Delays are attributed to difficulties in financing imports of parts of the project components, price escalations due to devaluation of the rupiah, and national regulation matters. Further, due to decentralization process in Indonesia, the procedures for loans to regional governments from multilateral development finance institutions have yet to be established.

According to the World Bank Report "Status of Projects in Execution-FY08 in Indonesia (October 11, 2008)", mid-term reviews of 35 ongoing projects show that more than 50 percent of the projects were delayed between 1 to 5 years. The main reasons for the delays are cited as procurement delays at the central level, late releases of budget to regional governments and subsequent delayed disbursements of district and sub-district grants, and delays in the procurement of priority equipments.

Project Completion Reports undertaken by the ADB during 2008 and 2009 for Indonesia show that 11 out of 13 projects were delayed between 1 to 6 years. The major reasons for delays in project implementation were: slow procurement, weak capacity at the local government levels, inadequacy of trained field personnel, early termination of the services of the international consultants, land acquisition and resettlement, selecting and fielding the consultants, providing counterpart funds, and poor contractor performance.

Source: Iqbal, Z. and Suleman, A. (2010), Indonesia: Critical Constraints to Infrastructure Development. Islamic Development Bank, Economic Research and Policy Department. ISBN 978-9960-32-195-0.

Annex D-Table 2 Major Development Partners in Indonesia

2009-2012	World Bank	AsDB	JBIC
Central Government Institution and System	X	X	X
Sub-national Government Institution and System	X	X	
Private Sector Development	X	X	X
Infrastructure	X	X	X
Community Development and Social Protection	X	X	X
Education	X	X	
Environmental Sustainability and Disaster Mitigation	X	X	X
Energy	X		X

- ii. IDB's assistance program could have been more effective if selectivity was adopted. IDB assistance to Indonesia was largely unfocused and, hence, scattered among too many activities, covering more than eight sectors. Apart from education, the subsector focus was not well maintained.
- iii. The spread of IDB resources over many subsectors resulted in a smaller average project size (\$12.5 million). Maintaining smaller project size, on the other hand, may have raised administration costs while making the impact of the assistance less visible.

Project-level Issues

- i. Projects funded by IDB Group often suffered from weak feasibility studies.
- ii. Many projects suffered from start-up and implementation delays, leading to cost overruns.
- iii. Lack of proper monitoring and supervision has been a major constraint, resulting in poor performance of some of the projects.
- iv. Non-satisfactory performance of executing agencies and PIUs, were among the major reasons for project delays.
- v. Poor contractors' performances as well as frequent changes in scope also contributed to project delays and cost overruns. This issue (including other project-related problems) has also been highlighted in Annex D-Box 3.

Counterpart/Gol Issues

- i. Late signing of financing agreements has been a major issue in the past interventions.

- ii. Lengthy tendering and procurement procedures on the government side (especially for medical equipment) have contributed to delayed implementation of many projects. Annex D-Box 3 also points out this issue.
- iii. In case of projects co-financed by IDB and other donors, delay or shortage of counterpart funding has also been a problem.
- iv. Unanticipated changes in the government policy (e.g. Decentralization Laws and Procedures) have also hindered developments outcomes and some projects.

Coordination Issues

- i. IDB procurement and disbursement procedures are known to have contributed to delays in project implementation.
- ii. In contrast with other donors, IDB's relatively slow implementation of Tsunami-related projects needs to be critically reviewed. All four Tsunami-related projects financed by six operations are still under implementation.

Field Presence Issues

- i. Some of the issues affecting the portfolio performance of IDB Group arise from its weak presence in the country. This sentiment was not only voiced by the executing agencies and the Government officials, but other development partners have also expressed a need for IDB to strengthen its presence in Indonesia.
- ii. Strengthening field presence in Indonesia will help IDB to be more responsive to

implementation issues and improve coordination with executing agencies and other donors.

VIII. Other Development Partners in Indonesia

In addressing the development challenges, Indonesia's main constraint is not financial resources but the need for accountable and effective institutions that can transform utilization of available resources into development outcomes. Other leading development partners in Indonesia include World Bank, Asian Development Bank, and Japan Bank for International Cooperation. Annex D-Table 2 summarizes the sectoral focus of the World Bank, AsDB and JBIC operations in Indonesia. In the following sections, development strategies of various development partners have been discussed briefly.

World Bank

In accordance with the Government's objective of strengthening institutions, World Bank (WB) has selected 'Investing in Indonesia's Institutions' as the theme of its Country Partnership Strategy (CPS) for 2009-2012. Under this CPS, WB interventions will be through investments as well as co-financing through advisory and analytical services. The CPS has recognized that fostering inclusive, sustainable growth in a competitive, middle-income country such as Indonesia needs strong effective institutions with a unique model of engagement. Therefore, the objective of CPS is to improve existing programs, strengthen institutions involved and encourage others to replicate them so as to maximize the impact of the partnership.

The World Bank has identified the following five thematic areas of engagement in Indonesia that will form its core partnership strategy: (i) Private Sector Development, (ii) Infrastructure Development, (iii) Community Development (and Social Sector Protection), (iv) Education (Investing in Knowledge Institutions) to develop and expand the analytical foundations for development, (v) Environmental Sustainability and Disaster Mitigation.

Private Sector Development: The WB has built strong relationships with relevant Ministries to help shape and improve the investment climate. It is providing a \$100 million loan to establish an Infrastructure Financing institution, in which, the

IFC is an active partner. The WB has provided a team of advisers to help support the Ministry of Trade. It may be noted that Indonesian private sector firms tend to largely finance their investments through retained earnings.

Infrastructure: In the area of Infrastructure, co-financing / pooled funding include: (i) Energy, (ii) Roads (highways; rural roads), and (iii) Urban Infrastructure such as water; sanitation; low-cost housing etc. Under Energy, the WB financing will focus on clean and renewable energy projects; power projects; gas and advanced coal technologies. WB will support these through a series of policy loans jointly with AsDB and Japan. In the water sector, WB will focus on irrigation dams; reservoirs and community-based water services. In the agriculture sector, WB is supporting research efforts; land management and the use of information networks.

Community Development: In the area of Community Development, the WB is supporting efforts to reduce poverty through participating in the government's various poverty reduction programs and advisory support; trust fund programs for special studies; evaluations; T.A. and guidance. The government is consolidating over 50 Community Driven Development Programs and progressively increasing its investments in them. The WB is also partnering with the Government in its \$2 billion PNPM-Mandiri Program in which, the WB is engaged for almost a decade.

Education: The WB is planning to invest in Indonesia's knowledge programs, particularly Universities and Think Tanks. In the area of education, WB is collaborating with the Ministry of Education in about six projects, one of which provides funding for primary and secondary schools while another aims to build capacity and reform the higher education system. Further, with trust funds, the WB aims to shape national education policy with donors such as the European Commission; the Dutch Government etc.

Environmental Sustainability & Disaster Management: The WB aims to combat the effects of deforestation leading to land degradation. It is financing a portfolio of Clean Development Projects; assisting in formulating a disaster management and climate change strategy; and developing a low carbon growth strategy. IFC will play a catalytic role in encouraging private sector

investments in geothermal and energy efficiency projects. The WB is also working to develop a program to Reduce Emissions from Deforestation and Degradation (REDD).

Asian Development Bank (AsDB)

Aligned to the Second Medium-term Development Plan, AsDB operations are aimed at helping Indonesia achieve a higher pro-poor sustainable growth and social development with particular emphasis on governance and accountability measures in all its operations, and focus on those areas where it has comparative advantage and value added intervention in capacity building of institutions.

AsDB interventions are mainly directed in the areas of agriculture and natural resources, education, energy, finance, public sector management, transport and information and communications technology, water supply and municipal services, social development, gender equity and governance. In order to promote the development prospects of these sectors, AsDB's Country Strategy Program (CSP) for Indonesia has identified the following six areas that will define its strategy: (i) Deepen the financial sector of Indonesia, (ii) Decentralize its government functions, (iii) Assist the government to achieve MDGs, (iv) More-robust management of the environment and natural resources (Water Resource Management), (v) Strengthen the infrastructure sector (road transportation and urban water supply and sanitation), and (vi) Build up energy sector particularly Clean Energy.

The CPS document also indicates AsDB's willingness to identify partners for co-financing on concessionary terms and states that the IDB is likely to participate with AsDB in co-financing the following projects: (i) Regional Roads Development Project to the tune of \$70 million, and (ii) Flood Management Project in Java Island to the tune of \$100-150 million.

Japan Bank for International Cooperation (JBIC)

The Japan Bank for International Cooperation has signed a program agreement and a contingent loan agreement with the Government for providing financial support amounting to \$1.5 billion. JBIC has also engaged in a trade finance initiative loan (\$100 million) to Indonesia Eximbank in

early 2010. Given the unstable international financial market, JBIC intends to support the Government's funding efforts in the Japanese bond market, while putting in place a contingency measure to cope with further turmoil in the international financial market in cooperation with the World Bank, the AsDB and other development partners. JBIC financial assistance will support the Government's efforts to stabilize the country's economy and its fiscal situation.

JBIC assistance to Indonesia is the largest in its portfolio (amounting to JPY 734 billion or \$9 billion). JBIC has played a major role in power sector development and helped develop several power plants. JBIC's continuing and future cooperation with Indonesia is focused in the areas of: (i) power sector (including IPP and geothermal energy development); (ii) natural resources and mining; and (iii) telecommunication sector. JBIC also hopes to implement future projects smoothly in the area of environmental business, which contribute to encouraging Japanese firms' activities in Indonesia and to further strengthening economic relations between Japan and Indonesia.

Other Development Partners

In addition, there are other development partners who are engaged in Indonesia, mainly through co-financing with major donors. Some of these include the European Investment Bank (EIB), United States Agency for International Aid (USAID), Australian Agency for International Aid (Ausaid), Republic of Korea, and some members of the Arab Coordination Group.²

² Member institutions of the Arab Coordination Group are Abu Dhabi Fund for Development, Arab Fund for Economic and Social Development, Arab Fund for Economic Development in Africa, Arab Gulf Program for United Nations Development, Arab Monetary Fund, IDB, Kuwait Fund for Arab Economic Development, OPEC Fund for International Development, and Saudi Fund for Development.

Core Engagement Area 1: Improving Education and Skills Development

Annex Table 4.1

Result Matrix	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Development Goals / Targets					
Higher Education (National level)					
Improving access to high quality of tertiary education in Indonesia	<p>Lower education spending</p> <p>Poor quality of higher education</p> <p>Low education's enrolment (18.9%)</p> <p>Inadequate capacity of the HIE institutions</p> <p>Lack of analytical understanding of higher education needs</p> <p>Higher regional disparities</p> <p>Poor access and quality</p> <p>Weak alignment with market needs</p>	<p>Improved access to high quality tertiary education</p> <p>Introduced Islamic Finance courses</p> <p>Availability and affordability of qualified, relevant, and international standard higher education services</p> <p>Aligned interventions in-depth needs assessment of higher and Islamic education sub-sectors with priorities</p>	<p>Reduce regional disparity</p> <p>Gender parity in enrolment and completion across all the programs</p> <p>Offer good quality Master and PhD programs at tertiary institutions</p> <p>Contribute to the improvement of access to higher education from 22% in 2010 to 30% by 2014</p> <p>Contribute to increase in Gross Enrolment Rate for HEI (19 -23 years old) from 22.8% to 30.5% by 2014</p> <p>Contribute to increase number of HEI in 500 world best universities THES version from 3 in 2010 to 11 in 2014</p> <p>Contribute to increase number of HEI in 200 Asian best universities THES version from 8 in 2010 to 12 in 2014</p>	<p>Developed appropriate infrastructure, and teaching materials and equipment</p> <p>Curriculum of the targeted Islamic institutions revised and developed</p> <p>Lecturers, staff and management of the targeted IHE institutions received the relevant skills development and trainings</p> <p>In-depth needs assessment of Higher and Islamic Education sub-sectors to help align the interventions with priorities</p>	<p>National Higher Education and Teacher Education Institutions Program.</p> <p>The program may be co-financed with the Coordination Group, USAID and AsDB.</p> <p>HEI Assessment Needs Study</p>
Education Focus (Regional Level: Sumatra, Sulawesi and Kalimantan)					
Higher Education					
Improving access, quality and relevance of higher education and Islamic education	<p>Lack of adequate and skilled human resources in medical science and technology related professions in Kalimantan</p> <p>Insufficient higher education institutions that can absorb senior secondary graduates in Kalimantan, Sulawesi and Sumatra</p> <p>Lack of analytical understanding of higher education needs</p>	<p>Improved access, quality and relevance of higher education</p> <p>In-depth needs assessment of higher and Islamic education sub-sectors to help align the interventions with priorities</p>	<p>Skills development and training for the lecturers and human resources staff for the higher education and Islamic institutions</p> <p>Introduce Islamic Finance and Banking courses, Diploma and professional certificates in the universities</p>	<p>Quality improvement for HEI</p> <p>Increased number of medical science and technology related professionals</p>	<p>Financing the development and quality improvement of higher education institutions program</p>

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
<p><u>Vocational Education</u> Developing qualified and competitive workforces through vocational education</p>	<p>Weak local institutional capacity</p> <p>Inadequate skilled manpower in technical and vocational fields</p>	<p>Improved access, quality and relevance of the vocational education</p> <p>Streamlined the National Competency Based Trainings (NCBT) in the vocational centers</p> <p>Increased number of skilled workers</p> <p>Increased employability of graduates from TVET</p> <p>Increased number of vocational and technical training centers catering to market demand in Kalimantan, Sulawesi and Sumatra</p>	<p>Expand job opportunities</p> <p>Expand access to job training service</p> <p>Increase skills and productivity</p> <p>Increase quality, relevance, efficiency and effective job trainings</p> <p>Improve development of industrial relations and workers</p> <p>Enhance links between training providers and the private sector</p>	<p>Established and functional vocational training centers in Kalimantan, Sumatra and Sulawesi</p> <p>Conducted skill development for health workers</p> <p>Developed adequate infrastructure and equipment facilities</p>	<p>Polytechnic Development of Mining in South Kalimantan.</p> <p>Establishment for vocational centers</p> <p>Polytechnic specializing in geothermal technology in North and South Sulawesi provinces</p> <p>Technical, Vocational Education & Training (TVET) Skills development programs for SME, Mechanical, Electrical, Water, Health workers and Agriculture in Central, South and West Kalimantan (Border between Malaysia and Indonesia)</p>
<p><u>Teacher Education</u> Enhancing the quality of teacher education sub-sector and reduce the rural and urban disparities</p>	<p>Insufficient and inadequate qualified teachers</p> <p>Higher disparity between quality of teachers in rural and urban areas</p> <p>Unbalanced distribution of teachers</p> <p>Under paid teachers</p>	<p>Reduced disparity between quality of teachers in rural and urban areas</p> <p>Improved quality of teachers' training programs</p> <p>Adequate teacher availability at junior and secondary schools</p> <p>Reduced teacher disparities between rural and urban areas</p>	<p>Improve curriculum and modern teaching system</p>	<p>Developed and revised curriculum development</p> <p>Increased the number of qualified teachers</p> <p>Provision of competent teachers in all provinces, districts, and cities by 2014</p> <p>Developed adequate infrastructure facilities and necessary teaching equipment and facilities</p>	<p>Quality improvement of Teachers Education Program in Kalimantan, Sulawesi and Sumatra</p>

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
<p><u>Islamic Higher Education</u> Enhancing the access to high quality Islamic Higher Education (IHE)</p>	<p>Lack of professionals in Islamic Economics/Law/Finance Absence of institutions offering professional qualifications in Islamic Economics/Law/Finance</p>	<p>Development and quality improvement for Islamic higher education institutions Increased number of professionals in Islamic Economics/Law/Finance National Education Standards (SNP) for Religious education implemented</p>	<p>Contribute to increase the number of IHE quality institutions Introduce Islamic Finance and Banking courses, Diploma and professional certificates in the universities</p>	<p>Developed appropriate infrastructure, and teaching materials and equipment Revised and developed curriculum of the targeted Islamic Institutions Received relevant skills and training by lecturers, staff and management of the targeted IHE institutions</p>	<p>Quality Improvement and Modernization of the following IHE institutions including University Maluwarman; Islamic University of IAIN Raden Fatah, Islamic University of Tanjung Pura, Islamic University of IAIN Antasari Banjarmasin, University of Sam Ratulanga and Gorontalo University and others in Kalimantan Sulawesi and Sumatra.</p>
<p><u>Madrasa (Pasantren) Education</u> Improving access and quality of Islamic Madrasas (Pasantren)</p>	<p>Inadequate infrastructure, teaching and learning facilities in Madrasas</p>	<p>Improved infrastructure, teaching and learning facilities in Madrasas</p>	<p>Increase number of Madrasas extended to all relevant three regions by 2014</p>	<p>Provided qualified teachers for primary and secondary education Enhanced number of Madrasas by 2014</p>	<p>Quality improvement of the Madrasa education and bilingual education programs in Kalimantan, Sulawesi and Sumatra</p>

Core Engagement 2: Enhancing Agriculture and Rural Development					Annex Table 4.2	
Results Matrix	Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
	Poverty Reduction (National Program)					
	IDB PNPMP (ICDD) Program	Heterogeneous distribution of poverty with large disparities between rural, urban, provincial, and remote regions	Reduction of the poverty rate to 8-10% by the end of 2014 (taken from RPJMN Book 3)	Gain vocational/ livelihood skills	Provided all Kelurahan with at least 15% of key public infrastructure (access roads, water & sanitation, schools, health centres, markets, etc), by 2014	IDB PNPMP (ICDD) Program
	Supporting the achievement of sustainable improvement in the welfare of poor communities of the Kelurahan in the target regions (currently covering 4811 Kelurahan across all provinces in Sumatra, West Java, Banten, Jakarta and West Kalimantan)	Inadequate social-economic infrastructure Lack of access to financial resources with at least 70% of rural population is 'financially excluded' from credit Poor quality of human capital and limited productive employment opportunities	At least 1/3 rd of target Kelurahan in the project graduate from the list of 'less-developed areas' by 2014		Assisted in providing direct employment for 1 million people (35% women) and indirect employment for 1 million people from the target population, by 2014	
	Shariah Microfinance Program					
	Financial inclusion and empowerment through providing access to Shariah Microfinance		Contributed to regional poverty reduction and livelihood development (esp. in the PNPMP project areas)	Increase farmers access to microfinance	Increased access to Islamic finance for household by 2014	The IDB Shariah Microfinance program (included in Result Matrix Table 4.5 on Islamic Finance)
	Disadvantaged & Border Areas Development Program		Improved agriculture yields and its contribution to regional GDP growth		Doubled the Shariah microfinance outreach to 12%	The program will focus on the IDB PNPMP interventions areas, as well as poverty pockets and rural communities in other regions
	Galvanise marginalised areas/ groups economy through providing socio-economic infrastructure and facilities		Increased agriculture & rural enterprises Contributed to the development of marginalized areas using integrated Development Schemes focusing on agro and other livelihood sectors, and provision of basic socio-economic infrastructure		Construction of rehabilitation of roads, tertiary irrigation network, rural agriculture markets, rural healthcare centres (Pustatus), primary schools. Direct and indirect employment for people	Disadvantaged & Border Areas Development program (following the focused integrated area development approach)

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Boosting Agricultural Productivity and Efficiency (Regional – Sumatra)					
Increasing productivity and efficiency of staple/basic food and strategic crops	Lack of adequate irrigation infrastructure in terms of coverage, outreach and maintenance Low value addition and processing in strategic crops (e.g. palm oil, rice, rubber etc.) Inadequate agriculture extension services & low mechanisation	Developed and expanded primary, secondary and tertiary irrigation infrastructure with proper funding for maintenance Improved quality and marketability through value chain enhancement and introduction of high yielding varieties Developed training programs for local agriculture agencies, extension workers, farmers and support introduction of new technologies	Increased irrigation network Strengthened value chain products and linkages by forming producers organisations, increasing production/ha, increasing resources (financial, supporting infrastructure etc.), and training on producers Farmers associations formed & trained, agriculture extension workers trained, and equipment (e.g. tractors, etc.) purchased	Increased irrigation network Strengthened value chain products and linkages by forming producers organisations, increasing production/ha, increasing resources (financial, supporting infrastructure etc.), and training on producers Farmers associations formed & trained, agriculture extension workers trained, and equipment (e.g. tractors, etc.) purchased	Boosting Agricultural Productivity & Efficiency Program
Natural Resource Management, Renewable Energy and Environment (Regional – Kalimantan)					
Improving sustainable and economic use of natural resources	Inadequate water infrastructure constraining productivity Poor environmental management & depletion of natural resources	Expanded water harvesting/catchment, storage and management schemes Enhanced natural resources management schemes and the development of “peat-land” areas	Increased water harvesting/catchment, and volume of stored water Increased developed peat-land, and maintenance of forest cover	Increased water harvesting/catchment, and volume of stored water Increased developed peat-land, and maintenance of forest cover	Irrigation & Water Harvesting & Management Program
Renewable energy schemes Supporting and expanding village/community based renewable self-sufficiency schemes	Lack of adoption incentives/means and sustainability of initiatives Lack/unavailability of credit and high transaction cost	Supported & expanded “Village Energy Self-sufficiency” schemes in remote & rural areas Tailored & expanded Shariah microfinance outreach with proper incentives for adoption of village/community based renewable energy	Reduced Co ² emission Increased borrowers/adapters of renewable energy, and savings on energy bill	Reduced Co ² emission Increased borrowers/adapters of renewable energy, and savings on energy bill	Renewable Energy Scheme Partnership with Gol-APBN Scheme

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Development of Marine and Aquaculture Fisheries Industry (Regional – Sulawesi)					
Assisting in transforming fisheries industry of Sulawesi into major production hub using sustainable practices	<p>Low value addition and processing capabilities in strategic crops resulting in poor competitiveness and efficiency</p> <p>Lack of adequate infrastructure and market opportunities/linkages</p> <p>Poor quality of human capital and limited productive employment opportunities</p>	<p>Developed fisheries-based metropolitan areas</p> <p>Improved processing infrastructure, better access to finance and enhanced capacity to develop Sulawesi as a center for fisheries</p>	<p>At least 2/3rd of support infrastructure developed in Manado-Bitung to become a center for the seafood processing by 2014</p> <p>Fisheries production (yield improvements in marine and aquaculture catches) in the target regions by 2014</p> <p>Enhanced number of fisheries related businesses and enterprises increases by 2014</p>	<p>At least 2/3rd of support infrastructure developed in the selected agropolitan areas by 2014</p> <p>Enhanced direct and indirect employment for the target population by 2014</p> <p>Increased agri-businesses and enterprises by 2014</p>	Fisheries infrastructure and value-chain enhancement program
Agropolitan Centres					
Enhancing agricultural competitiveness through development of 'Agropolitan' centers/ regional hubs		<p>Developed Gorontalo, Palu, Kendari, and Mamuju as central processing hubs for agro-industries/horticulture crops</p> <p>Developed Maminasata metropolitan region as an industrial center for agro-processing and plantation</p>	<p>At least 2/3rd of support infrastructure developed in the selected agropolitan areas by 2014</p> <p>Enhanced direct and indirect employment for the target population by 2014</p> <p>Increased agri-businesses and enterprises by 2014</p>	<p>At least 2/3rd of support infrastructure developed in the selected agropolitan areas by 2014</p> <p>Enhanced direct and indirect employment for the target population by 2014</p> <p>Increased agri-businesses and enterprises by 2014</p>	Agropolitan development program (following the integrated area development approach)

Core Engagement Area 3: Strengthening Infrastructure Development

Result Matrix	Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
			i. Improving Transport Sector			
	Road Development (National Program: Java)					
Enhancing the quality of infrastructure network and integrating land, sea and air transport services, particularly improving the road infrastructure networks	<p>Difficulty in land acquisition</p> <p>Weak legal and regulatory framework</p> <p>Poor road maintenance</p> <p>Lack of an effective policy for road safety</p> <p>Inadequate control of overloaded vehicles</p> <p>Non-familiarity of executing agency DGH with IDB procedures</p> <p>Overlapping or ambiguous inter-Ministerial responsibilities</p>	<p>Improved access of local communities to economic opportunities and social services</p> <p>More efficient and safer road transport network for users and local communities</p> <p>Improved transport accessibility and connectivity</p> <p>Enhanced road transport efficiency and safety</p> <p>Developed capacity building of DGH</p>	<p>Road safety awareness for communities with 80% participation of transport providers and school children by 2014</p> <p>Java Transport Study finalized and agreed by Dec. 2012 for developing a comprehensive road plan for Phase-II of the project</p> <p>Full training of 250 DGH national and provincial staff in road safety and other technical and social issues by 2014</p>	<p>Rehabilitation, improvement and new construction of roads of 41.4km and 169 bridges totaling 3,848 km in East and West Kalimantan by ASDB and East and Central Java by IDB</p> <p>Completed civil works for 3 roads sections in South Java totaling 80.8 km by IDB</p> <p>Implemented road safety program</p> <p>Strengthened capacity development of road sector agencies</p> <p>Phase-II: road alignment plans ready</p>	<p>ASDB-IDB Regional Roads Development Project (On-going Project)</p> <p>Cikampek Palimantan 116 km Toll Road, PPP Project (Java)</p>	
	Transport Development (Regional Program: Kalimantan)					
Improving quantity, quality, and accessibility of transport infrastructures including land, sea and air services	<p>Lack of intra-regional connectivity and high percentage of poor conditions of existing highways</p> <p>Poor inter-regional connectivity due to inadequate capacity of seaports and airports</p> <p>Limited and not fully integrated roads with other transportation networks</p>	<p>Promoted regional road corridors to the neighboring countries of Malaysia and Brunei</p> <p>Improved supply, quality, and accessibility of transportation services</p> <p>Improved donors' coordination</p> <p>Reduced regional disparities</p> <p>Improved regional income and reduced poverty</p>	<p>Reduce transportation costs by upgrading damaged transportation infrastructure</p> <p>Improve quality and quantity of transportation infrastructure conditions</p>	<p>Developed multi-modal transportation networks</p> <p>Rehabilitated, improved, and new construction of quality roads</p> <p>Improved and integrated port network services with other transportation networks</p> <p>Increased capacity of air transport services</p>	<p>Trans-Kalimantan Highway Project in partnership among Arab Coordination Group; IDB Infrastructure Fund II; ASDB-IDB Multi-Country Islamic Infrastructure Facility</p>	

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
ii. Re-engaging in the Energy Sector					
Appraisal Stage of Power Projects					
Providing reliable and affordable electricity to boost the economic growth of Bali island	<p>Demand exceeding supply in Bali Island</p> <p>Expensive and protracted land acquisition process</p> <p>Lack of availability of bankable projects in Bali Island</p> <p>Shortage of electricity hampers local economic development</p>	<p>Meeting the electricity demand of Bali Island till 2025</p>	<p>Appraisal in early 2011</p> <p>Targeted for completion by 2015</p>	<p>Developed 225 km long 500 kV Java-Bali overhead transmission line in partnership with AsDB</p>	<p>IDB-AsDB Java-Bali Overhead Transmission Line</p>
Sumatra regional development as a center for industrial development based on a reliable energy supply with an integrated network system for the region	<p>Shortage of availability of long-term financing for geothermal generation</p> <p>Lack of institutional capacity for timely implementation of geothermal projects</p> <p>Electricity network capacity in Sumatra region suffers from rotating blackouts which often occur during peak load</p>	<p>Developed an integrated electricity network system with the following strategy: (a) increased electricity generating capacity; (b) developed electricity network system integration; and (c) diversified energy sources for electricity generation</p> <p>Supported the development of 5000 MW geothermal power plants to be developed by 2014</p> <p>Optimized fuel mix for electricity generation by reducing dependency on oil for power production</p> <p>Starting 2016: increased supply of 1000 GWh per year of geothermal energy and 0.8 million tons of annual CO2 emissions reduction</p>	<p>National Planning Workshop in early 2011</p> <p>Completion of project feasibility in second half of 2011</p> <p>Appraisal in early 2012</p> <p>Targeted for completion by 2015</p>	<p>Developed 145 MW new indigenous geothermal power plants in Sumatra and Java and Java</p>	<p>Development of geothermal power plants in Sumatra and Java in partnership with AsDB, EIB and Korea EXIM</p>

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Concept Development Stage of Power Projects					
Increasing supply of reliable and affordable green electrical energy to enhance the electrification coverage	Shortage of availability of long-term financing for power infrastructure projects Inadequate resource assessment for RE, especially Greenfield geothermal projects Insufficient Institutional capacity to prepare Bankable RE and EEE projects	Facilitated in achievement of government target to increase installed generation capacity by 3000 MW/year during the period 2010-14, which will require an estimated \$50.4 billion investment between 2010-14 of which \$25.8 billion is expected to be financed by the PT, PLN		Established On-Grid and Off-Grid Renewable Energy Projects (Geothermal, Hydropower, Wind, Solar and Biofuels)	Establish strategic partnerships with other donors active in development of Renewable Energy (RE) and Energy Efficiency Enhancements (EEE) programs to identify tangible projects suitable for IDB financing
Promoting energy efficiency to make the economic growth less energy intensive	Weak and slow tendering process Complex land acquisition process for approval from multiple jurisdictions, including Ministry of Forestry and local government authorities	Increased electrification coverage to 80% by 2014 and 90% of the Population by 2020	Coordination with donors to be completed by mid-2011 Feasibility studies to be initiated by end-2011 Appraisals to be completed by mid-2012	Established Energy Efficiency Enhancement Projects through: (a) rehabilitation of old power plants, (b) Installation of super-critical boilers for coal fired power plants, and (c) conversion of open cycle gas turbine power plants into combined cycle	
Making Indonesia an open defecation free country by 2015	Limited government financing to sanitation Low access to sewerage and sanitation services Unclear institutional set up for sanitation Absence of sanitation strategic planning Low community awareness about sanitation	Improved health conditions in 1,020 <i>kecamatan</i> (<i>sub-districts</i>) of low income communities in densely populated areas by 2015	2012: 121 kecamatan covered with sanitation infrastructure 2013: 320 kecamatan covered with sanitation infrastructure 2014: 147 kecamatan covered with sanitation infrastructure 2015: 432 kecamatan covered with sanitation infrastructure	All the 1,020 kecamatan (sub-districts) with a total population estimated at 25 million equipped with sanitation infrastructure (by the end of the program)	Community based sanitation development program (SANIMAS) covering Sumatra Kalimantan and Java
Increasing access to sewerage networks from 1 percent (baseline) to 5 percent (2015) of the urban population					
Community based sanitation facilities available in every city (2015)					Explore linkages with PNPB Mandiri and USRI Programs, in the light of City Sanitation Strategy at the city/district (Kabupaten) levels

Improving Water Supply (Regional Program: Sumatra)

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
		iii. Contributing to Urban Development			
Community-based Sanitation Development Program (National Program: Kalimantan, Sumatra, and Java)					
Improving access to water supply to help achieve MDG7 on access to water supply, and improving health and living conditions	<p>Absence of adequate source for water supply</p> <p>Ground water increasingly contaminated by salt water intrusion, and other fecal pollution</p> <p>Population buys water from informal suppliers at 15 to 30 times the tariffs of the public utility</p>	<p>Improved and sustainable source of water provided to the population by 2015</p>	<p>Access to water supply ratio in the targeted area to increase from 29 percent (baseline) to 50 percent in 2013 and 100 percent in 2015</p>	<p>Water intake and transmission lines constructed by 2014, providing an allocation of 2.2 m3/s to the city of Bandar Lampung</p>	<p>Development of Bandar Lampung (South-East Sumatra province) water supply project</p> <p>T.A. for FS & TD for Water Transfer System in Inter-Basin of Cibaratua-Cilaki-Cisangkul</p>

Core Engagement Area 4: Promoting Private Sector Development

Results Matrix	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Developing Program in the Banking Sector (National Level)					
Enhancing banking access to retail market and SMEs	Poor access of SME to financing due to insufficient allocation of funds by the local banks Low levels of banking penetration hindering financial intermediation Lack of complete value chain financing	Increased economic growth by prioritizing exports and investment Developed SME sector to create more jobs and reduce poverty	Completion of regulatory and statutory regime Establish pricing policy and acceptable bank credit risk appetite	Established new Islamic bank with large local player nationally with full suite of products Established Islamic Investment Fund Strengthened line of financing relationship with local banks Enhanced retail banking with full product suite which is based on outreach of large local player into rural areas	ICD: Islamic financial channels ICD: equity with large local player to establish new Islamic bank ICD: to establish an Islamic investment fund Line of financing to Indonesia banks (PPP/INF)
Enhancing Exports of Strategic Commodities (Regional Level)					
Increasing banking access to strategic agricultural, mining, fisheries, food processing, textile and paper industries	Insufficient local banks' allocation of funds for strategic agricultural commodities Insufficient of working capital for strategic commodities Difficulty in providing bank guarantee for agricultural cooperatives Lack of complete value chain financing for value added exports of agricultural commodities Declining FDI for development of strategic commodities Inadequate funding for capacity development activities for competitive commodities Insufficient processing capacity of basic commodities to increase value addition and employment Double taxation issue	Increased employment in rural areas Enhanced farmers income Reduced poverty by revitalizing the agriculture, forestry, maritime and rural economy Increased intra-trade to impact positively on the socio-economic developments	Formulate local regulation on structured trade finance with Shariah compliance	Established line of financing relationship with regional banks Provided complete supply chain financing to farmers Enhanced productivity and value added in strategic commodities for exports Increased institutions' activities in identified commodities	ICD: to provide short- to medium-term project finance through line of financing to local banks for SME financing (On-going) ITFC: to provide short-term trade finance through 2-Step Murabaha availed to local banks for SME financing ITFC: to provide unsecured lending to Top Tier companies ITFC: to provide complete supply chain financing to Agri-Business ICIEC: To provide value added services such as Export Credit Insurance and Foreign Investment Insurance policies and promotion of investment (ITAP)

Annex Table 4.5		Cross-Cutting Pillar 1: Promoting Islamic Financial Sector				
Results Matrix	Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
	Defining the Islamic Finance Architecture					
	Improving the enabling environment to fully utilize Islamic finance for economic development through clearly defined and implemented Islamic finance architecture especially in the areas of regulatory, supervisory or legislative reforms needed	<p>Lack of support from stakeholders such as regulators, Ministries, private sector participants' capacity to agree on and implement reforms</p> <p>Non-availability of financial and human resources from the government</p> <p>Lack of synergy between IFSI subsectors: Banking, Capital Markets, Takaful, Microfinance, Zakat and Awqaf</p>	<p>Well defined, streamlined IFSI with improved regulation and supervision</p> <p>Increased presence of IFSI as an alternative and complementary financial system for use by the people of Indonesia</p>	<p>Undertake diagnostic study to analyse the current state of the IFSI and to identify gaps</p> <p>Interim Road Map expected by mid 2011</p> <p>Final Road Map by end 2011</p> <p>Implementation plan by mid 2012 and commencement of implementation by Indonesian authorities</p> <p>Integrated IFSI stakeholders</p>	<p>Developed and documented a road-map which would articulate any institutional, legislative, regulatory and supervisory reforms needed for Indonesia to implement a fully integrated IFSI based on international best practices</p> <p>Brought cohesion and synergy in the Islamic finance sector</p> <p>Articulated roles and responsibilities of all stakeholders</p> <p>Fully leveraged Islamic finance for economic development</p>	<p>Technical Assistance for developing the Islamic finance architecture.</p> <p><i>MoF as a lead agency and partnership with BI, BAPPENAS, BAPEPAM, Ministry of Cooperatives, BAZNAS, etc.</i></p>
	Strengthening the Islamic Microfinance Sector					
	Achieving balanced and inclusive economic development and poverty reduction through: supporting access to Islamic finance for the poor and development of the Islamic Microfinance subsector	<p>Non-availability of long-term financing</p> <p>Non-alignment of development vision with investors commercial interests</p> <p>Weak technical and institutional capacity of BMTs</p> <p>Lack of ensuring</p>	<p>Improved access to finance</p> <p>Influenced the development and reform of the Islamic Microfinance subsector</p> <p>Greater advocacy for regulation and supervision</p> <p>Human resource development and building capacity by improving governance, IT systems, management and outreach</p> <p>Developed close</p>	<p>Requisite approval and fund raising from shareholders during 2011</p> <p>Approval from regulatory authorities during 2011</p> <p>Work with stakeholders in the Microfinance sector to set up IMFI in 2011</p> <p>Form working partnerships with other active players such as local institutions as well as IFC and USAID for</p>	<p>Established and commenced operations of the Islamic Microfinance Fund Indonesia (IMFI)</p> <p>Provided direct funding through equity investment in IMFI subject to IDB-BED approval</p>	<p>Islamic Microfinance Fund Indonesia (IMFI)</p> <p>Partners may include BMI, BRI-S, PINBUK, BAPEPAM, Fund Managers, Ministry of Cooperatives, BI (partnership with IDB PNPB ICDD Program)</p>

<p>sustainable economic returns to maintain investor interest</p> <p>Difficult exit as targeted through capital markets</p>	<p>linkages with the Community Driven Development Project (PNPM) through provision of Microfinance for self employment and job creation</p>	<p>funding and/or technical assistance</p>
<p>Building capacity in human capital development</p>		
<p>Enhancing availability of trained human resource to ensure economic development</p> <p>Non-alignment of interests among all stakeholders</p> <p>Lack of funds from authorities, with specific input in relation to human capital needs assessment</p> <p>Lack of funds from universities and training institutes</p> <p>Lack of funding to create necessary infrastructure, remuneration of the training providers and experts</p>	<p>Building capacity of training providers – improving quality and quantity of courses and programs</p> <p>Self-sustaining, fully equipped IFSI training facilities and programs with fully trained faculty and high quality curriculum</p> <p>Self sufficiency in meeting the human capital development demands</p>	<p>Technical Assistance for developing a human capital development strategy</p> <p>Partner with BI and other relevant institutions and stakeholders</p> <p>Develop partnerships with leading, established providers of education and training in Islamic Finance</p> <p>Undertake Diagnostic Study to analyse the current state of the training and education in Islamic finance by mid 2011</p> <p>Strategy document with an exhaustive training and education strategy for the sector to be completed by end-2011</p> <p>Identify and strengthen local institutions with potential to play a lead role in Islamic finance education and training</p> <p>Facilitate JV Technical partnerships with experts and well established foreign education and training providers</p> <p>Design curriculum by mid-2011 and learning package for a flagship program in Islamic finance by mid-2012</p>
<p>Promotion of Islamic Financial Services Industry</p>		
<p>Achieving sustained growth of the IFSI leading to growth in the economy and increased employment</p> <p>Non-availability of financial and human resources from the government</p>	<p>Promoting investments in the IFSI</p>	<p>Organize an event to showcase the IFSI of Indonesia for private and sovereign investors</p> <p>Partner with MOF, BI, BAPEPAM, and other relevant Ministries</p> <p>Organized International Investors Conference on Indonesia's Islamic Financial Services Industry</p> <p>Discussion on way forward end 1st Qtr 2011</p> <p>Budgets, approvals, list of invitees, presentations, finalized end 2nd Qtr</p> <p>International Investors Conference to be held in November or December 2011</p>

**Cross-Cutting Pillar 2: Leveraging Partnership for Enhancing Resource Flows
(Partnership, Alignment and Harmonization)**

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Output/ Intermediate Results / Milestones	IDB Group and Partners Areas of Interventions
<p>Local Currency Financing</p> <p>Promoting Islamic capital markets especially issuance of long term sukuk which can help financing PPP infrastructure projects and Private Sector Development</p>	<p>Difficulty of forming a local SPV</p> <p>Tax implications of forming a local SPV</p> <p>Laws to support optimal Sukuk structure</p> <p>Availability of projects pipeline to be financed in local currency</p> <p>Regulatory constraint: Limited capital base of Islamic banks and their low resilience to absorb shocks in the real sector</p>	<p>Improved access to long-term financing</p> <p>Increased PPP financing of infrastructure projects</p> <p>Attracting FDI and strengthen Islamic capital market</p>	<p>Increased ratio of Islamic /long term finance for PPP projects during MCPS period, including line of financing through commercial banks with a loan tenor of up to 10 years</p> <p>Increased the number of local currency financed projects during MCPS period</p>	<p>Issuing local currency Sukuks to mobilize matching resources for PPP-based projects</p> <p>Resource Mobilization and Partnership Department, Finance Complex (IDB) (Islamic) Financial Institutions in Indonesia</p>
<p>Co-financing with MDBs</p> <p>Mobilizing foreign resource flows to increase the efficiency of PPP investments in the infrastructure sector</p> <p>Improving standard of living by providing increased access to quality healthcare, education and improved agriculture production and natural resources utilization</p>	<p>Weak Legal and Regulatory Framework to promote PPP-based financing in infrastructure sector, including weak technical staff and institutional capacity</p> <p>Shortage of long-term financing due to underdeveloped capital markets (<i>resulting from a mismatch between long term funding needs and available tenure of funds in the capital market</i>)</p>	<p>Improved access to infrastructure facilities</p> <p>Increased participation of private sector in managing and developing infrastructure projects</p> <p>Reduced regional disparity of the quality and availability of infrastructure facilities</p>	<p>Increased the number of PPP-based infrastructure projects during MCPS period</p>	<p>AsDB-IDB Multi-Country Islamic Infrastructure Facility of \$500 million, managed by CIMB Standard, (i) invest in power, telecom, transportation and social infrastructure, and (ii) CSM VSAT Telecom Expansion Project in Indonesia worth \$30 million is in the pipeline and may be undertaken after due diligence</p>
<p>Commercial Funds (Partnership with other investors)</p> <p>Mobilizing foreign resource flows to increase the efficiency of PPP-based investments and to promote intra-investment flows in the infrastructure sector</p>	<p>Lack of government sponsorship (like partial copayment schemes and various rebates over purchases</p>	<p>Promoted use of Islamic finance in infrastructure projects by guiding the investee companies to employ Islamic finance techniques</p>	<p>Increased use of Shariah-compliant modes of financing during MCPS period</p>	<p>IDB Infrastructure Fund II L.P. (Multi-Country Fund) of \$2 billion</p> <p>To invest in power, energy-related services, telecommunication systems and services transportation, water, sanitation and environmental services and natural resources</p> <p>Investments to target greenfield, brownfield projects, expansion or restructuring and privatization and leveraged buyouts</p>

Annex Table 4.7 Cross-Cutting Pillars 3 and 4: Capacity Building and Reverse Linkages					
Result Matrix	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Institutional Development at National and Regional Levels (Common Capacity Building Programs)					
Improving institutional governance, capacity, quality and delivery of provincial governments' economic services, conforming to international standards	Poor governance, low projects' implementation capacity and unfamiliarity with IDB procurement processes leading to delayed execution and cost over-runs	Institutional development for project implementation Capacity building of national institutions for training	Organize at least one training program each for Java-Bali, Sumatra, Kalimantan and Sulawesi regions during the MCPS period Quicker execution / implementation of IDB supported projects Quicker disbursements of IDB supported projects	Training programs for officials of executing agencies to familiarize IDB procurement processes and international best practices Partnership with national training agencies, line Ministries and provincial governments	Training on projects' related procurement processes Capacity Building and Technical Assistance Program
Strengthening institutional capacity to facilitate exports of strategic commodities from regions	Duplication of capacity building efforts and absence of knowledge accumulation at provincial levels leading to poor delivery of economic services by provincial/districts governments	Streamlining of capacity building programs and alignment with national / provincial priorities Improved donors' coordination and preparation of integrated programs in the medium-term	Preparation of a feasibility study for the development of MIS for capacity building programs and its integration with donors' / MIBs systems by end-2011	Supported Bappenas (national) and Bappedas (provincial) in the development of MIS for capacity building programs at national / provincial levels Identify other donors to support the development of MIS Impart WTO-and customs-related training programs	Management Information System (MIS) for capacity building programs at national / provincial levels Identify other donors to support the development of MIS Impart WTO-and customs-related training programs
Developing qualified and competitive workforce, and improving people welfare by developing local economy	Lack of knowledge about export regulations in agriculture and aquaculture products adversely impacting regional export potential	Capacity building of officials in regional governments and export associations to better understand requirements of meeting international standards	Organize at least one regional training program during the MCPS period	Training programs on export regulations, phyto-sanitary standards etc for officials from line Ministries, Customs and exporters in Sumatra, Kalimantan and Sulawesi regions	Supporting infrastructure in vocational training and skills development institutions at the
Capacity Development in Core Engagement Areas at the Regional Level					
Developing qualified and competitive workforce, and improving people welfare by developing local economy	Low population distribution across the regions resulting in low skills density Senior Secondary Education (SSE): Poor access due to	Improved employment prospects by aligning local skills development programs to address investors' needs	Completion of the needs assessment for vocational training and skills development at the provincial levels in	Integrated training and skills development programs in the following Core Engagement Areas:	Supporting infrastructure in vocational training and skills development institutions at the

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
	<p>financial constraints and skewed towards non-skilled courses</p> <p>Low skills and uncompetitive workforce relative to ASEAN norms</p> <p>Stagnant or declining FDI flows to Sumatra, Kalimantan and Sulawesi regions mainly due to uncompetitive workforce</p>	<p>Supported retention and reverse migration of skilled workforce in new urban growth centers and attracting FDI flows in strategic commodities at the regional level</p>	<p>Sumatra, Kalimantan and Sulawesi regions by end-2011</p> <p>Development of a 'prioritized program' in partnership with Bappenas, Bappedas and donors' at the regional level by end-2011</p> <p>Implementation of 'prioritized program' in each region through 2012 to 2014</p>	<ul style="list-style-type: none"> • agro processing industry (fisheries, aquaculture), food technology • transportation sector (roads and ports development), geothermal, • S&T laboratory technicians, paramedics, and • business skills for young entrepreneurs 	<p>regional level</p> <p>Supporting programs for improvement of educational staff quality at vocational and training institutions at the regional level</p> <p>Partner of choice (national counterpart): Agency for the Assessment and Application of Technology (BPPT)</p>
Promoting Reverse Linkages (Transferring knowledge and skills to other member countries)					
Promoting inter-regional (south-south) cooperation among IDB member countries	Not applicable	Transfer of knowledge, best practices and skills to the least developed member countries of IDB	<p>Conduct two technical training workshops each year during the MCPS period in LDMCs</p> <p>Organize three regional workshops during the MCPS period (one workshop each for member countries in Asia, Middle East and African member countries) to disseminate BAZNAS experience</p>	<p>Organized training programs for LDMCs in following areas: poverty reduction programs, family planning, agribusiness, rehabilitation of disabled persons, microfinance, agriculture extension, artificial insemination on dairy cattle, and disaster management</p> <p>Sharing of best practices in palm oil industry with LDMCs in Africa region</p> <p>Disseminating BAZNAS (Badan Amil Zakat Nasional) experience of zakat collection and distribution as poverty reduction tool</p>	<p>Technical Cooperation Training Programs for the LDMCs</p> <p>Partners of choice (national counterparts):</p> <p>(i) Indonesia South-South Technical Cooperation Training Programs under Coordinating for International Technical Cooperation, and</p> <p>(ii) Agency for the Assessment and Application of Technology</p>

Development Goals / Targets	Binding Constraints	Development Outcomes	Expected Intermediate Results / Milestones	Outputs	IDB Group and Partners Areas of Interventions
Promoting inter-regional (south-south) cooperation among IDB member countries	Not applicable	Highlighting potential impact of Growth Triangles on economic growth through enhancing intra-trade and intra-investment flows at sub-regional levels in targeted sectors and regions	Study to be completed by end-2011 Buy-in at sub-regional levels: Study outcomes and next steps to be disseminated through regional workshops during 2012	Study on replicating the ASEAN Growth Triangles (such as IMT, IMS, BIMIP-EAGA) experience in other regional cooperation arrangements (such as GCC, ECO, AMU and ECOWAS)	Forging Growth Triangles experience among member countries in selected regional cooperation organizations Relevant line Ministries in Indonesia and Malaysia Economic research centers in Indonesia and Malaysia
Knowledge Delivery					
Producing globally competitive higher education institutions	Not applicable	Availability and affordability of qualified, relevant, and international standard higher education services Improved access to high quality tertiary and Islamic education	Diagnostic Study to be completed by end-2011 Roadmap for the development and investment funding of higher education to be agreed upon by all stakeholders Outcomes to be disseminated through workshops during early 2012	Diagnostic study covering effectiveness of IDB support to higher education sector in Indonesia, needs assessment, key binding constraints, regional benchmarking, and sequencing of next steps (covering policy reforms and investment requirements)	Diagnostic Study for Higher Education (including Islamic Higher Education) Relevant Gol line Ministries and Universities



Annex F

Overview of Status of MDGs Targets

Status: ● Already achieved ► On-track ▼ Need special attention

	Indicators	Baseline	Current	MDGs Target 2015	Status	Source
GOAL 1. ERADICATE EXTREME POVERTY AND HUNGER						
Target 1A: Halve, between 1990 and 2015, the proportion of people whose income is less than USD 1 (PPP) a day						
1.1	Proportion of population below USD 1 (PPP) per day	20.60% (1990)	5.90% (2008)	10.30%	●	World Bank and BPS
1.2	Poverty gap ratio (incidence x depth of poverty)	2.70% (1990)	2.21% (2010)	Reduce	►	BPS, Susenas
Target 1B: Achieve full and productive employment and decent work for all, including women and young people						
1.4	Growth rate of GDP per person employed	3.52% (1990)	2.24% (2009)	-		National PDB and BPS, Sakernas
1.5	Employment-to-population (over 15 years of age)	65% (1990)	62% (2009)	-		BPS, Sakernas
1.7	Proportion of own-account and contributing family workers in total employment	71% (1990)	64% (2009)	Decrease	►	
Target 1C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger						
1.8	Prevalence of underweight children under-five years of age	31.0% (1989)*	18.4% (2007)** 17.9% (2010)**	15.5%	►	* BPS, Susenas **MOH, Rikesdas 2007; 2010 (interim data)
1.8a	Prevalence of severe underweight children under-five years of age	7.2% (1989)*	5.4% (2007)** 4.9% (2010)**	3.6%	►	
1.8b	Prevalence of moderate underweight children under-five years of age	23.8% (1989)*	13.0% (2007)** 13.0% (2010)**	11.9%	►	
1.9	Proportion of population below minimum level of dietary energy consumption				▼	BPS, Susenas
	1400 kcal/capita/day	17.00% (1990)	14.47% (2009)	8.50%		
	2000 kcal/capita/day	64.21% (1990)	61.86% (2009)	35.32%		
GOAL 2: ACHIEVE UNIVERSAL PRIMARY EDUCATION						
Target 2A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete full course of primary schooling						
2.1	Net Enrolment Ratio (ER) in primary education	88.70% (1992)**	95.23% (2009)*	100.00%	►	* MONE** BPS, Susenas
2.2	Proportion of pupils starting grade 1 who complete primary school.	62.00% (1990)*	93.50% (2008)**	100.00%	►	* MONE ** BPS, Susenas
2.3	Literacy rate of population aged 15-24 year, women and men	96.60% (1990)	99.47% (2009) Female: 99.40% Male: 99.55%	100.00%	►	BPS, Susenas
GOAL 3: PROMOTE GENDER EQUALITY AND EMPOWER WOMEN						
Target 3A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015						
3.1	Ratios of girls to boys in primary, secondary and tertiary education					BPS, Susenas
	- Ratio of girls to boys in primary schools	100.27 (1993)	99.73 (2009)	100.00	●	
	- Ratio of girls to boys in junior high schools	99.86 (1993)	101.99 (2009)	100.00	●	
	- Ratio of girls to boys in senior high schools	93.67(1993)	96.16(2009)	100.00	►	
	- Ratio of girls to boys in higher education	74.06(1993)	102.95 (2009)	100.00	►	
3.1a	Literacy ratio of women to men in the 15-24 year age group	98.44 (1993)	99.85 (2009)	100.00	●	
3.2	Share of women in wage employment in the non-agricultural sector	29.24% (1990)	33.45% (2009)	Increase	►	BPS, Sakernas
3.3	Proportion of seats held by women in national parliament	12.50% (1990)	17.90% (2009)	Increase	►	KPU

Status: ● Already achieved ► On-track ▼ Need special attention						
	Indicators	Baseline	Current	MDGs Target 2015	Status	Source
GOAL 4: REDUCE CHILD MORTALITY						
<i>Target 4A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</i>						
4.1	Under-five mortality rate per 1,000 live births	97 (1991)	44 (2007)	32	►	BPS, IDHS 1991, 2007; *BPS, Riskesdas 2010 (interim data)
4.2	Infant mortality rate per 1,000 live births	68 (1991)	34 (2007)	23	►	
4.2a	Neonatal mortality rate per 1,000 live births	32 (1991)	19 (2007)	Decrease	►	
4.3	Proportion of one-year-old children immunized against measles	44.5% (1991)	67.0% (2007) 74.5% (2010)*	Increase	►	
GOAL 5: IMPROVE MATERNAL HEALTH						
<i>Target 5A: Reduce by three-quarters, between 1990 and 2015, the Maternal Mortality Ratio</i>						
5.1	Maternal Mortality Ratio (per 100,000 live births)	390 (1991)	228 (2007)	102	▼	BPS, IDHS 1993, 2007
5.2	Proportion of births attended by skilled health personnel (%)	40.70% (1992)	77.34% (2009)	Increase	►	BPS, Susenas 1992-2009
<i>Target 5B: Achieve, by 2015, universal access to reproductive health</i>						
5.3	Current contraceptive use among married women 15-49 years old, any method	49.7% (1991)	61.4% (2007)	Increase	►	BPS, IDHS 1991, 2007
5.3a	Current contraceptive use among married women 15-49 years old, modern method	47.1% (1991)	57.4% (2007)	Increase	▼	
5.4	Adolescent birth rate (per 1000 women aged 15-19)	67 (1991)	35 (2007)	Decrease	►	
5.5	Antenatal care coverage (at least one visit and at least four visits)					
	- 1 visit:	75.0%	93.3%	Increase	►	
	- 4 visits:	56.0% (1991)	81.5% (2007)		►	
5.6	Unmet need for family planning	12.70% (1991)	9.10% (2007)	Decrease	▼	
GOAL 6: COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES						
<i>Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS</i>						
6.1	HIV/AIDS Prevalence among total population (percent)	-	0.2% (2009)			
6.2	Condom use at last high-risk sex	12.8% (2002/03)	Female: 10.3% Male: 18.4% (2007)	Increase	▼	BPS, IYARHS 2002/2003 & 2007
6.3	Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS					
	- Married	-	Female: 9.5% Male: 14.7% (2007) Female: 11.9% Male: 15.4% (2010)*	Increase	▼	BPS, IDHS 2007; Riskesdas 2010 (interim data)
	- Unmarried	-	Female: 2.6% Male: 1.4% (2007) Female: 19.8% Male: 20.3% (2010)*	Increase	▼	BPS, IYARHS 2007; Riskesdas 2010 (interim data)
<i>Target 6B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it</i>						
6.5	Proportion of population with advanced HIV infection with access to antiretroviral drugs	-	38.4% (2009)	Increase	▼	MOH, 2010 as per 30 November 2009
<i>Target 6C: Have halted by 2015 and begun to reverse the incidence of Malaria and other major diseases</i>						
6.6	Incidence and death rates associated with Malaria (per 1,000)					

6.6.a	Incidence rate associated with Malaria (per 1,000):	4.68 (1990)	1.85 (2009) 2.4% (2010)*	Decrease	▶	MOH 2009; MOH, <i>Riskesdas</i> 2010 (interim data)
Status: ● Already achieved ▶ On-track ▼ Need special attention						
	Indicators	Baseline	Current	MDGs Target 2015	Status	Source
	- incidence of Malaria in Jawa & Bali	0.17 (1990)	0.16 (2008)	Decrease	▶	API, MOH 2008
	- Incidence of Malaria outside Jawa & Bali	24.10 (1990)	17.77 (2008)	Decrease	▶	AMI, MOH 2008
6.7	Proportion of children under 5 sleeping under insecticide-treated bednets	-	3.3% Rural: 4.5% Urban: 1.6% (2007) 7.7% (2007)* 16.0% (2010)**	Increase	▼	<i>BPS</i> , IDHS 2007; * MOH, <i>Riskesdas</i> 2007; ** MOH, <i>Riskesdas</i> 2010 (interim data)
6.8	Proportion of children under 5 with fever who are treated with appropriate anti-malarial drug	-	21.9% (2010)	-		<i>Riskesdas</i> 2010 (interim data)
6.9	Incidence, prevalence and death rates associated with Tuberculosis					
6.9a	Incidence rates associated with Tuberculosis (all cases/100,000 pop/year)	343 (1990)	228 (2009)	Halted, begun to reverse	●	TB Global WHO Report, 2009
6.9b	Prevalence rate of Tuberculosis (per 100,000)	443 (1990)	244 (2009)		●	
6.9c	Death rate of Tuberculosis (per 100,000)	92 (1990)	39 (2009)		●	
6.10	Proportion of Tuberculosis cases detected and cured under directly observed treatment short courses				●	
6.10a	Proportion of Tuberculosis cases detected under directly observed treatment short course (DOTS)	20.0% (2000)*	73.1% (2009)**	70.0%	●	* TB Global WHO Report, 2009
6.10b	Proportion of Tuberculosis cases cured under DOTS	87.0% (2000)*	91.0% (2009)**	85.0%	●	** MOH Report, 2009
GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY						
Target 7A: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources						
7.1	The ratio of actual forest cover to total land area based on the review of satellite imagery and aerial photographic surveys	59.97% (1990)	52.43% (2008)	Increase	▼	Ministry of Forestry
7.2	Carbon dioxide (CO ₂) emissions	1,416,074 Gg CO ₂ e (2000)	1,711,626 Gg CO ₂ e (2008)	Reduce at least 26% by 2020	▼	Ministry of Environment
7.2a	Primary energy consumption (per capita)	2.64 BOE (1991)	4.3 BOE (2008)	Reduce		Ministry of Energy and Mineral Resources
7.2b	Energy Intensity	5.28 SBM/ USD 1.000 (1990)	2.1 SBM/ USD 1.000 (2008)	Decrease		
7.2c	Energy Elasticity	0.98 (1991)	1.6 (2008)	Decrease		
7.2d	Energy mix for renewable energy	3.5% (2000)	3.45% (2008)	-		
7.3	Total consumption of ozone depleting substances (ODS) in metric tons	8,332.7 metric tons (1992)	0 CFCs (2009)	0 CFCs while reducing HCFCs	▶	Ministry of Environment
7.4	Proportion of fish stocks within safe biological limits	66.08% (1998)	91.83% (2008)	not exceed	▶	Ministry of Marine Affairs & Fisheries
7.5	The ratio of terrestrial areas protected to maintain biological diversity to total terrestrial area	26.40% (1990)*	26.40% (2008)	Increase	▶	Ministry of Forestry

7.6	The ratio of marine protected areas to total territorial marine area	0.14% (1990)*	4.35% (2009)**	Increase	▶	*Ministry of Forestry / **Ministry of Marine Affairs & Fisheries
Status: ● Already achieved ▶ On-track ▼ Need special attention						
	Indicators	Baseline	Current	MDGs Target 2015	Status	Source
Target 7C: Halve, by 2015, the proportion of households without sustainable access to safe drinking water and basic sanitation						
7.8	Proportion of households with sustainable access to an improved water source, urban and rural	37.73% (1993)	47.71% (2009)	68.87%	▼	BPS, Susenas
7.8a	Urban	50.58% (1993)	49.82% (2009)	75.29%	▼	
7.8b	Rural	31.61% (1993)	45.72% (2009)	65.81%	▼	
7.9	Proportion of households with sustainable access to basic sanitation urban and rural	24.81% (1993)	51.19% (2009)	62.41%	▼	
7.9a	Urban	53.64% (1993)	69.51% (2009)	76.82%	▼	
7.9b	Rural	11.10% (1993)	33.96% (2009)	55.55%	▼	
Target 7D: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers						
7.10	Proportion of urban population living in slum	20.75% (1993)	12.12% (2009)	6% (2020)	▼	BPS, Susenas
GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT						
Target 8A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial systems						
8.6a	Ratio of Exports + Imports to GDP (indicator of economic openness)	41.60% (1990)	39.50% (2009)	Increase	▶	BPS & The World Bank
8.6b	Loans to Deposit Ratio in commercial banks	45.80% (2000)	72.80% (2009)	Increase	▶	BI Economic Report 2008, 2009
8.6c	Loans to Deposit Ratio in rural banks	101.30% (2003)	109.00% (2009)	Increase	▶	
Target 8D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long-term						
8.12	Ratio of International Debt to GDP	24.59% (1996)	10.89% (2009)	Reduce	▶	Ministry of Finance
8.12a	Debt Service Ratio (DSR)	51.00% (1996)	22.00% (2009)	Reduce	▶	BI Annual Report, 2009
Target 8F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communication						
8.14	Proportion of population with fixed-line telephones (teledensity in population)	4.02% (2004)	3.65% (2009)	Increase	▶	Min. of Comm & Info Technology, 2010
8.15	Proportion of population with cellular phone	14.79% (2004)	82.41% (2009)	100.00%	▶	
8.16	Proportion of households with access to internet	-	11.51% (2009)	50.00%	▼	BPS, Susenas 2009
8.16a	Proportion of households with personal computers	-	8.32% (2009)	Increase	▼	BPS, Susenas 2009
<i>Report on the Achievement of the Millennium Development Goals, Indonesia, 2010.</i>						