



Country Operations Business Plan

September 2009

Indonesia
2010–2012

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 24 August 2009)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.00009985
\$1.00	=	Rp 10,105.00

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPPENAS	–	Badan Perencanaan dan Pembangunan Nasional (National Development Planning Agency)
BPKP	–	Badan Pengawasan Keuangan dan Pembangunan (State Development Audit Agency)
COBP	–	country operations business plan
CSP	–	country strategy and program
MFF	–	multitranches financing facility
OCR	–	ordinary capital resources
PNPM	–	Program Nasional Pemberdayaan Masyarakat (National Program for Community Empowerment)
RPJM	–	<i>rencana pembangunan jangka menengah</i> (medium-term development plan)
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. This Country Operations Business Plan (COBP) for 2010–2012 is based on the same core areas of operations as those identified in the COBP for 2009–2011¹ and is consistent with the Country Strategy and Program (CSP) 2006–2009.² The CSP for 2006–2009 is aimed at helping the Government of Indonesia achieve higher pro-poor sustainable growth and social development, with particular attention to governance and anticorruption measures in all operations—the objectives of the Government’s medium-term development plan (RPJM) for 2005–2009. The CSP identifies five areas of engagement to help achieve these objectives: (i) better infrastructure and infrastructure services, (ii) a deeper financial sector, (iii) more-decentralized government functions, (iv) quicker achievement of the Millennium Development Goals, and (v) more-robust management of the environment and natural resources. Consultations with the Government during the recent country programming mission confirmed the overall validity of these CSP strategies and their consistency with RPJM priorities and with the priorities set out in the long-term strategic framework 2008–2020 (Strategy 2020) of the Asian Development Bank (ADB).³

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

2. The global economic downturn slowed down the growth of Indonesia’s real gross domestic product to 4.4% year-on-year in the first quarter of 2009 from 6.1% in 2008. Inflation rose to a recent peak of 12% in September 2008 on higher food and fuel prices, but moderated to 3.6% in June 2009 with a tighter monetary policy and lower commodity prices through the first quarter of 2009.

3. After a period of turmoil in Indonesia’s financial markets in the fourth quarter of 2008 domestic markets have stabilized in recent months as the global markets have become more stable, appropriate fiscal and monetary policies have restored market confidence, and the Government has secured contingent financing for its budget from its development partners and swap agreements with the governments of the People’s Republic of China and Japan. Amid some volatility this year, stock prices have recovered strongly, yields on rupiah and dollar bonds have fallen, spreads on credit default swaps have declined, and the rupiah exchange rate has strengthened. Government security issues in the first quarter of 2009 exceeded the target for the quarter by Rp21.36 trillion and reached 46.4% of the Government’s target for all of 2009.

4. However, given Indonesia’s exposure to externally mobile capital, there could be further disruption in the financial markets. The Government’s gross financing need is expected to rise to \$23.9 billion in 2009 from \$11.4 billion in 2008 with a larger fiscal deficit and continued high interest and principal payments on domestic and foreign debt. Considering the impact of the likely slowdown in economic growth on revenues, and the possible need for additional fiscal stimulus, the Government’s financing needs in the near to medium term are likely to stay high.

¹ ADB. 2008. *Country Operations Business Plan (2009–2011): Indonesia*. Manila.

² ADB. 2006. *Country Strategy and Program (2006–2009): Indonesia*. Manila. The strategic priorities in ADB’s partnership with Indonesia will be reassessed in a new country partnership strategy that is due to take effect in 2011.

³ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

5. ADB has allocated \$2,490 million from ordinary capital resources (OCR) for public sector lending to Indonesia in 2010–2012, or \$830 million each year during the period (Appendix 1, Table A1.1). Although the total allocation is more than the \$1,220 million previously set aside for 2009–2011, the yearly average is still below what was provided in recent years.⁴ The Government has indicated that it would like to maintain high levels of borrowing from ADB for much-needed public sector investments in infrastructure.

6. Given the resource constraints, the core areas in 2010–2012 will be the same as those identified in the COBP for 2009–2011 until a new country partnership strategy takes effect in 2011. The project interventions will be in infrastructure (energy, particularly clean energy and energy efficiency to reflect emerging priorities of the Government and ADB; road transportation; and urban water supply and sanitation), water resource management, education (vocational and higher education), and community-designed development (PNPM). Government priorities and project preparedness will determine the phasing-in of activities.

7. While program lending will continue to be an important instrument of ADB financing in 2010–2012 to support policy and institutional reforms, the imbalance between program and project loans that has come about in recent years must be redressed once resources become less of a constraint. In its policy-based operations, therefore, ADB will emphasize areas where it holds comparative advantage or can bring about additionality.

8. Indicative of unmet demand, a number of proposed interventions have been placed on the standby list in the assistance pipeline and will be processed once the funds become available. Every effort will be made during this period to mobilize cofinancing on concessionary terms. ADB's private sector operations will selectively support the development and financing of important infrastructure projects, mainly in energy but also in transport, urban water supply, sanitation, and waste management. Opportunities in the financial sector (such as financial intermediation lending to private commercial financial institutions for small and medium-sized enterprises) and the housing sector will be explored as well.

9. The current indicative technical assistance (TA) program for 2010–2012 amounts to \$25.70 million—\$14.4 million for 11 project preparatory TA projects, and \$11.3 million for 10 capacity development TA projects (Appendix 1, Table A1.2). While these amounts are higher than the actual figures in recent years, there are not enough TA resources for a flexible and adequate response to Indonesia's demand for knowledge products, advisory services, support for human capacity development, and institutional strengthening.

III. SUMMARY OF CHANGES IN LENDING AND NONLENDING PROGRAMS

10. Changes in the lending program for 2010, compared with the program proposed in the COBP for 2009–2011, reflect the somewhat higher OCR allocation, emerging priorities of the Government and ADB, the deferment of some loans from earlier years to 2010 and from 2010 to 2011 due to processing delays, and the cancellation of other loans due to slow progress in implementation (Appendix 2, Table A2.1).

11. For projects, the following changes have been made in the lending program for 2010:

⁴ \$950 million in 2007, \$1,010 million in 2008, and \$2,250 million in 2009 (including \$1,500 million to mitigate the effects of the global financial crisis).

- (i) The Flood Management in Selected River Basins Project (multitranche financing facility [MFF]), due to be approved in 2010, will now cover the entire Java Island and not just four river basins, and the MFF ceiling has been increased from \$150 million to \$500 million and the first-tranche release in 2010, from \$60 million to \$150 million.
- (ii) The Java–Bali 500 kilovolt Power Transmission Crossing project, a government priority, has been introduced as a new project for 2010.
- (iii) The \$100 million Support for the National Community Empowerment Program (PNPM) Mandiri is another new project for 2010, ADB's response to a government request for ADB to remain engaged in the PNPM.
- (iv) The second tranche of the Energy Efficiency Project (MFF) will no longer be processed, as the original project has been redesigned as a single project with a narrower focus—the Java–Bali Distribution Performance Improvement Project—to be approved in 2009.
- (v) The first tranche of the Regional Roads Project (MFF) in 2010 has been increased to boost project effectiveness.

12. For policy-based lending, the program for 2010 has undergone the following changes:

- (i) Given the somewhat larger OCR allocation and adjustments in other lending, the Infrastructure Reform Sector Development Program has been reclassified from standby to firm status in 2010.
- (ii) The Sixth Development Policy Support Program has been introduced into the 2010 lending pipeline in response to requests from the Government for ADB to remain engaged in the current Development Policy Loan series, which ends in 2010.

13. The 2011–2012 lending program continues to be aligned with the core areas of COBP 2009–2011. Among the policy-based loans, the Second Local Government Finance and Governance Reform Program has been moved from standby to firm status in 2011. The Social Security Reform Sector Development Program has been introduced as a new loan for 2011 to reflect the Government's growing attention to this area and its request for more ADB assistance in implementing the social security programs covered by the Social Security Law. The inclusion of the Second Capital Markets Development Program in 2012, subject to confirmation in the new country partnership strategy, is in recognition of the large unfinished reform agenda in capital markets, the Government's strong commitment to reform in this area, and a request for ADB to remain engaged beyond the end of the current program in 2009.

14. Project loans include the second tranche of the Integrated Citarum Water Resource Management Investment Program (moved from standby to firm status in 2011) and the Polytechnics Development Project in 2011 (increased following the availability of funds). The Geothermal Power Development Program (MFF, \$500 million), with a first-tranche release in 2011, is a new project that shows the new priorities of the Government and ADB in clean energy and climate change. Lending in 2012 will be concerned mainly with improving the quality of institutions in higher education and the competitiveness of the labor force, bringing about energy efficiency and conservation in the operations of state-owned enterprises, investing in roads, and rehabilitating irrigation systems.

15. The TA program proposed in the COBP for 2009–2011 has been changed to reflect (i) changes in the lending pipeline, (ii) a greater emphasis on capacity development and institutional strengthening, and (iii) new priorities of the Government (Appendix 2, Table A2.2).

Besides the project preparatory TA projects that support lending operations, several capacity development and policy and advisory TA projects have been programmed in water resource management, efficient energy use, procurement, internal audit, social security, service delivery improvements through community empowerment, and support for effective project planning and implementation by the National Development Planning Agency (BAPPENAS). However, some TA projects also had to be deferred for lack of resources.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

16. Since 2008, steps have been taken to realign the mix of staff skills to strengthen internal capacity for policy dialogue, sector diagnostics and strategy, and lending and nonlending product processing. The addition of two national staff in water resources has been proposed and the further deployment of staff from headquarters to the resident mission in Jakarta will be considered to increase client responsiveness, engage development partners, and provide continuity to programmatic approaches in core areas of operations.

V. RESULTS-BASED MONITORING

17. The updated results framework in the COBP for 2009–2011 (footnote 1) is unchanged.

INDICATIVE ASSISTANCE PIPELINE

Table A1.1: Indicative Assistance Pipeline for Lending Products, 2010–2012

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (\$ million)					
					Total	ADB			Gov't	Co- financing
						OCR	Loans	Grants		
2010 Firm Loans										
Agriculture and Natural Resources										
1. Flood Management in Selected River Basins (MFF, \$500 million) PFR 1	GI	ENV/SOD	SEAE	2005	150.00	0.00	0.00	150.00	—	—
Subtotal					150.00	0.00	0.00	150.00	—	— ^a
Energy										
1. Java–Bali 500 kV Power Transmission Crossing	GI	GRO	SEEW	2009	100.00	0.00	0.00	100.00	—	—
Subtotal					100.00	0.00	0.00	100.00	—	
Multisector										
1. PNPM Mandiri Community Driven Development	TI	SOD/GEN	SESS		100.00	0.00	0.00	100.00	—	—
Subtotal					100.00	0.00	0.00	100.00	—	—
Public Sector Management										
1. Infrastructure Reform Sector Development Program III	GI	GRO/PSD	SEEW		200.00	0.00	0.00	200.00	0.00	0.00
2. Sixth Development Policy Support Program	GI	GRO/GOV	IRM		100.00	0.00	0.00	100.00	0.00	0.00
Subtotal					300.00	0.00	0.00	300.00	0.00	0.00
Transport and ICT										
1. Regional Roads Development (MFF, \$500 million), PFR 1	GI	GRO	SETU	2008	180.00	0.00	0.00	180.00	—	— ^b
Subtotal					180.00	0.00	0.00	180.00	—	—
Total					830.00	0.00	0.00	830.00	—	—

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (\$ million)					
					Total	ADB			Gov't	Co- financing
						OCR	Loans	Grants		
2011 Firm Loans										
Agriculture and Natural Resources										
1. Integrated Citarum Water Resource Management Investment Program (MFF, \$500 million) PFR 2	GI	SOD/ENV	SEAE	2010	130.00	0.00	0.00	130.00	—	—
Subtotal					130.00	0.00	0.00	130.00	—	—
Education										
1. Polytechnics Development	TI	SOD	SESS	2009	100.00	0.00	0.00	100.00	—	—
Subtotal					100.00	0.00	0.00	100.00	—	—
Energy										
2. Geothermal Power Development Program (MFF, \$500 million) PFR 1	GI	GRO	SEEW	2010	100.00	0.00	0.00	100.00	—	— ^c
Subtotal					100.00	0.00	0.00	100.00	—	—
Public Sector Management										
1. Local Government Finance and Governance Reform II	GI	GOV/CAD	SEFM	2011	300.00	0.00	0.00	300.00	0.00	0.00
2. Social Security Reform Sector Development Program	GI	GOV	SEFM	2010	200.00			200.00		
Subtotal					500.00	0.00	0.00	500.00	0.00	0.00
Total					830.00	0.00	0.00	830.00	—	—
2011 Standby (subject to availability of funds)										
Public Sector Management										
1. Second Capital Markets Development Program	GI	GRO/GOV	SEFM		300.00	0.00	0.00	300.00	—	—
2. Seventh Development Policy Support Program	GI	GRO/GOV	IRM		200.00	0.00	0.00	200.00	—	—
2012 Firm Loans										
Education										
1. Higher Education	TI	SOD	SESS	2009	130.00	0.00	0.00	130.00	—	—
Subtotal					130.00	0.00	0.00	130.00	—	—

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (\$ million)						
					Total	ADB			Total	Gov't	Co- financing
						OCR	Loans	Grants			
Energy											
1. Energy Efficiency and Climate Change (MFF, \$500 million), PFR 1	GI	GRO	SEEW	2011	150.00	0.00	0.00	150.00	—	— ^d	
Subtotal					150.00	0.00	0.00	150.00	0.00	0.00	
Public Sector Management											
1. Second Capital Markets Development Program	GI	GRO/GOV	SEFM		300.00	—	—	300.00	—	—	
Subtotal					300.00	0.00	0.00	300.00	0.00	0.00	
Transport and ICT											
1. Regional Roads Development (MFF, \$500 million), PFR 2	GI	GRO	SETU	2011	250.00	0.00	0.00	250.00	—	—	
Subtotal					250.00	0.00	0.00	250.00	—	—	
Total					830.00	0.00	0.00	830.00	—	—	
2012 Standby (subject to availability of funds)											
Agriculture and Natural Resources											
1. Sumatra–Java Irrigation Development and Rehabilitation Project	GI	SOD/ENV	SEAE	2011	200.00	0.00	0.00	200.00	—	—	
Public Sector Management											
1. Eighth Development Policy Support Program	GI	GRO/GOV	IRM		200.00	0.00	0.00	200.00	—	—	

ADB = Asian Development Bank; ADF = Asian Development Fund; ENV = environmental sustainability; GEN = gender equity; GI = general intervention; GOV = governance; Gov't = Government; GRO = economic growth; IRM = Indonesia Resident Mission; kV = kilovolt; MFF = multitranches financing facility; OCR = ordinary capital resources; PFR = periodic financing request; PNPM = National Community Empowerment Program; PSD = private sector development; SEAE = Southeast Asia Agriculture, Environment, and Natural Resources Division; SEEW = Southeast Asia Energy and Water Division; SEFM = Southeast Asia Financial Sector, Public Management, and Trade Division; SESS = Southeast Asia Social Sectors Division; SETU = Southeast Asia Transport and Urban Development Division; SOD = social development; TI = targeted intervention.

^a Possible cofinancing from the Islamic Development Bank amounting to \$100 million–\$150 million.

^b \$70 million cofinancing from the Islamic Development Bank.

^c Possible cofinancing from European Investment Bank amounting to \$200 million.

^d Possible cofinancing from European Investment Bank amounting to \$100 million.

Source: Asian Development Bank estimates.

Table A1.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2010–2012

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding		Total (\$'000)	
			ADB			
			Source	Amount (\$'000)		Others
2010						
Agriculture and Natural Resources						
1. Integrated Citarum Water Resources Management Investment Program, PFR 2	SEAE	PPTA		1.00	—	1.00
2. Water Resources and River Basin Management Cluster	SEAE	C-CDTA		2.00	—	2.00
Subtotal				3.00	—	3.00
Energy						
1. Geothermal Power Development	SEEW	PPTA		1.00	—	1.00
2. Energy Efficiency and Climate Change	SEEW	PATA		1.00	—	1.00
Subtotal				2.00	—	2.00
Multisector						
1. Mainstreaming PNPM Mandiri	SESS	CDTA		1.00	—	1.00
Subtotal				1.00	—	1.00
Public Sector Management						
1. Strengthening National Public Procurement Processes and Audit Reform	IRM	CDTA		1.00	—	1.00
2. Social Security Reform Sector Development Program	SEFM	PPTA		0.60	—	0.60
3. Strengthening Knowledge Management for Effective Project Planning and Implementation	IRM	CDTA		0.50	—	0.50
Subtotal				2.10	—	2.10
Total				8.10	—	8.10
2011						
Agriculture and Natural Resources						
1. Flood Management in Selected River Basins, PFR 2	SEAE	PPTA		1.00	—	1.00
2. Sumatra–Java Irrigation Development and Rehabilitation Project	SEAE	PPTA		2.00	—	2.00
Subtotal				3.00	—	3.00
Education						
1. Higher Education Project	SESS	PPTA		1.00	—	1.00
2. Vocational Education Tracer Study and Labor Market Implications	SESS	CDTA		0.30	0.00	0.30
Subtotal				1.30	—	1.30

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Energy							
1. Energy Efficiency and Climate Change	SEEW	PPTA		1.00		—	1.00
Subtotal				1.00		—	1.00
Public Sector Management							
1. Local Government Finance and Governance Reform III	SEFM	PPTA		0.80		—	0.80
Subtotal				0.80		—	0.80
Transport and ICT							
1. Regional Roads Development, PFR 2	SETU	PPTA		1.00		—	1.00
Subtotal				1.00		—	1.00
Water Supply and Other Municipal Infrastructure and Services							
1. Metropolitan Sanitation Management and Health Project, PFR 1	SEEW	PPTA		2.00		—	2.00
Subtotal				2.00		—	2.00
Total				9.10		—	9.10
2012							
Agriculture and Natural Resources							
2. Support for Integrated Citarum Water Resources Management II (attached to PFR 2)	SEAE	CDTA		1.00		—	1.00
3. Capacity Development and Institutional Strengthening in the Water Resources Sector	IRM	CDTA		1.50		—	1.50
Subtotal				2.50		—	2.50
Public Sector Management							
1. Support for Second Capital Markets Development Program	SEFM	CDTA		1.50		—	1.50
2. Support for Local Government Finance and Governance Reform III		CDTA		1.50		—	1.50
3. Support to Social Security Reform		CDTA		1.00		—	1.00
Subtotal				4.00		—	4.00
Water Supply and Other Municipal Infrastructure and Services							
1. Water Utilities Reform Sector Development Program	SEEW	PPTA		2.00		—	2.00
Subtotal				2.00		—	2.00
Total				8.50		—	8.50

ADB = Asian Development Bank; C-CDTA = cluster capacity development technical assistance; CDTA = capacity development technical assistance; IRM = Indonesia Resident Mission; PATA = policy and advisory technical assistance; PFR = periodic financing request; PNPM = Program Nasional Pemberdayaan Masyarakat (National Program for Community Empowerment); PNPM = National Community Empowerment Program; PPTA = project preparatory technical assistance; SEAE = Southeast Asia Agriculture, Environment, and Natural Resources Division; SEEW = Southeast Asia Energy and Water Division; SEFM = Southeast Asia Financial Sector, Public Management, and Trade Division; SESS = Southeast Asia Social Sectors Division; SETU = Southeast Asia Transport and Urban Development Division.
Source: Asian Development Bank estimates.

**PRELIMINARY SUMMARY INFORMATION ON PROPOSED INDICATIVE
LENDING AND NONLENDING PRODUCTS AND SERVICES FOR 2010**

**Table A2.1: Summary Information on Proposed Indicative
Lending Products and Services for 2010**

Project Name	Description
Flood Management in Selected River Basins	<p>Impact. Reduced social and economic impact of floods through environmentally sustainable land and water management, particularly on the main island of Java.</p> <p>Major Components. The proposed MFF will have the following broad components: (i) the establishment of a legal and policy framework related to disaster risk management; (ii) institutional strengthening and capacity building of national, provincial, and local agencies responsible for flood risk management; (iii) physical or structural works to improve flood conveyance capacity, internal drainage capacity, and peak reduction, particularly the development and maintenance of sustainable flood mitigation infrastructure; (iv) community empowerment through community-based flood risk management; (v) management of data and information on all aspects of flood risk management for effective and efficient flood risk management; and (vi) program management.</p> <p>Expected Outputs and Outcomes. The expected outputs of the MFF will be improved policy and legislation, better physical facilities and preparedness of local communities to mitigate flood damage and losses, and improved data and information for flood risk management. The expected outcome will be enhanced organizational and institutional capability to mitigate and manage floods and flood risks. The effectiveness of this program will be monitored through indicators such as the number of casualties and people displaced by floods and flooding, the number of houses and public facilities damaged by floods, agricultural losses caused by flooding, enhanced watershed functions through improved natural resource management, and the loss of gross regional domestic product as a result of floods.</p>
Java–Bali 500 kV Power Transmission Crossing	<p>Impact. Secure and reliable power supply on Bali Island.</p> <p>Major Components. The construction of a 500 kV transmission line, submarine cables, and substations will allow the importation of about 1,500 MW from the Java power grid to the Bali power grid.</p> <p>Expected Outputs and Outcomes. The expected outcomes will be (i) reduced generation costs on Bali, (ii) improved environment on Bali through the closure of old and inefficient oil-fired power plants, and (iii) reduced public service obligation.</p>
PNPM Mandiri Community-Driven Development	<p>Impact. Reduced poverty and improved local governance of rural communities in the project areas.</p> <p>Major Components. The project will (i) strengthen capacity for community development by supporting community empowerment and pro-poor planning and budgeting by local governments, (ii) address community-identified needs for poverty reduction and improved service delivery by implementing community development grants, and (iii) provide project management and implementation assistance.</p> <p>Expected Outputs and Outcomes. An investment project in support of the Government's PNPM program.</p>

Project Name	Description
Regional Roads Development	<p>Impact. Sustainable economic growth and poverty reduction in Southern Java and Northern Kalimantan as a whole and the project areas in particular.</p> <p>Major Components. The project will have three main components: (i) civil works for capacity expansion, network improvement, and new alignment of national and strategic roads, and bridge rehabilitation; (ii) technical assistance for project implementation and management, and a study of the Java arterial roads network; and (iii) the preparation of a road safety action plan to improve the Government's capacity for road safety design and raise public awareness.</p> <p>Expected Outputs and Outcomes. The expected outcomes of the project will be (i) improved transport accessibility and connectivity, including interregional connections; (ii) an expanded road transport network, to increase development opportunities; (iii) improved access to income-generating opportunities and social services in poor rural areas; and (iv) better road transport safety. Outputs are expected to be the rehabilitation, improvement, or construction of 1,600 km of roads, the replacement of 169 bridges, and the implementation of the approved road safety action plan and the recommendations of the study on the Java arterial roads network.</p>
Infrastructure Reform Sector Development Program III	<p>Impact. A more-favorable investment climate.</p> <p>Major Components. The program's main components are (i) strategic cross-sector reforms to improve coordination among infrastructure development ministries and agencies; (ii) sector-specific policy, legal, and institutional reforms in eight infrastructure sectors; and (iii) measures to facilitate well-structured public and private sector partnerships for sound model infrastructure projects that can be replicated.</p> <p>Expected Outputs and Outcomes. The expected outcome will be accelerated infrastructure development through major private sector participation, as well as the mobilization and allocation of more public sector resources.</p>
Sixth Development Policy Support Program	<p>Impact. Higher economic growth that is sustained over the medium term, with less unemployment and poverty.</p> <p>Major Components. The program has three components:</p> <ul style="list-style-type: none"> (i) Improving the investment climate: (a) reducing uncertainty for investors by strengthening investment service institutions and improving investment regulations; (b) making it easier to start and operate a business; (c) reducing the import and export time and cost; (d) reducing compliance costs, improving taxpayer services, and making tax administration more efficient and equitable; (e) facilitating trade integration and promoting export competitiveness; and (f) improving access to credit for micro, small, and medium-sized enterprises. (ii) Strengthening public financial management: (a) improving the results orientation of the budget process, (b) improving budget and cash management in the central Government, (c) streamlining budget execution and management by the budget authority, (d) strengthening the management of state assets, and (e) improving public procurement. (iii) Redoubling poverty reduction and service delivery efforts: (a) intensifying the pro-poor impact of social protection and human development programs by improving the targeting of such programs, and (b) improving poverty measurement and transparency in computing poverty. <p>Expected Outputs and Outcomes: The expected outputs will be reforms (i) to remove regulatory obstacles to investment, (ii) to improve public financial management and governance, and (iii) to upgrade public service delivery. The expected outcome will be improved economic management anchored on good governance.</p>

kV = kilovolt, MW = megawatt, PNPM = Program Nasional Pemberdayaan Masyarakat (National Program for Community Empowerment).

Source: Asian Development Bank.

**Table A2.2: Summary Information on Proposed Indicative
Nonlending Products and Services for 2010**

Project Name	Description
Integrated Citarum Water Resource Management Investment Program, PFR 2	<p>Impact. Significantly improved living standards in the Citarum river basin by 2023.</p> <p>Major Components. (i) Detailed feasibility study and PFR for second-tranche activities, (ii) advance procurement of consulting services for second-tranche components, (iii) advance procurement of construction works for second-tranche components, and (vi) monitoring of compliance with social and environmental safeguards for the first tranche.</p> <p>Expected Outputs and Outcomes. The expected outcome will be the design of the second-tranche project. The expected outputs are a detailed feasibility study, procurement for second-tranche activities, and a monitoring report on compliance with social and environmental safeguards for the first-tranche component.</p>
Water Resources and River Basin Management Cluster	<p>Impact. Sustainable management of water resources for environmental, economic, and social development.</p> <p>Major Components. (i) Support for new national, river basin, and local government organizations for water resources management, (ii) building of sector agency and local government capacity, (iii) promotion of community and civil society participation in water resources management, (iv) expanded implementation of the ongoing river basin organization benchmarking initiative, (v) support for the drafting and implementation of new water resources policies and regulations (particularly in local government), (vi) identification of areas and modes of effective partnerships between the public and private sectors, (vii) strengthening of research and development, and the exchange of water sector information and experience, (viii) identification and initial preparation of water projects, and (ix) support for climate change adaptation measures.</p> <p>Expected Outputs and Outcomes. The expected outcome will be strengthened capacity for effective planning, development, and integrated management of water resources. The technical assistance will build on previous water resources initiatives between ADB and the Government, and complement ongoing and proposed ADB loans in the sector.</p>
Geothermal Power Development	<p>Impact. Increased use of renewable resources to meet the rising demand for energy, and mitigation of the impact of climate change.</p> <p>Major Components. (i) Studies to assess the technical, economic, and financial viability of geothermal subprojects, and the social and environmental impact of geothermal power plants; and (ii) assessment of environmental and social impact, resettlement, and other safeguard issues related to the project.</p> <p>Expected Outputs and Outcomes. The TA will include initial project design for (i) two 55 MW plants in Ulubelu, West Sumatra; (ii) two 55 MW plants in Hulu Lais, West Sumatra; (iii) two 55 MW plants in Kotamobagu, North Sulawesi; (iv) a 70 MW plant in Dieng, West Java; and (v) three 55 MW plants in Patahu, West Java. Another output of the TA will be an environmental and social impact assessment, and a resettlement and compensation plan. The expected outcome will be greater availability of energy from renewable resources at lower cost.</p>

Project Name	Description
Energy Efficiency and Climate Change	<p>Impact. Energy security and 17% reduction in greenhouse gases in the energy sector by 2025.</p> <p>Major Components. (i) Comprehensive review and assessment of policy options to improve energy efficiency in the power, industry, transport, and residential sectors; (ii) design of greenhouse-gas accounting methods, and establishment of baselines for energy efficiency improvement in selected industries; (iii) formulation of incentives and disincentives to increase energy efficiency in selected sectors; and (iv) implementation of institutional and governance reforms to achieve energy security in the face of climate change.</p> <p>Expected Outputs and Outcomes. The expected outputs will be (i) a report on options for mainstreaming climate change concerns in energy planning, and energy security concerns in climate-change plans; (ii) a report on energy efficiency baselines in selected industries for the adoption of sector approaches to greenhouse-gas mitigation; and (iii) a concept paper for PPTA in energy efficiency and climate change. The expected outcome will be enhanced capacity for strategic planning to address climate change while improving energy security.</p>
Strengthening National Public Procurement Processes and Audit Reform	<p>Impact. Enhanced transparency and efficiency in government.</p> <p>Major Components. (i) Institutional capacity development of the National Public Procurement Office (LKPP); (ii) capacity development of procurement institutions with different roles in the procurement process; (iii) upgrading of LKPP website and increase in public awareness of LKPP's roles and outputs; and (iv) development of policies, procedures, and standards related to the existing e-procurement system.</p> <p>Expected Outputs and Outcomes. The expected outputs will be (i) a capacity development program for LKPP, (ii) an upgraded LKPP website for better communication with the public, (iii) measures to enhance the e-procurement system, (iv) a study of PP 60/2008 and a road map for its implementation, and (v) needs assessment of the State Development Audit Agency (BPKP) to implement PP 60/2008. The expected outcomes will be (i) an institutionalized LKPP system, and (ii) enhanced capacity of BPKP in its newly defined role as internal auditor of the Government of Indonesia.</p>
Social Security Reform Sector Development Program	<p>Impact. A viable social safety net system with the capacity to increase the coverage for all Indonesians.</p> <p>Major Components. (i) Design and financing of the five social insurance programs under the National Social Security System (SJSN) law; (ii) establishment of an adequate structure for administering the program and development of the capacity of the responsible administrative organizations; (iii) establishment of a proper system of governance, supervision, and control for the new system; and (iv) development of the capacity of the Government to properly manage the financial and political risks associated with the programs.</p> <p>Expected Outputs and Outcomes. The expected outputs will be the regulatory framework for the governance, supervision, and control of social security institutions and their capacity development. The expected outcomes are reduced poverty among the elderly, better health outcomes for the population, and significant mitigation of the impact of macroeconomic shocks on the welfare of the Indonesian population.</p>
Support to BAPPENAS for Effective Project Planning and	<p>Impact. Enhanced development effectiveness of projects.</p> <p>Major Components. (i) Diagnostics of existing systems and procedures for project planning and implementation; (ii) identification of gaps relative to good practice; (iii) a road map for improving existing systems and procedures, including knowledge</p>

Project Name	Description
Implementation	<p>management; (iv) monitoring and evaluation of two projects to demonstrate feedback for project planning and implementation; and (v) training of officials in effective project planning and implementation.</p> <p>Expected Outputs and Outcomes. The outputs will be (i) a report with diagnostics and recommendations for improved project planning and implementation, including knowledge management; (ii) a report on the outcomes and impact of selected projects; and (iii) a training manual on project planning and implementation. The outcome will be improved understanding of, and capacity for, effective project planning and implementation in BAPPENAS.</p>
Mainstreaming PNPM Mandiri	<p>Impact. Improved transparency, efficiency, and management in local government planning and budgeting.</p> <p>Major Components: (i) A study of local implementation of PNPM Mandiri and assessment of key capacity, personnel, financing, and other gaps for mainstreaming PNPM; (ii) review of relevant legislation and support for amendments necessary for PNPM mainstreaming in local government; (iii) development of training manuals and other capacity development activities for local governments; and (iv) pilot testing, rollout, and training of local governments for PNPM mainstreaming.</p> <p>Expected Outputs and Outcomes. The expected outputs will be (i) a diagnostic study of the local implementation of PNPM Mandiri; (ii) legislation necessary for the local implementation of PNPM mainstreaming; (iii) training manuals and other capacity development activities for local governments; and (iv) pilot testing, rollout, and training of local governments for PNPM mainstreaming. The outcome will be improved capacity of BAPPENAS and local governments to mainstream PNPM Mandiri.</p>

BAPPENAS = Badan Perencanaan dan Pembangunan Nasional (National Development Planning Agency), LKPP = Lembaga Kebijakan Pengadaan Pemerintah (National Public Procurement Office), MW = megawatt, PFR = periodic financing request, PNPM = Program Nasional Pemberdayaan Masyarakat (National Program for Community Empowerment), PP = *peraturan pemerintah* (government regulation), PPTA = project preparatory technical assistance, TA = technical assistance.

Source: Asian Development Bank.

**UPDATED COUNTRY SECTORS AND THEMATIC STRATEGIES,
AND PLANS AND ROAD MAPS^a**

Priority Sector	Developments since the Adoption of the Country Strategy and Program
Agriculture and Natural Resources ^b	The Government has formulated its response to climate change, which identifies country priorities in the implementation of climate-change adaptation and mitigation measures. These include, among others, (i) reduction of greenhouse gases from deforestation and degradation; (ii) climate-change mitigation and adaptation strategies for agriculture and promotion of climate-resilient agriculture; (iii) conservation of upstream watershed areas and use of integrated water basin management projects; (iv) rehabilitation of water quality and environment in priority watersheds in Indonesia; and (v) interventions to support marine, coastal, and small-island ecosystem mitigation and adaptation. A new umbrella law for coastal and marine resource management (Law 27/2007) was also promulgated. There have been no other significant changes since the adoption of the country strategy and program for 2006–2009.
Education	There have been no significant changes in direction since the adoption of the country strategy and program for 2006–2009. The Government has continued its efforts to improve the quality of basic education at the district level and expand access to upper-secondary education, particularly in the area of vocational training. Access to polytechnic and higher education is also expanding, with attention being paid to improving the quality of selected higher-education institutions and fields of study.
Energy	There have been no significant changes since the adoption of the country strategy and program for 2006–2009.
Finance	There has been progress on all fronts (banking sector, capital markets, the mutual fund industry, and the pensions system), but no significant change since the adoption of the country strategy and program for 2006–2009. The ongoing global financial crisis has highlighted the need for a more comprehensive social security system to effectively mitigate the impact of the economic downturn. The Government has recently appointed members of the SJSN Council to prepare for implementation of the social security reforms mandated under the SJSN Law.
Public Sector Management ^c	A number of important developments have taken place with regard to key sector challenges. The Directorate General of Fiscal Balance has been established in the Ministry of Finance, and the national action plan for fiscal decentralization has been updated to strengthen the management and coordination of fiscal decentralization. New government regulations on the creation of local governments and expenditure assignments across different levels of government clarify better the arrangements for regional administration. The release of fiscal transfers and shared revenues has been made more predictable and transparent with the removal of the “hold harmless” clause. The resource-sharing mechanism has also been made more equitable through adjustments in the formula for basic allocation and fiscal gap of the general block grant, and the gradual reduction in central government funding for devolved functions with an increase in the special allocation fund. Efforts to increase the own-source revenues of local governments are being pursued with proposed amendments to the law on regional taxes and charges to a closed list, and initial work on the devolution of the property tax. The management of regional reserves and debts has been strengthened by improved monitoring and analyses, and the issue of guidelines for local government bonds. ADB may need to put in more resources for capacity development in local government.
Transport and ICT ^d	There have been no significant changes since the adoption of the country strategy and program for 2006–2009.

Priority Sector	Developments since the Adoption of the Country Strategy and Program
Water Supply and Other Municipal Infrastructure and Services ^e	In 2006, the Ministry of Finance issued a regulation for the restructuring and rescheduling loan arrears of water companies (PDAM), with a pilot program for 15 PDAMs. The Ministry of Finance has made additional efforts to accelerate the restructuring of PDAM arrears on a wider scale, considering partial forgiveness of penalties and other fees. While these represent an important step forward, restructuring of regional government loan arrears is still at a comparatively early stage. Any donor loan financing for PDAMs must be channeled through their respective regional governments. One of the main conditions for a subsidiary loan to a regional government is, however, the absence of loan arrears.
Priority Theme	
Social Development ^f	<p>To promote more-inclusive growth, the Government launched a nationwide poverty reduction program in August 2006. Its two pillars are (i) the National Program for Community Empowerment (PNPM) Mandiri, and (ii) a conditional cash transfer program (PNPM Generasi). PNPM Mandiri is aimed at reducing poverty by promoting community participation in development planning and management and in the delivery of basic services. PNPM Generasi is aimed at improving certain health and education outcomes through cash transfers. The conditional cash transfer program will provide funds to meet 12 health and education conditions linked to maternal and child health care, nutrition, immunization, and school enrollment and attendance.</p> <p>The current global economic recession may place additional strains on the poor and near-poor as employment opportunities decrease and economic growth stagnates. ADB investments in poverty reduction and community development should be aligned with and directly support the PNPM.</p>
Gender Equity	There have been no significant changes in gender equity since the adoption of the country strategy and program for 2006–2009. In some regions, decentralization has been accompanied by a revival of conservative religious interpretation of gender roles. At the same time, there are opportunities for women to redefine their role in local governance. The adoption of a 30% quota for women's participation in local political parties in 2003 had limited impact on their national and local representation, including during the 2009 general election. Reliable national data on violence against women are unavailable. Only 15% of domestic violence incidents are reported. Consequently, the trend is difficult to monitor. The issue of trafficking in people is becoming a significant issue in Indonesia that is also related to international migration. The total number of women and children working in sectors most vulnerable to trafficking ranges from 2.4 million to 3.7 million. Nevertheless, Indonesia has neither a legal definition for trafficking nor a specific trafficking law.
Governance ^g	There have been no significant changes since the adoption of the country strategy and program for 2006–2009.

ICT = information and communication technology, PDAM = *perusahaan daerah air minum* (regional water enterprise), PNPM = Program Nasional Pemberdayaan Masyarakat (National Program for Community Empowerment), PNPM Generasi = PNPM Generasi Sehat dan Cerdas ("a healthy and bright generation"), SJSN = *Sistem Jaminan Sosial Nasional* (National Social Security System).

^a The coverage here will be restricted to the areas of intervention during the COBP period of 2010–2012.

^b Country Strategy and Program 2006–2009 (CSP) heading: Agriculture, Natural Resources, and Environment.

^c CSP heading: Decentralization: Public Financial and Economic Management.

^d CSP heading: Transport Sector.

^e CSP heading: Urban Infrastructure Sector.

^f CSP heading: Poverty.

^g CSP heading: Governance and Anticorruption.

Source: Asian Development Bank.

ASSISTANCE PROGRAM FOR 2009

Table A4.1: Assistance Pipeline for Lending Products, 2009

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (\$ million)					
					Total	ADB			Gov't	Co- financing
						OCR	Loans	Grants		
2009 Firm Loans										
Energy										
1. Java-Bali Distribution Performance Improvement	GI	GRO	SEEW		50.00	0.00	0.00	50.00	17.00	50.00 ^a
Subtotal					50.00	0.00	0.00	50.00	17.00	50.00
Finance										
1. Indonesia Infrastructure Financing Facility	GI	GRO/PSD	SEFM	2008	100.00	0.00	0.00	100.00	—	—
2. Capital Markets Development Program Cluster II	GI	GRO/GOV	SEFM		300.00	0.00	0.00	300.00	0.00	0.00
Subtotal					400.00	0.00	0.00	400.00	0.00	0.00
Multisector										
1. Support for PNPM Mandiri	TI	SOD/GEN	SESS		65.00	0.00	0.00	65.00	0.00	0.00
Subtotal					65.00	0.00	0.00	65.00	0.00	0.00
Public Sector Management										
1. Public Expenditure Support Facility	GI	GRO/GOV	SEFM		1000.00	0.00	0.00	1000.00	0.00	0.00
2. Countercyclical Support Facility	GI	GRO/GOV	SEFM		500.00	0.00	0.00	500.00	0.00	0.00
3. Development Policy Support Program V	GI	GRO/GOV	IRM		200.00	0.00	0.00	200.00	0.00	0.00
Subtotal					1700.00	0.00	0.00	1700.00	0.00	0.00
Water Supply and Other Municipal Infrastructure and Services										
1. Metropolitan Sanitation Management and Health Project	TI-M7	ENV/SOD	SEEW	2008	35.00	0.00	0.00	35.00	—	6.00 ^b
Subtotal					35.00	0.00	0.00	35.00	—	—
Total					2250.00	0.00	0.00	2250.00	—	—

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (\$ million)						
					Total	ADB			Total	Gov't	Co- financing
						OCR	ADF				
						Loans	Grants				
Guarantee Facility											
1. ADB Guarantee for HSBC's Loan to PLN for the Java Island Transmission Project						105.00	0.00	0.00	105.00	0.00	0.00
Subtotal						105.00	0.00	0.00	105.00	—	—

ENV = environmental sustainability; GEN = gender equity; GI = general intervention; GOV = governance; Gov't = Government; GRO = economic growth; IRM = Indonesia Resident Mission; OCR = ordinary capital resources; PFR = periodic financing request; PSD = private sector development; SEAE = Southeast Asia Agriculture, Environment, and Natural Resources Division; SEEW = Southeast Asia Energy and Water Division; SEFM = Southeast Asia Financial Sector, Public Management, and Trade Division; SESS = Southeast Asia Social Sectors Division; SOD = social development; TI-M = targeted intervention–Millennium Development Goals.

^a \$50 million cofinancing from Agence Française de Développement (AFD).

^b \$6 million cofinancing from Australian Agency for International Development (AusAID).

Source: Asian Development Bank estimates.

Table A4.2: Assistance Pipeline for Nonlending Products and Services, 2009

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding		Total (\$'000)	
			ADB			
			Source	Amount (\$'000)		Source
Firm						
Agriculture and Natural Resources						
1. Flood Management in Selected River Basins, PFR 1	SEAE	PPTA		1.00	—	1.00
2. Climate Change Proofing of Citarum Road Map	SEAE	CDTA		—	3.00 ^a	3.00
Subtotal				1.00	3.00	4.00
Education						
1. Polytechnics	SESS	PPTA		1.20	—	1.20
Subtotal				1.20	—	1.20
Energy						
1. Java–Bali 500 kV Power Transmission Crossing	SEEW	PPTA		1.00	—	1.00
Subtotal				1.00	—	1.00
Finance						
1. Capacity Building of Regulatory Compliance and Human Resources for the Capital Markets	SEFM	CDTA		1.00	0.00	1.00
Subtotal				1.00	—	1.00
Public Sector Management						
1. Support for Local Government Finance and Governance Reform II	SEFM	CDTA		1.00	—	1.00
2. Fostering Knowledge Partnership to Strengthen Indonesia's Financial Early Warning System	IRM	CDTA		—	0.50 ^b	0.50
Subtotal				1.00	0.50	1.50
Total				5.20	3.50	8.70
Standby						
Public Sector Management						
1. Support for Infrastructure Reform Sector Development Program II	SEEW	CDTA		0.50	0.00	0.50
Subtotal				0.50	0.00	0.50
Total				0.50	0.00	0.50

CDTA = capacity development technical assistance; IRM = Indonesia Resident Mission; kV = kilovolt; PFR = periodic financing request; PPTA = project preparatory technical assistance; SEAE = Southeast Asia Agriculture, Environment, and Natural Resources Division; SEEW = Southeast Asia Energy and Water Division; SEFM = Southeast Asia Financial Sector, Public Management, and Trade Division; SESS = Southeast Asia Social Sectors Division.

^a \$2.0 million from Climate Change Fund and \$1.0 million from the Clean Energy Financing Partnership Facility.

^b \$500,000 from the Republic of Korea e-Asia and Knowledge Partnership Fund.

Source: Asian Development Bank estimates.