

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2001-2003)**

**INDONESIA**

**August 2000**

## CURRENCY EQUIVALENTS

(as of 15 August 2000)

Currency Unit	—	Rupiah (Rp)
Rp1.00	=	0.000122
\$1.00	=	Rp8,225

## ABBREVIATIONS

ACCSF	-	Asian Currency Crisis Support Facility
ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
BAPPENAS	-	National Development Planning Agency
BIMP-EAGA	-	Brunei Darussalam, Indonesia, Malaysia and Philippines East ASEAN Growth Area
COS	-	country operational strategy
CPM	-	Country Programming Mission
CPPR	-	country portfolio performance review
CPRM	-	country portfolio review mission
FGRSDP	-	Financial Governance Reforms Sector Development Program
GDI	-	gender development index
GDP	-	Gross Domestic Product
GEM	-	Gender Empowerment Measure
HDI	-	Human Development Index
ICSME	-	Industrial Competitiveness and Small and Medium Enterprises Development Program
IMF	-	International Monetary Fund
IMF-EFF	-	IMF Extended Fund Facility
JBIC	-	Japan Bank for International Cooperation
NGO	-	non-government organization
NMI	-	New Miyasawa Initiative
OCR	-	ordinary capital resources
REPELITA	-	Rencana Pembangunan Lima Tahun (Five-Year Development Plan)
RETA	-	regional technical assistance
SME	-	small and medium-scale enterprise
SOEs	-	state-owned enterprises
SUSENAS	-	Survei Sosial Ekonomi Nasional (National Socioeconomic Survey)
TA	-	technical assistance
UNDP	-	United Nations Development Program

## NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this Report, "\$" refers to US dollars.

## FOREWORD

The Country Assistance Plan describe the planned program of assistance by the Asian Development Bank for Indonesia covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of Indonesia, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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**COUNTRY ASSISTANCE PLAN (2001-2003)  
INDONESIA**

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## INDONESIA

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. Indonesia's economic recession has bottomed out and economic recovery, albeit fragile, is underway. The overall GDP grew by 0.23 percent in 1999 following the severe contraction of 13.2 percent in 1998. The recovery was initially sparked by fiscal stimulus, but in recent months has been driven by rising private consumption. Investment contracted again in 1999 although its decline slowed markedly. Exports also declined in 1999 but have been rising in recent months. On the output side, the recovery was initially underpinned by a rebound in agriculture but later spread to virtually all non-primary sectors.

2. Macroeconomic stability set the stage for recovery. Year on year inflation at the end of 1999 was only 1.9 percent compared to 78 percent at the end of 1998. Declining food prices, rupiah appreciation and tight monetary policy together caused the sharp drop in inflation. Rupiah volatility was significantly contained in 1999 with the rupiah trading within a narrow band of Rp6,800-Rp7,500/US\$. However it weakened sharply in the second quarter of 2000 reflecting market anxiety over the delay in release of the second tranche under the IMF Extended Fund Facility (EFF), economic uncertainties, and deterioration in the political milieu. Low inflation and rupiah stability permitted interest rates to fall below pre-crisis levels, but since the weakening of the rupiah in recent months, the interest rates have increased. The interest rates are still below pre-crisis levels, but further weakening of the rupiah could push up inflation and interest rates undermining macroeconomic stability. This would also weaken the fragile fiscal position of the country.

3. The most severe macroeconomic impact of the crisis has been felt in the fiscal sector. Indonesia's public debt is currently estimated at about 93 percent of GDP, up from 24 percent in 1997. Despite the economic crisis, defense expenditures have increased. Although annual expenditure growth dropped from 4.5 percent in 1995-1996 to 1.7 percent in 1997-1998, defense expenditures increased to 2.6 percent of GDP in 1998—almost \$4.9 billion, or \$24 per capita. Of the total public debt of \$152 billion, almost 60 percent is domestic—due to recapitalization of banks and liquidity support to them. Prior to the crisis only external debt was a source of budget financing. The large debt burden has reduced public savings and constrained development resources. This will limit Indonesia's capacity to absorb external assistance, and could have implications for Bank operations in the country in the short-run. As the recovery gathers pace, reforms will be crucial to improve the fiscal balance by reducing current expenditures in the budget and raising revenues. The public debt burden will constrain the Government's fiscal management for a substantial period of time.

4. The external sector experienced its second consecutive current account surplus in 1999—3.5 percent of GDP. However, the surplus reflects declining imports—mainly falling capital goods imports. After failing to respond to the massive exchange rate depreciation in 1999, i.e., for a second straight year, exports began recovering in early 2000. The export sector however continues to suffer from sharply higher prices of imported raw materials and the weak domestic financial sector.

5. The macroeconomic indicators for the first two quarters of 2000 show that the broad-based economic recovery, which began in late 1998, is continuing. However, the recovery is still fragile. First, aggregate demand is driven mainly by private consumption. The recent rebound in exports must develop into a trend. The rise in consumption and exports must be matched by rising investment for the recovery to be sustained. Second, the large build up in public debt has imposed a heavy burden on public finances. Extreme prudence in fiscal policy will be needed to ensure continued macroeconomic stability. Third, while there has been progress in banking sector reform, corporate debt restructuring remains painfully slow. Without rapid progress in this area investment will remain weak and export supply bottlenecks could constrain export growth even if external demand picks up threatening the recovery.

6. The severe social impact of the crisis will linger for several years. An additional 17 million people have been plunged below the poverty line in less than two years. The impact on the poor is not uniform—some regions and groups have been hit harder than others. The proportion of children most seriously at risk of malnutrition increased significantly. Many whose savings and assets have been depleted will take a long time to recover from the crisis. Revised Government estimates suggest that even with a return to pre-crisis levels of poverty, about 35 million people would still be below the poverty line. In addition, many million people living just above the poverty line and are vulnerable to changing economic conditions. Combating poverty in Indonesia is therefore the foremost development priority.

7. On structural reforms, although there has been progress in bank restructuring its pace has been uneven. The remaining agenda of banking reforms need to be completed expeditiously. Capital market reforms, including the development of a domestic bond market needs to be accelerated. This will permit more effective channeling of domestic savings to investment and reduce dependence of investors on bank borrowing.

8. Despite improvements in the climate for corporate debt restructuring—stabilization of the exchange rate, low interest rates, rebound of the equity market, and reforms in the institutional mechanisms for corporate debt restructuring—it has been very slow and the progress in economic recovery achieved so far is at risk of being undermined by the recent deterioration in political conditions. Credible enforcement of the bankruptcy law is necessary to speed up the process of corporate debt restructuring.

9. In 2000, manufacturing growth is forecast to underpin recovery supported by a return to trend growth in agriculture on the output side. Accordingly, an overall GDP growth rate of about 4 percent in 2000, rising to 5 percent in 2001 is projected. The budget will remain in deficit over the medium term, but the deficit is forecast to decline steadily from 4.7 percent of GDP in FY2000 to 4 percent in 2001 provided the economic recovery remains on track and outlays on subsidies decline as planned. Imports are forecast to increase in 2000 as domestic demand increases, lowering the current account surplus-to-GDP ratio to 2.2 percent in 2000 and 0.5 percent in 2001.

10. There remain, however, major downside risks at this stage of the economic recovery. Sound macroeconomic management must continue, public financial management must improve, reforms in the financial sector must remain on track, corporate debt restructuring needs to speed up and credible progress and a firm sense of direction in governance reform is needed. The macroeconomic forecasts above are also predicated on the assumption that domestic political conditions of Indonesia will not deteriorate and that the strong rebound of East Asian economies will continue.

## B. Poverty Assessment

11. At its peak in early 1999, poverty incidence reached 24.2 percent, from 17.6 percent in 1996.<sup>1</sup> Although official estimates have been updated and refined several times since the crisis, and several studies provide alternative estimates, there is a consensus on two major findings—at its peak poverty incidence during the crisis surged about 7-10 percentage points from its low in 1996, and that a large segment of the population is in a vulnerable and depleted state. In absolute terms the crisis-induced surge in poverty plunged an additional 15 million persons into poverty. During this time the poverty gap index<sup>2</sup> and the poverty severity index<sup>3</sup> deteriorated indicating that the number of poor increased dramatically and the condition of the poor worsened. Poverty worsened in urban areas somewhat faster than in rural areas.<sup>4</sup> The urban-rural difference was not as large as expected because of the somewhat arbitrary geographic delineation between urban and rural areas, and the urban characteristics of rural Java. The crisis impact was not just a 'Java' phenomenon. Parts of the outer islands—South Sumatra, East Kalimantan, Central and South Sulawesi, East Nusa Tenggara, and Irian Jaya all experienced considerable deterioration in poverty. However, the majority of the poor still live in Java—mainly in rural Central and East Java. Although the official provincial level poverty estimates have not yet been released, preliminary estimates indicate the basic regional relationships between Java and the outer islands remain unchanged.

12. The crisis did not lead to surge of unemployment as initially feared. The economic shock was transmitted to the population through declining real wages and spiraling food prices, i.e., through inflation. To maintain household consumption levels, more people entered the work force including women who were not in the workforce before, albeit at lower wages, and they depleted their savings.

13. Low rates of inflation, declining food prices, and a recovery in real wages have lead to improvements in overall purchasing power and a decline in the level of poverty since early 1999. The 1999 National Socioeconomic Survey (SUSENAS) conducted in February 1999 showed the overall incidence of poverty at 23.5 percent with urban: 20 percent and rural: 25.8 percent according to the methodologies consistent with 1996 and earlier surveys. A subsequent mini-SUSENAS conducted in August 1999 showed a sharp decline in overall transient poverty to 18.2 percent with urban 15.1 percent and rural 20.2 percent. Despite this reduction to near pre-crisis levels by the second quarter of 1999, the long period of privation and dissavings by households worsened the condition of the extremely poor. This is indicated by continued worsening of the poverty severity index and Engel coefficient.<sup>5</sup> Even if the poverty incidence abates to the 1996 level, about 35 million people would still be below the poverty line, and many millions will subsist precariously just above it. Moreover, as stated above, the socioeconomic impacts of the crisis will linger for many years.

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<sup>1</sup> Revised Central Bureau of Statistics (BPS) estimates released in May 2000.

<sup>2</sup> Indicates the average amount the income of the poor must be increased to cross the poverty line.

<sup>3</sup> Indicates the income distribution of households below the poverty line.

<sup>4</sup> Urban poverty increased by 103 percent and urban poverty increased by 78 percent.

<sup>5</sup> Proportion of household expenditure spent on food

## C. Assessment of Socio-Environmental Performance

### 1. Gender Issues

14. In terms of the gender development index (GDI<sup>6</sup>), Indonesia ranked 88th out of 165 countries, while in terms of the Gender Empowerment Measure (GEM<sup>7</sup>), Indonesia ranked 71<sup>st</sup> out of 102 countries. The comparison with other countries in the region shows that Indonesia is behind its regional comparators in terms of gender-sensitive human achievement and gender empowerment. In terms of the GDI and GEM, the Philippines ranks 45<sup>th</sup> and 65<sup>th</sup> respectively, Malaysia 52<sup>nd</sup> and 52<sup>nd</sup>, and Thailand 64<sup>th</sup> and 58<sup>th</sup>. As with many other countries, women are the last resort of the household in caring for children, the sick, and the elderly. Women are responsible for food, health, and education of households. Declining purchasing power has pushed increasing many women in the labor force into marginal activities to make ends meet. Some spot surveys during the crisis also indicated a decline in the nutritional well being of pregnant women and lactating mothers as well as children. This could take many years to reverse, and the impact on children is likely to be felt in full several years later.

15. Women's concerns have not been sufficiently highlighted during the crisis. The significant role of women in poorer households and their contribution to the economic welfare of their households has often been subsumed within the common view of the female as wife and mother and male as bread earner. The Government has recently started to pay attention to women's active involvement and participation in safety net work programs, and new programs for women are being piloted.

16. The gender gap has closed in basic education although a gender differential remains at the senior secondary and tertiary levels. Women also face unequal access and treatment in the labor market. Women are over-represented among the unemployed and under-employed and their wages are often significantly lower than that of men. In the private sector women are often treated as having single status and receive fewer allowances. Women's rights at work have not been well enforced and they are not adequately informed about their rights. Greater attention is needed to safeguard the rights of working women, particularly in times of retrenchment, and to enhance their role in planning and implementation of development and economic recovery programs.

### 2. Human Development

17. The Human Development Index (HDI) measures development in terms of life expectancy, adult literacy, and income inequality. According to the 1999 Human Development Report, Indonesia ranked 105th out of 174 countries.<sup>8</sup> While Indonesia's progress in key human indicators such as contraceptive prevalence rate, and child mortality was good, it has lagged behind in others such as secondary school enrollment, maternal mortality and communicable diseases.

18. With the assistance of ADB and other donors from the onset of the crisis, the Government protected expenditures in key social sectors such as basic education and primary

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<sup>6</sup> The Gender Development Index (GDI) measures basic human achievements (life expectancy, adult literacy, secondary and tertiary level gross enrollment ratio in education, and share of earned income) but takes note of inequalities of achievements between men and women.

<sup>7</sup> The GEM reflects the extent to which women and men are able to actively participate in economic and political life, and take part in decision-making.

<sup>8</sup> The decline in 1997 ranking is primarily due to changing methodology for calculating the HDI.

and reproductive health care. Scholarships were provided to help retain children in basic education. Essential health services for the poor, women and children, including contraceptives and basic drugs were made available to the poor at controlled prices or free of charge. These programs have been effective in preventing a major decline in enrollment in basic education and in maintaining access to public health services.

19. The crisis resulted in a surge in the number of street children in urban areas. The Government responded to this by increasing what had been a hitherto low level for support for programs dealing with street children and requested donor support to improve management of such programs. The Government has adopted ILO core labor standards and is preparing legislation for the adoption of the 1999 ILO convention concerning the prohibition and immediate action for the elimination of the worst forms of child labor. ADB provided assistance under the Social Protection Sector Development Program (SPSDP) to strengthen the capacity of the Agency for Social Welfare to identify the number and needs of street children during the crisis. The assistance under SPSDP includes support for the Government to develop the capacity of the Agency in program planning and monitoring, in the preparation of a medium term plan for management of street children, and implementation of a public information campaign to enhance public awareness of the problem. The SPSDP also provided assistance to develop drop-in centers to be used by children so they could get off the street, eat, keep clean, sleep, and feel safe. Children of age and with an interest to re-enter into the mainstream education system were provided scholarships. Vocational training was provided to children for whom reentry was not an option and who were interested in developing life skills. This assistance highlighted the plight of children in the crisis, including those in hazardous situations. The ADB is continuing to support the progress for street children through the newly established Japan Fund for Poverty Reduction in 2000. The problems of these children hitherto invisible—have also come to light and are now a major policy concern of the Government.

20. The social cost of the crisis has been severe, especially for the urban poor. While the average nutritional status of children improved due to greater consciousness of the need to protect children, the incidence of severe malnutrition increased. The effects of this and the loss of schooling will be felt by households for several years. Given that the poor are less able to cope with crises, they are also likely to have more difficulty in coping with these problems in the future.

### **3. Environment**

21. Indonesia's rich endowment of natural resources provided abundant raw materials for economic growth in past decades. The rapid growth before the crisis has been, to a great extent, supported by an attitude of "build now-clean up later." This led to severe environmental degradation. The process of industrialization and urbanization without due regard to sustainable environment management severely degraded environmental quality. Air and water pollution and solid wastes from industrial and household sources are serious problems in the larger urban centers and in some locations, these have reached levels harmful to health. The conflicting agendas of various government agencies meant that land and marine use was often arbitrary and economically irrational. Indonesia's past strategy has raised serious concerns about the sustainability of its natural resources and hence the future development process.

22. Coastal and marine resources, despite their importance have led to extensive coastal zone degradation, including loss of mangrove forests, destruction of coral reefs, depletion of fish stocks, water pollution, soil erosion and biodiversity loss. About 30 percent of Indonesia's 4.3 million-hectare coastal mangrove forests, a biologically and economically crucial ecosystem has

been lost since mid-1960s. The rapid loss of mangrove cover exacerbated shoreline erosion, led to destruction of natural habitats for fishes and shrimps, increased saline water intrusion into freshwater aquifers, and affected the livelihood of coastal fishers. Similarly, most of the coral reefs are rapidly deteriorating, mainly because of intensive human activities such as coral mining, blast and cyanide fishing, sedimentation, tourist activities, coastal development and pollution. Consequently, fisheries production in coastal areas has decreased significantly. A national survey in 1994 found that only 30 percent of coral reefs remained in good to excellent condition. Since about 90 percent of the fish caught by the coastal fishers in the country depend on coral reefs for a living, their degradation results in rapid decrease of fisheries production in coastal areas.

23. Another area of serious concern is the sustainable management of forests. Indonesia has the most extensive forest reserves in Asia, representing 10 percent of the world's tropical rainforests. Its forests and biological diversity hold an important place in the global ecosystem. The operational framework for logging concessions and the problem of illegal logging, pose the most serious risks to Indonesia's forests. Additionally, the widespread forest fires and the concurrent prolonged drought in 1997 and 1998 underscore the urgent need to adopt sustainable forest resource management practices. Recent assessments showed that more than 5 million hectares of forest were burnt during the 1997-1998 fires, with an estimated economic damage of more than \$8 billion. Indonesian forests remain under excessive pressure, with harvesting estimated at 33 million cubic meters (mcm) per year, against a sustainable yield of about 22 mcm per year. At current rates (approximately 1.5 million ha. per year) the forests will be gone by the second decade of this century.

24. Managing Indonesia's inland and freshwater resources also poses difficult challenges. A growing population, rapid urbanization, strong growth of irrigated rice production, watershed degradation, land reclamation from natural wetlands and industrial expansion placed excessive pressure on water resources. The problem was further aggravated by the absence of a policy and institutional framework for sustainable use of water resources. In the aftermath of the economic crisis, the Government has accorded a high priority to sustainable management of natural resources as a part of the economic reform and recovery program supported by the IMF, World Bank, and ADB. While this is a major shift from pre-crisis period, the forestry sector in particular still remains substantially outside the purview of the reform process. Major challenges concerning virtually all natural resources will test the Government's commitment to reform in this area. The fiscal and administrative decentralization of Government functions to districts present opportunities as well as risks for environment management. While decentralization could increase transparency, accountability, and community participation in environment management, it is also likely to be constrained by problems of inadequate skills and pressure to enhance local revenue from resource extraction in an unsustainable manner.

#### **D. Governance**

25. Decades of strong growth and rising prosperity preceding the crisis led to a false sense of complacency, delaying attention to good governance. The legal framework guiding economic transactions was not clearly established. The opacity of policies and regulations combined with excessive state interference led to endemic rent-seeking practices. Unaccountable and centralized administration had deleterious effects on public institutions and degraded their quality and efficiency. Poor governance gave rise to widespread corruption; collusion and nepotism (commonly referred to as "KKN" in Indonesia), wasted scarce resources that could otherwise be used to address development priorities, and severely depleted environmental resources. An important but less recognized social cost of poor governance is the loss of trust of

the citizenry in their public institutions. Many of these serious weaknesses of governance in Indonesia were exposed during the crisis and the country continues to reel from their effects.

26. Good governance is a central theme of the Government's reform program. The governance reforms are aimed at dismantling the state monopolies and further deregulating trade, finance, industry and investment, so as to give more room to market-based economic decision-making. In tandem, the Government is supporting corporate restructuring and corporate governance reforms and is also addressing the poor state of public financial management particularly in respect of off-budget operations and undertaking civil service reforms to support decentralization. Various laws are being amended and new laws introduced to strengthen the legal and judicial framework and its enforcement. At the same time, the Government is pursuing anticorruption initiatives. The purpose of these reforms is to rebuild public institutions, improve the quality of their services, support decentralization, and regain the trust of the common citizenry. An important aspect of the governance reforms is to involve civil society in policy deliberations and implementation to ensure transparency and accountability.

27. In early 2000, the Government established a National Committee on Corporate Governance to develop a comprehensive reform agenda for corporate governance. The substantial agenda includes amendment of provisions of the Company Law, reform of registration of firms, disclosure of information, protection of shareholders and creditors, improving accounting and auditing standards, rules for listing on the stock exchanges and regulations on transactions in the capital and securities markets.

28. The Government's ambitious decentralization agenda includes introducing new systems, structures and procedures to transfer development and administrative functions, and fiscal responsibilities to district level governments. Effective implementation of the decentralization process poses difficult challenges and risks. Many central government agencies will need to make their respective mandates consistent with a decentralized framework. The devolution of fiscal functions without clearly agreed local level obligations could exacerbate governance concerns. Substantial strengthening of the capacity of public institutions, especially at the lower tiers of public administration will be needed over an extended period to ensure the success of the decentralization process.

29. The Government took some important steps in the past year to combat corruption and passed two new laws. The Clean Government Law requires public officials to declare their assets before assuming their posts and to agree to have their assets officially audited during and after their terms. The Law on Eradication of Criminal Acts of Corruption defines corrupt practices of a criminal nature, and provides the basis for establishing charges and for prosecution. It also provides for public participation in legal surveillance and the establishment of an independent anticorruption commission for legal enforcement. New regulations to reform public procurement and project implementation practices have been issued. Although, these are important steps, much more remains to be done in these areas to reduce the role of the Government in economic activities, encourage participation, and strengthen the role of oversight agencies and civil society. Improving the competence and integrity of the judicial system to strengthen legal enforcement has remained an elusive objective, and the weaknesses in this regard are constraining not only progress in governance reform but also the economic recovery.

30. The Government has undertaken important measures to address public financial management. The budget format has been aligned with internationally accepted standards. The off-budget operations including the reforestation fund and accounts of major state monopolies (including PLN, Pertamina, and BULOG) have been audited by independent auditors and major

off-budget accounts are now incorporated within the state budget. Special privileges granted to various interest groups have been revoked. The Government is adopting measures to enhance transparency, accountability, and predictability of the tax administration.

31. Many donors including ADB are assisting the Government in implementing the governance reform agenda. The World Bank, UNDP, and ADB have jointly launched with the Government and civil society the Partnership to Support Governance Reforms in Indonesia. The Partnership is intended to coordinate donor activities encompassing the entire governance reform agenda. The ADB has taken the lead in coordinating external assistance in the corporate governance area and in helping to formulate the reform agenda in this area. The ADB is also taking a major role in decentralization and various anticorruption initiatives. The Partnership was launched in April 2000 and its role is evolving through active stewardship of the Government.

32. Governance reform will be a protracted and challenging process in view of the widespread and entrenched nature of corruption, collusion, and nepotism. The reforms could meet significant resistance from vested interests. Nevertheless, credible progress and a firm sense of direction in governance reform are critically needed to restore public trust, investor confidence and continued support of Indonesia's development partners. The Government must therefore build on the reforms already undertaken and move the reform agenda forward decisively.

## **E. Implementation Assessment**

### **1. The Portfolio**

33. At end April 2000, ADB's active portfolio in Indonesia comprised 74 loans for 65 projects. The total net loan amount was \$7,472 million, comprising \$7,247 million from ordinary capital resources (OCR) and \$225 million from the Asian Development Fund (ADF). Indonesia remains ADB's largest borrower. At end April 2000, Indonesia's total loans outstanding amounted to \$7,603 million, or 17 percent of ADB's total outstanding loans. The OCR loans outstanding amounted to \$6,951 million or 25 percent of the total OCR portfolio. The portfolio covers five broad sectors: (i) agriculture and natural resources; (ii) finance and industry; (iii) energy; (iv) transport and communications; and (v) social infrastructure. ADB's operations prior to the crisis essentially comprised project assistance. In response to the crisis ADB's assistance shifted heavily towards policy-based lending to support critically important structural reforms aimed at initiating economic recovery and supporting social safety nets. From 2000 onwards, ADB's assistance is gradually shifting back towards project lending, albeit with a strong emphasis on policy aspects. Accordingly, of the seven loan projects in the 2000 program only two or about 40 percent of total lending will be in the form of program assistance, and this will drop to about 20 percent in 2001 and beyond. Indonesia's overall disbursement performance has been good in 1999. The disbursement ratio in 1999 was 24.8 percent against the Bank average of 22.2 percent for all DMCs. More detailed portfolio performance indicators are shown in Appendix 2. ADB's TA program has focused on policy development and capacity building in the above sectors and project preparation. In 1998-2000, a significant share of TA resources were devoted to policy reforms in response to the crisis and in improving targeting and monitoring of social safety net programs, partly financed by the Asian Currency Crisis Support Facility (ACCSF). The TA grants to Indonesia reached a cumulative total of \$153 million at end 1999.

## 2. Issues in Project Implementation

34. To date, ADB has postevaluated 81 projects in Indonesia of which 74 projects or 91 percent were rated “generally successful” or “partly successful”, and six projects or 8 percent as “unsuccessful.” Indonesia's project implementation performance is slightly better than the Bank-wide average, i.e., 89% "generally successful" or "partly successful," projects and 11% "unsuccessful" projects. Notwithstanding the generally good performance, most postevaluated projects suffered from delays in implementation related to recruitment of project staff and consultants, procurement, land acquisition and inadequate counterpart funds. To address these implementation issues, the Government and ADB have been undertaking annual reviews of the portfolio since 1994. In 1998 and 1999, the Government and ADB undertook comprehensive reviews of the portfolio of ADB-assisted projects aimed at reprioritizing project activities, addressing implementation issues especially for slow-moving and poor performing projects, and alleviating counterpart fund constraints. These reviews resulted in loan cancellations \$1,300 million.

35. Drawing on the successful outcomes of the comprehensive portfolio review in 1998 and 1999, ADB and the Government have developed a sector-based approach to portfolio management that is being implemented from 2000 onwards. This approach is aimed at addressing sector-wide implementation issues systematically and reflecting more effectively the feedback from ongoing project reviews on future operations in a sectoral setting.

36. Effective implementation of the restructured portfolio is critical to accelerate utilization of the development resources already committed by ADB. The Government has actively pursued the recommendations on improving portfolio performance. Contract award responsibility has been substantially delegated to the implementing agencies. A new national guideline on public sector procurement was recently issued that would further improve transparency and accountability during project implementation. In addition, the Government has been actively addressing the issue of timely submission of audited financial accounts to ADB. In March-May 2000, ADB and the Government undertook a parallel exercise of ADB country portfolio review mission (CPRM) and a joint exercise with World Bank and Japan Bank for International Cooperation for country portfolio performance review (CPPR). The joint review addressed the major issues encountered in project implementation with a view to further streamlining the related policies and procedures in implementing the new national procurement guidelines. The joint review also deliberated on the various measures needed to improve governance in project management following decentralization and to overcome the shortage of and the delays in the provision of counterpart funding. From 2001, the sector-based portfolio review mentioned above is expected to become an integral part of the CPRM, which in turn will provide necessary inputs to the joint CPPR exercise in the future.

37. An emerging concern relates to delays in the implementation of program loans or the quick disbursing components of the SDPs approved since 1998. To varying degrees these loans experienced delays in second/third tranche releases due to problems in meeting specific program conditionalities. At end June, the undisbursed balance on quick disbursing assistance under the five loans approved in 1998 and 1999 amounted to \$660 million. Indonesia must speed up reforms to maintain access to such critical assistance.

## II. Country Operational Strategy

### A. The COS

38. In the years leading up to the crisis, ADB's operations in Indonesia were guided by the Country Operational Strategy (COS) prepared in 1994 to coincide with the launching of the Government's five-year development plan (REPELITA VI). The 1994 COS was however overtaken by events following the economic crisis in 1997.

39. The economic crisis made it imperative for ADB to adopt an interim operational strategy to address urgent issues arising from it, in close coordination with World Bank and IMF. Work on a new medium-term COS was thus postponed till such time as the recovery was underway, and a medium-term view of development issues facing Indonesia could be taken. The interim strategy, initially proposed to cover 1998-99, was extended to 2000. A three-pronged approach was envisaged in this strategy. Firstly, financial sector restructuring was given high priority. ADB provided support for reforms in financial sector governance in close coordination with other donors. This is being complemented by reforms in the restructuring of real sectors, viz., trade, industry, and energy sectors and state-owned enterprises. These reforms were intended to help restore investor confidence, improve transparency and predictability of policy-making to support economic recovery. Secondly, to address the major fallout of the crisis—the surge in poverty—ADB provided substantial support to social safety nets through interventions in health, nutrition, and education. Thirdly, to assess the continuing relevance and priorities of ongoing projects, which were designed before the crisis, comprehensive portfolio reviews were in 1998, 1999, and 2000. Portfolio performance monitoring and management is expected to remain a high priority of ADB operation over the next few years.

40. Under normal conditions a new five-year national development plan (Repelita VII) would have been finalized by the Government by 1999. But the crisis and the political transition made it necessary for the Government to adjust its medium-term planning cycle. A new five-year development program (Propenas 2001-2005) has been prepared by the National Development Planning Agency (BAPPENAS) and it is scheduled for approval by Parliament in July 2000.<sup>9</sup> In coordination with this, the ADB has also initiated work on the next COS for Indonesia, which is expected to be completed by the end of 2000. The priorities of the COS are still evolving. However, it is anticipated that its major focus will be on poverty reduction and good governance (including support to decentralization). Accordingly, support for rural development, SMEs and the social sectors would be important. Reform of the financial sector and the energy sector would also be important to sustain economic recovery. Once the development priorities of the COS are clearly established towards the end of the year, the Partnership Agreement on poverty reduction can also be signed.

### B. Progress in Implementation

41. The present Interim Operational Strategy of the Bank was designed to respond to the economic crisis in Indonesia. It was initially expected to cover 1998 and 1999. However, due to the severe impact of the crisis and slow recovery, ADB agreed to extend it to cover 2000 as well. In terms of achieving its basic objectives, i.e., supporting structural reforms in the financial sector and mitigating the adverse impacts of the crisis the strategy appears to have worked generally well, notwithstanding some delays in the implementation of some reform targets. Serious weaknesses in the governance structures of the corporate and banking sector and

<sup>9</sup> Governance reform, poverty reduction, rural development, SME development, decentralization, sustainable resource management and sustaining the recovery are major priorities of the Propenas.

capital market, which lay at the root of the crisis, have been addressed. These reforms have increased transparency and accountability, and provided the basis for restructuring private banks in particular. Overall, they have supported economic recovery.

42. The ADB's timely and substantial assistance allowed the Government to expand the social safety net to protect the poor at a time of serious fiscal stress. Innovative channeling mechanisms of the ADB social protection loans enabled large amounts of assistance to reach local levels quickly and effectively. In the health sector, ADB assistance supported strengthening of services to the poor, women and children. The access of these disadvantaged groups to food, medicines and medical services increased. In the education sector, ADB assistance helped to keep children in school. Surveys by ADB and others indicate that the assistance was effective in improving the access of the poor to basic health and education services. Without the assistance of ADB, World Bank and JBIC, the social impact of the crisis, including a much more serious deterioration in nutritional status of those at risk might have been significantly more serious.

43. The interim strategy proved to be a useful transitional strategy. Many of the critical post-crisis development issues, including governance reform supportive of economic recovery, decentralization, social protection and poverty reduction, and sustainable resource management were identified and a substantial beginning was made towards addressing them. The above assessment of progress in implementing the interim strategy is, however, a preliminary one. The ADB's Operations Evaluation Office is conducting a review of ADB's crisis-related assistance in Indonesia, which will shed further light on its effectiveness.

### **III. Sector Strategies**

#### **A. Agriculture**

##### **1. Agriculture and Rural Development**

44. A number of constraints are hindering the performance of the agricultural economy. First, public policy should be geared to catalyzing investments to support rapid agricultural growth. In particular, investments in rural infrastructure and provision of financial services in rural areas are required to support more competitive markets in agricultural products and inputs, and to provide the outer islands more equitable access to markets, information, and technology. Second, public investment and policy should endeavor to achieve greater diversity in the agricultural economy; innovative methods should be tried for improving agricultural research, extension services, infrastructure, and to manage the transition of the rice-based agriculture economy to a more diversified rural economy. Third, due to the relatively high levels of effective protection, agriculture sector was not adequately competitive. Although reforms since the crisis have made the trade regime more liberal, more reforms are needed to improve productivity, efficiency and equity in the sector. Fourth, government interventions, including controls/subsidies on input and output prices and on inter-provincial trade often promoted misallocation of resources and distorted market prices and incentives. Fifth, institutions responsible for designing and managing public investment in the sector need to be more efficient, transparent, accountable and participatory. The involvement of civil society in strengthening the pro-poor orientation of these institutions is critical. Sixth, agricultural growth, including importantly the growth of the estate crops sub-sector must be supportive of environmental considerations. Addressing these issues in the context of ongoing decentralization will pose complex challenges.

45. The policy environment for the rural sector is vastly improved compared to the precrisis period. ADB assisted the Government in comprehensively reviewing the agriculture sector strategy in 1997/98. The review proved quite opportune. Many of the recommendations of the review were reflected in the comprehensive economic reforms that the Government implemented in the aftermath of the crisis. Key policy reforms in the agriculture sector included removal of monopolies, freer international trade in agricultural commodities, removal of restrictions on internal trade and reduction of taxes and levies, rationalization of the operations of BULOG, and removal of subsidies on agricultural inputs. The impending administrative and fiscal decentralization, which aims to provide local governments larger share of national revenues and greater control over their budgets, is expected to reduce remaining local taxes and levies that still distort the incentive system.

46. Agriculture and rural development plays a central role in the Government's poverty reduction strategy. ADB will continue to provide substantial financial and policy support to the sector. ADB operations will contribute to rural poverty reduction by providing assistance for improving agricultural productivity and generating incomes in rural areas. Support will aim at identifying the main problems and removing the constraints facing poor farmers, including limited access to capital inputs, markets, and technology. Technical advisory support will be combined with investment operations to support sustained growth of agriculture and rural sector, developing a diversified rural economic base, and increasing employment opportunities in rural areas to reduce rural poverty. Policy support will take a broader and more strategic view of the sector as a whole.

## **2. Forestry and Natural Resources**

47. The issues in this sector (see paras.21 to 24) call for the adoption of a holistic and proactive approach towards resource management. In view of the changing policy and institutional context, the primary responsibility for resource management will rest on local governments and communities. The transition from extraction to sustainable management and from a centralized to a decentralized approach will require reassessment and substantial changes in policies and institutional arrangements. In addition to the increased demand pressures from the economic recovery, natural resources will face risk of over-exploitation by local governments, in an attempt to maximize short-term revenues, and of weak management and enforcement in the absence of adequate skills in local governments. Among the most urgent priorities to be addressed by the decentralized natural resources management will be forest fires and sustainable forest management. They not only represent major economic and revenue loss, but are also rapidly and irreversibly damaging the remaining forests.

48. The State Policy Guidelines for 1999-2000 stipulate that natural resources should be managed to ensure that their carrying capacity is preserved; provide benefit for the welfare of present and future generations; and protect the national biodiversity wealth. The Guidelines require the enactment of legislation for the gradual delegation of authority for managing natural resources to local government level, giving special attention to the empowerment of local communities, traditional institutions, and specialized NGOs. In the forestry sector, in September 1999 the Government revised the Forestry Law (41/99), purportedly moving from a policy of forest utilization to forest management. In the water sector, the Government is currently committed to a wide range of policy reforms outlined in the Water Sector Adjustment Loan policy agenda. In 1999 the Government created a Ministry of Sea Exploration and Fisheries, based on a vision of the sea as the nation's future. The sector policy statement includes efficient and sustainable management of maritime resources and the rehabilitation of damaged coastal and marine ecosystems, through improved spatial planning.

49. ADB will support the decentralization of Government functions through appropriate capacity building measures for environmental management at the provincial and district levels. The support will aim at strengthening local government agencies' capacity and increasing beneficiary participation for terrestrial and marine resource management, bio-diversity conservation, and mangrove and coral reef rehabilitation. ADB will carry on its capacity building support started in 2000 for the decentralized management of marine and coastal resources, which will support the establishment of an integrated marine and coastal resources management planning system, and the strengthening of the new Ministry of Sea Exploration and Fisheries. Support will also be provided for integrated river basin management, cost recovery, and operations and maintenance in irrigation and water resources development in coordination with other agencies, and in line with the Bank's Water Policy. ADB will explore, in collaboration with other agencies, opportunities for assisting in sustainable management of forestry resources, including specific efforts to address forest fires and haze pollution, to limit the size of forest concessions and educate concessionaires on the importance of conservation, to provide support to smaller companies/cooperatives, and to reduce the overcapacity of the wood industry. Specific assistance will be provided to identify constraints at the district level, and provide recommendations for the successful devolution of responsibilities for natural resources management to the districts.

## **B. Infrastructure**

### **1. Energy**

50. In the electricity sub-sector, the Java-Bali area of Indonesia presents significantly different challenges compared to the outer islands. The Government announced the Power Sector Restructuring Strategy in 1998. That strategy supports establishment of a competitive market for electricity in Java-Bali. Assisting the implementation of the Government's Power Sector Restructuring Strategy is the key aim of ADB sector operations. ADB will assist the Government in divesting its current generation and distribution responsibilities to the private sector and ensuring that market participants adhere to the norms of fair competition. In line with this strategy, ADB approved the Power Sector Restructuring Program Loan and an accompanying TA Loan in 1999. The forward assistance program envisages continued loan and technical assistance support for the reform agenda. The key elements of the reform agenda for establishing a competitive electricity market include: (1) separation of generation, transmission, and distribution functions, (2) creation and ultimate privatization of several competing generation and electricity supply companies, and (3) establishment of a capable and independent regulatory body.

51. The growth of infrastructure in outer islands has been slower than in Java-Bali. Electricity use is not as widespread in outer islands. Given the low level of electricity consumption in outer islands, and the impediments to introducing the full cost recovery principle there, the public sector may need to shoulder the major burden of power sector development in outer islands for some more years. Consistent with ADB support for the Government's resolve to promote equity in economic growth and regional development, ADB plans to implement investment projects in the power sector in outer islands. Within the framework of a least-cost development plan, the use of renewable energy sources like geothermal, mini hydropower, solar and biomass will be specifically explored and prioritized to provide improved access to power in off-grid locations. The ongoing power sector restructuring recognizes the need for such a development approach in outer islands. The state-owned power utility is being unbundled in to separate companies, those in Java-Bali will participate in a market and the outer island

company will avail public funds for strengthening the existing networks and increasing access to electricity.

52. Indonesia's gas resources provide an environment-friendly and efficient source of power supply. At present, ADB is providing technical assistance for development of an appropriate policy and regulatory framework for the gas sector which will promote increased domestic utilization of Indonesia's natural gas resources as well as efficiency improvements in the gas sector. The reforms will help mobilize the financing required for further development of the country's gas infrastructure. Indonesia is still in the process of developing a trunk gas transmission pipeline system. Development of such a system has strategic and long-term implications with regard to the overall development of the gas sector as envisaged by the Government. Government participation is, therefore, required to ensure that its sizing and configuration serve long-term objectives. At the same time, the participation of the private sector in the development of all gas transmission pipeline system should be maximized, and ADB support to establish private/public sector partnerships in this regard will be provided.

## **2. Transport**

53. The crisis has warranted a major shift of priorities in the development budget towards strengthening social safety nets and supporting financial and corporate sector restructuring. However, an adequate level of public investment is required in the transport sector to preserve physical assets and to address gradually recovering demand for transport services with the onset of economic recovery. Assistance in rehabilitating the severely deteriorated road network in areas where economic activities are expected to recover soon will be needed. Investment in rural roads will be required to promote sustainable rural development and contribute to reducing poverty through employment generation. It is also necessary to address policy issues including appropriate budget provision and user charges for operation and maintenance of the transport infrastructure, as well as to support the decentralization of Government functions in respect of transport services to the provinces and districts.

54. The Government has cut back outlays in this sector substantially following the crisis limiting commitments mainly to rehabilitation. This approach will continue over the medium term, while policies to improve the institutional framework for designing and managing transport sector projects through decentralized administration are put in place. Central to these policies will be governance reform.

55. The ADB supports this basic approach of highly selective assistance to the transport sector, focusing on areas with relatively underdeveloped transport infrastructure. In sea transport infrastructure, public investment would be considered only in cases where remote hinterlands need to be opened and critical inter-island transport services need to be protected. In general ADB's assistance in the sector will facilitate public-private partnerships. The ADB will provide advisory assistance to strengthen institutions and policies to support decentralization of the transport sector. The policy framework for financial sustainability of transport sector investments needs to be reviewed and improved in the aftermath of the crisis. ADB's TA program also supports adoption of a regional socioeconomic development approach to investment in transport infrastructure in the context of the Government's policy of decentralization. The TA program will also assist in accelerating the implementation of policy reforms on commercialization and privatization of transport service provision, and on fostering public-private partnerships in infrastructure development in road, air and sea transport.

### **3. Finance and Industry**

56. Restructuring of the financial sector holds the key to sustaining the economic recovery and return to sustained growth in Indonesia. The ambitious reform and restructuring program initiated in the financial sector since the crisis struck has progressed, although its pace has been uneven. Among key issues in the unfinished agenda of reforms in the sector are the recapitalization of remaining state banks, the reform of non-bank financial institutions, and further strengthening of prudential regulation and effective supervision. Related issues of corporate debt restructuring—its slow progress, the enforcement of the bankruptcy law and asset recovery by IBRA are also major issues that need to be addressed.

57. The Government expressed strong commitment to restructuring of the sector and quickly negotiated a new three-year reform program under the EFF of the IMF in January 2000. The bulk of the EFF covers financial sector restructuring and reforms. However, the pace of reform in early 2000 was slow, forcing a delay of the second tranche release under the IMF program. However, since April the Government has stepped up reform efforts and the reform process is back on track.

58. Over the medium-term, ADB's objective in the sector is to continue to promote good governance to achieve a more stable and efficient financial sector. While the IMF and the World Bank are focusing on support for banking sector restructuring, and strengthening of the central bank, ADB's focus will be on supporting the restructuring and transformation of the new regulatory institution for financial markets, and on reform of the nonbank financial sector. ADB reforms in this sector will address governance reform in the capital market in a comprehensive manner. ADB will also address issues of viability of the pension and insurance subsectors. Development and exploitation of the contractual savings subsector—a major supplier of long term funds—is critical to liquidity in the markets, and to broadening social security coverage on a sustainable basis. ADB assistance will also address these concerns.

59. In the industry sector, ADB's strategic emphasis has been to support industrial deregulation and liberalization to market competitiveness and export orientation. In continuation ADB's assistance over the medium term will further strengthen the policy and regulatory framework for SME financing and promotion of market competition. Strengthening of the incentive framework of SMEs and strengthening of financial and advisory services to SMEs will also be supported by ADB. Particular attention will focus on employment generation in the SME sector as a means of addressing poverty reduction. Improving the efficiency and corporate governance of state-owned enterprises (SOEs) will also be addressed. In pursuing these operations, the use of various ADB facilities including the equity window and guarantee operations is anticipated.

### **C. Social Infrastructure and Environment**

#### **1. Health and Nutrition and Education**

60. With the onset of the economic crisis, an urgent priority has been the strengthening and expansion of social safety nets to protect the poor. Despite the progress achieved under the Government's health and social protection sector development programs supported by ADB, further development and refinement of the social safety net mechanisms is still necessary to ensure the effective social protection. There is also a need to better target and improve access of the poor to basic social services such as education, health, and nutrition. A characteristic of the social sectors in Indonesia is their impressive quantitative performance but relatively poor

quality reflecting under-investment and the need for reforms, including public-private partnership and greater involvement of beneficiaries in these basic services. Poor quality of these services and their unresponsiveness to demands of local population have often been a cause of low utilization of the services. The consequences are generally lower education and health status indicators compared with neighboring countries.

61. ADB will continue to assist in improving the efficiency and targeting of the social safety net programs. Future support will also aim at helping the Government to improve quality, effectiveness and cost-efficiency of education and health services delivery, and will include targeted interventions to extend and maintain access to essential education and health services for the poor. ADB's support to decentralization of health services will assist the devolution of responsibilities and accountability in planning, implementing and evaluating to local governments. The assistance will help to prevent possible adverse impacts in education, health and nutrition status of local populations, following decentralization. ADB will also support decentralization through capacity building activities, both at local and central levels. This will include redefinition of the role and the reorganization of the Ministry of Health and the Ministry of National Education, in line with the new regional autonomy legislation. ADB will continue support to the integration of public nutrition and women's health policies and programs through the public health service system and inter-sectoral partnerships led by the Ministry of Health. This will reinforce the initiatives taken through the Health and Nutrition SDP.

62. In the health sector, with the economic crisis bottoming out, the priority of the Government is to transform the social safety net program to a sustainable and well-targeted program aimed at the poor and vulnerable groups and to improve the quality of health services. The Government's decentralization program in the health sector aims at increasing local involvement and responsibility to address these public health issues more effectively. Decentralization will also aim at achieving cost-efficiency at provincial level. The implementation of the decentralization program is, however, not without risks. The devolution of financial and technical responsibilities to local governments carries the risk, especially during the transition period, of interruptions in the provision and quality of basic social services. This could adversely affect the poor. To address such risks during the transition, the Government will establish quality improvement programs. The programs will help strengthen medical, technical and administrative skills to overcome human resources constraints at local levels, as well as improve the performance of health services.

63. In the education sector, with the onset of recovery, Government's policy aims at maintaining the access of the poor to basic education and at institutionalizing the reforms initiated under the ADB-assisted Social Protection Sector Development Program. The Government's priority program is to achieve nine years of universal basic education by 2004. In addition, the Government's policy will focus on decentralization as a means to build a more integrated education system at the local level, capable of responding effectively to local needs and conditions. Decentralization is expected to improve the quality of education and access of the poor. For higher education, the Government has developed a "Framework for Long Term Higher Education Development–1996-2006," which addresses the need for a dynamic management system that is appropriate in an environment of rapid change in higher education requirements. The main goals are to improve the governance and management, upgrade the relevance and quality, and attain geographical and social equity in Indonesia's higher education.

64. During the crisis ADB focused its assistance on protecting the poor by maintaining basic education enrollments, while supporting reforms designed at strengthening decentralized delivery and management of education. Forthcoming assistance will help sustain the gains

achieved in policy and procedural improvements along with tighter targeting. This will help increase enrollment and retention rates of children from poor families. Decentralization of basic education will be a major area of ADB assistance. It will address the need to develop local management capacity and to ensure better provision of basic education for the poor in the context of decentralization.

## **2. Urban Development**

65. A major priority during the crisis, was the revitalization of local labor markets and offsetting the hardships faced by poor households in the urban sector, while preserving access to essential services including roads, water supply, drainage and sanitation. At present, decentralization is the key institutional reform that needs to be supported. Accordingly, the functions and responsibilities of local urban governments will have to be clearly delineated and strengthened. The local urban governments and service agencies will have to be restructured and substantially strengthened to improve organizational efficiency, service delivery and establish sound financial planning and management. Human resources will also need strengthening. There is a need to enhance institutional capacities to: (i) deliver key urban services to the local constituents; (ii) improve accountability and transparency of governance; and (iii) efficiently address poverty. Also, the social safety net mechanisms using block grants, developed during the crisis, will need to be improved and refined through greater beneficiary participation, better targeting and tighter monitoring. These mechanisms will continue forming the basis for planning and implementation of local infrastructure projects under the decentralized environment.

66. Key sector reform issues include improvement of access and quality of water drainage and sanitation services for urban users; restructuring financial and technical management of the services, the true costs of which need to be passed on to the user; and enhancement of living conditions of urban poor households. Policies therefore need to be focused on: (i) community participation to ensure a demand driven approach; (ii) increased public-private partnerships in basic services (iii) improved efficiency in the operation and maintenance of existing, and new facilities; (iv) greater access of the poor to basic services; (v) balanced regional development; and (vi) enhancing the capacity of local governments in administrative functions, revenue generation, fiscal planning and budgetary procedures.

67. ADB's assistance in the urban sector will support the Government's decentralization policy, and target its urban sector assistance at poverty reduction through social development initiatives. The assistance will build on a strong underpinning provided by the planned program of economic and sector work, including the development of an urban sector strategy and studies on urban poverty housing finance for the urban poor, and the water supply and sanitation sector. ADB's geographic coverage will specifically target poor regions of the country. A community development approach will be adopted, aimed at strengthening the institutional, financial, and management capabilities and capacities of local governments, and improving local governance. ADB will encourage public-private partnerships for urban infrastructure and service delivery, and ensure the involvement of local communities in the development, planning, and implementation process. ADB's interventions will specifically target the urban poor to increase their access to basic infrastructure and essential services and improve their living conditions. Particular attention will be given to urban environmental management; water supply, including restructuring the water supply enterprises (PDAMs); sanitation, drainage, and solid waste management. Attention will also be given to shelter and slum upgrading for the poor.

### **3. Environment**

68. As stated above, sustainable management of the environment is a key challenge facing Indonesia. The economic recovery is likely to put renewed pressure on environmental resources unless management practices improve. The decentralization process, while presenting opportunities for improved management of the environment also poses risks. The human resource constraints at the local level, and the efforts to maximize local revenues to support economic development could undermine environmental protection. The Government has given high priority to sustainable environment management. The fiscal and administrative decentralization of environmental functions adopted by the Government, has potential for improved environment management and enforcement through increased transparency and accountability as well as stronger community participation. At the same time, the Government is maximizing its efforts to enforce a change from a “pollute now-pay later”, to a “polluters pay” principle, through the internalization of pollution costs and market-based instruments.

69. Strengthening the capacity of local governments to adopt sustainable environment management practices will be the focus of ADB assistance. Such practices are key for implementing and enforcing environmental regulations. ADB will support the local government environmental management agencies (BAPEDALDAs), since these district level agencies will bear the primary responsibility in environment management under the Government's decentralization program. ADB's assistance in the environment sector will also support, through technical assistance, the development and implementation of market-based instruments and incentives for pollution control. Other key priorities for ADB assistance will include monitoring of environmental degradation and use of natural resources, and enforcement of environment protection measures. Such advisory assistance will continue to be formulated in close coordination with ADB's support to the natural resources and urban development sectors.

#### **D. Governance Dimensions of ADB Operations**

70. Support for governance reform and sound development management has been a major thrust of ADB's operations in Indonesia. Several recent policy-based loans support governance reform in the financial sector, corporate governance reform, public financial management, addressing market distortions and institutional impediments, and assisting effective implementation of the Government's decentralization agenda. These loans include the Financial Governance Reforms Sector Development Program (FGRSDP) for \$1.5 billion approved in June 1998, the Power Sector Restructuring Program for \$400 million approved in March 1999, the Community and Local Government Support Sector Development Program for \$320 million approved in March 1999, the Industrial Competitiveness and Small and Medium Enterprises Development Program (ICSME) for \$300 million approved in March 2000 and SOE Governance Reform Program expected to be approved shortly.

71. The ADB has also reoriented its TA program to emphasize governance-related policy advice and capacity building, and by supporting greater involvement of civil society in development management. The recently approved TA projects have significant governance focus. Three TAs aim at improving public financial management; two TAs support preparation and implementation of detailed decentralization policies and procedures; and four TAs involve NGOs and community groups in monitoring and evaluating social safety net programs. Further, one TA supports corporate governance reform in state-owned enterprises, and another TA supports establishing an independent anticorruption commission.

72. Policy dialogue is another instrument for ADB to engage the Government in governance reform. An important outcome of the policy dialogue on governance reforms is the adoption and implementation of an Anticorruption Action Plan for Indonesia, which was formulated in May 1999 at the request of the Government and based on the ADB's Anticorruption policy. The action plan addresses five critical areas—development of competitive markets, promoting efficient, effective, accountable and transparent public administration, improving the quality of policy dialogue on governance issues, supporting specific anticorruption efforts on a case-by-case basis, and ensuring that the ADB-financed projects are implemented in a corruption-free manner.

73. To enhance participation, a major priority of ADB's assistance is the support for the Government's ambitious decentralization program. Most ADB loans approved in 1999 and 2000 have components to support decentralization through capacity building of local governments, and increased community participation and civil society participation. The support to decentralization will continue in 2001-2003 particularly through the social sector projects. The future support to decentralization would require substantial streamlining and better coordinated in the forward program.

74. The ADB's assistance to decentralization also involves greater involvement of NGOs and local community organizations in various sectors. The ADB also is working with the Government to reexamine the capacity building activities and implementation arrangements of all ongoing projects to assess their appropriateness in the decentralized framework. The aim is to support the Government's efforts for orderly transfer and delegation of its functions to local levels and to ensure more participatory development management in the future.

75. To establish accountability and the rule of law in commercial transactions, a major priority of ADB's overall governance reform work in Indonesia will be to strengthen corporate governance. Reform in this area was initiated with the FGRSDP in 1998. This is being continued under the ICSME approved in 2000 and the SOE Governance Reform Program also in 2000. Further support to this area will ensue in 2001 and 2002 under the Non-bank Financial Sector Program loans. ADB will also assist in developing a comprehensive national corporate governance reform agenda in close coordination with other donors (see below). The assistance will facilitate a consultative and participatory process for the deliberation of the corporate governance reform issues and to strengthen the institutional capacity for adopting, disseminating, and enforcing sound corporate governance structures and practices.

76. To improve transparency, anticorruption, and improving public sector management is a further focal area of the ADB's program of assistance. Implementation of ongoing anticorruption operations will be strengthened and transparent public procurement will be supported. This includes assistance in establishing Indonesia's independent anticorruption commission and strengthening public expenditure management. Assistance in 2000 includes supporting the Office of the Attorney General to strengthen its capacity to combat corruption and improving public sector procurement practices. The ADB-Government Anticorruption Action Plan adopted in 1999 will also be reviewed and revised to draw on the lessons learned during implementation so far and accordingly focus ADB's anticorruption work.

77. To improve predictability, ADB is supporting the revision of legal and regulatory frameworks throughout its sectors of assistance. Examples of these are the ongoing TA support for financial regulatory reforms and for deregulation and competition, or under the power sector development program, the water supply and sanitation reforms and the market-based resource management TAs planned for 2001. With the help of such ADB assistance, the Government is

formulating many market-related laws and regulations and is working to establish a legal system that is responsive to the needs of a market economy.

78. The World Bank, UNDP and ADB jointly launched the “Partnership for Governance Reform in Indonesia” with the Government and the civil society in April 2000. The Partnership aims to address the multi-faced governance reform challenges in a coherent and coordinated manner. The Partnership seeks to coordinate activities of the Government, civil society, and donors by monitoring governance efforts and ensuring consultation among stakeholders. The key areas envisaged in the Partnership include corporate governance, legal and judicial reforms, civil service reforms, reform of regulatory and administrative institutions, strengthening of civil society, and regional autonomy. As part of the Partnership initiative, ADB has taken the lead role in assisting the Government to coordinate donor support in the area of corporate governance reform, while continuing to assist in other areas of governance reforms. Strong Government ownership will be the key to the success of the Partnership. The Partnership is evolving in the direction of full Government leadership and stewardship over the process within a short period.

#### **E. Gender Dimensions of ADB Operations**

79. ADB's operations during the crisis addressed the protection of women's health, the gains made in reducing maternal mortality and access to reproductive health care. ADB will continue these efforts in future operations in the health sector through its assistance under the Decentralized Health Services Project. Significant gender gaps persist at higher and tertiary education levels, which will be addressed under the assistance for Technological and Professional Skills Development. In the past, development priorities have largely been defined through a mechanism that often confined women's concerns to narrowly defined women's programs based on a traditional stereotypes. ADB's operations recognize the importance of women's productive role in the economy and the need to increase their access to income generation and decision making opportunities. This is reflected in the design of agriculture and rural development projects and in the assistance for urban poverty reduction and rural poverty reduction projects. Sector work will review the public institutions responsible for women's affairs in light of the Government decision to streamline and decentralize these. This will enable ADB to engage in policy dialogue to promote and mainstream gender development and empowerment.

80. ADB operations with respect to gender issues will seek to level the playing field between genders. The ICSME in 2000 initiated this process by removing restrictions on SME development—a sector in which women play a substantial role. Further operational support will require strengthening the information base on the extent and nature of women's participation in the real and service sectors. To facilitate this the Government must remove barriers and improve access to available information. The results of the 1999 SUSENAS and other quantitative and qualitative information sources will be analyzed to assess women's participation in economic development activities, and draw implications for policies to address gender concerns.

#### **F. Private Sector Operations**

81. ADB's private sector operations in Indonesia have focused mainly on development finance and capital market development. Assistance was also provided for manufacturing sector until 1995 when the strategy for private sector operations shifted away from direct assistance for this sector. For the future, the thrust of ADB's private sector operations in Indonesia will

continue to be on financial intermediation. Efforts will be made to resume and broaden private sector participation in infrastructure and public-private partnership in social sectors. Support on a selective basis for implementing the Government's specific programs for privatization of state-owned enterprises may be considered. Assistance for the industrial sector, particularly small and medium-sized enterprises, will be undertaken indirectly through funds and other appropriate financial intermediaries. To support the restructuring of the financial sector, ADB will consider investments in partnership with international strategic investors aimed at facilitating the consolidation and strengthening of local banks, non-bank financial institutions, and insurance companies.

82. Mobilization of private sector financing will be important for future development of the transport sector. ADB supports the implementation of the policy reform agenda to commercialize and privatize transport services. In this context priority toll roads with significant economic benefits will be considered. Supporting the rehabilitation and expansion of the airport sector through financial support for public-private partnerships and privatization will also be considered.

83. The ADB supports the establishment of a competitive electricity market in the Java-Bali grid and increased private sector participation in power generation and distribution. Projects, which support these objectives, may be considered for financial assistance.

84. There is a need to expand and upgrade telecommunications and related services to enable Indonesia to take advantage of the benefits of the information technology revolution. While telecommunication services are readily available in Jakarta and east Java, the coverage and service level outside these regions are still inadequate. ADB private sector operations will consider supporting telecommunication and related projects that: (i) enable the development of a more competitive market for goods and services; (ii) increase the geographical coverage outside of Jakarta and eastern Java to reduce the disparity in access to these services; and (iii) have a clearly established need for ADB assistance.

85. The ADB is currently providing technical assistance to address restructuring of the water supply, sewerage and sanitation sector. The quality of services and financial performance of the existing public water utilities are neither satisfactory nor sustainable. ADB private sector operations will consider supporting increased private sector participation in the water sector through public-private partnerships and privatization to: (i) enhance operation and maintenance standards; (ii) increase coverage; and (iii) ensure financially sustainable operations. ADB is currently providing technical assistance to the Government on the proposed privatization of the Pekanbaru water utility. The Pekanbaru project is seen as highly demonstrational and could, if implemented successfully, enable further privatization of water supply services in Indonesia. ADB is also providing technical assistance to help the Government review privatization options for the remaining public water utilities and future ADB private sector operations will consider support projects targeted for privatization as a result.

86. The Asian economic crisis has negatively impacted the performance of ADB's investments and loans to the private sector. The portfolio consists mainly of investments and loans to the financial and manufacturing sector. The painfully slow corporate restructuring, including the slow divestments of IBRA's assets continue to impact negatively on the portfolio. Proper implementation of policy, regulatory and judicial reforms are also required to facilitate corporate restructuring and rectify the prevailing poor investment climate to increase foreign direct investments. Credible implementation of the new bankruptcy law and improved corporate transparency, including the introduction of international accounting standards are also crucial in

this regard. ADB is taking a long-term view of these complex issues and facilitating restructuring where viable and appropriate. Since the crisis, ADB has completed two settlements and signed an MOU for restructuring of a third project under the Jakarta Initiative Task Force. Restructuring negotiations on two more projects under the Jakarta Initiative are underway. ADB will continue to pursue restructuring or liquidations, as appropriate, of non-performing assets, and support the implementation of proper corporate governance standards.

#### **IV. Regional Cooperation**

87. The crisis in 1997 slowed down the subregional economic cooperation activities involving Indonesia and the other crisis affected countries in the region. However, with recovery underway in the region, interest in resuming regional economic cooperation activities between the crisis-affected countries is returning. ADB support through a regional technical assistance (RETA) is enabling Brunei Darussalam, Indonesia, Malaysia, and Philippines to identify areas of future cooperation for the development of small and medium scale enterprises (SME) in the BIMP-EAGA.<sup>10</sup> ADB's resources will support the creation of an enabling environment and formulation of effective strategies for sustainable development of BIMP-EAGA. A follow-up RETA is being planned to further develop and promote regional cooperation, helping identify sectors and areas other than SME, where complementarities among BIMP-EAGA countries can best be supported with a view to the overall socio-economic development of the region.

#### **V. Donor Activities and Aid Coordination**

88. The ADB has worked closely with the IMF, the World Bank and other donor agencies to support the Government in addressing various dimensions of the crisis. Several reform measures in ADB programs have been included in the IMF-EFF policy reform matrix, following successful similar collaboration during the 1998-2000 IMF Standby arrangement. Thus, ADB continues to participate in the joint reviews with the IMF and the World Bank of the implementation of the Government's economic reform and recovery program. ADB, IMF and World Bank are also working closely with the Government of Japan and JBIC particularly in cofinancing initiatives under the New Miyazawa Initiative (NMI). A summary of overall external assistance to Indonesia is given in Appendix 3.

89. At the request of the Government, ADB has taken the lead role in coordinating donor activities in the area of SME development in response to the crisis while the World Bank has taken the lead role in the social safety nets.<sup>11</sup> The main responsibility for financial sector work has been shared between the two institutions. Looking ahead, the ADB will concentrate more on the non-bank financial sector and capital market reform, while the World Bank will continue to support the banking sector. The IMF will target assistance to the banking sector, the central bank, and monetary and fiscal reforms. ADB coordinated closely with the IMF and the World Bank in processing and implementation of TA operations in the financial sector and such coordination will continue. In other sectors, ADB has closely coordinated with other donors in respect of joint sector work. In the education sector, World Bank, UNICEF and ADB shared sector assistance on a geographical basis. In the power sector, ADB has taken the lead in addressing key structural issues, while the World Bank concentrated on the rehabilitation of PLN—the power utility.

<sup>10</sup> Brunei Darussalam, Indonesia, Malaysia, and Philippines East ASEAN Growth Area.

<sup>11</sup> In the provision of project support for social safety nets the World Bank followed the model developed by ADB during the Social Protection SDP.

90. As two major donors to Indonesia, ADB and the World Bank have been closely coordinating in Country Portfolio Performance Reviews (CPPR) since early 1990s. In 1998, CPPR was made a joint exercise of the ADB, World Bank, and the Government. World Bank's comprehensive portfolio review in 1998 and 1999 aligned its methodology to ADB's to ensure consistency in approach between the two institutions. In March-May 2000, JBIC joined ADB and the World Bank in the joint CPPR to address issues common to projects financed by the three institutions; the combined loan portfolio of these three institutions accounts for over 90 percent of total externally financed projects. These three donors continue to coordinate closely in supporting Indonesia's development following the principles of CDF.

91. Indonesia faces a challenging agenda of governance reform. Given the complex agenda and the active presence of many donors in this area, close coordination between donors is essential. To facilitate such coordination, the World Bank, UNDP and the ADB founded the Partnership to Support Governance Reforms in April 2000.

## **VI. Cofinancing and Catalyzing External Resources**

92. Cofinancing has been an integral part of ADB's operations in Indonesia. ADB has pursued official cofinancing and is closely collaborating with export credit agencies as well as private sector financial institutions. ADB will maintain this cofinancing strategy over the medium term. In the near term, seeking new official cofinancing may prove difficult for ADB in view of the ongoing external debt restructuring.

93. ADB has further strengthened its relationship with major bilateral cofinanciers such as Japan, Australia, Germany, UK, and USA. In response to the crisis, JBIC provided substantial additional financial resources to assist critical reforms in the power and health and nutrition sectors; to support the Government's decentralization process; and to implement social safety net programs. As the bilateral debt rescheduling process proceeds, JBIC is expected to consider financing vital structural reform programs and projects in the social, agriculture, SME, and environmental sectors, including projects with significant poverty reduction components. ADB will continue to explore cofinancing opportunities with KfW and GTZ in the education, environment, and health sectors, and in governance reform. AusAID has expressed strong interest in working with ADB through parallel cofinancing of projects relating to governance reform, education, health, sanitation, agriculture and rural development, and environment. Opportunities for collaboration between ADB and DFID (United Kingdom) in governance reform, and environment and health projects are also likely. ADB will continue to maintain close cooperation with the Government of Indonesia and the Dutch Embassy to ensure that ADB projects are adequately considered for financing under the Dutch grant funds. The Austrian Embassy in Jakarta has also indicated its initial interest in cofinancing social sector and infrastructure projects with the ADB.

94. The ADB together with private sector financial institutions will continue to identify opportunities to utilize ACCSF guarantees for commercially viable projects considered vital to sustain the economic recovery. Potential areas include the SME, energy/gas, and infrastructure sectors.

## VII. ADB's Operational Program

### A. The Proposed Program

95. Guided by the Interim Operational Strategy, ADB's operations in Indonesia in 1998-1999 shifted from project lending to policy-based lending. In the two years, ADB approved five major policy-based operations amounting to \$2.82 billion.<sup>12</sup> The quick-disbursing components of these five loans amount to \$2.18 billion, of which \$1.47 billion was disbursed as at end June 2000. ADB continues to closely monitor the implementation of the ongoing policy-based loans to ensure that the reform agenda is effectively implemented.

96. The ADB's 2000 program includes six firm projects. The program supports poverty reduction, promotes decentralized social services, governance reform, and sustainable resource management. It also supports economic recovery and social development. The 2000 lending program represents a good starting point for transition of ADB's operations towards medium term strategic priorities, which will be assessed in preparing the next COS. The Government's Propenas reflects similar medium-term priorities. The program also reflects a declining level of the quick-disbursing loans in view of the reduced need for such assistance as economic recovery takes hold.

97. The ADB's lending and TA program for 2001-2003 has a stronger focus on poverty reduction while building on ADB's work on good governance in finance and industry, and social development in recent years. The program indicates further decline in quick-disbursing assistance, reflecting the continuing shift from crisis-response operations to normal operations. However, a more gradual reduction may be needed, given that the economy is still fragile and the country's fiscal weakness is likely to persist over the medium term.

98. The loan and technical assistance pipeline for 2001-2003 is presented in Appendix 4, and a breakdown by type and sector is shown in Appendix 5. The lending and TA program is, however, tentative. It has been agreed with the Government that the lending and TA program shall remain tentative till the next COS is completed towards the end of 2000. The program for 2001-2003 will be reviewed and firmed up during the next round of country programming in early 2001 to allow the priorities of the next COS to be reflected in the program. Subject to this provision, project profiles for "firm" 2001 loans are contained in Appendix 6. A summary of the tentative lending and TA program is shown in Table 1.

99. The ADB's Graduation Policy classifies Indonesia as a Group B2 country, which entitles Indonesia to limited ADF access with the stipulation that it will be on a watchlist for graduation out of ADF. The crisis has been a serious socio-economic setback for Indonesia. The per capita GDP has declined sharply (to about \$640 at present from about \$1,000 in 1997). The savings rate has plummeted by half, real wages remain substantially below their pre-crisis levels and public debt has ballooned along with the debt service ratio. Total public debt is about 93 percent of GDP, excluding the Government's contingent liabilities. The consequent severe fiscal stress will persist over the medium term, constraining Indonesia's ability to absorb external assistance and to access foreign capital markets. Moreover, Indonesia is not eligible for debt relief under the World Bank's Highly Indebted Poor Countries (HIPC's) initiative. These considerations provide the justification for granting Indonesia limited access to ADF resources over the 2000-2002 period. The World Bank has restored limited IDA access to Indonesia, while the Paris Club

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<sup>12</sup> These do not include two small project loans amounting to \$39 million, which were approved in early 1998.

of bilateral donors has provided substantial relief through debt rescheduling in 1998 and 2000. Subject to resource availability, the program includes an ADF allocation of \$100 million for 2000 and \$150 million per year for 2000-2002 to be allocated to projects that have significant poverty reduction focus.

Table 1: Lending and Technical Assistance Program, 1999-2003

A. Public Sector Lending Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program <sup>a/</sup>	6	1,020.0	7	900.0	6	800.0	7	870.0	8	900.0
ADF <sup>b/</sup>	-	-		100.0		150.0		150.0	-	-
OCR	6	1,020.0	7	800.0	6	650.0	7	720.0	8	900.0

  

B. Technical Assistance Program										
	1999 (Actual) <sup>c</sup>		2000 <sup>d</sup>		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program	19	11,274.0	23	20,175.0	15	12,000.0	11	8,550.0	3	2,150.0

<sup>a</sup> The Program comprises firm projects.

<sup>b</sup> Subject to resource availability.

<sup>c</sup> Includes \$1.0 million cofinancing from the Australian Government.

<sup>d</sup> Overprogramming anticipates possible ACCSF financing for some TAs. Also includes two supplementary TAs for \$2.150 million from AUS-Aid financing.

*Note: Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.*

## B. Strengthened Role of ADB's Resident Mission

100. The Indonesia Resident Mission (IRM) has provided important support to ADB's operations in Indonesia, focusing on project administration and coordination with the Government agencies and donor organizations.<sup>13</sup> The ADB recently undertook an operational performance audit of the IRM that confirms that it has performed satisfactorily in fulfilling the existing mandate. With the approval of the new Resident Mission Policy in February 2000, IRM's functions are being expanded to support ADB's increased country focus and client orientation and will include country economic assessments, the operational programming and overall portfolio management. IRM is also expected to play a more proactive role in external relations and information dissemination to raise ADB's profile in Indonesia. To undertake the expanded functions effectively, IRM has improved its staff skills mix initially through redeployment of two positions of economist and program officer from the ADB headquarters. The posting of a governance specialist is expected shortly. Further strengthening of IRM's role and realigning the headquarters' functions will be considered, drawing on the experience of the initial measures implemented.

## VIII. Economic and Sector Work Program

101. The ADB conducted substantial work on the impact of the crisis on the poor, women, and children as well as on the dispersion and intensity of poverty across regions. The ESW in 2000 will also develop poverty profiles at the district level including measures of wellbeing such as health, education, employment, electricity, water supply and sanitation, and housing. This

<sup>13</sup> In addition to IRM support, the Extended Mission to Indonesia was established in July 1998 in response to the crisis to assist ADB operations in the financial sector. EMI was consolidated into IRM at the end of March 2000.

ESW filled a number of important gaps and improved poverty estimation. It also provided critical information, which has been analyzed to support policy and program impact assessments. In another study, the work on poverty and social dimensions was expanded to incorporate important work of other agencies including the World Bank to provide a comprehensive assessment of poverty in Indonesia. This poverty assessment has provided the basis for preparation of the ongoing COS exercise. In 2001-2003, ESW will focus on improving poverty estimation methodology in regional units at the district and subdistrict levels. ADB will provide assistance in 2001 to speed up processing of price and wage data critical to poverty monitoring. This will be followed by an ADTA in 2002 for capacity building in policy analysis for poverty reduction in key offices including the Office of the State Minister for the Empowerment of Women.

102. The Government's decentralization program is designed to empower district level governments and provide opportunities to people at the grassroots to participate in the development process. ADB has been an active partner of the Government in moving the decentralization agenda forward. The Government is receiving advisory technical assistance from ADB for capacity building to support decentralized administrative systems and for setting up financial and budgetary systems at local government levels. ESW during 2001-2003 will provide institutional and analytical support to prepare the national and local government agencies to implement and benefit from decentralization. An advisory TA in 2001 will provide support for health sector policy reform and another TA in 2002 will carry forward the support for decentralized health services. Similar assistance for institutional capacity building and policy research is planned for the education sector. Assistance for fiscal decentralization in 2001 and public financial management in 2002 will assist the Government in strengthening the capacity of local governments in these critical areas.

103. In 2001-2003 ADB's ESW will carry forward the substantial analytical work and policy support to the Government's economic reform and recovery program since 1997. ADB has been spearheading power sector reforms and playing a key role in the design and implementation of financial sector reforms. Building on broader trade and industrial strategy studies in 1998 and on SME sector issues in 1999, ESW on SMEs will be further intensified in 2000. The work will focus on the SME development through deregulation and competition policies. Policy and sector studies to support SMEs will continue during 2001-2003. In addition, ADB will address reform issues in the capital market and the nonbank financial sector in 2001-2003.

104. As stated above, the new COS for Indonesia is expected towards the end of 2000. The ESW for 2001-2003 discussed above will thus be reviewed and redesigned during the next CPM.

## **IX. Local Cost Financing**

105. In 1999, ADB approved six loans totalling \$1.02 billion under three SDPs. Of this amount, \$680 million (or 67 percent of total loans to Indonesia) was for of program loans while the balance of \$340 million (33 percent) was for project loans. The Bank's project loans supported 49 percent of the total project costs of \$700 million (excluding program loans). This level is significantly lower than the 60 percent ceiling allowed for Group B countries. Of the total amount of project loans, \$199.8 million or about 59 percent were used to defray the local cost component of the project. The three projects with local cost financing include the Power Sector Restructuring Program (\$2.5 million), Health and Nutrition Sector Development Program (\$150.6 million), and Community and Local Government Support Sector Development Program (\$46.7 million). Local expenditures include, among others, payment of local implementation-

related activities, salaries/remuneration of foreign and domestic consultants hired for the projects, expenses related to conduct training, workshops and seminars including hiring of international resource persons, and purchase of computer software and hardware for the project.

**Table 2: Economic and Sector Work Program**

<b>ESW Areas of Focus</b>	<b>Modality</b>	<b>Division</b>	<b>Year</b>
<b>Recovery Process</b>			
1. Analytical work and policy support to economic reform and recovery program	Country Economic Reviews Asian Development Outlook (Country Chapter)	PE2 PE2/EDAN	2001 2002 2003
<b>Poverty</b>			
1. Improving poverty estimation methodology at district and sub-district levels	Staff Consultancy	PE2	2001-2003
2. Price and wage data processing for poverty monitoring	Staff Consultancy	PE2	2001
3. Capacity building in policy analysis for poverty reduction	Staff Consultancy	PE2	2002
4. Community-Based Water Supply and Sanitation Reforms	ADTA	AEWU	2001
<b>Governance</b>			
1. PDAM Restructuring and Rehabilitation	ADTA	AEWU	2001
2. Local Government Financial Management	ADTA	AEWU	2001
3. Financial Sector Reforms	ADTA	IEFI	2002
4. Public Financial Management	ADTA	PE2	2002
<b>Environment</b>			
1. Market-Based Resource Management	ADTA	ENVD	2001
2. Resource Management Reforms	ADTA	AEFM	2002
3. Natural Resource Monitoring	ADTA	ENVD/AEF	2002
<b>Sector Studies</b>			
1. Agriculture and Rural Development Strategy	ADTA	AEAR	2001
2. Inter-Island Transport Policy	ADTA	IETC	2001
3. Public Health and Nutrition Management	ADTA	AEEH	2001
4. Education Sector Policy Reform I	ADTA	AEEH	2001
5. Strengthening SME Services	ADTA	IEFI	2001
6. Energy Policy	ADTA	IEEN	2001
7. Health Sector Policy Reforms II	ADTA	AEEH	2003

## COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999	2000 (Q1)
<b>A. Income and Growth</b>						
1. GDP per Capita (\$, current)	1,043	1,155	1,073	468	690	n.a.
2. GDP Growth (% , in constant prices)	8.2	7.8	4.7	-13.0	0.3	3.2
Agriculture	4.4	3.1	1.0	-0.7	2.1	-8.5
Industry	10.4	10.7	5.2	-11.4	2.6	7.2
o/w manufacturing	10.9	11.6	5.3	-13.1	2.2	7.4
Services	7.6	6.8	5.6	-3.9	1.8	3.7
<b>B. Saving and Investment (current, % of GDP)</b>						
1. Gross National Saving	28.6	27.4	29.4	23.1	15.2	17.3
2. Gross Domestic Investment	31.9	30.8	31.8	20.0	13.1	13.6
<b>C. Money and Inflation (annual % change)</b>						
1. Consumer Prices (average)	9.4	7.9	6.6	58.4	20.5	2.3 (Jan-May)
2. Broad Money (M2)	27.6	29.6	23.2	60.4	13.3	8.8
<b>D. Government Finance (% of GDP) <sup>a</sup></b>						
1. Revenues	15.5	15.8	15.7	15.1	15.1 <sup>c</sup>	n.a.
2. Expenditures	14.9	15.6	15.7	18.8	17.4	n.a.
3. Overall Surplus/Deficit (-)	0.6	0.2	0.0	-3.7	-2.3	n.a.
<b>E. Balance of Payments</b>						
1. Merchandise Trade Balance (% of GDP)	3.2	2.6	4.6	17.9	14.4 <sup>b</sup>	15.5
2. Current Account Balance (\$ million)	-6,760	-7,801	-5,001	4,097	5,783 <sup>b</sup>	1996
3. Current Account Balance (% of GDP)	-3.3	-3.4	-2.3	4.0	4.0 <sup>b</sup>	5.1
4. Exports, \$ (annual % change)	18.0	5.8	12.2	-10.5	1.7 <sup>b</sup>	n.a.
5. Imports, \$ (annual % change)	26.6	8.1	4.5	-30.9	-4.2 <sup>b</sup>	n.a.
<b>F. External Payments Indicators <sup>a</sup></b>						
1. Gross Foreign Assets (\$ million)	18,787	25,529	21,418	23,762	27,054 <sup>d</sup>	29,251 (as of May)
(months of nonoil imports)	5.9	7.0	4.6	10.1	8.6 <sup>b</sup>	
2. External Debt Service (% of exports of goods & services)	30.3	35.9	44.5	57.8	56.8	49.5
3. External Debt (% of GDP)	53.3	48.5	62.2	146.3	103.3	370.5
<b>Memorandum Items</b>						
1. GDP (current, Rp trillion)	455	533	628	990	1,119	292
2. Exchange Rate (Rp per \$, annual average)	2,249	2,342	2,909	10,014	7,853	7,817 (Jan-May)
3. Population (million)	195.3	198.3	201.4	204.4	206.5	

GDP = gross domestic product; o/w = of which; na = not available.

<sup>a</sup> Fiscal year starts April 1, e.g. 1995 data refers to FY1995/96.

<sup>b</sup> Staff estimates.

<sup>c</sup> Refers to budget for FY1999/2000. Actual figures are not yet available.

<sup>d</sup> Ending December 1999.

**INDONESIA**  
**COUNTRY PERFORMANCE INDICATORS**

	1985	1990	Latest
<b>POPULATION INDICATORS</b>			
Total Population (millions)	164.6 <sup>a</sup>	179.4 <sup>a</sup>	206.5 (1999)
Annual Population Growth Rate (%)	2.22 <sup>a</sup>	1.98 <sup>a</sup>	1.66 (1995)
<b>SOCIAL INDICATORS</b>			
Total Fertility Rate (births per woman) <sup>b</sup>	4.1 (1980-85)	3.3 (1985-90)	2.9 (1992-94)
Maternal Mortality Ratio (per hundred thousand live births) <sup>b</sup>	360 (1984-88)	390 (1989-94)	-
Infant Mortality Rate (below 1 year, per 1,000 live births) <sup>a</sup>	71 (1986) <sup>c</sup>	71	52 (1997) <sup>a</sup>
Life Expectancy at Birth (years)	61 (1983) <sup>d</sup>	60 <sup>a</sup>	64 (1995)
Female	-	62	68 (1998)
Male	-	58	64 (1998)
Adult Literacy Rate (15+ years; in %) <sup>c</sup>	71 (1980) <sup>c</sup>	84	85.7 (1998)
Primary School Enrolment Rate (Gross) <sup>d</sup>			
Female	92 (1980)	79	83 (1998)
Male	81 (1980)	90	93 (1998)
Secondary School Enrolment Rate (Gross) <sup>d/e</sup>			
Female	53 (1980)	79	87 (1996)
Child Malnutrition (percent of under 5 years) <sup>c</sup>	14 (1986)	12 (1989)	10 (1992) (1992)
Population with Access to Safe Water (%)	38 <sup>c</sup>	63 (1992) <sup>a</sup>	72 (1997) <sup>a</sup>
Population with Access to Sanitation (%)	-	51 (1992) <sup>a</sup>	75 (1997) <sup>a</sup>
Public Education Expenditure as % of GDP <sup>c</sup>	1.5	1.0	0.8 (1995)
Public Health Expenditure as % of GDP <sup>d</sup>	-	0.6	0.8 (1994)
Population Below Poverty Line (%)	21.6 (1984) <sup>c</sup>	15.1 <sup>c</sup>	39.1 <sup>d</sup>
Expenditure Ratio of Highest 20 % to Lowest 20% <sup>d</sup>	5.2 (1984)	4.7	5.6 (1996)
Human Development Index <sup>f</sup>	0.591 (1987)	0.515	0.670 (1998)
Human Development Ranking <sup>f</sup>	77	108	109 (1998)

<sup>a</sup> CBS, Welfare Indicator, various issues.

<sup>b</sup> CBS, Health and Demographic Survey.

<sup>c</sup> CBS, Statistics in 50 Years of Indonesian Independence.

<sup>d</sup> CBS.

<sup>e</sup> Refers to ages 16-18 for data in 1985 and ages 13-15 for later years.

<sup>f</sup> UNDP, Human Development Report.

ENVIRONMENTAL INDICATORS	1980	Latest
Energy Efficiency of Emissions		
GDP per unit of energy use (PPP \$ per kg oil equivalent)	1.3	1.6 (1996)
Traditional fuel use (% of total energy use)	51.6	29.9 (1996)
Carbon dioxide emissions (total metric tons)	94.6	245.1 (1996)
Carbon dioxide emissions (per capita metric tons)	0.6	1.2 (1996)
Water Pollution		
Emissions of organic water pollutants (kg/day)	214,010	749,872 (1995)
Industry share of emissions of organic water pollutants		
Wood (%)		4.9 (1996)
Primary Metals (%)		2.2 (1996)
Paper and Pulp (%)		7.8 (1996)
Chemical (%)		8.1 (1996)
Food and Beverages (%)		53.9 (1996)
Textiles (%)		20.4 (1996)
Water and Sanitation		
Urban percent of population with access to safe water	58.0	64.5 (1999)
Rural percent of population with access to safe water	31.0	43.1 (1999)
Access to sanitation in urban areas (%)		68.7 (1999)
Land Use and Deforestation		
Forest area (sq km '000)		1,098 (1995)
Average annual deforestation (sq km)		10,844 (1990-95)
Average annual deforestation (% change)		1.0 (1990-95)
Rural population density (people per sq km of arable land)		699 (1996)
Arable land (% of land area)	9.9	9.9 (1996)
Permanent cropland (% of land area)	4.4	7.2 (1996)
Biodiversity and Protected Areas		
Nationally protected ar (sq km '000)		192.3 (1996)
Percent of total land area		10.6 (1996)
Mammals (number of threatened species)		128 (1996)
Birds (number of threatened species)		104 (1996)
Higher plants (number of threatened species)		264 (1996)
Reptiles (number of threatened species)		19 (1996)
Amphibians (number of threatened species)		22 (1997)
Urban		
Urban population (millions)	32.9	74.8 (1997)
Percentage urban	22	37 (1997)
Per capita water use		
Wastewater treated (percent)		
Per capita solid waste generation (kg/day)		
Air Pollution		
City population - Jakarta ('000)		8,621 (1995)
Total Suspended particulates (micrograms per cubic meter)		271.0
Sulfur dioxide (micrograms per cubic meter)		-
Nitrogen dioxide (micrograms per cubic meter)		-

## Indonesia

## PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results

Public Sector Projects only

(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million    %		Rating (No.) <sup>a</sup>									
			No. of Loans No.    %		Implementation Progress				Development Objectives			
					HS	S	PS	U	HS	S	PS	U
Agriculture and Natural Resources	1,097	13.6	26	34.2	-	15	9	2	-	22	3	1
Energy	1,857	23.0	8	10.5	3	-	5	-	3	2	3	-
Finance	1,497	18.5	3	3.9	1	-	2	-	-	3	-	-
Industry and Non-Fuel Minerals	21	0.3	1	1.3	-	-	1	-	-	-	1	-
Social Infrastructure	2,754	34.0	28	36.8	-	20	7	1	-	27	1	-
Transport and Communications	783	9.7	8	10.5	-	6	2	-	-	7	1	-
Others	81	1.0	2	2.6	-	1	1	-	-	1	1	-
<b>Total</b>	<b>8,090</b>	<b>100.0</b>	<b>76</b>	<b>100.0</b>	<b>4</b>	<b>42</b>	<b>27</b>	<b>3</b>	<b>3</b>	<b>62</b>	<b>10</b>	<b>1</b>

B. Disbursements (includes loans closed during the year with disbursements)	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ Mn)	8,115.5	261.8	8,377.3
(2) Disbursed amount (\$ Mn)	4,260.2	94.4	4,354.6
(3) Percentage disbursed [(2)/(1)] (%)	52.5	36.1	52.0
(4) Disbursements (\$Mn)	1,317.7	11.7	1,329.4
(5) Disbursement ratio (%) <sup>b</sup>	25.4	6.5	24.8

C. Net Transfer of Resources (\$Mn)	OCR	ADF	Total
Net transfer in 1995	(97.7)	32.6	(65.1)
Net transfer in 1996	(1,213.6)	15.5	#####
Net transfer in 1997	(125.9)	10.4	(115.5)
Net transfer in 1998	590.7	(7.4)	583.3
Net transfer in 1999	684.7	(6.4)	678.4

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999	
	No.	%	No.	%	No.	%	No.	%
<b>1. Postevaluation Rating</b>								
Rated Generally Successful (GS)	15	50.0	30	65.2	2	40.0	47	58.0
Rated Partly Successful (PS)	14	46.7	12	26.1	1	20.0	27	33.3
Rated Unsuccessful (US)	1	3.3	4	8.7	1	20.0	6	7.4
No Rating (NR)	-	-	-	-	1	20.0	1	1.2
<b>Total</b>	<b>30</b>	<b>100.0</b>	<b>46</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>	<b>81</b>	<b>100.0</b>
<b>2. Postevaluation Rating by Sector</b>								
1968-1999 (as of 31 December 1999)								
	<b>GS</b>	<b>PS</b>	<b>US</b>	<b>NR</b>	<b>Total</b>			
	No.    %	No.    %	No.    %	No.    %	No.    %	No.    %	No.    %	No.    %
Agriculture and Natural Resources	13    27.7	18    66.7	6    100.0	-    -	37    45.7			
Energy	10    21.3	3    11.1	-    -	-    -	13    16.0			
Finance	-    -	1    3.7	-    -	1    -	2    2.5			
Industry and Non-Fuel Minerals	2    4.3	1    3.7	-    -	-    -	3    3.7			
Social Infrastructure	9    19.1	4    14.8	-    -	-    -	13    16.0			
Transport and Communications	13    27.7	-    -	-    -	-    -	13    16.0			
Others	-    -	-    0.0	-    -	-    -	-    -			
<b>Total</b>	<b>47    100</b>	<b>27    100.0</b>	<b>6    100.0</b>	<b>1    100.0</b>	<b>81    100.0</b>			

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory.<sup>b</sup> Ratio of the total disbursement during the year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans which have become effective.<sup>c</sup> Includes private sector projects.

Indonesia  
PORTFOLIO PERFORMANCETable 2: Status of Project Implementation  
Public Sector Projects Only  
(As of 31 December 1999)

Sector <sup>b</sup>	Project Title	Loan No.	Net Loan Amount (\$ million)		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% completion)	Cum. Contract Awards <sup>a</sup> (\$million)	Cumulative Disbursements <sup>a</sup> (\$million)	Project Performance Rating	
			OCR	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objectives
1	AGR	1118	113.7		Nov-91	Mar-92	Sep-98	Sep-00	97	87.8	95.7	S	S
2	AGR	1126	45.4		Nov-91	Feb-92	Sep-98	Dec-99	98	35.4	43.3	S	S
3	AGR	1184		28.7	Nov-92	May-93	Apr-99	01-Apr	95	20.2	14.9	S	S
4	AGR	1186	57.7		Nov-92	Sep-93	Sep-99	01-Sep	52	18.8	24.7	U	U
5	AGR	1258		22.5	Oct-93	Dec-93	Sep-00		40	8.1	7.7	U	PS
6	AGR	1286	79.8		Jan-94	Jun-94	Oct-00		80	37.7	39.3	S	S
7	AGR	1327		24.1	Oct-94	Jul-95	Jun-00	01-Jun-00		6.9	6.7	S	S
8	AGR	1351		26.9	Jan-95	May-95	02-Sep		75	18.6	13.9	PS	PS
9	AGR	1378		17.2	Sep-95	Mar-96	03-Mar		70	4.1	3.2	S	S
10	AGR	1469	40.2		Sep-96	Jan-97	04-Sep		24	6.2	4.7	S	S
11	AGR	1526	60.2		Nov-97	Aug-97	04-Sep		10	6.6	4.3	S	S
12	AGR	1583	72.3		Nov-97	Jun-98	05-Sep		12	6.2	9.0	S	S
13	AGR	1605	28.9		Jan-98	May-98	05-Sep		6	2.5	1.8	S	S
14	AGR	1099	52.7		Sep-91	Jan-92	Jan-97	Mar-98	95	42.4	52.4	PS	PS
15	AGR	1187		19.1	Nov-92	Feb-93	Dec-99		50	7.2	6.8	PS	S
16	AGR	1203	26.2		Dec-92	May-93	Sep-98		95	21.4	25.3	S	S
17	AGR	1339	23.8		Dec-94	Apr-95	Jun-00			10.2	8.4	PS	S
18	AGR	1425/28(SF)	88.2	41.2	Jan-96	Mar-96	Mar-00		28	18.4	17.0	PS	S
19	AGR	1479	21.5		Nov-96	Jan-97	03-Sep		19	13.9	8.9	S	S
20	AGR	1570/71(SF)	21.5	15.1	Nov-97	Apr-98	03-Dec		16	2.6	1.9	S	S
21	AGR	1579	115.4		Nov-97	Feb-98	04-Oct		2		0.5	PS	S
22	AGR	1613	7.0		Mar-98	Aug-98	01-Oct		8	1.8	0.8	S	S
23	OTH	1475/76(SF)	19.1	21.5	Oct-96	Jan-97	02-Sep		28	5.5	5.8	PS	S
24	SOC	1111	138.1		Oct-91	Jul-92	Sep-97	Sep-99	100	105.5	125.6	PS	S
25	SOC	1198	147.2		Nov-92	Mar-93	Sep-98	Mar-99	90	108.6	126.0	PS	S
26	SOC	1253	116.5		Sep-93	Apr-94	Apr-00		88	84.9	77.4	S	S
27	SOC	1292	83.8		Dec-93	Apr-94	Sep-99		83	53.3	59.1	PS	S
28	SOC	1319	63.8		Sep-94	Apr-95	Jun-00	Mar-00	80	49.8	47.4	S	S
29	SOC	1352	85.0		Feb-95	Apr-95	Sep-00		98	53.1	56.8	PS	S
30	SOC	1383	122.0		Sep-95	May-96	02-Jun		55	42.0	31.6	U	S
31	SOC	1384	63.0		Sep-95	May-96	02-Jun		48	28.8	20.2	PS	S
32	SOC	1511	57.0		Dec-96	Mar-97	02-Sep		23	8.1	4.2	PS	S
33	SOC	1572	35.0		Nov-97	Mar-98	02-Oct		26	8.0	2.8	S	S
34	SOC	1194	105.0		Nov-92	Feb-93	Oct-98		100	87.5	98.1	S	S
35	SOC	1299	40.0		May-94	Aug-94	Dec-00		87	21.4	16.8	S	S
36	SOC	1359	44.9		Jul-95	Oct-95	01-Apr		60	16.2	13.0	S	PS
37	SOC	1360	98.0		Jul-95	Oct-95	01-Apr		75	42.0	30.9	S	S
38	SOC	1432	82.2		Feb-96	May-96	01-Oct		60	35.2	16.1	S	S
39	SOC	1442	82.5		Jun-96	Jan-97	02-Apr		35	21.4	18.1	S	S
40	SOC	1471	45.0		Sep-96	Jan-97	02-Sep		25	7.3	5.4	S	S
41	SOC	1519	82.5		Mar-97	Jun-97	03-Apr		15	17.6	12.0	S	S
42	SOC	1523	81.4		Jun-97	Sep-97	03-Mar		12	7.6	4.6	S	S
43	SOC	1573/74(SF)	149.0	15.1	Nov-97	Jun-98	03-Aug		2	2.2	4.8	S	S
44	SOC	1587	97.4		Dec-97	Mar-98	03-Sep		6	3.2	2.0	PS	S
45	SOC	1675	100.0		Mar-99	Mar-99	Sep-00		-	50.0	50.0	S	S
46	SOC	1676	200.0		Mar-99	Mar-99	01-Dec		10	0.6	20.1	S	S

Indonesia  
PORTFOLIO PERFORMANCE

Table 2: Status of Project Implementation  
Public Sector Projects Only  
(As of 31 December 1999)

Sector <sup>b</sup>	Project Title	Loan No.	Net Loan Amount (\$ million)		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% completion)	Cum. Contract Awards <sup>a</sup> (\$million)	Cumulative Disbursements <sup>a</sup> (\$million)	Project Performance Rating	
			OCR	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objectives
47	SOC	1622	100.0	-	Jul-98	Jul-98	01-Jan	-	50.0	50.0	S	S	
48	SOC	1623	200.0	-	Jul-98	Jul-98	01-Jan	-	67.5	105.4	S	S	
49	SOC	1677	200.0	-	Mar-99	Mar-99	01-Jan	53	70.0	70.0	S	S	
50	F	1618	1,400.0	-	Jun-98	Jun-98	Dec-99	-	1,050.0	1,050.0	PS	S	
51	F	1619	47.0	-	Jun-98	Jun-98	01-Dec	-	-	-	PS	S	
52	F	1620	50.0	-	Jun-98	Jun-98	02-Feb	32	12.3	12.3	HS	S	
53	INF	1433	21.0	-	Mar-96	Jul-96	01-Jun	60	16.1	16.9	PS	PS	
54	ENE	1032	235.0	-	Sep-90	Jan-91	Jun-97	100	184.4	217.1	PS	HS	
55	ENE	1172	324.0	-	Aug-92	Dec-92	Sep-99	100	311.1	284.5	HS	HS	
56	ENE	1271	240.7	-	Nov-93	May-94	Dec-00	75	101.7	80.5	PS	PS	
57	ENE	1320	192.7	-	Sep-94	Apr-95	Apr-99	70	147.8	124.8	PS	PS	
58	ENE	1357	218.0	-	Jun-95	Feb-96	Mar-99	60	107.8	123.4	PS	PS	
59	ENE	1397	246.6	-	Oct-95	Jun-96	01-Jun	35	49.4	20.2	PS	PS	
60	ENE	1673	380.0	-	Mar-99	Mar-99	Sep-00	-	200.0	200.0	HS	HS	
61	ENE	1674	20.0	-	Mar-99	Mar-99	02-Oct	-	-	-	HS	S	
62	T&C	1089	36.4	-	Jul-91	Nov-91	Dec-96	100	26.0	29.9	S	S	
63	T&C	1157	78.0	-	Feb-92	Jul-92	Jun-97	100	63.7	78.0	S	S	
64	T&C	1220	110.0	-	Mar-93	Jul-93	Dec-97	41	63.1	47.6	PS	PS	
65	T&C	1232	157.1	-	May-93	Oct-93	Sep-97	100	128.0	151.2	S	S	
66	T&C	1233	89.5	-	Jun-93	Dec-93	Dec-99	91	67.0	70.6	S	S	
67	T&C	1335	126.6	-	Nov-94	Jun-95	Dec-99	66	73.4	59.5	PS	S	
68	T&C	1428	82.4	-	Jan-96	May-96	Nov-00	20	60.5	25.2	S	S	
69	T&C	1586	103.0	-	Dec-97	Nov-98	02-Dec	8	-	0.1	S	S	
70	OTH	1678	120.0	-	Mar-99	Mar-99	03-Sep	1	-	-	S	S	
71	OTH	1501	42.2	-	Dec-96	Apr-97	02-Sep	29	2.4	6.3	PS	PS	
72	OTH	1449	39.1	-	Jun-96	Sep-96	01-Oct	20	7.6	4.8	S	S	
		<b>201.28</b>	<b>201.3</b>	<b>-</b>									
		<b>Total</b>	<b>7,859.7</b>	<b>231.3</b>					<b>4,095.7</b>	<b>4,068.2</b>			
		<b>Total (OCR and ADF)</b>	<b>8,091.0</b>										

<sup>a</sup> Excludes cumulative contract awards and disbursements of \$351.7 million and \$361.8 million, respectively for loans closed in 1999.

<sup>b</sup> Sector: AGR = Agriculture and natural resources  
SOC = Social Infrastructure  
F = Finance  
INF = Industry and nonfuel minerals  
T&C = Transport and Communications  
OTH = Others

**INDONESIA**  
**OVERALL EXTERNAL ASSISTANCE**

External Source (\$ million)	1995/96-1999/2000 (annual ave.)			2000/2001		
	Loan	TA	Total	Loan	TA	Total
<b>A. Multilateral Assistance</b>						
ADB	1,175.0	11.3	1,186.3	1,880.0	12.0	1,892.0
World Bank	1,350.0	-	1,350.0	2,700.0	7.8	2,707.8
IDB	83.7	-	83.7	100.0	-	100.0
UN System	-	40.1	40.1	-	-	-
Others	20.6	111.0	131.6	150.0	144.0	294.0
Subtotal	2,629.3	162.3	2,791.7	4,830.0	163.8	4,993.8
<b>B. Bilateral Assistance</b>						
Japan	1,631.5	198.0	1,829.5	1,450.0	110.0	1,560.00
Germany	45.1	33.4	78.5	32.0	70.0	102.00
USA	-	134.8	134.8	20.0	125.0	145.00
France	55.7*	1.1	1.1	-	-	-
Others	226.1	135.2	361.3	87.4	115.6	203.00
Subtotal	1,902.7	502.6	2,405.2	1,589.4	420.6	2,010.0
<b>Total</b>	<b>4,532.0</b>	<b>664.9</b>	<b>5,196.9</b>	<b>6,419.4</b>	<b>584.4</b>	<b>7,003.8</b>

\* Including export credit under ODA loan package.

**Indonesia**  
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003  
(Amounts in \$ million)

Appendix 4, page 1

Sector/Project Name	Poverty Classification <sup>a</sup>	Crosscutting Operational Priority <sup>b</sup>	Responsible Division	Year of PPTA	PROJECT COST				
					TOTAL	Bank		Gov't	Cofinancing (Others)
						OCR	ADF <sup>c</sup>		
<b>2001 FIRM LOANS</b>									
<b>Agriculture and Natural Resources</b>									
1 Rural Poverty Reduction I	CPI	HD	AEAR	1999/2000		150	-	150	
<b>Subtotal</b>						150	-	150	
<b>Industry and Finance</b>									
1 Non-Bank Financial Institutions I	ODI	PSD	IEFI	1999		200	-	200	
2 SME Development	ODI	PSD	IEFI	2000		100	-	100	
<b>Subtotal</b>						300	-	300	
<b>Energy</b>									
1 Outer Island Electrification I	ODI	PSD	IEEN	2000		150	-	150	
<b>Subtotal</b>						150	-	150	
<b>Social Infrastructure</b>									
1 Decentralized Basic Education I	PI	HD	AEEH	1998/2000		100	-	100	
2 Water Supply and Sanitation	ODI	HD	AEWU	1999		100	-	100	
<b>Subtotal</b>						200	-	200	
<b>Total</b>						<b>800</b>	<b>-</b>	<b>800</b>	
<b>2002 FIRM LOANS</b>									
<b>Agriculture and Natural Resources</b>									
1 Natural Resources Mgmt. II	PI	ENV	AEFN	2001		150	-	150	
<b>Subtotal</b>						150	-	150	
<b>Industry and Finance</b>									
1 Non-Bank Financial Institution II	ODI	PSD	IEFI	1999/2000		150	-	150	
<b>Subtotal</b>						150	-	150	
<b>Energy</b>									
1 Power Sector SDP II	ODI	PSD	IEEN	2001		200	-	200	
<b>Subtotal</b>						200	-	200	
<b>Transport and Communications</b>									
1 Road Rehabilitation II	ODI	PSD	IETC	2001		150	-	150	
<b>Subtotal</b>						150	-	150	
<b>Social Infrastructure</b>									
1 Urban Poverty Reduction I	CPI	HD	AEWU	2000		150	-	150	
2 Women and Child Protection I	PI	HD	AEEH	2001		50	-	50	
<b>Subtotal</b>						200	-	200	
<b>Others</b>									
1 Governance and Legal Reforms TA Loan	ODI	GG	PEOD/IEFI/OGC			20	-	20	
<b>Subtotal</b>						20	-	20	
<b>Total</b>						<b>870</b>	<b>-</b>	<b>870</b>	
<b>2003 FIRM LOANS</b>									
<b>Agriculture and Natural Resources</b>									
1 Rural Poverty Reduction II	CPI	HD	AEAR	2002		100	-	100	
<b>Subtotal</b>						100	-	100	
<b>Industry and Finance</b>									
1 Financial Sector Reforms	ODI	PSD	IEFI	2002		150	-	150	
<b>Subtotal</b>						150	-	150	
<b>Energy</b>									
1 Outer Island Electrification II	ODI	PSD	IEEN	2002		100	-	100	
<b>Subtotal</b>						100	-	100	
<b>Transport and Communications</b>									
1 Inter-Island Transport	ODI	PSD	IETC	2002		100	-	100	
2 Medan Airport	ODI	PSD	IETC	2002		150	-	150	
<b>Subtotal</b>						250	-	250	
<b>Social Infrastructure</b>									
1 Decentralized Health Services II	PI	HD	AEEH	2002		100	-	100	
2 Community Based Water Supply and Sanitation	CPI	HD	AEWU	2002		100	-	100	
3 Decentralized Basic Education II	PI	HD	AEEH	2002		100	-	100	
<b>Subtotal</b>						300	-	300	
<b>Total</b>						<b>900</b>	<b>-</b>	<b>900</b>	

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

<sup>c</sup> It is proposed that \$100 million of ADF will become accessible to Indonesia in 2000 and \$150 million per year during 2001-2002 subject to resource availability. If available, such funds will be utilized for projects with strong poverty reduction impact within the proposed lending program by replacing corresponding OCR loans.

*Indonesia*  
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Resp. Division	Type of TA	Amount (\$'000)		
			ADB	Others	Total
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Agriculture and Rural Development Strategy	AEAR	AD	1,000	-	1,000
2 Natural Resources Mgt II	AEFN	PP	800	-	800
	<b>Subtotal</b>		<b>1,800</b>	<b>-</b>	<b>1,800</b>
<b>Industry and Finance</b>					
1 Strengthening SME Services	IEFI	AD	1,000	-	1,000
	<b>Subtotal</b>		<b>1,000</b>	<b>-</b>	<b>1,000</b>
<b>Energy</b>					
1 Power Sector SDP II	IEEN	PP	800	-	800
2 Energy Policy	IEEN	AD	500	-	500
	<b>Subtotal</b>		<b>1,300</b>	<b>-</b>	<b>1,300</b>
<b>Transport and Communications</b>					
1 Road Rehabilitation II	IETC	PP	800	-	800
2 Inter Island Transport Policy	IETC	AD	600	-	600
	<b>Subtotal</b>		<b>1,400</b>	<b>-</b>	<b>1,400</b>
<b>Social Infrastructure</b>					
1 Market Based Resource Management	ENVD	AD	800	-	800
2 Public Health and Nutrition Management	AEFH	AD	800	-	800
3 Education Sector Policy Reform I	AEFH	AD	1,000	-	1,000
4 Local Government Financial Management	AEWU	AD	600	-	600
5 Community Based Water Supply and Sanitation	AEWU	PP	1,500	-	1,500
6 PDAM Restructuring and Rehabilitation	AEWU	AD	400	-	400
7 Women and Child Health	AEFH	PP	700	-	700
8 Community Based Water Supply and Sanitation Reforms	AEWU	AD	700	-	700
	<b>Subtotal</b>		<b>6,500</b>	<b>-</b>	<b>6,500</b>
<b>Total</b>			<b>12,000</b>	<b>-</b>	<b>12,000</b>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Rural Poverty Reduction III	AEAR	PP	800	-	800
2 Resource Management Reforms	AEFN	AD	1,000	-	1,000
	<b>Subtotal</b>		<b>1,800</b>	<b>-</b>	<b>1,800</b>
<b>Industry and Finance</b>					
1 Financial Sector Reforms	IEFI	AD	1,500	-	1,500
	<b>Subtotal</b>		<b>1,500</b>	<b>-</b>	<b>1,500</b>
<b>Energy</b>					
1 Outer Island Electrification II	IEEN	PP	1,000	-	1,000
	<b>Subtotal</b>		<b>1,000</b>	<b>-</b>	<b>1,000</b>
<b>Transport and Communication</b>					
1 Interisland Transport	IETC	PP	800	-	800
2 Medan Airport	IETC	PP	500	-	500
	<b>Subtotal</b>		<b>1,300</b>	<b>-</b>	<b>1,300</b>
<b>Social Infrastructure</b>					
1 Decentralized Health Services II	AEFH	PP	150	-	150
2 Waste Management and Environmental Protection for Poor Urban Communities	AEWU	PP	1,000	-	1,000
3 Nutrition	AEFH	PP	600	-	600
	<b>Subtotal</b>		<b>1,750</b>	<b>-</b>	<b>1,750</b>
<b>Others</b>					
1 Natural Resource Monitoring	ENVD/AEFN	AD	600	-	600
2 Public Financial Management	PE2	AD	600	-	600
	<b>Subtotal</b>		<b>1,200</b>	<b>-</b>	<b>1,200</b>
<b>Total</b>			<b>8,550</b>	<b>-</b>	<b>8,550</b>
<b>2003 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
1 Decentralized Basic Education II	AEFH	PP	150	-	150
2 Slum Eradication and Shelter Delivery for the Urban Poor	AEWU	PP	1,000	-	1,000
3 Health Sector Policy Reform II	AEFH	AD	1,000	-	1,000
<b>Total</b>			<b>2,150</b>	<b>-</b>	<b>2,150</b>

Note: Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

*Indonesia*  
LENDING PROGRAM, 2001-2003  
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001 (Firm)		2002-2003	
	No.	%	No.	%
<b>I. By Poverty Classification</b>				
A. Core Poverty Intervention	1	16.7	3	20.0
B. Poverty Intervention (Non-core)	1	16.7	4	26.7
C. Other Development Interventions	4	66.7	8	53.3
<b>Total</b>	<b>6</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>
<b>II. By Crosscutting Operational Priority</b>				
A. Environment	-	-	1	6.7
B. Gender and Development	-	-	-	-
C. Good Governance	-	-	1	6.7
D. Human Development	3	50.0	6	40.0
E. Private Sector Development	3	50.0	7	46.7
F. Regional Cooperation	-	-	-	-
<b>Total</b>	<b>6</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>
<b>III. By Sector</b>				
A. Agriculture and Natural Resources	1	16.7	2	13.3
B. Energy	1	16.7	2	13.3
C. Finance and Industry	2	33.3	2	13.3
D. Social Infrastructure	2	33.3	5	33.3
E. Transport and Communications	-	-	3	20.0
F. Others/Multisector	-	-	1	6.7
<b>Total</b>	<b>6</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>

## INDONESIA

PROJECT PROFILE													
<b>1. Project Name:</b> Rural Poverty Reduction			<b>2. Sector/Subsector:</b> Agriculture										
<b>3. Poverty Classification:</b> <sup>a</sup> CPI			<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> HD										
<b>5. Rationale &amp; Objectives:</b>  During recent times many of those living in rural areas have seen their incomes stagnate or decline. The only solution to this is to raise agricultural productivity especially among poor and small farmers.			<b>6. Beneficiary Participation/Consultation Needs:</b>  Beneficiaries and other stakeholders will take part in both design and implementation.										
<b>7. Scope:</b>  The Project will seek to identify the main problems and constraints facing poor farmers in different parts of Indonesia including access to capital, inputs, markets and technology. Specific locations will be selected as sites for demonstration farms linked to outreach networks through universities, NGOs and government. It is envisaged that a large number of sites will be included across Indonesia reflecting the wide range of problems faced.													
<b>8. Estimated Cost &amp; Financing Plan (\$):</b> (a) TA: Amount: \$300,000 Source: TBD <b>(b) Loan Project Cost (\$m)</b>			<b>9. Remarks</b>										
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>			<b>Total</b>								
Bank	TBD	-			150								
Borrower	TBD	TBD			TBD								
<b>Total</b>	<b>TBD</b>	<b>TBD</b>			<b>TBD</b>								
<b>10. Estimated Benefits and Beneficiary Groups:</b>  Small, poor farmers across Indonesia have been squeezed by a combination of rising input prices, stagnant output prices (in many foods) and cheap imports. To make these farmers competitive and viable represents a major challenge but would carry widespread benefits.													
<b>11. Executing Agency:</b>  Ministry of Agriculture			<b>12. Project Implementation Period:</b>  <table> <tr> <td></td> <td>PPTA</td> <td>Loan</td> </tr> <tr> <td>Start:</td> <td>2000</td> <td>2002</td> </tr> <tr> <td>End:</td> <td>2001</td> <td>2006</td> </tr> </table>			PPTA	Loan	Start:	2000	2002	End:	2001	2006
	PPTA	Loan											
Start:	2000	2002											
End:	2001	2006											
<b>13. Environmental Category:</b> TBD			<b>14. Processing Year:</b>	<b>TA</b> 2000	<b>Loan</b> 2001								

<sup>a</sup> CPI=Core Poverty Intervention; PI= Poverty Intervention; ODI= Other Development Interventions

<sup>b</sup> ENV = Environment; GAD = Gender and Development; GG = Good Governance; HD = Human Development

## INDONESIA

PROJECT PROFILE						
<b>1. Project Name:</b> Non-Bank Financial Institutions I		<b>2. Sector/Subsector:</b> Industry and Finance				
<b>3. Poverty Classification:</b> <sup>a</sup> ODI		<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> PSD				
<b>5. Rationale &amp; Objectives:</b>  Because of the prevailing circumstances, the Bank's earlier financial sector assistance, the Financial Governance Reform: Sector Development Program (FGR: SDP) focussed primarily on banking and governance issues. Relatively little attention was devoted to the nonbank financial sector. However, following the crisis, there is a widespread recognition of the important role that nonbank financial institutions (NBFIs) have to play in financial inter-mediation. The proposed program will therefore aim to consolidate and extend the progress that has been achieved under the FGR: SDP in encouraging the development of an efficient financial sector.		<b>6. Beneficiary Participation/Consultation Needs:</b>				
<b>7. Scope:</b>  The proposed Program will seek to address constraints which inhibit efficient intermediation by NBFIs. The Program will cover capital markets (including bonds, the capital market supervisory agency and self-regulatory organizations), finance companies and venture capital companies. It will address, among other things, matters relating to institutional arrangements, the regulatory environment, taxation and legislation.						
<b>8. Estimated Cost &amp; Financing Plan (\$):</b>		<b>9. Remarks</b>				
<b>Loan Project Cost (\$m)</b>		Technical assistance will be required to assist with implementation of the program.				
<b>Financing (Source)</b>	<b>FC</b>				<b>LC</b>	<b>Total</b>
Bank	200				..	200
Cofinancing	..				..	..
Borrower	..				..	..
<b>Total</b>	<b>200</b>	<b>..</b>	<b>200</b>			
<b>10. Estimated Benefits and Beneficiary Groups:</b>  To be assessed during fact-finding						
<b>11. Executing Agency:</b>  Directorate General of Financial Institutions, Ministry of Finance		<b>12. Project Implementation Period:</b> PPTA Loan Start: 2001 End: 2004				
<b>13. Environmental Category:</b>		<b>14. Processing Year</b>	<b>TA</b>	<b>Loan</b> 2001		

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development

## INDONESIA

PROJECT PROFILE					
<b>1. Project Name:</b> Small and Medium Enterprise (SME) Development			<b>2. Sector/Subsector:</b> Finance and industry		
<b>3. Poverty Classification:</b> <sup>a</sup> ODI			<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> PSD		
<b>5. Rationale &amp; Objectives:</b>  The Industrial Competitiveness and SME Development Program (ICSME) planned for approval in 2000 addresses the policy framework to promote a more diversified and efficient industrial structure, to promote competition, and to provide a level playing field for all enterprises including SMEs. This includes rationalizing assistance to SME through improved policy coordination, improved financial intermediation, and strengthened technical and business service support to SMEs. Within this framework, the proposed Project seeks to provide specific SME support that contributes to efficient use of resources by SMEs, while enabling enhanced poverty alleviation impact.			<b>6. Beneficiary Participation/Consultation Needs:</b>		
<b>7. Scope:</b>  The proposed Project will seek to address: (i) constraints to access to trade finance by SME exporters through support to the recently established Bank Export Indonesia in the establishment of a pre-shipment export finance guarantee scheme; (ii) constraints to SME development of domestic and export market opportunities through provision of marketing information and business advisory support services to SMEs; and (iii) the efficient delivery of debt and equity finance to SMEs on market based terms.					
<b>8. Estimated Cost &amp; Financing Plan (\$):</b>			<b>9. Remarks</b>		
<b>Loan Project Cost (\$m)</b>			In addition to ADB loan support, the use of ACCSF guarantees under ADB's partial credit guarantee scheme is envisaged to enhance the scope of SME trade finance support.		
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>			<b>Total</b>
Bank	100	-			100
Cofinancing	TBD	TBD			TBD
Borrower	TBD	TBD			TBD
<b>Total</b>	<b>100</b>	<b>TBD</b>	<b>100</b>		
<b>10. Estimated Benefits and Beneficiary Groups:</b>  The project is expected to enable an expanded scope of competitive SME operations, with particular benefits arising from expanded employment opportunities.					
<b>11. Executing Agency:</b>  Ministry of Industry and Trade			<b>12. Project Implementation Period:</b>  PPTA      Loan Start:                      2001 End:                         2002		
<b>13. Environmental Category:</b>			<b>15. Processing Year:</b>	<b>TA</b> 2000	<b>Loan</b> 2001

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development

## INDONESIA

PROJECT PROFILE																												
1. <b>Project Name:</b> Outer Island Electrification I			2. <b>Sector/Subsector:</b> Energy / Power																									
3. <b>Poverty Classification:</b> <sup>a</sup> ODI			4. <b>Crosscutting Operational Priority:</b> <sup>b</sup> PSD																									
<b>5. Rationale &amp; Objectives:</b> The growth of infrastructure in outer islands has been considerably slower than in Java. In the case of power, 26 percent fewer households are connected to PLN's supply, the per capita consumption is 62 percent less and the use of electricity for industrial and business activities is 80 percent less. While the ongoing restructuring of the power sector will introduce competitive electricity markets in Java-Bali and further improve the services, large public sector investments are necessary to extend electricity to new consumers in outer islands to support delivery of basic needs like pumped water supply, health and education; and to improve opportunities for increasing household income (employment and cottage industries that improve with power supply) in economically less developed regions. The Project will help accelerate the increase of electrification ratio, and use of innovative approaches for providing electricity to small communities at the least economic cost.			<b>6. Beneficiary Participation/Consultation Needs:</b> Consultants will be engaged to identify communities in outer islands and economically less developed regions that would benefit the most by getting access to electricity. Discussions will be held with such communities and NGOs working in the regions, and with other agencies that are responsible for delivering water, sanitation, health and education services to determine ways to maximize the impact of use of electricity.																									
<b>7. Scope:</b> The scope of the Project will include (i) enlarging the power distribution network to connect new consumers, (ii) increasing substation capacities to meet requirements of new power demand, (iii) implementing new transmission lines to remove transmission bottlenecks, (iv) increasing supply using off-grid options where economically justified through renewable and indigenous energy sources, (v) establishing institutional capacity to manage electricity supply on a sustainable basis, (vi) implementing demand side management measures to reduce costs of electricity use, and (vii) poverty reduction measures in power supply to make electricity affordable.																												
<b>8. Estimated Cost &amp; Financing Plan (\$):</b>  <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="4" style="text-align: left;">Loan Project Cost (\$m)</th> </tr> <tr> <th style="text-align: left;">Financing (Source)</th> <th style="text-align: center;">FC</th> <th style="text-align: center;">LC</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Bank</td> <td style="text-align: center;">100</td> <td style="text-align: center;">50</td> <td style="text-align: center;">150</td> </tr> <tr> <td>Cofinancing</td> <td style="text-align: center;">100</td> <td></td> <td style="text-align: center;">100</td> </tr> <tr> <td>Borrower</td> <td></td> <td style="text-align: center;">200</td> <td style="text-align: center;">200</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>200</b></td> <td style="text-align: center;"><b>250</b></td> <td style="text-align: center;"><b>450</b></td> </tr> </tbody> </table>			Loan Project Cost (\$m)				Financing (Source)	FC	LC	Total	Bank	100	50	150	Cofinancing	100		100	Borrower		200	200	<b>Total</b>	<b>200</b>	<b>250</b>	<b>450</b>	<b>9. Remarks</b>  With the ensuing decentralization of administrative and financial powers, provincial and local governments will gradually have a larger role in planning and implementation of development activities in the outer islands. At the same time, electricity tariffs have to be substantially raised to restore the financial health of PLN. The Project will help demonstrate the Government's strong commitment to promote equity in economic growth and regional development, and make the higher tariffs more acceptable by increasing the electricity services. Cofinancing in an amount of \$100 million will be actively pursued.	
Loan Project Cost (\$m)																												
Financing (Source)	FC	LC	Total																									
Bank	100	50	150																									
Cofinancing	100		100																									
Borrower		200	200																									
<b>Total</b>	<b>200</b>	<b>250</b>	<b>450</b>																									
<b>10. Estimated Benefits and Beneficiary Groups:</b>  The Project will benefit people and communities in outer islands (outside Java-Bali) and economically less developed regions. About three million households which presently do not have access to electricity will be provided access over a period of three years.																												
<b>11. Executing Agency:</b>  Regional Electricity Company (REC) to be created under the Power Sector Restructuring Program.			<b>12. Project Implementation Period:</b>  <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;">PPTA</td> <td style="text-align: center;">Loan</td> </tr> <tr> <td>Start:</td> <td style="text-align: center;">2000</td> <td style="text-align: center;">2001</td> </tr> <tr> <td>End:</td> <td style="text-align: center;">2001</td> <td style="text-align: center;">2004</td> </tr> </table>			PPTA	Loan	Start:	2000	2001	End:	2001	2004															
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<b>PPTA</b>	<b>Loan</b>																											
2000	2001																											

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<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development

## INDONESIA

PROJECT PROFILE			
<b>1. Project Name:</b> Decentralized Basic Education I		<b>2. Sector/Subsector:</b> Social Infrastructure/Education	
<b>3. Poverty Classification:</b> <sup>a</sup> PI		<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> HD	
<b>5. Rationale &amp; Objectives:</b>  As a result of accumulated experience with its basic education projects and its declared policy of decentralization, the Government is now focusing on a comprehensive province-based approach to further develop basic education, encompassing attention to both the public school systems under Ministry of Education and Culture (MOEC) and Ministry of Religious Affairs (MORA) and their private counterparts. Under this framework, each province has reviewed its own basic education needs and prepared district project proposals using a bottom-up, multi-agency participatory approach with MOEC's central office providing policy guidance.  The Project would assist the provinces of Bali and NTB and the metropolitan area of DKI Jakarta in improving the quality and relevance of basic education; expanding access to junior secondary education; while maintaining universal access to primary education; and improving management and institutional capacity for basic education, with special attention to decentralization and school-based quality management.		<b>6. Beneficiary Participation/Consultation Needs:</b>	
<b>7. Scope:</b>  The Project will address the specific priority needs of each location (Bali, NTB, and DKI Jakarta) including: (i) improvement of primary school access through enhanced scholarship programs, assistance for disadvantaged children, improved textbook provision, student nutrition programs, and enhanced community participation; (ii) quality improvement through teacher development, an enhanced teacher incentive system, and improved textbooks and training materials; (iii) improvement of basic education management through decentralization of planning, management, and delivery, adoption of school-based quality management approach, and mobilization of community participation; and (iv) improvement of school facilities, equipment, and infrastructure when necessary.			
<b>8. Estimated Cost &amp; Financing Plan (\$):</b>		<b>9. Remarks</b>	
<b>Loan Project Cost (\$m)</b>			
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>
Bank	TBD	TBD	100
Cofinancing	TBD	TBD	TBD
Borrower	TBD	TBD	TBD
<b>Total</b>	<b>TBD</b>	<b>TBD</b>	<b>100</b>
<b>10. Estimated Benefits and Beneficiary Groups:</b>  The Project would benefit schoolchildren (particularly those disadvantaged at present) and their families and communities, teachers, principals, and education administrators, mostly at the district and provincial level.			
<b>11. Executing Agency:</b>  Ministry of Education and Culture		<b>12. Project Implementation Period:</b>  Start: End:	
<b>13. Environmental Category:</b>		<b>14. Processing Year:</b>	<b>TA</b> 1999-2000
			<b>Loan</b> 2001

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development

## INDONESIA

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Water Supply and Sanitation		<b>2. Sector/Subsector:</b> Social Infrastructure/Water Supply		
<b>3. Poverty Classification:</b> <sup>a</sup> ODI		<b>4. Crosscutting Operational Priority:</b> <sup>b</sup> HD		
<b>5. Rationale &amp; Objectives:</b>  Many water and sanitation entities have experienced deteriorating physical facilities and difficulties in providing safe drinking water and sanitation improvement due to unprecedented economic and social crisis. In the absence of the Project, the water supply and sanitation systems are expected to deteriorate further. By rehabilitating the infrastructure, the Project will improve the efficiency and reliability of the services. The Project aims to improve public health standards, living conditions, and the environment through the provision of water supply and environmental sanitation services.		<b>6. Beneficiary Participation/Consultation Needs:</b>  Beneficiary communities will be consulted and willingness to pay surveys will be carried out during project preparation. Social analyses will be undertaken to determine effective mechanisms to promote community participation		
<b>7. Scope:</b>  The Project will support local governments and water enterprises to enhance their capacity for delivery and expansion of the services. The physical scope will include rehabilitation of water supply and sanitation facilities in the medium- and small-sized cities, with high incidence of poverty. Emphasis will be placed on improvement of services, operational procedures, and management of PDAMs.				
<b>8. Estimated Cost &amp; Financing Plan (\$):</b>				<b>9. Remarks</b>  Further work on the PDAM restructuring strategy and program need to be carried out prior to loan processing.
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	70	30	100	
Cofinancing	TBD	TBD	TBD	
Borrower	TBD	65	65	
<b>Total</b>	<b>70</b>	<b>95</b>	<b>165</b>	
<b>10. Estimated Benefits and Beneficiary Groups:</b> Benefits will include higher quality and quantity of water, improved health, better quality of life, and enhanced environmental conditions for the residents of participating medium and small towns. Local governments with higher incidence of poverty will be included in the project.				
<b>11. Executing Agency:</b>  Directorate General for Human Settlements.		<b>12. Project Implementation Period:</b>  Start: 2000 End: 2005		
<b>14. Environmental Category:</b> B		<b>16. Processing Year:</b>	<b>TA</b> 1999	<b>Loan</b> 2000

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