

Learn more about why investing in institutions matters to Indonesia, visit our website at [www.mitraindonesia.org](http://www.mitraindonesia.org)



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The WBG Program – Current Core Engagements (continued)



### A Partner in Community Development and Social Protection

The Government is virtually unrivalled in the region for fostering inclusive growth with low risks of corruption, thanks primarily to the National Community Empowerment Program (PNPM Mandiri) – a consolidation of over 50 community-driven development programs that will be scaled up to cover all 70,000 villages and urban poor communities by 2010 on a government budget of US\$2 billion a year. The WBG will continue to support the Government in the design and expansion of programs that promote more inclusive growth and social protection, while also ensuring greater accountability of elected officials and service providers. The WBG will support the expansion of PNPM Mandiri and other social protection programs, such as conditional cash transfers, by offering a mix of co-financing and analytical and advisory work. A series of key financing and policy advice programs will also be commissioned to address gender issues, such as support for women via PNPM, a study on remittances offering recommendations for making formal transfers easier for women migrant workers, and the support of women's cooperatives to enhance their access to markets. The CPS support for improved institutional effectiveness will be mainly focused on the Coordinating Ministry for People's Welfare.

#### Expected Results

- More school buildings, roads, small businesses and other economically sustainable projects in the hands of urban and rural poor communities through a scale-up of poverty reduction and community empowerment programs.
- Spending less on subsidies and more on the poor through strategically targeted programs like PNPM Mandiri and conditional cash transfers.



### A Partner in Improving Access to Quality Education

The Government is in the process of transforming its education sector across the entire spectrum, from early childhood through to higher education and teacher upgrading. The WBG aims to help complete this transformation by focusing on key areas of the Government's education reform agenda: building mechanisms for social accountability, promoting external transparency and access to information, and enhancing monitoring and evaluation systems, as well as enhancing planning and budgeting capacity. One example of this support is the System Improvement through Sector Wide Approaches (SISWA) program, which builds on government initiatives to manage education funds in a more effective and transparent manner. In the first phase of SISWA, the WBG will co-finance the Government's School Operational Assistance (BOS) program, which empowers schools to manage their own funds, thus giving them a greater sense of ownership. WBG support for the education sector will continue to be based on its close partnership with the Ministry of National Education (MoNE) and the Ministry of Religious Affairs.

#### Expected Results

- More trained and qualified teachers to ensure that every Indonesian child is given their right to quality basic education.
- More effective and transparent spending by school administrators on programs that increases access to, and quality of, basic education.



### A Partner in Promoting Environmental Sustainability and Disaster Mitigation

The Government is in a unique position to become a model for developing countries in mitigating and adapting to climate change. The WBG aims to help Indonesia fulfill this role by opening doors to new international investment instruments designed to help countries address climate change, such as climate investment funds, the Adaptation Fund, and global carbon markets. The WBG will also support coordination and facilitate partnerships with the private sector and civil society for the implementation of the National Action Plan for Climate Change, as well as support the Government in developing a pilot framework and program to Reduce Emissions from Deforestation and Degradation (REDD).

The WBG will also continue with its significant role in rebuilding and rehabilitating Aceh, Nias and Yogyakarta, while helping to reduce Indonesia's vulnerability to natural disasters. A key upcoming disaster risk reduction initiative is the Jakarta municipality's (DKI Jakarta) three-year river-dredging program, the Jakarta Emergency Dredging Initiative (JEDI), in which the WBG will assist DKI Jakarta locate grant financing for the effective operation and management of the flood-management system. The WBG's engagement around environmental sustainability and disaster mitigation involves partnerships with the Ministries of Environment, Forestry, Finance, Trade, Bappenas, and the National Climate Change Board (Dewan Nasional Perubahan Iklim, or DNPI) on climate change issues and the National Disaster Management Agency (Badan Nasional Penanggulangan Bencana, or BNPB). The WBG will draw from an active network of civil society organizations to continue fostering social accountability and participatory mechanisms.

#### Expected Results

- A demonstrated commitment to reducing carbon emissions and preserving forests through policies and pilot programs that will benefit future generations.
- Making Indonesia a frontrunner in climate change investment by capitalizing on new financing instruments, such as Climate Investment Funds, the Adaptation Fund, Clean Development Mechanism financing and the voluntary market for Reduced Emissions from Deforestation and Degradation.
- Better planning and interagency coordination to mitigate natural disasters.

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COUNTRY PARTNERSHIP STRATEGY FOR INDONESIA FY2009-2012

## Investing in Indonesia's Institutions for Inclusive and Sustainable Development



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## Why investing in institutions matters to Indonesia

Indonesia has come a long way in the ten years since the Asian financial crisis. *Reformasi* has gone from a rallying cry to a guiding principle of governance. Indonesian democracy is one of the most vibrant in the region, characterized by a dynamic multi-party system, growing political awareness, freedom of press, and more recently, freedom of information. Decentralized budget control means that sub-national governments now have the authority to decide what's best for

*Effective institutions turn the available resources into better development outcomes.*



the development of their respective provinces and districts, and can follow through with these decisions. Importantly, the Government has made the fight against corruption the centerpiece of its program.

Indonesia has overcome serious challenges, such as terrorism, inter-ethnic and religious strife, separatist conflicts, and devastating natural disasters. Indonesia's economy has also seen much progress. Since 2002, the country's GDP has grown at an annual rate of 5 to 6 percent. Prudent fiscal management and fiscal consolidation have led to a drop in public debt levels, while trade levels have reached record highs. Sound economic management

has increased Indonesia's ability to manage the impacts of international financial market pressures. The Government is taking steps to position Indonesia as an attractive destination for investments, to reduce its vulnerability to external shocks, and to ensure that Indonesia can continue to raise public investments and improve social services.

Indeed, Indonesia's past decade is a story of remarkable recovery and resilience, but much work remains to be done. In 2007, nearly half of all Indonesians were either poor or living just above the national poverty line. Job opportunities continue to grow only slowly. The quality of public services still does not fully represent

those of a middle-income country. Parts of eastern Indonesia remain underdeveloped, while Indonesia as a whole is still scoring low marks on several health and infrastructure indicators.

A lack of financial resources is no longer the main obstacle to overcoming these challenges. Instead, more effective institutions with strong capacity, clear accountability and effective procedures are the key to more rapid social and economic development progress. Effective institutions turn the available resources into better development outcomes. Effective institutions spend budgets more wisely to build better schools, better health clinics, and contribute to better livelihoods.

## How the World Bank Group will support Indonesia in its efforts to strengthen institutions

The World Bank Group's (WBG) activities in Indonesia are governed by a Country Partnership Strategy (CPS) for fiscal years 2009 to 2012 that was developed together with the Government and in consultation with various stakeholders.

The World Bank is a supportive partner to Indonesia's country-led development strategy and, within its comparative advantage, seeks to be Indonesia's development partner of choice. We make international experience, knowledge and financing available to our partners in order

*We make international experience, knowledge and financing available to our partners in order to create replicable success stories of reform toward effective and accountable institutions.*

to create replicable success stories of reform toward effective and accountable institutions. The focus on replicable success stories means that we choose to engage in those areas where our country partners show strong demand, where there is effective leadership within the country, and where we can likely contribute to the creation of a success story. It means also recognizing our modest and supportive role, and stepping back even in important areas where the ingredients for success are not present. We cannot solve

Indonesia's development challenges; we can only contribute to solutions led by Indonesian institutions.

We organize and manage our work around relationships and engagements with our Indonesian partner institutions at the national and local government level. The starting points for our support are the policy priorities and expenditure programs of our partner institutions. This approach is a significant shift away from focus on individual tasks and projects and toward a focus on relationships. The delivery of individual tasks is not an end in itself but supports these engagements and relationships.

Since more effective public institutions are key to better development outcomes, all of our work is meant to contribute to development outcomes through the building of better institutions ("Investing in Indonesia's Institutions"). We invest in Indonesia's institutions and help build effective country systems by working with and through these institutions. Wherever possible, we support our partners in their responsibilities rather than carrying their work for them. In all engagements and programs, we link our technical, strategic and financial support to the cross-cutting public sector reform agenda for better governance. We invest heavily into the strengthening of country systems from policy formulation, public financial management, to governance accountability, monitoring and evaluation, and demand for good governance.

We use the full menu of instruments to support our engagements in an integrated way: (a) including advisory work and trust-funded programs, (b) using a full set of financing products, including programmatic investment loans, (c) investing in direct relationships with local governments, and (d) using synergies between World Bank and IFC products.



## A Partner in Strengthening Central Government Institutions

The Government is riding a wave of reforms that are gradually making institutions and systems more effective and accountable at the central level. The Government is seeking ways to become a better, cleaner, more efficient manager of public finances, with an aim towards maximizing the development impact of its expenditures. Greater authority has allowed anti-corruption agencies to up the ante in their fight against state corruptors. The drive to run the country in more efficient and effective ways, albeit strong in certain areas, is not yet ubiquitous. The WBG seeks to match this drive for greater effectiveness by engaging with institutions that are committed to change, identifying reformers, and providing them with the support needed to realize their vision of change.

### Expected Results

- Better allocation of state budget funds that translates into better development outcomes: better schools, better health clinics and better livelihoods.
- An improved tax system to generate the funds needed to build new roads, schools and hospitals, as well as to impose a greater sense of accountability on the public officials tasked to manage these funds.
- An improved public procurement system in which goods and services are acquired in a transparent manner at the best total cost of ownership, in the right quantity and quality, at the right time, in the right place and from the right source for the direct benefit of the public.



## A Partner in Sub-national Government Institutions and Systems

The Government's move to shift decision-making authority to sub-national governments stands as one of Indonesia's crowning achievements of the past ten years. Nearly 40 percent of public spending is now in the hands of close to 500 sub-national governments. Governors, mayors and regents are now appointed through direct elections, making them accountable to their electorates and responsible for seeking ways of boosting institutional performance. The WBG will engage with a limited number of sub-national governments that demonstrate a clear commitment to tackling accountability and capacity challenges. Existing financing programs designed to meet these challenges, such as Initiatives for Local Governance Reform (ILGR), the Urban Sector Development and Reform Project (USDPR), Support for Poor and Disadvantaged Areas (SPADA), and the Decentralization Support Facility (DSF), will also continue with an eye towards strengthening partnerships.

### Expected Results

- Local governments that use their budgets more effectively and efficiently to provide the public with better outcomes in health, education and social services.
- Better provision of public services essential to modern life, such as water and sanitation services, healthcare and education, in both urban and rural areas.



## A Partner in Private Sector Development

The Government is determined to make Indonesia's private sector a driver in broad-based growth, and has been working to make the public sector a smooth facilitator – not an obstacle – in the business environment. The Government has overhauled its policies in taxes, customs, investment frameworks, and other issues of concern to investors. However, implementation of these policies remains uneven. Poor infrastructure and "institutional capture" (whereby some institutions succumb to the business interests of powerful people) are also impeding growth in the private sector. To help Indonesia overcome these remaining challenges, the International Finance Corporation – the WBG's private sector arm – and the World Bank will build on their strong relationships with the Ministry of Trade, the Coordinating Ministry for the Economy, Bank Indonesia, and other key partners that shape the investment climate. These partnerships will be based on analytical, advisory and monitoring work, as well as institutional capacity-building.

### Expected Results

- A stronger private and financial sector that employs more people, turns Indonesia into an investment hub, and heightens Indonesia's competitive advantage over other neighbors in the region.
- A healthier investment climate as a product of better policies, reduced red tape and greater interagency coordination.
- Greater government capacity to create trade policies that effectively promote Indonesian products overseas
- Greater sub-national capacity to take on business operations and create a more even distribution of trade activity and wealth throughout Indonesia.



## A Partner in Building Infrastructure

To promote its vision of building a bigger and better economy, the Government has embarked on a cross-sector reform agenda to boost public and private investments in infrastructure. The WBG aims to help realize this vision by mobilizing the financial and human resources needed to support Indonesia's infrastructure plans. Focusing on roads, energy and water (including irrigation, as well as water and sanitation services), the WBG will mediate between public and private institutions to help bridge the financing gap for infrastructure in these sub-sectors. At the same time, the WBG will help strengthen the accountability and capacity of government agencies to deliver better infrastructure outcomes. It is currently envisaged that strong partnerships will be forged with the Directorate General of Highways, the Directorate General of Water Resources and the Directorate General of Human Settlement – all at the Ministry of Public Works — as well as the state-owned electricity utility (Perusahaan Listrik Negara, or PLN). The WBG will provide financial and advisory support for the Government's own infrastructure financing plan as set out in the current RPJM.

### Expected Results

- Greater spending on roads, power grids, flood management systems and other forms of infrastructure at national and sub-national levels through better planning, budget allocation and incentives.
- Greater quality infrastructure through private sector involvement in credible and transparent public-private partnerships.