

# IsDB



البنك الإسلامي للتنمية  
Islamic Development Bank





# MEMBER COUNTRY PARTNERSHIP STRATEGY FOR THE REPUBLIC OF INDONESIA (2022-2025)

SUPPORTING ECONOMIC TRANSFORMATION & INCLUSIVE  
HUMAN CAPITAL DEVELOPMENT FOR INDONESIANS

JULY 2022





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# EXECUTIVE SUMMARY

The MCPS Document aims to provide broad strategic directions for the IsDB Group's engagement with the Government of Indonesia during the formulation of the Indonesia MCPS (2022-2025). The MCPS Document is based on four complementary studies: (i) Country Portfolio Review Note (CPRN) (ii) Country Diagnostic Study (CDS); (iii) Sector, Thematic & Fiduciary Analyses; and (iv) Donor Coordination Matrix (DCM).

2. Upon the request of the Government of Indonesia (GoI), the Islamic Development Bank (IsDB) Group has initiated the preparation of a Member Country Partnership Strategy (MCPS) for the period of (2022-2025) to be in alignment with the National Medium-Term Development Plan (RPJMN). Accordingly, the IsDBG is formulating a recalibrated MCPS, driven by its Strategic Realignment 2022-2025 to meet the growing expectations of IsDB member countries and in alignment with their national priorities.

3. With an estimated nominal GDP of over US\$ 1 Trillion, Indonesia is the 16th largest economy in the world. It is also the world's 10th largest economy in terms of GDP (PPP); the largest OIC economy, the largest economy in Southeast Asia, and a member of the G-20. Furthermore, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to just under 10% in 2020.

4. Indonesia still faces considerable development challenges and climate vulnerabilities. Additionally, the global crisis caused by the COVID-19 pandemic has created unprecedented hurdles for Indonesia's development goals. The COVID-19 epidemic has affected all sectors of the Indonesian economy. With a few exceptions, such as those related to the digital economy, business entities in most of the economic sectors have suffered a severe negative shock. The poor and vulnerable have been hit hard by the pandemic.

5. Despite the negative impacts of COVID-19, domestic economic growth is forecast to accelerate in 2022. The structure of Indonesia's external debt remained healthy and manageable, and Indonesia's Balance of Payments (BOP) is projected to remain solid.

6. According to the findings of an in-depth country diagnostics analysis for Indonesia, the most challenging constraints are low human capital, weak infrastructure, and market failures. There are infrastructure and institutional constraints stunting the growth of the private economy. The diagnostics shows that investments and domestic savings are not restraining growth. These findings suggest that more focus should be placed on the low level of capital productivity, reflected in low returns on investments. There are also regional disparities, a wide urban and rural divide, large gender and generational inequalities.

7. The Government's Vision, Mission and directives that comprise Human Resources Development, Infrastructure Development, Simplification of Regulations, Simplification of Bureaucracy, and Economic Transformation have been translated into 7 Development Agendas of RPJMN 2020-2024. These agendas include: 1. Economic Resilience for Quality and Equitable Growth; 2. Regional Development for Inequality Reduction; 3. Qualified and Competitive Human Resources; 4. Mental Revolution and Cultural Development; 5. Infrastructure for the Economy and Basic Services; 6. Environment, Disaster Resilience and Climate Change; 7. Stable Political, Legal and Security Affairs and Transformation of Public Services.

8. The MCPS will be appropriately aligned with 5 development agendas (out of seven) of the RPJMN 2020-2024, while indirectly contributing to the remaining two agendas. Hence, the partnership strategy espouses strong complementarity and alignment with the Republic of Indonesia's RPJMN (2020-2024) towards a thriving economy.

9. The IsDBG engaged in close coordination with the GoI during the formulation of the Indonesia National Development Plan (RPJMN, 2020-2024) in order to ensure that the interventions generated upon the culmination of the MCPS formulation process (MCPS Strategy Document) are closely aligned with the government's priorities laid out in the current RPJMN.

10. Specifically, in its official request, the GoI informed the Bank that it seeks support across the following areas: human capital development, urban and energy development, digital technology and digitalization development, innovation ecosystem establishment, and SMEs empowerment. In addition, health and water & sanitation interventions and industrial analyses across agriculture & agribusiness, chemical, pharmaceuticals & automotive are to be incorporated as part of coverage of this MCPS.

11. The IsDBG can refine the areas of cooperation in order to address emerging major development challenges and binding constraints identified through IsDB's Country Diagnostic Study and subsequent consultative missions. The MCPS will mainstream the cross-cutting thematic areas of Islamic Finance, Climate Change, Women and Youth and Capacity Development.

12. The IsDBG has explored ways of supporting line Ministries in bolstering the project implementation capacity through improved public financial management, disbursement and procurement systems. The MCPS will help enhance the effectiveness of results-delivery and performance monitoring of the PFM systems, improve planning, monitoring, and evaluation aspects, based on the support of the Ministry of Finance of Indonesia in diversifying the list of auditing agencies for the future projects in order to ensure that all IsDB projects are effectively and efficiently audited.

13. The IsDBG will use various channels to work with other development partners, eligible financial intermediaries, and the private sector to support the much higher scale of investments and development outcomes in line with the RPJMN.

14. In addition, the MCPS Indonesia, being aligned with the Bank's Strategic Realignment 2023-2025, will endeavor to espouse stronger Group Synergy, enshrine focus and selectivity in programming in line with the IsDB Group's core strengths and driven by the national priorities, pilot programmatic and solution-centric pipeline building approaches, identify cooperation opportunities with developmental partners and catalyze resource mobilization opportunities.

# ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFD	Agence Française de Développement
AIF	The ASEAN Infrastructure Fund Ltd
AIIB	Asian Infrastructure Investment Bank
BAPPENAS	National Development Planning Agency
BIMP-EAGA	Brunei- Indonesia- Malaysia Philippines – East Asia Growth Area
CDS	Country Diagnostic Study
CSO	Civil Society Organizations
COVID-19	Coronavirus disease 2019
DANIDA	Danish International Development Agency
DFAT	Australia Department of Foreign Affairs and Trade
E-GP	Electronic Government Procurement
EDCF	The Economic Development Cooperation Fund
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
GIZ	The German Agency for International Cooperation
Gol	Government of Indonesia
HDI	Human Development Index
ICD	Islamic Cooperation for the Development of the Private Sector
ICT	Information and communications technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFSD	Islamic Financial Services Department
IMF	International Monetary Fund
IMT-GT	Indonesia- Malaysia – Thailand Growth Triangle
IRTI	Islamic Research and Training Institute

IsDBG	Islamic Development Bank Group
JICA	Japan International Cooperation Agency
JFPR	Japan Fund for Poverty Reduction
KEXIM	Korean Exim Bank
KFW	Credit Institute for Reconstruction
KOICA	The Korea International Cooperation Agency
MC	Member Country
MCPS	Member Country Partnership Strategy
MVA	Mega Volt Amperes
NDC	Nationally Determined Contribution
NDP	National Development Plan
P5P	President`s -5Year Program
PCI	Product Champion Index
PFM	Public Financial Management
PEFA	Public Expenditure and Financial Accountability
PPP	Public-Private Partnership
RCA	Revealed Comparative Advantage
RL	Reverse Linkage
RP	Rupiah
RPJMN	National Medium-Term Development Plan
SDGs	Sustainable Development Goals
SFD	Saudi Fund for Development
SPSE	Electronic procurement system of LKPP
SSC	South-South Cooperation
SSTrC	South-South Cooperation and Triangular Cooperation
STI	Science, Technology, and Information
UNDP	The United Nations Development Program
WB	World Bank

# MAP OF THE COUNTRY



The boundaries and names shown and the designations on this map do not imply official endorsement or acceptance by the Islamic Development Bank Group.

# INTRODUCTION

1. **The Islamic Development Bank Group (IsDBG), as part of its Strategic Realignment 2023-2025 launched a recalibrated Member Country Partnership Strategy (MCPS)** that takes into consideration the rapidly evolving socioeconomic contexts of its MCs in the aftermath of the COVID-19 pandemic.
2. **Indonesia has made remarkable political, economic, and social progress during the past two decades.** In the aftermath of the Asian financial crisis (1997-98), the country adopted a wide range of political and economic reforms that served the country well. In the political sphere, the former political system was replaced by a democratic multiparty system with term limits for the President. A deep decentralization program replaced the system of a centralized government, and a wave of reforms reduced the dominant role of the Government in the economy. Following the re-election of President Jokowi in 2019, his priorities included infrastructure construction, human resource development, and bureaucracy reform.
3. **Indonesia has achieved annual average growth of 5% during the period 2015-2019, and faced a recession in 2020, when the economic growth contracted to -2.07% due to the COVID-19 pandemic.** However, owing to global economic improvements driving solid export performance, growing domestic demand, faster vaccination rollout, policy stimuli, and the reopening of economic sectors, the Indonesian economy is projected to rebound by 3.7% in 2021 and grow by 5.2% in 2022.
4. **The sectoral breakdown of Indonesian economy is 44.4% for services, 38.3% for industry, and 13.7% for agriculture in 2020.** The key drivers of economic growth and social development have been its service and Industry sectors.<sup>1</sup> On the demand side, real GDP growth was driven by domestic demand led by private consumption and investment.
5. **Upon the request of the Government of Indonesia, the IsDBG has initiated the preparation of the MCPS Indonesia for the period of 2022-2025** in alignment with Indonesia's National Development Plan and the Bank's Strategic Realignment 2023-2025. The overall MCPS engagement framework will consist of three strategic objectives: a near-term orientation of 'Boosting COVID-19 Recovery', a medium-term orientation of 'Tackling Poverty and Building Resilience', and a longer-term orientation of 'Driving Green Economic Growth'.
6. **These will be underpinned by two strategic pillars:** 'Green, Resilient & Sustainable Infrastructure' and 'Inclusive Human Capital Development'. Cross-cutting areas to be mainstreamed across interventions include Islamic Finance, Climate Change, Women and Youth, and Capacity Development.
7. **The IsDBG engaged in close coordination with the Government of Indonesia during the formulation of Indonesia's National Medium-Term Development Plan (RPJMN, 2020-2024).** The Bank will ensure that the interventions generated upon the culmination of the next stage of the MCPS formulation (MCPS Strategy Document) are closely aligned with the national priorities and the operational strengths of the Bank in line with the strategic priorities set under the Strategic Realignment 2023-2025.

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<sup>1</sup> According to IsDB Country Snapshot Q1, March 2022





## 2 COUNTRY CONTEXT

8. **Indonesia is home to 272.2 million (2021) people, making it the world's 4th most populous country and the largest Muslim country by population.** It is the world's 16th largest economy in terms of nominal GDP; the world's 10th largest economy in terms of GDP (PPP); the largest OIC economy, the largest economy in Southeast Asia; and a member of the G-20. The country has around 300 ethnic groups speaking more than 600 languages.
9. **Characteristic of a widely dispersed archipelago, the western parts of Indonesia have benefited from disproportionately higher development,** contributing a substantially larger share to GDP growth. The eastern part of Indonesia, meanwhile, is economically isolated and much less densely populated.
10. **President Jokowi's administration has been focusing on infrastructure development and spending on social programs like health, nutrition and education cards, which grant access to these basic services to Indonesia's poor.** Government spending was redirected from distortionary energy subsidies, towards infrastructure development. Education will be another key factor, where the Government will focus on more effective and targeted spending. **The second term of President Jokowi renews efforts towards economic liberalization comprising trade and investment promotion,** deregulation, human capital development, enhance private sector participation, productivity improvements and infrastructure development.
11. **Indonesia experiences a tropical climate, with generally consistent year-round temperatures and monsoonal rainfall patterns.** Indonesia's climate is influenced by the El Niño Southern Oscillation (ENSO), with high exposure to flooding and extreme heat. Indonesia is forecast to experience warming and an increase in average rainfall, although with considerable spatial and temporal variation. Such climate changes will likely impact water and food security, urban development (particularly in coastal zones) and disaster risk management, with implications for poverty and inequality. High variations in potential impacts are expected across Indonesia.<sup>2</sup>



<sup>2</sup> World Bank Group and Asian Development Bank (2021) Climate Risk Country Profile, 24 Nov 2021

## 2.1 MACROECONOMIC OVERVIEW

### 2.1.1 Recent Macroeconomic Trends

12. **Domestic economic growth is forecast to accelerate in 2022. Overall, the national economy is projected to grow in the 3.2-4.0% range in 2021, before accelerating to 4.7-5.5% in 2022, assuming Indonesia does not experience a severe new COVID-19 wave.** The poor and vulnerable have been hit hard by the pandemic. The official national poverty rate increased from 9.0% to 10.2% in September 2019-2020.

13. **The country's economic growth has been driven by its services and Industry sectors.** On the demand side, real GDP growth was driven by domestic demand led by private consumption and followed by investments and exports. The demand components of GDP in 2021 were as follows: private consumption, 54.3%; Government consumption, 8.06%; investment, 31%; and exports of goods and services (% of GDP), 18.4%. Regarding the demand side of real GDP growth, the contribution of private consumption was around 2.9 percentage points. More than half of the growth was driven by private consumption rebounds following the easing of COVID-19 restrictions.

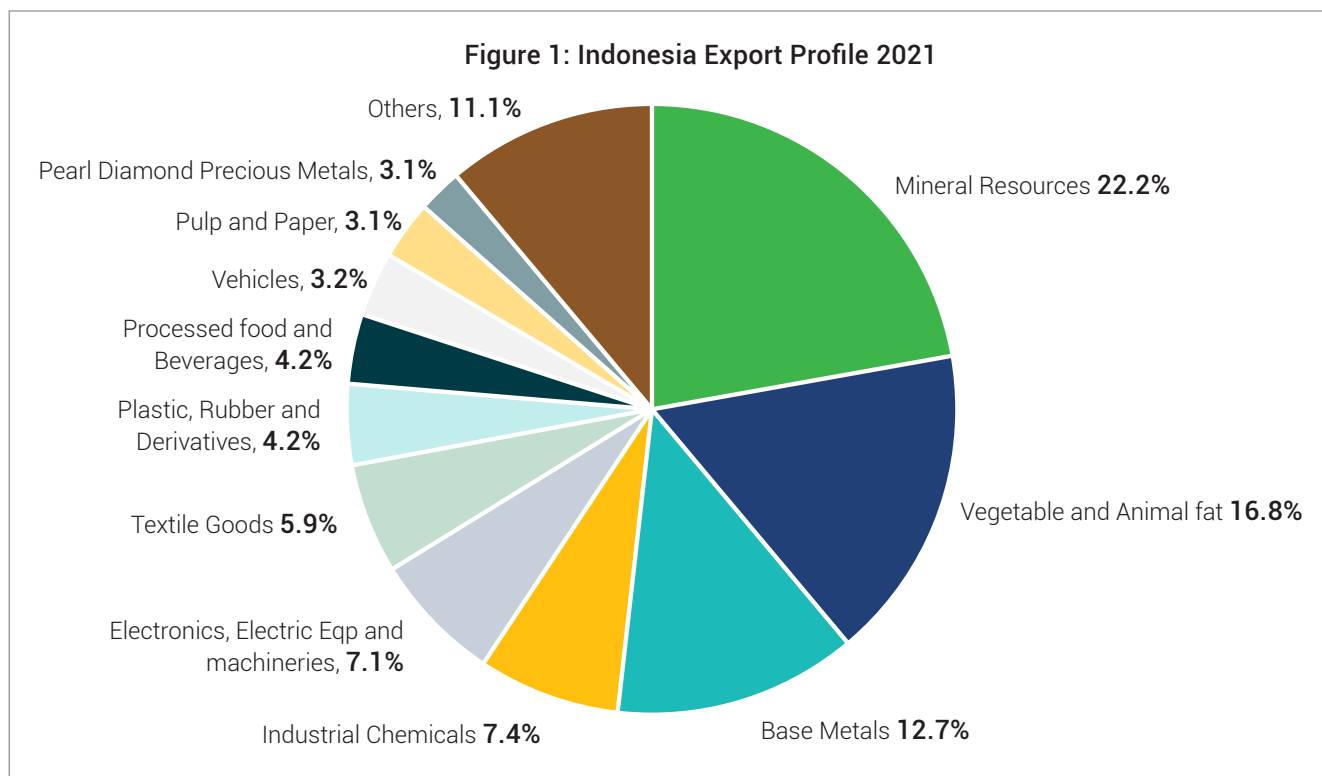
14. **Inflation in 2021 was low and contributed to economic stability, but also signals sluggish recovery in domestic demand relative to pre-pandemic levels.** In 2021, the Consumer Price Index (CPI) was recorded at 1.87% (YoY), which is below the 3.0%  $\pm$ 1% target.<sup>3</sup> Meanwhile, core inflation declined to 1.3% (YoY) in September 2021 as despite the easing of public activities restrictions, domestic demand had not fully recovered.

15. **Indonesia's Balance of Payments (BoP) is projected to remain solid, mirroring the strong performance in 2021.** Looking ahead, robust BOP performance in 2022 is expected, bolstered by a low and manageable current account deficit in the 1.1-1.9% of GDP range. In addition, the capital and financial account is forecast to record a larger surplus in 2022 than in the previous year, primarily due to foreign capital flows in the form of foreign direct investment (FDI) given the recent improvements to the domestic investment climate.



<sup>3</sup> BI, New Release, 20 Jan 2022

16. **The strong BoP performance in 2021 was largely driven by robust exports performance (140% growth on previous year) due to higher commodity prices such as Crude Palm Oil (CPO) and Coal** from surging demand from India and China as well as rebounding global demand. While imports grew during the same period, driven by higher crude oil prices, exports outstripped imports. Figure 1 shows Indonesia's export composition in 2021, characteristically dominated by commodities.



Source: CEIC

17. **The structure of Indonesia's international trade remains persistently dominated by base metals, vegetable and animal fat, and mineral resources.** While Indonesia has been able to ride the tide of rebounding demand in two of its key exports, CPO & Coal, recently, the economy remains dependent on the market demand of such commodities for its sustainability. **Trade diversification and market expansion** are two focus areas that can help secure Indonesia's economic growth sustainability.

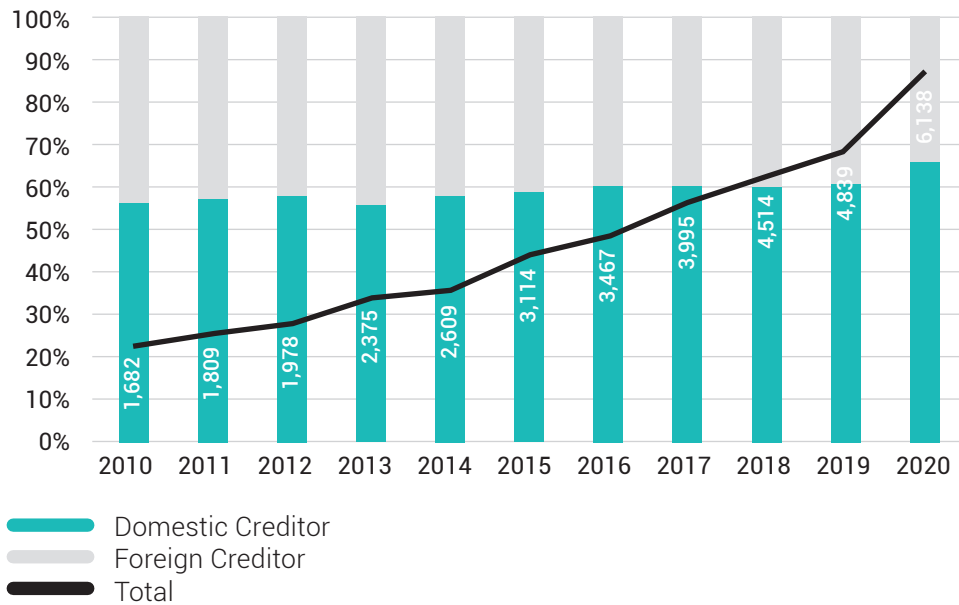
## 2.1.2 Debt Sustainability Analysis

18. **The Government debt to GDP ratio has increased since 2015 and reached 41.8% of GDP in 2021, meanwhile registering consistent budget deficits averaging around 2% in 2015-2019 and 6% in 2020.** External financing and non-resident holdings of Rupiah denominated assets have declined during the pandemic with the narrowing of the current account deficit. Financing needs remained elevated. This pushed central government debt up from 30.2% of GDP in 2019 to 41.8% of GDP in 2021, which is nevertheless low relative to its peers and the official debt ceiling (60% of GDP). Government debt holding shifted markedly with increased financing by Bank Indonesia, commercial banks, and other domestic investors.<sup>4</sup>

<sup>4</sup> WB, Indonesia Economic Prospects, Dec 2021

19. **The structure of Indonesia's external debt remained healthy however, concerns over fiscal sustainability remain.** The ratio of Indonesia's external debt to GDP was around 35% at the end of 2021. In recent years, net external portfolio liabilities have risen with large capital inflows. As a result, Indonesia now has one of the highest shares of nonresident holdings of public debt across emerging markets (EMs) and accounts for a substantial share in total EM public debt held by nonresident investors.<sup>5</sup>

Figure 2: Government Debt by Ownership



Source: World Government Bonds, 2021

20. **While this is in and of itself not a significant proportion of external debt, monetary normalization by the US Federal Reserve is a cause for the concern as it may lead to capital flight** and tighter external financing conditions coupled with potential Rupiah depreciation. If the tapering off by the US Fed happens quicker than the real sector recovers in Indonesia, it has limited room for counter-tightening monetary policy to manage the Rupiah depreciation.

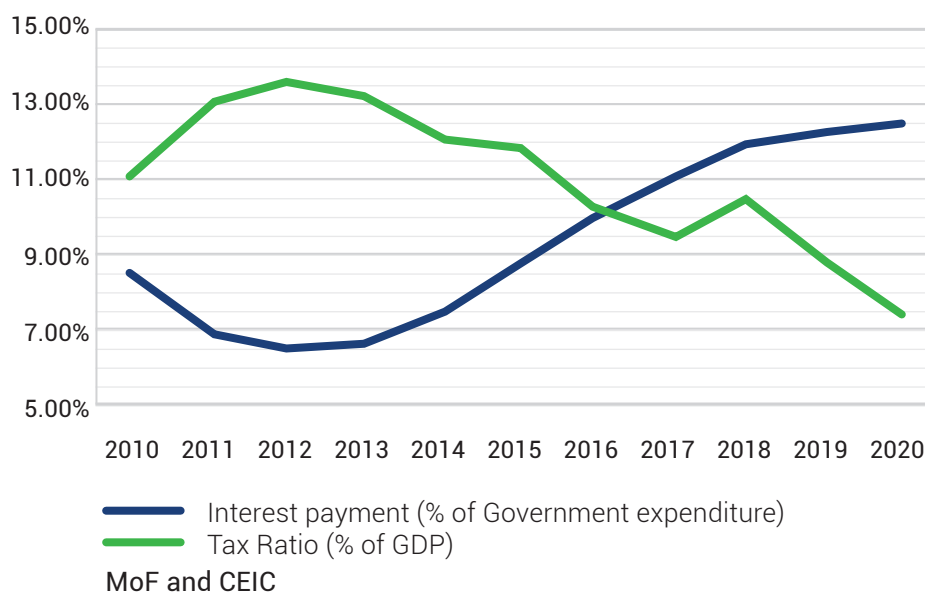
21. **Much like other emerging economies, Indonesia's fiscal space is persistently narrow,** with the Government highly dependent on commodities revenues to support its fiscal space, leading to largely procyclical state financing. From the revenue perspective, low tax ratio is of a major concern as it stood at 8.33% in 2020 in comparison to the Asia-Pacific average of 21%.

22. **Further compounding concerns over fiscal sustainability is the increasing interest payment burden to foreign creditors.** Indonesia's sovereign bond yields are substantially higher than that of comparator countries. This is due to the higher risk premia required to attract foreign investors relative to comparator countries such as the Philippines, Thailand and Malaysia. **While Indonesia has a competitive sovereign credit rating relative to the comparator countries, the differential in bond yield is caused by the lower financial market depth in Indonesia.**

<sup>5</sup> IMF Country Report No. 46/21, March 2021

23. **Higher bond yields translate to higher interest payments.** Increasing interest payment burden coupled with declining tax ratio over the course of 2010-2020 pose a significant challenge to fiscal sustainability. There are two immediate imperatives to ensure fiscal sustainability and protect fiscal space; **(i) tax reforms and (ii) financial markets deepening by accelerating the development of domestic markets and its capacity to absorb and mobilize finance more efficiently.**

Figure 3: Interest Payment and Tax Ratio



24. **On the positive side, the fiscal deficit is expected to narrow to 3% of GDP starting in 2023, in line with the Government's commitments.** The fiscal deficit is projected to drop from 5.0% to 3.9% of GDP in 2021-2022 as spending moderates and revenues continue to rebound. The baseline assumes that over half of the fiscal adjustment needed to achieve 3% of GDP in 2023 will be through expenditure cuts. The remainder will be achieved through rebounding revenues driven by stronger growth and progress in implementing the Tax Harmonization Law.

25. **Expenditure reductions will come mainly from the unwinding of some exceptional COVID-19 measures and lower capital spending, while higher social assistance spending is maintained to protect the poor.** The implementation of the Tax Harmonization Law is estimated to boost tax revenues by 0.7 percentage point of GDP in 2022, which then restores the tax-to-GDP ratio in 2023 to its pre-pandemic level at 9.8% of GDP. Relaxation of the state budget deficit policy above 3% of the GDP will apply for only 3 fiscal years (2020, 2021, and 2022). The Government of Indonesia expects to impose a fiscal discipline of below 3% deficit starting in 2023.<sup>6</sup>

26. **Capital adequacy, non-performing loans (NPLs), loan provisioning, bank liquidity and profitability have remained healthy.** Notwithstanding, the loans-at-risk ratio – defined as the sum of NPLs, restructured loans and special mention loans – increased sharply from 11.6% to 22.6% in March 2020-June 2021 and warrants close monitoring. This is a deviation from the trend due to COVID-19 disruptions to business and jobs and is expected to rebound upon economic normalization.

<sup>6</sup> WB, IEP, Dec 2021

27. **Monetary policy space to manage external financing pressures while supporting the recovery is relatively strong assuming a stable rupiah.** Adequate levels of reserves (9-10 months of imports in 2021) and high real interest rate and inflation differential with advanced economies serve as buffers.

28. **Monetary policy remained accommodative amid weak domestic demand and stable external conditions.** Bank Indonesia (BI) kept its benchmark policy rate unchanged at 3.5% since January 2021 after cutting it by a cumulative 150 basis points during the pandemic. This is consistent with the large negative output gap, accommodative global financial conditions, stable portfolio flows, and low inflation. BI injected liquidity in the financial system through open market operations, cuts to reserves requirements, and Government bond purchases in the primary and secondary market.



## 2.1.3 Recent Social and Political Developments

29. **The President, H.E. Joko Widodo will complete his final term, which ends in 2024.** He has accommodated a wide range of political groups in his cabinet, including members of several parties, former military personnel, and religious figures. This will underpin coalition stability.

30. **The Indonesian Government, under his leadership (since 2014), has implemented several structural reforms that aim at long-term growth.** For example, Indonesia has embarked on important structural reforms during the pandemic that stand out in the East Asia and Pacific region and among emerging market economies. The reforms in the Omnibus Law for Job Creation (OL) and the Tax Harmonization Law (THL) aim to improve Indonesia's attractiveness to foreign investment, the functioning of the labor market and fiscal space. Moreover, the Government places a high priority on infrastructure development (evidenced by the sharply rising Government infrastructure budget) and investment (evidenced by deregulation and fiscal incentives offered to private investors).

31. **Indonesia's foreign policy will be driven primarily by its economic interests, and the country will remain non-partisan amid growing competition in the region between China and the US.** Essentially, it is a policy designed to serve the national interest while simultaneously allowing Indonesia to cooperate with other nations to abolish colonialism and imperialism in all their forms and manifestations for the sake of world peace and social justice. Accordingly, Indonesia was one of the founding members of the Non-Aligned Movement and successfully gained a non-permanent seat in UN Security Council from 2019- 2020. The country will receive more international attention through its hosting of the G20 summit in 2022.

## 2.1.4 Economic Outlook

32. **COVID-19 has had substantial and widespread impact on Indonesia's economy; however, the Indonesian economy experienced a significant rebound with a 3.7% GDP growth rate in 2021** compared to a contraction of 2.1% in 2020 and the economic growth is projected to accelerate to 5.2% in 2022. In 2021, the growth in private consumption was 3.7%, while it was 3.1% in Government consumption.

33. **Moreover, a sharp upturn has occurred in investment with a 4.0% growth in 2021 after a severe reduction of 4.9% in 2020, and it is expected grow higher by 5.5% in 2022.** Furthermore, the growth in export volumes was 9.1% in 2021 and is expected to be 7.9% in 2022. Similarly, the growth in imports was 9.0% in 2021 and is anticipated to be 8.0% in 2022.

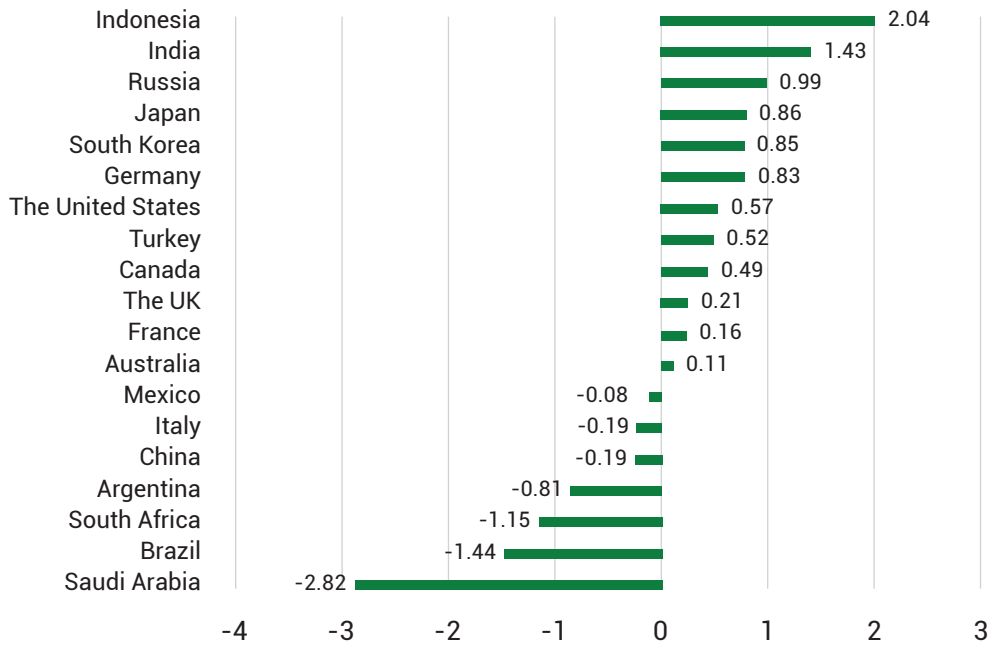
Table 1: Indonesia Macroeconomic Outlook

	2020	2021	2022
Real GDP growth (%)	-2.1	3.7	5.2
Private consumption (%)	-2.7	3.7	5.2
Government consumption (%)	1.9	3.1	2.9
Gross fixed capital formation (%)	-4.9	4.0	5.5
Export volumes of goods and services (%)	-7.7	9.1	7.9
Import volumes of goods and services (%)	-14.7	9.0	8.0
Unemployment (%)	7.1	6.5	6.1
Inflation (%)	2.0	1.6	2.2
Current account balance (%)	-2.7	-0.4	-1.1

Source: WB and EIU, Dec 2021

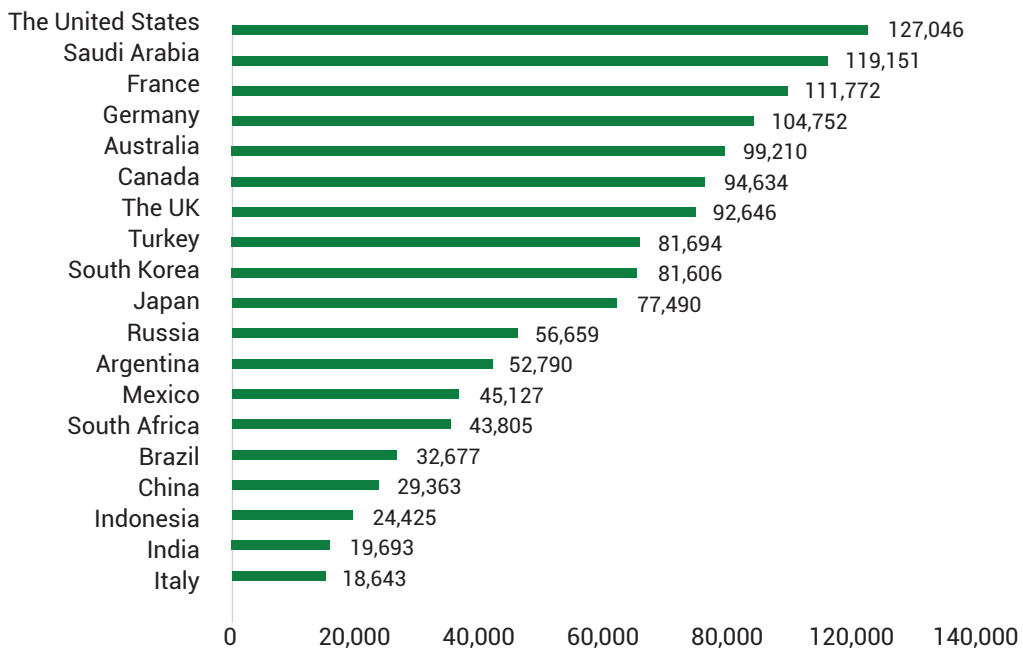
34. **Unemployment is anticipated to decline to 6.1% in 2022.** In 2020, the unemployment rate had a steep increase of around 1.9 percentage points compared to the rate in 2019 (from 5.2% to 7.1%) due to job losses, especially in services sectors that were heavily hit by the COVID-19 pandemic. However, the unemployment rate has declined to 6.5% in 2021 and is expected to decline further to 6.1% in 2022 due to an accelerated growth in the Indonesian economy.

**Figure 4: Average Growth of Total Factor Productivity, 2009 -2019**



Source: Penn World Table

**Figure 5: Labor Productivity, 2019**



Source: ILOSTAT, 2020



35. **While Indonesia has experienced the highest Total Factor Productivity (TFP) growth, 2.01% (YoY) among G20 members over the course of 2009-2019, its labor productivity remains one of the lowest.** This suggests that welfare gains from higher TFP have not translated proportionally to better welfare for workers and that their contribution to productivity growth remains stifled, representing a key impediment to unlocking higher economic growth.

36. **Given promoting productivity is the first pillar of Indonesia's G20 agenda, it is imperative that higher investments in health, industry-linked education and labor market reforms are pursued to ensure higher labor productivity and economic growth.** The disproportional translation of higher TFP to labor productivity also signals a lack of inclusivity in the Indonesian labor market, which manifests in the form of low female labor participation and high youth unemployment.

37. **The female labor participation rate has stagnated at around 50% since 2000, compared to more than 80% for males.** Thus, substantial gender gaps prevail in employment status. Youth unemployment in Indonesia, which makes up a 58% of total unemployment, is the highest in ASEAN, and is higher than the world's average. Therefore, decreasing the level of unemployment in Indonesia to 3.8% in 2030 will be possible if the issues on youth unemployment, jobs quality, and low productivity of workers are addressed.

38. **Inflation is expected to increase slightly to 2.2 by 2022.** Inflation has been stable and mostly below the official target band ( $3 \pm 1\%$ ) during 2020 and 2021. In 2022, inflation is predicted to pick up slightly to 2.2% due to higher global inflation, but it is still expected to be in the Bank Indonesia's target corridor that will be supported by increasing national production capacity through efficiency and productivity gains to meet higher aggregate demand in the economy.

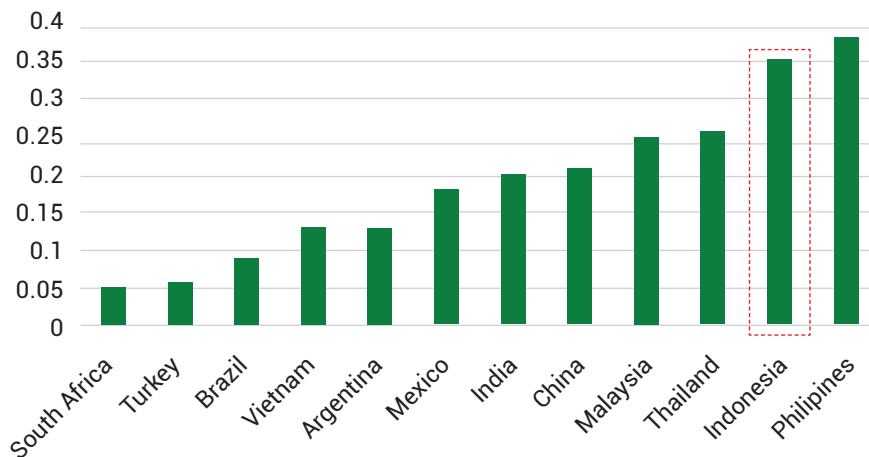
39. **Indonesia's Balance of Payments (BOP) is forecast to remain solid, thereby supporting external sector resilience.** A low and manageable current account deficit is predicted for the first quarter of 2022, supported by a US\$ 9.3 billion trade surplus. The positive trade balance is underpinned by a large non-oil and gas trade surplus, primarily stemming from a high export value due to international commodity prices, including coal, iron and steel as well as metalliferous ores, despite a growing oil and gas trade deficit. Meanwhile, foreign capital flows, which recorded a net outflow of US\$ 1.8 billion in the first quarter of 2022, re-established a net inflow at the beginning of the second quarter of 2022, totaling US\$ 0.8 billion as of 14th April 2022.

40. **Moving forward, high international commodity prices will boost export value in 2022, thus reducing the current account deficit,** which Bank Indonesia now projects at 0.5-1.3% of GDP, compared with the previous projection of 1.1-1.9% of GDP. Overall, Indonesia is expected to sustain a positive balance of payments, thereby supporting external sector resilience.

41. **In the medium to long run, the economy is susceptible to reduction in the Government's infrastructure investment which might occur due to capacity constraints and insufficient revenues, financing being redirected to sponsoring fuel and power costs and to issues appealing private investors to important projects.** This poses a significant risk to the economic development of the country as Indonesia needs massive investments in infrastructure that will be an essential factor for the country's longer-run economic growth since it will enable the transportation of merchandise and individuals to places where they are needed, and it could pave the way for a more developed manufacturing sector.

42. **Substantial external financing will be required in order to ensure Indonesia can meet the ambitions set out in the RPJMN and beyond. Despite recent improvements in the business climate, Indonesia has the highest FDI Restrictiveness score among the G20 countries,** and the second-highest among comparator countries such as Thailand, Malaysia and Vietnam. This poses a serious challenge for Indonesia's long-term development plans. Enabling environmental factors such as quality of contract enforcement, property rights, justice etc., need to be improved.

**Figure 6: FDI Restrictiveness Index-Selected Emerging Markets**



### 2.1.5 Green Growth Prospects

43. **Indonesia faces both climate change mitigation and adaptation challenges. Indonesia is among the largest emitters of greenhouse gas emissions (GHGs) globally.**<sup>7</sup> Almost two-thirds (63%) of Indonesia's GHG emissions come from land-use change and peat and forest fires, with combustion of fossil fuels contributing a further 19%.<sup>8</sup> Additionally, Indonesia's ~6,000 inhabited islands include built infrastructure, low-lying settlements and water and food security systems, many of which are vulnerable to changing temperature and rainfall regimes and extreme events.

44. **However, Indonesia is committed to making progress on climate change (and disaster risk management), having demonstrated leadership at both national and international levels.** Indonesia is a signatory of the Paris Climate Agreement and, in 2021, updated its Nationally Determined Contribution (NDC) prior to the 26th United Nations Conference of Parties on Climate Change (COP26).

<sup>7</sup> <https://www.wri.org/insights/interactive-chart-shows-changes-worlds-top-10-emitters>.

<sup>8</sup> Government of Indonesia, 2021, Updated Nationally Determined Contribution Indonesia.

45. **Indonesia's NDC sets an unconditional GHG reduction target of 29% and conditional reduction target of up to 41% of the business-as-usual scenario by 2030.**<sup>9</sup> Indonesia's adaptation focus is on reducing risks, enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change in all development sectors by enhancing climate literacy, local capacity strengthening, improved knowledge management, convergent policy on climate change adaptation and disaster risks reduction, and application of adaptive technology.<sup>10</sup> Indonesia considers climate mitigation and adaptation efforts as an integrated concept that is essential for building resilience in safeguarding food, water and energy resources.

46. **Indonesia has formulated a Long-Term Strategy on Low Carbon and Climate Resilience 2050 (LTS-LCCR 2050), which defines pathways in achieving low emission development until 2050** and is expected to guide the implementation and development of subsequent NDCs. Indonesia's LTS takes into consideration the need to balance between emission reduction and economic development, and putting emission reduction, economic growth, a fair opportunity and climate-resilient development as an integral part of the LTS' goal.<sup>11</sup>

47. **Indonesia has already made progress on green growth prospects, e.g., a modeling from a 2019 study commissioned by BAPPENAS showed that a low carbon development path towards net-zero emissions in 2045 could deliver a GDP growth rate of 6% a year on average, above current business-as-usual projections, and create an estimated 15.3 million jobs.**<sup>12</sup> Such a low-carbon development initiative could support enhanced green investment.<sup>13</sup> Likewise, in 2019, Indonesia launched the Environmental Trust Agency as a vehicle for mobilizing finance related to climate change, the environment, and disasters. These initiatives help lay the foundation for future green growth opportunities.

48. **Furthermore, Indonesia's NDC identifies both mitigation- and adaptation-related opportunities related to green growth.** Key mitigation opportunities relate to restoration of peatlands and rehabilitation of degraded land; mixed energy use, including clean energy sources, a pathway to de-carbonization and biofuels; and waste and wastewater management initiatives, including reduce, reuse, and recycle principles. Focus on resilience includes economic resilience, social and livelihood resilience, and ecosystem and landscape resilience, which links to RPJMN 2020-2024 adaptation focus on water, agriculture, health, and coastal and marine ecosystems.<sup>14</sup>

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*Indonesia is committed to making progress on climate change (and disaster risk management), having demonstrated leadership at both national and international levels.*

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<sup>9</sup> Government of Indonesia, 2021, Updated Nationally Determined Contribution Indonesia.

<sup>10</sup> Government of Indonesia, 2021, Updated Nationally Determined Contribution Indonesia.

<sup>11</sup> Government of Indonesia, 2021, Updated Nationally Determined Contribution Indonesia.

<sup>12</sup> <https://lcdi-indonesia.id/>.

<sup>13</sup> <https://blogs.worldbank.org/eastasiapacific/indonesia-can-build-back-better-green-recovery>

<sup>14</sup> Government of Indonesia, 2021, Updated Nationally Determined Contribution Indonesia.

## 2.1.6 Poverty Analysis

49. **Indonesia has made enormous gains in poverty reduction by cutting the official national poverty rate<sup>15</sup> by more than half, from 19.1% in 2000 to 9.4% in 2019, according to Statistics Indonesia.** This reduction was mainly due to robust growth in the last two decades. However, the COVID-19 pandemic has put these gains at risk. In 2020, the poverty rate increased to 9.8%, and in 2021, it climbed further to 10.1%. This is equivalent to 2.4 million people pushed back into poverty between 2019 and 2021 due to the direct and immediate impact of the pandemic on the most vulnerable groups in the society. Nonetheless, the Indonesian Government's broad social assistance program and unconditional cash transfers during the pandemic has prevented a much steeper increase in poverty rates.

50. **Regional disparities exist and are significant.** The poverty rate of Indonesia significantly varies across provinces, which ranges from 4.5% (Bali) to 27% (Papua) in 2021. Thus, there appears to be varying experiences of poverty across provinces, implying that poverty reduction initiatives must be targeted to achieve greater parity in society. There is a noteworthy gap between urban and rural areas in terms of poverty incidence.

51. **Urban/Rural disparities are pronounced.** While the official national poverty rate in 2021 is 7.9% in urban, it is more than 5 percentage points higher in rural areas at 13.1%. Enhancing measures, especially in the provision of social safety nets, could help Indonesia close the urban-rural divide.

52. **Poverty rates across both genders are comparable.** The gap in the percentage of population living below the national poverty line according to gender is minimal, 9.9% for men and 10.4% for women in 2021, albeit implying that there is more left to be desired in terms of gender parity.

53. **The multiple dimensions of poverty need to be addressed.** In the case of Indonesia, the latest MPI was computed for 2017 at 0.014. Whereby, in 2017, the headcount ratio of Indonesia's population experiencing multiple and simultaneous deprivations is 3.6% and the intensity of poverty is 38.7%. **Deprivation in living standards constitutes the largest deprivation among poor households (38.5% of deprivations), followed by deprivations in health (34.7%) and in education (26.8%).** It is expected that the COVID-19 pandemic adversely affected deprivations of Indonesian households in all three dimensions of the MPI because of stringent lockdowns, school closures, and job losses amid the pandemic and its multiple surges.

54. **This MPCs strives to target the main causes of poverty through interventions to reduce regional disparities in poverty rates especially in the less developed regions.** IsDB believes that a one-size-fits-all approach to poverty by distributing cash and rice to poor people can't solve some regions' poverty problems. It is important to understand that each province may encounter different poverty problems since each area has distinctive poverty problems.

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*This MPCs strives to target the main causes of poverty through interventions to reduce regional disparities in poverty rates especially in the less developed regions.*

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<sup>15</sup> The national poverty line of Indonesia is US\$ 0.82 per day or US\$ 25 per month.(ADB 2015)

## 2.2 SDG PROFILE

55. Given the existing challenges (disruption in the achievements of SDG targets, financing for SDG implementation), Indonesia believes that the 2030 agenda for Sustainable Development Goals will not be achieved without multilateral cooperation. Based on the SDG Index, the country ranks 97/165 and scored 66.34/100 against a regional score of 67.2/100, showing that globally, **Indonesia is above the average in terms of the SDG index, but the country is below the average compared to its regional average.**

56. In terms of trends, SDG4 (Quality Education), SDG6 (Clean water and sanitation) and SDG8 (Decent work and economic growth) are "On Track", but still suffer from major or significant challenges such as population at least using basic sanitation services. Meanwhile, SDG1 (No Poverty), SDG2 (Zero Hunger), SDG3 (Good Health and Well-being), SDG5 (Gender Equality), SDG7 (Affordable and Clean Energy), SDG9 (Industry Innovation and Infrastructure) and SDG16 (Peace Justice and strong institutions) are "Moderately Improving" whereas SDG11 (Sustainable Cities and Communities), SDG13 (Climate Action), SDG14 (Life Below Water) and SDG15 (Life on Land) and SDG17 (Partnerships for the Goals) are stagnating.

SDG Dashboard and Trends



Source: UNDP 2021 (<https://dashboards.sdgindex.org/profiles/indonesia>)

57. **The estimated annual gap in SDG financing in Indonesia is projected to increase from US\$ 10 billion–US\$ 21 billion in 2020 to US\$ 175 billion–US\$ 355 billion in 2030.** In the post-COVID-19 environment, it will be vital to ensure that adequate resources are mobilized to meet the SDGs, which will be a challenge.

58. **All 17 Goals have been mainstreamed in the RPJMN seven Development Agendas for 2020-2024.** This reflects the strong commitment of the Government of Indonesia to mainstream the SDGs in its development planning.

59. **Overall, the annual achievement of the SDGs targets from 2016 to 2019 has been encouraging. However, the achievement of the SDGs targets has experienced a slowdown since 2020 due to the impact of COVID-19.** This presents a timely opportunity for proactive transformation consisting of recovery of industry, tourism and investment towards green economy, reforms of the national health systems, social protection systems and disaster resilience system.

60. **Given the existing challenges, Indonesia believes that the 2030 agenda for Sustainable Development Goals will not be achieved without multilateral cooperation & FDI.** The GoI expects that 75% of the annual SDG financing gap will be filled through financing from multilateral partners and private sector-led investments. Through this MPCPS, the IsDBG strives to support the country to address some key challenges faced in SDGs achievement through targeted interventions in alignment with the Policy Response of the Government of Indonesia.

## 2.3 SECTORAL & INDUSTRIAL ANALYSES

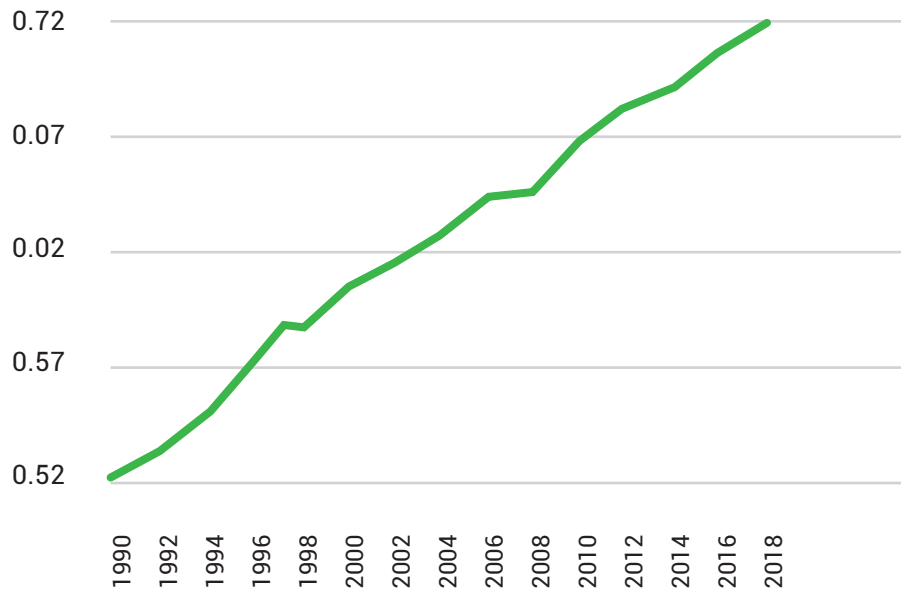
### 2.3.1 Human Capital Development

61. **Indonesia's human capital development is currently characterized by modest advances in educational quality, weak provision of decent work, particularly for women and youth, poor health outcomes, especially high incidence of stunting among poor children, and low coverage of social protection system.** Its educational system is suffering from low quality at all levels and therefore lags that of comparator countries. On-the-job training is sparse, and the educational system is not systematically linked to skills required by industry. Access to health care is not universal, and the capacity of the health care system is limited, which was largely exposed during the COVID-19 pandemic. Women and youth have fewer work opportunities in the labor market.

62. **Indonesia has struggled to develop its human capital, limiting overall productivity, holding back economic growth and risking stagnation within a middle-income trap.** In general, the labor force lacks the technical and entrepreneurial skills needed for responding to rapid technological change and for overcoming a possible middle-income trap. In addition, weak access, equity and quality in health services and low social protection expenditure are also notable binding constraints for further human capital development in Indonesia. As noted earlier, Indonesia ranks close to the bottom in regional and G20 labor productivity rankings, while having achieved the highest TFP growth between 2009-2019 compared to other G20 countries.

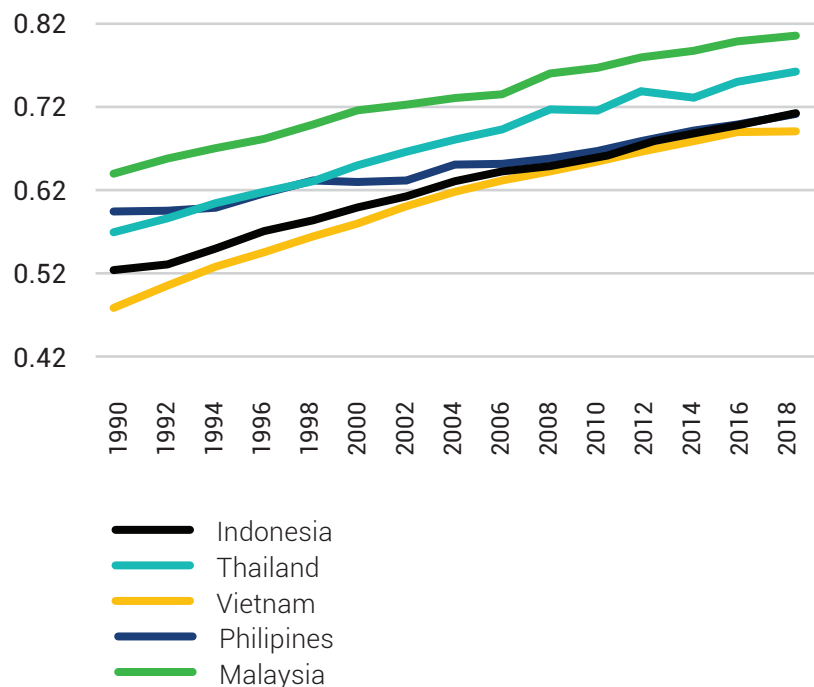
63. This MCPS dives deep into the root causes of the main human capital challenges and aims to develop projects/programs that structurally address these issues. This targeted intervention approach will further be strengthened through more effective reporting and monitoring.

Figure 7: Indonesia's Human Capital Index



Source: Human Development Report 2020 dataset, United Nations Development Programme (2020a)

Figure 8 : Human Development Index among South-East Asian Countries



Source: Human Development Report 2020 dataset, United Nations Development Programme (2020a)

64. **Between 1990 and 2019, Indonesia's HDI value increased steadily albeit at a slow pace from 0.523 to 0.718**, an increase of 37.3% which puts the country in the high human development category and positioning itself at 107 out of 189 countries and territories. Among major factors, Indonesia's life expectancy at birth increased by 9.4 years, mean years of schooling increased by 4.9 years and expected years of schooling increased by 3.5 years during the same period. Despite Indonesia being in the high human development category, it lags behind other peers in East Asia and the Pacific in terms of HDI (an average HDI score of 0.75 for the countries in East Asia and Pacific).

65. **Despite Indonesia's GNI per capita increasing by about 172.7% during 1990-2019, economic development has not been inclusive and distributed equally. The Gini coefficient as the main indicator of income inequality has increased significantly, from 30 in 2000 to 38 in 2019.** Indonesia's HDI of 0.718, when adjusted for inequality (or inequality-adjusted HDI), falls to 0.590, a loss of 17.8% due to inequality in the distribution of the HDI dimension indices. Broadly, the benefits of growth did not trickle down to the poorest segments due to a substantial difference in education attainment between the poor and rich, a large rural-urban divide and a lack of geographical inclusiveness in the provision of basic social services.

66. **In the RPJMN 2020-2024, as well as in the G20 Presidency, the role of human capital & productivity growth for sustained and inclusive growth are increasingly recognized with concomitant rise in Government expenditure on education, health, nutrition, and social protection.** Preparing a qualified, competent workforce would be one of the main drivers of inclusive and sustainable growth. In addition, strengthening economic resilience for quality growth is another major agenda of RPJMN 2020-2024, which presents opportunities for IsDB to intervene in agriculture development and address nutrition security, education, health, water, and air quality concerns to achieve improvement in human capital.

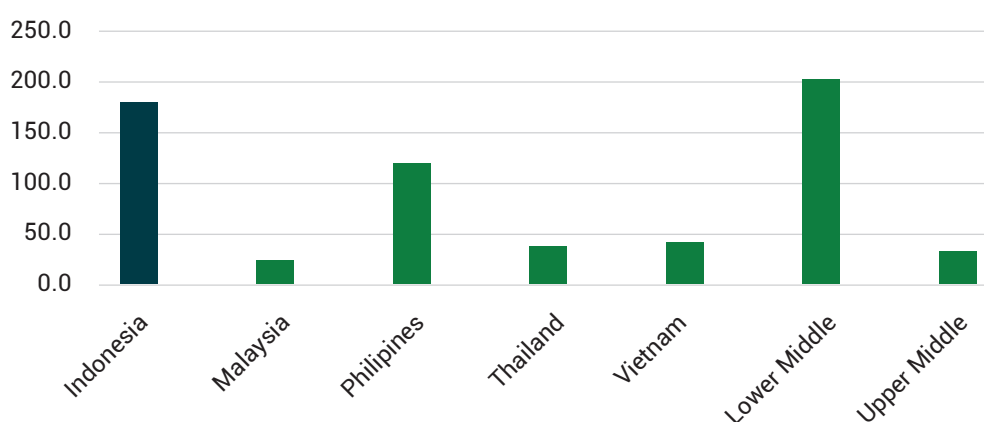




### 2.3.1.1 Health

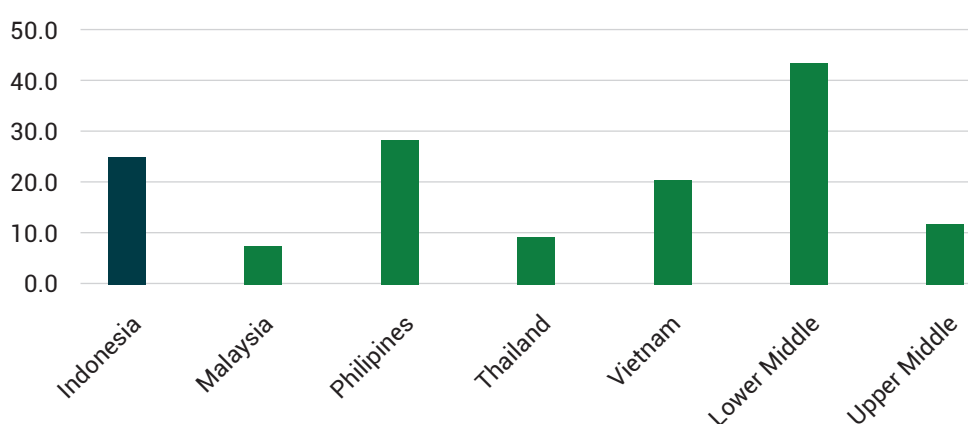
67. **Relying on strong economic growth and declining poverty rates, Indonesia has achieved significant progress in improving key health indicators such as improving maternal and child health.** According to the WB World Development Indicators, the rate of maternal mortality has dropped from 272 deaths per 100,000 live births in 2000 to 177 in 2017, and the mortality rate for under 5 years old dropped from 52.4 per 1,000 live births in 2010 to 25.9 in 2017. The Indonesian Government has expanded its universal health coverage through the national health insurance scheme (JKN) to improve “Good Health and Well-being” (SDG3) of its citizens, covering about 83% of the population under healthcare services.

**Figure 9: Maternal Mortality Ratio (Per 100,000 live births)**



Source: World Development Indicators, World Bank (2020a)

**Figure 10: Mortality Rate for Under 5 Years Old (per 1,000 live births)**



Source: World Development Indicators, World Bank (2020a)

68. **However, as a populous developing country which is geographically quite dispersed, health sector challenges remain in the quality of (primary) healthcare services.** Geographical access and equity remain challenges, with high levels and persistence of malnutrition and communicable diseases and the rapid growth of non-communicable diseases. Indonesia still has high maternal and infant mortality rates than peer countries in the Southeast Asia region.

69. **The country has not witnessed proportionate increases in Government spending on health care as the current level of health spending stands at 3.15% of GDP, one of the reflectors of its rank at 96th out of 151 in the health section in the 2019 World Economic Forum's (WEF) Global Competitiveness Index.** Indonesia experiences high prevalence of malnutrition and obesity—known as the Double Burden of Malnutrition (DBM), which reduces the health conditions of children with lifetime negative consequences on economic, social and health well-being. Health indicators for the children, such as stunting (30.8%) and wasting (10.2)<sup>16</sup> point out the fact that malnutrition is an acute health problem for children as those who survive may continuously experience development issues in their entire life.

70. **The COVID-19 pandemic posed unprecedented challenges in Indonesia. The public health response allowed Indonesia to flatten COVID-19 cases earlier than regional peers, but morbidity was high.** The authorities accelerated the vaccine rollout among vulnerable groups and in areas with high viral transmission, such as cities and economic centers. With limited doctors in public hospitals, low hospital bed-to-population ratio (1.2 per 1,000 people in 2020), and harder and expensive access to health services, the current health infrastructure is not sufficiently addressing these health challenges.

71. **A significant challenge in the health sector of Indonesia is primarily driven by the unequal distribution of health resources, hindering access to primary health care services for rural population. In addition, the high cost of health services is another important factor that hinders access to health services.** Thus, development challenges in the health sector are related to providing more effective and efficient policies and programs that focus on reducing the costs of health care services and improving access for the remaining population that is still out of health coverage, especially in the rural areas. Technological and managerial innovations are needed to address the persistent health access gap in remote areas in order to increase the resilience of the health system. Stunting reduction will remain a key priority through creating proper incentive mechanisms.

72. **One main cause which is leading to poor educational and health outcomes is the current prevalent malnutrition levels.** IsDB will develop a targeted intervention that tackles education, health, and nutrition with a programmatic approach in consultation with the Government and other donor agencies.

73. **IsDB support provided to the health sector in Indonesia so far is about US\$ 407 million.**<sup>17</sup> In recent years, particularly with the spread of the COVID-19 virus, the IsDB has developed a robust cooperation framework with the MoH of Indonesia as well as other health sector stakeholders, which helped develop a US\$ 262 million health sector project targeting to strengthen 6 leading National Referral Hospitals of Indonesia in 2020. A Reverse Linkage project aimed at improving the pandemic response capacity of Indonesia through big data analysis has been developed and is in active implementation. The strategic partnership of IsDB in health with Indonesia under the MCPS is expected to further strengthen in areas of: (i) continue cooperation under Indonesia's "Health Services Improvement Program"; (ii) further cooperation with universities, Biofarma on halal eco-system, halal vaccine production and other medical research and production possibilities; (iii) support to MOH's target of increasing the number of National Referral Hospitals; (iv) support a better functioning referral system; and (v) strengthening health research and cooperation.

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<sup>16</sup> Children are defined as stunted if their height-for-age is more than two standard deviations below the WHO Child Growth Standards median. Wasting is having a weight for height ratio less 2 standard deviations from the median of the World Health Organization (WHO) Child Growth Standards.

<sup>17</sup> A new health sector project (US\$ 205 million) is planned to be approved in 2022 with focus on strengthening 6 Oncology Units of National Referral Hospitals.

### 2.3.1.2 Education

74. **Indonesia hosts the 4th largest education system globally with 3.3 million teachers and 53 million students from grade 1-12.** In addition, about 7.4 million students benefit from the 230,000 early childhood educational services. About 4,670 higher education institutions provide higher education services for 8 million students, whereas there are around 4000 non-formal vocational training services. This came with an improving gender balance in education. In the last 45 years, the share of girls/women in education increased from 35 to roughly 50%.<sup>18</sup>

75. **The Indonesian Government has put significant efforts for improving access to education and the country has made a significant improvement in education attainment (i.e., universal enrollment to primary, secondary, and tertiary schools) over the past two decades.** Mean years of schooling increased from 6.7 years in 2000 to 8.0 years in 2018 and expected years of schooling rose from 10.6 years in 2000 to 12.9 years in 2018. As a positive outcome of the successful reforms such as the decentralization effort, improving teacher qualifications, increasing educational spending, Indonesia has observed significant progress in education with improved access and gender balance.

76. **Despite such notable progress, Indonesia is still behind some countries in Southeast Asia and the Pacific region, particularly in terms of tertiary school enrolments and the out-of-school rate for children and adolescents in primary and lower secondary school.** The Indonesian education system faces challenges in delivering quality education. At education institutions, low quality of teachers and weak education system management result in many students falling below the national learning targets.

77. **According to OECD Programme for International Student Assessment (PISA) 2018 results, Indonesia lags behind the OECD, East Asia and Pacific averages substantially.** Indonesia ranks 73 out of 78 on reading, 73 out of 79 on mathematics and 70 out of 79 on science among the Countries participating in the Assessment. Low scores translate into lower productivity, which in turn impedes the economy's competitiveness.

78. **Indonesia ranks among the lowest performers in international educational assessments.** Millions of Indonesians enter the labor market with inadequate skills and inadequate information about labor market opportunities. Most of the students who complete education do not have the skills needed in the labor market and end up in low-paying occupations as a reflection of low acquisition of skills and poor alignment between education and training institutions' curricula and labor market needs.

79. **The development challenges in the education sector in Indonesia are related with low student learning results, rising inequality in learning outcomes, low-quality remote schools with inadequate facilities and relatively untrained teachers and low availability of public funding in education as well as weak governance.** Similarly, the decentralization process revealed weak systems of checks and balances in education service delivery between central and subnational levels and among central levels. Through well-defined policy actions such as focusing on improving learning outcomes, and increasing participation of relevant stakeholders, Indonesia can raise awareness and quality of education and ensure that high-quality teacher candidates are recruited, trained well, supported, and held accountable for learning.

<sup>18</sup> World Bank. 2020. 'The Promise of Education in Indonesia.' [<https://www.worldbank.org/en/country/indonesia/publication/the-promise-of-education-in-indonesia>]

80. **With the substantial increase of students and applicants in higher education institutions due to the rise in the number of secondary and higher secondary graduates, public funding can no longer keep up with the challenging task of expanding to meet these ever-growing needs.** The condition warrants active private sector participation in the development of higher education to meet the challenges of a knowledge-based economy. The greatest challenge to higher education in Indonesia today lies in establishing good governance. The core characteristics of proper management are authority, autonomy, transparency, accountability, participation, responsiveness, coordination, efficiency, capacity, equity and sustainability.

81. **There is a vital need for reforms in the training and education system, where there is a mismatch between the education curricula and the market needs, as implied by the high youth unemployment rate.** Improving the quality of education through upgrading the education system would address skill mismatches and thus reduce the youth unemployment rate. Furthermore, there is an unequal distribution of education resources among regions, which hinders education access in rural areas. The COVID-19 pandemic has caused a disruption in the continuity of educational services, and students without proper access to online learning infrastructure were more disproportionately affected.

82. **Education ranks as the second biggest sector in IsDB's portfolio in Indonesia, with 17.4% (about US\$ 1 billion) since 1974.** IsDB has supported more than 30 State and State Islamic Universities, Vocational Training Centers with strong positive results and outcomes including: (i) Improved learning infrastructure; (ii) Improved curriculum and cooperation with industry; (iii) Improved skills of students and teaching staff; and (iv) Improved reputation and rankings of Project Institutions.

83. **Building on this experience and with the lessons learned, IsDB, during this MCPS period, will continue to heavily cooperate in the education sector, through supporting the National Education Strategy 2020-2024, ranging from pre-primary to higher education, from non-formal to formal education investments.** IsDB will further deepen the cooperation in: (i) Improving the quality in higher education and linking it to industry requirements; (ii) Strengthening Vocational Training Centers in curriculum and infrastructure; and (iii) Designing primary level programmatic actions targeting to link education and healthcare-focused on improved nutrition, school attendance and learning.



### 2.3.1.3 Women and Youth Empowerment

#### Women's Empowerment

84. **Indonesia has made significant progress in addressing gender inequality. However, the country's gender gap remains higher than in comparable economies largely caused by the long-held restrictive gender norms and biases.** Existing norms severely limit women in taking advantage of their rights and opportunities in multiple dimensions, including education, health and finance.

85. **Although progress has been made, inequalities between men and women persist in Indonesia. The 2019 female HDI value for Indonesia is 0.694 in contrast with 0.738 for males, resulting in a Gender Development Index (GDI) value of 0.940, placing it into a group of countries with medium equality in HDI achievements between women and men.** Statistically, females lag behind their male counterparts in terms of mean years of schooling and GNI per capita, signifying the extent of gender inequality in three basic areas of human development: health, education, and command over economic resources.

86. **In terms of Gender Inequality Index (GII), Indonesia has a GII value of 0.480, ranking it 121st out of 162 countries in the 2019 index.** Only 17.4% of seats in parliament are held by women. For every 100,000 live births, 177.0 women die from pregnancy-related causes; and the adolescent birth rate is 47.4 births per 1,000 women of ages 15-19.

**Table 2: Key Relative Gender Development Statistics**

	Female	Male
Human Development Index (HDI) (value)	0.694	0.738
Life expectancy at birth (years)	74.0	69.6
Expected years of schooling (years)	13.7	13.5
Mean years of schooling (years)	7.8	8.6
Estimated gross national income per capita (2011 PPP US\$)	7,902	14,966

87. **Education is vital to provide a pathway for empowerment of women and girls. In recent years, Indonesia has achieved gender parity in net enrolment rates (NER) at the national level.** In terms of health, Indonesia has improved life expectancy; reduced fertility rates, child mortality, and to a lesser extent, maternal mortality; and introduced landmark legislation that has helped provide a pathway for Indonesia to achieve universal health coverage (UHC). The national average life expectancy of women in Indonesia in 2017 was 73.06 years, higher than that of men, at 69.16 years.<sup>19</sup>

<sup>19</sup> BPS statistical data, bps.go.id, accessed 26 August 2018

88. **Indonesia's maternal mortality ratio (MMR), while slowly improving, continues to be one of the highest in the East Asia region, at 177 deaths per 100,000 live births.** Indonesian women are more likely to suffer from malnutrition and obesity, and poor nutrition among pregnant women is closely linked to Indonesia's stunting rates. Indonesia has the eighth highest number of child marriages in the world, with one in nine women married before they turned 18 years old.<sup>20</sup> Girls who marry below the age of 18 are six times less likely to complete upper secondary school than their peers, are more likely to work in the informal sector, and are more likely to face domestic violence and abuse. A 2015 survey found that one in three women in Indonesia has faced violence,<sup>21</sup> with most facing domestic violence or abuse by their spouses or family members.

89. **The female labor force participation (LFP) rate has remained stagnant at around 52% for the last two decades – lower than male LFP at 86%.** There is gender occupational segregation with a high concentration of women in low productivity sectors, informal work, and low-paying activities such as retail trade, restaurants, and hotels while construction, electricity, gas, and water supply; transport; and finance and business services sectors continue to be male-dominated. Rural women constitute the largest category of nonwage workers and makeup around half of the international migrant worker population overseas.

90. **There is a remuneration gap of 30% and an advancement gap for women in top political positions, management and technical jobs.** The key predictors of women's absence from the labor force are marriage and childbearing. When women leave wage labor for marriage or childbirth, they often do not return to wage work but enter family business or self-employment with lower returns on their labor.<sup>22</sup> Though Indonesia has a large pool of women entrepreneurs, in which women-owned businesses make up around 60% of small businesses, these tend to be concentrated in the informal sector, micro-enterprises and often home-based. Many women entrepreneurs face constraints in having access to capital, credit, technology and markets, preventing scaling-up and growth in productivity.

91. **Women's financial inclusion has risen from 27.9% with access to financial sector accounts in 2014 to 61.6% in 2020, yet about 33 million women continue to remain outside the financial system.** In response to the continued gap, President Joko Widodo has set ambitious goals to include 90 % of adults in the financial system by 2024, with a special emphasis on microcredits to catalyze micro, small and medium-sized enterprises, especially those led by women (SNKI 2021). In June 2020, the Government of Indonesia launched the National Women's Financial Inclusion Strategy (SNKI-P), aimed at providing a comprehensive and gender-responsive program to improve all women's access to formal financial services.

92. **The COVID-19 pandemic has triggered a sharp rise in poverty, with a potentially larger impact on women and female-headed households (FHH).** With a focus on the pandemic, health services are being diverted, impacting antenatal clinics and family planning services. As a result, Indonesia's National Population and Family Planning Board (BKKBN) estimates pregnancies could increase by 15%, resulting in around 420,000 additional and, in some cases, unintended pregnancies. This increases the risk of unsafe abortions and maternal and newborn deaths. The Indonesian Midwifery Association reported a decline in pregnant women and couples visiting health facilities for check-ups or to receive birth control.

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<sup>20</sup> UNICEF Indonesia (2019).

<sup>21</sup> Statistics Indonesia (2016), (2016 Indonesian National Women's Life Experience Survey (Survei Pengalaman Hidup Perempuan Nasional). The survey was joint work with the Ministry of Women Empowerment and Child Protection and UNFPA.

<sup>22</sup> World Bank 2020 Indonesia Country Gender Assessment: Investing in Opportunities for Women.

93. **Over 530,000 schools have closed compensated with online and distance learning.** The Government's latest estimates show an economic contraction of 4.5%. Projections indicate the service sector will bear the brunt of the crisis. 80% of the 2.1 million workers in the garment industry are women who were sent home in response to the pandemic and women are primarily highly concentrated in the informal sector, and own predominantly micro and small enterprises, which were significantly impacted by the pandemic.<sup>23</sup>

94. **Priority Areas of Action: Indonesia has made several commitments to achieving gender equality, including its G20 commitment of reducing the gender gap by 25% by 2030,** the Medium-term National Development Plan provides for the mainstreaming of gender considerations and there is greater recognition of the importance to empower women and tackle climate change in building post-pandemic resilience.

95. **The IsDB will support the country in fulfilling its commitments by developing initiatives to facilitate women's access to decent work and employment opportunities,** including addressing women's barriers to having access to formal employment through skilled education and gender-friendly working policies. Increasing investments through capacity development and financing to support female entrepreneurship and identify actions to increase access to maternal and reproductive services. Indonesia's National Women's Financial Inclusion Strategy provides a unique opportunity to link Islamic banking to financial inclusion goals and to support Islamic products and offering that support women's financial inclusion in the country.

## Youth Empowerment

96. **Indonesian youth make up around 25% of the Indonesian population.** The Youth Law No. 40/2009 is the legal framework and reference document for youth development, which defines youth as young people between 16-30 years old. In 2010, the percentage of youth not in employment, education, or training (NEET) was 25.6% and fell to 21.77% in 2019. Due to the COVID-19 pandemic, NEET youth increased from 21.77% in 2019 to 24.28% in 2020.

97. **The unemployment rate in Indonesia increased from 5.23% in 2019 to 7.07% in 2020; over the years 2019-2020, there was a considerable rise in educated unemployment, rising from 8.0% (4.7 million) to 10.2% (6.3 million). Based on data from Statistics Indonesia, around 75% of the unemployed population in Indonesia are youth.** The COVID-19 pandemic has exacerbated the problem of youth unemployment; it has increased youth unemployment to 15.23%, especially among youth in urban areas, males and youth between 19-24 years old. The youth unemployment rate is anticipated to increase faster than the adult generation due to the higher rate of dismissals among the youth.

98. **The number of child workers aged 10-17 years had decreased in 2019 compared to in 2018. Nevertheless, this figure rose by 0.9 million in 2019 to 1.17 million in 2020.** The increase in child labor might be due to the increased dropout rate during to the pandemic, as more children needed to enter the labor market to support their families' basic needs.

99. **In addition, the informal economy grew to 60.47% in 2020; the majority of workers still work in the informal sector.** For the productive age group, especially those aged 15-25 years, the majority (67.8% for 15–19-year-olds and 43.4% for 20-24-year-olds) worked in the informal sector. Formalizing

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<sup>23</sup> Ibid.

employment among the youth population is becoming more challenging after the COVID-19 pandemic as the percentage of youth in formal jobs considerably decreased from 60,3% in 2019 to 53.15% in 2020. This figure is even worse among those living in urban areas, females, and the younger age group.

100. **Informality has a strong correlation with education levels.** The majority of Indonesian workers have primary and junior secondary education. Eight out of ten workers with primary/elementary education worked in the informal sectors in 2020. The number of low-educated workers increased from 71.5 million in 2015 to 73.41 million in 2020. The view that higher education does not ensure greater employment opportunities creates hesitation among youth to continue their education to a higher level. Education is linked to which sector the workers will work in. As a result, policies to improve educational attainment and quality are vital to decreasing informality in the economy.

101. **In preparing to enter the labor market, youth in Indonesia (aged 16-24 years) experience various challenges. For example, unemployment is the highest among Vocational High School graduates.** Based on a Labor Market Assessment conducted by Save the Children Indonesia, **some of the biggest challenges facing youth in the labor market are the provision of soft skills needed in the workplace, financial literacy, entrepreneurial skills, and lack of career guidance.**

102. **According to the Government Work Plan (RKP) for 2021, quality education services can be achieved through 1) providing internet network infrastructure, 2) developing digital technology to support virtual learning (school from home), 3) revitalizing vocational education and training in line with the needs of the industry to increase productivity and competitiveness, 4) creating digital-based education, 5) developing a credible and world-class labor market information system, and 6) implementing vocational training and apprenticeship in Industry 4.0**

103. **In 2015 only 44% of youth in Indonesia were internet users, and by 2020, the figure doubled to 86%. From 2015 to 2020, the proportion of youth aged 15-24 years with ICT skills increased from 51.83% to 87.17%.** Due to the pandemic, assistance is provided to children and youth with "School from Home" or Distance Learning in internet packages to 39.78 million pupils and 8.24 million university students. Nevertheless, compared to 2019, the pace of growth in internet young users decreased amid COVID-19. Greater efforts need to be put in place to achieve the ideal target set by the Government, which is 100%.

104. **While preparing to enter the labor market, youth in Indonesia experience various challenges,** including the provision of soft skills needed in the workplace, financial literacy, entrepreneurial skills, and lack of career guidance.

105. **According to the consultations that took place with the Ministry of Youth, the Government identified four main challenges to improving youth development in the country:** (i) The grand design of youth development, which should provide a framework and guidance in integrating various youth development variables, has not been compiled; (ii) The implementation of cross-sectoral coordination in the implementation of youth services, both at the national and sub-national has not been optimal due to a lack of commitment and the absence of support from sub-national regulation; (iii) Lack of capacity and knowledge of key stakeholders at national and sub-national to formulate the program of youth development in the planning and budgeting; (iv) Lack of meaningful participation of youth in the development process, through in planning, implementing and evaluating youth programs. Youth participation is often interpreted as tokenism and has not been considered a potential resource by older groups.



106. **The country has its own index for youth development.** The youth development index is a benchmark for Youth Development that consists of five domains, which are education, health and well-being, employment and opportunity, participation and leadership, in addition to gender and discrimination.

107. **The Youth Development Index decreased during 2019 – 2020 to 51 points. This is because of the pandemic COVID-19 that significantly affects youth employment.** The Government aspires to increase the index to 57.67 points by 2024. The Government believes this can be achieved by strengthening the institutional capacity and strategic coordination across stakeholders, in addition to strengthening the role of the private sector and communities in providing integrated youth services. They also believe that youth participation should be increased to demonstrate leadership in various forums in addition to the need to prevent risky behavior among youth, including violence, drug abuse and behaviors that lead to sexually transmitted diseases. This is an issue that IsDB can address through the health sector.

108. **The Government aspires to enhance youth education.** According to the Government Work Plan (RKP) for 2021, quality education services can be achieved through providing the needed digital infrastructure, revitalizing vocational education, developing a credible labor market information system, and implementing vocational training and apprenticeship in Industry 4.0

109. **The Government showed interest in technical assistance by IsDB to equip the related entities with the needed skills and knowledge** to deliver a Grand Design for youth or a national framework that can guide all youth programs in the country and facilitates coordination among the various service providers to provide youth-friendly services. The framework can be used to monitor and evaluate youth programs in the country.



## 2.3.2 Infrastructure

### 2.3.2.1 Energy

110. **Indonesia requires substantial investments in energy in order to maintain sustainable growth.** While access to electricity is near-universal, it is unevenly distributed – with isolated communities still often lacking access to basic electricity.

111. **Non-renewable sources (primarily coal) dominate power generation, meanwhile, renewable energy development has been slow.** Indonesia's primary energy supply mix in 2020/2021 consisted of oil 35%, coal 37.3%, gas 18.5%, hydropower 2.5%, geothermal 1.7%, biofuel 3%, and biogas, solar, wind, and other renewables at 2%. Final energy consumption by sector is split into 44% transportation, 37% industry, 14% households, 4.5% commercial, and the rest is assigned to other sectors.

112. **Indonesia is a net energy exporter, and the energy sector and overall economy has been built on natural resource extraction, with coal being Indonesia's principal export (11.2% of total energy export value) and palm oil second (8.76%).** Energy is critical to economic development, yet unreliable data, conflicting national policies, and prevailing organizational structures result in sector constraints. While national electrification rates have successfully increased, infrastructure may not be able to keep up with future regional demand. Necessary national generation capacity additions until 2025 are estimated to cost US\$ 154 billion, but securing financing poses a challenge following the impact of COVID-19 on public sector revenues.

113. **Forecasted energy investment needs are large and this is further compounded by distortionary incentives.** The lack of adequate revenue generation through the energy sector means that the sector is largely reliant on fossil fuel subsidies. Not only does this disincentive renewable energy generation/investments, but it also renders private sector investments in fossil fuel generation challenging. Energy sector policy reforms need to be undertaken that enable revenue generation such that energy investments are bankable for fossil fuel-driven energy generation in the near term while gradually incentivizing renewable energy investments for longer-term transition to clean energy.

114. **The energy outlook for 2022 is expected to improve as Indonesia returns to pre-COVID-19 economic growth levels. The energy sector facilitated Indonesia's COVID-19 response and will be key in its economic recovery.** The Government of Indonesia estimates that the country has the largest global potential for geothermal energy at 23.9 gigawatts (GW) and potential for hydropower of more than 94 GW. The country has a biomass potential of more than 32.6 GW and a biogas potential of 200,000 barrels per day. Projections for renewable energies are estimated at 60.6 GW for wind energy, 208 GW for solar energy, and 17.9 GW for ocean and tidal energy. With rapidly advancing renewable energy technology, the potential could be substantially larger.

115. **The most critical constraints currently facing the power sector include:** (i) Insufficient supply of electricity to maintain zero outages and reliably meet customer needs; (ii) Lack of availability of adequate financial resources to meet the investment needs required for the expansion of the generation, transmission and distribution infrastructure needed to sustain 8.7% economic growth annually for the period (2015 – 2024); and the (iii) High cost of electricity supply which needs to be lowered to enhance the country's competitiveness by optimizing the energy generation mix.

116. **Considering the increasing concerns about air pollution, Indonesia is shifting its attention towards electric vehicles (EVs).** In 2019, the Government implemented supportive policies that aim to not only increase the number of EVs and charging stations but also to develop the country's local EV manufacturing industry. However, to harness the benefits of EVs for climate-friendly outcomes, the uptake of vehicles needs to be coupled with decarbonizing the electricity sector.

117. **New investments in electrical power supply and transmission lines are urgently needed to keep pace with the growing demand for electricity.** By 2026, Indonesia is planning to add 35 GW generation capacity and will need additional transmission lines of approximately 67,000 km and substation transformer capacity of 165,000 MVA to fulfill the growing demand for electricity. New investments are needed to support the transmission and distribution systems.

### 2.3.2.2 Transport

118. **Indonesia's size and geography mean that there are many regions where development has lagged and where infrastructure and public transport need to be developed or where existing infrastructure requires optimizing and modernizing. A well-integrated multi-modal, efficient, reliable and cost-effective transport system is vital for sustainable economic growth and sector development.** Establishing and coordinating an integrated transport infrastructure in Indonesia requires massive funding, but it is needed to improve logistics for commerce and to mobilize the large population. The benefits of this development will flow to the economic and social wellbeing of the country as well as supporting national interests in politics and defense.

119. **Indonesia's transportation infrastructure quality is poor, particularly its ports, roads and railway systems. Indonesia scored 2.89/5.00 in the Logistics Performance Index in 2018, behind comparator countries such as Malaysia, Thailand and Vietnam.** Inadequate transportation infrastructure has hampered efforts to develop and reduce regional disparities and share prosperity and to fully realize the regional economic potential, which is a key constraint to business. Attaining higher operational efficiency, safety and sustainability are undeniably important for improving the transport sector in the country.

120. **The most important transportation mode in Indonesia is road network. Although roads are critical for Indonesia's development, its growth has not kept pace with the population increase.** Indonesia is a big archipelago but inter-island and coastal shipping account for only 7% of freight and passenger movements, while roads carry 92% of total freight and 85% of passenger traffic. Therefore, road/highways are the most important transportation mode in Indonesia. For developing connectivity with far-flung and remotely located communities to social amenities, core economic centers, businesses, employment opportunities, domestic and foreign trade: accessibility is important. Expedient processing and decision-making at all levels are essential.

121. **Sea transport is extremely important for economic integration and domestic and foreign trade in Indonesia.** The sea transport infrastructure is well developed in Indonesia with each of the major islands having at least one significant port city. Indonesia relies heavily on waterborne transport. Most port facilities are approaching their capacity limits, especially in Eastern Indonesia. There is great potential for the improvement of infrastructure of ports. Local, regional and international connectivity is important for economic integration, domestic and foreign trade.

122. **Constraints in the transport sector include long-neglected policy and institutional reforms, under-utilized deployment of public transport modes in rail (i.e., limited and outdated network, rolling stock and headways, and lack of urban rail), insufficient road transport infrastructure (especially for urban public transport such as BRT, feeder-buses and walkability), and severe bottlenecks in sea transport.** Development of an efficient transport system having a sustainable physical infrastructure is vital for bolstering economic development. To accelerate sustainable transition, participatory process, collective visioning, learning and sharing are to be adopted. Urban mobility is in a severe crisis, with car and motorbike traffic dominating the larger urban centers, resulting in daily gridlock, heavy pollution, loss of public space, and a decline in the quality of urban living. Urban congestion in Jakarta alone costs Indonesia US\$ 5 billion every year.<sup>24</sup>

123. **Land use and transportation planning need to be coordinated to mainstream the design of transport projects in the urban and suburban areas of the country as climate change poses significant challenges to the transport sector in Indonesia.** Transportation adds 70% to 80% to total outdoor air pollutants, including destructive particulate matters. The country's vulnerability to climate change demands climate change adaptation in transport service security.

The legal and regulatory context of land acquisition laws are a major challenge in carrying out much-needed infrastructure improvements. There is a need for better planning, preparation and implementation of key transportation infrastructure projects requiring land to be acquired.

### 2.3.2.3 Water

124. **Indonesia is a country with rich water resources with water availability exceeding demand in almost all locations.** According to Joint Monitoring Programme Data 2020, about 92% of households have access to basic drinking water services, while 5.6% and 1.2% of households are using unimproved and surface water sources, respectively. Nearly 86.5% of households have access to basic sanitation facilities, while 6% of households are still practicing open defecation in Indonesia. It is estimated that about US\$ 62 million is required annually to overcome open defecation by 2030.

125. **Indonesian water resources system is very sensitive, and it is getting worse with environment degradation and climate change issues. Seasonal variability creates water stress in the dry season. As such, water stress is the result of lack or malfunctioning of infrastructure.** The main threat to water availability is poor management.<sup>25</sup> Investment planning in the water and sanitation sector in Indonesia is still not done systematically throughout the sector and lacks coordination among key stakeholders.

126. **Water-related risks in Indonesia will continue to rise due to increasing populations in cities.** Over 110 million people in about 60 Indonesian cities are exposed to natural hazards, including tsunamis, earthquakes, flooding, and impacts of climate change. Similarly, flooding has become a major problem in Indonesia, particularly in Java, where a high and expanding population combined with past lapses in spatial planning and land management has permitted substantial development in flood-prone areas, escalating the danger and damages from flooding.

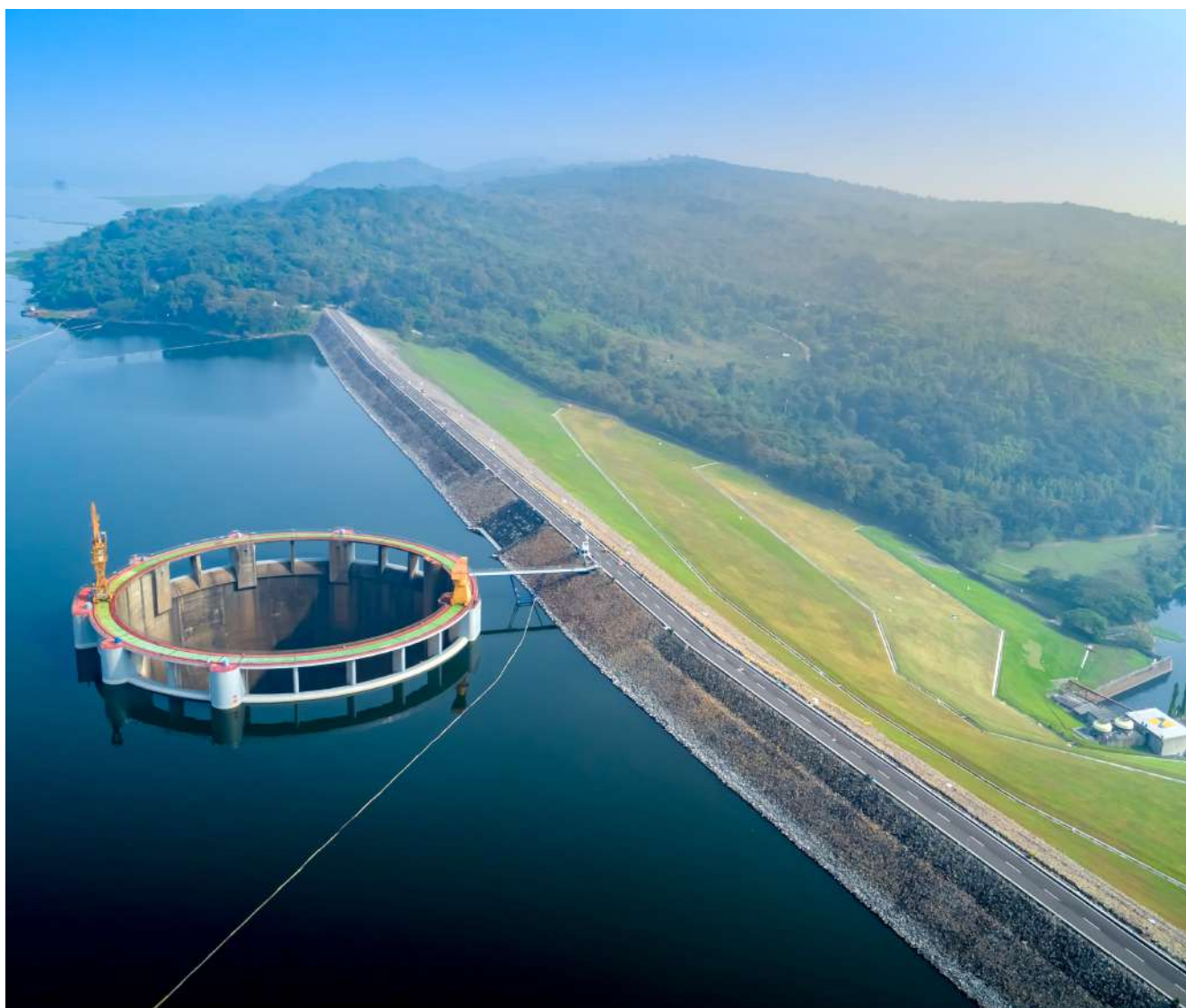
<sup>24</sup> The Jakarta Post. 2017. Jakarta foots US\$ 5 billion annual bill for traffic jams: Minister. October 6, 2017.

<sup>25</sup> Indonesia: Country water Assessment. Asian Development Bank, 2016.

127. **Water pollution is another major environmental stressor. Only one in three urban households has access to decent water, and only one in 100 is connected to a sewerage system, posing high risks to public health.** Plastic pollution clogs many of Indonesia's waterways and spreads into surrounding seas, threatening marine life and the development of tourism.

128. **Deep groundwater is overexploited in most urbanized areas in Indonesia.** Low coverage or poor performance of water supply companies, combined with lack of permit enforcement, leads to many industries and housing estates using deep groundwater. The deep aquifers from which groundwater is drawn are usually not replenished and, therefore, they are gradually depleted. This causes rapid drawdown of the groundwater table and land subsidence.

129. **In the medium to long-term, the GoI will focus on improvements in economic water security to be achieved by effective water resource allocation, prioritizing industry at the same level as that of domestic use.** The GoI intends to stimulate all sectors, including domestic water use, nonrevenue water, energy use, and water use in agriculture, with incentives and opportunities for demand management in order to enhance self-regulation. For the water supply subsector, the Ministry of Public Works has developed the Water Investment Roadmap (WIRA), which includes an assessment of issues in the water supply subsector and proposes specific investment packages and programs to reach sector targets.



### 2.3.2.4 Urban Development

130. **Urbanization has delivered less prosperity in Indonesia than in the rest of the region. Urban areas contribute to 60% of Indonesia's GDP. Notwithstanding, economic prosperity is concentrated mostly in metro areas, especially Jakarta,** which accounts for almost a quarter of the country's GDP (and 12% of the population). Urbanization has led to prosperity in Indonesia as well, nevertheless, it has not reached its full potential yet

131. **The urban poverty is declining in Indonesia, but the unemployment level is higher in urban areas than that in rural areas.** The main concern is that urban employment is more formal than that in rural areas, thus, the category of unemployment was recorded better. Most of the urban poor cannot afford to buy housing provided by either the State Housing Provider Agency or private developers due to their low and unstable incomes. However, better economic opportunities in more urban areas have also helped many Indonesians escape poverty. Nevertheless, affordability remains a key constraint to significantly improving housing outcomes in Indonesia.

132. **Piped urban water supply systems are mainly managed by water utilities - PDAMs, which are under the jurisdiction and ownership of subnational governments.** Low-cost recovery level, including high non-revenue water, are the key challenges for PDAMs to operate and maintain the water supply systems.

133. **In terms of urban sanitation, only 5% of wastewater and fecal sludge generated from urban households are being properly treated. Consequently, BAPPENAS and the Minister of Public Works and Housing (MoPWH) promoted SANIMAS (Community based sanitation) as an intermediate solution to provide sanitation for poor residents living in high-density, underserved urban and peri-urban communities.** The independent evaluation study conducted jointly by BAPPENAS IsDB and The Bill & Melinda Gates Foundation (BMGF) showed that there are service delivery challenges and significant sustainability issues post-construction. The study has recommended 15 key action points in terms of institutional arrangements, technology, and funding. Based on these recommendations, the Government of Indonesia is planning to rehabilitate the non-functional sanitation systems in Indonesia and IsDB can support the country in this initiative and in planning for future investments in urban sanitation sub-sector.

134. **About 61,650 tons of waste is generated daily in urban areas of Indonesia and by 2025, it is estimated to generate 150,000 t/day of municipal solid waste.** Almost 69% of collected waste is being openly dumped in landfill sites, 9% of waste is not managed, 5% is burned, 10% is buried traditionally and only 7% of MSW is composted.

135. **Indonesia is planning to move its capital from Jakarta to a new city named Nusantara** in East Kalimantan on the island of Borneo, which presents multiple opportunities for the IsDB Group to support the Government of Indonesia in urban planning and urban development initiatives for the new capital city.

136. **The housing deficit in Indonesia is estimated between 820,000 and 920,000 new housing units annually, whereas the current construction rate produces about 550,000 to 600,000 annually, combining both the private developers and Indonesian Government's subsidy programs.** This leaves over 200,000 to 320,000 or around 30% of new households that must resort to informal solutions or

additional overcrowding. Furthermore, affordability remains a key constraint to significantly improving housing outcomes in Indonesia.

137. **Only the top 20% of households in terms of income in Indonesia can acquire housing in the formal market. The 'middle' 40% of households cannot afford formal housing solutions without subsidy enhancements.** Whereas the bottom 40% of Indonesians live below or close to the poverty line and cannot afford even a basic starter unit valued between IDR 15 to 30 million. A formal housing solution is far beyond the reach of the poorest Indonesians without deep and expensive subsidies. The penetration of mortgage finance is limited in Indonesia, making affordable housing less accessible for lower-income households. Mortgage lending accounted for only 2.44% of GDP in 2012, compared to 5% in India, 10% in Thailand and 31% in Malaysia (World Bank, 2015b).



### 2.3.2.5 Agriculture

138. **Agriculture comprises 13.70% of Indonesia's GDP in 2020, it provides income to a significant proportion of Indonesians and remains crucial for poverty reduction and employs around one-third of the workforce and remains a vital source of income for rural households.** Despite considerable challenges, Indonesia's large areas of arable land and extensive marine resources, combined with a large agricultural innovation ecosystem, offer significant potential for long-term transformation of smallholder agriculture towards more-profitable small business enterprises.

139. **The agricultural & food innovation systems are complex and undergoing significant changes.** The smallholder farming sector, which produces the large majority of staple foods and, increasingly, large proportions of the nation's cash crops is being constrained by many factors, including limited land area, climate change and depleting natural resources. **To maintain food security for a growing population,** Indonesia needs to boost sustainable agricultural productivity, efficiency and competitiveness of the smallholder farming sector.

140. **Sustainable agricultural productivity, food security and poverty reduction are top goals of the government of Indonesia.** To date, food security policies have been aimed at improving availability; going forward, the policy focus should shift to enhancing affordability and nutritional quality. Progress is threatened by several crises, including climate change, and several associated economic shocks. Along with a growing population and increased demand for agricultural goods for food, these concerns necessitate investments in agriculture, rural infrastructure, natural resource management and climate resilience.

141. **Gains in productivity and technological advances have contributed to more efficient resource use and have improved food security.** These gains, however, are being reversed by the impact of the COVID -19 pandemic and climate change (unpredictable weather patterns and shorter growing seasons have the potential to erode Indonesia's food security). 38% of the population could not afford a nutritious diet in 2017, contributing to a high incidence of stunting.<sup>26</sup> The COVID-19 pandemic is not the only challenge to food availability, the ongoing global geopolitical situation has further exacerbated the impact on access to agricultural inputs, trade, logistics, production, rising food prices and the spread of animal diseases.<sup>27</sup>

142. **Despite the significant potential of the agriculture sector, some barriers to maximizing its potential still exist, such as poor technological advancement and supply chain challenges.** These challenges are further compounded by prolonged spells of severe weather, such as drought, leading to shortages of basic commodities such as rice, wheat, soybeans, and sugar. The Government supported the sector transformation by promoting collective modern farming methods in recent years. However, emerging challenges such as increasing demand for food traceability and the impact of climate change are already taking a toll on Indonesia's agriculture.

143. Presently, the main challenges faced by Indonesia's agriculture and rural development sector are: (i) **Remoteness, fragmentation of farming units, and wariness of financial institutions to do business with the agricultural sector** (perceived as high risk) are hampering financial inclusion; (ii) **The majority of**

<sup>26</sup> World Food Programme. 2017. Indonesia: Study on the Cost of the Diet. Rome.

<sup>27</sup> Ibid



**Indonesia farmers are aging;** the changing climate may become a threat to food security, energy security and water security, (iii) **Missing linkages between input and output markets** is facing many small-holder farmers, the growing population is not properly harnessed by the agriculture sector; (iv) Industry and trade facilities and global agricultural produce are increasingly **dominated by a few multinational companies.** (v) Small farm sizes, topographical challenges and other factors have contributed to **very low rates of mechanization** in Indonesian agriculture. (vi) **Indonesian agriculture relies heavily on rainfall** which means that dry seasons become increasingly severe in terms of water shortage.

144. **Food Security is an important goal for Indonesia, especially following the COVID-19 & Eastern European crises, which have highlighted weaknesses of the agri-food system and posed challenges to food security. However, the twin crises represent an unprecedented opportunity to transform the system.** The use of digital technology, enhancement of seed quality, modernization of farming techniques and the introduction of drought-resistant crops could be strong solutions to improve agricultural yields and profitability for smallholder farmers. Therefore, the Bank will be exploring ways to facilitate and promote digital agriculture transformation to drive food security. The IsDB will seek to introduce innovations in agriculture and natural resource management covering flood resilience, integrated Agriculture programs impacting livelihoods, promoting digitalization and technological transformation and support for the aquaculture industry by promoting private sector investment in agribusinesses. In this regard, the involvement of potential partner agencies is required in order to mitigate the risk of climate change and to introduce drought-resistance crops and to use proper technology to support and transform agriculture, fisheries, and aquaculture.

145. **The 2022-2025 MCPS will endeavor to design programs in the agriculture sector that will motivate and encourage youths to play an increasingly active role,** cognizant of the fact that youth involvement is critical to strengthening local food systems, feeding communities and providing gainful employment opportunities for Indonesia's booming youth population. Youth in agriculture opens more doors for job creation – from food producer that requires services of input supplier, processor and marketer - thus contributing to poverty alleviation by way of a ripple effect on the economy in the form of increasing income and earnings, safe lives, ensuring adequate nutrition, enhancing food sufficiency, security, boosting foreign exchange earnings and elevating agriculture's share in GDP, national economic growth and development.

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*Food Security is an important goal for Indonesia, especially more so following the COVID-19 pandemic and the global food crisis emanating from the Eastern-European conflict.*

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### 2.3.2.6 ICT & Digitalization

146. **Indonesia has made rapid progress in internet connectivity over the past decade, but half of the adult population is still without access.** While Indonesia has one of the fastest-growing digital economies in South-East Asia, action is needed to ensure that all Indonesians, especially the most vulnerable, can access various digital technologies and services and realize the benefits.

147. **In addition to the low connectivity in key service delivery nodes (e.g., schools and hospitals), two key challenges that Indonesia faces on this front are:** (i) the absence of an officially-recognized and universally accessible digital ID for online transactions; and (ii) transitioning from a siloed structure of multiple, incompatible government information and data management systems to a platform-based whole-of-government approach to digital transformation, which has emerged as best practice in many economies globally.

148. **Despite the progress in expanding internet over the past decade, the basic connectivity gap remains a major hurdle in Indonesia.** Almost half of the adult population is still without access, while the urban-rural connectivity divide has not narrowed. In 2019, 62% of Indonesian adults in urban areas were connected to the internet compared to 36% in rural areas, while it was 20% and 6% respectively in 2011.

149. **Digitalization of Government services faces challenges.** Fragmentation of data and untapped potential of building a comprehensive digital ID framework from the existing ID system are some of the key challenges holding back the Government from a broader digital transformation.

150. **Issues of availability and affordability constrain the adoption of fixed broadband, while network congestion impinges on the quality of available mobile broadband.** Limited spectrum, unavailability of specific bands—particularly the 700mHz digital dividend band—limited regulatory clarity on infrastructure sharing and the lack of competition, especially in the provision of fixed broadband services, are the main barriers to universalizing access to good-quality internet throughout Indonesia.

151. **Digitally engaged Indonesians are now experiencing how technologies reshape their lives and commercial activities contributing to better consumer experience. However, the opportunities are often limited to a particular demographic group with relatively higher level of skills.** Digital gig work is more remunerative than other forms of informal work but is concentrated among urban male workers predominantly in the transportation, storage, and communications sector.

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*Digitally engaged Indonesians are now experiencing how technologies reshape their lives and commercial activities contributing to better consumer experience.*

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## 2.3.3 Industry Analysis

### 2.3.3.1 Agri-food

152. **The Agri-food industry is essential for Indonesia economic resilience, provision of jobs, poverty reduction and food security.** Labor productivity is low in the sector as most of the agricultural activity is still carried out by smallholders or managed on a household scale by family workers with low education level and it is worsened by low capital availability, which farmers tend to have limited access to source of funding and high technology use.

153. **The main constraints facing the agri-food industry and reflective of those facing the agriculture sector,** namely, knowledge and innovation, lack of logistics/market access, low-quality water supplies and reliance on rainfall, poor electricity infrastructure, lack of capability in handling environmental issues, low quality of human resources and financing.

### 2.3.3.2 Automotive

154. **The automotive industry plays an important role in the continuous development of the Indonesian economy, contributing more than 10% of the GDP in 2019.** Today, Indonesia is the second-largest car manufacturing country (after Thailand) in the region. Indonesia, alongside Thailand, Malaysia and the Philippines, are known as the 'ASEAN-4 Cluster' and are the dominant automotive players in Southeast Asia. From charging stations to battery development and manufacturing of electric vehicles, Indonesia has the comparative advantages and the ambition to lead the region in this new economy.

155. **Indonesia is focusing on new development of public infrastructure to support the future of automotive industry (power generation, charging stations, etc.).** The automotive component industry is one of the fastest-growing and most valuable in the country. Today, in Indonesia, there are 20 Original Equipment Manufacturers (OEM) assembly plants representing various brands, with strong Japanese carmakers participation.

156. **The Indonesian automotive industry is at a crossroads, with three overarching challenges that are unique to the country and industry:** (i) advancement into new technologies, (ii) increasing productivity to support higher value add and (iii) shifting or diversifying products and markets.

157. **The most critical constraint/bottleneck that covers all the value chain stages are** (i) Lack of overall e-mobility strategy, (ii) New metal inputs and processes such as aluminum molding and stamping, and (iii) Lack of skilled and specialized labor force.

158. **In this context, there are five main areas of development and cooperation that the identified constraints and bottlenecks could be grouped into.** These areas are: (i) availability of clean and renewable energy, (ii) enhanced human capital, (iii) better health and education, (iv) green industrial transformation, and (v) urban development focusing on better transport networks.

### 2.3.3.3 Chemicals

159. **The Indonesian chemicals industry is demonstrating less export activity compared to its neighboring regional counterparts such as Malaysia and Singapore.** Indonesian exports are still focusing on intermediate / re-exports activities, which suggests that Indonesia needs to improve its industrial ecosystem in order to improve its value addition in export activities (final goods or services) in the global context.

160. **Through the assessment of the chemical industry, it is apparent that the industry lacks capacity in R&D, where almost all segments recorded low or moderate capacity, except for Chemical Products (CCP).** In brief, some of the most critical constraints and bottlenecks in terms of ranking are: (i) Outdated manufacturing facilities; (ii) Actual pesticide production is still below the production capacity; (iii) Most of the ingredients are imported; (iv) Lack of sufficient skilled workforce for proper industrial development and (v) Severe labor shortages due to repeated lockdowns.

### 2.3.3.4 Pharmaceuticals

161. **Indonesia is still a relatively small player in the global pharmaceutical trade and the country is striving to develop the pharmaceutical industry.** Accordingly, the main aim of the Gol's plans and strategies is to increase productivity, efficiency, and competitiveness of the domestic pharmaceutical industry as well as to decrease imports as medicine cost is a significant cost in national health coverage. The main factor causing these high costs are Indonesia's high logistics costs and dependence on imported raw materials. Another challenge is resource limitation of R&D, human capital, technology, finance, facility, and equipment in this industry.

162. **In this context, critical constraints that need unlocking are:** (i) quality of human resources, (ii) soft infrastructure, (iii) inter-disciplinary R&D institutes and clusters/bio-parks/bio-incubators, specific and specialized customs facilities, and (iii) integration of ICT.

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*Indonesia is still a relatively small player in the global pharmaceutical trade and the country is striving to develop the pharmaceuticals industry.*

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## 2.3.4 Trade, Insurance, Private Sector Development & PPPs

### 2.3.4.1 Trade Financing

163. **ITFC is committed to focusing its intervention based on the existing and prospective new strategic partnership in the following areas:**

- **Private Sector:** ITFC will focus on extending the trade finance facility to the private sector companies, who are engaged in sectors which have a direct impact on the country's economic growth, with the view to (i) create employment, (ii) support export, (iii) and address supply chain challenges that arose due to the COVID-19 pandemic.
- **Healthcare:** ITFC is keen to support the Indonesian SOEs which are mandated to import & inoculate the vast majority of the population to save their lives from the existing and any future pandemic like COVID- 19.
- **SME Financing:** ITFC to promote SME financing through financial institutions in Indonesia, preferably through EXIM Indonesia, with the view to support their recovery from the COVID-19 pandemic.
- **Intra-OIC Trade and Investment:** ITFC is willing to support the overseas expansion of the Indonesian private sector companies to other IsDB Member countries both in the form of the flow of export and or Joint Venture arrangement for setting up production facilities.
- **Trade Development:** ITFC is committed to supporting Indonesia by providing relevant technical assistance, particularly to the key sectors. Under its Integrated Trade Solution. ITFC has begun implementing its 5 years Coffee Export Development Program from 2021 to 2026. For this purpose, ITFC has partnered with a local NGO to extend technical assistance for Indonesian coffee farmers while designing a suitable trade financing for the Indonesian coffee export.

164. **Key challenges in Trade Financing:** While ITFC is keen to expand the client base in Indonesia, however, due to the challenges around the (i) risk appetite of ITFC, (ii) maximum facility amount allowed to extend to a single borrower, and (iii) limited secondary market appetite for corporate risk, large bilateral private sector financing on a single obligor will be limited.

### 2.3.4.2 Islamic Insurance

165. **ICIEC will continue to promote trade transactions in Indonesia and facilitate the flow of Foreign Direct Investment to the country.** ICIEC's role is further enhanced with the Group synergy, either by enabling the PPP project with IsDB or Group entities (ITFC and ICD) to provide risk mitigation solutions to the trade and/or private sector financing.

166. **ICIEC interventions would enable Indonesia to source and secure additional FDIs in the form of debt investments/sponsorships for strategic infrastructure projects** that are targeted to be financed by IsDB's PPP operations under an A/B loan structure or its direct insurance by providing its insurance products and guarantee that enables the flow of financing and investment to fund any initiatives.

167. **Additionally, in supporting the implementation of the MCPS for Indonesia, ICIEC will mobilize its overseas partners** (insurance brokers, financial institutions, and/or equity investors) to originate potential transactions for the import of strategic goods, and/or services, or investments to Indonesia that are in alignment with the priority sectors selected in the MCPS.

168. **Lastly, ICIEC may contribute to the MCPS through the existing and potential partnerships and may form with relevant institutions in Indonesia that are involved in or carry out specific mandates aligned with the priority sectors under the MCPS.** ICIEC has already worked with Indonesia Infrastructure

Guarantee Fund (IIGF) and the national ECA, Indonesia Eximbank and PT Asuransi Asei Indonesia in promoting infrastructure guarantee, export credit, and investment insurance.

### 2.3.4.3 Private Sector Development

169. **Being the economic powerhouse of Southeast Asia and an established member of the G-20 leading economies, Indonesia has performed impressively over the past decade, with the private sector being a vital engine of growth.** According to the latest available data, the private sector contributes to roughly 60% of the country's GDP and accounts for over 90% of all jobs in Indonesia.

170. **Indonesia's private sector is largely dominated by micro, small and medium enterprises (MSMEs), which account for a sizeable proportion of total employment in the country.** MSMEs operate largely in the informal sector, which is estimated to make up more than half of the economy. Meanwhile, large businesses, state-owned enterprises (SOEs) and foreign-owned firms constitute much of the formal sector in relatively capital-intensive sectors such as manufacturing, finance and insurance, and transportation and storage.

171. **Indonesia still lags in key areas of overall business environment.** According to the World Bank findings, Indonesia's best strengths lie in getting electricity, protecting minority investors, and resolving insolvency. Meanwhile, starting a business, enforcing contracts, and trading across borders appear to be among the weakest areas of doing business in the country.

172. **While progress is being made, improving the country's private sector enabling environment remains a daunting task.** A World Bank Group survey conducted amongst 1,320 Indonesian firms aimed to gauge the country's formal private sector dynamics and barriers to private firms' development. According to the findings, informal competitors were the most frequently cited top obstacle in Indonesia (36.7% for firms), followed by tax rates (14.3% of firms), political instability (12.8% of firms) and business licenses and permits (6.8%).

173. **ICD is continuously implementing new strategies to increase its visibility in the country via direct financing intervention to large SMEs and corporate financing or project financing** basis with the following key target sectors: Industrial/Manufacturing (export-oriented); Energy (clean energy sources); Agriculture (processing and downstream activities).

174. **ICD is currently finalizing a new product called 'Shared Term Finance' Program, where ICD shall identify and work with reputable local financial institutions to finance projects on a sharing basis,** based on agreed parameters and requirements, with the aim of increasing the private sector's access to finance in Indonesia.

175. **ICD Line of Finance (LoF) to banks and non-banking financial institutions (NBFI) remains one of the key interventions to support the SME sector effectively in member countries via bilateral financing or syndication basis.** Despite the challenges faced by ICD in post-implementation of LoF transactions, it has successfully closed four (4) LoF transactions to multi-finance companies and on a selective basis. ICD is also looking to increase its LoF portfolio with other banks or NBFIs under the 2021-2025 MCPS.

176. **In addition to ICD's funding activities for the private sector and the finance community, ICD is aspiring to support the development of the private sector** in Indonesia with its following advisory services interventions, including Islamic Financial Institution (IFI) Program for government-owned and commercial financial institutions.

177. Following ICD's success story with PT NTB Syariah in the conversion of the bank into a full-fledged Islamic bank in 2018, ICD is exploring potential opportunities to assist conventional banks in Indonesia to set up Islamic windows or full-fledged Islamic banks to support financial markets deepening in Indonesia in line with the OJK's Financial Services Sector Masterplan to spur the development of Islamic finance in the country. To date, ICD has developed a strong relationship with OJK as one of its strategies to support IFI intervention in Indonesia, in addition to its own networking with the finance community in the country for potential cooperation.

178. Under its Debt Capital Market Program, ICD continuously assesses opportunities to work with the Government and private sector stakeholders (corporates and financial institutions) for potential issuance of sovereign or corporate sukuk. In order to make the issuance successful, ICD is proposing a multi-currency issuance program to give an option for the issuer to utilize the sukuk proceeds effectively.



### 2.3.4.4 Public Private Partnerships (PPP)

179. **Indonesia has made significant progress in commercial infrastructure financing.** The Indonesian Government had awarded a total of 22 PPP projects, with 15 under construction and 7 in operation as of June 2021. Based on the current medium-term national development plan, the required infrastructure investment is estimated at IDR 6,445 trillion (approx. US\$ 450 billion). The combined funding capacity of the Government and SOEs is estimated to only be able to support 58%. Meanwhile, 42% of the remaining infrastructure investment is expected to be funded by the private sector through PPPs.

180. **The Economist Infrascopes Index placed Indonesia 29th out of 69 countries, with a score of 59/100 indicating that the country's development level in the enabling environment for PPPs is in the transition stage from emerging to developed.** Indonesia has achieved significant progress on commercial financing for infrastructure since 2015.

181. **Challenges and Key Success factors for PPP Implementation:** The actual progress of PPP project delivery in Indonesia is still below expectation. In addition to low public sector commitments and regulatory conflicts, some regulatory and institutional-related challenges or bottlenecks in the PPP implementation in Indonesia continue to exist.

- **Challenges in the planning process:** Limited capacity within Government Contracting Agencies (GCAs) to prepare financially viable and bankable projects often contributes to lack of well-prepared projects offered to potential investors.
- **Challenges in project preparation and transaction:** Lack of coordination within institutions and Government support results in poorly structured PPPs. Moreover, the absence of commonly agreed standards results in quality concerns on input for the subsequent PPP transaction. Another challenge is limited resources and unrealistic timeframes for project preparation and transaction.
- **Challenges in the general environment:** Lack of regulation for Business-to-Business transactions, SOE-driven infrastructure delivery model, Limited participation of foreign investment due to local currency and improper risk allocations, untapped opportunities at the subnational level, and not enough capacity in the financial system.

182. **The IsDB contribution to MCPS Indonesia through PPP interventions can be envisioned in the following two ways:**

- **Capacity Building, Enabling Environment and Project Design & Development** (technical support): (1) High-level PPP campaign for policymakers and Government to disseminate knowledge concerning PPP and to summarize experiences gained and lessons learned from MCs; (2) Technical Assistance, to enhance the capacity of GCA on bringing bankability to selected, potential high impact economic infrastructure projects.
- **Project Finance and Support for Islamic Financial Institutions:** (1) IsDB to lead and assist participation (Islamic) banks in syndications for landmark projects in order to increase their market visibility and penetration; (2) Establishing mutual agreements with Islamic IFIs to co-finance infrastructure projects in Indonesia. Current development of products to cater to the requirement of the Indonesia local Shariah banks - Risk Participation (guarantee) structure and Back-to-Back financing; (3) IsDB to consider new non-sovereign operations that are aligned with the Government priorities.



## 2.4 THEMATIC ANALYSES

### 2.4.1 Fragility and Resilience

183. **The rapid growth of the Indonesian economy has not benefited everyone to the same degree. Though poverty has decreased, as of 2017, about 10.6% of the population still lived under the national poverty line. As noted previously, inequality has increased, and a large segment of the population is in the informal sector.** About half of the population has a bank account. Though this is an improvement from five years ago, it is lower than the global average (Asian Banking and Finance 2018). For individuals and microenterprises who may lack access to finance and markets and are therefore unable to grow their business, a range of policies and initiatives have been put in place. Infrastructure (road and maritime) is a priority, but in an archipelago beset with repeated natural disasters, this is a challenge. However, it is an enormous opportunity as well, given that a full 40% of the world's trade passes through the Strait of Malacca between the Indonesian island of Sumatra and neighboring Malaysia annually.

184. **Unlike other IsDB MCs, due to Indonesia's geographic peculiarities as an archipelago and the region in which it is located, refugees from abroad are not a major factor, although it does serve as a transit point to Australia.** According to the UNHCR, as of October 2018, Indonesia had small population of refugees (13,800), mainly from Afghanistan (55%), Somalia (11%), and Iraq (6%). The UNHCR estimates that 29% of the total number of refugees in Indonesia are children.

185. **Indonesia has made significant strides in key aspects of resilience, such as absorptive, adaptive, and transformative capacities, as indicated by the IsDB Resilience Report in 2019.** The COVID-19 pandemic offers an unanticipated opportunity for rethinking and forging a more equitable, resilient, and sustainable path to meet global development goals. The pandemic has revealed gaps in the resilience of vital systems, including health, transport, food, and energy systems, as well as other valuable social and economic infrastructure. By mainstreaming climate action in post-COVID-19 recovery effort and interventions, numerous options are offered for green, low carbon, resilient and sustainable recovery of the country that would concomitantly help address climate change challenges which have the potential to create an even larger global and systemic environmental, social, and economic crisis and failures in the future.

### 2.4.2 Mainstreaming Climate Change and Disaster Mitigation Measures

186. **The country has experienced an average of 290 significant natural disasters annually over the last 30 years.** These include 2004 Indian Ocean Tsunami which killed approximately 220,000 people across four countries, 167,000 in Indonesia alone, and cost an estimated US\$ 10 billion in damages. Indonesia has experienced an unusually high number of floods and landslides since May 2016 which strains the coping capacity of the affected population and influences their ability to respond to potential disasters in the near future.

187. **The country ranks 78th most vulnerable country and the 78th least ready country. The high vulnerability and low readiness score imply that the country has both a great need for investment and innovations to improve readiness and a great urgency for action.**<sup>28</sup> In response to the threats of climate change, the Government of Indonesia developed the National Action Plan on Climate Change Adaptation (RAN-API)<sup>29</sup> which provides a framework for adaptation initiatives mainstreamed into the National Development Plan.

188. **The unsustainable exploitation of natural resources and investment in high carbon, inefficient energy and transport systems have contributed to setting the country on a less sustainable development pathway.** This pathway has the potential to limit Indonesia's growth, deter job creation, and minimize the effort to eradicate poverty.

189. **To mainstream climate change into national development support, there needs to be greater focus on the main mitigation sectors, namely land use and land-use change (including peat and forest fires), and energy, as well as mainstreaming of resilience-building into vulnerable sector activities.** Climate actions can be integrated with new economic and financing vehicles and modalities (e.g. Green sukuk, green Islamic microfinance), climate-related insurance, nature-related financing opportunities, and climate finance (including from third parties) more generally.

190. **The IsDB, alongside other Multilateral Development Banks (MDB), committed to align its operations with the goals of the Paris Agreement.** Specifically by ensuring that the Bank's operations are consistent with member countries' low-emissions and climate-resilient development pathways. To reflect and pursue the actualization of the Bank's commitment, the Bank has identified strategic sectors and activities, including within industries with the potential to reduce emissions, drive green growth and to build long-term climate resilience in the country.

191. **Through the MCPS, the Bank can support Indonesia in implementing its climate change mitigation and adaption plans** through targeted investments, partnerships and technical assistance in key sectors/areas that have the potential to reduce GHG emissions as well as enhance the resilience of the country to the impacts of climate change.

192. **Indonesia faces many natural threats including earthquakes, tsunamis, volcanic eruptions, flooding and droughts. Based on historical events and risk analysis, Indonesia is highly exposed to tsunamis.** The most notable disaster to affect the country was the 2004 Indian Ocean earthquake and tsunami, which affected over half a million people and left 167,000 Indonesians dead. Flooding and Landslides including La Niña conditions increase the risk of more frequent and intense flood events and landslides. This may result in more casualties and damage and impact to food access storage because travel networks may get disrupted. In addition, health and nutrition status may be affected due to a higher risk of waterborne disease.

193. **In 2007, Indonesia passed a landmark legislation called "Law of the Republic of Indonesia Number 24 of 2007 Concerning Disaster Management." This law established a National Disaster Management Agency at the ministerial level in charge of coordinating the strategy and operations at the pre-disaster period, emergency response, and post-disaster period.** This structure was replicated

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<sup>28</sup> Indonesia ND-GAIN Matrix. Available at: <https://gain-new.crc.nd.edu/country/indonesia>. (Last accessed: 6 June 2020)

<sup>29</sup> National Action Plan for Climate Change Adaptation (RAN-API) Synthesis report. Available at: [https://www.bappenas.go.id/files/2794/4985/2913/national-action-plan-for-climate-change-adaptation-ran-api-synthesis-report\\_0\\_20121226163242.pdf](https://www.bappenas.go.id/files/2794/4985/2913/national-action-plan-for-climate-change-adaptation-ran-api-synthesis-report_0_20121226163242.pdf) (Last accessed: 6 June 2020).

at the subnational level to ensure linkage and synergy at every level of the Indonesia Government. In 2008, the National Disaster Management Agency was formed, called Badan Nasional Penanggulangan Bencana (BNPB). Every five years, the BNPB coordinates with the government ministries to produce the National Disaster Management Plan, which outlines the zones of risk for various disasters, syncs with development plans and stipulates budget allocations.

194. **For the execution of response, a clustering system was established**, each of the 12 clusters headed up by a different ministry are to address various aspects of the response, such as search and rescue, infrastructure, economy, early recovery, health, etc. in collaboration with the private sector, NGOs, military, communities, and other key actors.

195. **In Indonesia, disaster risk financing and insurance strategies are key to preparedness, as are city planning and building codes for disaster-prone areas.** Finally, outreach and capacity building for leadership at the local level is critical, especially considering the unique challenges around the logistics of response and evacuation on an archipelago and navigating a complex bureaucracy for resource allocation.

196. **Technology plays a vital role.** For awareness and sensitization, BNPB has developed a mobile app that can be used by the public for real-time interactive mapping of risks. An early warning system generates an alert of possible tsunami in the event of seismic activity, though these systems have had mixed results. Furthermore, even when the warning is timely, evacuation is complicated in an archipelago like Indonesia.

### 2.4.3 Fostering Partnerships with the Civil Society Organizations

197. **The National Development Plan underlines the importance of establishing mechanisms to allow a participatory process of dialogue, civic engagement, and consultations with Civil Society Organizations (CSOs) as stakeholders in addressing multidimensional development challenges.** This is in line with the Global Agenda 2030 sustainable development. Based on the Strategic Realignment 2023-2025 of IsDB, the Bank considers mainstreaming Civil Society Engagement in the MCPS as an opportunity to support inclusive growth and ensuring that the needs of the most vulnerable and disadvantaged are addressed.

198. **CSOs face numerous challenges in Indonesia**, especially in terms of sustainability, including their dependency for funding on international donor agencies, the management of human resources, and the ability to nurture a new generation of leaders.<sup>30</sup>

*In Indonesia, disaster risk financing and insurance strategies are key to preparedness, as are city planning and building codes for disaster prone areas.*

<sup>30</sup> Lassa & Elcid Li, 2017

199. **Within the framework of the IsDB & ISFD NGO Empowerment Program, the Bank has carried out a mapping of CSOs in Indonesia,** delivered comprehensive crowd funding training by the Crowd Funding Academy. The mapped CSOs have launched their campaigns in TADAMON platform of the Program and submitted their grants applications for evaluation and support by the Bank. The CSOs are to receive institutional capacity development program/training by the Humanitarian Leadership Academy.

#### 2.4.4 Regional Cooperation and Integration

200. **The MCPS will provide advisory, technical, and financial support to regional programs that aim at improving competitiveness and expanding access to global markets** through regional infrastructure connectivity, digital transformation, cross-border community cooperation, trade facilitation as well as investment promotion. It will also contribute to mainstreaming regional cooperation and integration (RCI) priorities into the Bank's relevant operations in Indonesia as a cross-cutting priority.

201. **Indonesia is a member of various Regional Cooperation Organizations (RCOs)** including the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (AEC), the Indian Ocean Rim Association (IORA), the Indonesia - Malaysia - Thailand Growth Triangle (IMT-GT), the Brunei Darussalam - Indonesia - Malaysia - Philippines East ASEAN Growth Area (BIMP-EAGA), and the D-8 Organization for Economic Cooperation. These regional organizations and platforms have regional connectivity and trade facilitation arms that IsDBG can support and collaborate with under the framework of the MCPS.

202. **The Regional Comprehensive Economic Partnership (RCEP) was signed by Indonesia, other ASEAN countries and 5 regional partners on 15th November 2020.** The IsDBG will support Indonesia under the framework of a multi-year regional program with Malaysia and Brunei Darussalam to materialize the objectives of RCEP, including enhanced regional competitiveness and greater flow of trade and foreign direct investments.

203. **According to the latest Asia-Pacific Regional Cooperation and Integration Index results, the level of Indonesia's integration to the Asia and the Pacific region is above the regional average.** In 2018, Indonesia's overall index score stands at 0.5506 while the regional average is 0.4799 in the same year. The country's integration to Asia and the Pacific is very strong, especially on the trade and investment dimension as well as the people and social integration dimension. Its integration to the region is relatively weak in terms of the money and finance dimension. This suggests that the country's real sector is more integrated to the region in comparison to its financial sector. Therefore, regional regulatory improvements, including those related to Islamic Finance, can make a significant contribution to Indonesia's better integration into regional and global markets.

204. **Additional analysis based on data from the Regional Integration Knowledge System (RIKS) of the UN University Institute on Comparative Regional Integration Studies (UNU-CRIS) shows that the intensity of intra-regional trade flows in the ASEAN region is higher than that of extra-regional flows.** Therefore, Further trade diversification efforts might be necessary for Indonesia (as the largest economy in the ASEAN region) to better integrate its economy into global markets and other IsDB MCs' economies. The Bank can play a key role in enhancing Indonesia's integration with other IsDB MCs,

particularly in MENA, Central Asia, and Sub-Saharan Africa regions, through its Investment Promotion Technical Assistance Program, TA Program for Regional and Global Integration in Trade, and RCI Grant Program.

205. **Considering that the ASEAN area is one of the most integrated regions in the world, the IsDBG can play a role in transferring the experience of the ASEAN Secretariat and Indonesia to other IsDB regions** in trade integration, investment promotion, institutional integration as well as accession to the World Trade Organization (WTO). In addition, for BIMP-EAGA and IMT-GT, IsDBG can cooperate with ADB to enhance Indonesia's regional connectivity and greater access to regional and global markets.



## 2.4.5 Reverse Linkage

206. **As a result of several Reverse Linkage interventions where Indonesia was the provider of knowledge and expertise, the GoI decided to increase the number of sectors offering to share to member countries from 4 to 13 sectors**, namely: Agriculture, Marine – fisheries, Health and Population, Pharmaceutical, Technical Vocational Education and Training (TVET), Planning and Budgeting, Microfinance, Transportation, Appropriate Technology, Industry, Trade, Disaster Risk Reduction and mitigation, and Islamic Finance, in a 2nd edition of the MOU with the Bank signed in 2017.

207. **To better coordinate this sharing of knowledge and expertise, the GoI and the Bank developed a "Mapping of Indonesia's Resource Centers – Promoting Reverse Linkage for SSTRC"**, comprising of competent institutions with proven and transferable knowledge and expertise as well as experience in international collaborations and partnerships. The mapping highlights interested resource centers, from both the public and private stakeholders, spanning the 13 sectors highlighted in Para 116. There is already precedence of success in the operationalization of the Mapping, utilizing the stakeholders from the Livestock sector to assist the Kyrgyz Republic and Suriname in the area of Artificial Insemination of Livestock. Currently, the Bank is further utilizing the Mapping to engage in the finalization of a Reverse Linkage project in yet another sector; in this case, the Fisheries Sector, where one or two resource centers have been identified to assist Morocco in the area of Aquaculture.

208. **Currently, there are four active Reverse Linkage projects for which Indonesian stakeholders are involved, either as recipients or providers of knowledge and expertise.** There are 3 Reverse Linkage projects for which Indonesia is a recipient, namely the (i) Development of integrated Farming Systems in Upland Areas, (ii) Digital Halal Ecosystem Development and (iii) Artificial Intelligence and Advance Analytics for COVID-19 Containment. There is currently one Reverse Linkage project in the area of Artificial Insemination of Livestock for which Indonesia is a provider of knowledge and expertise.

209. **At this juncture, it is important to recognize some of the challenges in the SSTRC landscape in Indonesia.** In recent developments, the GoI has set up an agency, the Indonesian Agency of International Development (Indo AID), to better serve its ambitions to be a global leader in SSTRC, enhancing its development programs in the Global South. This significant new player is under the joint purview of the Ministry of Foreign Affairs and the Ministry of Finance. As such, there will be a need to synergize the existing SSTRC collaboration and priorities being undertaken with BAPPENAS, as the current counterpart of the Bank in this area, with the aspirations of the two Ministries involved with Indo Aid. Additionally, at an operational level, upon the approval of Reverse Linkage projects, stakeholders face various degrees of delay in commencing the implementation due to the lack of a multi-stakeholder agreement template. An agreed template with the Indonesian SSTRC focal point (i.e., BAPPENAS) will help expedite the finalization of the project processing phase and ensure implementation can be done as per the planned schedule.

210. **The creation of Indo Aid represents a significant prioritization of the GoI in the SSTRC landscape.** This presents an invaluable opportunity for the Bank to deepen its collaboration with the GoI through the new entity and form a strong platform for which to jointly undertake more significant SSTRC activities through the Reverse Linkage modality in the Global South, further strengthening the positive legacy of collaboration that exist.

211. **The IsDB's Reverse Linkage can potentially assist in strengthening Indo-AID through the IsDB Capacity Development Program for Enhancing National Ecosystem for SSTRc.** At the same time, the Reverse Linkage is regarded as a cross-cutting implementation mechanism that can be used in all the sectors to be identified in this MCPS in sharing expertise and developing capacity, both through Indonesia's expertise as a provider and by obtaining expertise from others as a recipient in critical areas.

212. **Indonesia's Presidency of the G20 in 2022 presents an invaluable opportunity to support the aspirations identified under the three Priority Pillars (i.e., Global Health Architecture, Sustainable Energy Transition, and Digital Transformation).** In this regard, the SSTRc, through the Reverse Linkage modality, can be an invaluable tool to support and complement the overall efforts of Indonesia. This can be considered as one of the viable potential areas of support that the Bank can provide to Indonesia in its efforts to play a more significant role in the global arena.

213. **The Bank is offering the GoI the Reverse Linkage (RL) Modality and Technical Cooperation Program (TCP) to support Indonesia's endeavors to achieve its 2022 G20 Presidency Priorities and BAPPENAS agreed to collaborate with IsDB in showcasing Reverse Linkage in the G20 Forum.** IsDB is encouraged by the GoI to consider the improvement of seaports' infrastructure and shipbuilding industry facilities. The Reverse Linkage modality is proposed as a viable mechanism to achieve this goal.

## 2.4.6 Science, Technology & Innovation (STI)

214. **Indonesia has taken important steps to strengthen its National Innovation System (NIS) in recent years. Despite recent progress, however, the country's NIS is still at an early stage of development.** Within the ASEAN region, Indonesia leads in gross capital formation and performs well in tertiary enrolment but exhibits weak scores in other indicators such as institutions (99th), knowledge workers (122nd), knowledge creation (101st), and creativity (76th), among others. Indonesia's Vision 2045 emphasizes human resource development and technology advancement as catalysts of its four development pillars. The country's STI human resources, though increasing, require a lot of attention to deliver on the promised vision.

215. **A preliminary STI SWOT analysis revealed small number of scientists and researchers, low levels of gross expenditure on R&D, low levels of business innovation and patenting activity, difficulty in finding specialized skills, and low levels of technology adoption in the industrial sector, among others.** However, the continued investments in STI infrastructure such as technology parks, innovation centers, and incubators, as well as the establishment of the Indonesian Science Fund for public research, promises better prospects soon.



*Indonesia has taken important steps to strengthen its National Innovation System (NIS) in recent years.*



## 2.4.7 Economic Empowerment

216. **The IsDB has been a strong partner of the Government of Indonesia in supporting poverty alleviation and the more prominent one was the Integrated Community-Driven Development Program (ICDD), shifting from Community Empowerment to Economic Empowerment.** IsDB has provided about US\$ 822 million over four phases, with each project phase being designed to enhance the previous phase. The shift was in line with the IsDB's strategic effort to mainstream the Economic Empowerment Approach (EEA), building upon the last 20 years of support for poverty alleviation efforts in its Member Countries.

217. **The great challenge for its Microfinance interventions to alleviate poverty applying EEA in Indonesia is the traditional approach in dealing with the developmental aspects of the Micro, Small and Medium Enterprises (MSME).** The underlying approach has always been the allocation size of the intervention, which is small to cater acute needs within the community, with lack of integration with the overall supply chain of the respective industry of MSME, which gives rise to less impactful and unsustainable projects. Field evidence shows that limiting the interventions to providing the appropriate funding and capacity-building only was neither an effective nor a sustainable approach in achieving desired results.

218. **The lack of financial support from the mainstream banking business to microfinance businesses had further fueled the complication of its nascent growth in Indonesia, particularly in rural areas.** Taking the lesson learnt from ICDD, the community-driven interventions were inclined typically to the old paradigm of microfinance, with no blended financing from local mutual beneficial partners in Indonesia.

219. **The tailored innovative solution, applying EEA called Strengthening Economic Resilience of Vulnerable Enterprises (SERVE) Program, which enables targeted beneficiaries to get some liquidity buffer to weather the MSME adverse impacts to the prolonged COVID-19 pandemic is a more appropriate approach.** The second generation of the SERVE Program should be continued in instituting the relevant components (i.e., digitalization, smart partnership with Islamic Social Finance resources) in creating an inclusive enabling environment in support of the MSME industry in Indonesia, which is surrounded by 70,000 scattered islands.

220. **Both, the development of digitalization and products innovation in mobilizing Islamic Social Finance (ISF) resources (i.e., cash waqf, zakat and sadaqah) have been at the forefront for the past 5 years globally.** A reliable study quoted that if Indonesia can harness the power of new digital technologies to increase labor productivity and bring more people into active employment, the country could add more than US\$ 150 billion to its yearly economic output within a decade, roughly 10% of its GDP. Thus, a National Market platform is best suited for creating a hub for market access to various MSME products and services. The applications of the ISF resources with fintech adoption have been equally important in building resilience for the MSME industry by the Indonesian Islamic financial institutions.

221. **To build this integrated supply chain with an inclusive ecosystem, that would require blended financing from many stakeholders, including ISF partners.** Apart from the local Islamic bank, Baitul Mal Tamweel, which are the typical financiers for Economic Empowerment interventions, Badan Zakat National and Badan Waqf Indonesia to be included in the potential partners as to fully roll out the EEA. For a start, an allocation from proceeds from the national program of the Sovereign Cash Waqf Linked Sukuk to the IsDB's Economic Empowerment in Indonesia could be a practical idea to spur the blended financing mechanism, to complement an establishment of Economic Empowerment Fund for Indonesia and non-sovereign Line of Financing alike.



## 2.4.8 Promoting Financial Inclusion through Islamic Finance

222. **Indonesia has one of the most comprehensive Islamic finance sectors in the global Islamic finance industry** with activities across the spectrum ranging from mainstream Islamic banking, Islamic capital markets and Islamic Insurance (Takaful) transactions to a very promising Islamic social finance sector. However, despite its strong year-on-year growth, the overall size of the industry and its impact on the national economy remains modest.

223. **IsDB has provided strategic support to help develop and strengthen the Islamic finance sector in the aftermath of the Asian Financial Crisis.** Notably, IsDB provided emergency equity injection to Bank Muamalat Indonesia (BMI) in 2000 and later attracted private sector investors to join BMI. Over the years, IsDB provided additional equity support, which helped in enhancing BMI's profile. As part of strategic reorientation, recently IsDB recently collaborated with Badan Pengelola Keuangan Haji (Hajj Financial Management Agency, BPKH) to become the majority shareholder and lead BMI in its future endeavors.

224. **Indonesia has huge potential to be the global hub for the halal industry, however, Indonesia is still facing various challenges in implementing the halal certification** to all consumer products and related services that are imported and distributed in the country.

225. **Issues and Challenges to develop Shari'ah finance and the Shari'ah economy.** Some of the challenges came from the lack of participation from Shari'ah banks in financing infrastructure projects, low optimization of Waqf – a form of endowment specifically intended for charitable causes, usually given in the form of assets such as land or buildings – and Zakat (alms) assets for economic development, as well as the higher rate of spending on halal products compared to production. Considering these early findings, IsDB provided comprehensive Technical Assistance (TA) to the Government of Indonesia to help prepare the Masterplan for Islamic Finance Architecture.

226. **Despite significant challenges, there are important opportunities to Indonesia to benefit from Islamic finance** Including the development of the halal industry, The development of MSMEs, Regulatory support to improve Islamic financial inclusion, especially banking (for example, with smart behavior programs), Providing Financial technology (Fintech) for the Islamic capital market industry to conduct market penetration to all levels of society, The very large growth potential of Islamic insurance and pension funds and utilizing digital banking by Islamic banks in facilitating services to customers/communities.

227. **The programs and activities of ISDB Institute in Indonesia are organized under the Smart Economy Lab initiative.** The Smart Economy Lab initiative aims to stimulate innovation and enhance efficiency in all sectors of the economy through sustainable and inclusive interventions backed by technology. Additionally, by strengthening linkages between the economy's financial and real components, it proposes to realize the benefits of a truly Islamic economy.

228. **Likewise, the IsDB will continue supporting Indonesia through the Awqaf Properties Investment Fund (APIF) that promotes Awqaf as a social-finance-based instrument of development while observing relevant principles of Islamic jurisprudence.** With its mandate to finance the establishment and/or development of Islamic real estate endowments. APIF is a unique fund among MDBs with a strong focus on long-term, intergenerational financial sustainability.

229. **In Indonesia, APIF has approved one project titled as “Construction of an office building in Jakarta”, which is under the implementation phase. Additionally, APIF is reviewing another project of 118 beds with 21 polyclinic hospitals in Jakarta.** Therefore, the current MCPS will facilitate the growth of Awqaf sector in Indonesia, which will pay the way for the development of Waqf properties. These properties will provide financial assistance to charity organizations to continue their philanthropic activities without reliance on donations.

## 2.4.9 Capacity Development

230. **Technical Cooperation Program (TCP)** can consider enhancing the capacity of the PMUs of the active projects of IsDB in Indonesia. It can equally help facilitate study visits of technical staff from Indonesia's public institutions to other member countries to familiarize with the knowledge and expertise available in various sectors and thematic areas. In addition, facilitate on-the-job training for the technical staff of public institutions to get acquainted with the latest technologies available in other member countries in various sectors.

231. **Reverse Linkage (RL)** can support Indonesia to share its knowledge and expertise and acquire the same from other countries in the Global South under the three main pillars for its G20 2022 Presidency namely: Global Health, Sustainable Energy Transition, and Digital Transformation.

232. **Capacity Development Program for National Ecosystems for South-South and Triangular Cooperation (NE SSTRc)** can support the newly established Indonesian Agency of International Development (Indo AID), to enable it to better serve its ambitions and to be a global leader in SSTRc.

233. **Regional Cooperation and Integration (RCI) Program:** can provide advisory, technical, and financial support to regional programs that aim at expanding access to markets through regional infrastructure connectivity, regulatory harmonization, digital transformation, cross-border community cooperation, and trade facilitation as well as investment promotion.

234. **Technical Assistance Program (TAP)** for Regional and Global Integration in Trade can enhance the capacity of Indonesian institutions in negotiating and implementing regional and multilateral trade agreements and systems.

235. **Investment Promotion Technical Assistance Program (ITAP)** can help to enhance the technical capacity of Indonesia's investment promotion agencies and intermediaries to improve the country's investment climate as well as to attract domestic and foreign investment that contributes to its sustainable development. Under this Program, the IsDB has recently initiated dialogue with BKPM to forge strategic partnership where BKPM can assume the role of investment promotion knowledge provider to investment promotion agencies in other IsDB Member Countries.

236. **Indonesia has one of the most vibrant venture capital and entrepreneurship ecosystems among IsDB Member Countries.** The thriving venture capital industry in Indonesia represents an opportunity to transfer knowledge and mobilize resources for small enterprises and startups through the establishment of joint regional venture capital funds between IsDBG and Indonesian venture capital firms. **ICD/IsDB Institute can assist in Islamic financial markets deepening related capacity development relating to setting up more efficient IF ecosystem and IF institutions.**

237. **The IsDBG has identified a cluster of capacity development as areas of potential cooperation with the GoI** in social infrastructure (health & education), public sector (transport, energy, urban, water and sanitation, STI and ICT and agriculture) as well as private sector, support in deepening and growing the Islamic Finance markets in Indonesia, public financial management, economic empowerment, regional cooperation and integration, civil society, youth and women, climate change and disaster management. **The Bank has also explored ways of supporting line Ministries in bolstering the project implementation capacity** through improved public financial management, disbursement, and procurement systems. The MCPS will help enhance the effectiveness of results-delivery and performance monitoring of the PFM systems, improve planning, monitoring, and evaluation aspects, based on the support of the Ministry of Finance of Indonesia in diversifying the list of auditing agencies for future projects in order to ensure that all IsDB projects are effectively and efficiently audited.





# 3 NATIONAL DEVELOPMENT PRIORITIES

## 3.1 DEVELOPMENT CHALLENGES AND BINDING CONSTRAINTS FROM NDP

238. **According to Gol's Growth Diagnostics, regulations and institutions are the most binding constraint to growth.** Existing regulations do not support business creation and development and tend to be restrictive. There are three main areas identified as the regulatory constraints: labor, trade, and investment. The report identifies human capital as the future binding constraint, particularly given the development of the digital economy and the aspiration to adopt industry 4.0 – the development of high technology manufacturing sector. Skills and education will become the next binding constraint in the rapid advancement of technology, particularly as the quality of education in Indonesia are worrying.

239. **The other most binding constraints to inclusive and sustainable growth are: i) Poor geography, ii) Low human capital (health & education), iii) Weak infrastructure (transport, utility, and ICT), iv) Government inefficiencies (bureaucracy and enforcing contracts), and iv) Market failures (labor and trade markets).**<sup>31</sup> There are disparities across regions, a wide urban and rural divide, large gender, and generational inequality. The IsDB's own Country Diagnostic Study concluded that the developmental focus should be on addressing low productivity, which is reflected in low return to investment.<sup>32</sup>

240. **Slower productivity growth is the main reason for the declining growth of potential output.** Before the Asian crisis, Indonesia's productivity was one of the highest in the region—above Malaysia, Thailand, Vietnam, the Philippines, and China but BAPPENAS (2017) estimates show a decline in Indonesia's total factor productivity growth during the past 15 years. Today Indonesia's productivity is among the lowest in the region.<sup>33</sup>

241. **The country lags its peer countries in the region in terms of infrastructure, especially in the quality of road infrastructure and the quality of railroad infrastructure.** Indonesia still has a significant infrastructure gap. This situation hampers the development of the private sector in Indonesia.

242. **Indonesia has been a commodity-exporter country, and its main exports have been mineral products, and animal and vegetable bi-products.** The country has been lagging in exporting more sophisticated goods with higher technology and skilled labor content.

243. **The challenge for Indonesia has become escaping the middle-income trap.** Although many countries in Asia achieved eradicating poverty and becoming middle-income status through sustained growth in the long-term, there are a few of them could transform to high-income status.

244. **Regional disparity is one of Indonesia's most important development challenges.** The economic growth of the last two decades has been concentrated in western Indonesia, which contributes around 80% of GDP.

245. **The binding constraints that are preventing Indonesia from realizing its full growth potential are significant and challenging.** The solutions required to address these constraints will need to be over-encompassing, requiring significant resources and the involvement of various actors across national and international agencies and the private sector.

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<sup>31</sup> BAPPENAS (2019) Indonesia Growth Diagnostics: Strategic Priority to Boost Economic Growth

<sup>32</sup> IsDB (2021) Country Diagnostic Study for Indonesia

<sup>33</sup> Badan Perencanaan Pembangunan Nasional (Bappenas). (2017). Pertumbuhan Potensial Output Indonesia: Faktor Penentu, Dampak Reformasi Struktural, dan Skenario ke Depan. Bappenas Study

## 3.2 ELEMENTS OF THE NATIONAL VISION

246. **The Vision of Indonesia 2045 (Wawasan Indonesia 2045) sets the goal for the country to be a sovereign, advanced, fair and prosperous nation by its centennial in 2045.** Indonesia has set a vision to become a high-income country, to break away from the middle-income trap and rising to be among the world's top five largest economies by 2045, that driven by investment and trade, industry, tourism, maritime, and services; as well as supported by reliable infrastructure and strong resilience on food, water, and energy.

247. Under the optimistic and baseline scenarios of economic growth with an average of 5.4% - 6.0% until 2045, it is expected that Indonesia will become a high-income country within 18 to 20 years and the fifth to the seventh largest economy in 2045.

248. The 2020-2024 RPJMN is the starting point for achieving the objectives of Indonesia's Vision 2045, also under the name Indonesia Maju (Indonesia Onward). To that end, strengthening the process of economic transformation to achieve the development goals of 2045 has become the focus in the context of achieving sustainable infrastructure, high human development, and better public services and welfare standards.

249. **The National Vision 2045 includes four development pillars, which are: (i) Human Development and Mastery of Science and Technology** (increased contribution of Science and Technology in development, increased communities health level, impartial acceleration of Indonesian citizen's education.); (ii) **Sustainable Economic Development** (reinforced food security, strengthened energy and water security, commitment towards the environment); (iii) **Equitable Development** (Acceleration of poverty eradication, equitable regional development, integrated and equitable infrastructure development); and (iv) **National Resilience and Governance** (Institutional and bureaucratic reform, free and active foreign politics, substantial democracy). As the country transforms into an advanced economy, the performance is determined by the quality of human resources to make the most of our natural resources.

## 3.3 NATIONAL DEVELOPMENT STRATEGY

### 3.3.1 Overview

250. **The National Medium-Term Development Plan IV (RPJMN) 2020-2024 sets targets aimed at guiding Indonesia's per capita income to upper-middle-income levels.** The President established five main directives as a strategy in achieving the objectives of Indonesia's Vision 2045. The five directives include human resources development, infrastructure development, regulatory simplification, bureaucratic simplification, and economic transformation, which have been translated into seven (7) Development Agendas of RPJMN 2020-2024.

251. **The RPJMN aims to maximize opportunities through,** strengthening economic resilience, developing the region, improving the quality and competitiveness of human resources, building the character and culture of the nation, strengthening the infrastructures, building the environment, increasing disaster and climate change resilience, and strengthening the political law defense security and public services transformation.

252. **Indonesia has targeted to increase its economic growth by an average of 5.4 - 6.0 % per year.** Regardless of the stagnant manufacturing sector performance (around 4.5 % during 2014-2018), the opportunity to enhance economic growth remains high. This opportunity is contributed to tourism, creative economy, and digital economy sector. According to the RPJMN, to strengthen economic resilience, Indonesia plans to: (i) increase the carrying capacity and quality of economic resources as the modality for sustainable economic development; and (ii) increase value-added, employment, export, and economic competitiveness.

### 3.3.2 Pillars of the National Strategy

253. **The RPJMN (National Medium-Term Development Plan 2020 – 2024), which is the final stage of the National Long-Term Development Plan (RPJPN), 2005–2024,** establishes the goal of achieving prosperous, fair, and sustainable development by 2024. The Government's policy priorities include strengthening human capital through poverty reduction and basic services improvement; reducing regional disparities through improving infrastructure, connectivity, and maritime development; increasing economic value-added and job creation; and overcoming the digital divide by simplifying regulations, bureaucracy, and promoting economic transformation.

254. **The 2005-2025 RPJPN, Indonesia's Vision 2045, and the vision and mission of the President became the main foundation for the formulation of the 2020-2024 RPJMN, which then transpired in the form of the seven development agendas.** The current RPJMN lays out holistic strategy and programs delivering in 38 sectors under 7 national priorities, with measurable targets (Table 3).

**Table 3. Seven Development Agendas under RPJMN ( 2022-2025)**

7 Development Agendas	Focus	38 Sectors
1. Strengthening Economic Resilience for Quality Growth	1. Meeting Energy Needs by Prioritizing Increasing New Renewable Energy 2. Increasing Water Quantity / availability to Support Economic Growth 3. Increased Availability, Access and Quality of Food Consumption 4. Enhance Maritime Management 5. Strengthening Entrepreneurship and MSMEs 6. Increased Value-Added Employment and Investment in the Real Sector, and Industrialization 7. Increased High Value-Added Exports and Strengthening Domestic Content (TKDN) 8. Strengthening of the Pillar Growth and Economic Competitiveness	1. Renewable Energy 2. Agriculture 3. Maritime 4. Water 5. MSMEs 6. Fishery & Marine 7. Tourism 8. Creative and Digital Economy 9. Food & Beverages, 10. Textile, apparel 11. Automotive, 12. Electronics, 13. Chemical and pharmaceuticals

<p>2. Develop Regions for Reducing Inequality and Ensuring Equity</p>	<ol style="list-style-type: none"> <li>1. Sector or Commodity Development in the regions</li> <li>2. Reducing in Regional Disparities</li> <li>3. Strengthening Human Capital, Science and Technology region based</li> <li>4. Increased Disaster Resilience and Climate Change</li> <li>5. Equitable Distribution of Infrastructure and Basic Services</li> </ol>	<ol style="list-style-type: none"> <li>14. Human Capital &amp; STI</li> <li>15. Disaster Resilience &amp; Climate Change</li> <li>16. Transportation</li> <li>17. Environment</li> <li>18. Manufacturing</li> <li>19. Tourism</li> <li>20. Exclusive/Special Economic Zones and Industrial Parks</li> </ol>
<p>3. Improve Quality and Competitive Human Capital</p>	<ol style="list-style-type: none"> <li>1. Population Control &amp; Population Governance</li> <li>2. Strengthening the Implementation of Social Protection</li> <li>3. Improving Access and Quality of Health Services</li> <li>4. Equalization of quality education service</li> <li>5. Improving the quality of children, women and youth</li> <li>6. Poverty Alleviation</li> <li>7. Increasing productivity and competitiveness</li> </ol>	<ol style="list-style-type: none"> <li>21. Population control</li> <li>22. Social Protection</li> <li>23. Health Services</li> <li>24. Education Services</li> <li>25. Children , Women and Youth</li> </ol>
<p>4. Mental Revolution and Cultural Development</p>	<ol style="list-style-type: none"> <li>1. Cultural Strengthening, Literacy, Innovation, and Creativity</li> <li>2. Religious Moderation</li> <li>3. Cultural Promotion and Preservation</li> <li>4. Mental Revolution and Fostering the Ideology of Pancasila</li> </ol>	<ol style="list-style-type: none"> <li>26. Literacy</li> <li>27. Culture and Ideology</li> <li>28. Innovation and creativity</li> </ol>
<p>5. Strengthening Infrastructure to Support Economic Development and Basic Services</p>	<ol style="list-style-type: none"> <li>1. Basic Service Infrastructure</li> <li>2. Strengthening Connectivity</li> <li>3. Infrastructure Urban</li> <li>4. Energy and Electricity</li> <li>5. Digital Transformation</li> </ol>	<ol style="list-style-type: none"> <li>29. Multi-model Connectivity</li> <li>30. Urban</li> <li>31. ICT</li> <li>32. Energy</li> </ol>
<p>6. Building the Environment, Enhancing Disaster Resilience and Climate Change</p>	<ol style="list-style-type: none"> <li>1. Development Low Carbon</li> <li>2. Enhancement Disaster Resilience and Climate</li> <li>3. Improving the Quality of Environment</li> </ol>	<ol style="list-style-type: none"> <li>33. Climate Change</li> <li>34. Environment</li> </ol>
<p>7. To Strengthen Stability of Politics, Law, Defense and Security and Public Services Transformation</p>	<ol style="list-style-type: none"> <li>1. Bureaucratic Institutional Reform</li> <li>2. Democratic Consolidation</li> <li>3. Access to Justice</li> <li>4. Maintaining National Security Stability</li> <li>5. National Law Enforcement</li> <li>6. Optimizing Foreign Policy</li> </ol>	<ol style="list-style-type: none"> <li>35. Law and regulations</li> <li>36. Security</li> <li>37. Foreign Policy</li> <li>38. Institutions</li> </ol>



255. **Strengthening Economic Resilience for Quality Growth**, the following objectives are to be achieved in order to strengthen economic resilience for high-quality growth: Increasing the carrying capacity and quality of economic resources as means for sustainable economic development; and increasing the economic value-added, employment, investment, exports, and economic competitiveness. Under the Management of Economic Resources, Policy directions in the context of economic resource management for the 2020-2024 period include: (i) Meeting energy demand by prioritizing new and renewable energy; (ii) Increasing water security to support economic growth; (iii) Increasing availability, access, and quality of food consumption; (iv) Improving the management of maritime affairs, marine affairs, and fishery. Under Increasing Economic Value-Added, (i) Strengthening entrepreneurship; micro, small, and medium enterprises (UMKM); and cooperatives; (ii) Increasing value-added employment, investment in the real sector, and boosting industrialization; (iii) Increasing high value-added exports and strengthening the domestic content requirement (or TKDN); (iv) Strengthening the pillars of growth and economic competitiveness.

256. **Develop Regions for Reducing Inequality and Ensuring Equity**, the regional development target for 2020-2024 will be achieved through five priorities, namely: developing strategic areas; leading sector development; urban development, development of disadvantaged areas, border areas, rural areas, and transmigration; and regional institutional management and financial management. In an effort to achieve these development objectives and targets, future regional development will be translated through two main approaches, namely the growth corridor approach and the island-based equity corridor approach. The regional development policies and strategies for 2020-2024 are as follows: (i) Increasing equity—between the eastern and western regions of Indonesia and between Java and other islands—through development strategies; (ii) Increasing the competitive advantage of regional growth centers through development strategies; (iii) Improving the quality of governance of basic services, competitiveness, and regional independence; (iv) Increasing the synergy of regional spatial use.

257. **Improving the Quality and Competitiveness of Human Capital** in Indonesia's development in 2020-2024 is aimed at forming high-quality and competitive human resources, namely human resources that are healthy, intelligent, adaptive, innovative, and skilled. To achieve these objectives, human development policies are directed at population control and strengthening population governance; fulfillment of basic services and social protection; improving the quality of life for children, women and youth; alleviating poverty; and increasing labor force productivity and competitiveness. The human development policy is carried out based on a life-cycle approach, and inclusively considers the needs of the elderly and residents with disabilities and the management of talented human resources. Under Improving the Quality and Competitiveness of Human Capital, policies and strategies for 2020-2024 include: (i) Control population growth and strengthen population governance (ii) Strengthening the implementation of social protection; (iii) Improving health services towards universal health coverage; (iv) Improving the distribution of high-quality education; (v) Improving the quality of life for children, women and youth; (vi) Reducing poverty; (vii) Increasing productivity and competitiveness.

258. **Mental Revolution and Cultural Development** is developed to be more holistic and integrated on the basis of: (1) Mental Revolution in the education system by emphasizing the values of integrity, work ethic, mutual cooperation, and character in learning; (2) Mental Revolution in governance by acculturating the values of transparency and accountability; and (3) Mental Revolution in the social system by promoting positive values of the nation in family and interactions among citizens. Policy directions and strategies for 2020- 2024 consist of : (i) Mental Revolution and fostering the ideology of

Pancasila to strengthen national cultural resilience and shape the mentality of an advanced and modern nation with character; (ii) Increasing cultural advancement and preservation to strengthen the nation's character and identity, improve people's welfare, and influence the direction of the development of world civilization; Strengthening religious moderation to strengthen tolerance and social harmony; Increasing the culture of literacy, innovation, and creativity to realize a knowledgeable society with character.

259. **Strengthening Infrastructure to Support Economic Development and Basic Services.** In an effort to achieve the GDP growth target in the RPJMN 2020-2024, infrastructure spending needs to reach Rp 6,445 trillion. However, the government is only able to fund as much as Rp 2,385 trillion (37% of what is needed). For this reason, innovative efforts are needed to encourage the participation of the community and business entities through Public-Private Partnership (PPP) schemes and other creative financing schemes. This is in accordance with the new paradigm of infrastructure funding that makes the state budget/regional budget a last-resort alternative source of funding. Policy directions and strategies for 2020-2024 are: (i) Basic Services Infrastructure (Providing Access to Decent, Safe and Affordable Housing and Settlements; Sustainable Groundwater and Raw Water Management, Providing Access to Clean, Safe Water, and Sanitation, Transportation Safety and Security, Infrastructure Disaster Resilience); (ii) Urban Infrastructure (Urban Transportation, Urban ICT Infrastructure and Ecosystems, Digital Transformation, Providing Access to Clean, Safe Water, and Sanitation); (iii) Economic Infrastructure (Energy and Electricity; Road, Railroad, maritime, land, Air connectivity), etc.

260. **To Strengthen Stability of Politics, Law, Defense and Security and Public Services Transformation.** The development of political, law, defense, and security affairs, which will be referred to as Polhukhankam, in Indonesia for the 2020-2024 period is directed towards democratic consolidation; the rule of law and enforcement of human rights; clean and trusted bureaucracy; a sense of security and peace for all people; and territorial integrity of the Republic of Indonesia and sovereignty against various threats, both from within and outside the country. These conditions are prerequisites to support national development. Some domestic issues that need to be anticipated over the next five years are the issues of intolerance, procedural democracy, the complexity of bureaucratic and law enforcement services, potential security threats, and state sovereignty. At the global level, some issues that need attention are the depolarization of international politics, the shifting of key powers' focus on maritime affairs, de-globalization and populism that have led to unilateral policies of several countries, and instability in the Middle East. The direction of the Polhukhankam's development policy is focused on five areas, namely consolidating democracy, optimizing foreign policies, enhancing legal systems, reforming bureaucracy, and governance, as well as strengthening national security.

### 3.3.3. Implementation of the NDP

261. **The achievement of Indonesia's vision for 2045—to reach high-income status —will not be possible without a strengthened focus on closing specific gender gaps to drive growth, support human capital and economic infrastructure especially in transport and connectivity.** To be able to achieve that economic growth quality in the next five years, improvement structural transformation is one of the main keys. Major structural transformation improvements are driven by the revitalization of the processing industry, while continuing to encourage sector development through agricultural modernization, downstream mining, infrastructure development sustainability, and the transformation of the service sector.

262. **To accelerate the achievement of national development targets, RPJMN IV 2020 – 2024 has established 6 (six) mainstreaming factors that will catalyze national development** that are just and adaptive. The mainstreaming consists of: Gender Equality; Good Governance; Sustainable Development; Disaster Vulnerability and Climate Change; Social and Cultural Capital; Digital Transformation.

## 3.4 DEVELOPMENT PARTNERS' ENGAGEMENTS IN INDONESIA

263. **Indonesia has been a recipient of aid from many bilateral and multilateral development partners. In 2019, the total foreign loans disbursed in Indonesia equaled US\$ 7,883.09 million,<sup>34</sup> and total foreign grants of US\$ 1,615.94 million.<sup>35</sup>** Currently, development partners provide a wide range of support to various sectors inter alia infrastructure, including transport and energy, waste management, climate change adaptation and disaster risk management, health and education, public fiscal management and governance, youth and gender, regional cooperation and integration, budget support, microfinance, military and defense, and private sector development.

264. **To meet all the development targets and catch up on many development agendas, significant external financing is still required.** So far, the Government of Indonesia has exercised the potential external financing capacity of US\$ 61.24 billion.<sup>36</sup> in 2020-2024, from both bilateral and multilateral development.

265. **This financing potential is estimated to be increasing in parallel with the higher needs of financing for COVID-19 mitigation and its economic recovery efforts.** The Government has determined the external financing to be channeled to major projects in several sectors that are issued within the 2020-2024 National Medium-Term Development Plan (RPJMN). These sectors vary from human resources development, education, national health system, industry, tourism, infrastructure, transportation, energy, disaster management, and many more.

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<sup>34</sup> Directorate General of Budget Financing and Risk Management, Ministry of Finance, 2019, "Laporan Kinerja Penyerapan Pinjaman, Hibah dan Project Based Sukuk Triwulan IV 2019".

<sup>35</sup> Database of Deputy for Development Funding, Ministry of National Development Planning/Bappenas

<sup>36</sup> Rencana Pembangunan Jangka Menengah Nasional 2020-2024 (National Medium-Term Development Plan 2020-2024), Ministry of National Development Planning/National Development Planning Agency, Jakarta.

Table 4: Development Partners' Matrix (Source: BAPPENAS 2020)

Development Partners	Current and Future Interventions												
	Energy /renewables	Infrastructure communi and housing	Climate change	Waste management	Public Financial	Fisheries	Microfinance	Sanitation	Private sector	Budget and BOP Support	Health and education	Regional Cooperation	Youth and Gender
AFD	v	v	v			v		v		v			
AIF								v					
ADB	v	v	v		v			v	v	v	v		
AIIB		v							v				
Austria	v		v	v							v		
Belgium											v		
Canada					v								
China Exim Bank	v	v											
DANIDA			v	v									
DFAT							v				v		v
EDCF		v	v	v	v						v		
EU			v		v							v	
KEXIM		v						v					
France		v	v		v								
KFW	v	v	v	v				v		v	v		
GIZ	v		v	v	v				v				
GEF	v		v	v	v	v			v				
Hungry		v						v			v		
IFAD		v			v				v				
IsDB Group		v	v		v			v	v		v		
IFC				v		v							
JICA	v	v	v	v				v		v	v		
JFPR		v			v								
KOICA		v											
SFD											v		
Spain		v	v	v				v					

266. **Indonesia is looking forward to international financing and assistance for the major projects in RPJMN 2020-2024 and expecting these financing and assistance to bring leverage and added value for the country's development progress** by enhancing national economic productivity, human capital, research and capacity building, increasing national export, economic growth, private investment, PPP, accelerating economic transformation, and promoting transfer of innovation and technology including green and low-carbon technology.

267. **Following the COVID-19 crisis, Indonesia considers external financing even more crucial to facilitate economic recovery and to build back better.** Therefore, the Government is looking forward for development partners to increase their commitments, maximizing their lending capacity, especially in a concessional loan, and mobilizing all resources, while the Government will optimize the use of resources, ensure debt sustainability, and maximize the development impacts.<sup>37</sup>

268. **The IsDB will closely coordinate with other development partners in designing its assistance** and explore opportunities for engagements in mutually agreed areas. While doing so, IsDB will actively work to minimize any overlapping in the country's development initiatives.



<sup>37</sup> Rencana Pemanfaatan Pinjaman Luar Negeri 2020-2024 (External Loan Utilization Plan 2020-2024), Ministry of National Development Planning/National Development Planning Agency, Jakarta.



# 4 ISDB GROUP STRATEGY

## 4.1 OBJECTIVE

269. This section aims to facilitate selectivity and focus in IsDB's interventions in Indonesia in alignment with Indonesia's priorities as laid out in the RJP MN 2020-2024. The section begins with an alignment matrix of the key developmental challenges of Indonesia as they relate to the pillars of the National Development Plan of Indonesia and the pillars of IsDB's Strategic Realignment 2023-2025; a retrospective stock-take of the IsDB Group's interventions in Indonesia, along with an exposition of systematic project design and implementation challenges faced by the Bank's portfolio, as highlighted within the Country Portfolio Review Note (CPRN). This is followed by highlighting the IsDB Group's forward-looking areas of focus for Indonesia based on the IsDB Group's inherent strengths and capacities and Indonesia's priorities, as highlighted under the areas of cooperation. The alignment of national priorities with the Bank's strategic orientation underpinned by its inherent strengths and capacities facilitates mutual selectivity and focus within MCPS. The Strategy Document will build on these to define more granular areas of cooperation in alignment with the strategic pillars of the Bank, the indicative financing envelope and the implementation arrangements required for their successful materialization.

**Table 5: Development Challenges Alignment Matrix**

<p><b>FINANCIAL &amp; CAPITAL MARKETs DEEPENING</b> (Low capital availability, high bond yields, limited resources and investment, limited secondary market appetite for corporate risk, high FDI restrictiveness, Financial Inclusion, MSME)</p>	<ul style="list-style-type: none"> <li>• NP1/PP6. Increase value added, employment &amp; investment in the real sector</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-cutting areas: Islamic Finance, Economic Empowerment &amp; Capacity Development</li> </ul>	<p>SDGs 1,2,3,5,8,9,10</p>
<p><b>LOW QUALITY OF EDUCATION / LOW LABOR PRODUCTIVITY</b> (Lack of skilled and specialized labor force, low R&amp;D, mismatch between educational system, skills and market need, high youth unemployment, low job quality)</p>	<ul style="list-style-type: none"> <li>• NP3. Improve quality and competitive human capital (Equalization of quality education services)</li> </ul>	<ul style="list-style-type: none"> <li>• P.2: Inclusive Human Capital Development: (Quality Education)</li> </ul>	<p>SDG 4</p>

<p><b>WEAK HEALTH INFRASTRUCTURE</b> (Limited capacity of the health care system, high costs of health services, high incidence of stunting, high prevalence of malnutrition. the rapid growth of non-communicable diseases)</p>	<ul style="list-style-type: none"> <li>• <b>NP3. Improve quality and competitive human capital</b> (Improving access and quality of health services)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>P.2: Inclusive Human Capital Development:</b> (Universal health care/ Health Services)</li> </ul>	SDG 3
<p><b>WEAK TRANSPORT INFRASTRUCTURE</b> (Severe bottlenecks in sea transport, poor geographical access, insufficient road and railroad infrastructure quality)</p>	<ul style="list-style-type: none"> <li>• <b>NP5. Strengthening infrastructure to support economic development and basic services</b> (Strengthening connectivity)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>P.1: Green Resilient &amp; Sustainable Infrastructure:</b> (Sustainable multi-modal Transport)</li> </ul>	SDGs 7, 8, 9, 11 and 12
<p><b>ICT &amp; DIGITALIZATION</b> (Lack of access to internet connectivity for the half of adult population, low productivity, low quality of education delivery, geographical connectivity gap, fragmentation of data)</p>	<ul style="list-style-type: none"> <li>• <b>NP5. Strengthening infrastructure to support economic development and basic services</b> (Digital Transformation)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>P.1: Green Resilient &amp; Sustainable Infrastructure:</b> (ICT &amp; Digitalization)</li> </ul>	All SDGs
<p><b>REGIONAL DISPARITIES</b> (Urban/Rural disparities, unequal distribution of education and health resources among regions)</p>	<ul style="list-style-type: none"> <li>• <b>NP2. Develop regions for reducing inequality and ensuring equity</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>P.1: Green Resilient &amp; Sustainable Infrastructure</b> (Urban Development, Transport)</li> <li>• <b>P.2: Inclusive Human Capital Development:</b> (Social Protection, Health, Education)</li> </ul>	SDGs 8 and 10
<p><b>CLIMATE CHANGE MITIGATION AND ADAPTATION CHALLENGES</b> (Lack of capability in handling environmental issues, greenhouse gas emissions, natural hazards and disaster risks).</p>	<ul style="list-style-type: none"> <li>• <b>NP6. Building the environment, enhancing disaster resilience and climate change</b> (development of low carbon energy)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>P.1: Green Resilient &amp; Sustainable Infrastructure</b> (Clean Energy)</li> <li>• <b>Cross- cutting areas:</b> Climate Change</li> </ul>	SDG 13
<p><b>W&amp;Y GAPS/INEQUALITY</b> (Low female/youth labor participation, remuneration gap)</p>	<ul style="list-style-type: none"> <li>• <b>NP3. Improve quality and competitive human capital</b> (improving the quality of children, women and youth)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Cross- cutting areas:</b> Women and Youth Empowerment</li> </ul>	SDG 5



## 4.2 ISDB GROUP PORTFOLIO PERFORMANCE

### 4.2.1 Portfolio Dynamics

270. **Indonesia joined the Islamic Development Bank (IsDB) on August 12, 1974 (as one of its founding members).** Indonesia's capital subscription to IsDB is ID 1,138 million (2.25% of total IsDB subscribed capital), of which the paid-up capital is ID 148.2 million. Indonesia is also a member of the IsDB Group Entities (ICIEC, ICD, ITFC, and IsDBi).

271. **The first IsDB operation in Indonesia was in September 1978 and the most recent one was in December 2021.** The Bank's involvement in Indonesia has focused on Agriculture, Education, Industry and Mining, Transportation, Health, Energy and Finance. To date, the IsDB Group has approved total financing of about US\$ 6 billion for Indonesia. This includes US\$ 3.7 billion in project financing by IsDB; US\$ 98.8 million approved by ICD; US\$ 1.5 billion trade operations by ITFC, and US\$ 668.5 million by other IsDB Group funds and operations. In addition, ICIEC has provided US\$1.6 billion as business insured and US\$ 1.4 billion as new insurance commitments.

272. **Project financing represents 60% (US\$ 3.6 billion) of total financing, while trade financing represents 36.6% (US\$ 2.2 billion), and concessional financing is 3.3% (US\$ 198.5 million).** Sectoral breakdown of the IsDB Group operations in Indonesia is as follows: the sector with the highest share is Agriculture at 39% (about US\$ 2.3 billion) followed by Education at 17.3% (about US\$ 1 billion), and Industry & Mining at 11.9% (about US\$ 715.9 million).

273. **The 2022-2025 MCPS will capitalize on the valuable experience and lessons learned from the implementation of the two previous Member Country Partnership Strategies of 2011-2014 and 2016-2020,** which had successfully provided requisite financial, technical, knowledge & capacity development and private sector support to the concerned Indonesian counterparts and stakeholders.

274. **The first IsDB Group MCPS (2011-2014) for Indonesia was aligned with the Government's Medium-Term Development Plan (2010-2014). The achievement of the MCPS remained broadly successful (except in a few areas such as energy and PPP) due to significantly scaled-up IsDB Group financing; higher disbursements; harnessed regional potential, and numerous development outcomes in key sectors of the country representing more than 43% of the IsDB Group portfolio since inception.** The total IsDB Group's approvals under the first MCPS stood at US\$ 1,915 million, which represented 77% of the revised financing envelope (US\$ 2,500 million). It included US\$ 1,154 million from IsDB, US\$ 666 million from ITFC and US\$ 95 million from ICD. In addition, the IsDB invested US\$ 850 million in the sovereign Indonesia Sukuk. ICIEC insured business of US\$ 418 million, while several capacity development and training programs were undertaken by IDB Group entities, including IRTI during the MCPS period.



*Indonesia joined the Islamic Development Bank (IsDB) on August 12, 1974 (as one of its founding members).*



275. **The second MCPS (2016-2020) was based on three Thematic Areas: Reducing Regional Disparities, Deepening Islamic Financial Industry and Supporting Regional Integration. The second MCPS indicative financing envelope was revised to US\$ 3.00 billion (from US\$ 5.2 billion).** However, during the MCPS mid-term review in 2019, the IsDB's indicative financing envelope was further reduced to US\$ 2.24 billion. By the end of the second MCPS implementation, the overall achievement Rate: (Net Approvals as % of Indicative Financing) was 92%, amounting to US\$ 2060.2 million, excluding ICIEC and Sukuk Investment. **See Table 6.**

**Table 6: Final Implementation Status of the IsDB Group's MCPS**

	Indicative Financing Envelope (US\$ million)	Net Approvals (US\$ million)	Achievement Rates
Indonesia (2011-14)	2,500	1,920	77%
Indonesia (2016-2020)	2,240	2,060	92%

276. **A comprehensive Country Portfolio Review Note (CPRN) exercise was conducted in March 2022 and covered the entire active portfolio of the IsDB in Indonesia that presently consists of 8 active (under implementation and physically completed/under closure) projects** and one recently approved operation (Development of South-South Java Road Phase-II Project for US\$ 150 million) awaiting the signature of the Financing Agreements and subsequent Declaration of Effectiveness). The above operations had been processed and approved during the period of 2013-2021, amounting to cumulative IsDB financing of US\$ 1.69 billion.

277. **During the 2022 CPRN exercise, the Bank, while assessing the portfolio's performance, has managed to re-calibrate and collate the PIASR ratings across the active projects, which have mostly culminated in a robust "Satisfactory" rating.** The CPRN has identified the following as the elements that will require the Bank's attention and continuous improvement: (i) **communication and coordination** (e.g. maintaining the acknowledgment culture, and keeping all relevant stakeholders apprised), (ii) **response times** (e.g. certainty and consistency in processing times), (iii) **consistency** (e.g. consistency in the decision-making, as well as in views/ issues), (iv) **regular follow-up** and technical meetings (e.g. continuing the monthly progress meetings, as well as need-based workshops/clinics), (v) **strengthening of PMUs/PIUs**, (vi) **on-granting mechanism** (e.g. faster processing of reimbursement), (vii) **procurement** (e.g. frequent procurement workshops/clinics, expedited processing of reviews, consistency in opinions), (viii) **thematic issues** (e.g. sensitization on the Bank's Strategy Update, proactive role on the Climate Change, Women and Youth Empowerment), (ix) **greater Delegation of Authority** and resources in the Regional Hub (e.g. allocating greater manpower and streamlining processes for greater efficiency), and (x) **blanket agreement/MoU** with BPK and BPKP for auditing.

278. **In a concerted effort to further reduce the CUC/CUB of the Bank's active portfolio in Indonesia, the Regional Hub Indonesia will continue focusing on closing dormant projects, cancelling the unutilized amounts and streamlining the implementation progress of the active projects.** It is noted that after the ongoing closure of IDN 1067 and IDN 1068 as well as the planned completion and subsequent closure of IDN 1007.1008 and IDN 1007, IDN1008 and IDN 1011- across 2022-2023 - the average portfolio age of the Bank in Indonesia will be reduced to less than 4 years, which is an excellent indicator against the overall recommended age of the active portfolio of 6 years

## 4.2.2 ITFC Portfolio

279. **Since its inception in 2008 and until January 2022, the International Islamic Trade Finance Corporation (ITFC) has approved around US\$ 1,595 million in trade financing for Indonesian clients. A total of US\$ 545 million has been approved for Indonesia under the 2nd MCPS during the period of 2016 - 2020.** This achievement falls short of the original target due to changes in the risk appetite within ITFC, which means that unless the clients meet the eligibility criteria and or the facilities are not syndicated, then large bilateral private sector financing on a single obligor will be limited. Given these challenges, ITFC had revised its financing envelope to US\$ 660.0 million for the 2nd MCPS.

280. **Within its intended interventions under Pillar 1, ITFC continues to prioritize the manufacturing and processing sector, and the export-driven industries.** Industries financed, to date, include garments, crude palm oil, coffee, sugar and FMCG (i.e., Food & Beverage). Presently all the financing extended has been on a bilateral basis and limited in size (up to US\$ 9.5 million).

281. **ITFC will coordinate the IsDB Group's interventions to provide integrated trade finance and trade development interventions in the member countries, including Indonesia.** Under the umbrella of the integrated trade solution program, ITFC is embarking on its trade development activity for the agriculture sector in Indonesia by partnering with local NGOs to extend the capacity building to the coffee farmers in Indonesia to enhance the quality and production of coffee, while designing the trade finance element of the program.

## 4.2.3 ICD Portfolio

282. **Since its inception in 1999, the ICD has approved and financed about US\$ 98.8 million investment for 4 projects in Indonesia and has disbursed about US\$ 60.8 million.** Within the previous MCPS (2016-2020), ICD's indicative financing envelope was US\$ 100 million with US\$ 20.0 million approval as well as advisory work on the conversion of conventional bank to a Syariah compliant bank.

283. **As a result of strategic re-orientation of priorities and approaches to financing in ICD, there is a shift to work with larger private sector companies as well as higher second-tier financial institutions.** This will require to address some challenges pertaining to resource mobilization and syndication projects in Indonesia, given that bigger companies require larger financing, while ICD possesses a limited prior portfolio of large firms in the country. Many potential deals, especially for lines of financing and infrastructure financing, require local currency financing. In this regard, ICD will explore local currency financing with local financial institutions to address these challenges.

## 4.2.4 ICIEC Portfolio

284. **Since its inception in 1994, ICIEC has provided US\$ 1.6 billion as business insured and US\$ 1.4 billion as new insurance commitments.** For Indonesia's MCPS 2022-2025, ICIEC is committed to focusing its intervention based on its synergy with the IsDB and sister entities, the strategic partnerships it has formed with relevant institutions in Indonesia in supporting cross-border trade from and to its member countries, and facilitate FDIs into its member countries, as well as new initiatives on the following.

285. **ICIEC has an active proposal to the Indonesia Infrastructure Guarantee Fund (IIGF) to enhance IIGF's guarantee capacity and attract foreign direct investors in the development of PPP infrastructure projects through a Co-guarantee/insurance scheme.** ICIEC signed the MOU with IIGF in 2019 on the co-guarantee/insurance initiative (and other potential forms/structures of collaboration) and is currently working with IIGF to fine-tune the operations under the scheme while selecting a feasible pilot project to exercise the workability of the co-guarantee/insurance initiatives.

286. **ICIEC continuously facilitates foreign direct investment via its insurance product in guaranteeing critical infrastructure sectors and commodities to Indonesia, such as power generation, telecommunication, agriculture commodities (such as sugar and wheat), etc.** ICIEC will continue to: provide export credit insurance to indirectly help export clients, provide insurance cover for cross-border trade financing operations, support local contractors for their projects abroad through guarantees, and continue promoting the ICIEC-ISFD joint program "ICERI" for COVID-19 emergency response.

## 4.2.5 ISFD Portfolio

287. **As a poverty alleviation arm within the bank, and in accordance with the new ISFD 2030 strategy that seeks realizing more effective /efficient impact for its interventions, ISFD will be focusing its allocations and portfolio to members countries based on the level of development and income, where LDMCs is planned to have 80% of ISFD allocations, while the remaining 20% for other MCs.** Taking into consideration poverty as a multi-dimensional phenomenon, ISFD will be also focusing its allocation on specific thematic areas and sectors that severely contribute to the poverty challenges. This includes Health, Education, Economic Empowerment, and Community Development, where a balance between these sectors is to be created (20% up to 30% for each).

288. **ISFD approvals in Indonesia:** Since inception, ISFD has contributed an amount of US\$ 33,2 million through 10 projects in Indonesia, out of which an amount of US\$31 million contributed as concessional loans, and US\$ 2.2 million as grants.

289. **The sectoral distribution of these projects is as follows:** (i) 5 projects in health sector valued US\$ 200 thousand as grants (ii) 4 projects in Agriculture sector valued US\$ 32.77 million (US\$ 31 million as concessional loans, and US\$ 1.77 million as grant. and (iii) 1 project in Microfinance sector valued US\$ 250 thousand as grant. Out of the ten projects mentioned above, two (2) projects were completed (both were supporting agriculture), while the remaining eight (8) projects are still under disbursement.

290. **Recent Cooperation:** Indonesia was engaged in the first batch of member countries (7 pilot member countries including Indonesia, Turkey, Somalia, Lebanon, Tunisia, Morocco, and Kazakhstan) mapped to the **IsDB-ISFD NGO Empowerment for Poverty Reduction Program** after the endorsement of the program by the Government of Indonesia. **ISFD has invested a seed contribution of US\$ 10 million in this program, which will be utilized to carry out the program different activities that includes mapping, screening, categorization of CSOs in IsDB MCs,** and setting up crowdfunding trainings and campaigns on the Program platform "TADAMON". The program was launched in Indonesia in October 2020, and almost a hundred Indonesian CSOs registered on TADAMON by April 2021, and 51 CSOs submitted the project proposal, out of which 30 CSOs have been selected to participate in the Crowd Funding Academy.

291. **Potential areas of future Cooperation.** After the ISFD's Board of Directors Approval on investing in revenue-generating poverty reduction projects to drive sustainability, the **Waqf Land Development** and the **Economic Empowerment Development** initiatives would be the potential areas for future collaboration in Indonesia. Prospectively, one of the potential areas of collaboration in resource mobilization would be the **Ihsan Waqf Investment Funds (IWIF)** which would be mobilizing resources to be invested and generating income to support poverty alleviation initiatives.

### 4.3 PILLARS OF THE STRATEGY

292. **The pillars of the MCPS 2022-2025 are designed relying on development challenges of Indonesia, and IsDB's comparative advantage in supporting the country** to tackle those development challenges, aligning with strategic objectives and pillars of IsDB's 2023-2025 Strategic Realignment and Indonesia's National Medium-Term Development Plan (RPJMN 2020-2024). The below pillars will provide guidance on IsDB's strategic engagement with Indonesia with specific focus areas and priorities for the period of 2022-2025 (Table 7).

293. **MCPS Pillar 1: Supporting Economic Transformation.** Transformation of the economy is a vital precondition for Indonesia to become a high-income country by 2045. The objective of MCPS Pillar 1 is to help Indonesia build a green, resilient and sustainable infrastructure that enables higher productivity, diversifying country's productive capabilities, generating new sources of export competitiveness, expanding formal-sector employment and strengthening the role of priority sectors that can generate high value added for the economy. Pillar 1 focuses primarily on addressing the baselines hard infrastructure needed to contribute to the successful economic transformation for Indonesia.

294. **The priority sectors are those capable of driving economic growth and supporting external resilience.** In particular, IsDB support will focus on reducing regional disparities, strengthening core transport infrastructure, clean energy and ICT infrastructure as foundational sectors important to economic transformation, support regional integration and MSMEs empowerment as bedrocks of a robust private sector, resilient and inclusive agriculture systems, and urban development / sustainable land management to reduce urban/rural disparities and improve equitable access to basic services.

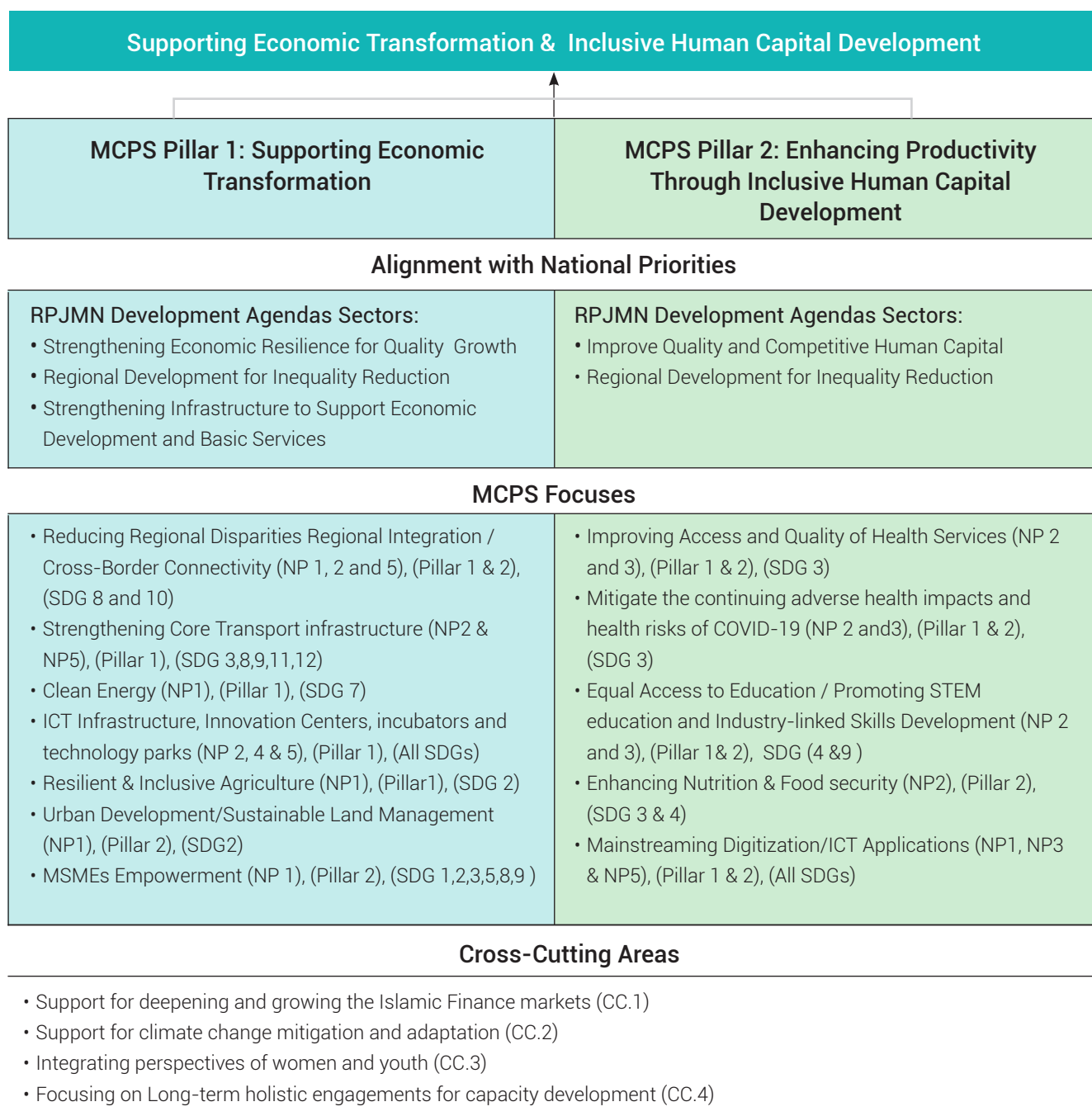
295. **The IsDB lauds the Government's overall strategy for its energy sector, emphasizing diversification, environmental sustainability, and maximum use of domestic energy resources.** It was stressed that the vision for a cleaner future will need to integrate progressive solutions such as reducing forest degradation, expanding renewable energy, and incorporating emission mitigating technology such as carbon capture and storage.

296. **The GoI and IsDB believe in the importance of harnessing both the supply and demand sides (reducing energy subsidies to mitigate market distortions) of the energy market** in considering future projects to ensure upstream and downstream efficiency in power generation and distribution with the ultimate goal of achieving sustained energy security.

297. **The GoI may consider PPP financing for energy projects from the Bank for large-scale energy projects;** meanwhile, small-scale power plants for remote areas are also deemed important to harnessing and adding additional energy supply to the national grid.

298. The MCPS Mission notes that transport issues and infrastructure investments have been identified as a National Priority in the country's National Medium-Term Development Plan for 2020–2024. Therefore, infrastructure development for connectivity and accessibility, enhancement of the maritime sector, integration of remote and frontier regions, shifting transport from road to rail and shipping, and tackling urban mobility are high on the Gol development agenda.

**Table 7: Pillars of the MCPS, 2022-2025**



**Note:**

- NP refers to National Priority (Development Agenda)
- Pillar 1 & 2 refers to IsDB Strategic Objectives and Focus Areas
- CC.1-4 refer to Cross – cutting: Islamic Finance; Climate Change; Women & Youth; and Capacity Development under IsDB Strategic Realignment 2023-2025

299. **MCPS Pillar 2: Enhancing Productivity Through Inclusive Human Capital Development.** The objective of MCPS Pillar 2 is to improve the productivity of Indonesians. Central to this are education, health and nutrition. These elements are also vital to addressing multidimensional poverty. Pillar 2 focuses on the social infrastructure and softer components that are needed to support the economic transformation of Indonesia by promoting overall human capital development and improving welfare. The focus areas of Pillar 2 include improving access to healthcare and health outcomes, improving the access and quality to education that is linked with the needs of the industry, enhancing nutrition and food security, and mainstreaming the applications and use of ICT and digitalization across the board.

300. **Health and education are two very important sectors for the country and the Bank and there is strong alignment between the Government's Seven Development Agenda and IsDB's Realigned Strategic Objectives and Pillars.** the educational and health infrastructure together with improving the quality of learning and health outcomes. The expertise developed by IsDB and the relevant Ministries and Project management organizations during the previous education and health projects will be used to design even more effective and efficient interventions fully aligned with the priorities set in RPJMN. Likewise, Pillar 2 will contribute to the construction of hospitals through PPP in addition to focusing on Microfinance to supply financial services to the poor or lower-income individuals and companies, given the large-scale and untapped tremendous potential of Microfinance sector are other important intervention areas to be modeled in this MCPS period.

301. **Food Security: Indonesia faces the double burden of malnutrition, obesity and undernutrition. 30% of children under the age of five experience stunting (Global Nutrition Report, 2020), meanwhile 35% (MoH, 2018) of adults are classified as obese.** Lack of adequate nutrition is connected with poorer health outcomes and lower productivity, meanwhile, prevalent food production practices are also interconnected with environmental degradation, loss of wildlife and deforestation. As such, the food security issue in Indonesia is a multifaceted problem that is set to be exacerbated in the current context of the Eastern-European crisis and global rises in food prices. A comprehensive program approach is required to solve the multifaceted food security issue in Indonesia that addresses the quality and quantity of food available, undernourishment, dietary habits, environmental impacts and sustainability. Through Pillar 2 of the MCPS, the IsDB will prioritize addressing Food Security issues in Indonesia in a comprehensive manner, especially in light of the urgent context of the looming global food crisis.

### **Cross - Cutting Areas: Islamic Finance, Climate Change, Women and youth, Capacity Development**

302. **Support for deepening and growing the Islamic Finance markets.** The market share of Shariah financing in Indonesia is small and the GoI seeks IsDB's support in deepening and growing the Islamic Finance markets in Indonesia. As noted earlier, increased depth of the financial markets will also contribute towards enhancing macro fundamentals and support fiscal sustainability. Market benchmarking followed by capacity development initiatives in this regard is requested by the GoI. Islamic banks are unable to develop Islamic finance in Indonesia unaided, thus requiring synergy with the Islamic capital market, Islamic non-bank financial institutions and FinTech.

303. **Integrating perspectives of Women and Youth.** The MCPS support will be on integrating women's and youth's perspectives and needs by: (i) Mainstreaming women's and youth's dimensions and needs into the Bank's operation, (ii) Capacity building on Gender Equality and Youth Development, (iii) Technical Assistance on reformulating the concept of gender mainstreaming training at the national

level, (iv) Study and assessments relating to women and youth issues (v) Knowledge Management by supporting a (digital) platform for monitoring and evaluating women & youth development trends and patterns and (vi) Technical Assistance on supporting a grand design of youth development that uses integrated and participatory approaches to improve coordination among stakeholders and strengthen youth participation in the development process.

304. **Support for Climate Change Mitigation and Adaptation.** In mainstreaming climate change and disaster management measures, IsDB will consider the following critical measures: (i) cooperate with the GoI in niche areas of the energy sector, which is deemed to be a crowded space in Indonesia. Accordingly, opportunities for blended finance provision, project-based Green Sukuk, Green Islamic Micro-financing for remote communities can be the areas of cooperation ; (ii) Small-scale power plants (less than 5 MW were identified as a potential niche for IsDB to intervene in to support the country's energy transition, sufficiency and affordability, with the possibility of facilitated mobilization of requisite financing for such plants; (iii) Early warning systems for hydro-meteorological & tectonic activity is a potential area of support. In addition, support in early retirement of coal-powered plants, rooftop solar PV, energy storage development; and (iv) exploring options to support sustainable land and coastal management, such as peatland restoration and re-wetting, forest fire prevention and management, and nature-based financing.

305. **Supporting Regional Cooperation and Integration (RCI) through producing a Joint RCI Roadmap.** The Government is planning to provide its RCI priorities to IsDB and identify a focal point for RCI matters. This roadmap is a strategic plan which defines a goal or desired outcome and includes the major steps or milestones needed to reach it. It also serves as a communication tool, a high-level document that helps articulate strategic thinking—the why—behind both the goal and the plan for attaining the goals stipulated in the document and in alignment with the current RPJMN (2022-2024).

306. **Focusing on Long-term holistic engagements for Capacity Development.** This initiative for capacity development among its Member Countries, including Indonesia, can produce sustainable and replicable results. The Bank recommends that the focus of technical cooperation should not be only limited to one dimension of capacity development. Accordingly, IsDB plans to initiate collaboration with the Indonesian Agency of International Development (Indo AID) and undertake joint South-South and Triangular Cooperation (SSTrC) projects and activities through the Reverse Linkage (RL) Modality in line with the priority areas of the GoI.

307. **Alignment with IsDB Strategic Realignment 2023-2025.** The MCPS Pillars strongly align with focuses and priority areas of respective pillars under the strategic objectives of IsDB Strategic Realignment 2023-2025, as shown in Table 7. Through sector and strategic level alignment, the MCPS Pillars will directly contribute to the achievements of Pillars under IsDB Strategic Realignment. The MCPS implementation through project interventions will contribute to the specific objectives of MCPS pillars and, thus, finally to the Bank-level objectives and pillars.

308. **Alignment with National Development Strategies.** The MCPS Pillars closely align with the priorities and focuses of RPJMN 2020-2024 of the GoI. In addition to alignment with priorities and sectors of RPJMN, as shown in Table 7, MCPS project interventions will prioritize sector focuses envisaged in RPJMN 2020-2024 in close coordination with the GoI.



## 4.4 IMPLEMENTING THE PARTNERSHIP STRATEGY

309. **IsDB Group Indicative Financing.** As part of the "One Bank, One Group, One Goal" group synergy agenda of the IsDB Strategic Realignment 2023-2025, the financing and programming of IsDBG will feature a mix of instruments drawing on the strengths of IsDB-OCR, LLF-Grant, PPP, ISFD, IFSD, ICD, ITFC and ICIEC as one holistic group financing package, as well as pursue joint-programming for Indonesia.

310. The actual financing amounts of MCPS 2022-2025 will be subsequently determined during the programming and implementation stages in close consultation with the GoI. While doing so, **actual lending volumes will depend upon**; a close balance among the borrowing capacity and appetite of the Government of Indonesia, mutual concurrence between IsDB Group and the country on the choice of instruments and their respective leverage ratios, IsDB's OCR exposure capacity and available headroom for Indonesia, identification of OCR leveraging opportunities, resource mobilization by the IsDBG, and co-financing opportunities from development partners.

**Table 8: IsDB Group Indicative Financing Package for Implementation of MCPS-focused Programs in Indonesia, 2022-2025:**

Financing by Entities	2022-2025 Financing (US\$ million)
IsDB-OCR	1250
ITFC	500
ICD	150
ICIEC (Investment Insurance)	400

\* Up to US\$ 1250 million, depending on the borrowing capacity of Indonesia and the available headroom for Indonesia in consultation with the Bank's Risk Management Department (RMD). Approximately US\$ 250 million of the indicative OCR envelope is to be financed in coordination with GPE.

311. During 2022-2025, the indicative OCR financing envelope from IsDB will approximately be up to US\$ 1.25 billion, depending on the available headroom for Indonesia and borrowing capacity of the Government. The total indicative IsDB Group financing package will approximately be up to US\$ 2.3 billion.

312. **ITFC:** With the view to (i) create employment, (ii) support export, and (iii) address the supply chain challenges that arises due to the COVID-19 pandemic, ITFC will keep focusing on extending trade finance facility to the private sector companies who are engaged in sectors, i.e., healthcare, food & beverage, essential commodities, crude palm oil, which have a direct impact on the country's economic growth. ITFC is also keen to expand the partnership with the SOEs and extend financing to the SMEs through Financial Institutions with the view to support their recovery from the COVID -19 pandemic. With the successful on-boarding of new corporate clients over the coming years, ITFC aims to extend US\$ 500 million worth of disbursement during the period of 2022-2025.

313. **ICIEC:** The aim is to achieve US\$ 400 million as business insured for Indonesia for 2022-2025, which includes providing insurance cover for imports and Foreign Direct Investments (FDIs) to Indonesia, as well as exports and FDIs from Indonesia to other OIC Member countries. In terms of supporting Indonesia's cross-border trade (imports and exports), ICIEC will focus on generating strategic

transactions through (1) its synergy with ITFC in providing insurance cover to its trade finance program for the imports and exports conducted by Indonesia Corporates and (2) its strategic partnerships with Indonesia's state-owned Export Credit Agencies, i.e., Indonesia Eximbank and PT Asuransi Asei Indonesia. ICIEC will continue developing and expanding its partnerships with Local SOE and Shariah Banks that provide export and import finance and require ICIEC risk mitigation solutions, such as Bank Syariah Indonesia, Bank Muamalat Indonesia, Bank Mandiri, etc. In terms of supporting FDIs to Indonesia, ICIEC will rely on its synergy with IsDB (PPP) and ICD to secure private sector funding/investments to support any social or commercial infrastructure project that the IsDB group plans to finance through syndication/co-financing. ICIEC seeks to support Indonesian public and/or private Financial Institutions in securing finance lines from overseas commercial lenders to support Indonesia's SME sector and/or project finance related to health, climate change, agriculture, and strategic industrial sectors.

314. **ICD: The indicative envelope of ICD for Indonesia MCPS is US\$ 150 million.** Apart from Lines of Financing to local Islamic financial institutions as well as direct financing to corporates, ICD is targeting to intervene through off-balance-sheet instruments such as issuing Sukuk for corporates, syndication activities, and advisory solutions on the conversion of conventional financial institutions to Shariah-compliant ones. With support from the regulators, ICD is keen to issue local currency instruments (either bilateral or capital market) for financing SMEs in Indonesia.

315. **Partnerships.** According to the Gol, the indicative funding requirement for the 7 Development Agenda amounts to RP 24,215 trillion (US\$ 1.73 trillion). This funding gap should be filled by Development Partners, and the private sector as budget allocation through central Ministries/ Agencies only covers 20%-25% of the required funding. This is a huge challenge that the country is facing. Accordingly, the Gol is looking for Alternative financing, which includes promotion of blended financing schemes with the private sector and Public-Private Partnership arrangements. The Gol expresses hope that IsDB financing could be a leverage to encourage the private sector as well as ISDB Group (ICD/ ICIEC/ITFC) to fill the funding gap. It is worth mentioning that IsDB has already started negotiating with some partners, including WB, ADB, IFAD and several others.

316. **Programming Approach:** The MCPS Indonesia, as the first MCPS to be formulated in line with the Bank's Strategic Realignment 2023-2025, is designed to espouse strong Group Synergy, enshrine focus and selectivity in programming in line with the IsDB's core strengths and driven by national priorities, pilot programmatic and solution-centric pipeline building approaches, identify cooperation opportunities with developmental partners and galvanize resource mobilization opportunities. IsDB believes that a one-size-fits-all approach to poverty by distributing cash and rice to poor people is unable to solve some regions' poverty problems. It is important to understand that each province & region may encounter different poverty problems since each area has distinctive poverty problems.

317. **Implementation Priorities.** IsDB, in close coordination with the Government of Indonesia, will prioritize efforts in eliminating project startup and implementation delays for improving implementation pace and reducing the possibility of project cancellation. IsDB will apply its 'Qualification and Prioritization (QnP) mechanism' at the project programming stage and 'integrated quality assurance framework' at project design stage to improve quality at entry and portfolio management. In addition, concerted efforts will be undertaken to prepare adequate Project Concept Notes so that the prospective projects receive higher scores in terms of their readiness and prioritization.

318. **IsDB will update the existing dashboard regularly and generate periodic reports, on 6-months basis, for the consideration of its higher management and relevant country authorities.** Tripartite reviews of the project implementation pace of all projects will continue, with conducting PIASR for well-defined problematic projects on a shorter time horizon. IsDB will continue to build capacities of officials from executing and implementing agencies on critical IsDB procurement and disbursement guidelines for improving project and agencies' performances. Wherever needed, IsDBG will use country procurement systems as part of faster project implementation. These issues, particularly relating to Public Financial Management, in addition to specific lessons learned from OED evaluations of projects, will be key considerations in the design and implementation stage of the Indonesia MCPS in order to safeguard implementation performance and results.

319. **MCPS Monitoring and Evaluation of Results.** At the MCPS level, the MCPS Mid-Term Review, MCPS Final Review and individual PIASRs will be used as an input to report on actual progress against benchmark implementation timelines, report on output and outcomes set in the Results Matrix. The overall MCPS Results Framework focuses on strategic results and synergies among MCPS sector- and project-level strategies, which are closely aligned and consistent with the goals/strategies of the RPJMN 2022-2024. IsDB will monitor the results and report on overall country portfolio progress, covering both active and pipeline projects. For this purpose, the annual Country Portfolio Review Note (CPRN) will report on progress as well as highlight major implementation challenges.

320. **In addition, the MCPS Coordination Team at the Country Programs will conduct the MCPS Mid-term Review which will document the progress on the MCPS Results Framework and, if warranted by macroeconomic developments and prospects, propose adjustments in the indicative financial envelope as well as modifications in the Results Matrix.** The MCPS Mid-term Review Report is expected to be shared with the GoI authorities and reflects their viewpoints for the consideration of the IsDB Management. In addition, MCPS Mid-term Review will contribute to the conduct of the in-field Country Assistance Evaluation by the Group Independent Evaluation Department and the MCPS Completion Review by Country Programs Department at the end of MCPS implementation cycle. IsDB's standard evaluation approach combines and captures issues related to country portfolio performance, delivery envisaged under benchmarked MCPS Results Matrix and report on outputs and outcomes. For project-level evaluation, the periodic reports uploaded in the dashboard will be relied upon to assess their corresponding evaluation indicators reported in respective project RRP.

321. **The overall MCPS Results Framework is a fluid framework that forms the basis for evaluating the progress of the MCPS.** The Bank has developed a Comprehensive Results-Based Management Framework (RBMF) which will be used to develop results frameworks for each of the interventions under the MCPS during the MCPS programming phase. The overall MCPS Results Framework is a live matrix that will be amended in real-time based on project approvals for Indonesia under the MCPS.



# 5 FIDUCIARY ANALYSIS

## 5.1 PUBLIC FINANCIAL MANAGEMENT (PFM)

322. **PFM is a fundamental government function to efficiently implement its policies using public resources and allocating them to policy choices.** It needs strong systems being in place to support its functionality, including continuous adjustments to improve efficiency and effective delivery of services and reforms to change systems.

323. **Indonesia has experienced strong economic growth and steady poverty reduction over the past decade. However, the stagnant or slowing poverty reduction and rising inequality have put pressure on the country's overall economic development.** The downturn in economic growth underscores the importance of the overall public financial management to ensure the functioning and effective delivery of public services.

324. **According to the 2018 PEFA performance assessment, Indonesia embarked on a broad-based reform of its Public Financial Management systems more than a decade ago.** The assessment demonstrates that Indonesia has already established a strong legal and regulatory framework that aligns with most international standards on PFM, but the effectiveness of the PFM systems in place and the monitoring of performance can still be strengthened.

325. **PFM in Indonesia has important strengths,** primarily associated with the development of instruments that have allowed prudent fiscal management and control of budget execution. However, there are still some weaknesses that relate to strategic allocation of resources, accountability of budget implementation, and the efficient delivery of public services.

326. **The overall fiduciary risk performance in the country is moderate and could still entail some weaknesses in government systems that pose some critical risks.** Accordingly, in line with the review analysis and implementation experience of IsDB financed projects in-country, detailed financial management will be conducted separately for each individual project under the MCPS taking into consideration the assessment of the respective EA's FM capacity and the control environment in place.

327. **To optimize the benefits of development projects under the MCPS, a specific financial management arrangement will be considered to mitigate key fiduciary risks** by tightening controls while avoiding complex design arrangements through enforcing strict project implementation readiness, simplicity in project design and implementation arrangements while building the FM capacity of key stakeholders and undertaking the fiduciary follow up activities on the ground.

328. **Indonesia macroeconomic vulnerabilities play an onerous impact on the public financial management, which can be broadly categorized as follows:** (i) lack of fiscal adjustment that encourages high public debt and low fiscal buffers; (ii) contingent liabilities associated with SOE's external borrowings guaranteed by the government; and (iii) external risks regarding tighter financial conditions and weaker global growth adversely affecting revenue growth in tourism sector. Reforms and further strengthening in public financial management are needed for increasing spending efficiency, improving transparency, as recommended by the IMF 2016 Public Investment Management Assessment (PIMA). Limited capacity of line ministries in conducting a proper appraisal and selection of capital projects remains an issue. Through project-specific interventions, IsDB can potentially help line ministries to improve their capacities for increasing efficiency of project implementation.

329. Audit arrangements for all development projects and interventions to be implemented under the MCPS will be subject to external independent audit with TORs acceptable to IsDB and strict adherence to submission of audited financial statements and annual financial audit reports - in compliance with 'International Standards on Auditing' - within 6-months after the end of each fiscal year.

## 5.2 PROCUREMENT

330. **IsDB will closely coordinate with other development partners in designing its assistance and will explore opportunities for engagements in mutually agreed areas.** While doing so, IsDB will actively work to minimize any overlapping in the country's development initiatives. The Government has made progress in the regulatory framework for public procurement.

331. **The Government has made progress in the regulatory framework for public procurement.** The new President Regulation No.12 procurement regulations that provide general procurement provisions have been issued on 10 March 2021. Further to above, Indonesia has its domestic regulation concerning procurement as stipulated under Presidential Regulation No. 12 of 2021 regarding the Amendment of Presidential Regulation No. 16 of 2018 on Government Procurement Law No. 3 of 2014 on Industry and Law No. 30 of 2009 on electricity, where the laws stipulate the mandatory use of local content requirement to procurement by the Indonesian Government and SOE. This mandatory use of the Local content and its implication on the funding from International Financial Institutions needs to be deliberated and explored further during the implementation of the MCPS (2022-2025) .

332. **IsDB maintained a strong engagement in procurement reform to facilitate the further development of country procurement systems.** The assessment of Indonesia's electronic public procurement system (date of assessment) was undertaken. LKPP acknowledged the recommendations for customization of the assessment. IsDB is providing resources for system development to accommodate MDB requirements for international tender. The IsDB has extensively collaborated with WB and ADB in supporting the Government procurement reforms. As a result, an updated electronic harmonized bidding document for works contracts under NCB method with post qualification has been developed to avoid confusion from using various bidding documents required by each donor, for smooth project implementation. Likewise, a comprehensive assessment of the system using the revised Methodology for Assessing Procurement Systems (MAPS) is, being jointly conducted by the National Public Procurement Agency, WB, ADB and IsDB. The goal of the exercise is to identify the strengths and weaknesses and recommend actions for developing strategies, implementing, and monitoring the reform.

333. **Based on the lessons learnt from the previous MCPS 2016-2020, risks that could negatively impact the successful implementation of the forthcoming MCPS 2022-2025 will be identified and mitigated both at the program and individual project levels.** In addition, the specific national public procurement arrangements prepared by the GoI to contain and mitigate the impact of the COVID-19 outbreak will be reviewed and improved. In the context of IsDB Strategy intervention and in line with RPJMN (National Medium-Term Development Plan 2020-2024), the Bank's fiduciary strategy will be described during the MCPS exercise to support the Government's national public procurement and e.GP reforms in order to strengthen and expand their use.

## 5.3 DISBURSEMENTS

334. **As part of the IsDB's drive to improve project delivery and further mainstream digitalization of processes, IsDB has launched the E-Disbursement Portal (EDP) in Indonesia, in July 2021.** The EDP has already started to improve responsiveness and transparency for the relevant line ministries and key stakeholders in implementing IsDB-financed projects. This digital innovation, through a secure platform and with collaboration features based on the latest technology, has positively affected implementation and completion of the Projects as per the Project timelines and increase Project efficiency. The Bank has created an E-Disbursement Portal for use by Beneficiaries, making it a secure website and online connection that allows Beneficiaries to electronically submit project disbursement Withdrawal Applications (WA) and supporting documentation. It simplifies and expedites the disbursement process and increases efficiency and effectiveness in project implementation and monitoring.

335. **To date, the Regional Hub of Indonesia had conducted the necessary introduction, demonstration, and external users hands-on training that was attended by the Ministry of Finance, PMUs/PIUs, and all relevant stakeholders.** The EDP went live on Sunday 1st August 2021, with all withdrawal applications now being submitted through the Platform. Since the launch of the EDP, the Regional Hub of Indonesia has been experiencing an estimated overall reduction of processing time of less than five (5) days, without sacrificing the validity and integrity of the received data, which are now more reliable being based in real-time.







# 6 LESSONS LEARNED

## 6.1. FIRST MCPS (2011-2014) FOR INDONESIA AND MAJOR LESSONS LEARNED

336. **The first IsDB Group MCPS (2011-2014) for Indonesia was aligned with the Government's Medium-Term Development Plan (2010-2014). The achievement of the MCPS remained broadly successful in terms of financing and non-financing activities.** It also laid the ground for a realigned and diversified portfolio with greater emphasis on infrastructure and private sector development in several regions in the country. The MCPS helped the IsDB Group leverage its multiple comparative advantage.

337. **In terms of overall performance of the MCPS, total approvals by the IsDB Group until end-December 2014 were US\$ 1,915 million, which represented 77% of the financing envelope of US\$ 2,500 million. It included US\$1,154 million from IDB, US\$ 666 million from ITFC, and US\$ 95 million from ICD. In addition, the IsDB invested US\$ 850 million in Indonesia sovereign Sukuk. ICIEC insured business of US\$ 418 million while several capacity development and training programs were undertaken by IRTI during the MCPS period.** The IsDB also provided Technical Assistance for the development of Master Plan for Islamic finance. A number of Reverse Linkages (RLs) activities were undertaken during the MCPS period under a Memorandum of Understanding signed between the GoI and IsDB. Further, under ADB-IsDB Islamic Infrastructure Fund, two investments amounted to US\$ 61 million were made in two local companies (i.e., toll roads and telecom) in Indonesia.

338. **Overall, the IsDB Group MCPS remained successful in terms of achievement of developmental effectiveness, outputs and outcomes.** The MCPS was aligned with Indonesia's development needs and priorities and its implementation was in line with its stated priorities and objectives, except the energy sector. The major outputs included scaled-up IsDB Group financing; higher disbursements; harnessed regional potential; establishment of IDB Group Country Gateway Office (CGO); and numerous development outcomes in key sectors of the country.

339. **There are several lessons learned from the first MCPS for Indonesia, which provide better understanding for designing the new MCPS.** Key lessons learned from the first MCPS include the need for (i) **more focus areas**, especially those areas where IsDB Group has extensive experience and comparative advantage; (ii) **need for continued and sustained development assistance**, specifically economic and social infrastructure over several years, rather than one-off interventions; (iii) **greater sharing of Indonesia's knowledge and development best practices with other member countries** through Reverse Linkages; (iv) **more engagement with the private sector**; and (v) **forging stronger partnership with other development partners**, particularly to support development of the GoI's public procurement systems.

340. **Operationally and programmatically, the IsDB Group and the GoI need to work closely to; (i) improve response times**, especially in the areas of procurement and disbursement; (ii) adopt more innovative interventions with an emphasis on **improving the quality at entry**; (iii) **enhance the monitoring and evaluation functions**, along with the introduction of measurable core sector development indicators in the MCPS Results Matrices; (iv) **build the capacities of the implementing units** in project management and administrative competencies in order to improve efficiency and effectiveness and harmonize procedures and guidelines, to the extent possible; and (v) be more responsive in adapting to program changes within the chosen strategic intervention areas.

341. **Going forward, and to adequately support more inclusive and sustainable growth of Indonesia, the IsDB will need to integrate the following general operational lessons; (i) strong country ownership** is important; (ii) **strong partnerships with clients are essential** for ensuring the relevance of IsDB support; (iii) **cooperation with multiple stakeholders** and subnational governments, is vital for delivering infrastructure projects; (iv) **a community-driven approach** is a cost-effective way of delivering infrastructure projects in the villages; and (v) **coordination and capacity constraints** across central and subnational governments can impact projects' pace of implementation.

342. **Likewise, the IsDB's future modus operandi in Indonesia may look into the perennial challenge of tackling project readiness issues and offering better and more innovative project designs to improve the quality and implementation of projects.** In addition, the Government, on several occasions, has been inquiring on the possibility of diversifying and reducing the pricing cost of IsDB's lending modalities as compared to the other MDBs. In this regard, enhanced country dialogue and information dissemination on the ongoing financial initiatives in the IsDB will be important to address the Pricing Structure and Mark-Up related inquiries and uncertainties, especially against the background of the inevitable LIBOR to SOFR transition.

343. **As a novel strategic thrust of the Bank, Climate Change mitigation and adaptation comes to the fore of the developmental focus of the IsDB in the Member Countries.** To this end, the IsDB will need to embed mitigation and adaptation measures in its infrastructure investments to enhance resilience-building in urban and rural areas, promote climate-smart livelihoods and secure adaptive social protection for the vulnerable (women and youth).

344. **There were several procurement-related lessons mentioned in the earlier sub-section, with the main actions to be taken in the future to include;** (i) regular and coordinated reviews and assessment of the Government e-GP platform, especially the SPSE ICB, and (ii) have project procurement risk assessment using the risk-based approach and to include the proposed post review threshold during project preparation while carrying out the procurement planning and strategy.

## **6.2. SECOND MCPS (2016-2020) FOR INDONESIA AND MAJOR LESSONS LEARNED**

345. **The implementation progress of the 2nd MCPS, is rated as very satisfactory. To this end, in terms of gross approvals/ financing allocations, the financial achievement stood at around 69%** and in terms of the attainment of the development effectiveness and results and outputs the achievement had corresponded to the outcomes and outputs projected in the Results-Based Framework, with each financed project & initiative aiming to address the identified constraints and gaps.

346. **For the latter period of the MCPS, these factors, coupled with the lack of readiness of pre-identified pipeline projects and the transition from RPJMN 2015-2019 to the RPJMN 2020-2024 may lead to a deficiency in the pipeline.** However, given the possibilities of PPP interventions to support the SDGs, as well as new expectations in resource mobilization to supplement the IsDB financing, the IsDB would still play a strategic role in the development plans of Indonesia. The expectations have been revised to cater for the new scenarios. To counter the traditional style of projects with long start-up periods prior

to physical and significant financial implementation, the new generation of projects is expected to have design and implementation improvements such that the implementation can begin earlier. Given the slow process of design and fulfillment of readiness of potential projects from the line ministries, efforts were made to leverage facilities and resources (by IsDB or partners), to the extent possible, to support the preparation of quality programs/projects that meet the new paradigm requirements.

347. **In terms of the portfolio implementation, further strengthening of the Regional Hub of Indonesia with more delegation of authority and resources (both human and financial resources for preparation and implementation support) is expected to yield efficiency gains and trigger an implementational turnaround in the current projects' portfolio.** To complement the witnessed improvements by the Bank, there is a need to ensure similar undertakings / refinements from the side of the Executing Agencies as well, especially in addressing the capacity and performance of the Project Management Teams/Units and improvements in the execution of project procurement activities.

348. **Given the improved visibility and perception of the IsDB among the development partner communities, there is a greater scope for more effective partnerships to be harnessed to leverage resources and expertise that will underpin the planned IsDB Group's interventions.** The co-financing example with IFAD will be emulated, which started with early engagement during the identification and preparation stage, while the emerging partnerships with the FinTech and crowdfunding stakeholders will be aimed at building the network of developers.

349. **The IsDB has been pro-actively engaged with its development partners** (such as WB, ADB, IFAD and UN Agencies) in determining the emerging issues and drawing pertinent lessons from the experience of the other MDBs, garnered during implementation of the previous and ongoing Country Partnership Strategies in Indonesia. Consequently, the development partners, unanimously re-affirm and emphasize the positive trends and sound macroeconomic indicators as well as the precautionary measures undertaken by the Government of Indonesia in cushioning the economy against financial volatility and external shocks. This optimism is underpinned by the ample evidence on the successful experience of the Government of Indonesia in tackling the 1997 and 2008 financial and economic crisis.

350. **ICIEC has experienced some difficulties in penetrating into the Indonesian market in the past due to two major reasons:** i) lack of proper marketing and needs assessment that would enable ICIEC to find its niche, and ii) given the ample insurance capacity, especially from major players like Coface, Euler Hermes and Lloyds syndicates in Singapore, the pricing of export credit insurance offered by ICIEC is uncompetitive.

351. **To overcome these challenges, ICIEC has already positioned its staff in the Indonesia Regional Hub, effective from February 2018, to enhance its marketing capacities** and evaluate potential insurance investment opportunities through direct interaction with the national ECA and financial institutions for enhancement of the volume of trade financing operations by way of Documentary Credit Insurance Policy (DCIP). ICIEC's role is further enhanced through the prism of the ongoing IsDB Group Synergy Initiative, whereby deeper collaborative options with the IsDB Group's Entities will be explored in promoting LC Products, syndication enhancements, cross-selling and incentivized business-level agreements for project identification and referrals. Such synergized and bespoke approach provides a solid platform for knowledge-sharing and resource mobilization with the view of enhancing impact, efficiency and resilience in Indonesia. ICIEC is driven to successfully provide Shari'ah-compliant credit, political risk mitigation and credit enhancement insurance and reinsurance solutions, in close cooperation with its counterparts in Indonesia.

352. **The MCPS provides a unique and timely opportunity to realistically delve into the country context, appreciating the fact that every Member Country is unique, with its own prevailing market conditions that are not static, but are dynamically evolving.** To ensure a successful marketing and pitching of ICIEC's financial instruments and services, efforts will be made to enhance the communication, advocacy and empowerment to enable the Regional Hub of Indonesia to undertake more effective business prospecting, development and value proposition. On the advisory side, the emphasis will be on identifying niche areas and offering services that are unique to the IsDB Group, including promotion of Islamic Finance and Takaful.





# 7 RISK MANAGEMENT AND MITIGATION

Risks	Mitigation
<p><b>Climate Change and Natural Disaster Risk.</b> Indonesia faces many natural threats including earthquakes, tsunamis, volcanic eruptions, flooding, and droughts. Such climate changes will likely impact water and food security, urban development (particularly in coastal zones) and disaster risk management, with implications for poverty and inequality. High variations in potential impacts are expected across Indonesia</p>	<p>The IsDB, alongside other Multilateral Development Banks (MDB) committed to align their operations with the goals of the Paris Agreement. Specifically, by ensuring that the Bank's operations are consistent with member countries' low-emissions and climate-resilient development pathways. To reflect and pursue the actualization of the Bank's commitment, the Bank has identified strategic sectors and activities, including within industries with the potential to reduce emissions, drive green growth and to build long-term climate resilience in the country The Bank can support Indonesia in implementing its climate change mitigation and adaption plans through targeted investments, partnerships and technical assistance in key sectors/areas that have the potential to reduce GHG emissions as well as enhance the resilience of the country to the impacts of climate change.</p>
<p><b>Public Financial Management.</b> Although the overall fiduciary risk performance in the country is moderate but could still entail some weaknesses in Government systems that pose some critical risks</p>	<p>At the implementation phase of the MCPS, RH Indonesia will consider recommendation and coordinate with PFM team on the PFM issues encountered in previous IsDB operations in the country and put safeguards in place within project design as well as monitoring to ensure PFM risks are mitigated. Also, a specific financial management arrangement will be considered to mitigate key fiduciary risks by tightening controls while avoiding complex design arrangements through enforcing strict project implementation readiness, simplicity in project design and implementation arrangements while building the FM capacity of key stakeholders and undertaking the fiduciary follow up activities on the ground. The IsDB regional Hub of Indonesia (RH-I) will play an active role to support the implementation of the projects envisaged under the MCPS to ensure their required adherence to IsDB PFM procedures and guidelines</p>

Risks	Mitigation
<p><b>Reduction in the Government's infrastructure investment.</b> It might occur due to capacity constraints and insufficient revenues, Low capital availability, high bond yields, limited resources and investment, limited secondary market appetite for corporate risk, high FDI restrictiveness, financing being redirected to sponsoring fuel and power costs and to issues appealing private investors to important projects. This poses a significant risk to the economic development of the country as Indonesia needs massive investments in infrastructure that will be an essential factor for the country's longer-run economic growth</p>	<p>IsDB financing could be a leverage to encourage the private sector as well as ISDB Group (ICD/ ICIEC/ITFC) and its development partners to fill the funding gap. The IsDB will closely coordinate with other development partners in designing its assistance and will explore opportunities for engagements in mutually agreed areas. While doing so, IsDB will actively work to minimize any overlapping in the country's development initiatives</p>
<p><b>External Shocks/Global Uncertainty:</b> The risk of uncertainty will continue to loom over the development of the world economy. Economic growth and world trade are expected to stagnate and experience slower growth, each projected at 3.5% and 3.7% p.a. respectively in 2020-2024. Prices of Indonesia's main export commodities, including coal and palm oil, are estimated to be relatively low. In addition, other risks of uncertainty that need to be anticipated include trade wars, slowdown in the Chinese economy, and the geopolitical tensions.</p>	<p>The majority of IsDB's strategic focuses and priority areas in the MCPS are geared toward, economy diversification, be less dependent on the commodities and more on the higher value-added products and helping Indonesia to be more resilient against the external shocks.</p>





# 7

## ANNEX I. MCPS RESULTS FRAMEWORK

Intervention Logic	Results (Impact/Outcomes/ immediate outcomes)	Objectively Verifiable Indicators (OVIs)	Means of Verification (MoVs)	Assumptions
<p>Overall MCPS Objectives: To support Indonesia in achieving inclusive and sustainable economic transformation for all with cooperation of strategic partners by 2024. Strengthen economic resilience for quality growth, overcoming regional socio-economic inequalities, improving infrastructure, building human capital, and supporting access to basic services. (Inspired by Indonesia's vision and mission for The National Medium Term Development Plan for 2020-2024)</p>	<p>Impact: Improvements in Sustainable infrastructure and comprehensive Human Development in various Regions of Indonesia.</p>			
<p><b>Intermediate Outcome-1:</b></p> <p>Strengthened Economic Resilience for sustainable economic development and Basic Services. Aligned to RPJMN strategy objective- Strengthening Economic Resilience for Quality Growth, Regional Development for Inequality Reduction, Strengthening Infrastructure to Support Economic Development and Basic Services.</p>	<p><b>Intermediate Outcome-1.1:</b></p> <p>Strengthened Economic Resilience by building human capital and creating employment opportunities;</p>	<ul style="list-style-type: none"> <li>• Human Development Index – End Poverty (SDG 1.4.1)</li> <li>• Unemployment Rate (%) Decent work (SDG 8.5.2)</li> <li>• # of People (age, gender) benefitting from Liveable/ SMART cities upgrade and services (number/ type)</li> <li>• Increased % of national/city WW effluent &amp; FS subjected to treatment (SDG 6.3.1)</li> </ul>	<ul style="list-style-type: none"> <li>• UN (UNDP) Annual Human Development Reports</li> </ul>	<ul style="list-style-type: none"> <li>• The high exposure to Natural Disasters, or another pandemic may hamper human development,</li> <li>• Improved electronic health records system/ database may be needed</li> <li>• IsDB mainstreams support for green job creation in interventions.</li> </ul>

		<ul style="list-style-type: none"> <li>• Promoting low greenhouse gas emission and sustainable economic activities that will create quality jobs in cities and regions (number of green jobs supported/ created by MCPS) (Indonesia updated NDC, page 4).</li> </ul>		<ul style="list-style-type: none"> <li>• Climate resilience effectively integrated into IsDB health and education support</li> </ul>
	<p><b>Intermediate Outcome-1.2:</b></p> <p>Strengthened education and health service infrastructure ensuring improved access to quality services for all.</p>	<ul style="list-style-type: none"> <li>• Maternal mortality ratio (per 1,000 live births) Health (SDG 3.1.1)</li> <li>• Under-5 mortality rate (per 1,000 live births) – Health (SDG 3.2.1)</li> <li>• Number of MCs that have improved IHR capacity and health emergency preparedness (SDG 3.d.1)</li> <li>• Enhanced stakeholder participation at all levels in building climate resilience in health protection (number of participants) (Indonesia updated NDC, page 29)</li> <li>• Support for enforcement of climate standards in building and environmental health (number of standards supported)</li> <li>• Indonesia updated NDC (page. 30)</li> </ul>	<ul style="list-style-type: none"> <li>• National Health and Demography Surveys</li> <li>• Hospital Health and Administrative Records,</li> <li>• MOH Databases, surveys and records.</li> <li>• Nutrition and mortality surveys, (UN) UNICEF Field surveys/ reports/ assessments on vaccination and nutrition</li> <li>• Indonesia updated NDC</li> </ul>	

	<p><b>Intermediate Outcome-1.3:</b></p> <p>Improved Quality of Indonesian People's Lives through social protection programs.</p>	<ul style="list-style-type: none"> <li>• Coverage of People with vulnerabilities adequately and comprehensively benefiting from social protection support (number, per annum)</li> <li>• Enhance participatory public dialogue to foster adequate social protection (number of events/outputs supporting enhanced public dialogue) (Indonesia updated NDC, page 5)</li> </ul>	<ul style="list-style-type: none"> <li>• Central, Provincial Government Budget Reports</li> <li>• Indonesia updated NDC</li> </ul>	<ul style="list-style-type: none"> <li>• Climate resilience effectively integrated into IsDB health and education support</li> </ul>
<p><b>Intermediate Outcome-2:</b></p> <p>Development of Sustainable Infrastructure Aligned to RPJMN strategy objective- Strengthening Economic Resilience for Quality Growth (NP1), Regional Development for Inequality Reduction (NP2), Strengthening Infrastructure to Support Economic Development and Basic Services (NP5);</p>	<p><b>Immediate Outcome 2.1:</b></p> <p>Strengthened Multi-Modal Transport (SMMT) infrastructure for pro-poor economic development resilient to climate change.</p>	<ul style="list-style-type: none"> <li>• Increase in urban population access to safe and affordable public transport (SDG 11.2.1; 9.1.2)</li> <li>• Increase in local govts adopting disaster risk reduction strategies (SDG 13.1.2)</li> <li>• Support revitalization of city infrastructure to increase adaptive capacity and resilience to climate change impacts (number of multi-modal transport infrastructure assets with increased adaptive capacity and climate resilience) (Indonesia updated NDC, page 32).</li> <li>• Identification of highly vulnerable areas in local spatial and land</li> </ul>	<ul style="list-style-type: none"> <li>• Central, Provincial Government Annual Development Reports</li> <li>• Indonesia updated NDC</li> </ul>	<ul style="list-style-type: none"> <li>• The GoI continues to provide priority and financial support for sectoral developments.</li> <li>• Foreign Funding is additionally provided to expedite the pace of development in respective disciplines.</li> </ul>

		<p>use planning efforts (number of vulnerability assessments and resilience plans developed for SMMT) (Indonesia updated NDC, page 30).</p> <ul style="list-style-type: none"> <li>• Low-carbon multi-modal transport initiatives (number of low-carbon fuel sources integrated into SMMT)</li> </ul>		
	<p><b>Immediate Outcome 2.2:</b></p> <p>Achieved inclusive growth in the Access and use of ICT for sustainable growth, employability, and regional integration.</p>	<ul style="list-style-type: none"> <li>• Amount of e-commerce for MSME transactions (B2B) and (B2C)</li> <li>• A number of MSME sector adopted digital solutions for core business.</li> <li>• % of internet users from remote and hard to reach areas. (coverage)</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Communication and Information Technology (Kementerian Komunikasi dan Informatika, <a href="https://www.kominfo.go.id/">https://www.kominfo.go.id/</a>):Annual Report</li> <li>• Public Information Service Report</li> <li>• Public Service Survey Results Report</li> </ul>	<ul style="list-style-type: none"> <li>• Government's commitment to implement the Strategic Plan of the Ministry of Communication and Informatics 2020 - 2024 for the Acceleration of National Digital Transformation</li> </ul>
	<p><b>Immediate Outcome 2.3:</b></p> <p>Improved WATSAN infrastructure informed by climate resilient plans.</p>	<ul style="list-style-type: none"> <li>• Increased access to safe Water and Sanitation (SDG 6.1.1)</li> <li>• Number of people with access to safe water supply (number)</li> <li>• Increase in volume of treated wastewater and FS reused in agriculture (SDG 6.3.1)</li> </ul>	<ul style="list-style-type: none"> <li>• BAPPENAS Annual Report</li> <li>• Monthly reports from MoPWH</li> <li>• Annual reports from Joint Monitoring Programme (JMP) from UNICEF/WHO</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment from the Central Government to sustain the funding for WASH within the RPJMN.</li> <li>• Commitment from local governments to support the operation and maintenance of Water Supply and Sanitation facilities with the Kelurahan.</li> </ul>

		<ul style="list-style-type: none"> <li>• Number of climate resilient plans developed to inform improved WATSAN infrastructure development (number) (Supportive of Indonesia updated NDC, page 30, Key Program on Improvement of human settlements, provision of basic services, and climate resilient infrastructure development.)</li> </ul>		
<p><b>Intermediate Outcome - 3</b></p> <p>Strengthened education and health service infrastructure ensuring improved access to quality services for all. Aligned to RPJMN strategy objective- Improve Quality and Competitive Human Capital (NP3), Regional Development for Inequality Reduction (NP2)</p>	<p><b>Immediate Outcome 3.1:</b></p> <p>Improved access to quality education and skills including e-learning platforms for all</p>	<ul style="list-style-type: none"> <li>• Number of specialized skills development programs</li> <li>• #/Type of Educational institutions built, upgraded, or equipped (number)</li> <li>• #/type of e-Learning programmes</li> <li>• # of Students (M: F) provided accommodation in educational institutions (number, per annum)</li> <li>• People provided technical or vocational skills (number)</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Education and Ministry of Manpower annual statistics, annual reports</li> <li>• UIS, OECD annual reports</li> <li>• PCRs</li> </ul>	<ul style="list-style-type: none"> <li>• Vocational programs as per the demand of the industry be prepared.</li> <li>• Growing economy seeking skilled labor</li> <li>• Increased funding for TVET</li> </ul>

	<p><b>Immediate Outcomes 3.2:</b></p> <p>National Health systems are supported to become resilient to socio-economic impact of emergencies.</p>	<ul style="list-style-type: none"> <li>• # of People vaccinated against preventable diseases (e.g., Polio, COVID-19, HPV, DPT)</li> <li>• No. Health facilities constructed, upgraded, or equipped (number)</li> <li>• Enhanced stakeholder participation at all levels in building climate resilience in health protection (number of participants) (Indonesia updated NDC, page 29)</li> <li>• Support for enforcement of climate standards in building and environmental health (number of standards supported)</li> <li>• Indonesia updated NDC, pge. 30).</li> </ul>	<ul style="list-style-type: none"> <li>• Puskesmas (Community Health Centres) Health database, MOH National Vaccine Program, (UN) UNICEF Field surveys/ reports/ assessments on vaccination and nutrition</li> <li>• MOH data and statistics for hospital construction and equipment</li> <li>• WHO Reports and surveys</li> <li>• Indonesia updated NDC</li> </ul>	<ul style="list-style-type: none"> <li>• Improved electronic health records system/ databases may be needed</li> <li>• The link between the health referral systems should be enhanced to track, nutrition, vaccination as well as other main health indicators</li> </ul>
<p><b>Intermediate Outcome 4:</b></p> <p>Improved Quality of Indonesian People's Lives by achieving sustainable, inclusive economic growth resilient to climate change. Adapted as planned in RPJMN</p>	<p><b>Immediate Outcome 4.1</b></p> <p>Enhanced employability and productivity for sustained and inclusive employment for all.</p>	<ul style="list-style-type: none"> <li>• Number of new regional cooperation and integration initiatives with the involvement of Indonesia.</li> <li>• Youth benefited from youth empowerment initiatives (number)</li> <li>• Promoting low greenhouse gas emission and sustainable economic activities that will create quality jobs in cities and regions (number</li> </ul>	<ul style="list-style-type: none"> <li>• Asia-Pacific Regional Cooperation and Integration Index</li> <li>• Indonesia updated NDC</li> </ul>	<ul style="list-style-type: none"> <li>• A conducive environment for cross-border trade, investment and cooperation</li> </ul>

		<p>of green jobs supported/created by MCPS) (Indonesia updated NDC, page 4).</p> <ul style="list-style-type: none"> <li>Enhancing capacity of workforces to facilitate access to decent work and quality jobs, taking into account gender and inter-generational equalities, as well as the needs of vulnerable groups (number of capacity building activities supported under MCPS) (Indonesia updated NDC, page 4).</li> </ul>		
	<p><b>Immediate Outcome 4.2:</b></p> <p>Strengthened National Financial System supporting increased access to diverse Islamic social financial resources (i.e., Waqf, Zakat, Sadaqat and Microfinance) with the mainstream banking business).</p>	<ul style="list-style-type: none"> <li>Proportion of non-bank institutions to the financial system-</li> <li>Number of sustainable MFIs.</li> <li>Number of agreements/ dialogs established with local Islamic financial institutions, syndication amount. Total amount of OCR financing.</li> <li>Number of green sukuk supported under MCPS (aligned with Indonesia updated NDC, page 17)</li> </ul>	<ul style="list-style-type: none"> <li>Indonesia updated NDC</li> </ul>	

	<p><b>Intermediate Outcome 4.3:</b></p> <p>Broaden and deepen social protection (subsidies, waivers etc.) to the poorest, most marginalized, most vulnerable citizens become resilient to climate change.</p>	<ul style="list-style-type: none"> <li>• % Change in socio-economic status of beneficiary population.</li> <li>• A number of social safety programmes successfully achieved their expected results.</li> <li>• Enhance participatory public dialogue to foster adequate social protection (number of events/ outputs supporting enhanced public dialogue) (Indonesia updated NDC, page 5)</li> </ul>	<ul style="list-style-type: none"> <li>• Indonesia updated NDC</li> </ul>	
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**Cross Cutting Areas** – Embed cross cutting areas across all levels of expected results in interventions design.

**Mainstreamed in Operational Engagements:**

- a) Supporting the growth of the Islamic Financial markets deepening,
- b) Capacity Development,
- c) Targeting Youth, Women and People living in Urban Slums,
- d) Mainstreaming resilience against Climate Change.

**Promote:**

- a) Partnerships (Public Private Partnerships, South-South Partnerships),
- b) Addressing regional disparities by adopting inclusive programme approaches.



