



Country Partnership Strategy

August 2016

Indonesia 2016–2019: Towards a Higher, More Inclusive and Sustainable Growth Path

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 August 2016)

Currency unit	–	rupiah (Rp)
Rp1.00	=	\$0.00008
\$1.00	=	Rp13,184

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
CPS	–	country partnership strategy
GDP	–	gross domestic product
ICT	–	information and communication technology
INDC	–	intended nationally determined contribution
MIC	–	middle-income country
PBL	–	policy based lending
PPP	–	public–private partnerships
RBL	–	results-based lending
RPJMN	–	Rencana Pembangunan Jangka Menengah Nasional (National Medium–Term Development Plan)
SDG	–	Sustainable Development Goal
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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COUNTRY AT A GLANCE

Economic	2011	2012	2013	2014	2015
GDP (\$ billion, current)	892.1	918.5	911.40	888.4	861.9
GDP per capita (\$, current)	3,677.2	3,761.3	3,662.8	3,523.1	3,373.9
GDP growth (% , in constant prices)	6.2	6.0	5.6	5.0	4.8
Agriculture	3.9	4.6	4.2	4.2	4.0
Industry	6.3	5.3	4.3	4.3	2.7
Services	8.4	6.8	6.4	6.0	5.5
Gross domestic investment (% of GDP)	31.3	32.7	32.1	32.6	33.2
Gross domestic saving (% of GDP)	31.5	30.0	28.9	29.6	31.1
Consumer price index (annual % change)	3.8	4.3	8.4	8.4	3.4
Liquidity (M2) (annual % change)	16.4	15.0	12.7	11.9	8.9
Overall fiscal surplus (deficit) (% of GDP)	-1.1	-1.8	-2.3	-2.2	-2.5
Merchandise trade balance (% of GDP)	3.8	0.9	0.6	0.8	1.5
Current account balance (% of GDP)	0.2	-2.7	-3.2	-3.0	-2.1
External debt service (% of exports of goods and services)	12.5	17.3	20.7	23.1	29.1
External debt (% of GDP)	25.0	27.4	29.1	33.0	36.1

Poverty and Social	1990	2000	Latest Year
Population (million)	179.4	206.3	257.6 [2016]
Population growth (annual % change)	2.0	1.2	1.3 [2016]
Maternal mortality ratio (per 100,000 live births)	430.0	310.0	126.0 [2015]
Infant mortality rate (below 1 year/per 1,000 live births)	61.7	41.1	23.0 [2015]
Life expectancy at birth (years)	63.4	67.3	68.7 [2013]
Adult literacy (%)	75.3	86.8 [2004]	95.9 [2014]
Primary school gross enrollment (%)	...	109	106[2013]
Child malnutrition (% below 5 years old)	12.0 [1989]	18.6	18.8 [2015]
Population below poverty line (%)	15.1	23.4 [1999]	11.1 [2015]
Population with access to safe water (%)	70.0	78.0	87.0 [2015]
Population with access to sanitation (%)	35.0	47.0	61.0 [2015]

Environment	Latest Year
Carbon dioxide emissions (tons)	563,985.0 [2011]
Carbon dioxide emissions per capita (tons)	2.3 [2013]
Forest area (million hectares)	91.0 [2014]
Urban population (% of total population)	53.0 [2014]

ADB Portfolio (as of 31 December 2015)^a	OCR	ADF	Cofinancing	Total
Total number of loans				
Sovereign	16	2		18
Nonsovereign	4			4
Net loan amount (\$ million cumulative)				
Sovereign	2,866.2	56.8	139.0	3,062.0
Nonsovereign	491.2		850.0	1,341.2
Disbursements				
Total funds available for withdrawal (\$ million)				
Sovereign	2,866.2	56.8		2,923.0
Nonsovereign	98.2			98.2
Disbursed amount (\$ million, cumulative)				
Sovereign	1,391.9	7.6		1,399.5
Nonsovereign	110.5			110.5
Percentage disbursed (disbursed amount/total funds available)				
Sovereign	48.6	13.3		47.9
Nonsovereign				

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

^a. Active portfolio as of 31 December 2015

Sources: Asian Development Bank estimates, 31 December 2015.

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. Indonesia has made tremendous social, economic, and political achievements in its seven decades of independence. The country has a stable democracy, and the economy has grown fivefold since the mid-1980s; the per capita income is \$3,374, making Indonesia a middle-income country (MIC). Absolute poverty has dropped from 22% in the mid-1980s to 11% (in 2015).¹ There is near universal adult literacy, access to primary education is 100%, and access to secondary education is 85%. Life expectancy has improved by 8 years since 1990, reaching 71 in 2015. Infant mortality rates have met Millennium Development Goal targets. All of Indonesia's poor have access to subsidized health insurance.

2. Significant challenges remain, however. Economic growth has been narrowly based, relying heavily on coal mining, palm oil, extractive industries, and luxury property. This pattern of growth has resulted in concentrated ownership and insufficient new jobs. As a result, inequality has increased, with high levels of poverty in the eastern islands, and in rural and coastal areas. A large number of people are near-poor and at risk of sliding back into poverty. Agricultural productivity remains low, transport and logistics costs are high, access to energy is low, and there are skills shortages. Rapid urbanization has strained service delivery. Growth has been accompanied by increasing water and air pollution, while climate change impacts are already evident in intense floods, drought, forest fires, and storm surges.

3. Economic growth slowed from an average of 5.7% in 2006–2010 to 4.8% in 2015, mainly because the commodity price boom ended and macroeconomic policies were tightened to lower inflation, curb the current account deficit, and stabilize the rupiah exchange rate. Slowing growth has exposed structural weaknesses and vulnerabilities in the economy. Higher and more inclusive growth will require broadening the economic base and creating good jobs through investments in infrastructure and human capital development, and improvements in economic governance.

4. The overall vision of the National Medium-Term Development Plan, 2015–2019 (RPJMN) of the Government of Indonesia is sovereignty, self-reliance, and strength through mutual cooperation.² It promotes inclusive and environmentally sustainable growth by encouraging all citizens and regions to participate fully in the growth process. The RPJMN prioritizes a significant scaling up of infrastructure investment, improvements to education and skills development, and policy reforms to improve competitiveness and service delivery.

5. The country partnership strategy (CPS), 2016–2019 will provide a focused and selective program of lending and knowledge support. It responds to the country's needs and the government's priorities, and builds on areas of core competence of the Asian Development Bank (ADB). The CPS incorporates lessons from previous CPSs, and is fully in line with the recommendations of the ADB Strategy 2020 midterm review.³

6. The objective of the CPS is to assist Indonesia in achieving more inclusive and environmentally sustainable growth. The CPS will advance three priority areas: (i) improved infrastructure services, (ii) better economic governance, and (iii) enhanced human resource development.

¹ ADB. 2000. *Poverty and Inequality in Indonesia*. Manila.

² Government of Indonesia. 2015. *National Medium-Term Development Plan: RPJMN, 2015–2019*. Jakarta.

³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

7. **Improved infrastructure services.** ADB will assist Indonesia to increase infrastructure investment and reduce the backlog of planned infrastructure. Support for energy will extend the reach, reliability, and efficiency of the national electricity grid and help develop clean energy sources such as natural gas and geothermal. Support to rural infrastructure development will boost rural productivity and incomes through investments in rural irrigation, bulk water supply infrastructure, and support for diversification into higher-value agriculture and aquaculture for food security and enhancement of agro industry and marine and fisheries products. Urban infrastructure development will be supported through delivery of citywide sanitation programs that will improve the quality of life and productivity in urban areas and preparation for further support to urban development.

8. **Better economic governance.** ADB will support government efforts to protect critical public spending over the medium to long term on infrastructure, health, education, and social protection, in line with the Sustainable Development Goals (SDGs). Support will also be provided to strengthen public sector management and service delivery through enhancing management, coordination, transparency and accountability of national and local government public financial management systems. ADB will also support improvements to the business environment, public procurement system, and foster improvement in information and communication technology (ICT) policies and institutional arrangements. ADB will continue to assist in creating a deeper, more broadly based finance sector and support livelihoods and job creation by improving financial inclusion including access by households and small businesses to financial services.

9. **Enhanced human resource development.** ADB support for human resource development will be focused primarily on improving education quality and skills development through policy reform, and better sector management. Knowledge support will be provided to improve social protection systems and strengthen health services.

10. Indonesia has the largest economy in the Association of Southeast Asian Nations (ASEAN) and has much to gain from ASEAN economic cooperation. The CPS will support regional programs aimed at enhancing labor mobility, deepening investment opportunities, and expanding access to markets. Environmental sustainability will be fostered through (i) infrastructure development that enables cleaner growth through clean energy infrastructure, (ii) greater water security, and (iii) support for efforts to prevent forest fires in two national parks.

11. Indonesia is an MIC with vast investment needs. Total ADB lending under the CPS is expected to account for less than 1% of public investment. Thus the CPS will be focused to maximize the value addition and catalytic role of ADB assistance. ADB will add value to the financing it provides by helping the government design and implement priority public investment programs, deepening knowledge engagement, fostering synergies between public and private sector operations, implementing programmatic approaches to policy reform support, and helping to improve country systems.

II. COUNTRY DEVELOPMENT CONTEXT

12. There have been tremendous social achievements in Indonesia in its seven decades of independence. The country has a stable, multi-party democracy. Government is decentralized with a national government, 34 provincial governments and 491 district administrations. Public sector management is decentralized. It is the world's largest archipelago nation, with over 252 million people residing on around 6,000 of the 17,500 islands. The economy has grown five-fold over the past thirty years, with Indonesia's GDP approaching \$1 trillion making it (in purchasing

power terms) the tenth largest economy in the world, and the only Southeast Asian member of the G20.⁴ Per-capita income of \$3,374 makes Indonesia an MIC. The nation has a wide array of land and sea-based natural resources, exports of which increased from \$25 billion in 1990 to \$150 billion in 2015.

13. The country has a large and growing share of middle-income consumers and a vibrant private sector. Several decades of solid economic growth have resulted in noteworthy progress in poverty reduction and social development. The absolute poverty rate has fallen from 22% in the mid-1980s to just 11% in 2015. Adult literacy is at 95%; primary and secondary education coverage are at 100% and 85% respectively; and life expectancy has increased from 63 years in 1990 to 71 years in 2015.

14. **Economic performance and constraints.** The decline in Indonesia's growth (from an average of 5.7% 2006–2010 to 4.8% in 2015) is largely the result of the ending of the commodity price boom and subsequent tightening of macroeconomic policies to lower inflation, curb the current account deficit, and stabilize the rupiah exchange rate. The sharp commodity price decline has exposed structural weaknesses in the economy, including competitiveness of the real sector and inadequate investments in infrastructure. Economic growth has been narrowly based, (relying on coal mining, palm oil, extractive industries, Bali tourism, and luxury property). This pattern of growth has concentrated ownership and not generated sufficient new jobs, with the result that inequality has increased and poverty reduction slowed. New sources of growth are needed to overcome Indonesia's long-standing dependence on mining, palm oil, and primary commodity exports.

15. **Poverty and inequality.** More than a third of Indonesia's population can be classified as poor or near poor, and most of them live in the eastern islands and rural and coastal areas. Although the absolute poverty incidence has declined to 11%, an additional 65 million persons (27% of the population) live just above the poverty line. These near-poor are highly susceptible to sliding back into poverty; over half of the poor each year were not poor the previous year.

16. Since 2010, Indonesia remains to have one of the largest gaps between the rich and poor in Southeast Asia. The Gini Coefficient index, which represents income distribution and is commonly used to measure inequality, increased from 0.38 in 2010 to 0.40 in 2015. Uneven economic growth across provinces has also contributed to widening regional income disparities, with several provinces in eastern Indonesia significantly lagging behind Java and Bali in terms of per capita income. For example, Jakarta's 2014 nominal annual per capita income (\$14,816) is 14 times higher than that in East Nusa Tenggara (\$1,154).

17. There are also gaps in fostering equitable access to social services. Indonesia has registered solid social development progress, but is lagging behind on some health-related goals; nearly one-third of under-five children are reported to be stunted, while the maternal mortality ratio, at 220 deaths per 100,000 live births, is well above the country's Millennium Development Goal target. Sustainable access to safe drinking water and basic sanitation are also lagging.⁵ Indonesia has made significant progress in promoting gender equality, yet difficult challenges remain. The female labor force participation rate is low, and working women continue to be concentrated in low-paid and low-skilled informal jobs.⁶

⁴ Group of Twenty (G20) is an international forum for the governments and central bank governors from 20 major economies.

⁵ ADB. 2015. *Indonesia: Poverty Analysis*, [<http://www.adb.org/publications/summary-indonesias-poverty-analysis>].

⁶ ADB. 2015. *Indonesia: Gender Analysis*, [<http://www.adb.org/publications/summary-indonesias-gender-analysis>].

18. **Infrastructure gaps.** Investment in infrastructure in Indonesia collapsed during the Asian financial crisis and has not fully recovered since. Infrastructure investment averaged 4% of GDP per year from 2004 to 2014, compared with more than 7% in the mid-1990s. Cumulative underinvestment in infrastructure has resulted in high logistics costs (at 24% of exports, these are among the highest in Asia and the Pacific). Likewise, the inadequate supply of reliable energy negatively affects quality of life and discourages private investment. Indonesia's inadequate infrastructure is largely the result of low levels of public and private investment, a complex land acquisition process, poor project preparation, cumbersome and lengthy procurement systems, poor interagency coordination, and budget released late in the financial year.

19. **Low agricultural productivity and incomes.** Large numbers of households derive their income from agriculture, but a vast majority of those involved in the sector are poor or near poor.⁷ Low levels of productivity in agriculture and the rural sector are due to small, fragmented landholdings; high levels of landlessness; shallow rural financial markets; and insufficient investments in rural infrastructure and technology. Faced with a rising population and slow productivity growth, Indonesia's food imports have steadily increased, while food prices have remained high and volatile. Limited opportunities for off-farm work in rural areas have contributed to rural–urban migration.

20. **Skills shortages and employment.** Indonesia has achieved impressive gains in education access at all levels, but the quality of training could be improved considerably. Currently, the demand for advanced skills is increasing faster than they can be supplied by the existing education system. An increased supply of skilled labor and a sustained improvement in labor productivity is needed to enhance competitiveness and diversify economic activity.

21. **Rapid urbanization.** Most of Indonesia's growth is being generated in urban areas; 118 million people live in urban areas, and this will increase to 183 million by 2025. Urbanization has been rapid; urban employment is now higher than rural employment. Urban service provision is not keeping pace with the rapid urban population growth. More comprehensive urban planning and more effective urban service delivery is needed to ensure that cities foster sustainable growth and social development.

22. **Weak investment climate.** Indonesia has made considerable progress in attracting investment since 2010, but significant challenges remain. The cost of doing business, especially at local levels, is very high, owing in large part to regulatory and administrative inefficiencies. This has resulted in a large amount of informal private sector activity.

23. **Underdeveloped finance sector.** Indonesia's finance sector is small in relation to GDP. It is also inefficient; the real cost of domestic lending is above that of its regional peers. Indonesia's bond and equity markets are relatively small, and, with a large foreign presence, are vulnerable to capital outflows during periods of global financial stress. Reform is crucial for more efficient use of resources, and to attract higher levels of private investment. Only 13% of the population has access to loans and just a fifth of the poorest 40% has savings in a financial institution. Most of the poor rely on own-savings or borrowing from traders and moneylenders at punitive rates. Improving access by low-income households and small businesses to financial services will be necessary to achieve inclusive growth.

⁷ Agriculture provides employment to 24 million farm households. Poverty in Indonesia remains a predominantly rural and agricultural phenomenon: in 2010, over 49% of those earning less than \$1.90 per day lived and worked in agriculture.

24. **Weak service delivery.** Local governments are responsible for the delivery of the vast bulk of Indonesia's social services. More than 50% of overall government spending is undertaken by local governments. Service delivery at the local level continues to be hampered by capacity constraints, including weaknesses in public financial management.⁸

25. **Environment, climate change, and disaster risk.** Rapid growth has resulted in environmental degradation and rising levels of water and air pollution. Climate change impacts are already evident in the form of intense floods, drought, forest fires, and storm surges; the risk is considerable for 42 million people who live in areas less than 10 meters above sea level. A high proportion of the population lives in areas prone to natural disasters, the frequency and severity of which is expected to increase. Air pollution in urban areas, particularly the capital city of Jakarta, is increasing as a result of the urban population growth and congestion. Deforestation from forest fires for land clearing has contributed significantly to extremely high levels of air pollution in Indonesia and neighboring Malaysia and Singapore, along with contributing to the country's greenhouse gas emissions.

26. Indonesia needs to foster a more broadly based, inclusive, and environmentally sustainable growth model if the government's jobs growth, income and sustainability objectives are to be realized. A new growth model needs to be developed to improve competitiveness and help diversify economic activity. A more diverse economic base will help increase employment opportunities and improve income distribution. Shifting the growth trajectory away from mining and forest conversion for palm oil will also improve environmental sustainability.

III. THE COUNTRY STRATEGY FRAMEWORK

A. Highlights of the Previous ADB Country Strategy

27. **The previous strategy.** The CPS, 2012–2014 focused on two pillars: inclusive growth and environmental sustainability with climate change mitigation and adaptation. An interim CPS 2015 continued support for the same goals and objectives, but adjusted the program to include improved quality of and access to education and skills development, support for better urban sanitation and more livable cities, and the strengthening of public financial management.⁹

28. **Country partnership strategy final review.** The CPS final review and its validation by ADB's Independent Evaluation Department rated the performance of ADB assistance during the CPS, 2012–2014 as *satisfactory*.¹⁰ Both concluded that ADB's assistance program was responsive to the needs of the country, and was aligned with government strategic priorities and ADB's corporate policies.

29. Key lessons from the previous CPS period include (i) policy-based lending (PBL) must be anchored to the government's reform program, be responsive to changing global conditions, and adopt an incremental approach to reform; (ii) areas of sustained focus and support—namely energy, finance, local governance, education policy, and skills development—had the

⁸ ADB. 2015. *Sector Assessment Public Sector Management* [<http://www.adb.org/publications/summary-indonesias-private-sector-development-assessment>]; and ADB. 2014. *Indonesia: Promoting ICT in Indonesia* [<http://www.adb.org/publications/summary-indonesias-private-sector-development-assessment>].

⁹ ADB. 2015. *Country Operations Business Plan: Indonesia, 2015–2017*. Manila.

¹⁰ ADB. 2014. *Country Partnership Strategy Final Review: Indonesia* [<http://www.adb.org/sites/default/files/linked-documents/1-CPSFR-INO-2012-2014.pdf>]; and ADB. 2014. *Country Partnership Strategy Final Review Validation: Indonesia* [<http://www.adb.org/documents/indonesia-country-partnership-strategy-final-review-validation>].

strongest performance; and (iii) the transaction costs of standalone investment projects were very high, and their impacts limited.

30. ADB has added value to its PBL during the previous CPS period (in addition to the financing provided) by supporting crucial reforms in a number of areas, including finance sector development, public financial management, infrastructure development and public–private partnerships (PPPs), and improvement of the investment climate. PBL and the associated technical assistance (TA) have been instrumental in ensuring that policy decisions are evidence-based and implemented in a well-sequenced manner. By adopting a medium-term approach, PBL and the associated TA have helped implement significant reforms, from the initial planning stage to actual implementation.¹¹ On the other hand, the implementation of investment projects was hampered by difficulties in land acquisition, weak implementation capacity, and poor interagency coordination. The high transaction costs of conventional projects and the government’s preference for use of country systems influenced the composition of the lending program.

B. Government National Strategy

31. The government’s RPJMN, 2015–2019 (footnote 2) was approved in January 2015, with a vision of sovereignty, self-reliance, and strength through mutual cooperation. Key targets for 2019 include (i) annual GDP growth of 8%; (ii) a Gini index of 0.36; (iii) GDP per capita of Rp72.2 million, compared with Rp43.4 million in 2014; (iv) a poverty incidence of 7%–8% compared with 11% in 2014; and (v) improvement in the environmental quality index to 66.5–68.5, compared with 63.0–64.0 in 2014. The RPJMN was defined to be fully consistent with Indonesia’s Sustainable Development Goal (SDG) commitments, which were ratified on 27 September 2015.

32. The objectives of the RPJMN are to be achieved through a development strategy that includes a focus on (i) food and energy security, maritime and marine development, and tourism and industry development; (ii) human development, through education, health, and housing; and (iii) regional equity, through actions to foster greater equity in opportunity and incomes across villages, border areas, and the country’s western and eastern regions.

33. A key focus of the government’s plans for 2015–2019 is to meet massive investment needs in infrastructure development. The RPJMN will involve a near doubling of power generation, toll roads, and port facilities over a 5-year period.¹² The gross infrastructure needs of the government in 2015–2019 are estimated at \$430 billion, (or 9% of GDP per year). In 2016, the government allocated \$23 billion for infrastructure from its budget, and state-owned enterprises (SOEs) plan to spend an additional \$24 billion on infrastructure. One quarter of the SOE spending will come from the state power company (Perusahaan Listrik Negara). Policy reforms to boost private sector infrastructure investment are also gaining momentum.¹³

¹¹ Policy-Based Lending in Indonesia (accessible from the list of linked documents in Appendix 3).

¹² Specific targets include (i) developing 35 gigawatts of new power generation capacity; (ii) increasing the percentage of the population that has electricity access to near 100% by 2019; (iii) rehabilitating 3 million hectares of irrigation systems and opening an additional 1 million hectares of new irrigated lands; (iv) building 1,000 kilometers (km) of new toll roads, and 2,650 km of new roads; (v) constructing 24 new ports, 15 new airports, 3,258 km of new railways, and 1,099 km of urban railways; (vi) extending broadband information and communication technology to all cities and regions; and (vii) building 1 million new houses.

¹³ Recent reforms include (i) simplification of licensing procedures for investment, (ii) improvement in PPP regulations, (iii) capital injection to SOEs to accelerate infrastructure delivery, (iv) regulatory changes for involuntary land acquisition to reduce processing times and uncertainty, (v) expansion of the micro loans program

34. The government has worked quickly to make public spending more pro-poor. In 2015, the government moved to offset the effects of a reduction in untargeted power subsidies with targeted payments for health and education that make use of smart cards. It is expanding the coverage of the social health insurance and social security program. A substantial increase in the village infrastructure development program directly involves poor villagers in developing rural infrastructure.

35. The RPJMN education reform program is extensive, covering all subsectors from early childhood education to higher education, and with the overall aim of improving the quality and relevance of the learning process. Compulsory education will be extended to a 12-year program to improve the quality of basic education. Access to technical and vocational education will be increased, and linkages to the private sector improved. In higher education, more emphasis is to be accorded to integrating teaching with scientific research.

36. The government will continue to address several policy reform areas relating to public sector management, including (i) improving the results-orientation in state budget planning and development, (ii) modernizing budget and treasury management, (iii) enhancing debt management, (iv) strengthening monitoring and evaluation of public expenditure and programs, (v) improving public procurement systems, (vi) improving government accounting and audit functions, (vii) improving the quality and performance of the workforce through civil service reforms, (viii) strengthening local government public financial management, and (ix) strengthening governance and anticorruption efforts.

37. The government's strategy to address environmental and climate change challenges are being implemented through the National Action Plan for Greenhouse Gas Reduction and the Local Mitigation Action Plan. The government is taking actions to reduce emissions from deforestation and forest degradation, and has extended a moratorium on new clearing of primary forests and peat lands in its intended nationally determined contribution (INDC), submitted toward the global agreement on climate change reached during the 21st Annual Conference of Parties in Paris. The government has committed to reducing greenhouse gas emissions by 29% by 2030 against the business as usual scenario.

C. ADB Strategic Priorities and Operational Objectives

38. The government, working in partnership with the Indonesian private sector and civil society, has the resources required to tackle the vast majority of its development challenges. In 2015, total development partner support to Indonesia was approximately \$6 billion, representing 0.6% of GDP. Given this modest financial contribution, development assistance needs to be selectively utilized to support the government's and civil societies development agenda.

39. **ADB's approach.** ADB's lending and nonlending support is designed to (i) help Indonesia progress towards achieving selected SDGs;¹⁴ (ii) support the government's RPJMN and the priorities of the ADB Strategy 2020 midterm review (footnote 3); (iii) add value to financing through support for improved policies, institutional coordination, and new knowledge

and a removal of double taxation under real estate investment trusts, (vi) expansion of the loan scheme for export-oriented small and medium-sized enterprises, (vii) simplification of the annual formula for setting minimum wages; and (viii) revision of the negative investment list to open more sectors to foreign investment.

¹⁴ ADB assistance will be focused primarily on SDG 1 (targets 1.1, 1.2, and 1.5); SDG 2 (targets 2.3 and 2.5); SDG 4 (targets 4.1, 4.4, and 4.7); SDG 6 (targets 6.2, 6.4, and 6.5); SDG 7 (targets 7.1, 7.2, and 7.3); SDG 8 (targets 8.1, 8.2, 8.3, and 8.10); SDG 9 (targets 9.1 and 9.2); SDG 10 (targets 10.1 and 10.4); SDG 11 (targets 11.3 and 11.6); and SDG 13 (targets 13.2 and 13.3).

and technology; (iv) respond to the government's priorities for the use of external assistance resources; and (v) have the potential to foster development partner collaboration.¹⁵

40. To maximize ADB's development impact, the CPS provides support, through PBL, for government-led reforms, and will help to design and fund large government strategic programs, including using results-based lending (RBL) and catalytic investment projects, all of which will be underpinned by knowledge generation. The CPS incorporates lessons from the past CPS, including the recommendations from ADB's Independent Evaluation Department's validation of the final review of the last CPS (footnote 9). The strategic focus and approach of the CPS are aligned with the ADB Strategy 2020 midterm review.

1. Country Partnership Strategy Objectives

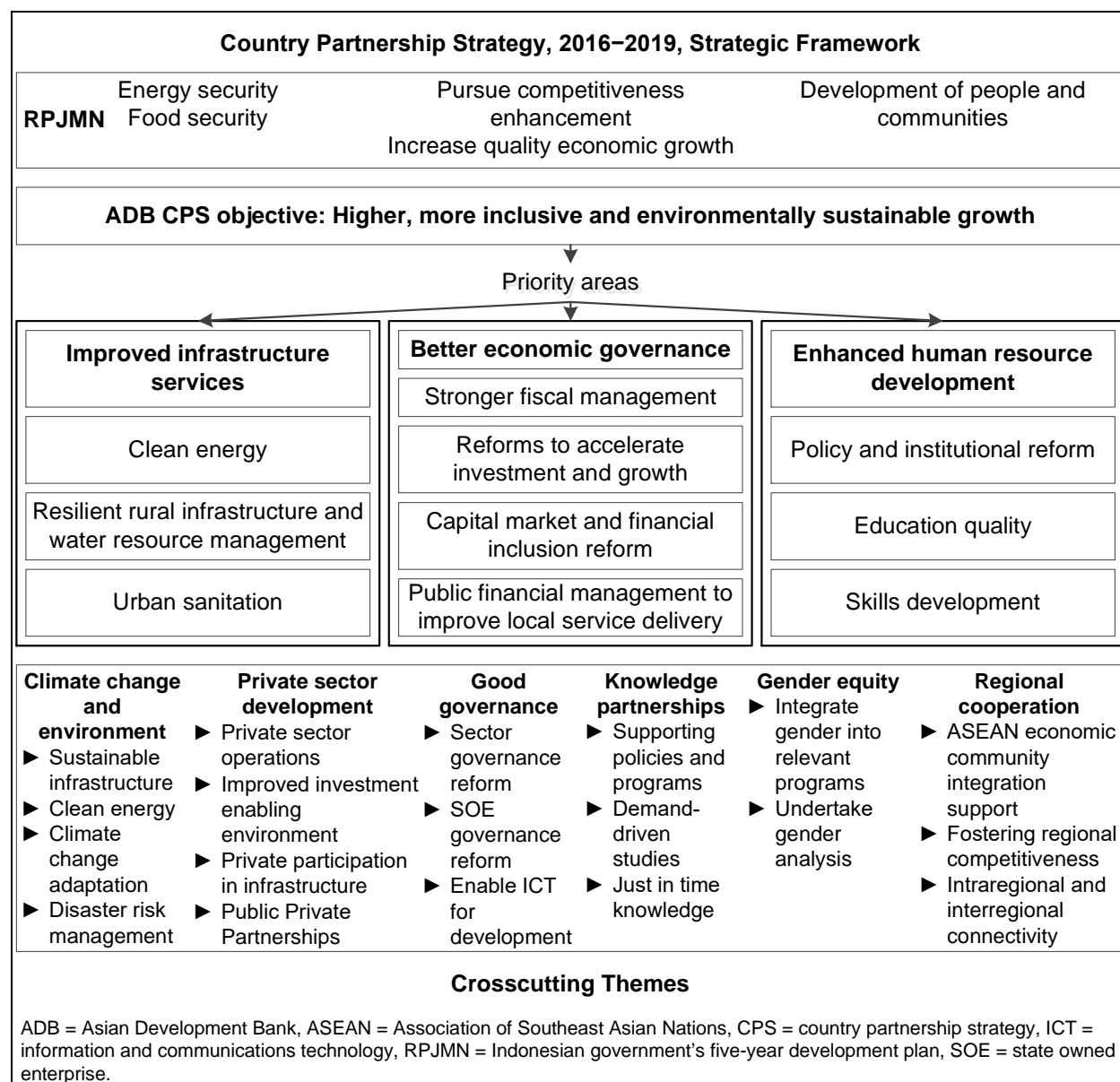
41. The CPS aims to support Indonesia in fostering a growth process to attain its development goals of achieving higher, more inclusive, diverse, and environmentally sustainable growth. The CPS is focused on three high-priority areas, as defined by the RPJMN: (i) improved infrastructure services, (ii) better economic governance, and (iii) enhanced human resource development. The CPS strategic framework linking ADB support and RPJMN priorities is displayed in the figure on page 9. The country results framework is in Appendix 1.

42. **Higher and more inclusive growth.** ADB support will contribute to prosperity and inclusion by helping to boost the rate of economic growth and by expanding opportunities for low-income households to participate in the growth process. ADB's support for policy reform will help to strengthen the enabling environment for new sources of inclusive growth. These will, in turn, help to create the jobs and regional balance needed to overcome a legacy of narrow and sluggish growth. ADB support for improved economic infrastructure services will enhance Indonesia's competitiveness, raise investment, and help connect disadvantaged groups and areas of eastern Indonesia to markets and essential services. Support for rural infrastructure development and agricultural commercialization will help to contribute to food security and boost rural incomes. Better economic governance will contribute to macroeconomic stability and lower the cost of doing business while expanding access to financing and other services that small and medium-sized enterprises, farmers, and firms in poor regions need to become competitive. Support provided to improve the quality and relevance of the education and training system will raise labor productivity and enhance employment prospects for Indonesia's youth. Knowledge and policy reform support for strengthened social protection systems, including better targeting and distribution of social assistance, will help the most vulnerable segments in society.

43. **Environmentally sustainable growth.** Environmental sustainability will be fostered by developing infrastructure that puts the economy on a cleaner economic growth path. Investment in power transmission and clean energy for eastern Indonesia will help cut power losses and reduce reliance on greenhouse gas-emitting diesel fuel. Improvements in irrigation, bulk water management, flood management, and aquaculture will enhance the sustainability and resilience of increasingly scarce water resources. Promoting sustainable economic activities in the marine environment will foster healthier oceans. Support for municipal sanitation will directly contribute

¹⁵ ADB's public sector lending support is highly focused and selective. Support is not provided: (i) in areas that are not government priorities for use of external resources; (ii) where government regulations impede ADB operations, e.g., lending to local governments; (iii) in areas where ADB's past performance is not satisfactory; (iv) where private sector financing would be more appropriate; and (v) for operations where the government, either alone or in combination with other partners, has sufficient resources and capacity to address the particular development challenge.

to improving urban environmental conditions as cities rapidly expand. ADB is also supporting efforts to prevent forest fires in two national parks in West Kalimantan, and will assist the trilateral (Brunei Darussalam, Indonesia and Malaysia) partnership on community-based forest fire management under the Heart of Borneo initiative.



2. Priority Areas

44. **Improved infrastructure services.** Inclusive growth is hampered by inadequate infrastructure. Access to markets and basic services are impeded by congested transport networks, limited broadband coverage, and power demand that is outstripping supply. The gap between infrastructure access in the eastern and western parts of the country is widening, effectively excluding some of the poorest regions in the country from the growth process. Urbanization is proceeding at a rapid pace, straining the ability of key cities to provide basic social and economic services. Indonesia has demonstrated that reallocation of fossil fuel

subsidies to infrastructure development is possible, and the government is expanding spending on infrastructure to stimulate growth and development.

45. Expanding infrastructure development provides the government with an opportunity to put the country on a cleaner growth path. The impact of climate change in Indonesia is profound. The government is strongly engaged in international forums and in translating its global commitments into domestic programs. There is also strong support from bilateral partners and the United Nations with respect to climate change. ADB will integrate climate mitigation and adaptation into individual programs (in particular flood management, irrigation, and water security programs); and support for the promotion of renewable energy or cleaner fuels and improved electricity transmission systems. ADB will continue to provide technical advice on climate change risk forecasting, municipal sanitation, and prevention of forest fires in two national parks. While government capacity to manage disaster risks is quite strong, ADB support for mainstreaming climate change will contribute to reduce the risks of climate change-associated natural disasters.

46. ADB will support the government's achievement of its INDC commitments. ADB's mitigation support will help Indonesia shift to a cleaner growth path by encouraging renewable and clean energy use and by fostering energy conservation. ADB will help support climate change adaptation by improving water resource management to foster more sustainable use of scarce water resources.

47. In contributing to energy supply and access, ADB will support better policies, institutional arrangements, and strategic investment programs. ADB support will complement the government's rural electrification program, improvements in renewable energy policy and finance investments to extend the reach, reliability, and efficiency of the national electricity grid, and to foster greater use of clean sources of primary energy. Innovative financing will be applied.¹⁶ Policy reforms to improve the efficiency of public investment, stimulate greater private sector participation, improve energy access, and enhance the energy mix by increasing the availability of clean energy sources will be addressed. ADB's program will help remove the past constraints of subsidized power and cumbersome licensing procedures, and an underdeveloped regulatory framework. ADB will provide extensive analytical and knowledge support to the government to assist in informing public policy reforms that stimulate private investment in clean energy, and to identify new technologies such as in piloting carbon capture and storage.

48. Boosting rural productivity and incomes is critical to laying the foundation for a more prosperous rural economy. ADB will provide a combination of policy support, rural irrigation and water supply infrastructure investment, and support for development of value-chains and diversification into high-value agricultural commodities. These measures will improve rural productivity and create wider employment and off-farm opportunities for small farmers and landless laborers.

49. The CPS will support urban infrastructure development, starting with municipal sanitation, to address the immediate risks to human health and well-being of the urban poor. Towards this objective, the CPS will foster a coherent citywide approach to sewerage and wastewater management, while also developing plans and policies in support of sustainable

¹⁶ In December 2015, the ADB Board of Directors approved a sovereign energy sector RBL for strengthening the transmission system; it was provided to the SOE concerned, with a government guarantee, and was an innovative form of funding in Indonesia. ADB. 2015. *Indonesia: Electricity Grid Strengthening – Sumatra*. <http://www.adb.org/projects/documents/ino-electricity-grid-strengthening-sumatra-program-phase-1-rrp>.

urban development. ADB will also help develop the capacities of key municipalities to have more livable urban centers, including better urban planning and more modern urban transport systems.

50. **Better economic governance.** Substantial reforms are required to help Indonesia become more competitive and to improve the provision of quality public services to those who need them most. Steady improvements in economic governance are essential if Indonesia is to diversify sources of growth and boost growth rates to 8% by 2019, and increase per capita incomes by 11% per year during this RPJMN period. The government recognizes the importance of increasing public spending on social sectors and public infrastructure, and improving public expenditure efficiency to support higher economic growth and reverse rising income inequality. However, the government's spending goals are being challenged by global volatility in commodity and financial markets, which are adversely affecting government revenues.

51. ADB will support fiscal reforms to aid government efforts to protect critical public spending and to boost revenue mobilization over the medium to long term. Support will be provided to assist the government strengthen the medium-term expenditure framework, and protect priority public expenditure on infrastructure, health, education, and social protection, in line with the SDGs. To strengthen public sector management and service delivery, ADB support will enhance fiscal decentralization reform; improve the capacity of local-level government officers involved in public financial management; and improve efficiency, transparency, and accountability by strengthening the public financial management systems, particularly through the use of information technology and the introduction of transfer systems that are linked to service delivery in the regions.¹⁷

52. Enhancing the competitiveness of the tradable sector can be accomplished by reducing the costs of opening and operating a business, lowering logistic costs, and enhancing access to ICT for e-commerce and service delivery.¹⁸ ADB will support efforts to improve the enabling business environment, modernize the public procurement system, and foster improvement in ICT policies and institutional arrangements to implement the country's national broadband plan.

53. A deeper, more broadly based finance sector will help promote economic growth through productive investments, foster greater economic stability, and support livelihoods and job creation by improving access by households and small businesses to financial services. ADB will continue to assist in deepening the finance sector by improving market infrastructure and encouraging product diversification in the bond market. ADB will support enhanced financial inclusion by addressing regulatory impediments, poor financial literacy, weak consumer protection, and by developing innovative microcredit products to better meet the needs of the poor. ADB will provide advisory, technical, and financial support to small and medium-sized enterprises to enable them to build viable value-chains and integrate into regional and global markets.

54. **Enhanced human resource development.** Tremendous strides have been made in improving access to education, but quality needs to be significantly improved. Boosting labor

¹⁷ ADB. 2015. *Sector Assessment Public Sector Management* [<http://www.adb.org/publications/summary-indonesias-private-sector-development-assessment>]; and ADB. 2014. *Indonesia: Promoting ICT in Indonesia* [<http://www.adb.org/publications/summary-indonesias-private-sector-development-assessment>].

¹⁸ ADB. 2015. *Private Sector Assessment* [<http://www.adb.org/publications/summary-indonesias-private-sector-development-assessment>]; and ADB. 2015. *Indonesia: Constraints to Private Sector Development*. Manila.

productivity will allow Indonesia to compete in global markets and generate the jobs needed to absorb the two million youth who enter the job market each year. ADB support for enhanced human resource development will be focused primarily on improving education quality and skills development. ADB will assist government efforts to improve the quality and relevance of education spending through support for education policy reforms, improved education sector management, and for the design and implementation of key government reform programs.

55. Support will also be provided to strengthen social protection systems. Technical and advisory support for social protection will help the government improve the targeting of energy, food, and agro-input subsidies. ADB will also support expansion of the universal health insurance program by improving e-health technology and strengthening local service delivery.

3. Crosscutting Themes

56. **Regional cooperation and integration.** As the largest economy in ASEAN, Indonesia has much to gain from the ASEAN Economic Community. Knowledge service and reform support efforts will be aimed at identifying obstacles to deepening regional integration. The CPS will also continue to support Indonesia's participation in key subregional initiatives, such as the Heart of Borneo Program and the Coral Reef Initiative. Under both subregional initiatives, ADB will support community participation in conserving natural resources while building sustainable livelihoods.

57. **Information and communication technology for development support.** Accessible, reliable, and affordable broadband connectivity is the basis for nurturing ICT-related services across sectors and for transforming Indonesia into a digital economy. Given the spatial digital divide across the archipelago, ADB will enhance the ability of the government and private sector to deliver the expansion of reliable, higher-capacity and better-quality connectivity for public services, as well as private sector development in line with Indonesia's national broadband plan.

58. **Knowledge solutions.** ADB's knowledge service role will be expanded in line with increased government demands, with knowledge support provided in three broad areas. First, knowledge generation will be inherent in ADB's efforts to promote evidence-based policy reform and program development. Second, knowledge products and services will be provided in response to requests to help address specific policy measures. Third, a selected number of medium-term strategic issues will be addressed to help the government formulate its long-term development strategies, policies, and programs. The country knowledge plan is in Appendix 2.

59. **Other crosscutting themes.** A number of themes will be mainstreamed, where relevant, in ADB's support to Indonesia. These include (i) enhancing private sector development through PPPs, private sector operations, improved investments, and strengthening the private sector enabling environment; (ii) promoting good governance in sectors and SOEs through support for e-governance, strengthening of public procurement and safeguard systems, and enabling information technology systems; and (iii) fostering gender equity by addressing gender impediments through ADB operations, knowledge services, and dialogue. Where relevant, operations will be underpinned by detailed gender analysis and assessment.¹⁹ These crosscutting themes will be incorporated in the design, assessment, and implementation of all relevant activities supported under the CPS.

¹⁹ ADB. 2015. *Indonesia Gender Analysis* [<http://www.adb.org/publications/summary-indonesias-gender-analysis>].

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

60. The planned ADB operational program for 2016–2019 involves about \$2 billion per year of ordinary capital resources for public sector lending. Private sector financing is inherently more volatile given changing market conditions. Notwithstanding, ADB will continue to build its nonsovereign operations beyond the average of \$150 million per year which was achieved in 2013–2015. Cofinancing will be secured to leverage ADB's impact. A total of \$9.1 million in nonlending resources is planned for 2016–2019, with an additional \$59.1 million in cofinancing, bringing the total nonlending program to \$68.2 million for the CPS. Cost-sharing parameters will remain unchanged.²⁰

B. Responding to Middle-Income Country Needs

61. The CPS will be delivered through a mix of instruments, including PBL, RBL, and catalytic project lending and TA. Direct lending to key SOEs, with a sovereign guarantee, will also be provided to help accelerate infrastructure delivery. Drawing from the findings of safeguard and procurement system reviews, and in line with ADB's procurement reforms, steps will be taken to accredit and apply agency systems in ADB projects.

62. ADB's lending and nonlending program will be highly focused and selective. ADB will adopt solutions involving advanced technology to add value, and will encourage reforms that enable technological transformation. In line with the strategic priorities outlined above, ADB will support government-led reform programs in clean energy, education, investment climate, finance sector, fiscal reform, and local government service delivery. PBL will be provided selectively to support critical reforms and will be implemented over a period of several years to allow for reform sequencing and implementation. Policy and advisory TA will be provided to help generate the evidence-based analysis needed to support the reform process. Support for infrastructure development will increase to two thirds of the program. RBLs and conventional investment projects will be prepared to improve infrastructure service delivery. Project financing and direct lending to select SOEs will be pursued. ADB will also provide financing to Indonesia Infrastructure Finance, a financial intermediary that funds quasi-commercial infrastructure.

63. **Approach.** The CPS will provide larger, better sequenced, and more predictable programs of support. Cross-program synergies are being promoted under the CPS by (i) complementing economy-wide reform with support for institutional reform; (ii) combining support for reform, strategic investments, and new knowledge in each of the priority areas of support; (iii) concentrating investment support on the poorer, eastern parts of the country; and (iv) supporting reforms that create opportunities for catalytic private sector operations. The CPS will harness cross-program synergies to address the wider nexus of issues.

64. **Accelerating project preparation and government ownership.** Support for program and project preparation in key implementing agencies will be required if the government is to meet its challenging infrastructure targets. To this end, the CPS will support a large-scale project development facility in the Ministry of Public Works. This facility will be used to help the

²⁰ Cost-sharing ceilings for loans and TA will be maintained at 99%; there will be no specific cost-sharing ceiling for specific sectors; no country limit will be applied to recurrent cost financing; and taxes and duties will be eligible for ADB financing.

government bring a large number of public infrastructure projects in the pipeline to the point of readiness through feasibility studies and detailed engineering designs.

65. **Boosting private sector and nonsovereign operations and public–private partnerships.** ADB will boost its private sector and nonsovereign operations in Indonesia. Closer synergies between ADB’s public and private sector operations will be forged to capitalize on ADB’s broad range of investment options. While ADB’s private and nonsovereign support will hinge on market demand for ADB financing, its Private Sector Operations Department will pursue potential investment opportunities in several areas, including clean energy, transport, ICT, agribusiness, microfinance, and housing finance.

66. PPPs will continue to be supported. ADB will assist Indonesian institutions charged with developing PPPs and will support efforts to design model PPPs and bring them to financial closure.²¹

C. Monitoring of Results

67. Implementation of the CPS will be monitored using the country and sector results frameworks, updated annually during the country portfolio review and country programming missions (Appendix 1). Where needed, ADB will strengthen the monitoring and evaluation capacity of executing agencies. The CPS results framework is based on objectives and indicators drawn directly from the RPJMN, which are tracked and reported on annually.

D. Risks

68. **Macroeconomic stability.** Indonesia’s macroeconomic fundamentals remain solid. However, vulnerabilities remain. Instability in global financial and commodity markets, unless well managed, has the potential to undermine vital public investment and service delivery efforts.²²

69. **Vulnerability to corruption.** Corruption remains a concern, particularly in light of the government’s weak revenue mobilization efforts and growing reliance on spending at the local level. Vulnerability to corruption in the administrative services is being addressed through increasing the use of information technology products and services, which provide a greater level of control, transparency, and scrutiny. An active civil society has also aided in promoting good governance and in combating corruption.

70. **Risk mitigation.** Through analysis and policy dialogue, ADB will continue to support the government’s efforts to ensure macroeconomic stability, to improve the quality of human resources, and to diversify economic activity. ADB’s support for RBL will be employed to help strengthen fiduciary and governance systems of the executing and implementing agencies involved in those operations. Policy reform and capacity-building support will help to strengthen countrywide procurement and auditing capacity. Support to ICT networks, public financial management, and local governments will continue to build good governance capacities and improve the quality and integrity of service delivery. Should sudden and severe macroeconomic shocks arise, ADB will consider the provision of financial support to help Indonesia adjust to those shocks.

²¹ Considerable progress has been registered in improving the policy and regulatory environment for PPPs, and new instruments (such as viability gap financing) have been introduced to help make PPPs of all types more feasible.

²² ADB. 2015. *Indonesia Risk Assessment and Risk Management Plan 2016–2019*. Manila.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

A. Indonesia: Country Partnership Strategy Results Framework, 2016–2019

Country Development Impact Indicators with which the CPS is Aligned				
1. Proportion of population living below the national poverty line declines from 11% in 2014 to 8% by 2019. Proportion of population living below the \$2 a day poverty line declines from 43% in 2011 to under 30% by 2019. 2. Growth rate of GDP per capita increases from 5.1% in 2014 to 8.0% by 2019. 3. Gini Index drops from 0.41 in 2014 to 0.36 by 2019. 4. Environmental quality index increases from 63.0–64.0 in 2014 to 66.5–68.5 by 2019.				
CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators^a	CPS Resources
Improved infrastructure services	Clean energy	Sustainable energy access achieved for all Indonesians	Percentage of households with an electricity access from grid and off-grid sources increased from 81.7% in 2014 to 96.6% by 2019.	Ongoing portfolio Ongoing sovereign loan projects (as of 31 December 2015): Number: 18 Amount: \$3,231 million Planned operations and contribution Sovereign lending: \$9,207 million of OCR and \$750 million of cofinancing for 2016–2019) Technical assistance and grants: \$6.6 million of Technical Assistance Special Fund–Other and \$56.8.0 million of cofinancing for 2016–2019)
	Resilient rural infrastructure and water resource management	Food security and rural incomes increased.	Total production of rice from rainfed and irrigated crops increased to 82.0 million tons by 2019 (2014 baseline: 70.6 million tons). Food energy intake of the population increased to 2,150 kcal/capita/day (2014 baseline: 1,967 kcal/capita/day).	
	Urban sanitation	Water availability increased, from enhanced bulk water sources.	Total reservoir capacity increased to 19.0 billion m ³ by 2019 (2014 baseline: 15.8 billion m ³).	
		Urban resilience promoted, with improved urban infrastructure and urban services, as well as a reduction in the area of urban slums.	National access to improved sanitation increased from 61% in 2014 to 100% by 2019 and (for the poorest two quintiles of the population), from 20% in 2014 to 100% by 2019.	
Better economic governance	Strengthen fiscal management.	Maintain infrastructure sector spending.	Increase government spending on infrastructure from 1.4% of GDP in 2014 to 3.0% of GDP in 2019.	
	Reforms to accelerate investment and growth Capital market and financial inclusion reform	Accelerated FDI and DDI Improved labor market opportunities for Indonesians	Increased total FDI and DDI investment from Rp463 trillion in 2014 to Rp933 trillion in 2019 Formal labor participation increased from 40% in 2014 to 51% of the workforce by 2019.	

CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators ^a	CPS Resources
	Public financial management to improve local service delivery	<p>Increased opportunities for women in employment</p> <p>Increased development and inclusiveness of the finance sector</p> <p>Enhanced management and fiscal capacity of local governments</p> <p>Improved capacity of government internal auditors and public finance officers in public financial management.</p>	<p>Female labor participation rates increased from 48.9% in 2015 to 55% by 2019.</p> <p>Size of finance sector as percentage of GDP increased from 103% in 2014 to 115% by 2019.</p> <p>Access to financial services by the poorest 40% of the population increased from 21.9% in 2014 to 25% in 2019.</p> <p>Total local taxes increased from Rp114.5 trillion in 2013 to Rp143.1 trillion by 2019.</p> <p>Percentage of BPK's "unqualified" audit opinion increased from 74% in 2014 to 100% by 2019 at the central level, and from 33.35% in 2013 to 60% by 2019 at the local government level.</p>	
Enhanced human resource development	Sector policy and institutional reforms Education quality Skills development	Education system meets the needs of a middle-income country and supports the development of a productive, competitive, and innovative economy.	<p>Percentage of primary schools with a minimum accreditation of B rises from 68.7% in 2013 to 84.2% in 2019.</p> <p>Percentage of junior secondary schools with a minimum accreditation of B rises from 62.5% in 2013 to 81% in 2019.</p> <p>Percentage of senior secondary schools with a minimum accreditation of B rises from 73.5% in 2013 to 84.6% in 2019.</p> <p>Percentage of vocational and pre-professional senior secondary schools that have a minimum skill competency accreditation of level B rises from 48.2% in 2013 to 65.0% in 2019.</p>	

ADB = Asian Development Bank; BPK = Badan Pemeriksa Keuangan (Supreme Audit Board), CPS = country partnership strategy, DDI = domestic direct investment, FDI = foreign direct investment, GDP = gross domestic product, kcal = kilo calorie, m³ = cubic meter, OCR = ordinary capital resources.

^a Indicator data will be disaggregated by gender, where such data are available from the government.

Source: Government of Indonesia, 2015. *National Medium-Term Development Plan: RPJMN, 2015–2019*. Jakarta.

COUNTRY KNOWLEDGE PLAN

A. Introduction

1. Supporting knowledge solutions in member countries is a key priority of the Asian Development Bank (ADB) under Strategy 2020.¹ The knowledge management agenda is enhanced through the Knowledge Management and Directions Action Plan, 2013–2015², the Midterm Review of Strategy 2020, the Midterm Review Action Plan, and the related Knowledge Management Results Framework.³ These corporate strategies are carried out at the regional level through the President's Planning Directions 2015–2017 and 2016–2018.⁴

2. For the Government of Indonesia, knowledge-sharing is viewed as a driver of change within the National Medium-Term Development Plan, 2015–2019 (RPJMN).⁵ The government is establishing a knowledge hub within the National Development Planning Agency (BAPPENAS) to prioritize issues for investigation, to share and disseminate knowledge, and to respond to urgent requests for advice. Using the knowledge hub approach, they aim to improve knowledge dissemination and sharing, better capture lessons, manage knowledge partnerships, improve the engagement and inclusion of Indonesian knowledge-related institutions, and strengthen knowledge cooperation among developing countries.

3. The Indonesia Country Knowledge Plan, 2016–2019 guides ADB's engagement in the preparation and provision of knowledge products and services to Indonesia. The plan's objectives are to (i) provide demand-driven, responsive, and timely knowledge support; (ii) maximize the operational benefits of knowledge; (iii) coordinate knowledge support with other development partners and effectively mobilize cofinancing; (iv) collaborate closely with nonstate knowledge users; and (v) enhance in-country knowledge dissemination.

B. Indonesia's Knowledge Framework

4. Indonesia's knowledge institutions have been important in helping lawmakers and policymakers with policy-oriented research and public policy advice. Research institutions have grown from several large, mainly government-sponsored institutions to more numerous issue focused, independent, multifunded institutions.

5. **Sponsored research.** The government-sponsored premier research institution, the Indonesian Institute of Sciences (Lembaga Ilmu Pengetahuan Indonesia) is an umbrella institution consisting of 47 research centers dealing with social and cultural sciences, economy, population studies, and politics. Some government ministries and agencies set up their own quasi-research bureaus to support the policy-making process within the agencies. Prominent Indonesian universities contribute their knowledge to policymakers and influence the policymaking process through formal institutional affiliation and informal connections, because

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2010*. Manila.

² ADB. 2013. *Knowledge Management Directions and Action Plan (2013-2015): Supporting "Finance ++" at the Asian Development Bank*. <http://www.adb.org/documents/knowledge-management-directions-and-action-plan-2013-2015>.

³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila; ADB. 2014. *Midterm Review of Strategy 2020 Action Plan*. Manila (as updated periodically).

⁴ ADB. 2014. *Memorandum: Planning Directions: Work Program and Budget Framework 2015–2017*. eStar; and ADB. 2014. *Memorandum: Planning Directions: Work Program and Budget Framework 2016–2018*. eStar.

⁵ Government of Indonesia. 2015. *National Medium-Term Development Plan: RPJMN, 2015–2019*. Jakarta.

of the shared experience among incumbents of such institutions. There are also a dozen policy research and study centers (think tanks) sponsored by civil society that provide expertise and policy guidance, covering research and analysis related to economic, social, and environmental issues. Whether sponsored by the government or civil society, research institutes in Indonesia could benefit from greater international exposure and collaboration.

6. **Information-sharing.** The sharing of data among institutions in Indonesia is problematic. Policymakers of one institution often do not have easy access to data held by other institutions. Data discrepancies and differences in key data on similar issues are far too common. In some instances, data for policy making appears to suffer from serious errors and biases, but correcting official figures has proven challenging.

7. **Knowledge and policy processes.** Informality and personal relationships are important in both obtaining access to information and in contributing quality analysis to policy development. A lack of specific knowledge, minimal access to comprehensive information services, and limited human resources contribute to the formulation of public policies without comprehensive evidence-based analysis, and with considerable reliance on external expertise.

8. **Knowledge users.** Knowledge users differ in their need for knowledge products and services and their degree of influence and interest in relation to a particular policy. Primary users include: (i) policy-makers at the national, provincial, and local levels, including senior bureaucrats, ministers, and parliamentarians; (ii) civil society and academic opinion leaders; and (iii) the media, which access knowledge products and services to inform public opinion. In addition, the general public also uses ADB knowledge services. They are becoming increasingly engaged in the political process and involved in policy formulation dialogue.

C. Scope of ADB's Planned Knowledge Operations

9. **ADB's role in supporting knowledge products and services.** ADB can further strengthen the capability of the government and civil society-sponsored research institutes while also providing timely, demand-driven knowledge products and services. Insights from previous ADB knowledge engagement indicate knowledge products and services should (i) be demand-driven, (ii) facilitate evidence-based policy dialogue, (iii) provide strategic and timely advice to the government and/or civil society, (iv) bring international and regional experience to domestic debates, (v) be disseminated to a targeted audience in an appropriate format, (vi) engage nonstate actors, (vii) be coordinated with other development partners working in a similar domain, and (viii) include lessons from Indonesia and the region.

10. ADB's strategic pillars in Indonesia are improved infrastructure services, better economic governance and enhanced human resource development. The future program involves specific support to knowledge products and services under each of these pillars. ADB will also assist the government with knowledge products and services that extend beyond its core sectors, including investigating crosscutting issues to contribute to medium-term strategy and policy formulation.

11. In addition, the government also anticipates that ADB expertise may be sought during the country partnership strategy period with regard to agribusiness and aquaculture, Association of Southeast Asian Nations integration, capital market development, clean energy investments, climate change adaptation and mitigation, connectivity, education sector performance, energy policy reform, energy infrastructure, financial inclusion, financial services, inequality, infrastructure delivery improvement, macroeconomic stability, new financing instruments,

productivity, public financial management, public–private partnerships, public sector management, social protection, state-owned enterprise reform, urban development, urban transport development, and water resource management.

D. Implementation

12. **Implementation arrangements.** Knowledge products and services will be identified through an annual planning process involving ADB and the government.⁶ Products and services will be included in the linked documents,⁷ and include those that require planning and longer preparation, are identified by the government or ADB, and are approved as priorities by the government. ADB will also be responsive to changing conditions and emerging issues, as well as unplanned requests from the government for knowledge products and services.⁸

13. The Indonesia country knowledge hub will be led by the ADB Indonesia Resident Mission country director, who will serve as the knowledge custodian. ADB's knowledge products and services will be provided through the Southeast Asia Department, sector and thematic groups, Economic Research and Regional Cooperation Department, and the Asian Development Bank Institute.

14. ADB and the government intend to expand the range of knowledge products to better target the end user.⁹ Moreover, ADB will deepen existing relationships with Indonesian academia and think tanks through institutional memorandums of understanding to facilitate their direct engagement in research and policy advisory processes, with the goal of improving the engagement of these institutions to benefit development in Indonesia and the region. ADB will also facilitate, through these memorandums, links to regional and global centers of excellence with which ADB has established relationships. The government has a well-established and knowledge-sharing program with other developing countries. Where appropriate, ADB will support these programs.

15. ADB will expand its range of knowledge services: although hosting or representing knowledge work at workshops, conferences, and seminars will remain the primary focus, ADB staff will identify opportunities to provide knowledge services more broadly, particularly while on field missions. This will include providing lectures at schools and universities on specific topics.

E. Communication and Dissemination

16. To ensure that the knowledge products reach the targeted audience, they should maximize the use of existing platforms, including the ADB publications website, ADB's research-oriented online repository, the activities page under ADB's country website for Indonesia, and social media platforms, and in particular blogs (these will be ideal for customized knowledge content, such as stories and photos). Shorter knowledge products will be provided in bilingual or Bahasa Indonesia formats. Targeted distribution of knowledge products and the outputs of knowledge services will be emailed or delivered as printed copies to individuals based on the

⁶ ADB will identify proposed knowledge products and services from knowledge departments and the Asian Development Bank Institute annually, and discuss these with the government during annual programming missions.

⁷ The linked document is an annex to the country operations business plan and lists the knowledge products and services for the following year.

⁸ Unplanned knowledge products and services are referred to by the government as "just-in-time" knowledge.

⁹ Depending on the needs of the end user, ADB will provide short policy briefs of up to 4 pages, longer working papers of up to 30 pages, and detailed knowledge products that require greater analysis and preparation.

sector theme and issue. ADB will develop lists of key stakeholders who will be target audiences for different categories of knowledge products, and will tailor its knowledge product outreach to different stakeholder groups.

17. Direct sharing with the public remains one of the most effective ways to disseminate knowledge in Indonesia. ADB will participate as a knowledge facilitator, and will continue to seek opportunities to strategically create outreach seminars and workshops, either on its own or in collaboration with government counterparts or local partners. ADB will increase its engagement as a contributor to existing knowledge events, and work more closely with the media. Project officers will be encouraged to allow media exposure to their products and activities; a news release will be issued to accompany the public release of a major knowledge product or event.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=INO-2016>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Country Operations Business Plan: Indonesia, 2017–2019

Supplementary Document

4. Policy-Based Lending in Indonesia