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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF INDONESIA

FOR THE PERIOD FY21-FY25

April 6, 2021

Indonesia Country Management Unit,
East Asia and Pacific Region

The International Finance Corporation

The Multilateral Investment Guarantee Agency

Date of Last Country Partnership Strategy: December 1, 2015 (Report No. 99172)

CURRENCY EQUIVALENTS

Currency Unit = Indonesian Rupiah (IDR)

IDR 14,485.55/US$1.00 (as of April 5, 2021)

FISCAL YEAR

January 1 to December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
ADB	Asian Development Bank
AF	Additional Financing
AG	Agriculture
AIIB	Asian Infrastructure Investment Bank
AIP	Australia Indonesia Partnership
ASA	Advisory Services and Analytics
CCDR	Climate Change Development Report
CE	Citizen Engagement
CLR	Completion and Learning Review
CMT	Country Management Team
COREMAP	Coral Reef Rehabilitation and Management Project
COVID	Corona Virus Disease
CSO	Civil Society Organization
CPF	Country Partnership Framework
DFAT	Department of Foreign Affairs and Trade (Australia)
DPF	Development Policy Financing
DIPA	Dafter Isian Pelaksanaan Anggaran (Budget Implementation List)
DPO	Development Policy Operation
DRM	Disaster Risk Management
DTKS	Data Terpadu Kesejahteran Sosial (Social Registry)
EAP	East Asia and Pacific
EC	European Commission
INEY	Investing in Nutrition and Early Years
INSPIRE	Infrastructure Spending for Results and Effectiveness
IMTPSP	Indonesian Mass Transit Program Support Project
IPF	Investment Project Financing
IPG	Infrastructure Finance, PPPs and Guarantees
JKN	Jaminan Kesehatan Nasional (National Health Insurance)
KKNI	Kerangka Kualifkasi Nasional Indonesia (National Qualifications Framework)
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation
MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MSME	Micro, Small, and Medium Enterprises
MTI	Macroeconomics, Trade and Investment
NBFI	Non-Banking Financial Institutions
NDC	Nationally Determined Contributions
NUFReP	National Urban Flood Resilience Project
PASA	Programmatic Advisory Services and Analytics
PCM	Private Capital Mobilization
PFM	Public Financial Management
PforR, P4R	Program for Results
PISA	Program for International Student Assessment

ECED	Early Childhood Education and Development.
EE	Energy & Extractives
EFI	Equitable Growth, Finance and Institutions
ENR	Environment and Natural Resources
EU	European Union
FCI	Finance, Competitiveness, and Innovation
FDI	Foreign Direct Investment
FINTECH	Financial Technology
FY	Fiscal Year
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GOI	Government of Indonesia
GREM	Geothermal Resource Risk Mitigation Project
GRID	Green, Resilient and Inclusive Development
G2P	government-to-persons
GP	Global Practice
HNP	Health, Nutrition and Population
HCI	Human Capital Index
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IIFD	Indonesia's Infrastructure Finance Development
LCS	Limited Concession Scheme
PLR	Performance and Learning Review
PPP	Public-Private Partnerships
RIDF	Regional Infrastructure Development Fund
RPJMN	Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goals
SEMAR	Subnational Finance and Management for Results
SKKNI	Standar Kompetensi Kerja Nasional (National Employment Competency Standards)
SLMP	Strengthening Land Rights and Administration
SME	Small and Medium Enterprise
SNG	Subnational government
SOE	State-owned enterprises
SPJ	Social Protection and Jobs
SPPB	Special Private Placement Bonds
TA	Technical Assistance
TCFD	Task Force on Climate Related Financial Disclosures
TOD	Transit Oriented Development
TF	Trust Fund
UN	United Nations
US	United States of America
USAID	United States Agency for International Development
WBG	World Bank Group

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I. INTRODUCTION

1. **This document presents the *Country Partnership Framework (CPF)* for the World Bank Group (WBG) for Indonesia, covering the period FY2021-FY2025.** It responds to the national development plan 2020-2024,[1] issued in early 2020, as well as to adaptations to economic policies made due to the emergency and economic recovery response to the COVID pandemic. The CPF reflects a continuing deep dialogue between the Indonesian authorities and the WBG on the ways to promote sustainable and inclusive economic recovery from the pandemic and address the long-term development needs of the country.

2. **The CPF builds on past successes and blends continuity of the past strategy with change.** The past strategy began shifting towards supporting private sector-led growth, based on investments in human capital and underpinned by institutional reforms. This CPF proposes a further shift towards reinforcing fiscal resilience, harnessing the potential of digitalization, integrating climate change considerations, and realizing the contribution of gender to promote a resilient recovery from the pandemic and long-term economic growth. Current conditions require re-focused knowledge and advisory work, *inter alia*, in public finances, governance, health and social protection as well as a rise in the volume of IBRD lending and IFC financial support tilted towards these re-defined priorities. This document details the CPF program for the first three years of the CPF period in light of unusually great uncertainties, within a five-year overall framework. The *Performance and Learning Review* (PLR) will draw on the lessons learned from this three-year experience to flesh out the WBG interventions in the remainder of the CPF period.

3. **The first half of the CPF period will be dominated by the need to secure a sustained recovery from the COVID pandemic.** It will be important to develop a long-term framework for growth and equity, to ensure quality and inclusivity with regard to the crisis-related large increases in health and social protection spending and support for businesses, and to ensure consistency with a stable medium-term fiscal framework, given underlying fiscal fragilities. The re-establishment of fiscal and debt rules and ending central bank participation in the primary market for government debt in the interest of monetary stability will need to be managed. A *build back better*[2] approach implies addressing the dominance of state-owned enterprises (SOE), increasing revenues, correcting an anti-trade and anti-investment bias in economic policies, and re-invigorating efforts on climate change, including efforts to transition to low carbon and energy-efficient options, and landscape management as well as on gender equality. In these areas, powerful political economy forces may exploit the current pandemic related difficulties to backslide on reforms. Moreover, the vital task of broadening the revenue base is likely to encounter fierce resistance as long-held fiscal privileges will need to be eliminated.

4. **The CPF for FY2016-FY2020,[3] was discussed at the Board on December 1, 2015 and the Performance and Learning Review was completed on October 30, 2018.[4]** A Completion and Learning Review is presented as an Annex to this document.

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[1] *The Mid-Term National Development Plan, 2020-2024,* is the last in a series of such plans, nested within *the Long-Term National Development Plan, 2005-2025.*

[2] *Saving Lives, Scaling-up Impact and Getting Back on Track, World Bank Group COVID Crisis Response Approach Paper,* June 2020.

[3] Report Number 99172

[4] Report Number 131849.

II. COUNTRY CONTEXT

A. The Political Economy

5. **The CPF will be implemented during the second term of the President Joko Widodo (President Jokowi), who was re-elected in 2019.** The Jokowi administration has been cautiously reformist. In its first term: spending on wasteful and regressive energy subsidies was reduced and re-directed towards infrastructure investments; the role of human capital in sustained and inclusive growth was increasingly recognized with a rise in expenditures on education, health, nutrition, anti-stunting, and social protection; and a moratorium on peatland development was declared. Economic and social policies during the second term are defined in the national medium-term development plan (2020-2024), which represents a renewed effort to open the economy to trade and investment, de-regulate, and reduce labor market rigidities, thereby easing conditions for private (especially foreign) investment, and which also re-affirms emphasis on human capital and infrastructure investments to raise productivity.

B. Recent Economic Developments

6. **Indonesia has sustained strong growth in the past decade.** GDP growth averaged 5.7 percent annually over 2010-2014, with a slowdown to an annual average of 5 percent over 2015-2019.[5] The slowdown since 2015 is due to a fall in commodity prices, which led to a deceleration in consumption and triggered some tightening of fiscal policy to counter revenue effects and increased turbulence in capital flows. This period saw robust job growth and the employment rate reached a two-decade high in 2019 though most jobs were created in lower productivity services such as trade, transport, and hospitality. The unemployment rate and consumer price inflation averaged 6 and 4.7 percent respectively. Indonesia's overall strong economic performance was also underpinned by prudent macroeconomic policies in the face of various commodity and financial cycles and shocks. By law, fiscal deficits were limited to a range of 2-2½ percent of GDP; the external current account deficit was below 3 percent of GDP throughout.

7. **The pandemic shock led to the first recession in two decades with the economy contracting by an estimated 2.1 percent in 2020** compared to a pre-pandemic projection of 5.1 percent growth. This was driven by a sharp fall in private consumption and investment associated with labor income losses and heightened uncertainty. On the supply side, labor-intensive sectors such as transport, hospitality, construction, and manufacturing were more severely hit. Less contact-intensive sectors such as information and telecommunication, finance, and social sectors such as education and health were more resilient. To respond to the pandemic shock, the government implemented an emergency fiscal package (3.6 percent of GDP) providing relief to households and firms and supporting output. Bank Indonesia (BI) loosened monetary policy by cutting its benchmark policy rate to a record low and providing liquidity, including through a substantial local government bond purchase program (3.7 percent of GDP of which 3.0 percent of GDP in the primary market).

8. **The Indonesian economy is expected to start rebounding in 2021 but mitigating potential scarring from the crisis is critical for stronger medium-term growth (Table 1).** On the domestic front, the economic rebound in the near term is predicated on a gradual improvement

[5] Corresponding to a rise in output per capita by an annual average of 3.3 per cent over the decade.

in consumer spending and investment supported by the containment of the pandemic, the successful rollout of COVID-19 vaccines and improvements in the labor market. On the external front, growth will be supported by stronger recovery in advanced economies and export commodity prices. In the medium term, growth is projected to return to its pre-pandemic potential by 2025 assuming that the crisis's potential scarring effects are mitigated by the implementation of structural reforms to improve investment, human capital and productivity.

9. **External conditions are expected to improve in the baseline scenario assuming accommodative global financial conditions and implementation of reforms to attract FDI.** The current account deficit is projected to be contained in the short term due to weak imports but is expected to widen again as domestic demand recovers. The outlook assumes that global financial conditions remain accommodative, which would support capital inflows, while stronger commodity prices, lower uncertainty, and structural reforms improve FDI and the external financing mix.

Table 1: Indonesia: Medium-Term Outlook

	2018	2019	2020	2021	2022	2023	2024	2025
	Actual			Projections				
Real economy, percent change								
Real GDP	5.2	5.0	-2.1	4.4	5.0	5.1	5.1	5.2
Supply side								
Private consumption	5.1	5.2	-2.7	4.2	4.6	5.1	5.2	5.2
Gross fixed investment	6.7	4.5	-4.9	3.9	4.8	5.5	5.5	5.5
Exports	6.5	-0.9	-7.7	5.3	6.2	7.0	7.3	7.5
Imports	12.1	-7.4	-14.7	3.7	4.1	7.5	7.9	8.0
Demand side								
Agriculture	3.9	3.6	1.8	3.7	3.8	3.9	3.9	3.9
Industry	4.3	3.8	-2.8	5.5	4.3	4.4	4.4	4.5
Services	5.8	6.4	-1.4	2.9	6.0	6.1	6.0	6.1
Prices								
CPI (year-average)	3.3	2.8	2.0	2.3	2.8	3.2	3.4	3.5
Fiscal accounts of central government, percent of GDP								
Revenue, of which	13.1	12.4	10.6	10.9	10.6	11.8	12.8	12.8
Tax revenue	10.2	9.8	8.3	8.5	8.3	9.5	10.5	10.5
Expenditure	14.9	14.6	16.8	16.3	14.7	14.8	15.8	15.8
Fiscal balance	-1.8	-2.2	-6.2	-5.4	-4.1	-3.0	-3.0	-3.0
Gross financing	5.5	5.9	9.5	9.2	8.0	7.5	7.6	7.0
Central government debt	29.8	30.2	39.4	41.2	42.6	43.0	43.3	43.5
External sector, percent of GDP, unless indicated otherwise								
Balance of payments	-0.7	0.4	0.2	-0.1	-0.1	-0.3	-0.1	-0.1
Current account	-2.9	-2.7	-0.4	-1.4	-1.6	-2.0	-2.3	-2.4
Financial account, of which	2.4	3.3	0.7	1.4	1.6	1.7	2.2	2.4
Net FDI inflows	1.2	1.8	1.3	1.2	1.4	1.5	1.5	1.5

Foreign exchange reserves (months of imports of goods and services)	7.1	9.7	9.0	8.0	7.1	6.2	5.6	5.1
Memorandum items								
Nominal GDP in LCU trillion	14,838	15,834	15,434	16,618	17,770	18,970	20,253	21,636
Exchange Rate in LCU/USD	14,237	14,148	14,582					
Unemployment Rate (%)	5.2	5.2	7.1					
Policy interest rate (%, year average)	5.1	5.6	4.3					

Source: Ministry of Finance, Bank Indonesia, World Bank staff projections for 2020-2025. 2020 staff estimates are close to the preliminary fiscal results for 2020 reported by MoF.

10. **The fiscal deficit is projected to steadily drop to the legal limit of 3 percent of GDP driven by the economic recovery and fiscal reforms. Public debt is projected to start stabilizing in 2024 (Table 1).** The government is legally committed to returning to the fiscal deficit limit by 2023 and is expected to do so through a balanced approach that combines unwinding of exceptional measures and fiscal reforms. Nevertheless, public spending is projected to remain above pre-pandemic levels, with higher social assistance and interest payments partially offset by measures to contain energy subsidies and capital spending. Government revenues are expected to improve, underpinned by a recovery in economic growth and commodity prices, and tax reforms. The tax reform agenda consists of higher excises on certain goods expansion of the corporate income tax base, and gradually improved tax compliance. The government is considering widening the income and VAT tax bases. Under this baseline, government financing needs and BI's exceptional monetary financing would gradually decline and public debt would stabilize at 43 percent of GDP by 2025 compared to a legal limit of 60 percent of GDP.

11. **Fiscal risks and contingent liabilities are generally manageable, although they warrant closer monitoring as the pandemic response has increased vulnerabilities.** Exposure to explicit contingent liabilities in the form of loan guarantees to SOEs amounted to 1.6 percent of GDP in 2020, well below the guarantee ceiling of 6.0 percent of GDP. But the pandemic response packages have expanded the span of loan guarantees to MSMEs and corporates, including SOEs. Guarantees to public-private partnership (PPP) projects on the other hand are mitigated by the Indonesia Infrastructure Guarantee Fund (IGGF) for guarantee risks. Indonesia is also exposed to fiscal risks from natural hazards as the country is one of the most disaster-prone countries in the world. However, the risk is being mitigated through the implementation of the National Disaster Risk Insurance strategy under implementation.

12. **Banking stability indicators indicate that the system is sound overall, but loans-at-risk are elevated for several large banks. Growth of credit to the private sector has been weak despite adequate system-wide liquidity.** Non-performing loans (NPLs) increased slightly during the first half of 2020 but remain low overall (3.1 percent). Restructured loans on the other hand (equivalent to 17.8 percent of total loans as of end-2020) are currently classified as loans-at-risk and could turn into NPLs in the event of worsening economic conditions and rising firm insolvencies and bankruptcies. In 2020, the loans-at-risk ratio stood above 20 percent for several large banks. Banks appear well capitalized, but profitability and asset quality could suffer if the crisis deepens. System-wide liquidity remains adequate, but credit growth has been weak (-1.1 percent in December 2020) driven by a combination of depressed credit demand and supply factors. Indonesia's shallow financial sector also limits its capacity to weather shocks. Enhanced

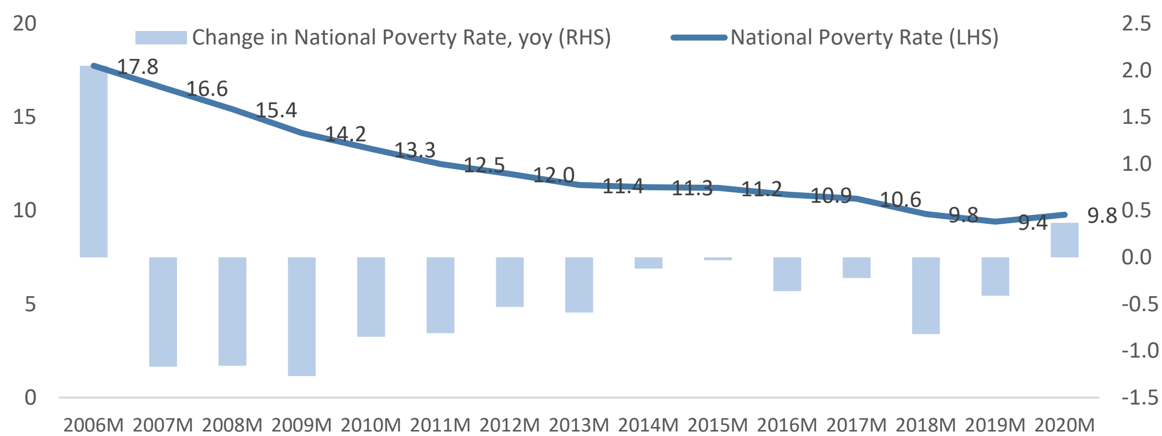
crisis management and safety nets as well as stronger corporate governance and supervision of financial conglomerates are also critical to preserving the stability of the financial sector

13. **Indonesia has built a track record of prudent macroeconomic and fiscal management over the past decade.** The current crisis policy response, though not without risks, is consistent with the objectives of macroeconomic stability while accelerating the economic recovery. The authorities are committed to keeping central bank financing of the fiscal deficit time-bound (until 2022) and well calibrated to safeguard the effectiveness and credibility of monetary and exchange rate policy. Public and external debt are sustainable under the baseline scenario and most adverse shocks. But reforms are needed to reduce financing needs, expand the fiscal space, and attract more stable and productivity-enhancing financing such as FDI. The government is committed to advancing structural reforms to improve the investment climate and the financial system, which, if well implemented, will contribute to improving medium-term prospects.

C. Developments in Poverty and Inclusion

14. **Poverty rates have declined steadily over the last decade.** In the period between 2006 and 2019, the proportion of the population living below the national poverty line almost halved, reaching a record low of 9.4 percent (Figure 1). Steady growth accompanied by strong job creation expanded economic opportunities, including for those at low income levels. However, rural poverty rates were higher than national averages, estimated at around 13 percent. Over the same period, the middle class grew faster than other groups to embrace one Indonesian in every five, representing nearly half of all household consumption. This expansion of the middle-class population helped unlock the country's development potential and propelled it to upper middle-income country status in 2020.

Figure 1: Poverty rate has continued to decline in Indonesia (percent of population that is poor)



Source: BPS, World Bank staff calculations based on official data

15. **The pace of poverty reduction has fallen, as the remaining poor are difficult to reach.** The remaining poor are likely to be entrenched in chronic pockets of poverty not just in lagging outer islands but also in Java and metropolitan cores. Female headed households remain particularly vulnerable, experiencing a widening poverty gap with male headed households. The failure to achieve balanced development, geographically and across genders and different income

groups, continues to fuel inequality of opportunities. Average annual growth in living standards of households in the bottom 40 percent of the distribution (4.1 percent) continues to lag the growth in average living standards (5.7 percent), highlighting disappointments in achieving inclusion.[6]

16. **The economic impact of the pandemic is dampening progress with poverty reduction and temporarily even reversing some of the past gains.** The crisis adversely impacted employment and labor income. Unemployment rose from 6.3 to 7.1 percent and underemployment increased from 6.4 to 10.2 percent in the third quarter of 2020 compared to the year before. As a result, poverty ($3.20 measure) increased from 9.8 to 10.2 percent between March and September 2020, its highest level since 2017. A World Bank household survey found that employment recovered partially during the second half of 2020, but many Indonesians still work and earn less than before the crisis. Food insecurity risks remain elevated in some segments of the population.

17. **The pandemic has made it harder for those who have escaped poverty to cement their economic position.** Many are vulnerable to economic and health related shocks as well as natural and climate related disasters, which disproportionately affect the poor. Although the share of Indonesians vulnerable to falling into poverty (defined as those consuming between 1 and 1.5 times the poverty line) declined from 33 percent to 20 percent between 2002 and 2018, 53 million Indonesians remain in this category. Together, the poor and vulnerable groups account for the bottom 30 percent of the population.

D. COVID Response

18. **To respond to the pandemic shock, the government implemented emergency fiscal packages equivalent to 3.6 percent of GDP (actual spending) in 2020 and to 4.2 percent of GDP (tentative) in 2021[7] to deal with the health impact, provide relief to households and firms and support the recovery.** The packages for 2020 and 2021 are aimed at the same topics, but with a focus shifting towards health care for the vaccine roll-out and priority programs:

- Strengthening health care (0.4 and 1.1 percent of GDP in 2020 and 2021, respectively) through the procurement of medical equipment, preparation of health facilities, funding medical treatment for COVID, and enhanced benefits for health care workers, and temporary income tax relief for COVID health care providers as well as import duty and VAT waivers for certain goods (20), and, in addition, vaccine procurement in 2021.
- Expanding social protection (1.4 and 0.9 percent of GDP in 2020 and 2021, respectively) through expanding existing programs, additional subsidies for health insurance premiums and electricity bill waiver.
- Providing support to micro, small and medium enterprises (MSME), firms and SOEs (1.1 percent of GDP in 2020 and 2021) through interest subsidies on loans, the placement of funds to provide liquidity support to banks involved in MSME loan restructuring, and a guarantee fund for new working capital loans for MSMEs. The corporate income tax rate was reduced in two stages from 25 percent to 20 percent supporting state-owned enterprises (0.8 percent of GDP in 2020 and 2021, respectively) through additional energy subsidy compensations to the electricity and oil companies, as well as capital injections and bailouts (for infrastructure, financing, and transport SOEs).

[6] A deeper analysis of developments in poverty is presented in the *Systemic Country Diagnostics Update.*
[7] Based on press releases as of February 23, 2021. The actual program was not yet final at the same of finishing the report.

- Priority programs (0.4 and 0.8 percent of GDP in 2020 and 2021, respectively), such as housing, tourism and lending to subnational governments.
- Providing tax relief (0.4 and 0.3 percent of GDP in 2020 and 2021, respectively) in the form of temporary waivers for personal income tax, corporate income tax, import income tax, accelerated VAT refunds and the permanent reduction of the corporate income tax rate from 25 percent to 22 percent.

19. **In addition, the central bank loosened monetary policy and deployed a large local currency government bond purchase program to further support the economy**. Central bank bond purchases have helped maintain financial stability amid capital flight and contributed to lowering long-end local currency government bond yields. But the program involves macro-financial tradeoffs and may heighten concerns on the credibility and effectiveness of monetary policy unless kept time-bound, well calibrated, and communicated.

E. Governance

20. **Policies that impede inclusive growth persist in part because of underlying governance root causes.** Current policies limit competition, restrict access to productive inputs and deter private infrastructure investment. Weak protection and management of natural resources, deficiencies in the quality of spending, and shortcomings in revenue collection further sap inclusive growth. While there has been a worsening trend in various democracy-related indices[8], Indonesia continues to rank highly (rank 68 among 177 countries in 2019) as an electoral democracy, similar to countries such as Georgia, Israel or Colombia. Some other political laws, rules and regulations, however, weaken democratic quality and undermine inclusive policy making—including ineffective campaign financing rules. In fiercely competitive elections, money is sourced from politically connected firms all at the risk of state capture. Clientelism has worsened over the past 15 years.[9] Expert surveys confirm pervasive clientelism, especially at the local level.[10] Firms are rewarded through protectionist measures that undermine competition (including through privileges for state-owned enterprises), preferential tax treatments, land and forest concessions, or public contracts – at the expense of the wider public good.

21. **Such incentives compromise the rule of law and governance, with decision-making not always based on public interest, and make the adoption and implementation of reforms challenging.** These factors weaken collaboration within and across levels of government, and result in overlapping mandates and policy goals. Consequently, contradictory and non-transparent decisions on land and forest allocation and use lead to degradation, unsustainable growth and negative global externalities (such as greenhouse gas emissions and biodiversity loss). While oversight institutions generally have significant independence, vulnerabilities remain. Political parties can interfere in the appointment of board members of the Supreme Audit Institution; the

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[8] Indonesia's V-Dem "deliberative democracy" score, for example, has declined from 0.67 in 2004 to 0.58 in 2019, with 0 indicating autocratic and 1 indicating democratic institutions. Source: V-dem indices, v-dem.net. The Varieties of Democracy (V-Dem) is a worldwide collaboration, measuring democracy from a new, multidimensional, point of view using a comprehensive database on democracy. V-Dem indicators draw on factual information sourced from official documents and on expert ratings.

[9] Indonesia's V-Dem Clientelism Index has increased from 0.49 in 2004 to 0.64 in 2019, with 0 indicating low and 1 indicating high levels of clientelism.

[10] Source: Berenschot, W., 2018. The political economy of clientelism: A comparative study of Indonesia's patronage democracy. *Comparative Political Studies*, *51*(12), pp.1563-1593.

autonomy of the well-respected Anti-Corruption Commission has been weakened[11]; and the Business Competition Commission has weak investigative and deterrence powers to fight cartels. The tax-to-GDP ratio is exceptionally low. Wealthy businesses benefit, *inter alia*, from high VAT and corporate tax thresholds, from low marginal tax rates on high personal incomes, from low property taxes and the absence of taxes on wealth transfers. These *de jure* exemptions are compounded by weak tax compliance. Public management institutions remain compliance-focused rather than results-focused. While the recent expansion of social assistance has been progressive, equity and quality of services remain hobbled by patronage in teacher appointments or uncompetitive tendering, among other factors.

F. Main Development Challenges[12]

22. **Indonesia's impressive progress on poverty reduction is owed to prudent macroeconomic management and an improved allocation of public expenditures** towards supporting growth and job creation. The fiscal stance until 2020 observed the fiscal deficit rule and debt levels were stable.[13] The composition of expenditure improved with a reallocation from energy subsidies to infrastructure and social expenditures. A reduction in stunting rates was particularly notable.

23. **However, questions have arisen as to the sustainability of growth given the pattern of production and the burden on natural assets.** The pandemic has further emphasized these concerns. Commodity extraction combined with an anti-trade bias in policies has encouraged a shift of resources towards low-value-added services. Barriers to integration through trade and disincentives for participation in regional and global value chains – the main drivers of growth in Asia – have dampened productivity advances, deterred foreign investment and hence the forces of technology and innovation. Such policies have led also to an overexploitation of natural assets, environmental degradation and higher vulnerability. Natural resource exploitation has provided little benefit to surrounding communities, while creating exposure to health and environmental risks. Environmental degradation combined with risks of natural hazards has rendered large segments of the population highly vulnerable.

24. **As noted, the pace of poverty reduction halved during the immediate pre-pandemic decade.** The consequent losses in human capital formation, particularly in health outcomes and educational results foregone, as well as the rise of social vulnerability will need to be addressed over the *build-back better* phase of the recovery. A major challenge lies in restoring the impressive gains achieved hitherto in stunting.

25. **The implementation of reforms has been uneven.** Past reforms in reducing barriers to entry in logistics markets and ports and reducing energy subsidies have yielded results. However, in some areas (notably revenue policy) reforms have been delayed, while some reforms have been partially or fully reversed– for example, weakening of the anti-corruption body, re-emergence of

[11] Until the weakening of the Commission's powers in October 2019, Indonesia has continuously improved on corruption indicators, to a significant extent because of the Commission's effectiveness. Nevertheless, Indonesia still ranks modestly in international comparison. In 2019, it ranked 80th among 180 countries on the Transparency International Corruption Perception Index, with a score of 40, a significant improvement relative to 2004 (score 20). The WGI corruption indicator suggests a similar trend, with a recent increase in corruption.

[12] Based on the *Systemic Country Diagnostic Update* (June 2020) and a wide range of ASA work as well as on the government medium-term development strategy.

[13] In order to retain its hard-won fiscal credibility, it will be important to ensure that the post-COVID departure from the fiscal rule is strictly temporary, and that the framework for monetary policy, budget deficit and external debt continues to be disciplined.

energy subsidies and import tariffs, non-transparent allocation of land rights, renewed exploitation of peatlands -- further entrenching vested interests.

26. **In light of these considerations, development challenges lie in five dimensions.**

- First, **strengthening the competitiveness and resilience of the economy** will contribute to higher labor productivity, but requires addressing key constraints: (i) insufficient access to inputs, key markets and skills. Restrictive trade policies have raised prices and reduced the availability of physical and services inputs; restrictive work permit policies have led to skill shortages; (ii) Restrictions on investment: these inhibit market entry, diminish commercial performance, increase prices, and limit technology and innovation spillovers; (iii) A shallow financial sector, lacking scale and competition. Financial services are insufficient to meet firms and investors' needs; shallowness and inefficiencies go hand in hand with low access to the formal financial system by the population and with high exposure to financial and non-financial shocks; (iv) Unpredictable regulations: the uncoordinated design and uneven implementation of business-related laws and regulations increase uncertainty, further weakening the business environment and investment.
- Second, ramping up **investments in infrastructure**, with improvements in quality and speed, and consistent with decarbonization. Here the principal constraints are (i) insufficient public investments together with weak sub-national coordination on investments and services; (ii) questionable sustainability of infrastructure because of weak standards and poor enforcement of climate and disaster resilience; (iii) unfavorable investment climate, especially for renewable energy and transport infrastructure, as the privileges accorded to state-owned enterprises deter private investment, and as the dominance of coal in power generation continues to be supported by implicit subsidies that undermine decarbonization objectives; and (iv) regulatory bottlenecks that limit the expansion of digital infrastructure.
- Third, **nurturing human capital** in the wake of the pandemic and in face of rapid technological change. The country has advanced the human capital agenda, especially on reducing stunting, expanded social protection coverage and progressed towards universal health coverage. The development challenges lie in (i) consolidating the fight against stunting through a multi-sectoral approach; (ii) boosting education quality at all levels and increasing enrollment in quality early childhood, secondary as well as tertiary education, and improving skills in the workforce; (iii) integrating the social protection system to widen access; (iv) ensuring the sustainability of the national health insurance program, and improving access, equity and quality in health services; and (v) removing barriers to women's full economic participation.
- Fourth, **managing natural assets for enduring prosperity**. This will reduce over-dependence on commodities and safeguard livelihoods of those living near forests and coastal areas. Advances have been made through past moratoriums on primary forest and peatland conversions, some limits on palm oil plantation expansion, and policies to reduce illegal fishing. Further progress will require addressing land depletion and related forest fires, related air pollution and greenhouse gas emissions (GHG) and protection of the blue economy from marine debris, overfishing and climate change through governance reforms. The policy task lies in (i) correcting the mismatch between land suitability and farming systems, arising from policy and pricing distortions and trade restrictions; (ii) improving

access to land tenure, through governance reforms that clarify rights and eliminate legal uncertainty; (iii) improving management practices and institutions, with a focus on fisheries management and mangrove rehabilitation, and building capacity in government; and (iv) raising the efficiency of government spending by refocusing on fire prevention and forest and peatland management, eliminating agricultural input subsidies as well as fossil fuel subsidies all of which are regressive, damage the environment and lead to sub-optimal patterns of production.

- Fifth, **strengthening public finances.** Given Indonesia's low tax ratio, growing spending needs and shrinking fiscal space, improvements in both tax policy and administration will be required to raise and adequately fund development priorities while ensuring fiscal sustainability within the framework of fiscal rules and monetary policy discipline. Public finance institutions have succeeded in increasing compliance with rules and processes but spending better will require balancing compliance with more effectively motivating and enabling agents of the state to transform spending into results.

27. **Threaded through these development challenges are three cross-cutting themes that will profoundly affect the prospects of success**:

- **Digitalization.** Indonesia lags behind its competitors in the quality and range of digitalization services even though mobile telephone penetration rates and the start-up culture are comparable to those of similar countries. Investments in digital infrastructure have been inadequate, partly reflecting the barriers to private sector entry in information and communication services. This has resulted in poor internet penetration rates, uneven and poor broadband availability and quality, particularly outside major urban centers, and uneven digital usage within and among various business sectors. A deep digital divide hinders improvements in public service delivery and financial inclusion. There is a need to build capacity to link the online and offline worlds, leverage big data to drive real-time decisions across the value chain, strengthen cybersecurity and build a digital government. A strategy that addresses mobile internet needs, cloud technology, the internet-of-things, and big data analytics together with infrastructure investments is essential to boost productivity and enhance value chain linkages, provide responsive public services at higher efficiency, improve the functioning of decentralized governance, and improve access to finance.
- **Gender equality.** The country suffers from far more severe gender gaps than in comparable economies in key measures: the female participation rate in the labor force (52 percent vs 80 percent for men), the remuneration gap (30 percent), and the advancement gap (female presence in top political positions, management and technical jobs). Women remain concentrated in the informal sector, in small and micro enterprises and are disadvantaged in ownership of bank accounts. Gender inequality is most severe in the poorest households and marginalized districts. Such gaps undermine human capital development, job formation and mobility, and economic growth. If Indonesia were to achieve its G20 commitment of reducing the gender gap by 25 percent by 2030, it would add 0.67 percentage points to GDP annually.
- **Climate change.** Indonesia shoulders a high responsibility in mitigating climate change through, first, its management of forest, peatland, mangroves, and marine assets and by living up to its Paris climate commitments. While these are critical national assets for economy and jobs, they are also important global public goods. This global public goods dimension can be addressed only through reforms in governance, both broad-based and specific to the

management of natural assets, as well as by correcting massive distortions in agriculture policies – pricing, subsidies and anti-trade bias –and developing strategies on sustainable use of natural resources to the benefit of local communities and future generations. Second, energy policies and regulations play a critical role in promoting decarbonization, especially as coal plays a dominant role in power generation and price/regulatory disincentives for renewables are significant. Third, pricing and regulatory reforms in transport, particularly in urban mass-transit and in maritime transport can make a large contribution to fighting climate change. Through reforms in these three key areas, a low carbon growth path can be achieved, with improved health and life expectancy indicators.

III. THE WORLD BANK GROUP PARTNERSHIP FRAMEWORK

A. The Government Development Strategy

28. **The development priorities of the government Indonesia are laid out in the *Medium -term National Development Plan* (2020), which constitutes the agenda of the second Jokowi Administration.** The underlying vision encompasses progress in human development; infrastructure; a simplification of regulations and of bureaucracy; and economic transformation.

29. The core agenda of the medium-term national development plan rests upon:

- Strengthening Economic Resilience for Quality Growth
- Developing Regions to Reduce Inequality
- Increasing the Quality and Competitiveness of Human Resources
- Strengthening Infrastructure to Support Economic Development and Basic Services
- Building the Environment, Enhancing Disaster Resilience, Climate Change, and
- Public Service Transformation.

30. **The *Medium-term National Development Plan* also provides for the mainstreaming of the sustainable development goals, gender considerations and digital transformation. The government has stated its determination to use this period to reinforce reforms and build back better.** As a result of the pandemic, the government has shifted its focus on strengthening policies and institutions, particularly in health, social protection, education, and digitalization. It sees the crisis as an opportunity to address long-term structural challenges that the crisis has magnified. This includes addressing the barriers to private investment, enhancing efficiency of state-owned enterprises, easing conditions for employment of select high-skilled foreign talent, and introducing greater flexibility in labor markets. There is also a greater recognition of the importance to empower women and tackle climate change in building post-pandemic resilience, but the test will lie in policy implementation over the medium to long-run.

31. **The government strategy reflects Indonesia's aspiration to build a solid middle class as the springboard for sustained inclusive growth and development, with the eventual goal to join the ranks of high-income countries.** The country takes pride in having attained upper middle-income status in July 2020, but it has not yet succeeded in building a broad middle-class as comparator countries have done, which amplifies social risks.

B. Proposed Country Partnership Framework

32. **The over-arching objective of the CPF will be to promote inclusive and sustainable economic recovery from the pandemic and long-term economic growth.** The CPF is informed by the diagnosis of development challenges faced by Indonesia as it attempts to acquire high income status. It addresses the development priorities identified in the government's medium-term development plan, paying particular attention to include lagging regions of the country.

33. ***Key lessons learned.*** The proposed CPF reflects the key lessons learnt from the previous CPF, as illustrated in the *Completion and Learning Review* (Annex 2)[14].

34. **First, the CPF builds on the strengths of the WBG program to date and retains the medium-term focus,** in particular by addressing economic fragilities through the DPOs and ASAs and reinforcing human capital for inclusive growth.[15]

35. **Second, the CPF pays heed to the counsel to encourage reshaping priorities in four areas**: climate change; the potential of digitalization; implementing a comprehensive gender strategy; and addressing regional inequalities, all the while strengthening governance – a key barrier to progress.[16] The programmatic ASAs and selected lending operations support this objective (as discussed later in this document).

36. **Third, the CPF attempts to realize the dividends from scaling-up by expanding the platform approach to projects**[17], which will require overcoming challenges in collaboration across sectoral ministries/agencies, levels of government, and the public and private sector, by maximizing finance for development, and leveraging further the rich opportunities for cross-sector, cross-GP approaches.[18]

37. **Fourth, the CPF encourages the identification of champions for change** as learnt from dialogue with the authorities, sound ASA and innovative policy advisory. This will be especially important in areas where strong WBG advocacy is required: revenue-neutrality, competition and SOE reforms, energy and climate change policies.

38. **Finally, this CPF has sought to combine a high flexibility of approach** – in light of unusually great uncertainties – with strong results linkages, such that even if the mid-term PLR revises interventions, the results framework will continue provide firm guidance to the end of the CPF period.

39. **The CPF benefited from strategic consultations with key country stakeholders, whose feedback was incorporated into its design.** The WBG engaged in virtual consultations during September-January 2021 and March-April 2021, ensuring the process was inclusive and extensive (see Annex 8 for details). Participants reconfirmed their agreement with the need to create

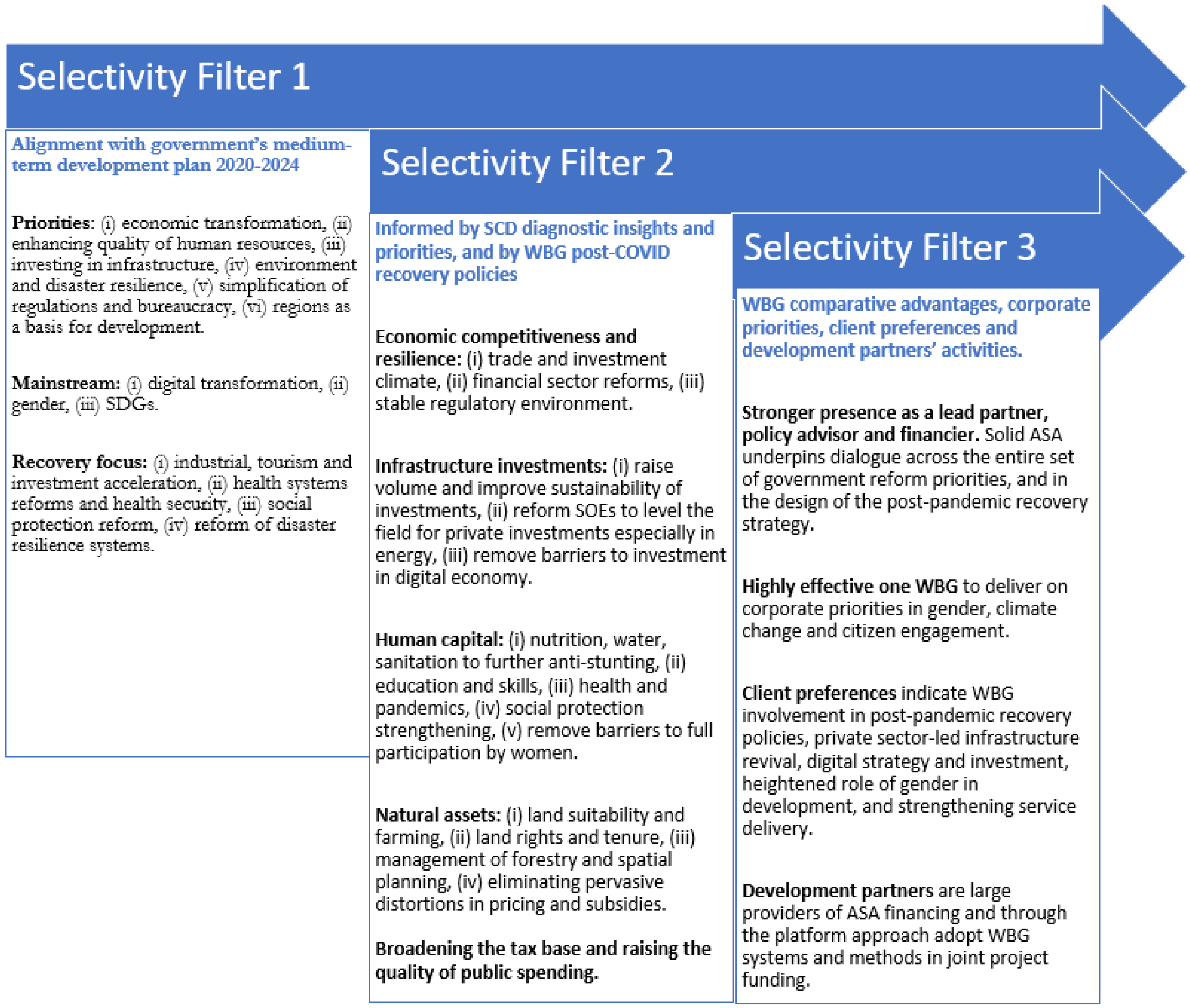
[14] A comprehensive evaluation of the country program by IEG was due to take place in early 2020 but has been delayed because of the pandemic. Its conclusions will be reflected in the PLR to be prepared in FY23.
[15] Reflected in Engagement Areas 1, 3, and 5.
[16] Reflected throughout the CPF, particularly in Engagement Area 4.
[17] Under this approach, all parties – government and development partner financiers to a project – follow WBG procurement and implementation arrangements, fiduciary and other safeguard in a consistent and transparent manner. This approach helps to improve the allocative efficiency and technical quality of project expenditures. Importantly, coordination within the government is also incentivized. The WBG deploys its convening power, knowledge products and TA to implement the approach building strong relationships with all parties. The platform also facilitates the leveraging of investments by development partners and the private sector.
[18] Reflected in Engagement Areas 2 and 3.

conditions for private sector development and investment and to increase revenue collection. There was broad support for the proposed engagement areas and priorities. The WBG was encouraged to continue its focus on the development of human capital for a modern economy, including through health sector reforms and market-relevant skills development. Greater attention than before was requested to be paid to lagging regions and environmental protection. Finally, civil society organizations (CSOs) reconfirmed their wish for a stronger involvement of civil society in the implementation and monitoring of the CPF, a CSO Engagement Strategy has been prepared and will be implemented during the CPF period.

Alignment

40. **The CPF is aligned with the country's development priorities, the WBG's corporate priorities and is informed by the systematic country diagnostics (SCD) update.** Figure 2 illustrates the process used to arrive at the areas of focus. The government's medium-term strategy as well as close dialogue with the client have led to a focus on a set of development priorities, with gender, climate change, and digitalization to be reflected across all activities. These choices have been validated by the SCD Update and by the comparative advantage and corporate priorities of the WBG. Whilst the priorities across the government program and the CPF are aligned, the CPF caters to a possibly higher degree of ambition in certain areas such as SOE reform, revenue expansion, decarbonization of energy sources, and climate change policies.

Figure 2: Selectivity and Alignment



Structure

41. **The CPF, based on GRID principles (Box 1), is built around four engagement areas** – strengthen economic competitiveness and resilience; improve infrastructure; nurture human capital; strengthen management of natural assets, natural resources-based livelihoods and disaster resilience. These engagement areas support the national development goals (Section III. A) in strengthening economic resilience, increasing the quality and competitiveness of human resources, strengthening infrastructure to support economic development and basic services, building the environment, enhancing disaster resilience, and climate change. These engagement areas support the twin goals of growth and inclusion. A parsimonious set of objectives for each engagement area is illustrated in Figure 3.

Box 1. Supporting Green, Resilient and Inclusive Development (GRID)

The CPF follows the GRID approach by maintaining a line of sight to long-run goals of greener, resilient and inclusive development. The approach is particularly relevant for Indonesia because:

- Indonesia faces severe impacts of climate change and natural resource degradation, with disproportionate impacts on the poor.
- The effects of the pandemic, the recession, and climate shocks interact to threaten potentially permanent scars on productivity, human capital and economic mobility.
- A business-as-usual recovery package that neglects these interlinkages would not adequately address Indonesia's complex development challenges.

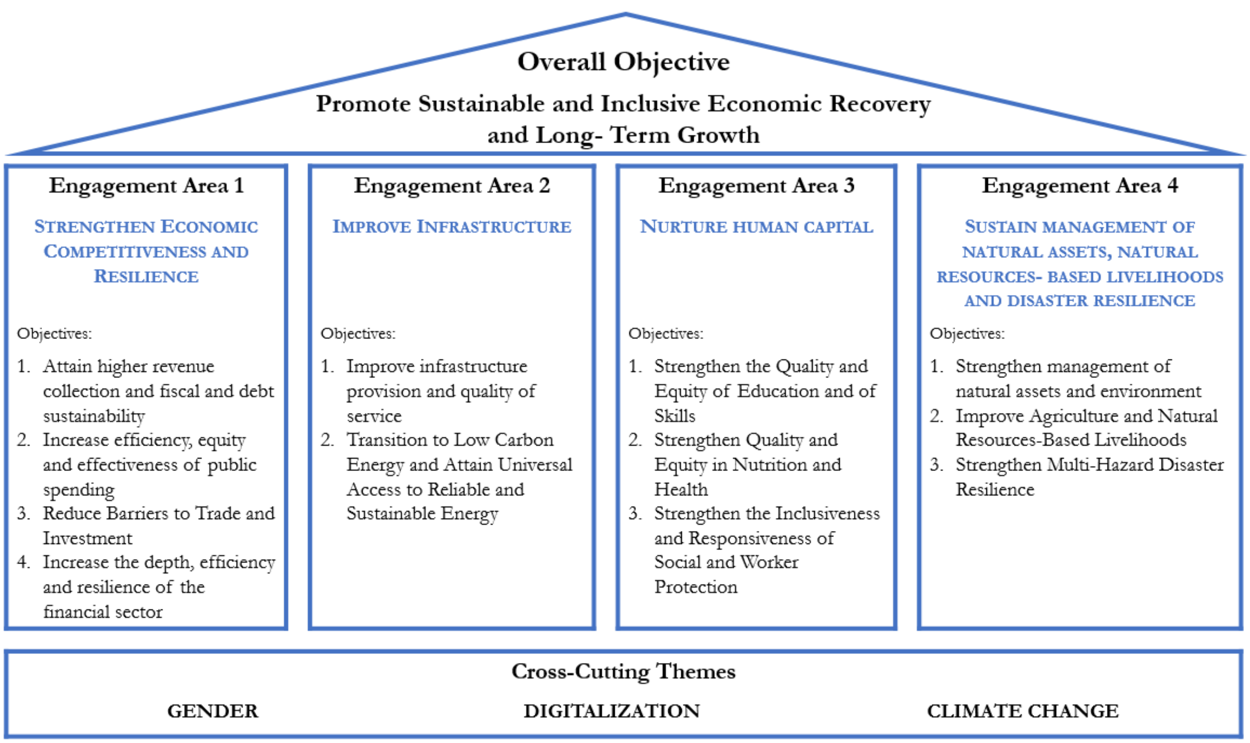
This implies the following:

• **Green:** Sustainability of growth will depend on investments that reduce such risks as climate change impacts and natural hazards.

• **Resilient:** To safeguard development, Indonesia will need to build resilience in its human capital as well as in physical and economic infrastructure to better handle a variety of shocks – economic, social, climate, or health-related.

• **Inclusive**: Inclusivity of growth will depend on access by different social groups to services, markets and opportunities.

Figure 3: Summary of CPF Objectives



42. **Three cross-cutting themes – digitalization, gender, and climate change – run across the four engagement areas and are mainstreamed across all activities.** These themes represent new strategic shifts as they are critical to supporting the sustainability of growth in an economy of growing sophistication as diagnostic studies, including the SCD, show. They build on a body of ASA currently underway or recently done and respond to the government's heightened interest in these three areas, with climate change also reflecting international commitments entered into by the government. These themes are presented as cross-cutting areas as no single activity could cover

each adequately. Section III D presents a detailed discussion of each of the cross-cutting themes that are mainstreamed into the engagement areas.

43. **The engagement areas are tied together by the cross-Global Practice (GP) nature of the strategy.** Development issues addressed under each engagement area are complex and cut across several areas and hence cannot be addressed by a single GP. For example, strengthening competitiveness requires measures in deregulation and trade but also in agriculture and transport, among others; and addressing stunting requires not only improvements in nutrition but also in health and water and sanitation. In recognition of this, the WBG Indonesia program has been branded by strong cross-GP collaboration in the delivery of projects and ASA.

44. **In addition to lending, the CPF proposes an ambitious agenda for advisory and knowledge work as well as technical assistance, which represents both a continuation of past efforts across the spectrum of the development agenda as well as new areas, such as gender, digitalization, and climate change.** The ASA agenda will continue to be pursued in close partnership with the authorities and in dialogue and sharing with development partners, several of whom are major financiers of Bank-led ASA.

45. **In the first half of the CPF period, as mentioned earlier, the accent will be on support to inclusive and sustainable economic recovery, in ensuring effective implementation of government's emergency assistance to mitigate the impacts of the pandemic as well as an orderly exit from exceptional support measures**. In May-June 2020, the World Bank proceeded with emergency support operations on health, social protection and the overall economy, in the amount of about $1 billion.[19] These operations supported strengthening health sector preparedness to handle the pandemic, and the broadening of coverage and increases in the conditional cash transfer programs.[20] Additional financing to support scale up of COVID response including deployment of vaccines is planned for approval in April 2021.[21]

46. **In parallel, the CPF will aim to accelerate long-term economic growth through efforts to build back better.** A central guiding principle of the CPF is *resilience* as part of the effort to help the authorities achieve a recovery path that is resilient, sustainable, inclusive, and efficient. The WBG, thus, proposes engagements across a swathe of policy and institutional reforms as well as investments in different areas, including trade and investment, food security, human capital, infrastructure, public finance and disaster risk financing. For example, the pandemic has brought to the surface weaknesses in health and social protection systems and heightened the importance of digitalizing services. Therefore, greater support is planned to broaden the coverage of the health system, and further improve digitized social protection. Similarly, the pandemic has highlighted shortcomings in the agri-food system and food security and opened promising avenues for reform. In addition, the WBG will start focusing on gender and digital considerations and attempt to address, through evidence-based dialogue, difficult issues, such as the transition to low carbon energy, climate change, and public finances including tax reform. If the dialogue results in traction from the government, progress may be seen in the latter part of the CPF period; the PLR will provide an opportunity to recalibrate the assistance program as required.

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[19] Throughout this document, reference is made to the US dollar.

[20] *Social Assistance Reform Program: Additional Financing* (May 2020) in the amount of $400 million.

[21] *Emergency Response to COVID-19: Additional Financing* in the amount of $500 million. The contributions from other development partners for this purpose in co-financing or parallel financing are expected to amount to $1 billion.

47. **The proposed CPF maintains a strong thrust towards inclusion.** Special attention will be given to inclusion of lagging regions, for example through the last mile electrification and maritime connectivity. Efforts to address barriers to investment and trade as well as to enhance labor market flexibility are expected to help level the playing field and provide opportunities to all. The build-up of human capital through strengthening health systems and education, promotion of anti-stunting measures, and better-targeted social protection will foster inclusion. Financial sector reforms are directed at inclusion as well as stability; and digitalization will enable improved access to services as well as expanded employment opportunities.

C. Engagement Areas and Objectives

Engagement Area I. Strengthen Economic Competitiveness and Resilience

Objective 1.1: Improve revenues; achieve fiscal and debt sustainability.

48. **To ensure a resilient recovery from the pandemic and macroeconomic stability, it will be vital to raise revenues sustainably, to manage the greater debt burden efficiently and to improve macroeconomic management capacity.** Indonesia's tax-to-GDP ratio is projected to remain structurally below its already low pre-pandemic level, and the country collects less than half of the potential tax revenue. The tax system is characterized by high thresholds, wasteful exemptions, uneven treatment across sectors, and too low health, wealth and environmental taxes, resulting in a narrow tax base. This is exacerbated by poor tax compliance, arising from administrative (for example, fragmented HR functions and lack of capacity of the tax administration, low IT investment and poor data quality) and structural challenges (large informal economy and high commodity reliance). Non-tax revenue suffers from low payment compliance, for example in the mining sector. At the subnational level, own-source revenue is low due to low coverage, valuation, and collection ratios, limiting cities' ability to finance pressing infrastructure spending. Increasing revenue through the reform of tax policy and administration is a prerequisite to finance government's large spending needs, but reforms face political economy constraints.

49. **While Indonesia sovereign debt is considered investment grade and its post-pandemic debt level will remain below the legal debt limit, risks have increased with elevated borrowing due to the fiscal response to the pandemic and increased contingent liabilities of SOEs.** To offset the decline in own-source revenue and fiscal transfers, subnational governments have increased their borrowing and issued bonds. These actions require strengthening fiscal policy and debt management capacity of sub-national governments.

50. **The CPF envisages a substantial body of programmatic ASA support in the areas of fiscal policy and management, debt management, sub-national finance and infrastructure financing** at both the national and sub-national levels. Environmental taxes, such as carbon taxes will form part of the dialogue. An analytical product on broad political economy factors will be considered. A development policy loan on fiscal reforms may be extended depending on reform commitment and strength. Also, planned development policy operations in other fields – financial sector, human development, infrastructure – would provide for fiscal adjustment to attain sustainability.

Objective 1.2: Increase efficiency, equity and effectiveness of public spending.

51. **Low revenue mobilization leads to a squeeze on public expenditures.** Public spending in relation to GDP amounted to 16.7 percent in 2020, less than half the average of similar emerging economies, with exceptionally low public investment spending. Expenditures on health and social protection are well below those in similar emerging economies. Further, fuel, electricity and fertilizer subsidies are poorly targeted.

52. **At the subnational level, where half of total public spending occurs, the excessive wage bill and administrative costs crowd out investments and public services and outcomes are disappointing.** Public spending is not sufficiently translating into developmental outcomes, particularly in lagging regions, leading to poor infrastructure, education and health. The government lacks tools to adequately support and incentivize performance in local governments. Public financial management is bedeviled by inadequacies in the budget planning process, poor links to performance results, misallocations of spending to badly targeted subsidies and lack of reliable, quality data.

53. **The key ASA activities envisaged in the CPF focus on programmatic approaches in modernizing the management of public resources**, with particular attention to subnational finances, including the inter-governmental transfer system. These will have strong public financial management dimensions. Also, a programmatic ASA on the Village Law will focus on improving the quality of spending and investments of village funds through greater inclusion of women. Proposed development policy operations in infrastructure, human development, trade and investment, and financial sector will be geared to raising the quality of public spending, better targeting, and to ensuring the effective contribution of both genders. The proposed additional financing for village service delivery would aim at improving the effectiveness of investments in public service delivery. Some proposed activities will have an explicit climate change angle, such as a climate change PEFA and TA to support energy subsidy reforms.

54. **The CPF intends to expand the scope of the WBG work thus far on governance.** Constraints to inclusive growth posed by governance have deep roots, and their resolution will need to span several CPF periods. The CPF proposes an intensification of WBG engagement beyond decentralization, the village laws and selected improvements in public financial management undertaking analysis identifying barriers to reform in areas of transparency and accountability where Indonesia has poor ratings.[22] To strengthen accountability, the WBG will continue to support investments in improving the production, use and publication of performance information (including on natural resources management), throughout its lending portfolio and analytical work. ASA engagements would encourage a stronger accountability for performance in public management across sectors, through reforms in public financial management, the intergovernmental transfer system and by bolstering government's capacity to conduct performance-audits. The WBG will continue to support the government in making its policy process more contestable through ASA on regulatory governance. It will support improvements in inter-ministerial reform dialogue and implementation by addressing co-ordination failures within government.

55. **The WBG will promote greater policy process participation embracing civil society organizations and local communities, particularly in natural resources management.** It will

[22] See CLR, para 80, for a discussion.

engage with a broad array of government agencies, subnational governments, civil society organizations and the private sector to help build reform coalitions.

Objective 1.3: Reduce barriers to trade and investment.

56. **The barriers to private sector investments and productivity are far more severe than in comparable countries** and, as a result, Indonesian firms are less productive, innovate less, and are poorly integrated into global value chains.[23] High logistics costs and inefficient border practices dampen exports. The resulting autarky saps economic resilience. The WBG will build on the existing strong program and the government's confirmed commitment to reforms in this area as well as sector-specific policies, e.g., in ports, tourism, agriculture. The government's national development plan and recent trade and investment reforms (Box 2) contain commendable measures to remove investment restrictions and improve the trading environment. It is estimated that if the reforms are implemented, Indonesia would move from the 4th most restrictive country among the 84 countries surveyed by the OECD to the 17th most restrictive: moving from the lowest decile of restrictiveness to the third decile. However, to improve the overall environment for trade and investment stronger measures relating to SOEs, which enjoy wide-ranging privileges including exemptions from competition laws in certain cases, and the competition framework are still needed.

Box 2. Recent Trade and Investment Reforms

The Omnibus Law on Job Creation came into effect in November 2020 with the purpose of attracting investments (particularly foreign direct investment) through a simplification of regulations. It amends or eliminates several restrictive laws, modernizes regulations, and creates the basis for a sovereign wealth fund.

The law opens sectors earlier closed or restricted for private investment, particularly FDI. It also increases the predictability of trade policy making through simplification of trade licenses and permitting of agricultural imports. The law makes starting a business easier through reforms in the approval, licensing and ease of conversion to limited liability companies.

Given its depth and breadth, the implementation of the law will be a challenge, though, and will require support.

57. **The WBG will deepen the programmatic ASA on trade and investment reforms**, focusing on implementation of the government's trade and investment reforms (Box 2), examine productivity of firms as well as competition in close cooperation with the current IFC work on the business climate. Climate change considerations will inform the dialogue. Pilot activities supporting financial institutions to increase outreach to MSMEs – in part by leveraging digital solutions and technology – will further contribute to business growth and job creation. The IFC advisory work will focus on improving business regulations, removing foreign investment restrictions, and supporting the amendment of the Bankruptcy and Fiduciary Security Law.

58. **Two development policy operations – in trade and investment as well as infrastructure – are envisaged to support reforms** that give investors greater certainty about the future regulatory regime for trade and investment. The Bank is working with the authorities on the

[23] Impediments that hamper competitiveness are a weak competition framework, weak SOE governance, entry-barriers to investment, weak public budgeting and planning, restrictive trade policies, inadequate infrastructure, limited access to essential skills, limited digitization, and a fragmented innovation policy. There exist also sector-specific barriers.

design of SOE reform, public private partnerships (PPP) and developing mechanisms for local governments to access infrastructure financing as well as support to green infrastructure. These areas are all aspects of a *build back better* approach. Tourism has a large, and yet unrealized potential to stimulate growth and job creation, especially among women, youth and the modestly paid, and to sharpen the export-orientation of the economy. The ongoing tourism IPF is proposed to be bolstered with additional financing. IFC envisages investments in tourism as part of the joint WBG upstream activities. IFC will also continue to explore opportunities in infrastructure, manufacturing and services, particularly in healthcare and education. MIGA will work closely with the WB and IFC to identify opportunities to attract foreign investors in the tourism, manufacturing and other critical sectors which will contribute to narrowing the infrastructure and technology gaps.

Objective 1.4: Increase the depth, efficiency and resilience of the financial sector.

59. **A sound and well-functioning financial sector is critical to sustained growth and shared prosperity.** It also plays a central role in mitigating the shock caused by the pandemic, in addition to those from frequent natural hazards. An acceleration of reforms is needed, aimed at increasing financial sector deepening, efficiency, and resilience to financial and non-financial shocks; without weakening financial sector integrity and macro- and micro-prudential oversight. The financial sector is shallow, dominated by banks which are part of financial conglomerates, with a substantial presence of the state and a narrow domestic institutional investor base. Banks's intermediation efficiency is low. Financial inclusion of both households and firms trail regional peers. Capital markets do not yet provide sufficient funding, nor do they represent a competitive alternative to banks. Deep and liquid government bond markets are still to be developed.

60. **These considerations require expanding the access to and usage of digital financial services** for households (especially women and government-to-persons (G2P) beneficiaries) and firms, broadening financial markets products, infrastructure fund development, mobilizing long-term savings (e.g., pension funds) to increase financial depth and efficiency, while also strengthening crisis management and financial safety nets, building capacity to deal with money laundering and terrorist financing risks, establishing disaster risk financing mechanisms, and insurance penetration to strengthen financial resilience.

61. **The WBG programmatic ASA will be articulated along three themes: financial deepening, financial efficiency and financial resilience.** Financial deepening (with a focus on access and usage of financial services, capital market instruments, strengthening the investor base and capital market architecture); financial efficiency (including analytical work on competition and SME finance and policy advisory on G2P digitization, consumer protection and financial infrastructure); and financial resilience (covering both financial sector stability and integrity oversight, resolution and crisis management frameworks as well as disaster risk finance). Through its Joint Capital Markets initiative, in which Indonesia is a pioneer country, IFC will provide technical assistance in modernizing market infrastructure, improving the regulatory framework and supervisory capacity-building, consider providing guarantees to attract private sector participation and offer local currency solutions (such as bond issuances, derivatives and structured products). Thus, efforts to scale up capital markets will be a major focus. The IFC will support MSME access to finance through supply chain financing, based on a digital overlay. It will continue to partner with private firms in capital markets maintaining its strong focus on financial inclusion through work on digitalization. It will also continue its work on sustainable finance,

which has made encouraging progress. E-mobility technical regulations reforms pertaining to incentives, subsidy and tariff mechanisms can help bolster the E-Mobility Ecosystem and accelerate the progress in this space. The dialogue will also address the financial integrity agenda.

62. **The Bank will advance this work with a programmatic series of development policy loans for the financial sector** aimed at increasing financial sector depth, efficiency and resilience through reforms in financial inclusion, financial infrastructure, long-term finance, financial stability and climate and risk-management. A proposed disaster risk finance IPF will establish and finance a risk-pooling fund, strengthen government agencies to manage disaster risk, and build supporting institutions, and thereby help build back better.

Engagement Area II. Improve Infrastructure

Objective 2.1 Improve infrastructure provision and quality of service

63. **The Systemic Country Diagnostic Update confirms that inadequate infrastructure jeopardizes sustainable growth and competitiveness as it raises the costs of services.** The growth rate of public investment has lagged GDP growth over the past decade, resulting in an infrastructure deficit estimated at $1.6 trillion. Closing this gap would require a sharp acceleration in private investment in infrastructure for which barriers identified in the Infrastructure Sector Assessment Program[24] will need to be addressed. As responsibility for infrastructure shifts increasingly to the local level, it will be important to build capacity of local government institutions for the management and financing of infrastructure. Moreover, a low-carbon footprint and climate-resilience are two major factors that will influence infrastructure design and attractiveness for private financing. Carbon pricing instruments, such as carbon tax and domestic emission trading system, will help achieve mitigation goals in cost effective ways, while mobilizing private sector finance. Developing infrastructure, e.g., for tourism, has a large potential to create jobs, especially among women, youth and the modestly paid, and sharpen the export-orientation of the economy.

64. **Rural infrastructure gaps lead to lower access to basic services and connectivity.** Access to and better quality of electricity services in rural areas would enable income-generating activities, enhance the operational capacities of rural clinics and schools, and improve the welfare of rural populations. Rural water supply and sanitation has strong poverty reduction effects, via health, nutrition and stunting. Under-5 mortality is affected by inadequate water supply, sanitation and hygiene. Inadequate sanitation systems, together with weak solid waste management, cause widespread contamination of both surface water and groundwater. Community-driven development projects, which strengthen the role and responsibilities of local governments can be effective. Direct fiscal transfers to village and urban local governments play a key role in supporting locally determined investments. Indonesia has considerable experience in community-driven development programs for local infrastructure in urban and rural areas, including in slum upgrading and rural water supply and sanitation. Nevertheless, substantial service delivery and achievement of the intended results are affected by the lack of coordination. Encouraging coordination in decision-making in urban and rural areas is critical to aligning these investments.

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[24] Examples are legal and regulatory constraints, government capacity to engage with private investors, limitations in financial markets and sub-national finance, as well as the role and governance of SOEs, constraints related to land acquisition and management of environmental and social impacts.

65. **Rapid urbanization has led to growing demand for infrastructure, housing, and basic services, and pressures on land and the environment**, jeopardizing the livability of cities and increasing their vulnerabilities to disaster and climate risks. Large-scale and local infrastructure investments to enable urban resilience to climate change and disaster risks can reduce the vulnerability of assets and livelihoods. Road infrastructure is uneven and accessibility to some remote areas remains low, leading to higher poverty and unemployment rates in those regions. Mobility and accessibility to markets and services, including through adequate urban transport options, are also essential for the success of sustainable urban development.

66. **The WBG's support in infrastructure will combine an approach that supports both innovations in infrastructure and service delivery through national platforms, institutional strengthening, and capacity building on evidence-based planning and investments supported by agile technologies.** The national platform approach improves central coordination, strengthens regional governments' capacity to develop local government-driven investments, and offers cross-cutting financing solutions (including blended finance and private finance) for core infrastructure. Specific areas for institutional strengthening and capacity development include SOEs, corporate governance, legal and regulatory framework, tariff and subsidy reforms, asset recycling, project preparation, and transparent and competitive procurement. Opportunities will be taken for expanding digitalization throughout infrastructure interventions, e.g., in urban services such as mass transit to improve service quality.

67. **The CPF contains an ambitious agenda of knowledge work in water security and integrated urban water management as well as in the areas of urban floods and drainage to inform operations.** The foundations will, thus, be laid for possible support to building urban resilience *inter alia* through urban wastewater management, flood control, support for sub-national units to manage capital investments and additional financing for service delivery at the village level. The IFC plans to finance PPPs in bulk water supply, in mass urban transit and in waste to energy projects, while also seeking to review regulations surrounding lending practices from multilateral organizations to subnational governments and their entities. A programmatic ASA on Village Law, focused on improving performance of village institutions and aligning service delivery and infrastructure investments is envisaged.

68. **Through a programmatic ASA, the WBG will continue to develop advisory products for dialogue on infrastructure finance, institutional and regulatory support**, including for sub-national agencies and SOEs.,[25] with IFC focusing on capital market and risk products. There will be a sharper focus on infrastructure financial sustainability, innovative financing approaches, disaster- and climate-resilient urban development, environmental and social sustainability, and private sector participation. Analytical work, within a sustainable urbanization programmatic ASA, will also embrace city planning laboratories and spatial planning, affordable housing, and port infrastructure development.

69. **Improving transport infrastructure will enable economic development by contributing to improved connectivity and reduction of high logistics costs, thereby easing regional disparities and promoting inclusion.** Mass transit systems are needed in large cities to reduce emissions and economic losses from congestions and provide enhanced urban connectivity,

[25] The WBG considers SOE reforms to critical to enabling greater private sector participation. The government position on SOE reforms and its willingness to embark upon reforms will be clarified in the forthcoming dialogue and the results elaborated in the PLR.

particularly for the poor. Proposed investment operations on mass transit and port modernization would enhance maritime connectivity and logistics performance in Eastern Indonesia and improve urban mobility and accessibility on high priority corridors in selected cities of Indonesia and strengthen institutional capacity for mass transit development.

70. **The thrust of the WBG work will be on creating conditions for private infrastructure finance at national and sub-national levels.** The Bank will focus on the investment environment, and IFC will focus on financial intermediaries for private infrastructure investments. MIGA guarantees will also focus on complementing these activities by de-risking foreign private investment in the infrastructure space. The WBG is advising the government on its initiative to restructure and consolidate its SOE portfolio with a view towards improving governance, optimizing efficiency and achieving better service delivery. This initiative includes an effort to engage more with private partners, support SOE reforms and mobilize additional private capital for new infrastructure investment by recycling existing SOE assets. Asset recycling will also help SOEs focus on SOE core functions, improve service delivery, ensure sector sustainability and realize wider social and economic benefits. Next stages of SOE reforms should include subsidy reforms, green investment and resilience targets, gender and other social criteria and agricultural reforms.

71. **The Bank envisages continued work on PPPs and concessions, working closely with IFC and MIGA. It is also developing financial intermediary schemes to mobilize private capital.** IFC will enhance private participation in infrastructure development through both direct investment and financial intermediaries while promoting more robust environmental and social safeguards. IFC will also provide advisory work on PPPs and concessions, as well as on the recycling of government and SOE assets, including through the Limited Concession Scheme (LCS) on existing assets. This body of advisory work is expected to support the preparation of additional financing for the infrastructure development fund and of projects in mass transit, urban investments, and ports. The IFC will consider financing PPPs in toll roads, logistics services and ports, airports and urban infrastructure. It will also explore investments in inter-island ICT connectivity through broadband services and satellite. MIGA will explore opportunities to support foreign investment in these sectors through its political risk and credit enhancement products.

Objective 2.2: Transition to low carbon energy and attain universal access to energy.

72. **Indonesia requires large investments in energy to fuel growth.** Access to electricity is near-universal[26] but unevenly distributed across the provinces and often unreliable. Clean and renewable energy development has been slow, and non-renewable sources (particularly coal) still dominate the energy sector. Indonesia has yet to embark on a pathway to power-pass coal. The adoption of electric mobility and transitioning to low-carbon fuels in the transport sector would enable the country to reduce its reliance on fossil fuels, reducing its carbon footprint and local pollutants. At the same time, financial viability of the energy sector is at risk. There is a need to increase revenues (pricing/subsidy, financial and regulatory reforms will be needed), develop new approaches in financing further investments, and improve the investment climate for private

[26] At 99 per cent in 2019.

participation. Indonesia subscribes to the Helsinki Principles, which provide a framework for analyzing the impact of energy sector policies on the macroeconomy.[27]

73. **Indonesia faces a significant challenge to decarbonize.** A demand-side approach would rely upon strengthened government-industry partnerships, utilizing biogas to its fullest potential, reinforcing biogas with natural gas where biogas supplies are limited, and a shared commitment to decarbonization of industry. Powerful political economy constraints, such as a powerful coal lobby, characterize the supply side and make the transition challenging.

74. **The growing risks and unsustainable financing of Indonesia's power sector require urgent reforms to improve sector governance and the company's operational and financial performance, as well as to accelerate the energy transition called for by the National Energy Policy**. These reforms need to be anchored in a comprehensive medium to long-term vision for the energy sector with practical pathways to achieve the long-term objectives. In particular, to increase the share of clean and renewable energies (RE) and reverse the coal trend in the power sector, there is a need, in addition to put the sector on a financially sustainable path, to tackle numerous impediments which include: (i) pricing and non-pricing disincentives for the adoption of RE, especially implicit subsidies for coal; (ii) ensuring an orderly phase out from coal through a Just Transition for All programmatic support[28]; (iii) conflicting government policies regarding local content and power production cost minimization; (iv) inadequate regulatory effectiveness to drive changes in utility planning and operations; (v) strengthen the drivers for decarbonization; (vi) improve the investment climate for private participation through a focus on natural resource governance, gas infrastructure planning, and regulatory advice; and (vii) manage the growing prevalence of emerging (and potentially disruptive) technologies.[29]

75. **Accelerating the energy mix transition as outlined in National Power Plan is urgently needed to reach the 23 percent renewable energy target by 2025** and the energy intensity reduction target of one percent per year until 2025. Major barriers to attaining the renewable energy targets are current regulations that cap the price the energy company can pay for RE purchases, especially stringent for wind and solar energy. Key reforms required are (i) the inclusion of social and environmental externalities in generation costs, (ii) shifting in incentives from coal generation[2] towards RE investments; (iii) improving market dynamics leading to cost reduction of alternatives (including reforming the local content obligation affecting solar power; as well as (iv) improving technical aspects (system planning, grid reinforcement) of integration of variable RE. Acceleration of natural gas and biogas as viable transition fuels will be an alternative option as gas can provide a dual role as a baseload alternative to coal as well as an effective system

[27] The Helsinki Principles cover best practices and experiences on macro, fiscal, and public financial management policies for low-carbon and climate-resilient growth. Countries are assisted to mobilize and align the finance needed to implement national climate action plans; establish best practices such as climate budgeting and strategies for, green investment and procurement; and factor climate risks and vulnerabilities into members' economic planning.

[28] The World Bank employs a uniform multi-phased approach using a standard Just Transition for All methodology that begins with Pre-closure assistance to define transition strategies for coal regions and associated pilot transition projects. During the Closure phase, assistance focuses on workers and communities and good environmental practices. The Regional Transition phase, lasting many years, continues to implement the transition strategy by attracting investors into new low-carbon activities. Assistance is supported through a programmatic approach of World Bank instruments (TF, IPF, P-for-R, DPO).

[29] In the Just Transition approach proposed, there are strong cross-cutting linkages to other CPF objectives: skills, social protection and land management.

[2] The use of coal for power generation has more than doubled over the past decade.

balancing source to integrate RE, but its expansion also faces regulatory barriers. In addition, deploying energy storage technologies (in particular pumped hydropower) as well as upgrading the capacity of the power grids for effective dispatch management and enhanced balancing will be important for facilitating energy transition. Looking forward, new Nationally Determined Contributions (NDC) targets (COP26) will need to be thought through in the context of a clear medium to long term strategy for energy transition and be embedded in a clear (ambitious and realistic) Low Emission Development Strategy (LEDS).

76. **It is clear that current energy policies do not adequately address the projected growth of carbon emissions, nor do they help to realize the massive potential of RE production**, and thus development of a strategy for transition and reform is warranted. Not least, the Paris Agreement framework requires policy planning over a twenty-year horizon and beyond. It will be important to ensure equitable benefit sharing and inclusive participation of affected communities. WBG will mobilize climate funds and IFC support to private sponsors will be necessary. The *build back better* approach is at the heart of this ambitious energy agenda.

77. **Over the CPF period, the reform agenda will be supported by an ambitious ASA with decarbonization considerations at its core.** Decarbonization will aim to arrest the growth in coal and ensure financial sustainability of the power sector, and through policy and regulatory reforms develop the pathway towards carbon neutrality in line with Indonesia's international commitments. Assistance will also be provided to support sub-national governments in the management of energy resources.

78. **Provided the government proceeds with energy sector reforms, WBG support will also be extended through a policy-oriented Program-for-Results (PforR) and lending operations directed at energy sources alternative to coal, at improving sector financial sustainability while reducing the fiscal burden of the energy sector, and at improving access to energy.** Implementation of the Just Transition for All methodology to support coal closure would require a strong policy ecosystem that could be delivered through the PforR operation and associated technical support, if the government embarked on energy transition. In non-electrifiable energy use in industry, assistance will focus on government/industry partnerships improving demand-side management to increase energy efficiencies that also reduce emissions. As part of the assistance, policies will be defined to support the production of biogas to its full potential, reinforcing with natural gas where biogas supplies are inadequate. The proposed PforR would support this energy sector reform program including pricing, planning and regulatory reforms that incentivize energy transition, private investments and put PLN on a sustainable financial footing. The proposed pumped storage hydropower project would enhance capacity to absorb renewable power generation and strengthen institutions in hydropower. Further projects are being considered in power distribution, electrification in the lagging region of Eastern Indonesia through increased reliance on RE and downstream geothermal development. If an energy sector reform program is implemented, the Bank is also open to considering a project-based guarantee to the power company to address its current precarious cash position.

79. **MIGA has provided guarantees to cover loans for PLN's working capital needs in support of renewable energy projects in the context challenges related to the pandemic**. The project limits the use of proceeds to PLN's payments for purchased electricity from seven existing

renewable projects, thereby supporting Indonesia's efforts to diversify its power supply mix to increase renewable energy generation and ensure the financial stability of a critical part of the energy sector. In collaboration with the IFC, MIGA will continue to explore opportunities to support low-carbon energy projects. The WBG will mobilize climate funds and IFC will provide support to private sponsors. Building on WBG's existing initiatives and investments, IFC will also undertake a mapping study centered on e-mobility to enhance the sustainability of the clean transport system.

Engagement Area III. Nurture Human Capital

Objective 3.1 Strengthen the quality and equity of education and of skills

80. **Student learning results measured by the Program for International Student Assessment (PISA) remain low, and inequality in learning outcomes is increasing.**[30] The low learning outcomes originate from early grades. Students enroll in schools not ready to learn as ECED enrollment and quality are low. At schools, low quality of teachers and weak education system management result in many students falling below the national learning targets, and lead to only 30 percent of age 15-year-olds achieving minimum scores in reading on PISA. Learning inequality is high between regions, between schools, and within schools. Better use of technology and innovations, and improved WASH infrastructure, could raise standards in service delivery and improve equity of services, especially under current pandemic restrictions.

81. **The proposed ASA agenda aims to enhance evidence-based policy making and implementation of the National Education Strategy 2020-2024.** The ASA agenda will continue the recent programmatic effort on quality of education and improving teacher performance. Ongoing operations will improve the management of primary and secondary education services, as well as strengthening human resource capacity, technology transfer, institutional functioning, and data management of public research agencies. The Bank will explore further operational support for the National Education Strategy. In addition to a proposed human capital development policy operation, potential areas of support may include higher education.

82. **Millions of Indonesians enter the labor market every year with inadequate skills and inadequate information about labor market opportunities.** Low skills reflect poor basic education and poor alignment between education and training institutions' curricula and labor market needs. Industry 4.0 and the sectoral realignments driven by the COVID-induced economic shock have brought new skills demands and require the Indonesian workforce to increase its skill levels and acquire the right mix of skills to carry out higher productivity work. To address this, it is necessary to strengthen tertiary and vocational education, and ensure that the skills development system is responsive to evolving private sector needs and to the capabilities demanded by a digitalizing economy. In addition, more information on job opportunities, stronger career services, intermediation and other interventions are needed to reduce labor reallocation frictions for workers and employers. Indonesia will benefit from a modern labor market information system that informs both jobs seekers and providers, facilitates job-matching and provides a solid evidence-base for the government's training and employment policies. Supporting youth, women and the unemployed to re-enter the labor market and identifying appropriate interventions to boost the

[30] While the expected years of schooling is 12.4 years for an average student, the learning-adjusted years of schooling is only 7.8 years.

earnings of the large share of self-employed that display lower education levels and incomes will also be important in the COVID recovery phase. To boost productivity and growth, increasing Indonesia's persistently low female labor force participation rates will also be essential.

83. **A new programmatic ASA on jobs and skills, analytical work on gender, and lending operations are proposed to address this objective.** In addition to analytical and advisory work, a proposed skills development project would aim to improve technical and vocation education and strengthen the labor market information system. IFC will also seek to invest in tertiary vocational education and provide financing for expansion of private education institutions.

Objective 3.2: Strengthen quality and equity in nutrition and health.

84. **While impressive progress has been made toward achieving universal health coverage, challenges remain** in the quality of primary care, geographical access and equity, as well as very high levels and persistence of malnutrition, maternal mortality, and communicable diseases, compounded by new emerging diseases, and the rapid growth of non-communicable diseases. Improving the implementation of the national health insurance program will help ensure the financial sustainability and quality of health sector spending. Efforts will be needed to address the persistent access gap in remote areas through technological and managerial innovations delivered at scale, which will also help increase the resilience of the health system to potential disruptions from diseases and other hazards. Stunting reduction remains a key priority and requires building upon current efforts under the National Strategy to Accelerate Stunting Prevention, within a "whole-of-government" response, employing conditional cash transfers as an incentive mechanism for education, health and nutrition services.

85. **The proposed ASA agenda reflects a continuation of the recent programmatic effort on efficiency and quality of health and nutrition expenditure.** Advisory work will deepen the multisectoral responses to nutrition as a key element in the fight against stunting and aim at accelerating universal health coverage. Analytical work will be used to inform additional financing for current nutrition operations, as well as in supporting health service delivery innovations mitigating the impacts of the pandemic and sustaining the reform agenda in national health insurance. Technical assistance to health security and pandemic preparedness, as well as for addressing the skill gaps among human resources for health, will form part of the knowledge efforts.

86. **A proposed human capital development policy operation would support reforms to raise effectiveness and efficiency** in health and social protection spending through improvements in quality and targeting as well as institutional reforms, for example, in the pension system. It will aim to facilitate innovations in the delivery of health services, with the possible improvement of regulations governing tele-medicine, as well as to improve the quality of spending through better data, accountability and systems. Additional Financing for an ongoing P4R operation will help align the program duration with the new timeline of the national strategy and enhance the scope and quality of interventions to help mitigate the adverse impact of the pandemic on malnutrition in Indonesia. The WBG will review barriers to private investment in human development, such as restrictions on working permits for foreign medical and educational professionals. In addition, IFC will also seek to invest in healthcare platforms with broader geographic reach and health-related supporting industries in response to the pandemic.

Objective 3.3: Strengthen inclusiveness and responsiveness of social and worker protection

87. **Indonesia has made impressive progress in social protection by putting in place a core set of social assistance and social insurance programs and delivery systems**, essential to building human capital among the poor and vulnerable, and to incentivizing their use in education, health, nutrition and other services. Further reforms are needed to improve effectiveness and efficiency of social assistance spending and to implement a comprehensive, integrated, and cohesive social protection system. The social protection system needs to be more agile to protect and build the resilience of people affected by increasingly frequent economic, natural hazards, epidemics and other shocks. The pandemic has highlighted the need to strengthen protection for both formal and informal workers, through the social insurance and labor law system, as well as through active labor market policies, including vocational training and job matching services.

88. **In contrast to the gains made in health insurance coverage, fewer than one in five working age Indonesians are covered against the risk of death, work injury, or disability and even fewer can expect a pension in their old age**. The pandemic has also highlighted gaps in unemployment benefits. A new scheme linking job training and placement for unemployed workers is being considered. An effort is also under way to reform civil service pensions, including the long-run integration of public and private pension provision.

89. **The CPF agenda includes a set of interlocked ASA activities on social protection strengthening in the context of** planned reforms. Activities for improving the sustainability, adequacy, and coverage of the National Social Security System and reform of the current civil service pension scheme will be undertaken, as well as support toward upgrading administrative systems. In the area of social assistance, ASA activities will focus on improving the effectiveness and efficiency of social assistance spending, the gender-smartness of social protection, and disaster risk financing and insurance, among high-priority topics.

90. **Projects are planned in improving the identity management system for social protection and financial inclusion, and in strengthening disaster risk finance.** In addition, through the proposed human capital DPO reforms relating to the introduction of unemployment insurance and safeguarding the sustainability of private pension systems will be supported.

Engagement Area IV. Sustain Management of Natural Assets, Natural Resources- Based Livelihoods and Disaster Resilience

Objective 4.1: Strengthen management of natural assets and environment.

91. **The quality of management of natural resources in a country richly endowed with forests, oceans and arable land has powerful effects on poverty reduction, growth, and resilience.** Poverty is most severe among households living within or at the edge of forest estates and in coastal communities, particularly in Eastern Indonesia. Forests and peatlands have global significance as a treasured international public good, particularly for their role in controlling climate, reducing flood risk, and harboring biodiversity. These ecosystems face deforestation and degradation, which leads to GHG emissions, fires, loss of biodiversity, land subsidence, and flooding. Indonesia has the highest marine biodiversity in the world, also under pressure from overfishing, unsustainable coastal development, marine plastics, and other types of pollution,

which degrade critical ecosystems such as mangroves and coral reefs. Poor waste collection and treatment services lead to higher rates of ocean leakage, marine debris, and is a key cause of urban flooding. Over half of domestic waste (including plastics) remain uncollected each year; being burned, dumped, or entering waterways and oceans. The cost of air pollution is estimated to be around 5 percent of GDP. In urban areas, particularly in the Greater Jakarta region, air pollution has increasingly been an impediment to productivity and wellbeing, with increased traffic congestion and fossil fuel-based power plants identified as key sources of pollutants.

Box 3. Turning Environment Policies Towards Sustainable Growth

Indonesia is among the three largest tropical forest countries, boasts the largest extension of peatlands and mangrove, and is home to the longest tropical coast and second highest volume of captured fish on earth. Its extraordinary natural assets have fueled growth: two-thirds of exports are made up of natural resources, which also employ a quarter of the labor force. The natural resources sector will be critical to supporting resilience in the post-pandemic phase, given its potential for growth and job generation.

Growth based on short-term rent extraction through unsustainable management practices, particularly the continued conversion of forests and peatlands for export commodities, has already led to large-scale degradation of natural resources. Deeply entrenched interests, conflicting mandates across government agencies and levels of government and inconsistent policy targets (for example, the struggle between forest protection and agriculture expansion), unclear land and forest boundaries, inefficient government spending (focused on restoration rather than protection of existing ecosystems), poor law enforcement, are some of the root causes of the problem.

The mismanagement of natural resources has led to massive economic loss, harmed quality of life particularly for the most vulnerable segments of the population. The 2015 forest fires cost the country 2 percent of its GDP, coal processing pollution causes 7,500 premature deaths every year and almost 40 percent of fish stocks are overexploited. Rural areas with high natural resources endowment suffer higher poverty rates than the national average; progress towards recognition of land and forest rights to traditional *adat* communities has been painfully slow. Mismanagement of natural resources also harms export prospects – for example, the EU and the US, have enacted policies prohibiting import of palm oil. Low municipal solid waste collection rate has resulted in the country being the second biggest contributor of marine plastic debris in the world. Marine plastic has also been harming some of the prime coastal tourism destination such as Bali. Finally, forest and peatland degradation—including fires—significantly contribute to climate and lead to the loss of irreplaceable biodiversity.

Reduced rates of deforestation in recent years, progress in vastly increasing its marine protected area network, and the unprecedented mobilization across actors (government, private sector and civil society) to address marine plastics confirm that reversing these trends is achievable if strong leadership as well as higher investments on natural resources protection and restoration and on combatting pollution, such as solid waste, marine plastics and air pollution, are mobilized. Vital reforms include a reduction in fossil fuel subsidies to support the transition away from coal and other fossil fuels, to possible fiscal incentives to sub-national governments and local communities for conservation and restoration of degraded natural resources (such as forests, mangroves and peatlands) and cross-sectoral coordination to reduce inefficiencies in the use of public funds. Success will require policies and investments coordinated across several sectors.

The Sustainable Landscape Management and Sustainable Oceans Programs have identified drivers of forest and oceans degradation and options to address those; investment operations have aimed at promoting sustainable use, conservation and restoration of terrestrial and marine ecosystems. Pollution reduction, including air pollution in large cities, such as Jakarta, and solid waste pollution, including marine debris, have also been prominent in the Bank engagement.

92. **Policy reforms are needed to strengthen compliance with spatial planning, strengthen land administration and governance (including the rights of vulnerable communities), and improve governance of natural resources (particularly forest estates and fisheries) (**Box 3). This could be achieved by better and transparent data, participation of stakeholders in decision making, integration of landscape management principles and ecosystem-based fisheries management into natural resources management, building with nature, and ensuring equitable benefit sharing and inclusion of the vulnerable and poor (including indigenous peoples in frontier areas and rural communities). In all these areas, there is considerable scope for digitalization to raise efficiency and improve the quality of services. Participatory processes to reach consensus and collective support from affected communities would need to be elements of interventions, representing key tools for social risk management and sustainability in the event of trade-offs. Investments in pollution control and waste management would address the scourge of marine plastics and other pollutants. Investments in conserving critical natural resources (such as forests, peatlands and oceans) and restoring those that have been degraded are also needed. Urban sprawl in the urban peripheries is a key driver of greenhouse gas emissions through forest degradation, unsustainable development in the lowlands and urban peripheries, and increasing congestion in cities due to inadequate urban planning. Additional support is needed to strengthen the implementation of agrarian reform to tackle land tenure insecurity and enhance sustainable governance of land and natural resources.

93. **Key issues central to landscape management will be addressed through a programmatic ASA** focusing on broad approaches to the management of natural assets, governance of natural resources examining transparency and anticorruption, sustainable ocean management and reduction of marine debris. It will be important to design economic incentives to improve management of critical landscapes. Policy dialogue thus far has led to improvements in deforestation, marine protection, pollution, and natural resource conservation (Box 2). Water-related constraints in environment management are the subject of a diagnostic study.

94. **A proposed land administration project would strengthen land management and spatial planning, develop a national land valuation system, and help conduct area-based land registration**. The proposed ocean for prosperity project, with a focus on the rehabilitation of mangroves, would aim to strengthen coastal management, fisheries and aquaculture and address marine debris. A further IPF could be considered in solid waste management. The IFC intends to deepen its engagement in the design and financing of green buildings, advancing the climate auction model and EDGE certification to promote energy efficient buildings. IFC will also continue supporting the issuance of green/sustainable bonds and providing investment in green finance to help generate climate eligible portfolio and investments in green assets/- green buildings. IFC advisory aims at supporting capacity building for financial institutions to develop climate eligible loan portfolios.

Objective 4.2: Improve agriculture and natural resources-based livelihoods

95. **Agriculture, fisheries, and forestry have the potential to contribute significantly to national and local food availability and affordability, rural incomes and jobs, and overall livelihoods of rural communities.** To capture the benefits from these natural assets in a sustainable and efficient manner, multiple constraints and challenges will need to be addressed: degradation of natural resources, poor access to markets (including for premium products such as horticulture, seafood, fruits), low technical capacity and skills, low use of modern technology, and

poor access to services, such as technical assistance and finance. An integrated approach is required to address these challenges: enhancing and sustaining the resources within the biophysical landscapes on the one hand, while strengthening the productive capacity of producers and value chains on the other. The integration of landscape and value chain development reflects the need to balance long-term sustainability of the physical assets with the economic and commercial viability of the assets' use.

96. **The prevalence of price and other distortions in agriculture is a major source of inefficiency and a barrier to attaining food availability and affordability and raising agricultural incomes.** Systemic reforms face strong opposition from vested interests, often with powerful political connections, in oil palm, timber, pulp and paper industries. Plantation commodities have been the main driver of deforestation and land degradation. Trade is impeded via a plethora of protectionist measures that have resulted in the highest food prices in the region. In particular, subsidies for rice production by distorting production and crowding out high-value crops, result in high economic and social costs, depress incomes of farmers over the long run, and are environmentally unsound.[31] Within government, enforcement of policies and inter-ministerial coordination is weak. Moreover, governance standards and capacity are exceptionally weak in high-risk lowland areas of Kalimantan, Papua, and Sumatra.

97. **An agriculture public expenditure review will examine the effects of fertilizer subsidies and other policies.** Policy advice will be informed through a sustainable agriculture and livelihood study that could examine the distributional impact of climate change on various livelihoods. A proposed operation would promote sustainable, inclusive and diversified agriculture production systems and value chain development in the selected project areas. An improved policy environment would underpin the proposed engagement on sustainable agriculture and resilient markets, and on the restoration and development of swamp and peatland ecosystem in relation to lowland agriculture. IFC envisages investments in agri-business, collaborating with the Bank on the development of agricultural value chains through initiatives like farmer capacity building and establishment of digital platforms to improve sustainability and transparency. Moreover, IFC is engaged in sustainable development of palm oil and forestry projects. Overall, the renewed focus on efficient ways of bolstering food security and raising agriculture productivity are important aspect of the *build back better* approach.

Objective 4.3: ***Strengthen multi-hazard disaster resilience.***

98. **Indonesia has a high exposure to natural hazards due to its geographical location on the Pacific "Ring of Fire",** increasing vulnerabilities in rapidly growing cities, and climate effects such as the sea level rise and changing rainfall patterns. Significant progress has been made since the 2004 Indian Ocean Tsunami to develop national disaster risk management (DRM) strategies and commitments, enhance early warning systems, and bolster subnational emergency management services. However, catastrophic events and other disasters in 2018 caused the most loss of life in over a decade, prompting the government to prioritize ex-ante investments for resilient infrastructure and disaster risk reduction and develop a national strategy for disaster risk financing and insurance to better absorb economic impacts from future disasters.

[31] Removal of such distortions will go a long way towards bolstering competition and attracting private investments – a key objective of Engagement Area I.

99. **Recognizing these strategic priorities, the CPF proposes complementing support from other development partners—including related to urban flood risk mitigation, emergency management capacities, and DRM policy reform—and focus on three key pillars of support**: (i) disaster risk reduction investments in national programs addressing flood and seismic risks, resilient post-disaster recovery, community preparedness and awareness raising, and a multi-hazard early warning system platform, as well as mainstreaming disaster and climate change resilience principles intro multi-sectoral investments; (ii) financial resilience through a layering of relevant financing instruments (that could include contingent financing, post-disaster financing, and insurance products); and (iii) policy reform and institutional strengthening to further mainstream disaster risk management and leverage ex-ante resilience-building investments, including through blue-green resilience measures and hazard reduction through environmental rehabilitation and restoration.

100. **The World Bank Group's support on this engagement area will build on the achievements of the previous CPF period and include IPF and ASA engagements**. ASA activities completed under the previous CPF period helped develop the government's technical capacity in investment prioritization and informs lending operations. Ongoing IPFs are supporting the government's urgent priorities in resilient post-disaster recovery and multi-hazard early warning systems following the catastrophic events in 2018, whilst proposed IPFs for disaster risk financing and a national urban flood resilience program will invest in new priority areas. A proposed programmatic ASA will align agreed activities with the above three pillars and will support the government to enhance evidence-based and inclusive DRM policy making, investing in priority risk reduction programs, and implementing resilient infrastructure and improved early warning system priorities as set out in the RPJMN 2020–24. The IFC has been working with a reinsurance company to create new markets for disaster and weather risk insurance and will continue to support reinsurers in their products design to cover risks of agribusiness and Financial Institution's lending to farmers.

D. Cross-Cutting Areas

1. <u>Gender</u>

101. **Gender disparities are significant.** The female labor force participation (LFP) rate has remained stagnant at around 52 percent for the last two decades – lower than male LFP at 86 percent, and much lower than rates in other East Asian countries, with a particularly pronounced difference in urban areas. Most women in the labor force remain in low productivity sectors and in informal work. Occupational segregation in terms of gender persists, for example in services women are concentrated in low-paying activities. Though Indonesia has a large pool of women entrepreneurs, with women-owned businesses being primarily micro and informal home-based businesses, shortcomings in access to capital, credit, technology and markets prevent scaling-up and growth in productivity.

102. **This CPF proposes strengthening the WBG strategy by integrating gender considerations across the range of planned interventions.** A programmatic ASA on gender equality and growth will support the identification of key reforms to support growth. Further efforts in ASA will lie in assembling the evidence to support policy dialogue on reforms and actions needed to narrow the gender gap and to design the integration of gender perspectives in WBG operations. These tasks will require undertaking diagnostics in various sectors and

preparing just-in-time analytics for the government, including on pandemic impacts. The focus will be on legal and regulatory reforms that impinge on incentives for female labor force participation such as labor laws, employment security, worker benefits and flexible work, barriers to female entrepreneurship, and expansion of business. The IFC will continue to provide advisory service on product development and capacity building for gender financing, while at the same time providing investments to Banks and Non-Bank Financial Institution (NBFI) with a focus on women financing.

103. **The share of IBRD operations that narrow gender gaps ("gender tagged") is expected to remain at 55 percent** by FY23, with ambition of increasing to FY30; the share of IBRD operations with financial sector components that include specific actions to close gender gaps in access to and use of financial services will be 60 percent by FY23, with ambition maintained or increasing to FY30.

2. Digitalization

104. **Indonesia has the largest digital economy and digital consumer market in south-east Asia,** which is dominated by mobile urban internet users. Investment in digital infrastructure has been led by the private sector, whilst the government has addressed critical "backbone" connectivity through PPPs. Although the government has adopted ambitious goals for digital transformation, the full potential of technology as a driver of economic growth is not yet being realized reflecting the barriers to expanding the digital economy: uneven mobile broadband penetration and poor fixed broadband penetration, poor quality of internet service (speed, reliability) amidst network congestion. There is a need to foster greater competition. Digital government services lag behind the private sector, in particular, the potential of digital technology to help close the gap in service delivery and financial inclusion is yet to be realized.

105. **The CPF focus on digitalization will cut across all the engagement areas with the aim of raising efficiency and promoting inclusion.** Digitalization at the firm level is critical to enhancing productivity and the adoption of digital business models are fundamental to disrupting low-productivity activities and obtaining gains in competition (EA1). Digital financial services, in particular, digital payments, constitute a cornerstone of the broader digital economy (EA1). Smarter and cleaner infrastructure and the green agenda requires a digital base (EA2). The development of digital skills and competencies underlie the leap in human capital formation sought during the CPF period and beyond; similarly, the delivery of public services will rely upon digital systems, particularly e-government, for quality improvements, citizen feedbacks, and targeting for inclusion (EA3). Digital systems, particularly with the use of internet-of-things and artificial intelligence technologies, can be used to monitor pollution and biodiversity developments, obtain improvements in agriculture productivity, and shape policies accordingly (EA4).

106. **Gains will be sought through synergies and lessons learned** in various ongoing and proposed ASA initiatives such as the digital transformation PASA, the digital road map TA, and the government cloud TA, as well as through projects in human capital (the digital ID), digital governance and in healthcare delivery. The IFC will focus on developing digital finance solutions by leveraging digital technologies to drive higher inclusion. The initiatives include increasing access to finance to MSMEs through the digitalization of small banks, rural banks and NBFIs, developing customer-centric digital credit products in partnership with Fintech, and developing the Supply Chain Finance digital ecosystem through Fintech collaboration with partners. IFC will

also seek to improve digital infrastructure and connectivity in outlying islands through a regulatory assessment for telecommunications infrastructure sharing and satellite broadband.

3. Climate Change

107. **Indonesia is one of the most vulnerable countries to climate change, with total costs estimated to range between 2.5 percent to 7 percent of annual GDP by 2100,** especially from more frequent heatwaves and intensified torrential rains, with coastal areas being amongst the most vulnerable.[32] The *National Action Plan on Climate Change Adaptation* aims to reduce risks in agriculture, water, energy security, forestry, maritime and fisheries, health, public service, infrastructure and urban system by 2030. However, Indonesia's adaptation readiness is well below the G20 average.[33] Policies needing attention relate to adapting farming to climate change, optimizing the use of land, water and natural resources, conserving rainwater, developing early warning systems for extreme weather events, protecting coastal zones, making infrastructure more resilient, and better urban planning.

108. **The high variation in regional and local impacts of climate change calls for improved disaster risk reduction and climate change adaptation** efforts targeting vulnerable populations in agriculture, urban areas, and coastal communities. Adaptation investments also need to include nature-based solutions and enhance local-level partnerships and community participation (e.g., in climate-smart agricultural technology).

109. **Indonesia is one of the world's largest emitters of greenhouse gas (GHG), mostly from inappropriate land use leading *inter alia* to highly damaging peat and forest fires, as well as from agriculture, energy and transport.** Under the Nationally Determined Contributions (NDC), Indonesia is committed to a GHG emission reduction target of 29 percent from the business as usual scenario by 2030 or of 41 per cent, conditional on foreign assistance. The adaptation strategy focuses on agriculture, water, energy security, forestry, maritime and fisheries, health, public service, infrastructure, and urban system, by building enabling conditions for climate, economic, social and ecosystem resilience. For example, in 2019, Indonesia made permanent a moratorium instituted in 2011 on the use of primary forest and peat land for activities such as logging or palm oil cultivation; the effectiveness of this measure will, however, depend on regulation and enforcement. Meeting the NDC mitigation target is estimated to cost $20 billion per year, while current spending is around $5-8 billion.

110. **A domestic carbon financing market, such as an emissions trading system, is being explored.** The Environment Fund Agency has been established to increase green finance, manage and coordinate environmental and climate funds, including from international sources. Indonesia's Ministry of Environment and Forestry recently signed an agreement with the World Bank's Forest Carbon Partnership Facility (FCPF) to unlock up to US$110 million results-based payments to reduce 22 million tons of carbon emissions from deforestation and forest degradation in East Kalimantan[34] and the agency is managing the payments. Beyond carbon financing, Indonesia is

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32 Climate Transparency (2020). Country Profile Indonesia

33 Notre Dame Global Adaptation Initiative (ND-Gain) Readiness Index

34 The Forest Carbon Partnership Facility (FCPF) is a global partnership focused on reducing emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries, activities commonly referred to as REDD+.

also "greening" the financial sector. Indonesia issued its first sovereign green bond (sukuk) in 2018 for $1.25 billion and in 2019 for $750 million, and plans to issue further green bonds both domestically and internationally. But to achieve the NDC target, a transformational change is needed in land use and forest management, and this requires profound reforms in land administration, land use planning, and integrated landscape management, as well as in energy and transport sectors.

111. **In energy, as noted in the discussion under objective 2.2, current policies hinder the transition in the energy mix to the government RE target of 23 percent by 2025, and at least 31 percent by 2050**[27], as well as a reduction in the energy intensity of one percent per year until 2025. There is still an upward trend in coal use in power generation, though trend is falling in industry, and in the residential and commercial sectors. The removal of coal subsidies and introduction of policies to incentivize investments in RE are, therefore, critical.[35] In transport, under business as usual, GHG emissions are expected to increase by 53 percent by 2030 (compared to 2015), and then almost double from 2030 to 2050. Transport-related emissions can be significantly lowered by the mode and volume of transport, the fuel mix, tax, targeted subsidies to reflect externalities and other regulations, i.e., greater use of electric mobility, the use of sustainable biofuels, and more stringent fuel efficiency standards.

112. **At the beginning of the CPF period, a *Climate Change Development Report* (CCDR) will be prepared to inform the dialogue and support effective mainstreaming of climate change in WBG engagements.**[36] Further support envisaged in the CPF encompasses both mitigation (e.g., critical role of forests, mangroves and peatland in GHG emissions; RE and energy subsidy reforms to facilitate transition to low carbon energy sources) and adaptation (across various sectors, especially infrastructure) agendas. WBG interventions will aim at assisting the country meet its NDC target, specifically through support to cross-cutting activities on climate change mitigation and employing market-based carbon pricing mechanisms (particularly emissions trading) to lower costs and mobilize resources for low carbon investments.

113. **Mitigation and adaptation objectives are integrated into all Bank sectoral activities**, including infrastructure platforms at the national level, delivery of local services and infrastructure, sustainable energy and universal access, sustainable urban development, disaster risk management, sustainable landscape management, agricultural value chain development and climate-smart agriculture, and climate-resilient health, nutrition, education, and social assistance programs. For example, in renewable energy the Bank is providing support through hydro-power storage; in urban planning and construction resilience is reflected; in agriculture, extension services are being adapted; and surveillance, early warning systems and health professionals' training are being developed in health sector. In the area of reducing emissions from deforestation and forest degradation, the Bank will provide support through the Forest Carbon Partnership Facility and the Bio-Carbon Fund Initiative for Sustainable Forest Landscapes using the principle of results-based payments.

[35] Details of policy changes required are discussed under objective 2.2.

[36] The CCDR is a new core country diagnostic instrument assessing the interplay between development and climate. The report will contain an analysis of policy options and trade-offs in support of green growth, building, inter alia, on policies to incentivize and manage the transition to a low carbon, resource efficient, economy. It will also analyze the distributional impact of policies on households.

114. **The Bank will extend the dialogue and operations in new sectors with promising mitigation potential** (e.g. maritime transport, restoration of mangroves), while also embedding the mitigation agenda within broader development issues that already have high stakeholder buy-in (such as air pollution, health impacts from forest and peat fires). For example, marine and coastal ecosystems store significant amounts of carbon that can help Indonesia meet greenhouse gas emission reduction targets. Mangroves store five times as much carbon per hectare than tropical forests on land. The conservation and restoration of mangroves are thus critical for climate change mitigation efforts. The Bank will support mangrove rehabilitation to promote sustainable livelihoods for coastal communities as well as to create further carbon sinks that serve also as natural coastal protection from the sea level rise.

115. **Similarly, adaptation needs will focus on food affordability, coastal resilience, urban development, health and nutrition, and social development and assistance, all of which are sectors with high impact on the bottom 40 percent of the population**. For example, agriculture sector investments in climate-smart practices and digital technologies to combat climate change-induced productivity losses, while addressing logistics and trade bottlenecks will be key to ensure that nutritious food remains available and affordable to the Indonesian population. This is important because food prices in Indonesia are already among the highest in the region, and a third of Indonesian households cannot afford a nutrient-adequate diet. Also, proposed urban flood resilience investments in Indonesian cities will adopt innovative adaptation strategies, such as water sensitive urban-design and green infrastructure, to strengthen the resilience of poor and vulnerable households, which typically live in unsafe areas of cities, such as riverbanks and floods-prone areas. The IFC will continue its focus on climate finance by supporting renewable and clean energy projects, conducting an e-mobility study to enhance the sustainability of the clean transport system, promoting the implementation of sustainable finance in capital market and financial institutions, and supporting the issuances of structured capital market products such as green and blue bonds. Two central pillars of the *Building Back Better* approach – climate sensitivity and social inclusion – will, thus lie at the heart of the CPF strategy.

116. **In addition, internalizing climate risk in all WBG-supported investments is an essential measure of sustainability and effective use of resources.** Over the CPF period, all operations will be screened for climate risk. The CPF envisages attaining or exceeding the Bank-wide target of 35 percent for the share of climate-related financing over FY20-23. All investment operations in key emission-producing sectors will incorporate the shadow price of carbon in economic analysis and will apply GHG accounting, with annual disclosure of GHG emissions.

IV. IMPLEMENTING THE COUNTRY PARTNERSHIP FRAMEWORK

A. The Financial Engagement

117. **As noted earlier, in light of significant uncertainties, this document presents WBG proposed interventions in detail for only the first three years of the CPF period,** whilst presenting an overall framework for the five-year period. The *Performance and Learning Review* (PLR) will draw on the lessons learned from this three-year experience to flesh out the WBG interventions in the remainder of the CPF period.

118. **The proposed CPF would imply an indicative lending IBRD financing package of about $12½ billion or about $2½ billion annually.** IBRD will deploy a range of instruments and will attempt to make greater use of guarantees. The CPF adopts a flexible approach to lending due to uncertainties. This will allow a fast adjustment of the program in case the pandemic becomes prolonged. Annex 6 presents a menu of potential lending operations by engagement area, but their uptake and timing of delivery is left open. IBRD lending would depend on country demand, progress with reforms, Indonesia's overall performance during the CPF period as well as IBRD's financial capacity and demand from other borrowers. Should these volumes be reached, Indonesia would exceed the threshold above which a 50-basis point surcharge on incremental exposure would apply. Given that about 40 percent of the indicative lending pipeline consists of development policy lending and P4R operations, it will be necessary to take stock of exposure in the PLR document.

119. **In addition, new IFC engagements in the range of $3 billion to $5 billion over the CPF period in equity, loans, guarantees and mobilization could be expected, depending on the strength and extent of reforms in the environment for private business.** The key triggers for an expanded IFC engagement are scope for increasing private participation in infrastructure, an improved competition policy framework, SOE reforms, increasing quality of human capital through health care and education, relaxed restrictions on foreign investment and sourcing high skilled foreign workers, and regulations conducive for capital market development.

120. **MIGA is actively supporting foreign investors in Indonesia through its guarantee instruments, with gross outstanding exposure of US$705 million (see Annex 8).** This is the second highest in the EAP region and seventh in the MIGA portfolio overall. Projects currently supported are in the renewable energy sector—development and operation of a 47-megawatt run-of-the-river hydropower plant and the financing of short-term working capital in relation to existing renewable power projects of PLN. During the CPF period, MIGA will continue to support foreign private investors and cross-border commercial lenders in de-risking new projects in Indonesia, with particular attention paid to those that promote competition and employment growth. MIGA will work jointly with IBRD and IFC to mobilize the foreign private sector in support of MFD principles through its guarantee instruments.

121. **Indonesia has shown the capacity to steadily implement programs of growing ambition, notably in the adoption of an ambitious decentralization model** and in some improvements in "joined-up" government (inter-ministerial coordination) that is required to deliver complex tasks such as the anti-stunting program. Nevertheless, there are weaknesses in budget systems and in the linkages in planning and financial management across the tiers of government. Over the CPF period, heightened attention will be paid to assisting the government address these gaps.[37] The volume of the IBRD lending program over the CPF period will be calibrated to progress on institutional reforms on budget systems and financial management.

[37] The Bank's proposed engagement is described under the Engagement Area 1of the previous section and later in this section of this document.

B. Maximizing Finance for Development and Private Capital Mobilization

122. **The CPF intends to build on the success of Maximizing Finance for Development (MFD)[38] thus far in infrastructure and urban development** by using instruments to spearhead an expansion of private investment beyond infrastructure into human capital and engaging with SOEs on enabling private sector partnerships and enhancing the impact of de-regulation on competitiveness and attraction of greater foreign direct investment. The financial sector and infrastructure development policy operations as well as project-based guarantee operations together with fiscal reforms are expected to play a key role here. In the first half of the CPF period, projects in energy, water supply, seaports, and mass transit will include Private Capital Mobilization (PCM).

C. Regional Disparities

123. **Indonesia suffers from staggering regional disparities across the archipelago in connectivity, incomes and human capital.** Human capital indices show that metropolitan Java is comparable to China or Vietnam whilst areas such as Papua are similar to Chad or Niger. Rural areas and the east of the country lag far behind in overall infrastructure and services provision, especially in water and sanitation as well as in access to health services. Though decentralization has led to some convergence, gaps in access to and quality of services remain very large. Ensuring the quality of spending for improved development is a key priority. A major cause of the weak integration of factor and output markets is poor connectivity, exacerbated by low labor mobility associated with high costs of mobility. Connectivity infrastructure decisions will need to take inclusion considerations into account. Proposed CPF interventions in maritime connectivity, mass transit, and energy are aimed at addressing regional disparities in infrastructure.

D. Procurement and Financial Management

124. **Public financial management is impeded by systemic challenges**: complex relationships between planning and budgeting; poor intervention logic between outputs produced by budgetary spending and outcomes envisaged in the budget plan; operational disconnect between "money follows program" approach; different classification structures of plan and budget; lack of performance orientation in budget management; and weaknesses in capital budget execution. The intergovernmental financing system provides few incentives for performance and leads to large regional inequities in per capita spending. There is no harmonized and standardized Chart of Accounts for the central and subnational governments. There is lack of systematic M&E to gauge the performance and effectiveness of public procurement and absence of interconnectivity between e-government procurement and other public financial management systems. There is suboptimal capacity of internal audit organization to conduct performance audits and lack of citizens' participation in the budget process leading to low social accountability.

125. **Financial management will continue to follow country systems.** Financing arrangements for Bank projects implemented by the central government are governed by integrated budget or DIPA. The sources of financing for projects are detailed in the DIPA and are strictly followed.

[38] MFD is the WBG approach to systematically leverage all sources of finance, expertise, and solutions to support developing countries' sustainable growth. It is a holistic approach that assesses development challenges and leverages the private sector in sustainable ways that bolster scarce public resources. It requires the right investments and the expertise, products, and services of IDA/IBRD, IFC and MIGA.

Over the CPF period, financial management support will focus on addressing the above-mentioned weaknesses, assisting project implementing entities on such issues as the timely and sufficient availability of budget, strengthening internal control in payment verification, engaging with audit institutions to improve project implementation oversight and strengthening public financial management.

126. **Indonesia has made progress at addressing systemic problems in procurement**, with improvements regarding actions necessary in the pre-procurement period and greater ease in applying Bank procurement guidelines. The government has also strengthened e-procurement. The Bank is currently undertaking a comprehensive assessment of the public procurement system.

127. **Over the CPF period, procurement support will focus on helping project implementing agencies to resolve outstanding procurement gaps**, with oversight by government planning and audit arms, and support the national public procurement agency in strengthening the electronic national procurement monitoring system, identifying opportunities to enhance participation of women in public procurement, integrating the e-procurement system with other PFM systems, and implementing the key recommendations for strategic procurement reform coming out of the current assessment.

E. Partnerships

128. **The WBG enjoys the trust of the Indonesian authorities in finding solutions and financing for complex development tasks.** The WBG team has thus been enabled to exercise leadership in the development dialogue in close cooperation with other development partners using programmatic ASAs and co-financing opportunities, notably via the platform approach.39 In turn, the WBG has greatly benefitted from the substantial scale of funding for ASA from development partners[40] through Bank-administered trust funds at the country level.

129. **Over the CPF period, this close cooperation is expected to continue, with allocations for ASA funding of $57 million**, principally from eight donors, Australia, Belgium, Canada, Denmark, the EU, Norway, Switzerland and the United States. The Gates Foundation has been a generous partner. Support will be provided for ocean marine debris and coastal resources, sustainable landscape management, tourism, urbanization, human capital, infrastructure, SOE reforms, and economic governance. Furthermore, increasing efforts will be made in policy analysis for post-pandemic recovery, fiscal and financial sector reforms, public financial management and analytical work on gender and poverty. At the same the Bank will continue taking steps to consolidate the trust fund portfolio with an objective to lower transaction cost by streamlining administration, governance and reporting and thereby maximize impact of donors' resources.

130. **The WBG will continue to play the role of convener for development partners,** in particular, by using the platform approach in infrastructure and other areas of collective donor investments and by strategic deployment of ASA resources provided by development partners to

[39] Under this approach, all parties – the government and development partner financiers to a project – follow WBG procurement and implementation arrangements, fiduciary and other safeguard in a consistent and transparent manner. This approach helps to improve the allocative efficiency and technical quality of project expenditures. Importantly, coordination within the government is also incentivized. The WBG deploys its convening power, knowledge products and TA to implement the approach building strong relationships with all parties. The platform also facilitates the leveraging of investments by development partners and the private sector.

[40] The principal partners are the AIIB, ADB, the EU and the UN group -multilaterals and DFAT, Japan, US and other bilateral partners.

develop coherent approaches to development challenges. The dissemination of ASA and the dialogue between the WBG, the client and the development partners in the design and preparation of knowledge products will remain important channels for convening partners to achieve common purposes. It is envisaged that the co-financing of investment lending operations will be substantial, with the principal partners being the AIIB in infrastructure development, slum alleviation and energy, and the ADB in economic resilience and infrastructure

131. **A Citizen Engagement (CE) is an important element in most of ongoing projects, especially in community-based projects,** including in Investing in Nutrition and Early Years project, Social Assistance Reform Program, and Social Forestry project. Looking forward, the CPF will mainstream CE activities into the program, with technical assistance and capacity building being provided to project teams across all sectors to identify entry points and relevant citizen engagement mechanisms, including support for the use of innovative technologies. Citizen and community engagement will be particularly important in proposed World Bank engagements in oceans and landscape management as well as agriculture and connectivity. The WBG efforts in the ongoing and future engagements will include components intensifying and broadening the outreach to citizens and to all stakeholders in general, particularly those in lagging regions and the most vulnerable (such as women, youths, the elderly).

V. MANAGING RISKS

132. **The CPF establishes an ambitious – but feasible – program to address Indonesia's medium-term needs in securing a sustained and inclusive post-pandemic recovery as well as its critical long-term development imperatives** to fight economic fragility, bolster human capital, safeguard natural assets, and build quality infrastructure. Such a program, requiring firm country vision and leadership, adaptability to shocks, adoption of best international practices seeking private sector solutions where possible, and adequate financing in close cooperation with development partners, will help mitigate risks faced by the country.

Table 2: Risk Rating Matrix

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

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

A. High risks to the CPF Program

133. ***Governance.*** As the development agenda acquires increasing complexity, especially in reversing post-pandemic losses, whilst maintaining the development thrust, the burden on effective governance becomes even greater. Vested interests are likely to oppose some proposed reforms. At the same time, catering to narrow interests over tax and subsidy policies, over land rights, or over SOE operations become ever costlier. Indonesia's stable, democratic political framework with decentralized institutions that provide voice and accountability to its population; help to dampen risks associated with governance. The government intends to mitigate risks through improvements in decentralized governance, strengthening public financial management, and by a process of de-regulation and economic opening. But deeper challenges, discussed in the body of this report and the sub-section on governance, remain. The Bank intends to help the government mitigate risks through ASA work and advocacy, seizing opportunities for reform as they arise and helping champions of reform, working with civil society, and collaborating with development partners.

B. Substantial Risks to the CPF Program

134. ***Institutional capacity for implementation and sustainability.*** As noted, institutional capacities at both the central government and in de-centralized entities are weak, e.g., in such areas as policy formulation and coordination, effective implementation, design and implementation of regulation, with M&E systems generally being rudimentary. In mitigation, the WBG will continue efforts to strengthen institutions in central government, sub-national government and agency levels through a multi-year programmatic approach on capacity building relying upon both ASA and TA products. In this task, particular attention will be paid to developing and institutionalizing M&E systems in government programs and projects to minimize risks. The tradition of close coordination with development partners will continue.

135. ***Environment.*** The high risks associated with the environment arise from weaknesses in institutions and capacity, as well as from vested interests. The CPF mitigation strategy lies in intensifying dialogue with the authorities based on evidence-based ASA, the large ongoing portfolio and new operations and activities addressing environmental concerns as well as offering support to the attainment of Indonesia's international commitments on climate change.

136. ***Macro-economic.*** The pandemic has elevated macroeconomic risks and has required strengthening of macroeconomic policies in the face of a revenue shock and growing debt risks. The exit from the suspension of the fiscal and debt rules and reversing the easing of the monetary stance, *inter alia,* the participation of the central bank in the primary market for government debt, will need to be managed with resolve. Macroeconomic risks will be mitigated through the Bank's dialogue with the authorities based on macro-monitoring, ASA covering exit policies and other macroeconomic issues as well as analysis of structural reform needs in cooperation with the IMF and other development partners. Also, the planned policy-based lending operations will be used to mitigate concerns.

137. ***Stakeholder*** commitment to the country remains exceptionally strong, with a stable core of development partners providing a high degree of knowledge and financial support in an organized, well-coordinated manner, with the WBG playing a prominent role in this process. A group of stakeholders associated with environment or labor question the government's deregulation agenda. Thus, the risk to the CPF is classified as substantial. These risks are being mitigated through WBG involvement in the design and implementation of reforms related to environment and labor, and in active outreach and dialogue with different stakeholder groups to discuss concerns and mitigation.

Improvements sought in M&E arrangements in CPF-supported activities will also contribute to reducing risks.

138. ***Fiduciary.*** Risks arise through manual, paper-based systems that are being addressed by digitalization, e.g., in payments processes, in linkages with taxpayer data, and linkages between financial management and e-procurement systems. Digitalization of public financial management systems and improving budget transparency will continue to help mitigate fiduciary risks, apart from better fiscal discipline, improved revenue collection, efficient resource allocation, and reliable fiscal reporting. Indonesia has continued to improve its procurement capabilities but, as noted in Section D, significant gaps remain. A comprehensive assessment of the system using the revised Methodology for Assessing Procurement Systems (MAPS), being jointly conducted by the National Public Procurement Agency, the Bank, and ADB will help prioritize reforms, improve the efficiency in public services delivery particularly in emergency situations like the pandemic, and increase the public trust. Financial Management risks associated with budgeting, internal control, funds flow, accounting and auditing will be addressed through Bank assistance to project implementing entities on cross cutting issues such as the timely and sufficient availability of budget, strengthening internal control in payment verification, engage with audit institutions to improve project implementation oversight and strengthening public financial management.

C. Moderate Risks to the CPF Program.

139. ***Sector strategies and policies.*** Sector strategies and policies are designed jointly with the government with the assistance of a rich set of ASA activities and the active participation of a range of development partners. The risks arise in implementation due to gaps in capacity or governance. Such risks are being mitigated by a greater role being envisaged for private sector participation (e.g., in infrastructure and energy), by TA for capacity building, by fiscal decentralization reforms, and reinforced attention planned for gender considerations as well as use of digital technologies, all of which are expected to raise the effectiveness of sector strategies and policies.

140. ***Technical design of projects and programs.*** With the assistance of development partners, Indonesia has shown capability in the technical designs of projects and programs with the benefit of learning from international and regional experiences.

Annex 1. Indonesia Country Partnership Framework Results Matrix

Overall Objective: Promote Sustainable and Inclusive Economic Recovery and Long- Term Growth		
ENGAGEMENT AREA I. STRENGTHENING ECONOMIC COMPETITIVENESS AND RESILIENCE		
Objective 1.1: Attain higher revenue collection and fiscal and debt sustainability. **Intervention logic:** To ensure a resilient recovery from the pandemic and to ensure macroeconomic stability, it will be vital to raise revenues sustainably, to manage the ensuing greater debt burden efficiently and to improve macroeconomic management capacity. Indonesia's tax-to-GDP is projected to remain structurally below its already low pre-pandemic level compared to similar emerging economies. The country collects less than half of its potential tax revenue. The tax system is characterized by high thresholds, wasteful exemptions, uneven treatment across sectors, and too low health, wealth, and environmental taxes, resulting in a narrow tax base. This is exacerbated by poor tax compliance, arising from administrative -- fragmented HR functions and lack of capacity of DG Tax, low IT investment and poor data quality -- and structural challenges -- large informal economy and high commodity reliance. Non-tax revenue suffers from low payment compliance, for example in the mining sector. At the subnational level, own-source revenue is low owing to low coverage, valuation, and collection ratios, limiting cities' ability to finance pressing infrastructure spending needs. Increasing revenue through reform of tax policy and administration is a prerequisite to widen the fiscal envelope for spending to support other objectives in the CPF. While sovereign debt is considered investment-grade and its post-pandemic debt level will remain below the legal debt limit, risks will increase with elevated borrowing due to the impact of pandemic and the fiscal response measures, increased contingent liabilities from its state-owned enterprises due to the downturn. To offset the decline in own-source revenue and fiscal transfers, subnational governments (SNG) are expected to increase their borrowing from the infrastructure fund during the pandemic and recovery, and by issuing bonds in outer years, which requires strengthening fiscal policy and debt management capacity of SNGs. The expected outcomes of this objective are improved tax policy and administration to support higher revenue collection with greater equity and efficiency and a greater focus on the protecting the environment and mitigating climate change; enhancing non-tax revenue policies; modernizing the administration of national and subnational tax and non-tax revenue collection; and improved quality of debt and contingent liability management. The WB will support this through a combination of complementary ASAs at the national and subnational level. Particular attention will be paid to the potential role of carbon taxes.		
Indicators	**Supplementary Progress Indicators**	**World Bank Group Program**
1. Average tax revenue collection as a percent of tax revenue targets (%) *Baseline 2020: 84.4* *Target 2025: 95*		**Ongoing:** • Financial Sector reform DPF 1 **Planned lending:** • Investment and Trade Reforms DPL • Human Capital Development DPL 1,2

2. Registered individual taxpayers as a percent of working labor force *Baseline 2020: 32.9* *Target 2025: 46.9* 3. Central Government tax-to-GDP ratio, (%) *Baseline 2020: 8.3* *Target 2025: 11*	SI 2.1. Tax Compliance filing ratio for income tax, (%) *Baseline 2020: 77.6* *Target 2023: 83* *Target 2025: 85*	• SOE Reforms DPL • Fiscal DPL **Key ASA:** • Modernizing the Management of Public Resources in Indonesia PASA • Subnational Finance and Management for Results (SEMAR) PASA • Strengthening Fiscal Policy • Strengthening the Fiscal Management of Natural Resource Revenue • Indonesia Government Debt and Risk Management phase II • Infrastructure Financing Support - Capital Market and Risk Products **IFC Activities:** IFC advisory on Corporate Governance

Objective 1.2: Increase efficiency, equity and effectiveness of public spending.

Intervention logic: Low revenue mobilization leads to a squeeze on public expenditures – public spending in relation to GDP amounted to 16.7 percent in 2020, less than half the average of similar emerging economies, with public investment spending being exceptionally low. Expenditures on health and social protection are well below similar emerging economies. Moreover, fuel, electricity and fertilizer subsidies are significant outlays but poorly targeted at the poor and vulnerable. Higher spending on human capital formation, agriculture and the environment, and infrastructure will raise the potential rate of growth, sharpen competitiveness, and boost shared prosperity. At the subnational level, where half of total public spending occurs, excessive wage bill and administrative costs crowd out investments and public services and outcomes are disappointing. Public spending is not sufficiently translating into developmental outcomes, particularly in lagging regions, leading to poor infrastructure, education and health. The government lacks tools to adequately support and incentivize performance in local governments. Public financial management is bedeviled by inadequacies in the budget planning process, poor links to performance results, misallocations of spending to badly targeted subsidies and lack of reliable, quality data. Greater inclusiveness in spending will result from a reduction in disparities in expenditure per head across districts.

Indicators	Supplementary Progress Indicators	World Bank Group Program
4. **Efficiency:** Average budget execution of line ministries and agencies as a	SI 4.1. Average deviation between Plan (RENSTRA) and Budget (APBN) in	**Planned lending:** • Human Capital Development DPL 1,2 • SOE Reforms DPL

percent of their end-of-year annual capital budget allocation *Baseline* 2020*: 92.1 (of which CAPEX: 82)* *Target 2025: 97 (of which CAPEX: 90)* 5. **Effectiveness:** Inter-governmental conditional transfers allocated based on results indicators as a percent of total conditional transfers *Baseline* 2020*: 0.50* *Target 2025: 20* 6. **Equity:** Fiscal inequality across districts as measured by Gini coefficient of per capita district expenditure. *Baseline 2020: 0.40* *Target 2025: 0.34*	infrastructure and human development sectors, (%) *Baseline 2020: 30* *Target 2023: 15* *Target 2025: 9* SI 5.1. The subnational budget classification and chart of accounts are well-designed to inform spending decisions *Baseline 2020: No* *Target 2023: Yes* *Target 2025: Yes*	• Fiscal DPL • Subnational Finance **Key ASA:** • Modernizing the Management of Public Resources in Indonesia PASA • Subnational Finance and Management for Results (SEMAR) PASA • MAPS assessment and follow-up support including for enhancement of procurement M&E system, women's participation in public procurement. (financed by PFM PASA • Strengthening Fiscal Policy • Knowledge based solutions for Poverty Reduction and Mobility PASA • Digital Technologies for Inclusive Development PASA • Gender Equality for Growth Program • Infrastructure Financing Support - Capital Market and Risk Products • Climate Change – Carbon Finance

Objective 1.3: Reduce Barriers to Trade and Investment

Intervention logic: The economy faces barriers to private sector investment and productivity steeper than in comparable countries and, as a result, firms are less productive, innovate less, and are poorly integrated into global value chains. Impediments that hamper competitiveness are a weak competition framework, poor SOE governance, entry-barriers to investment, deficient public budgeting and planning, restrictive trade policies, distortionary agriculture support policies, inadequate infrastructure and level of services, limited access to essential skills, limited digitization, and a fragmented innovation policy. These factors contribute to technical and allocative inefficiencies, high logistics costs which, along with inefficient border practices, dampen exports. The resulting autarky saps economic resilience. These cross-cutting impediments are compounded by sector-specific barriers which similarly lower investments, productivity and sustainability. The WBG will build on the existing strong program and the government's confirmed commitment to reforms in this area as well as to priority agendas like food security and sector-specific policies, e.g., in ports, tourism, agriculture and fisheries. Growth in tourism, in particular, will have powerful inclusive and gender impacts.

Indicators	Supplementary Progress Indicators	World Bank Group Program
7. **Trade:** Relative import growth of sectors liberalized from pre-shipment inspections, i.e., share of total imports of 8-digit sectors subject to pre-shipment inspections in 2019, (%). *Baseline 2019: 36%* *Target 2025: 45%* 8. **Investment:** Relative FDI growth of sectors liberalized from investment restrictions, i.e., share of total FDI in four-digit sectors subject to restrictions to foreign investments in 2019, (%). *Baseline 2017-18: 49%* *Target 2025: 60%*	SI 7.1. **Trade:** Imports subject to pre-shipment inspection (percentage of the sectors listed at the 8-digit HS code), (%). *Baseline 2019: 25% (TBC)* *Target 2023: 20%* SI 8.1. **Investment** Sectors subject to restrictions to foreign investment, percentage of the sectors listed at the five-digit KBLI *Baseline 2020: 28%* *Target 2023: 10%* SI. 8.2. Investment generated (US$)[41] Baseline 2020: 0 Target 2025: 145 million	**Ongoing lending:** • Tourism Development IPF **Planned lending:** • Investment and Trade Reforms DPL • SOE Reforms DPL • Oceans for Prosperity Program - LAUTRA Phase 1 • Agriculture Value Chain Development Project (I-CARE) **Key ASA:** • Sustainable Tourism Development • Indonesia Jobs Action Program • Indonesia Firms, innovation and entrepreneurship • Indonesia trade and investment reforms' implementation • Carbon Pricing Implementation Support • Port Tariff Reform TA • Coastal Fisheries Challenge Fund • Transforming Indonesia's agri-food system • Macroeconomics Analysis and Policy Dialogue **IFC activities:** **Ongoing** • Indonesia Investment Climate, Competition, and Competitive Sectors AS (602983 & 602984) • Aqua Expeditions (38628) • RedDoorzRI4 (43134) • Trans Corp (RSE COVID-19 Facility) (44273)
Objective 1.4: Increase the depth, efficiency and resilience of the financial sector.		

[41] Additional investment generated from the reforms in investment climate, competition and business regulation, supported by IFC. Sectors include ports, tourism and agriculture.

Intervention Logic: A sound and well-functioning financial sector is critical to sustaining economic growth and achieving the government's shared prosperity goals. It also plays a critical role in mitigating the unprecedented macroeconomic and financial shock caused by the pandemic, in addition to the challenges posed by exposure to frequent natural hazards and climate-related shocks. An acceleration of reforms is needed, aimed at increasing financial sector deepening, efficiency, and resilience to financial and non-financial shocks; without compromising macro- and micro-prudential standards. The financial sector is shallow, dominated by banks which are part of financial conglomerates, with a substantial presence of the state and a narrow domestic institutional investor base. Bank intermediation efficiency is relatively low. Financial inclusion of both households and firms trail regional peers. Capital markets do not yet provide sufficient funding, nor do they represent a competitive alternative to banks. These considerations require expanding the access to and usage of digital financial services for households (especially women and government-to-persons (G2P) beneficiaries) and firms, broadening financial markets products, infrastructure fund development, mobilizing long-term savings (e.g., pension funds) to increase financial depth and efficiency, while also strengthening financial integrity, crisis management and financial safety nets, building capacity to deal with money laundering and terrorist financing risks, establishing disaster risk financing mechanisms, and insurance penetration to strengthen financial resilience. The gender effects of improved financial inclusion are expected to be significant on empowering women and their MSME enterprises.

The WBG will continue providing support in this area through a series of DPLs, TA and continuous policy dialogue and sharing of international best practices.

Indicators	Supplementary Progress Indicators	World Bank Group Program
9. **Depth:** Financial institutions' assets/GDP, (%) *Baseline 2019: 74%* *Target 2025: 80%* 10. **Efficiency:** Net interest margins (% points) *Baseline 2019: 4.9%* *Target 2025: 4.3%* 11. **Resilience:** Capital Adequacy Ratio, (%) *Baseline 2020: 23.74%* *Target 2025: Above minimum Basel Committee requirement (currently Basel III min of 8%)*	SI 9.1. Adults (age 15+) with transaction accounts (either at financial institution or mobile money provider), (%). *Baseline (2020): 64% (female 68.2%, male 59,6%)* *Mid target (2023): 78% (female 84,2%, male 73%)* *Target (2025): 90% (female 100,3%, male 86.2%)* SI 9.2. Adults using a transaction account to make or receive digital payments in the past year (% age 15+) *Baseline (2020): 47%* *Mid target (2023): 59%* *Target (2025): 67%*	**Ongoing lending:** • Financial Sector Reform DPF 1 • Financial Sector DPF – COVID 19 Supplemental Financing • Indonesia Infrastructure Finance Facility • Disaster Risk Finance and Insurance • **Planned lending:** • SOE Reforms DPL • Financial Sector Reform DPF 2,3 **Key ASA:** • Financial Sector PASA • Strengthening Financial Sector Stability • Promoting Financial Access and Inclusion (including G2P related TFs)

	SI 9.3. Made or received digital payments in the past year, gender disaggregated (% age 15+) *Baseline (2020): female 47.9%; male 45.8%* *Mid target (2023): female 60.2%; male 57.9%* *Target (2025): female 68.5%: male 66%* SI 9.4. Number of new financial products launched *Baseline 2020: 0* *Target 2023: 1* *Target 2025: 2* SI 11.1. Utilization of the pooling fund for disaster response financing *Baseline 2020: pooling fund not established* *Mid-target 2023: pooling fund established* *Target 2025: pooling fund utilized in disaster response.* SI 11.2. Agri loans disbursed, (US$) *Baseline 2020: 0* *Target 2023: 92,500* SI 11.3. Loans disbursed to Woman, (US$): Baseline (2020): US$105 million	• Supporting Long Term Finance & Risk Management • Disaster Risk Finance and Insurance TA • Indonesia Infrastructure Finance and Development • Urban Floods, Disaster Risk Management, and Drainage **<u>IFC activities:</u>** **<u>Ongoing:</u>** • JCAP • Indonesia ESG advisory (605556) • Indonesia Responsible Microfinance (601066) • Indonesia Agriculture Insurance (601736) • Farmer Capacity Development Through Digital Platform and Financing (604378) • Provident Growth Fund II, LP (42978) • BTPN SME Green Loan (41698) • OCBC NISP: Sustainable Bond Program (43613) • GoPay (43735) • Agri-Finance Advisory (603016) **Pipeline:** • CIMB Niaga Bond (Green and SME -43543) • Indonesia Supply Chain Finance (603933) • MSME Finance • Affordable Housing Finance (603323) • Saratoga Strategic Fund • Indonesia Supply Chain Finance (603933) • Shared Workspace for Women (SWW) and Knowledge Hub • DARP and NPL Resolutions

	Mid review (2023): US$158 million Target (2024): US$210 million	• Pasar Polis (43291) • Shared Workspace for Women (SWW) and Knowledge Hub • DARP and NPL Resolutions KCB FMF (44494)

ENGAGEMENT AREA II. IMPROVE INFRASTRUCTURE

Objective 2.1: Improve infrastructure provision and quality of service

Intervention logic: The *Systemic Country Diagnostic Update* confirms that inadequate infrastructure and level of service jeopardizes sustainable growth and competitiveness as it raises the costs of services. The growth rate of public investment has lagged GDP growth over the past decade resulting in an infrastructure deficit estimated at $1.6 trillion. Closing this gap would require a sharp acceleration in private investment in infrastructure for which barriers identified in the *Infrastructure Sector Assessment Program* – legal and regulatory constraints, government capacity to engage with private investors, limitations in financial markets and sub-national finance, as well as the role and governance of SOEs need to be addressed. In addition, constraints related to land acquisition and management of environmental and social impacts need further attention. It will be important to build local government institutions for the management and financing of infrastructure as responsibilities for infrastructure shift increasingly to the local level. Moreover, a low-carbon footprint and climate-resilience are two major factors that will influence infrastructure design and attractiveness for private financing. Implementing carbon pricing policies (including as carbon tax and domestic emission trading system) could help achieve mitigation goals in cost effective ways, while mobilizing private sector finance for climate actions.

Subnational governments manage more than one third of total government expenditure, including 72% of health spending, 65% of education spending, 67% of infrastructure spending, and almost 40% of social protection spending, and they play a role in almost every aspect of service delivery. Transfers from the center amount to $8 billion annually to village governments, with a view to closing rural infrastructure gaps for around 176 million people living in villages. Improving the quality of spending and ensuring that these investments better meet the needs of villages will be essential to reduce rural poverty.

Developing infrastructure and improving the level of service are also key in stimulating economic growth and generating jobs, e.g., by expanding tourism, has a large potential to create job, especially among women, youth and the modestly paid, and sharpen the export-orientation of the economy. Improving the level of service of transport infrastructure will enable economic development by contributing to improved connectivity and reduction of high logistics costs. Mass transit systems is needed in large cities to reduce emissions and economic losses from congestions and provide enhanced urban connectivity, particularly for the poor. Access to affordable broadband will support economic opportunities. Reducing GHG emissions from transport through changes in the mode and volume of transport, the fuel mix, tax, targeted subsidies and other regulations will be critical, with electric mobility, the use of sustainable biofuels, and more stringent fuel efficiency standards offering promising opportunities. The existing WBG program has a strong focus on infrastructure

development, which will continue with a greater focus on infrastructure financial sustainability, innovative financing approaches, disaster- and climate-resilient urban development, environmental and social sustainability, and private sector participation. The program not only integrates various aspects of integrated urban planning but also enables subnational governments to access alternative financing.		
Indicators	**Supplementary Progress Indicators**	**World Bank Group Program**
Provision: 12. People benefiting from new or improved access to urban and rural infrastructure services[42], number *Baseline 2020: 48,716,000 (out of which urban: 6,686,000; rural: 42,030,000)* *Target 2025: 185,000,000 out of which urban: 15,000,000; rural: 170,000,000)*	SI 13.1. Subnational (provincial / city / district) governments with improved technical and financial capacities for provision of infrastructure[44], number *Baseline 2021: 7* *Target 2023: 40* SI 13.2. Village governments with improved institutional capacity for provision of basic services,[45] (%). *Baseline: 2020: 0* *Target 2023: 70* SI 13.3. Area provided with improved irrigation services in selected National Irrigation Systems. *Baseline 2020: 0 hectare* *Target 2025: 178,000 hectares*	**<u>Ongoing lending:</u>** • Indonesia Infrastructure Finance Facility • Indonesia Tourism Development • Indonesia's Infrastructure Finance Development (IIFD) – RE • GREM • Institutional Strengthening for Improved Village Service Delivery • PAMSIMAS • National Slum Upgrading Project • RIDF • National Urban Development Project • National Affordable Housing Project • National Urban Water Supply Project • National Urban Flood Resilience Project • Dam Operational Improvement/Safety (DOISP) • Strategic Irrigation Modernization and Urgent Rehabilitation Project (SIMURP)

[42] Number of people benefiting from set of IBRD financed projects including NSUP (P154782), NUWSP (P156125), PAMSIMAS-III (P085375), DOISP (P096532), ISIVSD (P165543)
[44] Aggregated results of a set of projects, including PAMSIMAS-III (P085375), ISIVSD (P165543).
45 This is a composite indicator that consists of five key measurement: i) village government issue regulation on village authority in development (Y/N); ii) village government submit annual village planning document on time (Y/N); iii3) village government submit annual village budget document on time (Y/N); 4) village government submit financial and activity realization reports on time (Y/N); and 5) village government publish village budget and realization reports (Y/N). Baseline is based on estimate from 2018 Sentinel Villages survey in 5 districts. An updated baseline data will be provided after the baseline survey in 2019. Increase is expected from Year 2 when the results of capacity building start to materialize

13. Households with access to improved or safer housing[43], number *Baseline 2021: 375,400* *Target 2025: 902,400* 14. Mass transit systems planned and approved in Indonesian cities (other than Jakarta), number *Baseline 2019: 0* *Target 2025: 3* 15. Container terminals developed with private sector participation in Eastern Indonesia, number *Baseline 2019: 0* *Target 2025: 2* 16. Value of private financing facilitated (US$) *Baseline 2020: 0* *Target 2025: 425,000,000* **Service quality:** 17. Net changes in travel time for public transport users in selected*	SI 13.4. Dams with individual hazard reduced, number *Baseline 2020: 25 dams* *Target 2025: 98 dams* SI 15.1. Establishment of institutional structures in selected metropolitan areas supported by IMTPSP to plan and manage public transport, number *Baseline 2020: 0* *Target 2025: 2* SI 15.2. Assessment of the potential adoption of e-mobility in the cities supported by Indonesian Mass Transit Program Support Project (IMTPSP). *Baseline 2021: 0* *Target 2023: 1* SI 16.1. Agreements (concession, etc.) signed, number *Baseline 2020: 0* *Target 2023: 1*	**<u>Planned lending:</u>** • SOE Reforms DPL • Indonesia Mass Transit Program Support Project (IMTPSP) • Eastern Indonesia Port-led Development Project (EIPDP) • PLN Financial Stabilization and Reform Project (Policy-based Guarantee) • Institutional Strengthening for Improved Village Service Delivery AF • National Urban Wastewater Management Program **<u>Key ASA:</u>** • Indonesia Infrastructure Assessment Program • Indonesia Infrastructure Finance & Development • Infrastructure Institutional and Regulatory Support • Urban Transport Support Program • City Planning Labs and Spatial Planning • Subnational Infrastructure Investment • Affordable Housing Support Program • Climate Auctions for Energy Efficient Buildings • Indonesia Sustainable Urbanization PASA • Infrastructure Financing Support - Capital Market and Risk Products • Long-term Decarbonization Pathway Study (LTS) • Village Development PASA

[43] This is countrywide, both from WB project and GoI program on housing, supported by the WB. Results from NAHP project (2021-2022 volume, as project ends on Feb 2023) Improved housing: BSPS program funded by both NAHP and APBN – 320,000 units (including safer housing) Improved housing: HMF funded by NAHP – 7,000 units ; Safer housing: KPR subsidy program funded by both NAHP and APBN – 200,000 units.

metropolitan areas, disaggregated by gender, percentage *Baseline 2020: 0* *Target 2025: -10* **metropolitan areas with more than 1 million population participating in the phase 1 of implementation of Indonesian Mass Transit Program* 18. Container terminal performance index indicator (ship turnaround time in selected ports in Eastern Indonesia), number per hour *Baseline 2020: 12 containers per hour* *Target 2025: 30 containers per hour* **Access:** 19. Maritime connectivity indicator (rise in tonnage of goods handled by selected ports in Eastern Indonesia) *Baseline 2020: Ambon 100,000 TEUs Kupang 110,000 TEUs* *Target 2025: Ambon 400,000 TEU Kupang 250,000 TEU*	SI 17.1. Sustainable Urban Mobility Plans in place for cities, number *Baseline 2019: 0* *Target 2023: 2* SI 18.1. Transactions prepared for development of container terminals with private sector financing in Eastern Indonesia (number of draft concession agreement prepared for container terminals) *Baseline 2019: 0* *Target 2023: 2*	• Digital Technologies for Inclusive Development in Indonesia PASA **IFC activities:** **Ongoing** • Legok Nangka Waste to Energy PPP (603875) • Asahan (40507) • Indo Express (42548) **Planned activities** • Jakarta Waste to Energy (JakPro Fortum) (41295) • Project Canopy - Bankability Review (p#605374) • EAP Logistics (p#605085) • Indonesia Healthcare Corporation (IHC) • E-mobility

Objective 2.2: Transition to Low Carbon Energy and Attain Universal Access to Reliable and Sustainable Energy
Intervention logic: Indonesia requires massive investments in energy to fuel growth, while decarbonizing power, industry, and transportation. Access to electricity is widespread but unevenly distributed across the provinces and often unreliable. Clean and renewable energy development has been slow, impeded by a continued reliance on coal within the power sector. Additionally, greater emphasis on demand-side improvements in energy efficiency are needed in industry. With such a massive investment program, the sector financial viability is at risk. There is a need to increase the sector's revenues (financial and regulatory reforms will be needed), develop new approaches in financing further investments, and improve the investment climate for

private participation. The adoption of electric mobility and transfers to low-carbon fuels in the transport sector would enable the country to reduce its reliance on fossil fuels, reducing its carbon footprint and local pollutants. At the same time, to increase the share of clean and renewable in the energy mix, there is a need to: (i) tackle pricing and non-pricing disincentives; (ii) understand the drivers for decarbonization; (iii) designing pathways for energy transition in coal regions including a Just Transition for All; (iii) improve the investment climate for private investors by strengthening natural resource governance, gas infrastructure planning, and regulatory reform; and (iv) manage the growing prevalence of emerging (and potentially disruptive) technologies. Ensuring equitable benefit sharing and inclusive participation of affected communities will be a key cornerstone to enhancing the sustainability and adequate management of investment risks. WBG will mobilize climate funds and IFC support to private sponsors will be necessary.

Indonesia also faces a significant challenge to decarbonize. It will need reformed energy sector policies and investments to achieve the GHG emission reduction targets, supported by a long-term strategy for decarbonization addressing options for energy sources and technologies (e,g., natural gas and biogas in the energy mix), optimized land-use allocation based on current and long-term needs (e.g., natural conservation, food security, infrastructure, urbanization).

Indicators	Supplementary Progress Indicators	World Bank Group Program
Transition to low carbon: 20. Share of renewable energy in the generation mix, percentage *Baseline 2020: 12%* *Target 2025: 23%*	SI 20.1. Preparation of transition strategies for coal regions, (%). *Baseline 2020: 0* *Target 2023: 50% of coal regions* *Target 2025: 75% of coal regions* SI 20.2. Pumped storage hydropower MW construction progress, percentage *Baseline 2021: 0* *Target 2023:* 35% SI 20.3. Additional generation capacity of geothermal sub-projects reaching financial close (Megawatt) *Baseline 2021: 0* *Target 2023: 150MW* *Target 2025: 500 MW* SI 20.4. Additional Variable renewable	**Ongoing lending:** • Pumped Storage TA Project • ID-Geothermal Energy Upstream Development • Indonesia Geothermal Resource Risk Mitigation Project (GREM) **Planned lending:** • Development of Pumped Storage Hydropower in Java Bali System • Transition to sustainable clean and efficient energy PforR (including the Just Transition for All support in coal regions) • PLN Financial Stabilization and Reform Project (Policy-based Guarantee) • Indonesia Sustainable Least-cost Electrification-1 (ISLE) **Key ASA:** • Support gas & alternative energy sources • Support sub-national management of resources

Financial sustainability of the Power Sector: 21. PLN Debt Service Coverage Ratio[46] *Baseline 2019: 0.8* *Target 2025: 1.5* 22. **Reduction in GHG emissions in the Power Sector under Energy Projects in selected areas*** (percentage) *Baseline 2020: 0* *Target 2025: 15%* **Islands considered under the ISLE project* 23. **Value of Private Capital Mobilized under Energy Projects[47] (US$)-** *Baseline 2020: 0* *Target 2025: 700,000,000*	energy (VRE) generation capacity constructed in Eastern Indonesia *Baseline 2021: 0* *Target 2023: 100 MWp* *Target 2025: 400 MWp* SI 21.1. White paper endorsed by government on medium to long term energy sector strategy to support energy transition and sector financial sustainability *Baseline 2021: not yet prepared* *Target 2022: White paper prepared and adopted by the government.*	• Indonesia Energy Transition and Sustainable Access to Modern Energy for All – PASA (2020-2025) • Indonesia Infrastructure Finance Development • E-Mobility Roadmap Adoption Strategies for the Indonesia Mass Transit Program • Climate Change – Carbon Finance **IFC Activities:** **<u>Ongoing lending:</u>** • Asahan (40507) • Legok Nangka Waste to Energy PPP (603875) **<u>Planned activities</u>** • Jakarta Waste to Energy (JakPro Fortum) (41295)
ENGAGEMENT AREA III. NURTURE HUMAN CAPITAL		
Objective 3.1: **Strengthen the Quality and Equity of Education and of Skills.** **Intervention logic:** Indonesia performs below its potential with poor education and workforce skills outcomes, further jeopardized by COVID pandemic. Student learning results measured by PISA scores remain low, and inequality in learning outcomes is increasing. Students enroll in schools unready to		

[46] Ratio of net operating income to debt service, based on PLN audited Financial Statements.

[47] Liquidity Support (Policy-based Guarantee) and Indonesia Sustainable Least-cost Electrification (ISLE), and value of private financing facilitated by IFC (US$ 225 million target).

learn as ECED enrollment levels and quality are low, particularly for the poorest children. With the expansion of secondary school enrolment in recent years, more children are now in school, but they are not learning enough to fully contribute to society and the economy. Despite high levels of fiscal transfers for education, many students do not have their own textbooks, and teacher absence from the classroom is above 20 percent (WB 2020). Learning inequality is high between regions, between schools, and within schools. It is important to continue to strengthen the decentralized service delivery framework, including fiscal transfers, governance and accountability systems. A key element of accountability and improving learning outcomes is student assessment, which is essential for system management (WDR 2018). The use of technology and innovation has the potential to improve service delivery and equity, if deployed in rural and remote as well as urban areas, with adequate support and strong quality control. Many Indonesians entering the labor market have inadequate skills, reflecting poor basic education and low alignment between education and training institutions' curricula and labor market needs. Industry 4.0 and the sectoral realignments driven by the pandemic-induced economic shock will bring about increasing skills demands and require the Indonesian workforce to acquire "the right" mix of skills. To meet these demands, it is necessary to strengthen tertiary and vocational education, and ensure that the skills development system is responsive. As information about labor market opportunities are currently limited, Indonesia would also benefit from a modern labor market information system that informs jobs seekers and providers, facilitates job-matching, and provides a solid evidence-base for training and employment policies. The tertiary education system can also become more resilient and provide higher-quality education better aligned with job opportunities. Supporting youth, women and the unemployed to re-enter the labor market and boosting the earnings of the large share of self-employed that display lower education levels and incomes will be essential in Indonesia's recovery from the pandemic. To boost productivity and growth, reversing Indonesia's persistently low female labor force participation rates will also be essential.

Indicators	Supplementary Progress Indicators	World Bank Group Program
24. **Education Quality:** Schools participating in the national student assessments (percentage) *Baseline (2019): 35 %* *Target (2024): 95 %* 25. **Skills Quality:** New graduates certified by the National Agency for Professional Certification BNSP with training based on SKKNI and KKNI competency standards framework *Baseline (2020): 70,681 (Female 33,359/47%, Male 37,322/53%)*	SI 25.1. New or updated SKKNI/KKNI[48] developed (number) *Baseline (2019): 751* *Target (2023): 1000*	**Ongoing lending:** • Realizing Education's Promise: Support to Indonesia's Ministry of Religious Affairs for Improved Quality of Education • Indonesia: Emergency Response to COVID19 • Research and Innovation in Science and Technology Project **Planned Lending:** • Human Capital Development DPL1,2 • Skills Development Project • Improving Quality, Relevance and Strengthening MoRA Higher Education • Realizing Education's Promise AF

[48] SKKNI: National Employment Competency Standards/KKNI: the National Qualifications Framework

Target (2024): 84,285 (Female 40,457/48%, Male 43,828/52%) 26. Proportion of MoRA schools connected to the internet *Baseline 2019: 59%* *Target 2025:79%*	SI 25.2. Data analytics sub-portal of the LMI platform and workforce development studies developed *Baseline (2020): none* *Target (2023): data analytics portal developed*	**Key ASA:** • Learning for Human Capital Development PASA • Jobs in Action PASA • KIAT Guru Phase 2 - Improving Teacher Performance and Accountability Phase 2 • Digital Technologies for Inclusive Development in Indonesia PASA

Objective 3.2: Strengthen Quality and Equity in Nutrition and Health

Intervention logic: Though progress on health and nutrition indicators has been made, Indonesia continues to perform below its potential. COVID pandemic also presents new challenges. Persistent disparities in lagging health outcomes (such as maternal mortality, malnutrition, and communicable diseases) and the rise of non-communicable diseases demonstrate the need to further improve the performance of health sector spending. Health financing and service delivery challenges need to be overcome to expand financial protection, enhance service quality, and accelerate Indonesia's path toward universal health coverage (UHC). Increasing financial health protection, a core tenet of UHC, can only be sustainably achieved through increased efficiency and performance of JKN, the national health insurance program. Complementary actions to improve the quality and accessibility of frontline service delivery—leveraging technological and managerial innovations at scale—will further reduce the remote access gaps underpinning inequities in health outcomes. The "whole-of-government" response to stunting reduction outlined in National Strategy to Accelerate Stunting Prevention builds upon and complements these health sector actions to reduce child undernutrition. Sustained stunting reduction requires a combination of supply side efforts (e.g. converging the packages of stunting reduction activities at the district and village levels) and demand creation activities (e.g. robust social and behavior change communication and incentives for education, health and nutrition services through conditional cash transfers) to improve nutrition service equity and quality.

Indicators	Supplementary Progress Indicators	World Bank Group Program
27. **Health Equity:** Active beneficiaries covered under JKN, percentage *Baseline (2018): 74%* *Target (2024): 85 %* 28. **Health Quality:** Puskesmas (Community Health Centers) that	SI 27.1. Pregnant mothers receiving all four prenatal checkups (percentage) *Baseline (2018): 74.1 %* *Target (2023): 80 %* SI 27.2. Deliveries attended by skilled health personnel (percentage)	**Ongoing lending:** • Investing in Nutrition and Early Years • Supporting Primary Health Care Reform (I-SPHERE) • Emergency Response to COVID19 **Planned lending:** • Health Emergency COVID response AF

have achieved higher level (i.e. top two tiers) of quality accreditation, also by Eastern Indonesia / rest of country[49], percentage *Baseline (2018): ~5 %* *Target (2024): 30 %* 29. **Nutrition Quality and Equity:** Districts exceeding 60 percent score on priority nutrition services targeting index [50](percentage) *Baseline (2018): 55 %* *Target (2024): 67 %*	*Baseline (2018): 79.3 %* *Target (2023): 85 %* SI 27.3. Pregnant mothers consuming IFA supplements (percentage) *Baseline (2018): 38.1 %* *Target (2023): 45 %*	• National Health Insurance (JKN) Reforms and Results Program • Innovations for Health Service Delivery • Human Capital Development DPL 1,2 • Investing in Nutrition and Early Years (INEY) AF **Key ASA:** • Gender Equality for Growth • Supporting reforms to accelerate universal health coverage (UHC) • Support for Strengthening Multisectoral Responses to Nutrition **IFC Pipeline:** • Indonesia Healthcare Corporation (IHC)

Objective 3.3: Strengthen the Inclusiveness and Responsiveness of Social and Worker Protection
Intervention logic: Indonesia has made impressive progress in social protection, including putting in place a core set of social assistance and social insurance programs and delivery systems. Social protection programs are essential to build human capital among the poor and vulnerable population, and to incentivize their use of essential education, health, nutrition and other services. Further reforms are needed to improve effectiveness and efficiency of social assistance spending and implement a comprehensive, integrated, and cohesive social protection system. To protect all Indonesians when needed, the social protection system needs to support households and individuals during different states of transition by responding to new social dynamics and needs, requiring the use of modern systems that leverage technological innovations. One important dimension of this comprehensive social protection system, as demonstrated clearly by the government's COVID response, is it needs to be adapted to protect people that negatively affected by natural hazards, epidemics and other shocks and build their resilience. The pandemic also highlighted the need to continue to strengthen longer term worker protection through the social insurance and labor law system, for both formal and informal workers. Social protection remains the focal point of WB thrust on inclusion.

[49] Indonesia has built an extensive quality accreditation program for its Community Healthcare Centers / Puskesmas. The accreditation process reviews the centers on defined criteria and designates them as Peripurna, Uttama, Madyama or Dasar (from top to bottom tiers) or denies them accreditation, depending on how they perform on the quality assessment.
50 Indonesia calculates a priority nutrition services targeting index measuring both the quality and equity of nutrition services. The index was introduced in priority target districts in 2018 and is expected to cover all districts by 2024.

Indicators	Supplementary Progress Indicators	World Bank Group Program
30. **Protection System Inclusiveness:** Poor and vulnerable households receiving social assistance, by gender (percentage) *Baseline (2019): 65 % (67 % female-headed households; 62 % male-headed households)* *Target (2024): 70 % (both female- and male-headed households)* 31. **Protection system responsiveness:** Population registered in the Social Registry (percentage) *Baseline (2020): 40 %* *Target (2024): 70 %*	SI 30.1. PKH beneficiaries having had their socio-economic status reassessed during the past two years (percentage) *Baseline (2019): 30 %* *Target (2023): 80 %* SI 30.2. Local governments submitting updated data that meets DTK[51] standards (percentage) *Baseline (2019): N/A (standards not in place)* *Target (2023): 80 %* SI 30.3. Informal workers covered by of old age savings program (JHT) (percentage) *Baseline (2019): 1 %* *Target (2023): 3 %* SI 31.1. Social assistance payments by the Pooling Fund for Disasters (PFB) approved and disbursed on time as set out in the adopted program (percentage) *Baseline (2020): 0 %* *Target (2023): 80 %*	**Ongoing lending:** • Social Assistance Reform Program • Social Assistance Reform Program Additional Financing • Strengthening Disaster Risk Finance **Planned lending:** • Digital ID and Registration for Inclusive Service Delivery • Human Capital Development DPL 1,2 **Key ASA:** • Support for Strengthening Multisectoral Responses to Nutrition • Social Security • Towards Gender-Smart Social Protection in Indonesia • Identification for Development (ID4D) • Disaster Risk Financing & Insurance

ENGAGEMENT AREA IV. SUSTAIN MANAGEMENT OF NATURAL ASSETS, NATURAL RESOURCES- BASED LIVELIHOODS AND DISASTER RESILIENCE

Objective 4.1 Strengthen management of natural assets and environment

Intervention logic: The quality of management of natural resources in a country richly endowed with forests, oceans and arable land has powerful effects on poverty reduction, growth, and resilience. Poverty is most severe among households living within or at the edge of forest estates and in coastal communities, particularly in Eastern Indonesia. Forests and peatlands have global significance as a treasured international public good, particularly for their role in controlling climate, reducing flood risk, and harboring biodiversity. These ecosystems face deforestation and degradation, which leads to GHG emissions, fires, loss of biodiversity, land subsidence, and flooding. Indonesia has the highest marine biodiversity in the world, also under pressure

[51] Social Registry/ Data Terpadu Kesejahteraan Sosial (DTK)

from overfishing, unsustainable coastal development, marine plastics, and other types of pollution; which degrade critical ecosystems such as mangroves and coral reefs. Poor waste collection and treatment services lead to higher rates of ocean leakage, marine debris, and is a key cause of urban flooding. Over half of domestic waste (including plastics) remain uncollected each year; being burned, dumped, or entering waterways and oceans. The cost of air pollution is estimated to be around 5 percent of GDP. In urban areas, particularly the Greater Jakarta region, air pollution has increasingly been an impediment to productivity and wellbeing, with increased traffic congestion and fossil fuel-based power plants identified as key sources of pollutants. Policy reforms are needed to strengthen compliance with spatial planning, strengthen land administration and governance (including the rights of vulnerable communities), and improve governance of natural resources (particularly forest estates and fisheries). This could be achieved by better and transparent data, participation of stakeholders in decision making, integration of landscape management principles and ecosystem-based fisheries management into natural resources management, building with nature, and ensuring equitable benefit sharing and inclusion of the vulnerable and poor (including indigenous peoples in frontier areas. and rural communities). Participatory processes to reach consensus and collective support from affected communities are inseparable elements of the overall interventions, representing key ingredients for social risk management and sustainability in the event of trade-offs. Investments in pollution control and waste management are needed to stem the flow of harmful substances to the environment, including the scourge of marine plastics. Investments in conserving critical natural resources (such as forests, peatlands and oceans) and restoring those that have been degraded are also needed. Urban sprawl in the urban peripheries is a key driver of greenhouse gas emissions through forest degradation, unsustainable development in the lowlands and urban peripheries, and increasing congestion in cities due to inadequate urban planning. Additional support is needed to strengthen the implementation of *Agrarian Reform* to tackle land tenure insecurity and enhance sustainable governance of land and natural resources.

Indicators	Supplementary Progress Indicators	World Bank Group Program
32. Area with thwarted deforestation [52](hectares) *Baseline 2020: 0* *Target 2025: 183,781* 33. People in selected urban areas[53] (Bandung and Cimahi) with regular	SI 32.1. Land area under sustainable landscape management practices (hectares) *Baseline 2020: 0* *Target 2023: 5,900,000* *Target 2025: 9,440,000* SI 33.1. Solid waste recycled, composted and/or treated with other techniques to reduce	**<u>Ongoing lending:</u>** • Coral Reel Rehabilitation and Management Program -Coral Triangle Initiative (COREMAP-CTI) • Promoting Sustainable CBNRM and Institutional Development (RETF) • HCFC Phase-out in the PU Foam Sector Project • Program to Accelerate Agrarian Reform (One Map Project)

[52] This is measured through a robust protocol following international best practices. It uses remote sensing images to check actual deforestation and compares to a reference level already prepared (the counterfactual of deforestation). This is following the REDD+ protocols agreed by the UN Convention on Climate Change

[53] This relates to selection of cities and districts in Indonesia under the National Solid Waste Management Project (157245). Although for practical purposes the project design keeps the selection of cities/districts flexible, the geographical focus of the project is on the Citarum River catchment area. Cities/Districts that have been included in the selection in the first year of implementation (effectiveness April 2020) are Bandung City, Bandung District, Wests Bandung District and Cimahi City

household waste collection (percentage) *Baseline 2020: 65* *Target 2025: 81* 34. Marine plastic waste reduction from land-based sources from selected urban populations[54] (Bandung and Cimahi) (% of reduction from baseline) *Baseline 2020: 0.27 - 0.58 ton/year* *Target 2025: 56%* 35. Area of coastal and marine ecosystems with improved (blue or gold standard) management (hectares) *Baseline 2020: 0* *Target 2025: 7,800,000* 36. Greenhouse gases (GHG) emissions reduced (Metric tons/year) *Baseline 2020: 0* *Target 2025: 42.7 million*	waste disposal volumes in targeted urban areas (percentage) *Baseline: 0* *Target 2023: 10* *Target 2025: 14* SI 34.1. Additional landfill disposal capacity operational per defined criteria in target areas (Cubic Meter(m3)) *Baseline 2020: 0* *Target 2023: 10,000,000* *Target 2025: 16,000,000* SI 35.1. Area of mangrove ecosystem restored, rehabilitated or enhanced within target coastal areas (hectares) *Baseline 2020: 0* *Target 2023: 50,000* *Target 2025: 75,000* SI 37.1. Coverage of digital land value maps and zoning information in non-Forest Area (percentage) *Baseline 2020: 56*	• Solid Waste Management project • East Kalimantan Project for Emission Reductions Results • Jambi Sustainable Landscape Management Project • Strengthening of Social Forestry in Indonesia **Planned lending:** • Oceans for Prosperity Program - LAUTRA Phase 1 • Indonesia Mass Transit Program Support Project • National Urban Flood Resilience Project (NUFReP) • Revitalization of Lowland Irrigation for National Food Security (RAWA LESTARI) • SOE Reform DPL • One Map Policy 2 (Multipurpose Cadaster for Sustainable Development) • Indonesia Sustainable Cities Impact Project (GEF) • Jambi Emission Reduction Results Project **Key ASA** • Integrated Landscapes Programmatic PASA, particularly the Improved Land Administration and Governance, and Economic incentives to improve management of critical landscapes • Enabling Activities for Hydrofluorocarbons (HFC) Phase-down under the Montreal Protocol • Addressing Marine Plastics Debris in Indonesia • Sustainable Management of Indonesia's Oceans and Coastal Resources, and Reducing Marine Debris

[54] Same as above.

37. Non-forest area with land rights registered (parcels) *Baseline 2020: 69 million* *Target 2025: 100 million*	*Target 2023: 70* *Target 2025: 77*	• Promote Natural Resources Transparency & Anticorruption • Indonesia Natural Resources for Development (NR4D TF One Map Policy Pillar) • Urban Transport Support Program • Mobility Adoption Strategies for the Indonesia Mass Transit Program • Artisanal and Small-Scale Gold Mining Sector Analysis **IFC Activities:** **Ongoing** • EAP Green Building (604486) • BTPN SME Green Loan (41698) • OCBC NISP: Sustainable Bond Program (43613) **Pipeline:** • E-mobility • CIMB Niaga Bond (Green and SME -43543)
Objective 4.2: Improve Agriculture and Natural Resources-Based Livelihoods **Intervention logic:** Agriculture, fisheries, and forestry have the potential to contribute significantly to national and local food security, incomes, jobs and exports, and rural transformation that can enhance economic and social resilience. To capture the benefits from these natural assets in a sustainable and efficient manner, multiple constraints and challenges need to be addressed: Degradation of natural resources (see above), poor access to markets (including for premium products such as horticulture, seafood, fruits), low technical capacity and skills, low use of modern technology, and poor access to services, including technical assistance and finance. An integrated approach is required to address these challenges: enhancing and sustaining the resources within the biophysical landscapes on the one hand, while strengthening the productive capacity of producers and value chains on the other. This includes diversification of rural communities to reduce unsustainable levels of resource extraction, such as coastal fisheries. The integration of landscape and oceans management with the development of primary production and value chains would balance long-term sustainability of the physical assets and the economic and commercial viability of the assets' sustainable use.		

A key objective of sustainable agriculture and value chains is to improve farm incomes. Current agricultural development policies are built around a protectionist food security focus and comprise support policies for rice and the other strategic crops (maize, sugar, soya and beef). As such, majority of the government spending is focused on these crops, crowding out much-need support for the development of other alternative crops. However, because rice and cereal crops yield much lower returns than horticulture and livestock products, this depresses farmers income. Therefore, in order to enhance farmer incomes – and thus farmer welfare – two kinds of inter-linked interventions are proposed. The first is to encourage diversification into higher-value crops which are more profitable for the farmers and for which there is growing market demand. The second is to encourage productivity growth through adoption of improved production technologies and management practices. A key condition for the latter is to ensure availability and accessibility of rural households to relevant financial services, so that they can be enabled to investment in productivity-enhancing modern inputs, technologies and practices. Overall, re-centering the focus of agriculture interventions on enhancing productivity and profitability through diversification, technical innovation, post-farm processing and food industry development will significantly stimulate agricultural growth and competitiveness and farmer incomes. Digital technologies will play an important role in enhancing productivity throughout the value chain.

Indicators	Supplementary Progress Indicators	World Bank Group Program
38. Share of high-value crops in agriculture GDP (%) [55] *Baseline 2020: 24.1%* *Target (2025): 25.4%* 39. **Forest:** People in targeted forest and adjacent communities with increased income or non-monetary benefits (e.g., access to technology, higher capacity, education, funding) from forests[56], number *Baseline 2020: 0* *Target 2025: 300,000* 40. **Coastal and marine resources:** Beneficiaries in target coastal areas	SI 38.1. Number of farmers benefiting from improved financial services (direct and indirect)[58] *Baseline 2020: 39,000* *Target 2024: 110000* SI. 38.2. Average yield of cocoa bean (productivity) (metric tons/Ha) *Baseline 2019: 0.8* *Target 2023: 0.9*	**Ongoing lending:** • Strengthening of Social Forestry in Indonesia (RETF) • Jambi Sustainable Landscape Management Project (J-SLMP) **Planned:** • Oceans for Prosperity Program - LAUTRA • Agriculture Value Chain De (I-CARE) • Tourism Development AF **Key ASA:** • Transforming Indonesia's agri-food system • Sustainable Agriculture Livelihoods (part of Integrated Landscapes Programmatic AAA) • Coastal Fisheries Initiative Investment Plans

[55] an indicator to measure the impact of the reorientations of policy and public spending. It is measured as an increase (5%) of the share of high value agriculture in the overall agriculture GDP. This indicator would measure the economy-wide impact of ASA activities as well as ground level impact from refocusing agriculture budget allocation to support agriculture sector diversification and promote digitalization and value addition

[56] Direct and indirect communities received beneficiaries in targeted forest and adjacent communities with improved income and access to supporting facilities (funding, capacity building, technology, education, health and other services) , which include farmer groups, trader of products, and other private sector related to agriculture and forestry products.

[58] SI measures intermediate results of the IFC program

with diversified income sources (no. income sources relative to baseline)[57], number *Baseline 2020: 0* *Target 2025: 150,000*	**SI 39.1. Rural households accessing financial services[59], %** *Baseline 2019:* *Rural household has bank account: 33.1%* *Rural household has access to credit: 43.7%* *Target 2023:* *Rural household has bank account: 34.8%* *Rural household has access to credit: 45.9%* *Target 2025:* *Rural household has bank account: 36.4%* *Rural household has access to credit: 48.1%*	• Sustainable Management of Indonesia's Oceans and Coastal Resources, and Reducing Marine Debris **IFC Activities:** **Ongoing** • IFC advisory on Digital Extension Services and Financing (604378) • Olam Smallholder Crop Financing (40675) • Nabati (RSE COVID-19 Facility) (44276) • Eleme (42187.SS)
Objective 4.3: Strengthen Multi-Hazard Disaster Resilience **Intervention logic:** Indonesia has a high exposure to natural hazards due to its geographical location on the Pacific "Ring of Fire", increasing vulnerabilities in rapidly growing cities, and climate effects such as sea level rise and changing rainfall patterns. Significant progress has been made since the 2004 Indian Ocean Tsunami to develop national disaster risk management (DRM) strategies and commitments, enhance early warning systems,		

[57] Number of beneficiaries reporting new, additional income sources.
[59]This is an indicator to measure overall access to financial services among rural households as an intermediate outcome indicator for rural economic development, including agriculture transformation and participation in markets. It is assumed that this indicator would also be relevant to the ENB and IFC program in the CPF. Methodology: the proportion of rural households with access to bank accounts is defined as the share of households in which the head of the household possesses a personal account in his/her name or a joint account in a financial institution (i.e. banks, cooperatives) in rural areas. The proportion of rural households with access to credit is defined as the share of rural households in which any of the household members received any forms of credit in the past year. This includes credit from the following sources: Kredit Usaha Rakyat (KUR), other commercial bank schemes aside from KUR, Bank Perkreditan Rakyat (rural banks), cooperatives, individuals with interest, pawn shops, leasing companies, Joint Business Groups (KUBE/KUB), Village-Owned Enterprises (BUMDES), and others. SUSENAS data collection is conducted twice a year, in March and September.

and bolster subnational emergency management services. However, the catastrophic events and other disasters in 2018 caused the most loss of life in over a decade, prompting the government to prioritize ex-ante investments for resilient infrastructure and disaster risk reduction and develop a national strategy for disaster risk financing and insurance to better absorb economic impacts from future disasters.

Recognizing these strategic priorities, the WBG program will complement support from other development partners—including related to urban flood risk mitigation, emergency management capacities, and DRM policy reform—and focus on three key pillars of support: (i) disaster risk reduction investments in national programs addressing flood and seismic risk, resilient post-disaster recovery, community preparedness and awareness-raising, and multi-hazard early warning system platform, as well as mainstreaming disaster and climate change resilience principles intro multi-sectoral investments; (ii) financial resilience through a layering of relevant financing instruments (that could include contingent financing, post-disaster financing, and insurance products); and (iii) policy reform and institutional strengthening to further mainstream disaster risk management and leverage ex-ante resilience-building investments, including through blue-green resilience measures and hazard reduction through environmental rehabilitation and restoration.

Indicators	Supplementary Progress Indicators	World Bank Group Program
41. Number of people benefiting from a multi-hazard early warning system platform *Baseline 2020: nil* *Target 2025: 30 million (of which 14 million are women)* 42. The amount of financing leveraged under the umbrella national urban flood resilience program to reduce flood risk in participating cities *Baseline 2020: nil* *Target 2025: $600 million*	SI 41.1. # of cities with areas that consider environmentally informed integrated planning, including approaching that mainstream biodiversity and climate resilient development *Baseline 2021: 0* *Target 2023: 2* SI 41.2. Establishment of a multi-hazard early warning system that disseminates warnings for select hydrometeorological and geophysical hazards SI 41.3. Value of disaster/weather risk insurance policies issued to individuals (including group policies) in agriculture sector[60] (US$): *Baseline 2020: 0*	**<u>Ongoing:</u>** • Indonesia Disaster Resilience Initiatives Project (IDRIP) • Central Sulawesi Rehabilitation and Reconstruction Project (CSRRP) • Indonesia Social Assistance Reform Program (AF) **<u>Planned lending:</u>** • Indonesia Disaster Risk Finance and Insurance • Indonesia: National Urban Flood Resilience Project (NUFReP) • Global Environment Facility Indonesia Sustainable Cities Impact Project (GEF-SCIP) **<u>Key ASA:</u>** • Disaster Risk Financing & Insurance • TA to the Environmental Fund (BPDLH) • City Planning Labs (CPL)

[60] IFC activities including agriculture insurance advisory (P#601736).

	Target 2025: 4,200,000 SI 42.1. # of cities with areas that consider capital investment prioritization frameworks that include attention to environmental considerations *Baseline 2021: 0* *Target 2023: 5* SI 42.2. Utilization of the pooling fund for disaster response financing *Baseline 2020: pooling fund not established* *Mid-target 2023: pooling fund established* *Target 2025: pooling fund utilized in disaster response*	• Strengthening Multi-hazard Disaster Resilience in Indonesia PASA • Climate Change – Carbon Finance **IFC Activities:** • IFC advisory on Indonesia Agriculture Insurance

Annex 2. WBG Completion and Learning Review

INDONESIA COUNTRY PARTNERSHIP FRAMEWORK: FY 2016-2020

COMPLETION AND LEARNING REVIEW (CLR)

CPF Board Discussion	December 1, 2015
CPF Performance and Learning Review (Board Presentation)	November 29, 2018
Period Covered by the CLR	July 2016 to June 2020

I. SUMMARY OF KEY FINDINGS

1. The Country Partnership Framework (CPF) was anchored on the objectives of promoting consistent public policy reforms to strengthen economic fundamentals, improve public services and infrastructure, and bolster the environment for private sector investments so as to attain sustainable, inclusive growth. It rested upon six engagement areas: (i) national infrastructure for growth and development; (ii) sustainable energy and universal access; (iii) maritime economy and connectivity; (iv) delivery of local services; (v) sustainable landscape management; and (vi) strengthening public finances. Two cross-cutting beams underlay these areas: (i) leveraging the private sector: investment, business climate and functioning of markets; and (ii) ensuring shared prosperity and inclusion.

2. The CPF was well-aligned with country goals, as expressed in the National Mid-Term Development Plan (2015-2019) which, in its socio- economic aspects, focused on human development, food security, infrastructure, the maritime economy, and inclusive growth. It was also informed by a direct dialogue with the highest levels of government and periodically with the President of the Republic that revealed government interest in learning from international experience and in bringing together global knowledge, policy expertise and financing to address complex development tasks. Dialogue with the private sector showed its interest in evidence-based advice on regulatory reforms.

3. The CPF was characterized by an agreed focus on infrastructure, human capital and institutional reforms directed at public services quality, and incentivizing private sector growth. It demonstrated a strong programmatic engagement in knowledge and advice to inform policy reforms and lending activities. Moreover, it embodied an array of innovative approaches to lending modalities, institutional reforms, advocacy, and citizen engagement.

4. The CPF benefitted from a well-designed mid-term adjustment in the Performance and Learning Review (PLR) that noted growing client demands in human capital development, in maximizing finance for development in infrastructure, and adapting to changing international trade conditions. The first was sparked by the Bank's strategic use of knowledge work leading to policy dialogue and later the human capital index[61] to place the human capital development agenda prominently in its engagement with the government. The authorities accorded top priority to human development with a focus on anti-stunting. The second was based on new sources of financing inter alia as a result of work by IFC; and the third reflected lost opportunities through weak global supply chain linkages. The PLR also sharpened the focus on implementation through

[61] Presented at the WB/IMF Annual Meetings 2018 in Bali, Indonesia.

national programs and broadened the use of performance-based lending, in light of its evident effectiveness in Indonesia. Moreover, it acknowledged difficulties in the political economy in advancing on environment reforms as originally envisaged.

5. The program performance in contributing to the achievement of the CPF outcomes is judged to be Satisfactory. Over the CPF period, the World Bank Group (WBG) supported Indonesia through IBRD investments of $9.8 billion (including emergency COVID response) that utilized a rich body of analytical, advisory and technical assistance work. IFC provided $ 1.43 billion in equity, debt and guarantee investments, and MIGA provided $183 million in guarantees. Advisory Services and Analytic (ASA) activities were structured to be largely programmatic; they proved to be highly influential in dialogue and policy advice, addressed the key development priorities and were of commendable quality. Altogether, the WBG worked in a commendably integrated fashion across the strategic objectives of the CPF.

6. The CPF contained a strong focus on fighting poverty, sought to expand the role of the private sector in generating growth, and supported key institutional reforms in decentralization, efficiency in service delivery, and strengthened public finances. In infrastructure, improved irrigation, electricity supply and access, housing, slum upgrading and rural water services were expected to have powerful anti-poverty effects; policy reforms to improve service delivery and investments in social protection, education, health, and nutrition were aimed at improving human capital, productivity and lifetime earnings. Improvements in the investment climate, de-regulation, financial market reforms, aimed, inter alia, at greater private financing of infrastructure, improved maritime connectivity and expanding opportunities in tourism stimulated private sector-led growth. The Bank responded in a timely and highly effective fashion to the COVID emergency with policy advice that shaped the government's response and with financial support amounting to $950 million. The CPF was less successful with respect to results in fiscal policy, but ASA and the dialogue has paved the way for reforms over the forthcoming CPF period.

7. The performance of the WBG in designing and supporting the implementation of the CPF program is rated as Good. The WBG deployed its full gamut of lending instruments, relying upon programmatic development policy operations to support key reforms and on PforR to focus on attainment of results, in all cases backed up by solid ASA. The CPF embodied lessons from the CLR (2006) and identified and managed the major risks well with targeted interventions. However, the results matrix lacked higher-order indicators to judge results and it would have benefitted from stronger causal linkages.

8. Particularly impressive in WBG performance were quick response and adaptability to client needs on a wide range of policy reforms and timely adaptations to changing circumstances and priorities, notably the response to natural disasters and the pandemic. The CPF was innovative in its platform approach to major projects through which country and development partners were brought together to employ common implementation arrangements to lower transactions costs and leverage investments. Many interventions were characterized by a multi-sector, multi-Global Practice (GP) approach (e.g., nutrition, urbanization). The maximizing finance for development approach (MFD)[62] was applied in infrastructure, housing, and urbanization, renewable energy and marine connectivity; other possibilities are being explored. The CPF has left a strong legacy of

[62] Indonesia is a pilot country for MFD.

ASA work to be built upon in the successor CPF period and which will seed the next lending program.

9. In light of the strong performance of the CPF and against the somber background of the pandemic, a number of lessons can be drawn. Building on a strong relationship with the client, the WBG should continue to provide candid, evidence-based advice in a medium/long-term perspective, intensifying the dialogue on medium-term reforms. Second, priorities must be re-shaped to re-attain macroeconomic sustainability, integrate with international markets, and strengthen decentralized institutions to improve service delivery. Third, the WBG should build new strengths in work on environment, pandemics, sustainable development, as well as in a number of high-reward areas such as investing in digitalization, titling efforts towards lagging areas of the country, and making a determined effort to mainstream gender considerations across its interventions. Fourth, the WBG should seize the opportunities to scale-up in areas of demonstrated success such as a programmatic approach in knowledge and lending, the platform approach to embrace development partners and foster intra-government coordination, expand use of PforR, and widen the scope of the maximizing finance for development technique. Finally, the successor CPF should be built in a flexible manner with robust results linkages to mitigate risks; the PLR in FY'23 will provide an opportunity to reorient the strategy as needed.

II. Development Outcomes

A. Background

10. **The Political Economy.** The CPF was implemented during the presidency of Joko Widodo (Jokowi), who was re-elected to a second term of office in 2019. The Jokowi administration has been cautiously reformist: in its first term, spending on wasteful and regressive energy subsidies were re-directed towards infrastructure investments; the role of human capital in sustained and inclusive growth was increasingly recognized with growing emphasis on social expenditures in education, health, nutrition, anti-stunting, and social protection; and a moratorium on peatland development was declared. In the second term, an effort is being made to de-regulate the economy, thereby easing conditions for private (and foreign) investment and reduce labor market rigidities. Nevertheless, a set of critical reforms on governance and anti-corruption, increasing revenues, climate change and landscape management, the dominance of state-owned enterprises, and correcting an anti-trade bias in economic and regulatory policies have proven elusive.

11. **Economic Developments.** Indonesia enjoyed macroeconomic stability over the CPF period, with fiscal deficits being kept by law in the range of 2-2½ percent of GDP, and the external current account balance below 3 percent of GDP. Economic growth averaged 5 percent annually. Inflation has remained within the official target of 3-5 percent annually. The stable macroeconomic stance has provided a buffer to external shocks; nevertheless, growth, inflation and fiscal revenues reflect volatility in commodity prices (coal, oil and gas, palm oil, metals), which following strength in the first half of the CPF period, have since weakened.

12. **Economic growth** is projected recover slowly in 2021 and over the medium term after a contraction of 2.1 percent in 2020 because of the international pandemic shock.[63] Moreover, weak productivity – related to inadequate integration with global value chains, an anti-trade bias in non-tariff and regulatory policies, and shortcomings in human capital -- saps the long-run growth potential. Volatility in growth, inflation and the exchange rate could rise if a global slowdown

over the medium term causes low commodity prices, especially in view of Indonesia's heavy dependence on short-term capital inflows (rather than foreign direct investment) to finance current account deficits. Structural reforms to expand the role of private capital have become urgent and are being considered, e.g. through the Omnibus Bill on Job Creation.

13. **Poverty and Inclusion**. The CPF period saw a continued reduction in poverty: the poverty rate has fallen from 11 percent in 2016 to 9.4 percent in March 2019.[64] The major factors behind this development have been growth that resulted in a rising rate of employment to reach historic highs, and an expansion of social assistance. However, nearly half the population falls within the band of living only 1.5-3.5 times above the poverty level and a further 30 percent of the population remains poor or vulnerable to falling back into poverty. Thus, sustained growth together with anti-poverty and inclusive policies will remain essential to building a solid middle class and eventually attain the status of an upper middle-income country.

B. The Overall CPF Development Outcome

14. The CPF program performance is rated Satisfactory. The program was constructed around six engagement areas with two cross-cutting supporting beams and a total of fifteen objectives.[65] Performance in relation to the objectives was measured through 31 outcome indicators, of which 21 were fully achieved and a further three mostly achieved (Annex I).

Engagement Area 1: National Infrastructure for Growth and Development

15. The Systemic Country Diagnosis (SCD), FY15 shows and SCD Update, FY20 confirms that inadequate infrastructure jeopardizes sustainable growth, job creation and competitiveness as it raises the costs of transactions, limits markets, constricts production possibilities and economies of scale. The growth rate of public investment has lagged GDP growth over the past decade resulting in an infrastructure deficit estimated at $1.6 trillion. Closing this gap would help to promote inclusive growth, as poorer households would be able to access a wider range of economic opportunities and jobs as well as housing, energy and water for livelihoods and public services including education, health and sanitation.

16. The *Infrastructure Sector Assessment Program*, the key knowledge product over the CPF period, took a strategic view of infrastructure policies and needs. The paper examined the main constraints to infrastructure investment by building up from detailed sector analysis in energy, transport, water supply and sanitation, and subnational finance and urban housing, and analyzed such cross-cutting constraints as the impediments to competition and efficiency posed by state-owned enterprises, the limitations of financial markets, overall legal and regulatory constraints, and difficulties in bringing projects to markets to attract private investment.

Objective 1: Increase Access to Water through Irrigation and Dam Safety; **<u>Mostly Achieved</u>**

17. The Bank supported reliable, climate-resilient and efficient irrigation water supply by investments in irrigation systems and improved accountability mechanisms in irrigation management through advisory work and Investment Projects Financing (IPFs). IFC has helped to

[64] As a result of the pandemic shock, poverty increased from 9.8 to 10.2 percent between March and September 2020, its highest level since 2017.
[65] The discussion in this section relates to the results matrix as revised and presented in the PLR.

upgrade irrigation dams to generate power, promoted PPPs, and partnered agriculture firms in raising irrigation efficiency. Dam safety IPFs have addressed concerns that result in part from climate-change effects on water flows and dams and have sought to improve the asset management of dams as well as hydrology data management.

18. The outcomes were **mostly achieved** (Annex II). Individuals benefitting from improved irrigation and drainage were targeted to rise from 4.5 million (2016) to 5.8 million (2020); the result is 5.1 million. The result fell short of the target because of a weak project management system in the supporting Bank project for rehabilitating irrigation dams that is now being addressed. The target on the individuals benefitting from improved dam safety provided for a rise from 3.1 million (2016) to 5.85 million (2020); this was surpassed with a result of 6.03 million.

Objective 2: Increase Access to Affordable Housing: **<u>Achieved</u>**

19. With rapid urbanization and a shift towards a services-based economy, Indonesia is reaping the benefits of economic agglomeration, but urban infrastructure, particularly quality, affordable housing[66] is a constraint to growth and inclusion. Bank interventions on both demand and supply for housing have, through an IPF, consisted of mortgage-linked down payment assistance through a financial intermediary (primarily benefitting lower-middle income households),[67] home improvement financing (primarily benefitting lower income households), and technical advice on policy, governance and regulatory reforms affecting the primary and secondary mortgage markets and the enabling environment for housing finance and housing information system. Policy advice has been directed at improving quality of institutions in housing services and targeting of programs. IFC has provided loans and partial guarantees for bond issues for residential home construction and to support green buildings.

20. The outcome was **achieved**. The number of households assisted by the program for affordable self-built house ownership that covered peri-urban and rural areas was targeted to rise from nil in 2016 to 300,000 in 2020. The result achieved was 375,000, largely as a result of the expansion of subsidies for home improvement and construction for targeted households.

Objective 3: Development of Integrated Tourism Destinations: **<u>Achieved</u>**

21. Tourism has a large, and as-yet unrealized, potential to stimulate growth and job creation, especially among women, youth and the modestly paid, and sharpen the export-orientation of the economy. It has suffered from poor policy formulation and coordination at the central and local levels, insufficient attention to destination development and quality of services, and inadequacies in both infrastructure and worker skills.

22. The Bank extended advisory support through work on sustainable tourism development and IFC through studies on the investment climate, competition and analysis of competitive sectors. An IPF for integrated tourism development is aimed at improving the quality of and access to infrastructure and services, strengthen linkages of the local economy to tourist needs, and maximize private sector participation. It supports two WBG corporate priorities: maximizing finance for development and climate-change policies. By bolstering institutional capacity at all levels, integrated tourism master plans are being prepared with supporting sector plans and integrated destination plans. In addition, investments will be made in key tourism-supporting

[66] Affordable housing is defined as housing units that those with below the median household income could afford.
[67] This component of the loan has disbursed little owing to a mispricing of credit terms, now being addressed.

infrastructure, access roads, water and sanitation, solid waste management. Local economy participation will be enhanced through skills development and uptake of technologies. The enabling environment for private businesses is being improved. IFC invested in a tour operator developing destinations in the government priority list.

23. The outcome was **achieved**; indeed, surpassed. One integrated tourism destination with a coordinating body and implementation arrangements formalized by a government decree was to be designated by 2020. Three have been achieved – in Lombok, the Yogyakarta area and Lake Toba, with the help of joint work on institutions, planning, integrated website and management information system, and support system to achieve the result.

Engagement Area 2: Sustainable Energy and Universal Access

24. Indonesia requires massive investments in energy to fuel growth and will continue to rely heavily on coal even though it has set ambitious targets for increased generation from domestic gas and energy from renewables (mainly geo-thermal and hydro)[68] in light of its Nationally Determined Contributions (NDC) climate-change commitments.[69] Periods of energy black-outs and their duration exceed that in comparable emerging market economies. Despite an energy subsidy reform in 2015, prices are administratively set, even in renewables generation, and lie well below cost-recovery, jeopardizing the financial sustainability of the main power company. For price-setting and regulatory reasons, the participation of the private sector in energy is severely discouraged.

25. The WBG objectives were to improve access to electricity, improve reliability of supply, support the shift towards renewables (particularly geo-thermal)[70], support pricing and regulatory reforms to shore up the financial sustainability of the electricity company, and improve the investment climate for private participation. Two sets of ASA were deployed: an energy-specific programmatic ASA on electricity and a cross-GP programmatic ASA on extractives that focused on natural resource governance, gas infrastructure planning and regulatory advice, as well as advice on strengthening the fiscal management and governance of extractive resource revenues. WBG interventions also consisted of a series of Technical Assistance (TA) activities, a policy-based energy loan as well as a set of investment projects (IPFs, PforR). Finally, IFC made equity and debt investments in private sector projects, and MIGA explored use of its political risk insurance and non-honoring product instruments in this sector.

Objective 4: Increase Supply and Access to Energy: **Achieved**

26. The key instrument to support structural reforms was a planned series of two development policy operations from 2016. The first operation sought to reduce the fiscal cost of electricity provision by price and subsidy reforms; improve the investment climate through licensing reforms for independent power producers and also for gas-based generation, storage, processing and transport; encourage investments in renewable energy through legislative and regulatory reforms; and expand access to electricity, especially in rural areas. These reforms were mostly implemented, but then lost momentum to populism, and the government reversed course at end-

[68] The share of renewables in the energy mix is targeted to rise from 12 percent in 2019 to 23 percent in 2028.
[69] The NDC commitment amounts to a reduction of greenhouse-gas emissions by 29 percent between 2010 and 2030.
[70] Geothermal energy potential is estimated at 29000 MW, with only 1800 in operation today.

2017 to freeze tariff adjustments and introduce purchase price caps favoring coal over renewable sources. The follow-up Development Policy Loan (DPL) was then not pursued. Since then, uncertainties over the path of energy prices with ad hoc delays in the implementation of reforms have hampered the viability of the sector and deterred private capital, even though the fiscal burden of subsidies today is a third of that in 2015.

27. The Bank extended projects to improve access, system efficiency and reliability through investments in transmission and a PforR distribution project in Sumatra. It also extended a pumped storage project to enable penetration of variable renewable energy sources such as solar. In addition, the Bank followed up its earlier two IPFs in the CPF period in geothermal investments by a Geothermal Resource Risk Mitigation Project that provides risk mitigation exploration funding to geothermal developers for exploration and early production drilling, thereby leveraging large-scale commercial finance. Geothermal projects showcase WBG mobilization of climate funds (CTF, GEF and GCF), with IFC supporting private sponsors. IFC participation in energy is hampered by the strong privileges accorded to SOEs and regulations that deter IPPs and investment in renewables. Nevertheless, IFC has been active in hydropower generation, has invested in a clean energy platform, provided venture financing for wind power, extended PPP advisory support and regulatory reforms advice.

28. The three outcome indicators were **achieved**. The first – an access indicator – related to individuals provided with new or improved electricity services (in Sumatra) and was targeted to rise from 11.18 million (2015) to 13.18 million (2020); the actual is 14.98 million – a result owed largely to IPFs in transmission and distribution. The second aimed at raising the installed geothermal generation capacity from nil in 2014 to 150 MW in 2020; the result is 150 MW, arising from advisory work and IPFs in the geo-thermal sector. The third – a measure of the shift to gas and renewables – targeted a rise in non-coal (hydro and gas) power generation from 1175 Gwh (2014) to 2401 Gwh (2020); the result is 2704 Gwh.[71] This result is supported by WBG advisory work on gas and renewables and IFC investments in the sector.

Engagement Area 3: Maritime Connectivity

29. Competitiveness is severely hampered by the poor quality and high cost of port operations, logistics services and the processing of trade across borders – a particular handicap for a maritime nation.[72] A restrictive regulatory environment discourages private sector participation and drives up costs. Maritime connectivity suffered from inefficient port operations based on entry and concession barriers as well as capacity and infrastructure constraints, and lack of clarity in asset ownership. The logistics services industry was hobbled by restrictive regulations and lack of competition. Inefficient trading procedures raised the cost of compliance and trading, presented a strong anti-trade bias, and led to high local costs in production and services.

[71] Nevertheless, the percentage share of coal in overall generation has not fallen.
[72] In the *Doing Business* "Trading Across Borders" indicators, Indonesia ranked 108 out of 189 in 2017 (behind most South East Asian comparators) and 116/190 in 2019; in the *Logistics Performance Index,* it ranked 71 out of 160 countries in 2017 (behind Cambodia, Malaysia, Philippines, Thailand, and Vietnam) and 46/190 in 2019.

30. WBG analytical work diagnosed the sources of inefficiencies and illuminated the reform priorities in port infrastructure, logistics, and in lowering the cost of internal commerce and external trade. A series of studies on trade and regulation, such as on port tariffs and trade logistical services, an eastern Indonesia port development platform, the impact of free trade agreements and of non-tariff measures on trade and competitiveness informed the dialogue with the authorities and supported the government objective of improving maritime logistics. Finally, the Country Private Sector Diagnostic pulled together the key cross-sector constraints to unlocking private sector-led improvements in efficiency. An ASA on improving connectivity, including maritime, for Bali was provided.

31. An Omnibus Bill presented to parliament in early 2020 envisages the removal of investment restrictions (especially on FDI), thereby increasing trade policy certainty, the simplification of trade procedures, including de-licensing; and measures to increase flexibility in the labor market. However, it would be important to ensure that in the design and implementation of these commendable reforms environmental and social safety standards were not compromised.

Objective 5: Improve Maritime Logistics and Connectivity: **<u>Achieved</u>**

32. The Bank provided a programmatic series of two development policy operations supporting logistics reform. These loans addressed three critical bottlenecks in maritime connectivity: (i) at the port of entry by facilitating investments and improving port services; (ii) at the border, through improved clearance procedures (e.g. integrated risk management system, easier submission of regulatory requirements, integrated information systems); and (iii) before and beyond the border, through competitive logistics services. The approach was informed by the need to replace regulations that prevented competition and raise standards in infrastructure (hard and soft) and in capacities. The second loan built upon the achievements of the first, and overall results were satisfactory, though the implementation of an integrated risk management system and integration of information systems required more time than planned.

33. The two indicators were both achieved. First, a targeted reduction in the dwelling time between 2015 and 2020 in the main ports of Tanjung Priok (from 5.5 days to three days) and Tanjung Perak (from 6.3 days to three days) was more than achieved with a result of 2.75 days in each port. Second, an increase in the number of new foreign licenses for freight forwarders from 20 (2015) to 25 (2020) was surpassed with 54 new licenses; and an increase in the number of warehousing and cold storage providers from three (2015) to 18 (2020) was also surpassed with a result of 60. These results are owed to the measures supported under the CPF activities.

Engagement Area 4: Delivery of Local Services and Infrastructure

34. Education, health, infrastructure and other key services rely upon decentralized delivery, with local governments accounting for about half of total spending. The quality of services, however, remains disappointing owing to weaknesses in local capacity and systems of accountability and delivery, inadequate monitoring and evaluation, and inadequate central oversight. Constraints posed by land acquisition pose a major barrier to infrastructure projects. Over the CPF period, efforts to improve coordination at all levels of government, bolster capacity, condition transfers on performance, and enhance citizen voice and monitoring were made. The participation of private financing of infrastructure at the local level was also encouraged.

Objective 6: Strengthening the Decentralization Framework: **Not Achieved**

35. About 70 percent of total capital spending by local governments is funded through special purpose grants, based on criteria set by the central government, principally for infrastructure financing. The WBG has supported a clearer focus for transfers, aimed at improving accountability and the performance-based criteria for such transfers, whilst strengthening M&E capacities and methods, encouraging independent audit-based verification of outcomes, and developing tools for citizens to monitor delivery. Significant gains were made in independent output verification. Sub-national budget processes have begun reform.[73] This work has been supported through programmatic ASA on decentralization and on village law, and by IPFs on local governments[74] and decentralization, which provided institutional support to raise quality and efficiency. Through these various instruments, performance-based incentives for local governments in infrastructure, education and health spending are being sharpened and quality of spending raised. The IFC is providing knowledge for design of private-sector models for service delivery, e.g., vis private providers (diagnostic centers, hospitals) or through e-consultations.

[73] Whilst the decentralization framework was strengthened over the CPF period, the critical legal foundations are still to be laid through amendments to the relevant law. It is also vital to undertake reforms in sub-national government budget classification and chart of accounts.
[74] The IPF reimbursed transfers made to local authorities provided agreed standards on performance were met.

Box 1. Decentralization Agenda

In a large and diverse countries, where geographical, economic, human development and infrastructure conditions differ greatly, service delivery managed entirely by central government entities is inefficient. In Indonesia, local governments (34 provinces, 514 districts and municipalities, and 83,000 urban wards and villages) are responsible for 43 percent of public spending - education, health and infrastructure services -- but quality suffers from inequitable allocation of resources, weak capacity, and poor intergovernmental coordination, as well as weakness in performance accountability systems. While most citizens today have access to basic services, improving quality remains a major challenge. Improvements in education and health quality indicators as evidenced by PISA scores and maternal mortality rates are disappointing.

Decentralization has to balance accountability for service delivery at the local level with managerial autonomy. WBG interventions were delivered through both knowledge services and investment operations. Programmatic ASAs influenced policies, importantly in fiscal transfers, which serve as a critical tool of accountability as well as the instrument for ensuring results. ASA also supported such policy reforms as more equitable distribution of village fund through the increase in formula-based allocation; improvements in the regional incentive fund to focus on performance in education, health recurrent transfers; and budget practice improvements. Lending operations - DPL on Fiscal Reform, INEY, I-SPHERE, Village services, One Map - provided additional leverages to accelerate reforms. The local government IPF introduced output verification mechanism to improve the quality of output financed by transfers and web reporting system. INEY introduce performance assessment system for district convergence. These operations also introduced innovative practices such as web-based output reporting and verification systems. However, the agenda for reforms remained substantial.

Some important lessons have emerged. First, the need to focus on areas of client demand since securing real changes require government champions. Second, policy engagement and technical advice is effective when synergized with investment operations as evidenced by the use of diagnostic resulting from PASA "Decentralization Delivers" and "Managing for Results" in the design and implementation of disbursement-linked indicators in INEY. Third, working through Bank multi-sector operations is an effective strategy: multi-GP collaborations created a space for piloting initiatives for institutional innovation in managing results across levels of governments. Finally, inter-ministerial coordination remains disappointingly weak, which is a major barrier to effectiveness – reinvigorated efforts must be made by the government with the Bank's assistance as appropriate.

36. The decentralization framework received strong support from PforR operations in education, health and nutrition. The Investing in Nutrition and Early Years PforR addressed stunting and malnutrition, and early childhood development outcomes that were all exceptionally poor.[75] A successful strategy to address an accelerated reduction in stunting requires close collaboration at the central and local government levels in the dimensions of policy planning, delivery systems, financial management, M&E, and accountability for results, together with heightened citizen engagement and sectoral reforms in nutrition-sensitive services. The PforR focused on addressing management and system problems that impeded program convergence and delivery (central, district and village levels), filled critical gaps in sector programming (education and nutrition), and strengthened citizen involvement in delivery and monitoring, with disbursement-linked indicators covering these three critical areas.

37. An IPF for village service delivery supported village governance, strengthened participation and social accountability, and improved national coordination; another IPF was extended to support quality improvements in village spending through innovation grants.

[75] Education, health and nutrition projects are discussed under Objective 8; accordingly, the narrative in this section is confined to decentralization aspects.

38. The outcome was not **achieved**.[76] The percentage of special transfer-financed physical outputs delivered by local governments in infrastructure reported, verified and met eligibility criteria was to rise from 72 percent (2016) to 88 percent (2020); the result was 77 percent. The significant shortfall was owed to insufficiencies and delays in local government counterpart funding for capacity-building within local governments as the local government project was being scaled-up.

Objective 7: Improving Sustainable Urbanization: **Partially Achieved**

39. Indonesia's rapid urbanization has led to growing demand for infrastructure and basic services, and has put pressures on land and the environment, jeopardizing the livability of cities and resulting in economic gains from agglomeration that fall short of those in comparable countries. To support sustainable urbanization, the Bank has, in a multi-GP effort, built a platform approach that strengthens cities' capacity in urban management and resilience, reorients the national government to be an enabler of city-driven initiatives and offers cross-cutting financing solutions for core infrastructure sectors.

40. The ASA work was directed at developing infrastructure finance options, providing advice on urban management, developing national sector programs and service delivery in key infrastructure. A flagship A Time to Act considered the multi-faceted strategic challenges in urbanization, contributed to framing the medium-term objectives and developed policies to support the objectives of the national development plan. The platform approach has supported urban IPFs in transport systems, water supply, slum upgrading, and solid waste management, and IPFs in urban sanitation and floods are under preparation. Moreover, an IPF on empowering urban communities through a CDD that financed capacity building in urban local governments and funded infrastructure and income-generating investments was successfully concluded.

41. Indonesia is highly disaster-prone, with cities facing rising risk from urbanization and climate-change. ASA has supported a comprehensive approach to building resilience consisting of investments in disaster risk reduction, e.g., seismic and urban flooding risk mitigation, bolstering early warning systems capacities, and emergency management capacity, as well as promoting resilient infrastructure. IPFs were extended for rehabilitation and reconstruction in central Sulawesi and for an integrated approach to early-warning systems.

42. The outcome indicator was partially achieved. The target of individuals provided with improved infrastructure under the slum upgrading project was to rise from nil (2016) to 7.5 million (2020); actual is 5.1 million. This was not achieved because of delays in the planning and land acquisition associated with civil works; the target is expected to be achieved by end-2020. The indicator related to female beneficiaries was mostly achieved.

Objective 8: Improved Access to Quality Education and Health Services: **Achieved**

43. Indonesia ranks 87th on the Human Capital Index with poor education and health outcomes relative to similar countries. Student learning results remain low, and inequality in learning outcomes is increasing. Low skills of school-leavers reflect poor basic education and poor alignment between education institutions' curricula and labor market needs. The most recent PISA

[76] As discussed in Chapter III of this report, this indicator as a measure of results in decentralization suffered from particularly poor design. In the event, success in decentralization was impressive, as evidenced by the narrative above.

shows decline in learning attainments and a 70 percent failure with respect to the minimum threshold for reading proficiency.

44. It is necessary to upgrade the education system at all levels, from early childhood education through tertiary education and lifelong learning opportunities, with the principal objective of ensuring that students reach at least minimum learning standards at each level of the system. This would require improving teacher professional development, expanding access and improving quality of TVET and tertiary education, and strengthening accountability mechanisms.

45. The Bank has undertaken a programmatic set of ASA activities focusing on (i) support to effective teaching and learning processes, particularly on teacher competences; and (ii) support to improve efficient delivery of education for all, particularly on management and governance. A flagship report on the promise of education was prepared. The results of the ASA, particularly research on school planning and budgeting and education information systems, informed the education IPF aimed at improving the management of primary and secondary education services run by the Ministry of Religious Affairs. IFC supported a prominent, private K-12 institution with campuses across several cities.

46. The outcome was **achieved**. The number of districts implementing community-focused training for early childhood education teachers was to rise from nil (2016) to 75 (2020); the result was 75.

47. Despite improvements in health outcomes, the country faces persistent communicable diseases and rising non-communicable diseases associated with an ageing population. It has an admired single-payer social health insurance program covering 85 percent of the population, but needs to improve the quality of health spending, which requires raising the performance of primary healthcare, and address access inequalities. Health financing in Indonesia is marked by low public health expenditures, high out of pocket expenditures, inefficiencies in pharmaceutical supply, and a complex and fragmented intergovernmental fiscal transfer system.

48. An extensive set of advisory support consisted of work on financing options for the universal health coverage, maternal health, primary health care readiness diagnostics. These provided the basis for a PforR project intended to improve the performance and quality of primary health care nationally, with attention to three poor provinces. Supporting measures were strengthening performance monitoring for increased local government and health facility accountability, improving implementation of national standards for raised local government and facility performance, and enhancing the performance orientation of health financing for improved local service delivery.

Box 2. Investing in Nutrition and Early Years Program

INEY is a multi-sector and multi-level PforR Program designed to combat stunting in Indonesia. Stunting is caused by chronic malnutrition, repeated infection, and limited psycho-social stimulation during the first 1,000 days – from conception to 24 months— and its effects are largely irreversible. It is estimated to cost the economy about 10.5 percent of GDP. At Program design, the stunting rate stood at 30.8 percent. Combatting stunting requires a multi-sectoral approach consisting of nutrition specific and nutrition sensitive interventions jointly targeting households with pregnant women and children under two years old. Despite investments of $3.9 billion a year by 2017, less than 0.1 percent of children under two years old had access to such interventions.

In 2017 the government, building on Bank ASA, launched a National Strategy to Accelerate Stunting Prevention between 2018 and 2024, building on past lessons and influenced by Peru's success at sustained stunting reduction. The Bank leveraged its deep knowledge of country systems and mobilized eight GPs-- Social, HNP, Water, Governance, Education, Social Protection, MTI, and Poverty—to develop a "whole-of-government" response. A total of $400 million in IBRD Bank financing leveraged $6.2 billion in government spending, bringing together ten government implementing agencies. It also integrates a $20 million IPF grant component from the Global Financing Facility (GFF) MDTF for catalytic investments in national leadership and oversight, national and local capacity building systems as well as innovation, technology, evaluation and learning.

A platform approach facilitates concerted national and local level actions to improve frontline service quality. The program addresses supply-side constraints by supporting sector reforms and coverage expansion, while also building demand for those services through community engagement and improved frontline convergence monitoring by strengthening social accountability measures. In total, INEY targets 48 million 1,000-day households in all of Indonesia's 514 districts and 74,954 villages. The complex program design and implementation arrangements require significant investment in enhanced implementation support and complementary technical and advisory services. INEY targets four sets of results.

At the national level, **Results Area 1** strengthens the "center-of-government" through a results-based cycle of leadership, budgeting and results monitoring.

- **Results Area 2** supports improvements in the design and delivery of national sector programs on early learning, food assistance and behavior change communication, all key to reducing stunting. Results include: (i) a National Communication Strategy on stunting prevention, (ii) expansion in food assistance to reach approximately 12.6 million beneficiaries in 2019, and (iii) regulatory and technical reforms to intensify implementation of nutrition-sensitive early childhood educators in 2020.
- **Results Area 3** strengthens and incentivizes districts to diagnose stunting and improve local service delivery, through improvements to the fragmented financing of local service delivery and by strengthening district performance systems.
- **Results Area 4** leverages the village platform to converge nutrition services on priority households. More than 32,500 community cadres (Human Development Workers, HDWs) have been mobilized and an android app called eHDW is being used to empower villages to increase spending on nutrition interventions and converge service delivery on priority 1,000-day households.

Lessons from INEY design and early implementation point to the need for an evidence-based, multi-sectoral, and innovative approach to support strong client engagement for stunting prevention. Specific lessons are: (a) Bank leadership was critical to convincing the highest levels of government of the macro implications of stunting on growth, productivity, labor supply and inequality and the need for a multi-sectoral response; (b) the Bank is most effective when it leverages Bank's global knowledge and best practices as well as deep knowledge of country systems and governance structure; (c) south-south exchanges are a powerful way to share global knowledge and building strong government ownership, particularly when followed up with immediate intensive policy dialogue;

(d) the CPF's Engagement Area 4 provided a conceptual framework that articulated the roles and comparative advantages of multiple GPs (e.g., governance on results-based budgeting, health on sector reforms and nutrition expertise, social on community mobilization and social accountability) on implementation, allied to strong incentives placed by the Bank, supported by the government, for multi-GP, multi-sector solutions; (e) TF resources, especially from DFAT, were critical to mobilizing global expertise, providing technical advice intensively during early implementation and beyond, and supporting pilots to demonstrate the effectiveness of approaches and tools; and (f) promising opportunities to leverage digital technologies to streamline processes, work at scale and introduce reforms should be exploited.

49. To address low outcomes on nutrition and early childhood development (Box 2), the Bank assisted in the preparation of the national strategy to accelerate stunting prevention followed by a PforR supporting investing in nutrition and early years that implemented the strategy. The PforR developed a programmatic approach to fiscal transfers, overcoming the fragmentation of district financing for nutrition interventions. It addressed three gaps in existing programs: the lack of early childhood education services, the low nutrition benefits in the current flagship food assistance program, and limited effectiveness of behavioral change efforts. The operation has strong links to others in the Bank portfolio: on primary health, primary education, and rural water and sanitation. IFC partnered with a leading international manufacturer to finance a large-volume parenteral manufacturing plant.

50. The two outcomes were both **achieved**, indeed surpassed. The percentage of pregnant women receiving four -natal care visits in 5761 villages was to rise from 68 (2016) to 80 (2020); the result was 98. The national stunting reduction coordination mechanism was to be launched and made operational by 2020; this was attained in 2019.

51. Rural water supply and sanitation has clear links to poverty reduction, via health, nutrition and stunting. Of the four most important causes of under-5 mortality two (diarrhea and typhoid) are fecal-borne illnesses directly linked to inadequate water supply, sanitation and hygiene deficiencies. Inadequate sanitation systems, together with weak solid waste management, causes widespread contamination of both surface water and groundwater. The country has attained signal success with community-driven development projects in this sector (PAMSIMAS) in rural and peri-urban areas over nearly two decades that have also strengthened the role and responsibilities of local governments.

52. The Bank has provided strong, long-standing support to PAMSIMAS. Over the CPF period, knowledge and advisory products examined approaches to scaling-up rural water supply, sanitation and hygiene, undertook related poverty diagnostics, and explored private sector participation in rural water supply by strengthening community-based water supply providers to absorb private investment funds and access finance from local banks.

53. The IPF was intended to increase the number of under-served and low income rural and peri-urban populations accessing water and sanitation services and practicing improved hygiene, such that by 2021 27,000 villages would have been covered of which 40 percent would have reached universal coverage. Moreover, policies and programs are being developed to maintain these systems and to expand the scope to a further 15,000 villages for achieving universal access.

54. Individuals in millions (of which, females) with improved access to water services were to rise from 7.9 (4) in 2016 to 22 (11) in 2020; the results were 16.9 (8.4). Individuals in millions

(of which, female) with improved access to sanitation were to rise from 7.7 (3.9) in 2016 to 14.9 (7.45) in 2020; the results were 15.5 (7.8). Finally, female beneficiaries were to take an increasing share of community decision-making and capacity-formation across a number of dimensions; these were mostly achieved. Thus, the three outcomes were **partially achieved, achieved and mostly achieved**, respectively.

Engagement Area 5: Sustainable Landscape Management

55. The management of natural resources in a country richly endowed with forests and maritime wealth has a powerful influence on the sustainability of growth, outcomes for poverty and inclusion, and honoring climate-change commitments. Poverty is the most severe in households living within or at the edge of forest estates[77] – typically remote areas of low population density and dispersed communities; such communities are vulnerable to deforestation, natural disasters, and over-exploitation of resources. Policy reforms need to center on spatial planning and land administration, governance of forest estates, integration of landscape management principles into forest activities, ensuring inclusion by targeting the vulnerable and poor. In agriculture, market-based pricing and subsidy reforms are high priorities. These reforms face strong opposition from vested interests, often with powerful political connections, in oil palm, timber, pulp and paper industries. Moreover, governance standards and capacity are exceptionally weak in high-risk lowland areas of Kalimantan, Papua, and Sumatra.

Objective 9: Strengthened Capacity in Decentralized Forest and Land Management: **Achieved**

56. The CPF focused on a landscape program that sought to improve the management of terrestrial natural assets. The ASA work analyzed the factors underlying forest conversion, peat draining, and biomass burning for land cultivation, and exposed the high cost of fires and their climate dependence. Specifically, a diagnostic study on fire management and an expenditure review on fire prevention was prepared. In agriculture, ASA was directed at economic impact of protection and subsidies, labor policies, sustainable agriculture in the lowlands, new generation of extension services, and green growth strategies. Through an ASA on wealth accounting and valuation of ecosystems, the Bank has led work on strengthening a system of environmental-economic accounts to inform policy decisions and developing low carbon and green growth opportunities. To support policy dialogue, work undertaken on data and mapping showed how unclear boundaries, weak governance, fragmented mandates, and lack of extension services contributed to the poor management of forests. This work led to an IPF on accelerating agrarian reform and preparing the rehabilitation of water management to support sustainable livelihoods. The Bank extended three climate investment fund operations for decentralized forest management and a dedicated grant mechanism operation to for land-rights and livelihoods for indigenous communities. The IFC provided advice on aspects of commercial forestry, including supply chain analysis and palm oil development, and also on the regulation of green buildings.

57. The outcome was **achieved**. The land area supported by forest management units with improved management effectiveness was targeted to rise from nil in 2016 to 177,000 hectares in 2020; the result was 7.4 million hectares or 40-fold the target.

[77] Forest estates refer to publicly held land that are divided into conservation, protected, or production forests.

Engagement Area 6: Collecting More and Spending Better

58. Bank analytical work, notably the SCD, has demonstrated the centrality of a strengthened fiscal policy to achieving sustained high rates of growth leading to a reduction in poverty and a greater sharing of prosperity. The tax to GDP was 14.9 percent in 2015, and stood at the same figure in 2020, which is exceptionally low compared to those of similar emerging economies. The country collects less than half of the potential tax revenue. The tax system is characterized by high thresholds, wasteful exemptions, uneven treatment across sectors, and too low health, wealth and environmental taxes, resulting in a narrow tax base. The low revenue yield is exacerbated by poor compliance arising from a complexity of the tax code, uneven implementation of tax laws and rules, and a weak tax administration.

59. Low revenue mobilization leads to a squeeze on public expenditures – public spending in relation to GDP amounted to 17.5 percent in 2015 and 16.7 percent in 2020, less than half the average of similar emerging economies. Public investment spending in relation to GDP stood at 3.6 percent between 2000 and 2013.[78] Expenditures on health and social protection are also exceptionally low. The removal of fuel subsidies in 2015, which that year amounted to a fifth of public spending and were threefold health and infrastructure spending combined, greatly improved efficiency in spending. However, at the subnational level, where half of total public spending occurs, excessive wage bill and administrative costs crowd out investments and public services. Higher spending on human capital formation, agriculture and the environment, and infrastructure will raise the potential rate of growth, sharpen competitiveness, and boost shared prosperity.

***Objective 10: Improve Revenue Collection:* <u>**Not Achieved**</u>**

60. Over the CPF period, the Bank provided an extensive set of ASA and TA products covering tax policy, revenue and budget management, non-tax revenue policy and administration, sub-national fiscal management, strengthening of procurement capacities and systems as well as TA on improving public expenditures. This body of work supported the initiation of some policy reforms and institutional strengthening on both revenues and expenditures; and it provided the basis for a set of ambitious development policy operations.

61. A set of three fiscal DPOs were designed to support reforms in three areas: (i) improving the quality of public spending by shifting its composition towards human capital and infrastructure, focusing on the efficiency of spending and tightening budget execution; (ii) strengthening revenue administration through efficiency gains, bolstering compliance management and audit capability, and reducing the cost of paying taxes; and (iii) enhancing tax policy by boosting revenue potential and the economic efficiency of tax policy. This programmatic approach yielded some advances, notably in a sharp reduction in fuel subsidies and in improvements in tax administration (VAT refunds, e-systems).

62. A further DPO on strengthening economic resilience, investment and social assistance of a contingency-financing nature[79] to enhance economic crisis preparedness, specifically against a financial shock by maintaining critical public expenditures, closed during the CPF period. It

[78] Over the same period, this ratio stood at 17.7 percent in China, 11.3 percent in Malaysia, and 6.3 percent in Thailand.
[79] Deferred draw-down option.

supported three essential reforms: (i) strengthened financial system stability through systemic improvements; (ii) support for critical public spending by access to loan resources in the event of revenue or borrowing shortfalls and (iii) specific support for poor and vulnerable households by an improved cash transfer program.

63. Within this engagement area, support for public financial management has focused on budget planning and execution and procurement, with the engagement of the fiscal DPO series. TA led to streamlined IT development within tax administration and e-VAT applications which reduced tax fraud significantly. The implementation of a treasury single account and the financial management information system has resulted in large expenditure savings. Improvements in the quality and timeliness of financial reporting are evidenced unqualified audit opinion of the Supreme Audit Institution. Improvements in fiscal sustainability and in the debt management strategy have been recorded.

64. The two indicators were **not achieved**: (i) the VAT revenue to GDP ratio was targeted to rise from 3.7 percent in 2015 to 4 percent in 2020; the result represents a retrogression to 3.4 percent; and (ii) non-oil and gas income tax revenues to GDP was targeted to rise from 4.7 percent (2015) to 5 percent (2020); the result again represents a slippage to 4.5 percent. The disappointing outcome with respect to VAT and income tax collections reflect several factors. First, improvements in the application of VAT and income tax refunds to exporters and other eligible activities as a part of fiscal reforms led to lower VAT revenues than expected. Second, lower-than-expected oil and gas prices similarly reduced VAT collections. Third, the income tax law reform had envisaged a lowering of the high non-taxable income tax threshold or its replacement with a system of tax credits for low-income households. Since these actions were not taken, largely as a result of political pressures, revenue collections fell below expectations. Finally, a slackening in the pace of tax administration reforms relating to procurement of IT solutions and associated business process advances have also led to foregone revenue gains. Improved revenue mobilization over the medium term[80] will require firm pursuit of reforms in tax regime and in administration, particularly in view of the proposed cuts to corporate tax rates envisaged in the Tax Omnibus Bill (discussed in Chapter III of this CLR).

Objective 11: Improve Efficiency and Effectiveness of Spending: **Partially Achieved**

65. One indicator was partially achieved; a second was achieved. The first measured three categories of public spending – health, capital expenditure, and social assistance – as a share of the total expenditure of the national budget excluding transfers to local governments: this indicator was targeted to show growth from 2016.[81] The indicator on health indicates growth, and therefore was achieved. That on capital expenditures fell from 12.2 percent in the base year to 12.1 percent; capital spending was constrained from 2018-2019 as part of an effort to correct a growing external current account deficit and greater uncertainties in external financing inflows. Social assistance spending rose from 3.2 percent to 7.5 percent over the period; this result reflects the high priority given to social spending over the CPF period discussed earlier.

[80] The DPL-supported reforms that have led to an increase in the number of registered taxpayers and to a substantial reduction in duplicate tax IDs will help improve revenues.

[81] The discussion relates to pre-COVID estimates. COVID is an external shock that will have both raised emergency health spending and dampened GDP – thus, this indicator may be satisfied but not for reasons of structural reforms.

66. The second indicator on capital budget execution rate was targeted to rise from 80 percent (2014) to 90 percent (2020); the result is 95.6 percent. This result reflects in part behavioral adjustment to the constraints on the overall capital budget commitments which tend to increase the execution ratio.

Supporting Beam 1: Leveraging the Private Sector: Investment, Business Climate and Functioning of Markets

67. Prospects for raising the potential growth rate are diminished by a poor investment climate. External vulnerabilities are revealed by weak export growth, a poor record of attracting FDI, and undue reliance on volatile short-term external capital. Policies and regulations have anti-trade and anti-investment biases, and are especially severe for services (transport, finance, communications, healthcare). Regulations stunt financial and capital markets, which are unable to efficiently intermediate savings to support rising private investments.

Objective 12: Simplify Business Regulations: **Achieved**

68. The WBG has mounted an ambitious set of ASA products to advocate removal of distortions that detract from efficiency and growth. The WBG provided a Country Private Sector Diagnostic, Creating Markets in Indonesia, developed advisory products on strengthening competitiveness, the digital economy, the economic impact of fuel subsidies, and the welfare impact of trade restrictions. The Bank provided periodic advice and support on reform proposals prepared by the government. Both Bank knowledge work and an IFC umbrella advisory facility have supported this work.

69. Private investments face rising import tariffs, restrictive non-tariff barriers, myriad and complex investment restrictions (negative lists, local content requirements, limits on foreign equity, special licensing), frequent and unanticipated regulatory changes, weaknesses in competition laws and their enforcement, and the dominance of SOEs and privileges accorded to them. The removal of distortions and the simplification of regulations would help integrate the economy into global value chains.

70. The outcome was **achieved**. Implemented reforms supporting private sector development were to rise from nil (2016) to five (2020). The result was five in the areas of competition, regulation, insolvency and credit, and mergers and acquisitions.

Objective 13: Increase the Role of the Private Sector in National Infrastructure: **Achieved**

71. As noted in the discussion on Engagement Area 1, the Infrastructure Sector Assessment Program took a strategic view of infrastructure policies and needs, noting that over two-thirds of the finance required to cover the infrastructure gap needed to be sourced from private sources.

72. The report advocated leveraging private sector financing, paying greater attention to quality PPP projects, strategic deployment of government support instruments, and an overhauling of SOE incentives, with hardened SOE budget constraints, and recycling of SOE assets to raise efficiency. Open, competitive, tenders, bereft of privileges for SOEs, should take place for all commercially viable projects. A major deterrent to private investment was administered prices and too-low tariffs in most sectors. Moreover, capital market development and regulatory reforms are needed to attract funding from both domestic and foreign investors.

73. The Bank extended TA and ASA to support the establishment of PPP institutions. It provided IPFs on an infrastructure finance facility (a financial intermediary loan) and to support the institutional development of the Infrastructure Guarantee Fund which provides government guarantees and technical support to facilitate PPP projects. The design of the component to provide financing for guarantees to be disbursed only in the event of payable claims proved inadequate to meet the needs of PPP.

74. The outcomes were **achieved**, indeed exceeded. The volume of PPP investments in infrastructure was targeted to rise from $327.4 million (2014) to $5 billion (2020); the result was $10.8 billion of investments largely in toll roads, water and energy. The overperformance is owed to the maturity of PPPs in these sectors, strong government leadership, and facilitating instruments developed by the ministry of finance. The number of WBG operations that crowded-in private investments in addition to public and WBG financing was targeted to rise from one (2015) to four (2020); the result was six operations across infrastructure sectors.

Objective 14: Enhance Access to Finance: <u>**Achieved**</u>

75. Indonesia's prospects for private investment-led growth are hobbled by stunted banking and capital markets (financial assets to GDP ratios), which exhibit high costs of intermediation (the interest rate spread is high in relation to similar countries) with low credit to GDP ratios, and are highly exposed to global risks (heavy dependence on short-term financing). The unbanked share of the population is low in relation to comparator countries. The market can be deepened by extending access to a wider array of financial products and mobilizing long-term savings, costs and efficiency improved through institutional reforms on insolvency, creditor rights, consumer protection and inter-operability of service provers' systems, and resilience bolstered through bank supervision and resolution reforms as well as developing capital markets, inter alia, on insurance products.

76. The Bank has implemented comprehensive programmatic ASA to improve access to financial services that has, in turn, required work on capital market instruments, market architecture, payments systems, digital finance and legal/regulatory enabling environment. ASA has also sought to sharpen competition, lower costs, and raise the quality of products, as well as improve regulation and supervision of actors, and promote disaster risk financing. The PASA activities have resulted in a strong basis for greater financial sector stability and financial inclusion; and have illuminated new avenues for long-term finance and the development of climate- and risk-management opportunities.

77. This body of analytical work led to a first of a series of three programmatic financial sector reform DPLs to achieve a deep, efficient and resilient sector. The operation, approved at the tail-end of the CPF period, has three aims: (i) deepening by broadening financial market products, mobilizing long-term savings, and promoting inclusion; (ii) raising efficiency by strengthening the insolvency and creditor rights framework, protecting consumers, and promoting interoperability of payment systems; and (iii) bolstering resilience, by strengthening the resolution framework, implementing sustainable finance practices and establishing disaster risk finance mechanisms. The IFC invested in secured transactions financing, insurance, environmental and social risk management, and digital inclusion. Through its financing facilities and by leveraging fintech solutions, IFC contributed to improved access to finance amongst underserved segments of the population and MSMEs, including women-owned businesses. In capital market development, IFC supported issuance of green and gender bonds by local banks.

78. The three outcomes were **achieved**, indeed surpassed. The percentage of adults with an account at a formal financial institution was targeted to rise from 36 percent (2014) to 65 percent (2020); the result was 76 percent. The number of microloans disbursed disaggregated by gender was to rise from nil (2014) to 3 million (of which 50 percent to women) (2020); the result was 4.3 million (of which 86 percent were provided to women). Finally, the number of SMEs reached by financial services was to rise from nil (2014) to 3,800 (2020); the result was 18,300.

Supporting Beam 2: Shared Prosperity, Equality and Inclusion

79. Poverty incidence has fallen over the past twenty years from 19.1 to 9.4 percent, thereby making Indonesia a star performer. However, protecting economic gains is difficult and vulnerability remains high, especially on various non-income dimensions of poverty: all human capital indicators, shelter, water, sanitation. The pandemic shock will push an additional 5.5 million to 8 million Indonesians into poverty in 2020, thereby wiping out the accumulated gains in poverty reduction over the past five years. **Inequality has moderated but sharing prosperity more broadly has remained a major challenge; for** example, for those in the aspiring middle class, falling back into poverty is just as likely as moving up.

80. By supporting consumption, social protection programs can build human capital, and in Indonesia have been designed to incentivize use of education, health, nutrition and other services. They also protect against disease and risk of disasters and build resilience. Consisting of a conditional cash-transfer program and food security assistance, education subsidy and subsidized health insurance premiums, the social protection system is critical in protecting human capital and fighting poverty.

***Objective 15: Improve social protection and access to productive jobs:* <u>Partially Achieved</u>**

81. The Bank has supported a rich ASA program focusing on poverty and inclusive growth with three main pillars. First, analytical support was provided, as noted in the discussion on engagement areas, on poverty and distributional impacts of human capital development policies, tax and public expenditure reforms, infrastructure, urbanization and other areas. Second, the Bank mounted an ambitious effort at frontier research that, through flagship reports such as Indonesia's Rising Divide (2016), Investing in People: Social Protection for Indonesia's 2045 Vision (2020), No-one Left Behind: Rural Poverty (2020), and Expanding the Middle Class (2020) have provided advice on inequality, narrowing the gaps in economic opportunities, building a resilient middle-class, job creation, quality education and universal health coverage, and expanding access to social insurance. This body of work resonated at the presidential and cabinet levels and influenced policy design. Moreover, ASA in the areas of CDD, including village and community laws and institutions, reforms in social assistance, skills and labor markets, migrants, vulnerable workers and worker protection reforms have also shaped government policy. Third, in providing close support to the ministry of planning in core poverty monitoring and analysis, the Bank has sought to raise technical measurement standards and build capacity.

82. A PforR to support social assistance reforms was delivered to expand the coverage of the conditional cash-transfer program (thereby making it the second largest in the world), strengthen its delivery system, and tighten coordination with complementary assistance programs. The PforR

supported education, health and nutrition goals and promoted the use of cashless payments.[82] The Bank provided additional financing for social assistance in response to the pandemic to finance the targeted scaling-up of social assistance.

83. One outcome was b, indeed surpassed; the other **not achieved.** The number of families receiving cash transfers was targeted to rise from 5.9 million (2016) to 8 million (2020); the result was 10 million. The share of beneficiaries also receiving other social assistance support was targeted to rise from 13.6 percent (2016) to 85 percent (2020); the result was 57 percent, with the shortfall largely accounted for by coordination weakness in the multi-ministry administration of the education-related benefit. This is currently being addressed by a measure to integrate this benefit directly into the cash transfer mechanism.

III. Performance Of The World Bank Group

84. The overall performance of the World Bank Group is rated as Good. The WBG worked proactively as one in its implementation assistance efforts.

A. Design

85. ***Alignment***. The CPF was well-aligned with country development goals as expressed in the National Mid-Term Development Plan (2015-2019) which, in its socio- economic aspects, focused on human development, infrastructure, the maritime economy, food security, and inclusive growth. The revisions proposed in the PLR tightened the alignment to reflect the heightened emphasis placed by the government on human capital and on maximizing finance for infrastructure development at the mid-term of the CPF period. At the same time, the design of WBG interventions was tilted towards greater use of national programs – to enhance overall impact and raise government planning and delivery capacity – and of performance-based lending in light of its demonstrated effectiveness. In early 2020, the government issued a successor development plan covering 2020-2024 that re-affirmed the priority accorded to human development, infrastructure, and to establishing a high-productivity economy based on sophisticated manufacturing and services, but which also introduced de-regulation as a critical tool for triggering private sector-led growth. The ASA work already in progress in all these areas responded to these priorities. Thus, the CPF strategy thought-through priorities and selected interventions judiciously in areas of WBG comparative advantage, which also were congruent with the government's ability and willingness to act.

86. ***Use of instruments: ASA.*** The adroit deployment of a wide range of WBG instruments attests to the high quality of the design. The CPF period saw the production of a dozen flagship reports that proved to be influential within the country but also served as an instrument of global learning.[83] The ASA program continued to be ambitious and broad in its coverage, enjoying generous funding from donor trust funds. ASA activities were programmatic and multi-sector in nature, based on multi-year plans, executed in close collaboration with the client and, in most cases, they preceded and strongly supported the content and direction of lending operations.[84]

[82] Further details on these operations can be found in the discussion under *Objective 7*.

[83] Themes covered by flagship reports encompassed public expenditure quality, decentralization, trade and investment integration, environment (forest fires, sustainable blue economy), human capital investment, inclusive growth and social protection, nutrition, private finance for infrastructure, urbanization.

[84] Good examples can be found in programmatic ASAs (PASAs) in financial and capital markets; public finance (covering PERs and taxation); energy; and infrastructure. These seeded the design of development policy operations in these areas currently under implementation (the infrastructure DPL is being prepared). PASAs in social development and social assistance; education; health;

Moreover, in several critical areas, government policy has borne the imprint of close dialogue with the Bank on the basis of ASA products. Thus, the Economic Quarterly, a flagship publication that provides macroeconomic analysis but also incorporates in-depth policy advice on a special topic, has been influential in government and donor circles in shaping policy.[85] A further example is provided by a series on studies on nutrition, stunting, primary health, and operationalization of multi-sector approaches on stunting that stimulated the formulation of a government strategy to accelerate stunting prevention, which, in turn, led to a PforR operation. Finally, an array of work on trade, competitiveness and deregulation, together with IFC work on investment climate, provided the basis for far-reaching policy and regulatory reforms in the shape of an Omnibus Bill that is the government's central instrument for structural reforms during the second term of the current President.[86] Moreover, the WBG provided just-in-time advice throughout the CPF period at the request of the authorities on a range of topics, notably on fiscal reforms.

87. The Bank's work on governance centered on decentralization, village laws, and improvements in various aspects of public management, but did not address transparency and corruption, where Indonesia has poor ratings.[87] Knowledge and advisory work, including a governance analysis, could have led to sharper insights into the constraints to better policy-making. Indeed, the PLR noted that political economy and governance headwinds impeded work in environment;[88] further work could have deepened understanding and led to adaptations in WBG interventions. Moreover, the climate-change agenda[89] could have also been strengthened, as also acknowledged in the PLR, by deeper contextual analysis concerning the environment, renewable energy, and forest governance. This work remains to be carried out in the future.

88. ***Lending***. The CPF saw the use of the gamut of IBRD instruments, IFC equity and debt instruments as well as MIGA guarantees. Notable was the growing use of PforR in view of strong client programs across the development agenda, satisfactory country systems, and a shared government-WBG interest in accountability and results. Thus, PforR operations took place in such diverse areas as energy (disbursements linked to electricity distribution outcomes), health (linked to local government performance, health financing and insurance), nutrition (linked to spending performance, program delivery, village empowerment) and social assistance (linked to coverage of and access to the conditional cash transfer system and its delivery). Performance on PforR has been satisfactory with ministries adapting rapidly to this new instrument, even if some would prefer direct disbursements to project funds rather than to the treasury.

89. Development policy loans incentivized reforms while providing support to the budget in the areas of fiscal policy and economic resilience (contingency financing against risk); energy; financial sector reforms; logistics reform in maritime connectivity; and infrastructure.[90] The fiscal DPO series supported reforms in budget execution, the tax administration and public spending

nutrition; and urbanization (including water) informed the design of projects. Advisory work on investment climate by the WBG have influenced the private sector competitiveness policies. More detailed discussion is provided in the text relating to the engagement areas.

[85] Recent issues have covered investing in people, urbanization, environment, and education.

[86] The reforms contained in this Bill are discussed under Engagement Area 3.

[87] Indonesia has a ranking of 85/180 in Transparency International index. It has progressed well recently in undertaking some institutional reforms; nevertheless, in certain areas such as the civil service and judiciary – where the Bank has long international experience of advisory and lending work -- a high degree of corruption remains entrenched.

[88] PLR discussion on progress with Engagement Area 5.

[89] Discussed in Chapter IV of this report.

[90] The infrastructure operation will be approved during the next CPF.

quality, but significant improvements in the tax to GDP ratio proved to be elusive. The reforms supported by the energy DPO were useful but not sustained in creating a rules-based framework for energy policies and pricing, even if the burden of subsidies was subsequently greatly reduced.

90. The CPF projected annual IBRD lending of $1.5 billion; over this period 31 IBRD projects with $8.8 billion in commitments have been approved ($3.6 billion disbursed). This lending leveraged approximately an additional $50 billion from public, private, bilateral and multilateral resources.

91. IFC investments amounted to $2.5 billion over the CPF period, of which $1.3 billion was for IFC own account. IFC lending activities have concentrated on general manufacturing and financial intermediation, with a small presence in infrastructure. The dominance of SOEs and investment restrictions crowd-out IFC prospects. Successful projects require an extended, proactive engagement with a sponsor even before a deal opportunity emerges, and WBG efforts at climate improvements and MFD are important success factors. MIGA provided guarantees for the financing by commercial banks of an electric hydropower project covering an exposure of $183 million.

92. ***Absorbing lessons learnt***. The CPF design reflected learning from international experience as well as the lessons drawn in the earlier CLR. The design of interventions in, particularly, cash-transfers and nutrition benefitted from experiences elsewhere. Indeed, the programmatic approach to ASA and to lending in certain sectors (fiscal reforms and logistics, rural water, irrigation and dam safety, urbanization, education and health) builds in a process of learning-by-doing. The CLR (2016) had advocated a focused strategy with a clearer indication of political economy factors, a comprehensive approach for impactful results, and greater selectivity. The CPF was effective in harnessing political forces advocating reform in the important areas of de-regulation and investment climate, human capital, especially anti-stunting strategy, and infrastructure. It was less effective, in the face of vested interests, in building support for deep reforms in environment which have not only a high pay-off for Indonesia, but which also have a strong global public goods dimension. The lesson relating to comprehensiveness pertained to addressing critical constraints – in governance or climate change -- and mainstreaming them into the country strategy. This lesson was only partially observed as incremental approaches continued to be applied. The WBG faced the constraint of weak political commitment in these areas, which hampered the use of its convening power to strive for comprehensive results. Finally, the CLR-2016 counselled a genuine greater selectivity in design. The content of the six engagement areas and two supporting beams in the CPF evidenced a broad approach, largely reflecting government demand and donor provision of resources for ASA.

93. ***The results framework.*** As noted, the revisions to the results matrix in the PLR were well-judged in reflecting emerging official priorities and successes in implementation. A commendable aspect of the results framework lay in its organization by themes, rather than sector silos: this choice brought out clearly the interdependencies and links across sectors in key areas of the WBG effort such as decentralization or urbanization or infrastructure policies, and notably the role of private finance. This organizing principle was a great strength. Importantly, it also provided the basis for a multi-sector, multi-GP teamwork to solving common problems.[91]

[91] Discussed in more detail in the implementation section of this chapter.

94. However, in the PLR (as in the original CPF) the causal chain from CPF activities continued to be weak. A deficiency in design was the large-scale adoption of project objectives as CPF objectives; thus, higher level objectives that good practice requires in a strategic framework such as a CPF were left unspecified. As a result, the indicators used in the matrix offered limited additionality since they mostly duplicated measures of outcomes at the project level.[92] Even in the areas where the relationship between the engagement area and the objectives were tighter – infrastructure, access to health and financial services, energy –the use of higher-level indicators rather than mere project indicators would have led to deeper insights as to results achieved.

95. ***Managing risks.*** The critical risks to the CPF program were well identified in the original document and refined in the PLR: (i) macroeconomic and fiscal slippage; (ii) implementation capacity; (iii) weak governance and policy reversals; (iv) fiduciary risks; and (v) environmental and social risks. The WBG addressed macroeconomic risks through a continuous dialogue on fiscal and monetary policies as well as external debt management and through the program on strengthening the financial sector and develop capital markets. The rich set of ASA activities undergirding the economic risks dialogue were used to develop evidence-based solutions, utilizing international experience. Moreover, the measures on tax regime and tax administration as well as on shifts in the composition of public spending and concomitant reduction of energy subsidies contained in the fiscal DPO series helped to mitigate fiscal risks.

96. Governance risks were identified in ASA work and addressed through institutional changes advocated in land management, tax administration, support for fiscal decentralization, improved supervision of the financial system, and support for private sector solutions in infrastructure to create competitive markets. The greater opening of the economy to trade and investment will also help to mitigate governance risks.

97. Implementation and capacity risks were addressed notably by work on decentralization and through strengthening of procurement and fiduciary systems and practices. The platform approach greatly increased the burden on the WBG on the observance of environmental and social safeguards. To mitigate this risk, the Bank has raised awareness and rolled out safeguards' compliance capacity building for government counterparts. The Bank regularly held an internal quarterly portfolio risk review meeting to focus on projects with high risk.

B. Implementation

98. The implementation of the CPF showed strength in three particular areas:

i. ***Quick response and adaptability to client needs.*** The dialogue between the WBG and the government has been continual and close, resting on trust and on confidence in the quality and relevance of the substantial body of ASA created over the CPF period, much of it in partnership

[92] For example, in a key institutional are supported by the CPF, decentralization to improve local service delivery, only one indicator was devised – percentage of physical outputs financed by central government transfers – that was not only a poor measure of the objective, but was a project indicator that measured an output. There were no measures of improvements in service delivery. Similarly, the objective of sustainable urbanization had no indicators measuring sustainability, but measures of numerical outputs of infrastructure and beneficiaries copied from projects. In landscape management, the indicator constituted no measure of strengthened capacity; in the fiscal area, the revenue indicators were only partially correlated to collection efforts but subject to other forces (the business cycle, commodity prices) as proved to be the case. In social protection, no indicator provided measured productive jobs; in business regulation reforms, a mere numerical compiling of the number of reforms masked the relative weight and impact of individual reforms.

with the authorities and with development partners. The shift towards human capital in the government's strategy was assisted by the Bank's meticulous attention to Indonesia-specific knowledge work and policy dialogue. Work on de-regulation, investment climate, tax reforms, financial sector reforms and sector policies have drawn heavily on ASA. Just-in-time advisory notes exemplified quick response as did the work on the *Omnibus Law on Job Creation.*

This approach was greatly facilitated by the access WBG management had to the highest levels of government, routinely to cabinet ministers, and periodically to the President of the Republic in Bank presentations and seminars.

The COVID response at the tail-end of the CPF period provided a further illustration of quick response and adaptability with the provision of support for health, social protection, and overall national economic support amounting to $950 million. Operations have strengthened human capital and national systems for public health preparedness with a short-term focus on capacities, systems and community engagement and with medium-term results sought in reduced risk of COVID infections and reduced morbidity and mortality rates.[93] Additional financing for an existing PforR operation supported social assistance reforms that enabled the broadening of coverage and increases in the conditional cash transfer programs,[94] and supplemental financing for the financial sector reform development policy operation was provided.[95] These financial interventions were underlaid by intensive ASA efforts: monitoring as well as analytics in assessing the economic, health and social impact of the pandemic; and policy-advisory work in shaping the response – all of which shaped the official response to the pandemic.

ii. Innovative approaches. The platform approach to supporting government programs in order to attain scale and lower transaction costs constitutes a notable innovation in implementation. Under this approach, all parties – government and development partner financiers to a project – follow WBG procurement and implementation arrangements, fiduciary and other safeguard in a consistent and transparent manner. This approach helps to improve the allocative efficiency and technical quality of project expenditures. Importantly, coordination within the government is also incentivized. The WBG deploys its convening power, knowledge products and TA to implement the approach building strong relationships with all parties. The platform also facilitates the leveraging of investments by development partners and the private sector. Projects benefitting from a platform approach have been housing, rural water supply and sanitation, tourism, transport, urban development (slum upgrading and water), and the nutrition PforR.

The CPF was strong in adopting a multi-sector approach where warranted, such as in nutrition/stunting,[96] urbanization, infrastructure,[97] landscape management,[98] and private sector

[93] *Emergency Response to COVID-19,* (May 2020) in the amount of $250 million. Uniquely in the Bank, this emergency response operation uses the PforR instrument, and was prepared within two months – a record for a PforR. The operation attracted co-financing from the Asia Infrastructure and Investment Bank (AIIB) in the amount of $250 million and parallel financing from the Islamic Development Bank (IDB) in the amount of $200 million.
[94] *Social Assistance Reform Program: Additional Financing* (May 2020) in the amount of $400 million.
[95] This supplemental financing amounted to $300 million.
[96] This team is co-led by Social and Health with the participation of four other GPs.
[97] Joint Bank, IFC and MIGA team; tourism team consists of eight GP representatives.
[98] Led by ENV GP, with Agriculture and Water GP representation and IFC.

development. This helped foster multi-GP collaboration in all these areas with shared leadership and task team composition.

iii. Legacy. A sound program of ongoing activities for the next CPF period has been bequeathed by the current CPF through the programmatic ASA approach. Across CPF activities, the legacy of ASA achieved, and the planned ASA will help support the forthcoming dialogue as well as anchor lending activities.[99] The maintenance of a strong ASA program will require new funding sources as several hitherto-vital trust funds, such as the Australia-funded TF, face diminished allocations.

99. **Portfolio**. The active portfolio consists of 34 IBRD and TF projects (Table 1). This represents a large and highly varied portfolio of DPOs, IPFs, PfRs that have required careful management. Projects were generally programmatic and carefully sequenced. At the same time, the Bank took care to replicate or scale-up portfolio successes across projects and proactively addressed generic weaknesses in implementation. Five projects are considered to be at risk. Eight projects are judged to be problem projects. Over the CPF period, the disbursement ratio has fluctuated around 20 percent in line with EAP target. IBRD commitments amount to $8.8 billion; IFC commitments stand at $1.34 billion.

Table 1: Portfolio Key Indicators

Key Indicator	FY15	FY16	FY17	FY18	FY19	FY20
	Actual	Actual	Actual	Actual	Actual	Actual
Number of active Projects (#)	24	26	32	34	32	34
Number of Projects at Risk (#)	8	6	4	5	2	9
Problem Projects (#)	8	6	4	4	2	8
IBRD/IDA Disbursement Ratio (%) - Indonesia	15%	24%	22%	23%	17%	14%
EAP Target - Disbursement ratio (%)	-	19%	18%	20%	-	17%
EAP Actual - Disbursement ratio (%)	19%	18%	18%	16%	18%	17%

100. Portfolio performance is affected by weak activity planning and budgeting processes within the government, low alignment with WBG requirements on procurement and safeguards, at times poor commitment at design and implementation, and weak coordination among government agencies. Over the CPF period, the Bank conducted a continual dialogue with the client on portfolio performance, which improved as a result of timely restructurings, the acceleration of DIPA revision process in the Ministry of Finance, and the implementation of advance

[99] As examples, the current dialogue on structural reforms with traction within the government covers competitiveness, financial sector, infrastructure, and human capital and has led to a planned set of three DPLs over the first half of the new CPF period on economic and trade liberalization and infrastructure. The work done on tax reforms and on the quality of public spending enjoys traction and will be built upon over the next CPF. The body of financial sector reform work has extended well beyond originally envisaged in the CPF and provides a rich foundation for the forthcoming engagement. In energy and extractives, the cross-GP programmatic ASA lays strong foundations for future engagement. The footprint of the gender programmatic ASA, initiated in FY20, will be felt over the next CPF engagement.

procurement. On planning, the Bank and the authorities conduct an Annual Program Discussion as a systematic project preparation meeting prior to Green Book issuance annually and convene all key stakeholders early in project preparation. There was a significant strengthening of monitoring and evaluation across the portfolio.

101. However, a number of systemic issues continue to hamper project implementation. In the area of project readiness, problems exist in the inadequacy in DIPA budget availability for preparation, PMU/PIU readiness, and reluctance to undertake advance procurement. In procurement, there is a reluctance on the part of project agencies and auditors to comply with the Bank's procurement procedures. In environmental and social safeguards, there is a lack of PIU capacity and resources which cause delays during preparation and implementation. Moreover, difficulties have been experienced with the implementation of the Bank's Anticorruption Guidelines. Continuous training for implementing agencies and PIUs have been provided to build capacity and raise awareness.

102. Supervision was greatly helped by the presence of staff, including task team leaders, in all areas of the portfolio in the Jakarta office. It rested upon a close and near-continuous dialogue with the client and on efforts to pro-actively address incipient problems, inter alia, through project restructurings and cancellations. Country Management Unit in the field took a strong role in this effort.

103. In addition to the full range of dedicated procurement support to the portfolio, the Bank maintained a strong engagement in procurement reform to facilitate the further development of country procurement systems. The first comprehensive assessment of Indonesia's public procurement system was undertaken. Financial management requirements are mainstreamed during project preparation and training provided to project implementing agencies before project implementation.

104. IFC investments amount to $8.8 billion (of which $5.0 billion for IFC's own account) in around 220 projects to-date. As of September 2019, IFC Indonesia's total committed investment portfolio stood at $1.8 billion (including $699 million in syndications), across 34 client companies in diverse sectors. IFC's biggest exposures are in the chemicals sector (29 percent) closely followed by banking (28 percent), with significant exposures in wholesale/retail trade (14 percent) and power (11 percent). Currently, MIGA has $705 million of outstanding exposure in Indonesia for the Rajamandala 47 MW hydropower project ($183 million) and in support of renewable projects of PLN ($522 million).

105. ***Development partners***. As noted earlier, the WBG team exercised leadership in the overall development dialogue through the highly effective ASA program and also by successful dissemination both within the government and amongst development partners, positioning products to influence policies. Much of the ASA activities are funded by development partners'[100] contribution through a Bank-administered trust fund at the country level. Coordination has been close, characterized by a rich dialogue and the results have been captured in formal TF implementation reports. These TFs provided $75.6 million in new contributions signed during the CPF period funding in addition to $800 million in ongoing funding from ten donors, Australia, USAID, MCC, Switzerland, Canada, Norway, the EC, Netherlands, Denmark and New Zealand.

[100] The principal partners are the AIIB, ADB, the EU and the UN group -multilaterals and DFAT, Japan, US and other bilateral agencies.

Programs supported, inter alia, were rural water (Pamsimas), ocean marine debris and coastal resources, sustainable landscape management, tourism, human capital. Moreover, development partners played a strong role in financing reform efforts in macroeconomics, the financial sector, and public financial management and analytical work on poverty.

106. The largest co-financier of investment lending operations was AIIB (four infrastructure projects amounting to $691 million, ADB co-financed the energy PforR and the French Development Agency (AFD), the German Development Bank (KfW) and the ADB co-financed DPOs in energy, logistics and fiscal reforms. The Bank again acted as convener in bringing resources to the government to help mitigate the impacts of the pandemic, with AIIB and ISDB joining the Bank in providing a package of $700 million of financing to the emergency health response operation and multiple development partner agencies providing complementary TA resources to help ensure that the government would meet the defined results .The WBG worked with the ADB on infrastructure, with the EU on public finance and with UN institutions on sanitation and urban development, with DFAT and USAID on rural water, and urban development and with SECO on tourism, financial sector and PFM. Two private philanthropic organizations - Tanoto Foundation and Bill& Melinda Gates Foundation – have supported human capital acceleration.

107. ***The WBG partnership*** has been a tight one. In several areas, the Bank, IFC and MIGA worked as one team: investment climate advisory, infrastructure ASA and investments; decentralization and urbanization; financial markets; human capital; and environment. The common effort in infrastructure was directed at creating a propitious investment environment for private capital and to pivoting from a national to a municipal focus; in addition, IFC and MIGA investments in renewable energy, private ports, tourism and hotels, and residential housing complement IBRD investments in all these areas. IFC has been preparing for investments in urban waste to energy projects and supporting municipal bonds. Environment investments have focused on green buildings and green finance through ASA and regulatory advice in the financial sector. IFC work has dovetailed with Bank work on financial sector reforms through its investments in MSME-focused banks and in bank consolidation to improve efficiency, and it has helped capital market development by supporting de-risking products. The IFC supported private efforts in health and education, complementing the Bank's investments in these areas, by investments in manufacturing of medical devices, greenfield medical products manufacturing, and private K-12 school education. MIGA issued guarantees of $183million for the development and operation of a 47 MW run-of-the-river hydropower plant near Bandung on Java Island on a build-operate-transfer basis.

IV. Alignment to Corporate Goals

108. The CPF strategy incorporated the twin corporate goals at its heart. The goal relating to extreme poverty was to be achieved by sustaining growth through improvements in public sector and fiscal management, by raising the quality of public expenditures and improved access to public services, and by the greater emphasis on human capital investments. On shared prosperity, the attention to private sector-led growth through institutional and business environment reforms, investments in infrastructure, and landscape policies was aimed at inclusive growth. The CPF implementation paid close attention to several specific corporate priorities of the WBG.

109. ***Maximizing Finance for Development***. The CPF sought to maximize the role of private finance through advisory work on investment climate and competitiveness as well as by specific

ASA on leveraging private finance for infrastructure. A WBG engagement strategy on MFD was prepared which informed a number of MFD or MFD-enabling projects. This strategy was clearly successful in obtaining a high leverage in investments (Annex III). The housing project aims to attract $1.5 billion in private mortgages. The additional financing for the infrastructure facility is designed to obtain $1 billion in private funding. The geothermal project (energy investments), the maritime logistics DPO (ports and logistics services), the solid waste management project (waste into energy) and urban development (municipal creditworthiness) are all designed to catalyze private financing. Potential MFD opportunities have also stimulated joint WBG strategies and operations, and future opportunities for IFC could lie in toll roads, urban transport, and engaging with SOEs on possible divestments. Even so, the potential of MFD remains to be fully utilized, possibly embracing human capital, and with greater priority being accorded by the government to export competitiveness and de-regulation the climate for attracting private capital is expected to improve.

110. ***Climate-Change.*** The WBG provided a range of knowledge and advisory products to support government priorities in mitigating and adapting to climate change. A flagship study, the Cost of Fire, detailed the severe costs in lost output, health and well-being associated with forest fires – this work led to further ASA on forest management, peatlands protection and restoration, as well as sustainable livelihoods in lowlands that resulted in reinforced policies in these areas. Advisory services were extended also in carbon pricing, power tariff reforms, and disaster-risk management using climate-change considerations. Climate-change factors, particularly reduction in greenhouse-gas emissions, also shaped the design of Bank projects in irrigation, urban infrastructure, and public services in water and sanitation, health, and nutrition. Bank lending for renewable energy, forest management, forest carbon finance and urban wastewater have large climate co-benefits. The CPF attained average climate co-benefits in 23 percent of its lending over the five years. The IFC had a sharp focus on climate change: work with financial institutions to develop green products (such as green bonds) for financing green projects and has developed a robust pipeline of green projects notably in renewal (and geothermal) energy, solar energy, small-scale hydropower and waste to energy. Green building and green property financing constitute significant activities. It has promoted sustainable finance by working with the finance regulatory body.

111. ***Gender***. The CPF addressed four gender constraints through its interventions: low female participation in the labor force and in financial inclusion; high maternal mortality; low female participation in decision-making; and legal discrimination. Advice on fiscal incentives to raise labor participation and uptake of health and nutrition programs was adopted by the authorities, and ASA supported improvements in financial inclusion and entrepreneurship. In lending, the education, health and nutrition (stunting) projects build incentives for pre-natal and maternity preparedness and vitamin A uptake and immunizations, the rural water projects empower women in community decision-making, and land-mapping project aims at strengthening the land rights of women. Gender interventions that are mainstreamed across operations can be most effective in obtaining results. To deepen WBG engagement, a programmatic ASA on gender was initiated in FY20 to lay the foundations for targeted activities under the next CPF.[101]

[101] A gender assessment will be made available in FY21.

112. ***Civil Society Engagement***. Throughout the CPF period, the WBG has engaged with civic society organizations for consultations on corporate and project-related purposes, to obtain views on strategies, and to disseminate ASA products. Organizations have included those from businesses, trade unions, academics and think tanks, faith-based and indigenous groups, and others. The WBG has also teamed up with CSOs in awareness-raising and advocacy activities such as environmental protection, in particular, the role of plastics in marine pollution. A notable accomplishment of the CPF was the increase in support for evidence-based solutions to development questions. In this endeavor, dissemination of WBG work was critical. The Bank tailored its knowledge presentations carefully to the audience. Flagship analytical pieces and just-in-time policy notes were translated into power point presentations with headline messages and accompanied by infographics, graphs, and charts for senior officials. For the general audience, data-packed and technical flagships were captured as infographic-filled glossies, and, on occasion as TED talks.

V. LESSONS

113. A number of lessons can be drawn from the WBG's manifold achievements over the CPF period in providing development solutions to the client, but these lessons are also forged in the shadow of the COVID pandemic which threatens to reverse Indonesia's accomplishments over the past five years in growth and poverty reduction.

A. The WBG should build on its strengths to ensure a sound post-pandemic recovery.

114. ***A key lesson is safeguarding the medium-term focus.*** The WBG has proven to be a trusted partner of the Indonesian government, the country's private sector, and its civic institutions. It is the development partner of choice and enjoys unrivalled access. To safeguard this position, the WBG must continue to provide candid, quality advice based on sound evidence-based research, and deliver development solutions with agility.

115. The strength of the WBG lies in its provision of a long-term perspective, beyond the exigencies of the COVID response. The WBG has to assist Indonesia balance the short-term response without losing focus on the conditions for the medium-run recovery: sustainability in macro-fiscal policies and strengthened conditions for private sector-led growth.

116. ***Addressing economic fragilities is a priority***. Macroeconomic and financial fragilities have risen to the surface, with rising public debt, a shift to domestic sources of financing, shallow banking and capital markets that will see rising non-performance of loans: an early priority must be reforms in the tax regime and the quality of public spending, accompanied by a deepening of financial markets. Tighter international integration in trade and investment, further de-regulation and contestability on SOEs, greater competition are critical to private sector growth.

117. In this process, the dialogue on medium-term reforms already initiated through programmatic ASAs in such critical areas as public finance reforms, private financing for infrastructure, openness in trade and investment, de-regulation, deepening capital markets, and improvements in public service delivery through bolstered decentralization mechanisms should be reinforced with vigor.

118. ***Reinforcing human capital to underpin inclusive growth***. Crises reveal fragilities. The pandemic will have raised poverty. This development calls for reinforcing the shift to human capital over the past CPF period in the government's priorities towards human capital to safeguards gains in education, health and nutrition, and to strengthen employment prospects. Decentralized

channels for service delivery are critical to addressing social needs and must be strengthened in capacity, accountability in performance, and financial management.

B. The WBG should assist in re-shaping priorities in four areas.

119. ***According a central role to environment.*** The importance of a structured approach to policy work on environment, including extending the work on natural disaster management to health and pandemics, is clearer than ever before. This work, embracing natural resource management in land, forests, oceans, commitments on a green economy and climate change mitigation, and adapting policies to climate change, will require a careful political economy analysis to identify points of entry for the WBG that would be most effective and to craft high-reward, implementable policy advice valued by the client. Where the political authorizing environment is not propitious, technical work to design and build support for reforms should be undertaken so that the WBG is well-prepared to advance when political decisions change. Past experience with work on fuel subsidy reforms is a good example.

120. ***Helping realize the potential of digitalization.*** Indonesia is at an early stage of digitalization as compared to its peers with an under-developed infrastructure, low internet penetration, uneven use of digital methods in business, and weak regulation. It performs well below its potential in reaping productivity gains; in particular, the scope for disruptive and transformative technologies to deliver development solutions remains largely unexplored. The WBG has a strong comparative advantage in this area and is well placed to bring its international experience to bear to assist regulatory bodies and private companies, expanding the frontiers of private financing of infrastructure. The lesson is to mainstream digitalization considerations, as appropriate, throughout the forthcoming CPF.

121. ***Using planned ASA to craft a comprehensive gender strategy***. The past CPF has exposed unexploited opportunities in mainstreaming gender across WBG interventions. The knowledge work just initiated will provide a diagnostic from which a comprehensive strategy can be developed.

122. ***Addressing regional inequalities***. Indonesia's impressive growth record has been accompanied by geographical unevenness. Greater attention needs to be paid to the lagging regions of the country, which contain the worst pockets of poverty and an exacerbation of severe poverty resulting from the pandemic crisis. Projects in energy, water, and port infrastructure planned for the early part of the forthcoming CPF period will help channel greater resources to eastern Indonesia. However, there may be merit in taking a comprehensive approach in line with the strategy on low-income states or provinces in other WBG strategies.[102]

C. The WBG should realize the dividends from scaling-up success.

123. ***A key lesson is to expand the platform approach***. Given large demands relative to available WBG resources, the leveraging of all national, private sector and development partner resources, as in the platform approach, increases the prospects of sustainable and transformative development impact. Such an approach builds scale, not only in resources, but also addresses capacity gaps and strengthens institutions. A programmatic approach in the knowledge agenda and in lending has led to benefits of continuity, steady support for deepening reforms, building on

[102] This could consist of strategies to help regions build capacity, conduct diagnosis, implement decentralized responsibilities; such efforts could be supported by TA as well as some simplification of Bank operations. Consideration could be given to penciling in an earmarked proportion of Bank lending to such regions.

learning and success, and upscaling. This should be continued. The platform approach can be scaled-up under WBG leadership to embrace new sectors, such as in human capital, but this approach requires managing the substantially greater burden on WBG management and staff of ensuring compliance with environmental and social safeguards on a platform-wide basis. Adequate budgets will be required.

124. ***Make further use of cross-sector, cross-GP approaches***. The CPF demonstrated clearly the rewards of thematic approaches (decentralization in service delivery and finances, urbanization, anti-stunting) that cut across sectors for development impact. This approach requires support across several global practices on single tasks, with shared team leadership and diverse team membership. This has worked well to bringing joined-up, coherent solutions to the client.

125. ***Tap further into the potential of Maximizing Finance for Development.*** The MFD approach has made a promising beginning in infrastructure, but could be expanded, particularly if competitiveness and SOE reforms are implemented to increase the scope for private sector participation, and every opportunity should be sought by each arm of the WBG to maximize the role of private finance.

126. ***Build champions for change.*** The CPF experience has shown that proactive identification of champions for change within the government and tenacious engagement with them is a key to success. Examples can be found in fiscal, financial sector and logistics reforms as well as in the pivot to human capital and social assistance programs as a pillar of the government development strategy. Where commitment has been ambiguous (fisheries management, energy reforms, agrarian reforms) results have been disappointing.

127. For the IFC, engaging with local sponsors before an opportunity for a deal emerges is vitally important. Early, proactive engagement with the local sponsors heightens IFC's visibility in the market and helps IFC's positioning when potential collaborations emerge. Examples can be found in work on developing a green portfolio, supporting local MSMEs, and firms in industrial, tourism, and infrastructure sectors.

D. The next CPF should combine a high flexibility of approach with strong results linkages

128. The foregoing lessons suggest that in the current heightened climate of uncertainty the new CPF must be crafted to be mindful of risks and deeply thoughtful as to possible medium-term scenarios, which will each require its own set of responses. Hence, to an unusual degree, given the uncertainties, the CPF must be characterized by flexibility in strategic approach. This places a greater burden on developing an improved results framework with higher-order objectives to correspond to the recovery phase. It is clear that the PLR in FY'23 will likely have an unusually heavy responsibility of reorienting the strategy to 2025 as needed.

Annex I: Summary of CPF Indicator Ratings

CPF Objectives and Indicators	Indicator Ratings			
	Achieved	Mostly Achieved	Partially Achieved	Not Achieved
Engagement Area 1: National Infrastructure for Growth and Development				
Objective 1: Increase access to water through irrigation and dam safety				
Indicator 1: The number of people benefiting from improved irrigation and drainage		1		
Indicator 2: The number of people benefiting from improved dam safety	1			
Objective 2: Increase access to affordable housing				
Indicator 3: Number of targeted households assisted by the Program (BSPS) for affordable house ownership	1			
Objective 3: Development of integrated tourism destinations				
Indicator 4: Number of integrated tourism destinations with coordination body and implementation arrangements formalized by government decrees (*Surat Keputusan*, SK)	1			
Engagement Area 2: Sustainable energy and universal access				
Objective 4: Increase supply and access to energy				
Indicator 5: People provided with new or improved electricity services	1			
Indicator 6: Incremental geothermal power generation installed capacity (MW)	1			
Indicator 7: Non-coal (hydro, gas) power produced (Gwh)	1			
Engagement Area 3: Maritime connectivity				
Objective 5: Improve maritime logistics and connectivity				
Indicator 8: Reduction in dwelling time in the two main ports	1			
Indicator 9: Increase in the number of new foreign licenses for freight forwarders warehousing and cold storage service providers	1			
Engagement Area 4: Delivery of Local Services and Infrastructure				
Objective 6: Strengthening the decentralization framework to improve local service delivery				
Indicator 10: Percentage of DAK-financed physical outputs reported, verified, and meeting eligibility criteria in districts where the performance incentive is introduced				1
Objective 7: Improving sustainable urbanization				

CPF Objectives and Indicators	Indicator Ratings			
	Achieved	**Mostly Achieved**	**Partially Achieved**	**Not Achieved**
Indicator 11: People provided with improved infrastructure under the National Slum Upgrading Project			1	
Indicator 12: Female beneficiaries under the National Slum Upgrading Project		1		
Objective 8: Improved access to quality education and health-related services				
Indicator 13: Percentage of pregnant women receiving four prenatal care visits in 5,761 villages	1			
Indicator 14: National Stunting Reduction Coordination mechanism launched and operational	1			
Indicator 15: Number of districts implementing district based, community focused training system for early childhood education (ECED) teachers	1			
Indicator 16: Number of people having access to improved water services in targeted areas, disaggregated by gender			1	
Indicator 17: Number of people having access to improved sanitation services in targeted areas, disaggregated by gender	1			
Indicator 18: Female beneficiaries under the new PAMSIMAS project		1		
Engagement Area 5: Sustainable Landscape Management				
Objective 9: Strengthened capacity in decentralized forest and land management				
Indicator 19: Land area supported by forest management units with improved management effectiveness (hectare)	1			
Engagement Area 6: Collecting More and Spending Better				
Objective 10: Improve revenue collection				
Indicator 20: VAT-to-GDP ratio				1
Indicator 21: Non-oil & Gas Income Tax-to-GDP ratio				1
Objective 11: Improve efficiency and effectiveness of spending				
Indicator 22: Central government spending on health, capital expenditure (proxy for infrastructure), and social assistance (percentage of total expenditure of approved national budget excluding transfers to subnational governments)			1	
Indicator 23: Central budget execution rates (realized as a percentage of APBN) of capital spending	1			
Supporting Beam 1: Leveraging the Private Sector: Investment, Business Climate and Functioning of Markets				
Objective 12: Simplify business regulations				
Indicator 24: Implemented reforms supporting private sector development	1			

CPF Objectives and Indicators	Indicator Ratings			
	Achieved	**Mostly Achieved**	**Partially Achieved**	**Not Achieved**
Objective 13: Increase the role of the private sector in national infrastructure investment				
Indicator 25: Amount of PPP investment in infrastructure	1			
Indicator 26: World Bank Group operations that directly crowd in private investments in addition to public and World Bank Group financing	1			
Objective 14: Enhance access to finance				
Indicator 27: Percentage adults (age 15+) with an account at formal financial institutions	1			
Indicator 28: Number of Microloans disbursed disaggregated by gender[103]	1			
Indicator 29: Number of SMEs reached with financial services[104]	1			
Supporting Beam 2: Shared Prosperity, Equality, and Inclusion				
Objective 15: Improve social protection and access to productive jobs				
Indicator 30: Total cash-transfer beneficiary families	1			
Indicator 31: Share of cash-transfer beneficiaries receiving other social assistance program benefits (percentage)				1
Total	**21**	**3**	**3**	**4**

[103] Through IFC investment

[104] Through IFC investment

Annex II: Indonesia FY16-20 CPF Results Matrix Evaluation

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
Objective 1: **Increase access to water through irrigation and dam safety**		Indicator 1: The number of people benefiting from improved irrigation and drainage	Baseline: 4.5 million (2016) Target: 5.8 million (2020) **Actual**: 5.1 million (2020)	Mostly Achieved	**Ongoing:** • Dam Operational Improvement and Safety Project (DOISP) (P096532) • Dam Operational Improvement and Safety Project Phase II (161514) approved FY17 • Water Resources and Irrigation Mgt Program 2 (WISMP-2) (P114348) – ***closed FY18*** • Strategic Irrigation Modernization and Urgent Rehabilitation Project (SIMURP) (P157585) – approved FY18
		Indicator 2: The number of people benefiting from improved dam safety	Baseline: 3.1 million (2016) Target: 5.85 million (2020) **Actual**: 6.03 million (2019)	Achieved	
Objective 2: **Increase access to affordable housing**		Indicator 1 Number of targeted households assisted by the Program (BSPS) for affordable house ownership	Baseline: 0 (2016) Target: 300,000 (2020) **Actual**: 375,427 (February 2020)	Achieved	**Ongoing:** • Land, Housing and Urban Settlements PAAA (P149874 - ACS completed). • National Affordable Housing Program (P154948 - approved FY17; 2 financing windows: BP2BT for housing mortgage assistance and BSPS for affordable house ownership)

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• IFC: Ciputra Residence Bond Partial Credit Guarantee (#33018) • IFC: Ciputra Residence Loan (#37122) • IFC: Indonesia Green Buildings Promotion-Phase II (#602197) • ***IFC Investment to Trans Corpora (#40677)*** ***Project start: Approved*** ***Planned Projects*** • ***IFC: Investment in local housing and retail group of companies (#43430)*** • ***IFC investment: Approved***
Objective 3: **Development of integrated tourism destinations**		Indicator 1: Number of integrated tourism destinations with coordination body and implementation arrangements formalized by government decrees (*Surat Keputusan*, SK)	Baseline: 0 (2016) Target: 1 (2020) **Actual**: 3 (2020)	Achieved	**Ongoing:** • Indonesia Tourism Development Project (P157599) • Indonesia: Sustainable Tourism Development ASA (P164884) • RETFs for further ITMPs financed by Sustainable Tourism Development MDTF (STD-MDTF, P164472) • IFC: *Indonesia: Investment Climate, Competition and Competitive Sectors (#602983)* has a tourism component

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• ***IFC investment to Aqua Expedition project. (#38628)*** ***Project Status: Approved***
Objective 4: Increase supply and access to energy		Indicator 1: People provided with new or improved electricity services	Baseline: 11.18 million (2015) Target: 13.18 million (2020) **Actual**: 14.98 million (June 30,2019)	Achieved	**Ongoing:** • Indonesia Power Transmission Development (P117323) • Indonesia Second Power Transmission Development (P123994) • Upper Cisokan Pumped Storage Hydro-Elect (P112158) • Geothermal Clean Energy Investment (P113078) – ***closed FY19*** • Power Distribution Efficiency II - PforR (P154805) - approved FY16 • DPF Energy I (P154291) - approved and fully disbursed FY16 • Geothermal Energy Upstream Development (CTF/GEF P155047), approved FY17 • IFC's equity investment in Medco Power (#31462) - fully achieved • IFC - BDSN (766617) Asahan I Hydropower - fully achieved • IFC's investments to support clean IPPs and transmission projects (#39879)
		Indicator 2: Incremental geothermal power generation installed capacity (MW)	Baseline (2014): 0 Target (2020): 150 **Actual:** 150 (ICR Geothermal – Sept.30 2018)	Achieved	
		Indicator 3:	Baseline (2014): 1,175 Gwh Target (2020): 2,401 Gwh	Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		Non-coal (hydro, gas) power produced (Gwh)[105]	**Actual:** 2,704 Gwh (2018)		• IFC's PPP advisory support for developing renewable and gas based IPPs and transmission • IFC: Indonesia Renewable Energy Program - Business Development (#600118; Cross-Industry Advisory Services) - **completed** • MIGA - Rajamandala Hydropower IPP (guarantee issuance of US$183 million) • MIGA – PLN non-honoring guarantees (US$522 million) **Planned Projects:** • Geothermal Resource Risk Mitigation Project (GREM- P166071) – ***FY20 approved*** • DPF Energy II (P160394)- dropped • IFC-Medco Power new investment (#40095) • IFC-BDSN Asahan I Hydropower new investment (#40507)
Objective 5: Improve maritime		Indicator 1: Reduction in dwelling time in the two main ports	Baseline: 5.5 days in Tanjung Priok and 6.3	Achieved	**Ongoing:** • Western Indonesia National Roads (P090990)

[105] Through IFC investment

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
logistics and connectivity			days in Tanjung Perak (2015) Target: 3 days (2020) in both ports **Actual:** 2.75 days (2020)		• Managing Logistics Costs in Indonesia (P146261) - closed FY16 • Trade and logistics PA (P156780) - dropped FY16 • DPF Maritime, logistics & connectivity (MLC I) (P158140) - closed FY18. • DPF Maritime, logistics & connectivity (MLC II) (P163973) - approved FY18 • IFC's loan support to Jakarta International Container Terminal (#27117) - fully achieved • Bali Sustainable Transport and Connectivity Initiative (P165320) • Eastern Indonesia Port Development Platform (P160693) - dropped FY18 • Coral Reef Rehabilitation and Management Program-Coral Triangle Initiative (COREMAP-CTI) (P127813) Planned New: • Indonesia PPP Tol Roads (National Expressway Development Program) - (P162300) – closed • National Expressway Development Program (P162300)
		Indicator 2: Increase in the number of new foreign licenses for freight forwarders warehousing and cold storage service providers	Baseline (2015): 20 for freight forwarders and 3 for warehousing and cold storage Target (2020): 25 for freight forwarders and 18 for warehousing and cold storage **Actual:** • New foreign licenses for freight forwarders: 54 • New foreign licenses for	Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
			warehousing and cold storage: 60 (2020)		• IFC's investments with private sector ports developers and operators
Objective 6: Strengthening the decentralization framework to improve local service delivery		Indicator 1: Percentage of DAK-financed physical outputs reported, verified, and meeting eligibility criteria in districts where the performance incentive is introduced	Baseline: 72 (2016) Target: 88 (2018) Actual: 77% (2018)	Not achieved	**Ongoing:** • Local Government DAK (P111577) - ***closed FY18*** • AF for the Local Government and Dec. Project (P123940) - ***closed FY18*** • PASA Decentralization that Delivers (P154976) • Investing in Nutrition and Early Years (P164686) - approved FY18
Objective 7: Improving sustainable urbanization		Indicator 1: People provided with improved infrastructure under the National Slum Upgrading Project	Baseline: 0 (2016) Target: 7.5 million (2020) Actual: 5.1 million (Dec. 31, 2019)	Partially Achieved	**Ongoing:** • Jakarta Urgent Flood Mitigation Project (P111034) – ***closed FY19*** • Surabaya Urban Corridor Development BETF (P148821) - dropped FY17 • Sustainable urbanization PASA (P153802) • ID-WSSLIC III (PAMSIMAS) (P085375)
		Female beneficiaries under	Baseline (2016): 0 Target (2020):	Mostly Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		the National Slum Upgrading Project	Female members in community decision-making body: 30% Female participants in planning and implementation stages: 40% Female community members obtained capacity building: 30% **Actual: (Dec. 31, 2019)**: Female members in community decision-making body: **33%** Female participants in planning and		• National Slum Upgrading Program (P154782) - approved FY17 • Regional Infrastructure Development Fund (RIDF) (P154947) - approved FY17 • National Urban Water Supply Program (P156125) – approved FY18 **Planned New:** • Improvement of Solid Waste Management to Support Regional and Metropolitan Cities (P157245) – ***approved FY20*** • National Urban Development Project (P163896) – ***approved FY19*** • National Urban Wastewater Management Program (P158310) – FY21 • Regional Infrastructure Development Fund (RIDF) II/AF – FY21 • National Urban Transport Program – FY21 • IFC's investment to support Jakarta Waste-to-Energy project – ***dropped***

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
			implementation stages: **36%** Female community members obtained capacity building: **45%**		
Objective 8: Improved access to quality education and health-related services		Indicator 1: Percentage of pregnant women receiving four prenatal care visits in 5,761 villages	Baseline: 68 (2016) Target: 80 (2020) **Actual:** 97.59 (March'18)	Achieved	**Ongoing:** • PNPM Rural 2012–2015 (P128832) - Village Innovation Program (P128832) – ***closed FY20*** • PNPM-Generasi (P132585) - ***closed FY19*** • Indonesia PASA to support UHC (P153828) – ***closed FY18*** • Village Law PASA (P153219) • Village Governance and Community Empowerment Study (P154636)- ***closed FY19*** • ECED Frontline PASA (P156674) • PNPM-Generasi Impact Evaluation (P152466)
		Indicator 2: National Stunting Reduction Coordination mechanism launched and operational	Baseline: No (2018) Target: Yes (2020) **Actual:** Yes (2019)	Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		Indicator 3: Number of districts implementing district based, community focused training system for early childhood education (ECED) teachers	Baseline: 0 (2016) Target: 75 (2020) **Actual:** 75 (2020)	Achieved	• ID PAMSIMAS Support Trust Fund (P116236) – ***closed FY18*** • ID-WSSLIC III (PAMSIMAS) (P085375) • AF-National Water and Sanitation Program (PAMSIMAS 2) • Supporting 12 years Quality Education for All (P157380) • AF- National Water and Sanitation Program (PAMSIMAS 3) (P129486) - approved FY16 • Indonesia - Supporting Primary Health Care Reform PforR (I-SPHERE) Program (P164277) - approved FY18 • Investing in Nutrition and Early Years (P164686) – approved FY18 **Planned New:** • Primary Health Care Project (P157150) - dropped • Improving Efficiency and Effectiveness of Education Expenditure (PforR) (P163217) – FY21 • Institutional Strengthening for Improved Village Service Delivery (P165543) – ***approved FY19***
Objective 8: Improved access to quality education and		Indicator 4: Number of people having access to improved water services in targeted areas, disaggregated by gender	Baseline: 7.9 million, with 4 million women (2016) Target: 22 million, with 11 million women (2020) **Actual:** 16.9 million (Dec' 19), with 8.4 million women	Partially Achieved	
		Indicator 5: Number of people having access to	Baseline: 7.7 million, with 3.9	Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
health-related services		improved sanitation services in targeted areas, disaggregated by gender	million women (2016) Target: 14.9 million, with 7.45 million women (2020) **Actual:** 15.5 million, with 7.8 million women (Dec'19)		• Realizing Education's Promise in Indonesia IPF (P168076) – approved FY19
		Indicator 6: Female beneficiaries under the new PAMSIMAS project	Baseline (2016): 0 Target (2020): Female members in the community decision making body: 30% Female participants in the planning and implementation stages: 30% Female community members	Mostly Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
			obtained capacity building: 30% **Actual:** Female members in the community decision making body: **28%** Female participants in the planning and implementation stage: **45%** Female community members obtained capacity building: **46%** (2020)		
Objective 9: Strengthened capacity in decentralized forest and land management		Indicator 1: Land area supported by forest management units with improved management	Baseline (2016): 0 Target (2020): 177,000	Achieved	**Ongoing:** • Promoting Sustainable CBNRM and Institutional Development (P144269) • Strengthening Rights and Economies of Adat and Local Communities Project - DGM (P156473)

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		effectiveness (hectare)	Actual: 7.7 million (2020)		• PAAA Green Development Support Program (P148318) - dropped FY18. • REDD+ Support Facility (P149183) - closed FY17 • Indonesia Integrated Landscapes PASA (P156489) • Strengthening of Social Forestry in Indonesia—GEF Social Forestry (P165742) • REDD+ Sustainable Landscapes Program in East Kalimantan—Forest Carbon Partnership Facility (P166244) • REDD+ Sustainable Landscapes Program in Jambi—BioCarbon Fund ISFL (P166672) • IFC: Indonesia Green Buildings Regulation (#589167; Trade and Competitiveness) • IFC: SE Asia Forestry Advice (#600431; Manufacturing, Agribusiness & Services) • IFC: Forestry Supply Chain Indonesia (#600124; Manufacturing, Agribusiness & Services) • IFC: Indonesia Palm Oil Development Smallholders (#594007; Manufacturing, Agribusiness & Services)

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• IFC: Follow on Palm Oil Project No. 2: SCI in Plantations (#593807; Manufacturing, Agribusiness & Services) - ***completed*** **Planned New:** • Acceleration Program of Agrarian Reform and One Map Policy Implementation (P160661) – ***approved FY19***
Objective 10: Improve revenue collection		Indicator 1: VAT-to-GDP ratio	Baseline (2015): 3.7% Target (2020): 4.0% Actual: 3.4% (2020)	Not achieved	**Ongoing:** • TA-Revenue and Budget Management (P155648) • Tax policy TA (part of macro-fiscal PA P132241) • Non-tax revenue policy and administration TA (part of Natural Resources for Development PA P156142) • Fiscal Reform DPF 1 (P132241) • Indonesia Fiscal Reform DPF 2 (P161475) – ***closed FY18*** • Scholarship SPIRIT (P118150) - closed FY18 **Planned New:**
		Indicator 2: Non-oil & Gas Income Tax-to-GDP ratio	Baseline (2015): 4.7% Target (2020): 5.0% Actual: 4.5%	Not achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• Fiscal DPF3 – Tax Policy and Tax Admin and Public Financial Management – FY19 - ***closed FY19***
Objective 11: Improve efficiency and effectiveness of spending		Indicator 1: Central government spending on health, capital expenditure (proxy for infrastructure), and social assistance (percentage of total expenditure of approved national budget excluding transfers to subnational governments)	Baseline: health at 2.7 percent (2014); capital expenditure at 12.2 percent (2014); social assistance at 3.2 percent (2014) Target (2016 onward): positive growth **Actual (2019):** Health expenditures: 5.7% Capital expenditures: 11.09% Social assistance: 5%	Partially Achieved	**Ongoing:** • PERISAI DPL-DDO (P130048) - closed • Expenditure policy TA (part of macro-fiscal policy PA P132241) • DPF Fiscal Reform I and II (P156655) - closed • Sub-national fiscal TA, including in resource rich regions (part of macro-fiscal policy PA P132241 and Decentralization PA) • Fiscal Reform DPF 1 (P132241) • Indonesia Fiscal Reform DPF 2 (P161475) - • Scholarship SPIRIT (P118150) - closed FY18 • Public Procurement Statistics Capacity-Building in Indonesia (P163517) - Open Contracting Pilot with the city of Bandung in collaboration with LKPP – ***closed FY19***

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		Indicator 2: Central budget execution rates (realized as a percentage of APBN) of capital spending	Baseline: 80 percent (2014) Target: 90 percent (2020) Actual: 93.9% (2019)	Achieved	**Planned New:** • Fiscal DPF3 – Tax Policy and Tax Admin and Public Financial Management - FY19 – ***closed FY19*** • Human Resource Development for Bureaucratic Reform Project includes support for procurement professionalization and capacity building (P159461) - FY19 – ***dropped FY19*** • PFM-MDTF: Assessment of Indonesia's Public Procurement System using the revised OECD-DAC Methodology for Assessing Procurement Systems (MAPS-II, 2017) to identify the strengths and weaknesses and recommend actions for improvement 'Strengthening Budget and Revenue Management in Indonesia' (P155648) - FY19
Objective 12: Simplify business regulations		Indicator 1: Implemented reforms supporting private sector development	Baseline: 0 (2018) Target: 5 (2020) Actual: 5 (2020)	Achieved	**Ongoing**: • Indonesia Private Sector Development Reform Project (P144680) - completed • Research and Innovation in Science and Technology Project (P121842) • Indonesia Private Sector Reform II ASA (P160793) – ***closed FY18***

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• Review Economic Packages Released by the Indonesian Government (P160406) – ***closed FY18*** • Sustainable Management of Agricultural Research and Technology Dissemination (P117243) ***-closed FY20*** • Indonesia Investment Climate, Competitive Sectors and Competition (602128, IFC Advisory, Umbrella Program, with related projects: 602983 and 602984; Delivery: FY22) **Planned New:** • Indonesia Private Sector Competitiveness and Innovation III
Objective 13: Increase the role of the private sector in national infrastructure investment		Indicator 1: Amount of PPP investment in infrastructure	Baseline: US$327.4 million (2014) Target: US$5,000 million (2020) **Actual:** US$10,839 million (Sept. 2019)	Achieved	**Ongoing:** • Infrastructure Finance Facility IIFF (P092218), AF-Infrastructure Finance Facility IIFF (P154779) - approved FY17 • Indonesia Infrastructure Finance Development (P157490 - approved FY16) and P157491 • Indonesia Infrastructure Guarantee Fund (P118916) – ***closed FY19*** • IFC: Upstream advocacies on Toll Road Concessions and Hydro Power

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		Indicator 2: World Bank Group operations that directly crowd in private investments in addition to public and World Bank Group financing	Baseline (2015): 1 operation Target (2020): 4 operations **Actual:** 6 operations (2020)	Achieved	Purchasing Agreement (PPA) with PLN **Planned New:** • National Expressway Development Program (P162300) – FY20 – ***closed FY18 ASA*** • Capital market development, especially in area of infrastructure finance • IFC: PCG to support bond issuance of toll road companies
Objective 14: Enhance access to finance		Indicator 1: Percentage adults (age 15+) with an account at formal financial institutions	Baseline: 36 percent (2014) Target: 65 percent (2020) **Actual:** 76 percent (2019 – OJK)	Achieved	**Ongoing:** • Indonesia Payments Systems Upgrade (156536) - closed FY16 • Indonesia Digital Payments (P151368) – closed FY17 • Indonesia Financial Sector TA (P163296) • Indonesia Promoting Financial Access and Inclusion (P166791) • IFC: Earth Quake Index Insurance (EQII) for Microfinance Portfolio Protection (#599136; Finance and Markets) • IFC: Environmental & Social Risk Management for Financial
		Indicator 2: Number of Microloans disbursed	Baseline (2014): 0 Target (2020): 3,000,000 (of which 50 percent women)	Achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		disaggregated by gender[106]	**Actual:** 4,300,000 (of which 86 percent women) (2018)		Institutions (#591447; Financial Institutions Group) • IFC: Indonesia Corporate Governance Project (#590107; Environment, Social and Governance) • IFC: Indonesia Financial Infrastructure - Secured Transactions (#597607; Finance and Markets) • IFC: Indonesia M Banking 2 Digital Inclusion (#600401; Finance and Markets) • IFC: Ciputra Residence Bond Partial Credit Guarantee (#33018) • IFC's investments and advisory support for various private sector clients **Planned New:** • Financial Sector DPF – FY20 • Indonesia Financial Infrastructure - Credit Reporting (#598967; Finance and Markets) • Indonesia Microfinance (#599772; Financial Institutions Group)
		Indicator 3: Number of SMEs reached with financial services[107]	Baseline (2014): 0 Target (2020): 3,800[108] **Actual:** 18,300 (2018)	Achieved	

[106] Through IFC investment

[107] Through IFC investment

[108] IFC estimate as of March 2018.

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• Indonesia Mobile Banking Phase 2 (Digital Financial Inclusion) (#599875; Financial Institutions Group) • IFC investment support for private companies to issue bonds or stocks on capital markets • Capital market development, especially in area of infrastructure finance • IFC: Partial Credit Guarantee (PCG) to support bond issuance of toll road companies
Objective 15: Improve social protection and access to productive jobs		Indicator 1: Total PKH beneficiary families	Baseline: 5.9 million (2016) Target: 8 million (2020) **Actual:** 10 million (Dec.31, 2018)	Achieved	**Ongoing:** • Partnership for Knowledge-based Poverty Reduction PASA (P132247) - completed • Strengthening Indonesian Statistics Project (STATCAP) - closed FY18 • Consumption Module Simulation SUSENAS (P153589) - closed FY17 • Social assistance reform TA (P117975) - closed FY16, Indonesia Social Assistance Strengthening TA (P160590) • Social Security PAAA (P144677) - completed
		Indicator 2: Share of PKH beneficiaries receiving other social assistance	Baseline: 13.6 (2016) Target: 85 (2020)	Not achieved	

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
		program benefits (percentage)	**Actual**: 57% (2020)		• Social Assistance Reform Program (PforR - P160665) - approved FY17 • Indonesia Digital Payments (P151368) - closed FY17 • Jobs PASA (P146480) - closed, Indonesia Jobs Action Program (P163964) Active, completion 2020 • PASA Financial Sector Technical Assistance (P163295) – ***closed FY19*** • Developing Skills in Indonesia (P166241) • Supporting Worker Protection Reform in Indonesia (P166241) • International Labor Migration Study and TA in Indonesia (P150164) - closed FY16, • Vulnerable and Excluded Workers in Indonesia (P159694) – ***closed FY19*** • Indonesia #C007 Payments Systems Upgrade (P156536) - closed FY16 • Indonesia Digital Payments (P151368) - closed FY17 • IFC: Indonesia Agribusiness Business Development (#600483; Manufacturing, Agribusiness & Services) • FHP Indonesia II (#36865, Collective Investment Vehicles, $40m) - fully achieved

Objective	Overall Rating	Indicator	Baseline/ target	Status at CLR	Bank Program instruments
					• MIGA- Rajamandala Hydropower IPP (guarantee issuance of US$183 million) **Planned New:** • Skills Development Project PforR – ***FY21*** • IFC: Indonesia M Banking 2 Digital Inclusion (#600401; Finance and Markets) • IFC: Agricultural Finance AS to Bank Muamalat (#600480; Financial Institutions Group) • IFC: Danamon Agriculture Finance (#600755; Financial Institutions Group) • IFC: Indonesia Responsible Microfinance (#601066; Finance and Markets)

Annex III: Planned and Actual IBRD Financing FY16-20

No	Project/Program Title	Actual (US$ million)	Planned (US$ million)	Status
Engagement Area 1: National Infrastructure for Growth and Development				
1	Dam Operations Rehabilitation & Safety Improvement Project-2 (DORSIP-2) – IPF	125	150-200	Approved on 2/27/17, under implementation, with AIIB co-financing of $125m
2	Urgent Rehabilitation of Irrigation Project (URIP) – IPF	250	150-150	Approved on 6/21/18. These two projects have been merged into one project: Strategic Irrigation Modernization and Urgent Rehabilitation Project – IPF, $250m IBRD with AIIB co-financing of $250m
3	Modernization Strategic Irrigation Project (MISP) – IPF		150	
4	National Affordable Housing Program – IPF	450	150	Approved on 3/17/17, under implementation
5	Tourism Infrastructure Development – IPF	300	100-150	Approved on 5/30/18, under implementation
Engagement Area 2: Sustainable Energy and Universal Access				
1	DPF Energy I – DPF	500	500	Approved on 12/1/15, closed
2	DPF Energy II – DPF	n/a	300	Dropped
3	AF-Upper Cisokan 1040MW – IPF		150-200	Dropped
4	Power Distribution Efficiency P4R (PT PLN) – PforR	500	500	Approved on 4/22/16, under implementation
5	Poko Hydro Power 130MW (PLN) – IPF	n/a	200-250	Dropped
6	Geothermal II 150MW (PT PGE/ Pertamina) – IPF	225	100-150	The focus of geothermal financing support has been changed from downstream to upstream investment and was initiated with Geothermal Energy upstream development project (GEUDP), two grants amounting $55.25m
7	*Geothermal Resource Risk Mitigation Project (GREM)*	150	*225*	*Approved on 9/26/19, pending effectiveness*
8	Power Distribution Efficiency II P4R (PT PLN) – PforR	n/a	250	Postponed
Engagement Area 3: Maritime and Connectivity				
1	Road improvement to support integrated land and sea toll way – Northern area – IPF	n/a	150-200	Dropped
2	DPF Maritime, Logistics & Connectivity (MLC) – DPF	400	300	Approved on 11/2/16, closed

No	Project/Program Title	Actual (US$ million)	Planned (US$ million)	Status
3	DPF Maritime, Logistics & Connectivity (MLC II) – DPF	300	300	Approved on 6/28/18, closed
4	Eastern Ports Development (PT Pelindo) – IPF	n/a	200	Dropped
5	National Program for Blue Economy – IPF	n/a	100	Dropped
6	*National Expressway Development Program (PPP) – IPF*	*n/a*	*100-300*	*Dropped*
Engagement Area 4: Delivery of Local Services and Infrastructure				
1	Regional Infrastructure Development Funds (RIDF) – IPF	100	100	Approved on 3/10/17, under implementation, with AIIB co-financing of $100m
2	AF-National Rural Water & Sanitation (PAMSIMAS 3) – IPF	300	300	Approved on 1/8/16, under implementation
3	National Slum Upgrading – IPF	216.5	200	Approved on 7/12/16, under implementation, with AIIB co-financing of $216.5m
4	Improvement of Primary Health Care – PforR	150	250	Approved on 6/13/18
5	Improvement of Solid Waste Mgmt to Support Rgnl & Metro Cities – IPF	100	100	Approved on 12/5/2019, under implementation. Project title changed to Indonesian Solid Waste Management Improvement Project
6	National Urban Water Supply Program – IPF	100	100	Approved on 6/6/18, under implementation
7	Regional Water supply in Benteng Kobema & Durolis – IPF	n/a	100	Dropped
8	Surabaya Urban Transport – IPF	n/a	100	Dropped
9	National Urban Wastewater Management Program (Sewerage system development and development of sewerage treatment plant facility) – IPF	n/a	200	Planned FY21. Project title changed to National Urban Wastewater Management Program (potential for co-financing)
10	Support for Delivery of Village Infrastructure and Basic Services – PforR	300	150	Approved on 6/26/2019. Project title changed to Institutional Strengthening for Improved Village Service Delivery. The instrument changed from IPF to PforR.
11	National Urban Development Program (NUDP) – Sustainable Urban Development – IPF	50	100	Approved on 6/11/2019, under implementation
12	DAK Reform Program – IPF	n/a	100-150	Postponed

No	Project/Program Title	Actual (US$ million)	Planned (US$ million)	Status
13	Quality Education in Disadvantaged Regions – IPF	n/a	100-150	Dropped
14	*Investing in Nutrition and Early Years – PforR*	*400*	*0*	*Approved on 6/21/18*
15	*Improving Efficiency and Effectiveness in Education Expenditure – PforR*	*n/a*	*300*	*Planned FY21*
16	*Realizing Education's Promise in Indonesia – IPF*	*250*	*100-250*	*Approved on 6/26/2019, under implementation*
17	*Regional Infrastructure Development Funds (RIDF) II/AF – IPF*	*n/a*	*200-400*	*Planned FY22 (potential for co-financing)*
18	*National Urban Transport Program*	*n/a*	*250-500*	*Planned FY22. Title changed to Indonesia Mass Transit Program Project (potential for co-financing)*
Engagement Area 5: Sustainable Landscape Management				
1	Forestry Investment Program – IPF	22	100	Approved on 5/27/16, financed by grant
2	National Land Administration and Spatial Planning – IPF	200	200	Approved on 7/18/18. Title changed to Acceleration Program of Agrarian Reform and One Map Policy Implementation
Engagement Area 6: Collecting More and Spending Better				
1	DPF Revenue Collection	400	300	Approved on 5/31/16, closed. Title changed to Indonesia Fiscal Reform DPF
2	Modernization of Tax Collection Project – IPF	n/a	100	Dropped
3	DPF Revenue Collection II	300	300	Approved on 10/31/17, under implementation. Title changed to Indonesia Fiscal Reform DPF II
4	Development of Capacity, Quality and Competency HR (SPIRIT II) – IPF	n/a	100-150	Dropped
5	*Indonesia Fiscal Reform DPF III*	*1000*	*300*	*Approved on May 23, 2019, closed*
Supporting Beam 1: Leveraging the Private Sector – Investment, Business Climate and Functioning of Markets				
1	AF Indonesia Infrastructure Financing Facility – IPF	200	150	Approved on 6/24/09, under implementation
2	*Financial Sector DPF*	*300*	*150*	*Approved on 3/20/2020, title changed to Indonesia Financial Sector Reform Development Policy Financial*

No	Project/Program Title	Actual (US$ million)	Planned (US$ million)	Status
3	*Financial Sector Reform Development Policy Financial – COVID-19 Supplemental Financing*	*300*	*300*	*Approved on 5/22/2020*
Supporting Beam 2: Shared Prosperity, Equality and Inclusion				
1	*Skills Development Project – PforR*	*n/a*	*100-200*	*Planned FY21*
2	*Social Assistance Reform Project*	*200*	*0*	*Approved on 5/9/17, under implementation*
3	*Additional Financing Social Assistance Reform Project*	*400*	*300*	*Approved on 5/ 15, 2020)*
4	*Indonesia Emergency Response to COVID-19*	*250*	*250*	*Approved on 5/22/2020*

Note

Projects in italics are those that we not contemplated at CPF preparation and were added subsequently.

Annex IV: Maximizing Finance for Development FY16-FY20 Leverage

Project/Program Title FY16-FY20	IBRD	Govt Funds	MDB Funds	Private Finance	Total Financing/ Improved Public Expenditure
	(in US$ million)				
PAMSIMAS (Rural Water Supply and Sanitation)	300	716	10		1,026
Energy DPL	500		950		1,450
Energy Distribution PforR	500	350	600		1,450
Fiscal Reform DPL – 1	400		110		510
Total FY16	**1,700**	**1,066**	**1,670**	**-**	**,436**
National Slum Upgrading	217	1,300	620		2,137
Maritime, Logistics & Connectivity DPL – 1	400		400		800
Dam Opr Rehab & Safety Improvement Project -2 (DORSIP-2)	125	50	125		300
Regional Infrastructure Development Funds (RIDF)	100	200	100		400
Affordable Housing for Low Income Households*	450	700		1,200	2,350
AF Indonesia Infrastructure Financing Facility*	200			1,000	1,200
Social Assistance Reform PforR	200	5500			5,700
Total FY17	**1,692**	**7,750**	**1,245**	**2,200**	**12,887**
Fiscal Reform DPL - 2	300				300
National Urban Water Supply**	100	502.6			602.6

Project/Program Title FY16-FY20	IBRD	Govt Funds	MDB Funds	Private Finance	Total Financing/ Improved Public Expenditure
Tourism Development**	300	470.8	2.1		772.9
Strategic Irrigation and Urgent Rehabilitation	250	78	250		578
Supporting Primary Health Care Reform (I-SPHERE)	150	13,357			13,507
Logistics and Maritime DPL - 2**	300				300
Investing in Nutrition and the Early Years (INEY)	400	9,242	20		9,662
Total FY18	**1,800**	**23,650**	**272**	**-**	**25,723**
Institutional Strengthening for Improved Village Service Delivery	300	50			350
Indonesia Fiscal Reform DPL 3	1,000				1,000
Realizing Education's Promise: Support to Indonesia's Ministry of Religious Affairs for Improved Quality of Education	250	3			253
National Urban Development Project (NUDP)	50				50
Central Sulawesi Rehabilitation and Reconstruction Project	150				150
Program to Accelerate Agrarian Reform (One Map Project)	200				200
Total FY19	**1,950**	**53**	**-**	**-**	**2,002**
Indonesia Geothermal Resource Risk Mitigation Project (GREM)*	150	135	175		460
Indonesia Disaster Resilience Initiatives Project	160				160
Improvement of Solid Waste Management to Support Regional an*	100		226		326
Indonesia Financial Sector Reform Development Policy Financial	300				300

Project/Program Title FY16-FY20	IBRD	Govt Funds	MDB Funds	Private Finance	Total Financing/ Improved Public Expenditure
Indonesia: Emergency Response to COVID-19	250				250
Indonesia Social Assistance Reform Program Additional Financing	400				400
Indonesia Financial Sector Reform Development Policy Financial – COVID-19 Supplemental Financing	300				300
Total FY20	**1,660**	**135**	**401**	**-**	**2,196**
GRAND TOTAL FIVE FISCAL YEARS	**8,802**	**32,654**	**3,588**	**2,200**	**47,244**

* MFD projects

** MFD-enabling projects

Annex V: Statement of Committed and Outstanding Investment Portfolio (IFC)

(US$ MILLION)

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd – Part	LN Out - IFC	ET Out - IFC	QL + QE Out – IFC	GT Out - IFC	RM Out - IFC	ALL Out – IFC	ALL Out - Part
2001/1998/2019/2007/2003/2004/2020	OCBC NISP	322.62	40.00	0	0	0	0	322.62	0	122.62	0	0	0	0	122.62	0
2009/2008	Saratoga Asia II	0	0	0.63	0	0	0	0.63	0	0	0	0	0	0	0	0
2009/2014/2017/ 2016	IIF Indonesia	50.00	0	38.42	0	0	0	88.42	50.00	50.00	38.42	0	0	0	88.42	50.00
2010/2014/2017/2015/2020/2012	BTPN	167.57	1,044.26	0	0	0	0	167.57	0	167.57	0	0	0	0	167.57	0
2011	BioCarbon	0	0	1.84	0	0	0	1.84	0	0	1.84	0	0	0	1.84	0
2012	Falcon House I	0	0	22.46	0	0	0	22.46	0	0	22.46	0	0	0	22.46	0
2013	BUK	0	3.44	2.96	0	0	0	2.96	0	0	2.96	0	0	0	2.96	0
2013/2014/2012	Wintermar	10.66	32.56	0	0	0	0	10.66	0	10.66	0	0	0	0	10.66	0
2014/2016	Ciputra Res	19.19	6.81	0	0	0.98	0	20.17	0	4.69	0	0	0.98	0	5.67	0
2014/2019/2015	KEB Hana Indo	0	29.12	46.87	0	0	0	46.87	0	0	46.87	0	0	0	46.87	0
2014/2020	BDSN	92.72	18.80	7.50	0	0	7.00	107.22	240.76	52.72	7.50	0	0	0	60.22	83.76
2015	Bank Mayora	0	0	22.65	0	0	0	22.65	0	0	22.65	0	0	0	22.65	0
2015/2016	Pt PAU	82.60	9.62	0	27.10	0	2.96	112.66	353.37	82.60	0	24.56	0	0.96	108.12	353.37
2016	Falcon House II	0	0	30.00	0	0	0	30.00	0	0	20.90	0	0	0	20.90	0
2016	PTBB	10.42	0	0	0	0	0	10.42	0	10.42	0	0	0	0	10.42	0
2016	PT Pharma	17.17	0	0	0	0	0	17.17	0	17.17	0	0	0	0	17.17	0
2016	Wintermar-EQ	0	0	14.62	0	0	0	14.62	0	0	14.62	0	0	0	14.62	0

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd – Part	LN Out - IFC	ET Out - IFC	QL + QE Out – IFC	GT Out - IFC	RM Out - IFC	ALL Out – IFC	ALL Out - Part
2017	Aneka Gas	0	0	11.20	0	0	0	11.20	0	0	11.20	0	0	0	11.20	0
2017	EP Tyre	5.63	9.38	0	0	0	0	5.63	0	5.63	0	0	0	0	5.63	0
2017	IDS Medical	0	0	0	60.00	0	0	60.00	0	0	0	60.00	0	0	60.00	0
2017	Southgate	4.64	0.36	0	0	0	0	4.64	0	4.64	0	0	0	0	4.64	0
2018	Nabati	42.16	1.84	0	0	0	0	42.16	27.97	40.51	0	0	0	0	40.51	26.85
2018	SSIA	57.15	0	0	0	0	6.00	63.15	0	28.58	0	0	0	1.50	30.08	0
2018/2014/2015	Fluidic Energy	0	0	7.52	0	0	0	7.52	0	0	7.52	0	0	0	7.52	0
2018/2017	Indosurya Finance	11.42	8.58	0	0	0	0	11.42	8.55	11.42	0	0	0	0	11.42	8.55
2018/2017	Radana Finance	9.57	8.75	0	0	0	0	9.57	9.57	9.57	0	0	0	0	9.57	9.57
2018/2019/2020	JVIFC Coinvest I	0	0	5.00	0	0	0	5.00	0	0	5.00	0	0	0	5.00	0
2019	Aqua Expeditions	10.00	0	0	0	0	0	10.00	0	7.00	0	0	0	0	7.00	0
2019	MRPR	50.00	0	0	0	0	5.44	55.44	0	28.33	0	0	0	4.68	33.01	0
2019	PT Trans Corpora	60.00	0	0	0	0	0	60.00	125.00	60.00	0	0	0	0	60.00	125.00
2020	Provident Growth	0	0	30.00	0	0	0	30.00	0	0	20.22	0	0	0	20.22	0
Grand Total:		**1,023.52**	**1,213.50**	**241.66**	**87.10**	**0.98**	**21.40**	**1,374.66**	**815.22**	**714.13**	**222.15**	**84.56**	**0.98**	**7.14**	**1,028.96**	**657.10**

Annex VI: Investment Portfolio (IFC)

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2001/1998/2019/2007/2003/2004/2020	OCBC NISP	322.62	40.00	0	0	0	0	322.62	0	122.62	0	0	0	0	122.62	0
2009/2008	Saratoga Asia II	0	0	0.63	0	0	0	0.63	0	0	0	0	0	0	0	0
2009/2014/2017/2016	IIF Indonesia	50.00	0	38.42	0	0	0	88.42	50.00	50.00	38.42	0	0	0	88.42	50.00
2010/2014/2017/2015/2020/2012	BTPN	167.57	1,044.26	0	0	0	0	167.57	0	167.57	0	0	0	0	167.57	0
2011	BioCarbon	0	0	1.84	0	0	0	1.84	0	0	1.84	0	0	0	1.84	0
2012	Falcon House I	0	0	22.46	0	0	0	22.46	0	0	22.46	0	0	0	22.46	0
2013	BUK	0	3.44	2.96	0	0	0	2.96	0	0	2.96	0	0	0	2.96	0
2013/2014/2012	Wintermar	10.66	32.56	0	0	0	0	10.66	0	10.66	0	0	0	0	10.66	0
2014/2016	Ciputra Res	19.19	6.81	0	0	0.98	0	20.17	0	4.69	0	0	0.98	0	5.67	0
2014/2019/2015	KEB Hana Indo	0	29.12	46.87	0	0	0	46.87	0	0	46.87	0	0	0	46.87	0
2014/2020	BDSN	92.72	18.80	7.50	0	0	7.00	107.22	240.76	52.72	7.50	0	0	0	60.22	83.76
2015	Bank Mayora	0	0	22.65	0	0	0	22.65	0	0	22.65	0	0	0	22.65	0
2015/2016	Pt PAU	82.60	9.62	0	27.10	0	2.96	112.66	353.37	82.60	0	24.56	0	0.96	108.12	353.37
2016	Falcon House II	0	0	30.00	0	0	0	30.00	0	0	20.90	0	0	0	20.90	0
2016	PTBB	10.42	0	0	0	0	0	10.42	0	10.42	0	0	0	0	10.42	0
2016	PT Pharma	17.17	0	0	0	0	0	17.17	0	17.17	0	0	0	0	17.17	0
2016	Wintermar-EQ	0	0	14.62	0	0	0	14.62	0	0	14.62	0	0	0	14.62	0
2017	Aneka Gas	0	0	11.20	0	0	0	11.20	0	0	11.20	0	0	0	11.20	0
2017	EP Tyre	5.63	9.38	0	0	0	0	5.63	0	5.63	0	0	0	0	5.63	0
2017	IDS Medical	0	0	0	60.00	0	0	60.00	0	0	0	60.00	0	0	60.00	0
2017	Southgate	4.64	0.36	0	0	0	0	4.64	0	4.64	0	0	0	0	4.64	0
2018	Nabati	42.16	1.84	0	0	0	0	42.16	27.97	40.51	0	0	0	0	40.51	26.85
2018	SSIA	57.15	0	0	0	0	6.00	63.15	0	28.58	0	0	0	1.50	30.08	0
2018/2014/2015	Fluidic Energy	0	0	7.52	0	0	0	7.52	0	0	7.52	0	0	0	7.52	0
2018/2017	Indosurya Finance	11.42	8.58	0	0	0	0	11.42	8.55	11.42	0	0	0	0	11.42	8.55
2018/2017	Radana Finance	9.57	8.75	0	0	0	0	9.57	9.57	9.57	0	0	0	0	9.57	9.57
2018/2019/2020	JVIFC Coinvest I	0	0	5.00	0	0	0	5.00	0	0	5.00	0	0	0	5.00	0
2019	Aqua Expeditions	10.00	0	0	0	0	0	10.00	0	7.00	0	0	0	0	7.00	0
2019	MRPR	50.00	0	0	0	0	5.44	55.44	0	28.33	0	0	0	4.68	33.01	0
2019	PT Trans Corpora	60.00	0	0	0	0	0	60.00	125.00	60.00	0	0	0	0	60.00	125.00
2020	Provident Growth	0	0	30.00	0	0	0	30.00	0	0	20.22	0	0	0	20.22	0
Grand Total:		**1,023.52**	**1,213.50**	**241.66**	**87.10**	**0.98**	**21.40**	**1,374.66**	**815.22**	**714.13**	**222.15**	**84.56**	**0.98**	**7.14**	**1,028.96**	**657.10**

Annex VII: Indonesia Advisory Portfolio (IFC)

Project Name	Primary Business Line Name	Implementation Start Date	Implementation End Date	Total Funds Managed by IFC
Indonesia Palm Oil Development Smallholders	Manufacturing, Agribusiness & Services	4/1/2013	9/30/2020	7.25
Environmental & Social Risk Management for Financial Institutions	Environment, Social and Governance	2/11/2013	2/29/2020	4.02
Indonesia Investment Climate Competitive Sectors and Competition MCICP	Equitable Growth, Finance and Institutions	4/5/2018	12/31/2021	3.74
Indonesia Investment Climate Competitive Sectors and Competition UKPF	Equitable Growth, Finance and Institutions	4/5/2018	12/31/2021	3.00
EAP Green Building	Economics & Private Sector Development	1/1/2020	12/31/2021	2.73
Indonesia Green Buildings Promotion (Phase 2)	Economics & Private Sector Development	7/1/2017	12/31/2019	1.57
Indonesia Responsible Microfinance	Equitable Growth, Finance and Institutions	12/1/2015	12/31/2020	1.46
Legok Nangka Waste to Energy PPP	Transaction Advisory	10/1/2019	6/30/2023	1.38
Indonesia Agriculture Insurance	Financial Institutions Group	5/1/2017	6/30/2021	0.67
TaniHub Agrifinance AS	Financial Institutions Group	9/16/2018	6/30/2021	0.39
Total				**26.22**

Annex VIII: MIGA Guarantee Portfolio

(as of March 15, 2021)

Project name	Effective date	Expiration date	Investor	Sector	Gross Exposure
PT Rajamandala Electric Power	08/07/2014	08/06/2033	Mizuho Bank, Ltd., Japan Bank for International Cooperation	Energy	US$ 182.623.089
PT Perusahaan Listrik Negara (Persero)	01/08/2021	12/23/2025	Citibank, N.A. (Singapore), DBS Bank Ltd., Chase Bank National Association, Singapore Branch, KfW IPEX-Bank GmbH, Landesbank Baden-Wurttemberg, Oversea-Chinese Banking Corporation Limited, Standard Chartered Bank (Singapore) Limited, PT Bank BTPN Tbk.	Energy	US$ 522.306.635
Total					**US$ 704.929.724**

Annex 3. Selected Indicators of Bank Portfolio Performance and Management
As of March 15, 2021

Indicator	FY18	FY19	FY20	FY21
Portfolio Assessment				
Number of Projects Under Implementation [a]	29.0	28.0	30.0	29.0
Average Implementation Period (years) [b]	4.2	4.1	3.9	4.8
Percent of Problem Projects by Number [a,c]	10.3	7.1	20.0	13.8
Percent of Problem Projects by Amount [a,c]	13.8	7.8	15.2	12.7
Percent of Projects at Risk by Number [a,d]	13.8	7.1	23.3	20.7
Percent of Projects at Risk by Amount [a,d]	17.1	7.8	17.6	15.6
Disbursement Ratio (%) [e]	18.3	16.4	15.0	8.7
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	362	14
Proj Eval by IEG by Amt (US$ millions)	40,671.7	2,402.1
% of IEG Projects Rated U or HU by Number	26.1	7.1
% of IEG Projects Rated U or HU by Amt	19.9	0.4

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 4. Operations Portfolio
As of February 28, 2021
(in USD millions)

Closed Projects	377
IBRD/IDA*	
Total Disbursed (Active)	3,154.49
of which has been repaid(1)	107.74
Total Disbursed (Closed)	44,962.18
of which has been repaid	30,453.95
Total Disbursed (Active + Closed)	48,116.67
of which has been repaid	30,561.68
Total Undisbursed (Active)	3,548.64
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	3548.638975

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements a/	
Project ID	Project Name	Development	Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P127813	Coremap III	MU	MS	2014	47.4	0.0		0.0	4.9	4.9	6.5
P130389	Coremap III	#	MS	2014	0.0	0.0	10.0	0.0	3.0	3.0	0.0
P169403	CSRRP	MS	MS	2019	150.0	0.0		0.0	137.8	35.0	0.0
P161644	Geothermal Energy Upstream Developmei	#	MU	2017	0.0	0.0	6.3	0.0	3.7	3.7	0.5
P166071	Geothermal Resource Risk Mitigation	S	S	2020	150.0	0.0		0.0	150.0	48.8	0.7
P096532	ID: Dam Operational Improvement (DOISP	MS	MS	2009	175.0	0.0		2.8	78.6	-43.6	27.6
P170874	ID-disaster resilience initiatives IDRIP	S	S	2020	160.0	0.0		0.0	152.7	3.7	0.0
P115763	ID-HCFC Phase-out in the PU Foam Sect	S	S	2014	0.0	0.0	7.0	0.0	1.7	-2.5	1.1
P092218	ID- Indo Infrastructure Finance Facility	S	S	2009	300.0	0.0		0.1	84.1	-215.8	0.0
P121842	ID-Research and Innovation in S&T	S	S	2013	95.0	0.0		20.2	4.7	25.0	-2.4
P165742	ID: Strengthening of Social Forestry	S	S	2020	0.0	0.0	14.3	0.0	13.7	0.0	0.0
P085375	ID-WSSLIC III (PAMSIMAS)	S	MS	2006	399.9	137.5		9.1	13.9	-385.5	9.8
P165543	Improved Village Service Delivery	MS	MS	2019	300.0	0.0		0.0	294.8	60.3	0.0
P173249	Indonesia Disaster Risk Financing	#	#	2021	500.0	0.0		0.0	500.0	120.0	0.0
P173843	Indonesia: Emergency Response to COVII	S	S	2020	250.0	0.0		0.0	37.5	0.0	37.5
P170940	Indonesia Financial Sector Reform DPF	#	#	2020	600.0	0.0		0.0	0.0	0.0	0.0
P154782	Indonesia Nat'l Slum Upgrading Project	S	MS	2017	216.5	0.0		0.0	79.8	50.8	23.7
P157599	Indonesia Tourism Development Project	MS	MS	2018	300.0	0.0		0.0	282.7	47.5	0.0
P164686	Investing in Nutrition and Early Years	S	S	2018	400.0	0.0		0.0	216.6	35.2	0.0
P157585	Irrigation Modernization&Rehabilitation	MU	MU	2018	250.0	0.0		0.0	239.0	86.5	0.0
P164277	I-SPHERE	S	MS	2018	150.0	0.0		0.0	100.7	-1.9	-1.9
P154948	National Affordable Housing Program	MU	MU	2017	450.0	0.0		0.0	232.7	230.7	59.1
P157245	National Solid Waste Management Progra	S	MS	2020	100.0	0.0		0.0	99.2	4.8	0.0
P163896	National Urban Development Project	S	MS	2019	49.6	0.0		0.0	47.0	8.3	0.0
P156125	National Urban Water Supply Project	MS	MU	2018	100.0	0.0		0.0	84.0	30.3	0.0
P160661	One Map Project	MS	MS	2019	200.0	0.0		0.0	157.5	-0.7	0.0
P112158	Pumped Storage TA Project	MS	MS	2011	640.0	0.0		596.0	8.1	604.1	7.5
P168076	Realizing Education's Promise	MS	MS	2019	250.0	0.0		0.0	235.7	51.8	0.0
P154947	Regional Infrastructure Development Fund	MS	MS	2017	100.0	0.0		0.0	61.7	57.9	10.5
P160665	Social Assistance Reform Program	S	MS	2017	600.0	0.0		0.0	216.6	-283.2	0.0
P090990	Western Indonesia National Roads Improv	MS	MS	2011	250.0	0.0		22.0	6.4	28.4	1.7
Overall Result					**7,183.4**	**137.5**	**37.5**	**650.3**	**3,548.6**	**607.2**	**181.8**

* Disbursement data is updated at the end of the first week of the month.
a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 5. Statement of IFC's Committed and Outstanding Portfolio
As of February 28, 2021
(in USD Millions)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY17	ANEKA GAS	0.00	5.89	0.00	0.00	0.00	0.00	5.89	0.00	0.00	0.00
FY19	AQUA EXPEDITIONS	10.00	0.00	0.00	0.00	0.00	7.00	0.00	0.00	0.00	0.00
FY20	ASSA	0.00	0.00	31.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY15	BANK MAYORA	0.00	22.65	0.00	0.00	0.00	0.00	22.65	0.00	0.00	0.00
FY14	BDSN	49.58	6.98	0.00	0.00	76.95	49.58	6.98	0.00	0.00	76.95
FY19	BDSN	40.00	0.00	0.00	7.00	157.00	0.00	0.00	0.00	0.00	0.00
FY11	BIOCARBON	0.00	2.30	0.00	0.00	0.00	0.00	2.30	0.00	0.00	0.00
FY09	BTPN	0.00	15.24	0.00	0.00	0.00	0.00	15.24	0.00	0.00	0.00
FY19	BTPN	144.73	0.00	0.00	0.00	0.00	144.73	0.00	0.00	0.00	0.00
FY13	BUK	0.00	2.96	0.00	0.00	0.00	0.00	2.96	0.00	0.00	0.00
FY19	CI JUNGLE VENTUR	0.00	3.00	0.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
FY16	CIPUTRA RES	3.65	0.00	0.00	0.00	0.00	3.65	0.00	0.00	0.00	0.00
FY17	EP TYRE	1.88	0.00	0.00	0.00	0.00	1.88	0.00	0.00	0.00	0.00
FY12	FALCON HOUSE I	0.00	25.26	0.00	0.00	0.00	0.00	25.14	0.00	0.00	0.00
FY16	FALCON HOUSE II	0.00	30.00	0.00	0.00	0.00	0.00	25.37	0.00	0.00	0.00
FY21	FMF	49.32	0.00	0.00	0.00	0.00	49.32	0.00	0.00	0.00	0.00
FY17	IDS MEDICAL	0.00	0.00	60.00	0.00	0.00	0.00	0.00	60.00	0.00	0.00
FY09	IIF INDONESIA	0.00	37.57	0.00	0.00	0.00	0.00	37.57	0.00	0.00	0.00
FY17	IIF INDONESIA	50.00	0.00	0.00	0.00	50.00	50.00	0.00	0.00	0.00	50.00
FY17	INDOSURYA FINANC	9.48	0.00	0.00	0.00	6.15	9.48	0.00	0.00	0.00	6.15
FY15	KEB HANA INDO	0.00	9.86	0.00	0.00	0.00	0.00	9.86	0.00	0.00	0.00
FY19	KEB HANA INDO	0.00	14.93	0.00	0.00	0.00	0.00	14.93	0.00	0.00	0.00
FY12	MEDCO POWER	0.00	25.00	0.00	0.00	0.00	0.00	25.00	0.00	0.00	0.00
FY15	MEDCO POWER	0.00	0.04	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00
FY19	MRPR	50.00	0.00	0.00	2.19	0.00	41.04	0.00	0.00	1.43	0.00
FY18	NABATI	34.46	0.00	0.00	0.00	20.19	34.46	0.00	0.00	0.00	20.19
FY21	NABATI	30.00	0.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00	0.00
FY18	OCBC NISP	140.25	0.00	0.00	0.00	0.00	140.25	0.00	0.00	0.00	0.00
FY20	OCBC NISP	192.85	0.00	0.00	0.00	0.00	192.85	0.00	0.00	0.00	0.00
FY20	PASARPOLIS	0.00	5.00	0.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
FY16	PTBB	10.49	0.00	0.00	0.00	0.00	10.49	0.00	0.00	0.00	0.00
FY14	PT PAU	75.37	0.00	27.10	0.00	312.91	75.37	0.00	24.56	0.00	312.91
FY16	PT PAU	0.00	0.00	0.00	3.03	0.00	0.00	0.00	0.00	1.03	0.00
FY19	PT TRANS CORPORA	60.00	0.00	0.00	0.00	125.00	60.00	0.00	0.00	0.00	125.00
FY21	PT TRANS CORPORA	100.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00
FY17	RADANA FINANCE	5.54	0.00	0.00	0.00	5.54	5.54	0.00	0.00	0.00	5.54
FY08	SARATOGA ASIA II	0.00	0.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY17	SOUTHGATE	4.54	0.00	0.00	0.00	0.00	4.54	0.00	0.00	0.00	0.00
FY18	SSIA	57.15	0.00	0.00	0.00	0.00	28.58	0.00	0.00	0.00	0.00
FY19	SSIA	0.00	0.00	0.00	6.00	0.00	0.00	0.00	0.00	1.50	0.00
FY13	WINTERMAR	9.96	0.00	0.00	0.00	0.00	9.96	0.00	0.00	0.00	0.00
Total Portfolio:		**1,129.25**	**207.31**	**118.66**	**18.22**	**753.74**	**1,048.72**	**201.93**	**84.56**	**3.96**	**596.74**

Annex 6. Indonesia – Indicative IBRD Program FY 2021-2023 [109]

	Gender	Digitalization	Climate change	IBRD (US$m)
Engagement Area 1: Strengthen economic competitiveness and resilience				
Indonesia Disaster Risk Finance & Insurance (COVID)	☑		☑	500
Investment and Trade Reforms DPL	☑		☑	800
Second Financial Sector Reform DPF	☑	☑	☑	300
Third Financial Sector Reform DPF*	☑		☑	300
Fiscal DPL*	☑	☑	☑	300
SOE Reforms DPL* [110]	☑		☑	350
Subnational Finance	☑	☑	☑	300
Engagement Area 2: Improve infrastructure				
Development of Pumped Storage Hydropower in Java Bali System [111]			☑	400
Indonesia Mass Transit Program Support Project	☑	☑	☑	500
Eastern Indonesia Port-Led Development Project	☑	☑	☑	200
Subnational Finance*	☑		☑	250
National Urban Wastewater Management Program	☑		☑	200
SOE Reforms DPL*			☑	350
Indonesia Infrastructure Finance Facility Additional Financing			☑	tbd
Institutional Strengthening for Improved Village Service Delivery Additional Financing	☑	☑	☑	350
National Urban Flood Resilience (NUFReP)*	☑	☑	☑	400
PLN Financial Stabilization and Reform Project (Policy- based Guarantees) [112]			☑	200
Indonesia Sustainable Least Cost Electrification-1			☑	300
Transitioning to Sustainable, Clean and Efficient Energy PforR			☑	350
Engagement Area 3: Nurture human capital				
Indonesia Skills Development Project	☑	☑		300
Health Emergency COVID response Additional Financing PforR	☑	☑	☑	500
Human Capital Development DPL 1,2*	☑	☑	☑	300, 300
Investing in Nutrition and Early Years (INEY) Additional Financing	☑		☑	400

[109] The CPF outer years IBRD program will be defined at mid-term stage in the PLR
[110] Delivery subject to the GOI moving ahead with structural reforms, specifically SOE governance and financing reforms.
[111] AIIB is expected to co-finance the project with an additional US$250 million.
[112] Delivery subject to the Government of Indonesia moving ahead with structural reforms, specifically to: (i) implement energy subsidy and tariff reforms to ensure that PLN becomes financially sustainable after the bailout; and (ii) prepare a plan for the transition to increased use of renewables.

	Gender	Digitalization	Climate change	IBRD (US$m)
Realizing Education Promise Additional Financing	☑			200
National Health Insurance (JKN) Reforms and Results Program[113]	☑	☑		250
Innovations for Health Service Delivery	☑	☑		250
Improving Quality, Relevance and Strengthening MoRA Higher Education	☑	☑		250
Digital ID and Registration for Inclusive Service Delivery	☑	☑		250
Engagement Area 4: Sustain management of natural assets, natural resources- based livelihoods and disaster resilience				
Oceans for Prosperity Program - LAUTRA Phase 1	☑		☑	400
One Map Policy 2 (Multipurpose Cadaster for Sustainable Development)	☑	☑	☑	200
Revitalization of Lowland Irrigation for National Food Security (RAWA LESTARI)	☑		☑	600
Program for Advancing Sustainable Agriculture and Resilient Market (COVID)	☑	☑	☑	100
National Urban Flood Resilience Project (NUFReP)*	☑	☑	☑	400
Indonesia Disaster Risk Finance & Insurance	☑	☑	☑	500

** Project contributes to more than one CPF Engagement Area*

[113] Delivery depends on the establishment of a national higher-level coordinating body.

Annex 7. Indonesia ASA Program by Engagement Areas

Task Name	Report Type/Primary Focus	TF Support
Engagement Area 1: Strengthening economic competitiveness and resilience		
Sustainable Tourism Development	Implementation advice/Capacity building	√
Indonesia Jobs Action Program	Other Analytics	√
Indonesia firms, innovation and entrepreneurship	Other Analytics	
Indonesia trade and investment reforms' implementation	Implementation advice/Capacity building	√
Port Infrastructure Development and Investment Rapid Response	Other Analytics	√
Indonesia Financial Sector Technical Assistance	Implementation advice/Capacity building	√
Strengthening Financial Sector Stability		√
Promoting Financial Access and Inclusion		√
Supporting Long Term Finance & Risk Management		√
Disaster Risk Financing & Insurance	Other Analytics	√
Indonesia Infrastructure Finance & Development	Infrastructure Sector Assessment Program	√
Urban Floods, Disaster Risk Management, and Drainage Program	Other Analytics	√
Transforming Indonesia's Agri-food System	Public Expenditure Review	
Subnational Finance and Management for Results (SEMAR)	Implementation advice/Capacity building	
Modernizing the Management of Public Resources in Indonesia	Implementation advice/Capacity building	
Strengthening Fiscal Policy	Other Analytics	√
Strengthening the Fiscal Management of Natural Resource Revenue		√
Government Debt and Risk Management phase II	Implementation advice/Capacity building	√
Infrastructure Financing Support - Capital Market and Risk Products		√
Reforms to boost competitiveness and economic recovery		
Promoting Digital Agriculture in Indonesia		
Poverty PASA		
Macroeconomic analysis and policy dialogue	Other Analytics	√
Digital Technologies for Inclusive Development in Indonesia	Other Analytics	√

Task Name	Report Type/Primary Focus	TF Support
Climate Change – Carbon Finance	Implementation advice/Capacity building	
Engagement Area 2: Improve infrastructure		
Indonesia Infrastructure Assessment Program	Implementation advice/Capacity building	√
Indonesia Infrastructure Finance & Development	Infrastructure Sector Assessment Program	√
Infrastructure Institutional and Regulatory Support		√
Urban Transport Support Program	Other Analytics	√
City Planning Labs and Spatial Planning	Implementation advice/Capacity building	√
Subnational Infrastructure Investment		√
Affordable Housing Support Program		√
Indonesia Sustainable Urbanization Programmatic AAA	Implementation advice/Capacity building	√
Infrastructure Financing Support - Capital Market and Risk Products		√
Urban Floods, Disaster Risk Management, and Drainage Program	Other Analytics	√
Towards Water Security and Integrated Urban Water Management	Other Analytics	√
Support to Indonesia National Urban Water Supply Program	Implementation advice/Capacity building	√
Indonesia Support for Village Development PASA	Other Analytics	√
Support gas & alternative energy sources		√
Support sub-national management of resources		√
Indonesia Energy Transition and Sustainable Access to Modern Energy for All (PASA)	Other Analytics	
Climate Change – Carbon Finance	Implementation advice/Capacity building	
Engagement Area 3: Nurture human capital		
ID - Supporting reforms to accelerate universal health coverage (UHC)	Implementation advice/Capacity building	√
Support for Strengthening Multisectoral Responses to Nutrition	Other Analytics	√
Supporting 12 years Quality Education for All	Public Expenditure Review	√
Efficiency of education expenditure		√
KIAT Guru Phase 2 - Improving Teacher Performance and Accountability Phase 2	Other Analytics	√
Indonesia Jobs Action Program	Other Analytics	√
Gender Equality for Growth Program	Other Analytics	√

Task Name	Report Type/Primary Focus	TF Support
Learning For Human Capital Development Programmatic ASA		√
Social Security Implementation Support	Implementation advice/Capacity building	√
Social Assistance Strengthening Technical Assistance	Implementation advice/Capacity building	√
Towards Gender-Smart Social Protection In Indonesia	Other Analytics	√
Identification for Development (ID4D) Programmatic ASA	Implementation advice/Capacity building	√
Disaster Risk Financing & Insurance	Other Analytics	√
Engagement Area 4: Sustain management of natural assets, natural resources- based livelihoods and disaster resilience		
Artisanal and Small-Scale Gold Mining Sector Analysis	Other Analytics	√
Integrated Landscapes Programmatic AAA	Other Analytics	√
Enabling Activities for Hydrofluorocarbons (HFC) Phase-down under the Montreal Protocol	Implementation advice/Capacity building	√
Addressing Marine Plastics Debris in Indonesia	Other Analytics	√
Sustainable Management of Indonesia's Oceans and Coastal Resources, and Reducing Marine Debris	Implementation advice/Capacity building	√
Promote Natural Resources Transparency & Anticorruption	Implementation advice/Capacity building	√
Indonesia Natural Resources for Development	Implementation advice/Capacity building	
Urban Transport Support Program	Other Analytics	√
Disaster Risk Financing & Insurance	Other Analytics	√
Urban Floods, Disaster Risk Management, and Drainage Program	Other Analytics	√
Transforming Indonesia’s Agri-food System	Public Expenditure Review	
Climate Change – Carbon Finance	Implementation advice/Capacity building	
Support to Indonesia National Urban Water Supply Program	Implementation advice/Capacity building	√

Annex 8. Consultations on the CPF FY21-25 with Indonesia – Highlights

Stakeholder consultations were conducted through virtual meetings as well as an online platform for feedback. Between September 2020 - January 2021, the WBG conducted in-country consultations to validate key themes and strategic directions of the Country Partnership Framework FY2021-2025. Despite the pandemic and online format, the consultations were intensive and covered a wide range of stakeholders from government, academia, civil society, private sector, as well as development partners, thus capturing their aspirations, concerns, and ideas. Further, feedback was solicited through a consultation webpage on the Indonesia Country Office website. This platform enabled all interested parties including CSOs which could not participate in online meetings to provide additional feedback on the CPF areas of focus. In March 2021, the WBG undertook another round of consultations with CSOs focused on environmental issues, including CSOs that have been voicing concerns about the impact of the Omnibus Law on the environment, and raising questions about the role of the WBG in supporting a transition to renewable energy. The session, which focused on sustainable infrastructure services and natural asset management, was well received and constructive.

Participants in all virtual sessions expressed appreciation for the opportunity to comment on the objectives and priorities of the draft partnership framework as well as the WBG's ongoing commitment to ensuring that its work was appropriately informed through citizen engagement and by the views of critical stakeholders. There was broad support for the proposed priorities and objectives of the draft CPF, with an appreciation for its close alignment to the Government's own strategy and objectives as embodied in Government Medium -Term National Development Plan 2020-2024.

Representatives of the government, financial sector authorities and business community reaffirmed their agreement on increasing revenue collection, improving the efficiency and effectiveness of public spending, strengthening the depth, efficiency and resilience of the financial sector, creating the conditions for private sector development and investment, and boosting competitiveness. Reforms in these areas are expected to contribute to higher labor productivity, economic growth and the creation of more and better jobs that provide a pathway to economic security for the middle-class. Many participants agreed that a greater willingness on the part of the public sector to step back and create the space necessary for the private sector to develop was essential to sustainable economic growth. The Government and WBG were encouraged by participants to support private sector development and productivity growth by moving away from a reliance on subsidies as a means of support, shifting instead to creating an enabling environment that would improve incentives for innovation and growth and encourage competition.

Virtually all stakeholders strongly supported the proposed CPF's focus on nurturing human capital for a modern economy. The support includes ensuring equity and quality of services in the health sector, addressing stunting, boosting quality of education at all levels, and developing market-relevant skills, particularly with respect to the role and use of digital technologies. This was considered essential, if Indonesia was to successfully harness and apply rapidly evolving technology and achieve the potentially significant improvements in productivity available through digitalization.

Participants acknowledged that significant improvements in gender equality have not translated into increased economic participation for women and large gender gaps remain. Stakeholders welcomed the WBG focus on the female labor force participation, among other gender-related work including policy advice on how to address gender challenges, bringing global expertise, and sharing experiences from other countries. At the same time, it has been noted that addressing gender gaps will be challenging in the country's cultural context and would require coordinated efforts of government agencies, business community and other stakeholders.

In each consultation, stakeholders emphasized the importance of the environment and infrastructure development both in urban and rural areas. Climate change and its impacts are being felt and acknowledged across all groups. The WBG was encouraged to maintain its support to Indonesia in responding to the country's environmental and climate challenges. Representatives of the CSOs demonstrated a high regard for environmental protection and conservation as a country goal to accelerate its energy transition and better manage its forest, peatland, mangroves, and marine assets to bring livelihood benefits to local community, including Adat and other marginalized groups. CSOs reiterated the need for continued WBG focus on its comparative advantages based on potential climate impact, and the opportunity to influence Indonesia's trajectory toward low-carbon and resilient path. Government stakeholders stressed the protection of natural resources as critical to building prosperity and resilience. The WBG agreed on working with government and other stakeholders, bringing global expertise for policy advice and analytics, as well as promoting transformative investment in high-impact climate action through operations.

The Government's representatives welcomed the CPF's flexible approach, its responsiveness to uncertainties and recovery from the pandemic. They also emphasized the importance of the country's ownership to ensure smooth preparation and implementation of Bank-financed projects. Participants underlined the critical importance of WBG's policy advice and technical expertise, especially in such important areas as energy sustainability, digital transformation, fiscal decentralization, management of natural resources, development of human capital and social protection.

CSOs reaffirmed their desire for stronger involvement of civil society in monitoring the implementation of the CPF. The WBG reconfirmed its readiness to engage with civil society during the CPF implementation and beyond, to apply the principles of citizen engagement in WB-financed operations, and to hold topical discussions both at the initiative of the WBG teams and CSOs.

Annex 9. Indonesia Country Gender Assessment: Key Findings

The World Bank's Country Gender Assessment (CGA), conducted in 2020, provides a broad overview of the current state of gender equality and women's issues in Indonesia, including in light of the COVID pandemic.[114] The CGA is anchored in Indonesia's Medium-Term Development Plan (RPJMN) 2020-2024[115] and focuses on two assessment areas: Growth and Women's Economic Participation and Enhancing Human Capital through Gender Equality.

Key Findings: Growth and Women's Economic Participation

Indonesia has made some significant improvements in gender equality. However, these have not translated into increased economic participation for women. Female labor force participation (FLFP) has remained stagnant at around 52 percent for the last two decades – lower than male LFP at 85 percent, and much lower than rates in other East Asian countries. The key predictors of women's absence from the labor force are marriage and childbearing. Labor force participation is lower for married women across all groups of women except those with tertiary education.[116] When women leave wage labor for marriage or childbirth, they often do not return to wage work,[117] and instead enter family business or self-employment with lower returns on their labor.[118]

Most women in the labor force remain predominantly in low productivity sectors and in informal work. In line with structural changes with the Indonesian economy, women's labor has broadly declined in the agriculture sector and increased in manufacturing and services. Shifts in the economy have also seen more women take up wage employment.[119] Occupational segregation in terms of gender persists. Women remain predominantly in low productivity sectors, whereas men tend to dominate more higher productivity sectors.[120] While the gap between the informal and formal sectors has narrowed, more women are employed in the informal sector. Women-owned businesses make up around 60 percent of small businesses, but these tend to be primarily micro and informal home-based businesses. These businesses could be more productive with better access to capital, credit, technology and markets. Several factors underpin the smaller size and lower productivity of these businesses including access to finance, and existing programs with an inherent bias towards male-owned businesses.

There are several root causes that shape women's economic participation. First, the gender gap in labor force participation occurs primarily during childrearing years, implying an unmet demand for childcare. Second, with few flexible or part-time work possibilities offered, many

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[114] World Bank, (2020a).

[115] With the new RPJMN, GoI will monitor progress using the Gender Development Index and the Gender Empowerment Index. The RPJMN 2020-24 also includes specific priorities on gender including targets on access to education, employment, and politics, along with targets on health status and violence.

[116] For example, a married woman in rural areas is 11 percentage points less likely to be working than a single woman. The difference is more pronounced in urban areas where a married woman is 245 percentage points less likely to be working or looking for work than a single woman. Cameron et. al (2018).

[117] As Schaner and Das note: "Although women do appear to reenter the labor force as their children get older, they do so by performing family work or engaging in self-employment; there is no reentry into wage work as children age"

[118] Schaner and Das (2016).

[119] Between 2001 and 2019, there was a 12 percentage points increase in women taking up wage employment, although this was offset by women moving out of unpaid family work (17 percentage point decline over the same period).

[120] For example, women tend to dominate the retail trade, restaurants, and hotel sectors. Meanwhile the construction; electricity, gas, and water supply; transport; and finance and business services sectors continue to be male dominated.

women opt to drop out of the labor force after marriage and childbirth. Third, workforce protection in several areas remain key gaps.[121] Fourth, while the wage gap has been shrinking, women continue to earn about 30 percent less than a similarly qualified man.[122] Finally, social norms in Indonesia continue to see women as wives and mothers, roles that are often at odds with continued work. However, there is some evidence that these are shifting, particularly among urban millennials.

Key Findings: Enhancing Human Capital through Gender Equality

Indonesia has increased investment in delivering the services to improve human capital over the last few decades and has seen important human capital and gender equality improvements. Boosting Indonesia's growth in the medium term will be dependent on human capital investments. In recent years, Indonesia has achieved gender parity in net enrolment rates (NER)[123] at the national level, and Indonesian girls outperform boys.[124] Indonesia has improved life expectancy; reduced fertility rates, child mortality, and to a lesser extent maternal mortality; and introduced landmark legislation that has helped provide a pathway for Indonesia to achieve universal health coverage (UHC). Indonesia has made progress on the expansion of social protection programs, streamlining different programs and simplifying access to social assistance programs. Access to these programs has been made simpler by an expansion of the civil registry system, with around 92 percent of the population now covered with national identification cards.[125] However, the coverage of civil registry remains much lower; only around 30 percent of the population has legally registered a marriage. This low rate of coverage impacts women especially.[126]

Indonesia continues to exhibit large gender gaps in a few key areas. Indonesia's maternal mortality ratio (MMR), while slowly improving, continues to be one of the highest in the East Asia region, at 177 deaths per 100,000 live births. Indonesian women are more likely to suffer from malnutrition and obesity, and poor nutrition among pregnant women is closely linked to Indonesia's stunting rates. Indonesia has the eighth highest number of child marriages in the world, with one in nine women married before they turned 18 years old.[127] Girls who marry below the age of 18 are six times less likely to complete upper secondary school than their peers, and are more likely to work in the informal sector and face domestic violence and abuse. A 2015 survey found that one in three women in Indonesia has faced violence. Gaps in infrastructure and services provision and access also persist, which can limit women and girls' participation in more productive activities.

Several interrelated factors contribute to persistent gender gaps in Indonesia. Persistent gender gaps are reflective of underlying gender inequality in society and are shaped by norms,

[121] For example, harmonized parental leave, worker protections, discrimination in hiring and sexual harassment.

[122] Schaner and Das (2018).

[123] Gender Parity Index (GPI)of NER is calculated by dividing the female NER by the male NER. Gender parity is indicated by a GPI of 1.00.

[124] For example, PISA results show higher average scores for Indonesia girls in math, science, and reading.

[125] World Bank (2018a).

[126] For example, it can especially affect women in the event of a dissolution of an informal marriage, as without a legal registration for divorce, women cannot be legally identified as a head of household and are not able to access social assistance programs. While this affects about 15 percent of households, this group is extremely vulnerable, and has a high dependency on social transfers and assistance. Schaner and Theys (2020).

[127] UNICEF Indonesia (2019).

such as the perceived notion women are responsible for domestic and unpaid care. Social norms affect multiple spheres of women and girls' lives and can limit their opportunities and choices, including in terms of health, education, and employment. Infrastructure and services rarely account for the different needs of men and women, thereby perpetuating gender-based disadvantages. Gender bias is perpetuated by low participation of women in leadership and decision-making; despite commitments the proportion of female seats in parliament, is only 17.4 percent.[128]

Strategic Priorities for Action

The achievement of Indonesia's vision for 2045—to reach high-income status and reduce poverty to nearly zero—will not be possible without a strengthened focus on closing specific gender gaps to drive growth and support human capital accumulation. Today, the impacts of the pandemic will set these goals further back, because of the dual impacts of the pandemic on health and the economy. Investing in gender equality to stimulate greater economic growth today not only supports the country's medium- and long-term development goals but can also help to ensure that gains made in gender equality are fully integrated into the country's path towards economic recovery from the pandemic.

Capitalizing on Indonesia's growth potential will require a coordinated set of programs that are targeted towards increasing women's opportunities in the labor force and public domain. Indonesia's RPJMN 2020-2024 has already laid out several goals related to closing gender gaps, along with targets to achieve these. Building on this foundation, and with a view to drive greater economic growth, the Government could develop a set of concrete actions and budget guidelines focused on women's economic opportunities to be integrated in the Macroeconomic Framework and Fiscal Policy Guidelines (KEM-PPKF). This would help to anchor the drive for gender equality in the economic growth agenda and support an integrated program for gender equality across the Government.

[128] Statista (2019).

Annex 10. Indonesia Country Map