



# Country Operations Business Plan

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October 2008

Indonesia  
2009–2011

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 1 September 2008)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.0001087
\$1.00	=	Rp9,199.63

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
AfD	–	Agence Francaise de Developpement (French Agency for Development)
AusAID	–	Australian Government Overseas Aid Program
Bapepam-LK	–	<i>badan pengawas pasar modal-lembaga keuangan</i> (capital market and non bank financial institution supervisory agency)
CDTA	–	capacity development technical assistance
CMDPC	–	Capital Market Development Program Cluster
COBP	–	Country Operations Business Plan
CSP	–	Country Strategy and Program
DPSP	–	development policy support program
EIB	–	European Investment Bank
ES	–	environmental sustainability
FMSRB	–	flood management in selected river basins
GAD	–	gender and development
GDP	–	gross domestic product
GI	–	general intervention
GOV	–	governance
Gov't	–	government
HVDC	–	high voltage direct current
IRM	–	Indonesia Resident Mission
ISD	–	inclusive social development
IsDB	–	Islamic Development Bank
JBIC	–	Japan Bank for International Cooperation
kV	–	kilovolt
LGFR	–	local government finance and governance reform
LTSF	–	Long-Term Strategic Framework
MDG	–	Millennium Development Goal
MFF	–	Multi-tranche Financing Facility
MOF	–	Ministry of Finance
MW	–	megawatt
OCR	–	ordinary capital resources
PATA	–	policy and advisory technical assistance
PDAM	–	<i>perusahaan daerah air minum</i> (regional water enterprise)
PFR	–	periodic financing request
PPP	–	public-private partnership
PPTA	–	project preparatory technical assistance
PSD	–	private sector development
PRMAP	–	Poverty Reduction and Millennium Development Goals

		Acceleration Program
RPJM	–	<i>rencana pembangunan jangka menengah</i> (medium-term development plan)
SDP	–	sector development program
SEAE	–	Agriculture, Environment, and Natural Resources Division, Southeast Asia Department
SEG	–	sustainable economic growth
SEID	–	Infrastructure Division, Southeast Asia Department
SEGF	–	Governance, Finance and Trade Division, Southeast Asia Department
SESS	–	Social Sector Division, Southeast Asia Department
SRO	–	self regulatory organization
TA	–	technical assistance
TI-M	–	targeted intervention-Millennium Development Goals

#### NOTE

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

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

1. The Indonesia Country Strategy and Program (CSP) 2006–2009<sup>1</sup> aims to help the Government of Indonesia (the Government) achieve its medium-term development plan 2005–2009 (*rencana pembangunan jangka menengah*, or RPJM) objectives of higher levels of pro-poor sustainable growth and achieving the Millennium Development Goals (MDGs). Five areas of engagement were identified in the CSP to achieve these goals: improved infrastructure and infrastructure services, a deepened financial sector, improved decentralization, accelerated MDG achievement, and strengthened environmental and natural resource management, with a key thematic focus on governance and anticorruption measures in all operations. Consultations with the Government confirmed the overall validity of the CSP's strategic thrusts and focus and its alignment with RPJM priorities.

## II. INDICATIVE LENDING AND NONLENDING PROGRAM

2. Successful macroeconomic management since the East Asian financial crisis has led to progressively higher growth rates and sustainable fiscal deficits below 2% of the gross domestic product (GDP) since 2001. The public debt-to-GDP ratio declined from 80% in 2000 to below 35% in 2007. Most other indicators suggest healthy macroeconomic fundamentals, with the balance of payments remaining in strong surplus, foreign reserves building up to robust levels, and banking sector indicators appearing sound. Indonesia's strong economic fundamentals led Fitch Ratings to raise its rating for Indonesian debt from BB- to BB in February 2008. Notwithstanding moderate fiscal deficits, Indonesia's gross borrowing needs during the next 2 years remain high to meet high principle repayments on domestic and foreign debt, with financing needs for 2008 estimated at \$21 billion. These financing needs coincide with higher nominal interest rates due to tighter global credit markets and uncertainty over domestic inflation. Thus, program loans from development partners provide a preferred contribution to Indonesia's overall financing needs.

3. Indonesia will graduate from eligibility for Asian Development Fund (ADF) resources at the end of 2008 and be reclassified from 1 January 2009 as a borrower eligible for only ordinary capital resources (OCR). The Asian Development Bank (ADB)-wide planning process allocated an overall OCR envelope of \$1.22 billion for sovereign operations during 2009–2011, which is below recent lending levels and current demand (Table A1.1). This has demanded a more focused and prioritized program, with activities phased in according to Government priorities and project readiness. In agreement with the Government, ADB will continue to strike a balance between (i) program loans that support policy and institutional reforms and provide low-cost financing for the Government's budget and (ii) urgently needed investment loans, where ADB can leverage its resources to increase development impact. In terms of project financing, ADB will align its investments with the Long-Term Strategic Framework (LTSF)<sup>2</sup> and the RPJM priority areas of infrastructure (energy; transport and communications; and water, sanitation, and waste management systems), education, and environment (integrated water resource and flood management). In conformity with the LTSF and the Government's new planning document on climate change,<sup>3</sup> every effort will be made to adopt climate change mitigation and adaptation measures in all lending operations. ADB's private sector operations will continue to consider

<sup>1</sup> ADB. 2006. *Country Strategy and Program 2006-2009: Indonesia*. Manila.

<sup>2</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

<sup>3</sup> Republic of Indonesia. National Development Planning Agency. 2008. *National Development Planning: Indonesia Responses to Climate Change*. Jakarta.

financing projects where feasible in the financial sector, infrastructure, and infrastructure-related services that can have high development impact. The Country Operations Business Plan (COBP) period will see considerably greater emphasis placed on obtaining cofinancing from other development partners and incremental financing through trust funds to augment the smaller OCR allocation. Reflecting unmet demand, a large number of projects have been listed as standby in the assistance pipeline and can proceed subject to the availability of funds.

4. The composition of the nonlending program during 2009–2011 reflects the sharper focus in lending operations and a greater emphasis on capacity development technical assistance (CDTA) and policy and advisory technical assistance (PATA) in support of lending operations. The indicative total technical assistance (TA) program for 2009–2011 amounts to \$17 million, consisting of eight project preparatory technical assistance (PPTA) projects for \$9.2 million, seven CDTA projects for \$6.0 million, and three PATA projects for the remaining \$1.8 million (Table A1.2). The linkage between the lending and TA program is indicated in Appendix 2.

### III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

5. The lending program for 2009 contains changes from that proposed in the Indonesia CSP, reflecting the smaller OCR allocation, deferment of some loans from earlier years to 2009 and from 2009 to 2010 due to processing delays, and cancellation of some loans due to Indonesia no longer being eligible to receive ADF resources beyond 2008 (Table A3.1).

6. The following changes have been made to the 2009 lending program that was proposed in the CSP:

- (i) 1st tranche of the project Flood Management in Selected River Basins (Multi-tranche Funding Facility [MFF] \$150 million) rescheduled to 2010 after delays in processing;
- (ii) 2nd tranche of the project Integrated Citarum Water Resources (MFF \$500 million) rescheduled to 2011 after delays in commencing the 1st tranche of the project;
- (iii) 2nd tranche of the Energy Efficiency Project replaced by the 1st tranche after delays in commencing the project;
- (iv) Community Water Supply and Health Services Project dropped;
- (v) Neighborhood Upgrading and Shelter Project dropped;
- (vi) Fourth Development Policy Support Program (DPSP-4) replaced by the fifth loan in the series, as the fourth loan was advanced to 2008;
- (vii) Financial Sector Governance and Social Security Reform Program Cluster dropped from the pipeline after the first loan was approved in 2002 (it has been replaced by the Capital Markets Development Program Cluster, the first loan for which was released in 2007, and the second loan for which will now replace the third cluster loan originally proposed for 2009);
- (viii) Second Poverty Reduction and Millennium Development Goals Acceleration Program (PRMAP II) moved to standby subject to the availability of funds;
- (ix) Regional Roads Project moved to 2010 due to resource considerations; and
- (x) Metropolitan Sanitation Management and Health Project loan amount reduced in line with reduced scope.

7. Changes have been necessitated in the 2009 TA program proposed in the CSP to reflect (i) changes in the lending pipeline, (ii) greater emphasis on capacity building and institutional strengthening, and (iii) emerging Government priorities. Under agriculture and natural resources, ADB will continue to support PPTA for the projects Integrated Citarum Water



Resource Management and Flood Management in Selected River Basins and will reinforce this support with a proposed cluster CDTA in Water Resource and River Basin Management. However, the earlier proposed technical assistance focusing on agricultural irrigation and coastal resource management has been dropped. Under law, economic management, and public policy, ADB will provide increased CDTA for capital market development, local government finance, and infrastructure reform, as well as PATA to support macroeconomic and sector policy. These activities will replace the earlier proposed PPTA for infrastructure reform, and cluster CDTA supporting decentralization. Reflecting emerging Government priorities in the energy sector, new PPTA for the Sumatra-Java power transmission project has been introduced in the 2009 TA pipeline. Following a Government decision to borrow OCR for higher education, PPTA for a polytechnics project has also been introduced in the 2009 TA pipeline (Table A3.2).

8. The 2010–2011 pipeline is consistent with the approach and strategic directions of the CSP and LTSF (see Appendix 4), but, as in 2009, lending and nonlending operations will focus on the narrower set of priority areas mentioned in para. 3. It includes program loans for the Third Infrastructure Reform Sector Development Program, PRMAP II, DPSP-6, and the Third Local Government Finance and Governance Reform Program (the latter three as standby, subject to the availability of resources). These programs will continue to address binding constraints on inclusive growth, including those related to the investment climate and infrastructure investment, public financial management both central and decentralized, and improved delivery of public services. Project lending during this period will focus on addressing infrastructure bottlenecks in roads and energy, skills shortages in the labor market, water utility reform at the sub-national level to improve the utilities' financial health and service delivery, and investments to better manage water resources in an integrated manner.

#### **IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS**

9. There are no incremental staff resource requirements during the planning period 2009–2011. The skill mix will shift in the Indonesia Resident Mission (IRM) away from portfolio management as the portfolio becomes smaller toward capacity to conduct public policy and selective sector dialogue and analysis. Further redeployment of staff from headquarters to IRM may need to be considered to enhance client responsiveness and development partner engagement, as well as to develop a more programmatic response to core areas of involvement, including education, water resources, energy and transport infrastructure, capital market development, macroeconomics, and public financial management. Responsiveness will be further enhanced through selective staff consultancy.

#### **V. RESULTS-BASED MONITORING**

10. The results-based framework has been updated to reflect changes to the assistance program and the inclusion of tracking indicators that are more monitorable and relevant to CSP outcomes and strategic goals. Under environment and natural resource management, tracking indicators relating to aquaculture have been dropped, as considerable delays in commencing the planned lending activity in this rendered the indicators no longer relevant during the 2006–2009 time frame of the results framework. All indicators relating to urban air quality have been removed, as the proposed lending in this area has been dropped, and urban air quality will no longer be a focus during the time frame of the results framework. Selected tracking indicators for financial sector deepening, decentralization, and MDG acceleration have similarly been revised to make them more relevant to CSP outcomes and better reflect ADB interventions.

## VI. COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK 2006–2009<sup>4</sup>

Government's Medium Term Development Agenda (RPJM)		Asian Development Bank Strategic Focus		Direction of Interventions
Strategic Goals	Key Constraints	CSP Outcomes	Tracking Indicators	
<b>Pillar I: Pro-Poor, Sustainable Economic Growth</b>				
<ul style="list-style-type: none"> <li>Higher economic growth through greater investments, including enhanced infrastructure provision</li> </ul>	<ul style="list-style-type: none"> <li>Low investments in infrastructure</li> <li>Low private sector participation in infrastructure development due to adverse investment climate</li> <li>Weak legal and regulatory environment</li> <li>Inadequate land acquisition mechanisms in place</li> <li>Lack of basic infrastructure in remote areas</li> </ul>	<p><b>A. Infrastructure and Infrastructure Services</b></p> <ul style="list-style-type: none"> <li>Strengthened legal and regulatory framework for private sector participation in infrastructure development</li> <li>Accelerated private sector participation</li> <li>Long-term financing mechanisms for infrastructure financing under development</li> <li>Targeted provision of basic infrastructure and support services to communities</li> </ul>	<ul style="list-style-type: none"> <li>At least 3 regulatory bodies made fully independent by 2009</li> <li>At least 20% of private sector financing provided by domestic financial institutions by 2009</li> <li>10 public-private partnership infrastructure projects with bidding completed by 2008</li> <li>Annual investments in infrastructure at least 7% of gross domestic product (GDP) by 2009</li> <li>Private sector mobilization of 40–50% of infrastructure investments by 2009</li> <li>More than 2000 communities receiving basic infrastructure support by 2009</li> </ul>	<p><b>Program Lending</b></p> <ul style="list-style-type: none"> <li>Infrastructure sector reforms</li> <li>Financial sector reforms</li> <li>State-owned enterprise reforms</li> </ul> <p><b>Investments</b></p> <ul style="list-style-type: none"> <li>Sovereign and non-recourse lending for public-private partnerships</li> <li>Sovereign lending for transport and energy projects</li> <li>Infrastructure financing facility</li> <li>Capacity development in project preparation</li> </ul>

<sup>4</sup> The original results framework was contained in ADB. 2006. *Country Strategy and Program 2006-2009: Indonesia*. Manila.

Government's Medium Term Development Agenda (RPJM)		Asian Development Bank Strategic Focus		Direction of Interventions
Strategic Goals	Key Constraints	CSP Outcomes	Tracking Indicators	
<ul style="list-style-type: none"> <li>Greater domestic resource mobilization to support growth</li> </ul>	<ul style="list-style-type: none"> <li>Inefficient intermediation and allocation</li> <li>Limited range and financial instruments</li> <li>Weak enforcement of the legal and regulatory environment</li> <li>Weak risk management in financial institutions</li> </ul>	<p><b>B. Financial Sector Deepening</b></p> <ul style="list-style-type: none"> <li>Long-term financing options strengthened</li> <li>Legal and regulatory environment strengthened, with improved enforcement</li> <li>Long-term investment options expanded</li> <li>More efficient financial sector intermediation</li> <li>Role of nonbank sector in financial implementation increased</li> </ul>	<ul style="list-style-type: none"> <li>Increase in nonbank financial sector's share of total financial sector assets from 20% in 2005 to 25% in 2009</li> <li>Increase market capitalization by 30% from 2006 to 2009</li> <li>Increase in issuance of corporate securities from Rp68 trillion in 2006 to Rp100 trillion in 2009</li> <li>Regulatory framework for strengthening Bapepam-LK to provide more financial flexibility and operational autonomy implemented</li> <li>Draft amendments to capital markets, insurance, and pension laws submitted to Parliament in 2009 for approval</li> </ul>	<p><b>Program Lending</b></p> <ul style="list-style-type: none"> <li>Financial Sector Policy Reforms</li> </ul> <p><b>Project Lending</b></p> <ul style="list-style-type: none"> <li>Sovereign loans for Indonesia Infrastructure Financing Facility and nonsovereign loans to state-owned enterprises, municipal entities, and financial intermediaries</li> <li>Issuance of local currency bonds</li> </ul>
		<ul style="list-style-type: none"> <li>Capacity of financial sector to provide long-term financing enhanced</li> </ul>	<ul style="list-style-type: none"> <li>Increased competition in rural and microfinance markets following consolidation of people's credit banks leading to a decrease in borrowing costs of 2 percentage points by 2009</li> <li>Asian Development Bank successfully issues 3 local currency bonds by 2009</li> </ul>	

Government's Medium Term Development Agenda (RPJM)		Asian Development Bank Strategic Focus		Direction of Interventions
Strategic Goals	Key Constraints	CSP Outcomes	Tracking Indicators	
<b>Pillar II: Social Development</b>				
<ul style="list-style-type: none"> <li>Greater fiscal and human capacity for sustainable service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Unequal financing of the regions</li> <li>Lack of local capacity</li> <li>Fragile districts throughout the country</li> </ul>	<b>A. Decentralization</b> <ul style="list-style-type: none"> <li>Financing of local government investments secured sustainably</li> <li>Improved local capacity for fiscal accountability</li> <li>Intergovernmental fiscal relations clarified</li> <li>Functional assignments at all levels of government established</li> <li>Central Government financing of local government based on needs</li> <li>Clear local government fiscal accountability framework established</li> <li>Investments in social infrastructure accelerated</li> <li>Strengthened regional government capacity</li> </ul>	<ul style="list-style-type: none"> <li>Improvement in quality and timeliness of financial reporting by 171 regional governments by 2009</li> <li>Regional government reserves in local bank accounts decreased to a maximum of 2.8% of GDP by December 2009 from a baseline of 3.1% in November 2006</li> </ul>	<b>Program Lending</b> <ul style="list-style-type: none"> <li>Local government financing and governance reforms</li> </ul> <b>Investments</b> <ul style="list-style-type: none"> <li>Capacity development</li> </ul>
<ul style="list-style-type: none"> <li>Quantity and quality of social service delivery improved</li> </ul>	<ul style="list-style-type: none"> <li>Low financial and management technical capacity</li> <li>Local budgeting and planning not aligned</li> <li>Low health and education spending</li> </ul>	<b>B. MDG Acceleration</b> <ul style="list-style-type: none"> <li>Local pro-poor planning and budgeting improved</li> <li>Local public expenditures better aligned with local poverty-reduction strategies</li> <li>Systems of administering prices and subsidies improved</li> </ul>	<ul style="list-style-type: none"> <li>Health and education spending at least 3% of GDP by 2009</li> <li>Minimum service standards for education in place by 2009</li> </ul>	<b>Program Loans</b> <ul style="list-style-type: none"> <li>Millennium Development Goal acceleration</li> </ul> <b>Investments</b> <ul style="list-style-type: none"> <li>Water supply and sanitation</li> <li>Neighborhood upgrading</li> <li>Rural infrastructure</li> <li>Vocational education</li> <li>Madrasa education</li> <li>Basic decentralized education</li> <li>Decentralized health</li> <li>Minimum service standards in education</li> </ul>

Government's Medium Term Development Agenda (RPJM)		Asian Development Bank Strategic Focus		Direction of Interventions
Strategic Goals	Key Constraints	CSP Outcomes	Tracking Indicators	
<ul style="list-style-type: none"> <li>Natural resource management done on a more sustainable basis, with an economic return for the poor</li> <li>Incidence of pollution reduced</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate natural resource management capacity nationally and locally</li> <li>Overlapping mandates and functions of government agencies</li> <li>Low awareness among government, the public, and resource users of sustainable resource management</li> <li>Increased pressure on natural resources for livelihoods</li> <li>Lack of basin-wide integrated water management</li> <li>Inadequate rural infrastructure</li> </ul>	<b>C. Environment and Natural Resources Management</b> <ul style="list-style-type: none"> <li>Improved management of water resources</li> <li>Improved coastal and marine resource management</li> <li>Creation of livelihoods and economic opportunities in rural areas</li> <li>Well-functioning community-based management of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>Extent of operational irrigation schemes</li> <li>Better water supply</li> <li>Reduced flood and drought risks</li> <li>6,000 hectares of coral reefs rehabilitated by 2009</li> <li>700 hectares of marine protected areas managed in a sustainable manner by 2009</li> </ul>	<b>Investments</b> <ul style="list-style-type: none"> <li>Water resource management</li> <li>Flood protection</li> <li>Development of rural infrastructure</li> <li>Coastal resource management</li> </ul>
<b>Key Thematic Area: Governance and Anticorruption</b>				
<ul style="list-style-type: none"> <li>Accelerated economic growth through improved investments and better public sector management</li> </ul>	<ul style="list-style-type: none"> <li>Unskilled workforce in the public sector performing poorly; lack of accountability or performance standards or measurements</li> <li>Corruption systemic in the public sector</li> </ul>	<ul style="list-style-type: none"> <li>Improved and measured performance in key sectors</li> <li>Strengthened anticorruption mechanisms and institutions</li> <li>Improved interaction between levels of government</li> <li>Improved public sector performance</li> <li>Reduced corruption</li> </ul>	<ul style="list-style-type: none"> <li>Increase in special allocation fund with a concomitant decrease in deconcentration funds.</li> <li>Strengthened prevention capacity of the anti-corruption commission</li> <li>All government accounts transferred to a treasury single account</li> <li>Improvement in Indonesia's ranking in Transparency International's corruption perception index by at least 15 places</li> </ul>	<b>Program Lending</b> <ul style="list-style-type: none"> <li>Local government financing and governance reforms</li> <li>State audit reform sector program</li> <li>Development policy support program</li> </ul> <b>Others</b> <ul style="list-style-type: none"> <li>Continued procurement reform</li> </ul>

INDICATIVE ASSISTANCE PIPELINE<sup>a</sup>

Table A1.1: Indicative Assistance Pipeline for Lending Products, 2009–2011

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't.	Co- financing
							Loans	Grants			
<b>2009 Firm Loans</b>											
<b>Energy</b>											
1. Energy Efficiency (MFF, \$150 million) PFR1	GI	SEG	SEID			35.00	0.00	0.00	35.00	—	— <sup>b</sup>
<b>Subtotal</b>						<b>35.00</b>	<b>0.00</b>	<b>0.00</b>	<b>35.00</b>	<b>—</b>	
<b>Finance</b>											
1. Capital Markets Development Program Cluster II	GI	GOV	SEGF	2009		300.00	0.00	0.00	300.00	0.00	0.00
<b>Subtotal</b>						<b>300.00</b>	<b>0.00</b>	<b>0.00</b>	<b>300.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Law, Economic Management, and Public Policy</b>											
1. Development Policy Support Program V	GI	SEG/GOV	IRM			200.00	0.00	0.00	200.00	0.00	0.00
<b>Subtotal</b>						<b>200.00</b>	<b>0.00</b>	<b>0.00</b>	<b>200.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Water Supply and Sanitation</b>											
1. Metropolitan Sanitation Management and Health Project	TI-M	ES/ISD	SEID	2008		35.00	0.00	0.00	35.00	—	— <sup>c</sup>
<b>Subtotal</b>						<b>35.00</b>	<b>0.00</b>	<b>0.00</b>	<b>35.00</b>	<b>—</b>	<b>—</b>
<b>Total</b>						<b>570.00</b>	<b>0.00</b>	<b>0.00</b>	<b>570.00</b>	<b>—</b>	<b>—</b>

<sup>a</sup> A more definite program, consistent with the final Work Program and Budget Framework of ADB, will be discussed during the country program confirmation mission in early 2009

<sup>b</sup> Possible \$40 million cofinancing from AfD, and \$50 million from EIB

<sup>c</sup> Possible \$10 million cofinancing from AusAID

**Standby** (subject to availability of funds)

<b>Law, Economic Management, and Public Policy</b>										
1. Poverty Reduction and MDG Acceleration Program II	TI-M	GAD/ISD	SESS	2008	200.00	0.00	0.00	200.00	0.00	0.00
<b>Subtotal</b>					<b>200.00</b>	<b>0.00</b>	<b>0.00</b>	<b>200.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total</b>					<b>200.00</b>	<b>0.00</b>	<b>0.00</b>	<b>200.00</b>	<b>—</b>	<b>—</b>

**2010 Firm Loans**

<b>Agriculture and Natural Resources</b>										
1. Flood Management in Selected River Basins (MFF, \$150 million) PFR1	GI	SEG	SEAE	2005	60.00	0.00	0.00	60.00	—	—
<b>Subtotal</b>					<b>60.00</b>	<b>0.00</b>	<b>0.00</b>	<b>60.00</b>	<b>—</b>	<b>—</b>

<b>Energy</b>										
1. Energy Efficiency (MFF, \$150 million) PFR2	GI	SEG	SEID		100.00	0.00	0.00	100.00	—	—
<b>Subtotal</b>					<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>	<b>—</b>	<b>—</b>

<b>Transport and Communications</b>										
1. Regional Roads Development (MFF, \$500), PFR 1	GI	SEG	SEID	2008	100.00	0.00	0.00	100.00	—	— <sup>a</sup>
<b>Subtotal</b>					<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>	<b>—</b>	<b>—</b>
<b>Total</b>					<b>260.00</b>	<b>0.00</b>	<b>0.00</b>	<b>260.00</b>	<b>—</b>	<b>—</b>

**Standby** (subject to availability of funds)

<b>Law, Economic Management, and Public Policy</b>										
1. Infrastructure Reform Sector Development Program III	GI	SEG/PSD	IRM		200.00	0.00	0.00	200.00	0.00	0.00
2. Poverty Reduction and MDG Acceleration Program II	TI-M	GAD/ISD	SESS	2008	200.00	0.00	0.00	200.00	0.00	0.00
<b>Subtotal</b>					<b>400.00</b>	<b>0.00</b>	<b>0.00</b>	<b>400.00</b>	<b>0.00</b>	<b>0.00</b>

  

<b>Education</b>										
1. Polytechnics	TI-M	ISD	SESS		90.00	0.00	0.00	90.00	—	—
<b>Subtotal</b>					<b>90.00</b>	<b>0.00</b>	<b>0.00</b>	<b>90.00</b>	<b>—</b>	<b>—</b>

<sup>a</sup> Possible cofinancing from IsDB

<b>Energy</b>											
1.	Sumatra-Java Interconnection Project (MFF, \$300 million) PFR1	GI	SEG	SEID	2009	100.00	100.00	0.00	100.00	—	—
	<b>Subtotal</b>					<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>	<b>—</b>	<b>—</b>
	<b>Total</b>					<b>590.00</b>	<b>0.00</b>	<b>0.00</b>	<b>590.00</b>	<b>—</b>	<b>—</b>
<b>2011 Firm Loans</b>											
<b>Education</b>											
1.	Polytechnics	TI-M	ISD	SESS		90.00	0.00	0.00	90.00	—	—
	<b>Subtotal</b>					<b>90.00</b>	<b>0.00</b>	<b>0.00</b>	<b>90.00</b>	<b>—</b>	<b>—</b>
<b>Energy</b>											
1.	Sumatra-Java Interconnection Project (MFF, \$300 million) PFR1	GI	SEG	SEID	2009	100.00	100.00	0.00	100.00	—	— <sup>b</sup>
	<b>Subtotal</b>					<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>	<b>—</b>	<b>—</b>
<b>Law, Economic Management and Public Policy</b>											
1.	Infrastructure Reform Sector Development Program III	GI	SEG/PSD	IRM		200.00	0.00	0.00	200.00	0.00	0.00
	<b>Subtotal</b>					<b>200.00</b>	<b>0.00</b>	<b>0.00</b>	<b>200.00</b>	<b>0.00</b>	<b>0.00</b>
	<b>Total</b>					<b>390.00</b>	<b>0.00</b>	<b>0.00</b>	<b>390.00</b>	<b>—</b>	<b>—</b>
<b>Standby (subject to availability of funds)</b>											
<b>Agriculture and Natural Resources</b>											
1.	Integrated Citarum Water Resources (MFF, \$500 million) PFR2	GI	SEG	SEAE	2003	100.00	0.00	0.00	100.00	—	—
	<b>Subtotal</b>					<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>	<b>—</b>	<b>—</b>

<sup>b</sup> Possible \$500 million cofinancing from JBIC, \$300 million cofinancing from IsDB, and \$50 million cofinancing from KEXIM Bank



**Law, Economic Management,  
and Public Policy**

1. Local Government Finance and Governance Reform III	GI	SEG/PSD	SEGF	2010	350.00	0.00	0.00	350.00	0.00	0.00
2. Development Policy Support Program VI	GI	SEG/GOV	IRM		200.00	0.00	0.00	200.00	0.00	0.00
<b>Subtotal</b>					<b>550.00</b>	<b>0.00</b>	<b>0.00</b>	<b>550.00</b>	<b>0.00</b>	<b>0.00</b>

**Water Supply and Sanitation**

1. Water Utilities Reform SDP	GI	SEG/PSD	SEID	2010	200.00	0.00	0.00	200.00	0.00	—
<b>Subtotal</b>					<b>200.00</b>	<b>0.00</b>	<b>0.00</b>	<b>200.00</b>	<b>0.00</b>	<b>0.00</b>

<b>Total</b>					<b>850.00</b>	<b>0.00</b>	<b>0.00</b>	<b>850.00</b>	—	—
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ADB = Asian Development Bank, ADF = Asian Development Fund, AfD = Agence Francaise de Developpement (French Agency for Development), AusAID = Australian Government Overseas Aid Program, EIB = European Investment Bank, ES = environmental sustainability, GAD = gender and development, GI = general intervention, GOV = governance, Gov't = Government, IRM = Indonesia Resident Mission, ISD = inclusive social development, IsDB = Islamic Development Bank, JBIC = Japan Bank for International Cooperation, MDG = Millennium Development Goal, MFF = Multi-tranche Financing Facility, OCR = ordinary capital resources, PFR = periodic financing request, PSD = private sector development, SDP = sector development program, SEAE = Agriculture, Environment, and Natural Resources Division, Southeast Asia Department, SEG = sustainable economic growth, SEID = Infrastructure Division, Southeast Asia Department, SEGF = Governance, Finance and Trade Division, Southeast Asia Department, SESS = Social Sector Division, Southeast Asia Department, TI-M = targeted intervention-Millennium Development Goals.  
Source: Asian Development Bank staff estimates.

Table A1.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2009–2011

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2009</b>							
<b>Agriculture and Natural Resources</b>							
1. Flood Management in Selected River Basins, PFR1	SEAE	PPTA		0.60	—	0.60	
2. Citarum, PFR2	SEAE	PPTA		1.00	—	1.00	
3. Water Resources and River Basin Management Cluster	SEAE	cluster CDTA		2.00	—	2.00	
<b>Subtotal</b>				<b>3.60</b>	<b>—</b>	<b>3.60</b>	
<b>Education</b>							
1. Polytechnics	SESS	PPTA		0.80	—	0.80	
<b>Subtotal</b>				<b>0.80</b>	<b>—</b>	<b>0.80</b>	
<b>Energy</b>							
1. Sumatra-Java Interconnection	SEID	PPTA		1.00	—	1.00	
<b>Subtotal</b>				<b>1.00</b>	<b>—</b>	<b>1.00</b>	
<b>Finance</b>							
1. Capital Market Development Program Cluster (CMDPC) II (piggybacked on loan)	SEGF	CDTA		1.00	0.00	1.00	
<b>Subtotal</b>				<b>1.00</b>	<b>—</b>	<b>1.00</b>	
<b>Law, Economic Management, and Public Policy</b>							
1. Support for Local Government Finance and Governance Reform (LGFR) II	SEGF	CDTA		1.00	—	1.00	
2. Support for Infrastructure Reform Sector Development Program II	SEGF	CDTA		1.00	0.00	1.00	
<b>Subtotal</b>				<b>2.00</b>	<b>—</b>	<b>2.00</b>	
<b>Total</b>				<b>8.40</b>	<b>—</b>	<b>8.40</b>	
<b>2010</b>							
<b>Agriculture and Natural Resources</b>							

Sector	Assistance Name	Responsible Division	Assistance Type	Sources of Funding		Total (\$'000)		
				ADB			Others	
				Source	Amount (\$'000)		Source	Amount (\$'000)
	1. Support for Flood Management in Selected River Basins	SEAE	CDTA		1.00	—	1.00	
	<b>Subtotal</b>				<b>1.00</b>	<b>—</b>	<b>1.00</b>	
	<b>Education</b>							
	1. Vocational Education Tracer Study and Labor Market Implications	SESS	PATA		0.30	0.00	0.30	
	<b>Subtotal</b>				<b>0.30</b>	<b>0.00</b>	<b>0.30</b>	
	<b>Law, Economic Management, and Public Policy</b>							
	1. Local Government Finance and Governance Reform (LGFR) III	SEGF	PPTA		0.80	—	0.80	
	2. Support for DPSP	IRM	PATA		1.00	0.00	1.00	
	3. Support for Country Systems	IRM	PATA		0.50	—	0.50	
	<b>Subtotal</b>				<b>2.30</b>	<b>—</b>	<b>2.30</b>	
	<b>Water Supply and Sanitation</b>							
	1. Water Utilities Reform SDP	SEID	PPTA		1.50	—	1.50	
	<b>Subtotal</b>				<b>1.50</b>	<b>—</b>	<b>1.50</b>	
	<b>Total</b>				<b>5.10</b>	<b>—</b>	<b>5.10</b>	
	<b>2011</b>							
	<b>Agriculture and Natural Resources</b>							
	1. Flood Management in Selected River Basins, PFR2	SEAE	PPTA		1.50	—	1.50	
	<b>Subtotal</b>				<b>1.50</b>	<b>—</b>	<b>1.50</b>	
	<b>Water Supply and Sanitation</b>							
	1. Metropolitan Sanitation Management and Health Project II	SEID	PPTA		2.00	—	2.00	
	<b>Subtotal</b>				<b>2.00</b>	<b>—</b>	<b>2.00</b>	
	<b>Total</b>				<b>3.50</b>	<b>—</b>	<b>3.50</b>	
	<b>Standby</b>							
	<b>Agriculture and Natural Resources</b>							
	1. Support to Citarum II (piggybacked on PFR 2)	SEAE	CDTA		1.00	—	1.00	
	<b>Subtotal</b>				<b>1.00</b>	<b>—</b>	<b>1.00</b>	

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				
			ADB		Others		Total (\$'000)
			Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>Law, Economic Management and Public Policy</b>							
1. Support to Local Government Finance and Governance Reform III	SEGF	CDTA		1.00		—	1.00
				<b>1.00</b>		<b>—</b>	<b>1.00</b>
				<b>2.00</b>		<b>—</b>	<b>2.00</b>

ADB = Asian Development Bank, ADTA = advisory technical assistance, CDTA = capacity development technical assistance, CMDPC = Capital Market Development Program Cluster, IRM = Indonesia Resident Mission, LGFGR = local government finance and governance reform, PATA = policy and advisory technical assistance, PFR = periodic financing request, PPTA = project preparatory technical assistance, SDP = sector development program, SEAE = Agriculture, Environment, and Natural Resources Division, Southeast Asia Department, SEID = Infrastructure Division, Southeast Asia Department, SEGF = Governance, Finance, and Trade Division, Southeast Asia Department, SESS = Social Sector Division, Southeast Asia Department.  
 Source: Asian Development Bank staff estimates.

**LINKAGE BETWEEN THE LENDING AND TECHNICAL ASSISTANCE PROGRAM, 2009–2011**

<b>Sector/Theme</b>	<b>Lending operations</b>	<b>Technical Assistance operations</b>
Agriculture and Natural Resources	Flood Management in Selected River Basins (FMSRB) (MFF, \$150 million) PFR1 Integrated Citarum Water Resources Management P <sup>a</sup> (standby)	FMSRB, PFR1 (PPTA) Citarum, PFR2 (PPTA) Water Resources and River Basin Management Cluster (cluster CDTA) Support for FMSRB (CDTA) FMSRB, PFR2 (PPTA) Support to Citarum II (CDTA piggybacked on PFR 2) (standby)
Energy	Energy Efficiency (MFF, \$150 million) PFR1 & PER2 Sumatra-Java Interconnection Project (MFF, \$300 million) PFR1	Sumatra-Java Interconnection (PPTA)
Education	Polytechnics	Polytechnics (PPTA) Vocational Education Tracer Study and Labor Market Implications (PATA)
Finance	Capital Markets Development Program Cluster (CMDPC) II	Support for CMDPC II (CDTA piggybacked on loan)
Law, Economic Management, and Public Policy	Development Policy Support Program (DPSP) V Poverty Reduction and MDG Acceleration Program II (standby) Infrastructure Reform Sector Development Program (IRSDP) III Local Government Finance and Governance Reform (LGFGRI) III (standby) DPSP VI (standby)	Support for LGFGRI II <sup>b</sup> (CDTA) Support for IRSDP II (CDTA) <sup>c</sup> LGFGRI III (PPTA) Support for DPSP (PATA) Support for Country Systems (PATA) Support to LGFGRI III (CDTA) (Standby)
Transport and Communication	Regional Roads Development (MFF, \$500 million), PFR1	
Water Supply and Sanitation	Metropolitan Sanitation Management and Health Project Water Utilities Reform SDP (standby)	Water Utilities Reform Sector Development Program (PPTA) Metropolitan Sanitation Management and Health Project II (PPTA)

CDTA = capacity development technical assistance, MFF = Multi-tranche Financing Facility, PATA = policy and advisory technical assistance, PFR = periodic financing request, PPTA = project preparatory technical assistance;

<sup>a</sup> PFR1 of this project was approved in December 2008.

<sup>b</sup> The Local Government Finance and Governance Reform II program loan was approved in 2008.

<sup>c</sup> The Infrastructure Reform Sector Development Program II was approved in 2008.

**SUMMARY INFORMATION ON PROPOSED INDICATIVE LENDING  
AND NONLENDING PRODUCTS AND SERVICES FOR 2009**

**Table A3.1: Summary Information on Proposed Indicative Lending Products and Services  
for 2009**

Project Name	Description
Energy Efficiency	<p><b>Impact:</b> The project will aim to reduce energy losses by rehabilitating equipment and optimizing energy flow through the existing distribution networks.</p> <p><b>Major Components:</b> (i) Power factor improvements, (ii) distribution system reconfiguration, (iii) reliability improvement, and (iv) demand side management</p> <p><b>Expected Outputs and Outcomes:</b> The main outcomes will be savings in domestic and industrial power usage, reduction in carbon dioxide emissions by more than 5 million tons, and possible deferral of additional generating capacity required due to the use of energy efficiency tools.</p>
Second Capital Markets Development Program Cluster	<p><b>Impact:</b> Promote financial sector diversification and resilience by developing capital markets in Indonesia. The program aims to strengthen the transparency and information disclosure essential to building confidence in capital markets and institutions, facilitating regulatory oversight, and promoting price discovery and market liquidity.</p> <p><b>Major Components:</b> A policy reform package consists of four components: (i) enhancing information disclosure and improved price discovery, (ii) promoting deeper and more liquid financial markets, (iii) improving market surveillance and investor protection, and (iv) strengthening governance and human resource capacity.</p> <p><b>Expected Outputs and Outcomes:</b> The expected outcome of the program is sufficient capital market growth to enable increased diversification of markets combined with strengthened regulatory and supervisory capacity to ensure the resilience of the financial sector as well as the economy as a whole. It is expected that the program will increase the nonbank financial sector's share of total financial assets.</p>
Fourth Development Policy Support Program	<p><b>Impact:</b> Higher economic growth that is sustained over the medium term and lower levels of unemployment and poverty</p> <p><b>Major Components:</b> The program has three components:  Improved Investment Climate: (i) improving business entry conditions, tax administration, and customs procedures; (ii) improving the operations of financial markets by strengthening the operations of insurance markets; and (iii) improving access to credit for small and medium-sized enterprises  Improved Public Financial Management and Anti-Corruption: (i) extending budgeting reforms to performance-based budgeting, (ii) introducing measures to accelerate public spending early in the fiscal year, (iii) procurement reforms nationally and in districts, and (iv) extending civil service reform to agencies beyond the Ministry of Finance.  Public Service Delivery: (i) improving the effectiveness and targeting of</p>

	<p>pro-poor programs, (ii) improving the operation of the National Program for Community Empowerment, and (iii) reinforcing the teacher-based education reforms introduced under DPSP-4.</p> <p><b>Expected Outputs and Outcomes:</b> Improved overall economic management anchored on good governance</p>
Metropolitan Sanitation Management and Health Project	<p><b>Impact:</b> The project will help improve the livelihood and health of the urban population of Kota Medan, Kota Makassar, and Kota Yogyakarta, as well as support the Government in its efforts to achieve related MDGs.</p> <p><b>Major Components:</b> (i) Reduce exposure of urban communities, particularly of low-income groups, to health risks associated with the discharge of raw or partly treated sewage into city drains and rivers; (ii) contribute to a significant reduction of the polluting load into water bodies; (iii) improve solid waste collection and treatment; (iv) contribute to improved local urban environments and an overall reduction of environmental pollution; and (v) address serious institutional constraints affecting the sector.</p> <p><b>Expected Outputs and Outcomes:</b> The project will provide enhanced sanitation services, including wastewater collection and treatment and solid waste management, in large urban areas, including Kota Medan, Kota Makassar, and Kota Yogyakarta.</p>

DPSP = Development Policy Support Program, MDG = Millennium Development Goal.

Source: Asian Development Bank staff.

**Table A3.2: Summary Information on Proposed Indicative Nonlending Products and Services for 2009**

Project Name	Description
Flood Management in Selected River Basins (FMSRB)	<p><b>Impact:</b> Reduced social, economic, and environmental impacts from floods, particularly on the poor, through integrated water resource management</p> <p><b>Major Components:</b> (i) Provide a long-term sector roadmap, (ii) update FMSRB studies and cost estimates, (iii) review implementation components and arrangements, (iv) consulting services advance procurement for tranche 1 components, (v) construction works advance procurement for tranche 1 components, (vi) ensure social and environmental safeguards compliance, and (vi) design climate change adaptation activities</p> <p><b>Expected Outputs and Outcomes:</b> Updated design of the FMSRB project will reduce flood damage in four river basins on Java now suffering severe floods almost every year through (i) institutional strengthening of the national and regional governments with community participation, (ii) upper watershed protection and conservation, (iii) enforcement of rules and regulations for land use in the basin, (iv) increased conveyance capacity of rivers, and (v) improved emergency services</p>
Integrated Citarum Water Resource Management, PFR2	<p><b>Impact:</b> By 2023, poverty, health, and living standards in the Citarum River basin will be significantly improved through a measurable decrease in poverty in the communities of the basin.</p> <p><b>Major Components:</b> (i) Prepare detailed feasibility study and PFR for tranche 2 activities, (ii) consulting services advance procurement for tranche 2 components, (iii) construction works advance procurement for tranche 2 components, and (vi) social and environmental safeguards compliance monitoring of tranche 1.</p> <p><b>Expected Outputs and Outcomes:</b> The design of tranche 2 project and PFR2 will help Citarum River basin stakeholders to achieve the long-term vision of a clean, healthy, and productive river and catchment.</p>
Water Resources and River Basin Management Cluster	<p><b>Impact:</b> Sustainable management of water resources for environmental, economic, and social development</p> <p><b>Major Components:</b> (i) Support new water resource organizations at national, river basin, and local government level, (ii) build capacity of sector agencies and local governments, (iii) promote community and civil society participation in water resource management, (iv) expand the implementation of the ongoing river basin organization benchmarking initiative, (v) support the drafting and the practical implementation of new water resource policies and regulations (particularly at the local government level), (vi) identify areas and modalities of effective public-private partnerships, (vii) strengthen research and development and facilitate the exchange of water sector information and experience, (viii) identify and initially prepare water projects, and (x) support measures to adapt to climate change</p> <p><b>Expected Outputs and Outcomes:</b> Strengthened capacity for effective</p>



	<p>planning and development and integrated management of water resources. The technical assistance will build on previous water resource sector initiatives between the ADB and the Government and compliment ongoing and proposed ADB loans in the water resource sector.</p>
Polytechnics Education Development Project	<p><b>Impact:</b> Increased competitiveness in the labor market and enhanced employment opportunities for polytechnic graduates</p> <p><b>Major Components:</b> (i) Increased access to polytechnic education through expansion of selected institutions and possible creation of new institutions as legal entities; (ii) enhanced capacity of selected polytechnics through competitive funding mechanisms; (iii) 5 certified programs of polytechnics with international standards; (iv) a greater role for private polytechnics in providing relevant training; and (iv) improved quality, efficiency, and relevance of instruction through the development of facilities, equipment, teacher and managerial staff</p> <p><b>Expected Outputs and Outcomes:</b> An agreed project design that will aim to expand and enhance the quality and relevance of the polytechnic system and produce graduates with skills that support economic growth.</p>
Sumatra-Java 500 kV High Voltage Direct Current (HVDC) Power Transmission Project	<p><b>Impact:</b> The construction of a 500 kV transmission line, submarine cables, and converter stations will allow an export capacity of about 3,000 megawatts (MW) from Sumatra to the Java power grid.</p> <p><b>Major Components:</b> (i) Construction of 600 kilometers (km) of 500 kV HVDC overhead transmission line (400 km on Sumatra and 200 km on Java) and about 40–60 km of submarine cable from power plants of Musi Rawas and Muara Enim in Sumatera Selatan to Java Barat; (ii) construction of two 500 kV converter stations, one on Sumatra and the other on Java (four poles with a capacity of 750 MW each).</p> <p><b>Expected Outputs and Outcomes:</b> Project design agreed between the Indonesian Government and ADB for constructing (i) the +/- 500kV HVDC transmission lines, submarine cables, and converters stations on Java and Sumatra</p>
Support for Capital Market Development Program Cluster II	<p>The reforms under subprogram 2 are to be in line with the Government's agenda for the financial system, in particular the capital market master plan for 2005–2009 and the financial sector policy package. The implementation of the reforms supported under the program and the extent of their effectiveness and sustainability depends not only on the availability of adequate capacity in Bapepam-LK (the capital market and non bank financial institutions supervisory agency), but also in capital market self regulatory organizations (SROs) and in the industry in general. The importance of this capacity-building initiative is recognized by both the Government and the industry.</p> <p><b>Impact:</b> Greater financial sector diversification and resilience through strengthening governance and human resource capacity</p> <p><b>Major Components:</b> (i) Improvements to basic applied research skills in Bapepam-LK, (ii) develop the market surveillance and regulatory skills of Bapepam-LK staff, (iii) curricula for training programs and standards for certification for professionals in fields related to capital markets (e.g., actuaries for general insurance and surveillance training for SRO staff), and (iv) an econometric model and related capacity to improve understanding of the vulnerabilities in the nonbank financial sector by the</p>

	<p>Financial System Stability Forum.</p> <p><b>Outcome:</b> Enhanced industry skills and capacity for capital markets and contractual savings, legal and regulatory environment strengthened and enforcement improved, and long-term investment options increased</p>
Support for Local Government Finance and Governance Reform II	<p><b>Impact:</b> More transparent, efficient, and equitable management and use of public resources</p> <p><b>Major Components:</b> (i) A review to explore further policy options on future status of the Presidential Advisory Body on Decentralization; (ii) study on increasing efficiency in the use of regional government labor resources by determining the wage bill formula and allowing regional government discretion in the use of these funds; (iii) further support for the amendment of sector laws and regulations to make them consistent with new expenditure assignments and other legislation on decentralization; (iv) support to one pilot project in which a creditworthy regional government develops regional bond raising, including training, due diligence studies, and document preparation; (v) pilot testing, roll out, and training for the regional government performance measurement system; (vi) support to restructuring of regional government budgets including closure and privatization of low priority and nonperforming activities and assets, including regional enterprises; and (vii) stock take of the Financial Management Information System in 171 regional governments to recommend options for further expansion.</p> <p><b>Outcome:</b> Improved regional government capacity for governance, financial management, and service delivery</p>
Support to Infrastructure Reform Sector Development Program II	<p><b>Impact:</b> Improvement in the investment climate for infrastructure projects leading to annual average growth rates in excess of 6% through enhanced PPP projects in the infrastructure sector.</p> <p><b>Major components:</b> (i) Provide legal and institutional guidance frameworks for PPP projects to ensure competitive selection of project sponsors, (ii) strengthening of the Working Committee on the Acceleration of Infrastructure Development secretariat to enhance coordination among all line agencies and institutions, (iii) assist in establishing financing mechanisms to support PPP investments in the infrastructure sector.</p> <p><b>Expected outputs and outcomes:</b> The major outputs would include (i) providing additional capacity to the Working Committee on the Acceleration of Infrastructure Development secretariat to evaluate feasibility studies for national and decentralized projects, (ii) identifying quality infrastructure projects that are prepared and executed transparently and expeditiously, and (iii) accelerating private sector participation in large projects to expedite infrastructure development.</p>

ADB = Asian Development Bank, Bappepam-LK = Badan Pengawas Pasar Modal-Lembaga Keuangan (capital market and non bank financial institution supervisory agency), FMSRB = flood management in selected river basins, HVDC = high voltage direct current, kV = kilovolt, MW = megawatt; PFR = periodic financing request, PPP = public-private partnership, SRO = self regulatory organization.

Source: ADB staff.

### UPDATED PRIORITY SECTORS AND THEMES<sup>a</sup>

Priority Sector	Developments since the adoption of the country strategy and program
Agriculture and Natural Resources (CSP heading: Agriculture, Natural Resources, and Environment)	The Government has formulated its response to climate change, which identifies country priorities in the implementation of climate change adaptation and mitigation measures. All ADB activities in the sector will have to align to the Government's plan.
Education	There have been no significant changes since the adoption of the country strategy and program 2006–2009.
Energy	There have been no significant changes since the adoption of the country strategy and program 2006–2009.
Finance	There has been progress on all fronts (banking sector, bond markets, equity markets, mutual fund industry, and pensions) but no significant change since the adoption of the country strategy and program 2006–2009.
Law, Economic Management and Public Policy (CSP heading: Decentralization: Public Financial and Economic Management)	As part of the proposed LGFR 2, a number of important developments have taken place with regard to key decentralization challenges mentioned in the CSP: (i) A government regulation has been passed to address the rapid creation of regional governments. (ii) Significant work is in progress to improve the clarity of expenditure assignments and service responsibilities across levels of government. (iii) Transparency and equalization of the general block grant has improved by the removal of the “hold harmless” clause and by reviewing the formula of basic allocation and fiscal gap. (iv) There is a gradual reduction in levels of central Government funding for devolved functions and an increase in the special allocation fund. (v) The law on regional taxes and charges is being amended to a closed list for regional taxes. (vi) An automated system is being designed to process numerous regional tax law applications. (vii) Initial work started on the devolution of property tax. (viii) Work on improving the monitoring and analyses of regional reserves and surpluses is starting. (ix) MOF has issued guidelines for the issuance of regional government bonds. (x) Review is underway to delink staffing allocation from the general block grant to reform decentralized civil service. (xi) Work on developing human and systems capacity for public financial management is ongoing.
Transport and Communications (CSP heading: Transport Sector)	There have been no significant changes since the adoption of the country strategy and program 2006–2009.
Water Supply, Sanitation, and Waste Management (CSP heading: Urban Infrastructure Sector)	Some of the main hindrances to urgently required investment in urban water supply infrastructure are the loan arrears of water companies (PDAMs) and

	<p>their regional governments. In 2006, MOF issued a regulation for restructuring and rescheduling PDAM loan arrears, which was followed by a pilot program including about 15 PDAMs to prepare for arrears restructuring. While this pilot program continues, MOF has made additional efforts in 2008 to accelerate PDAM arrears restructuring on a wider scale, considering partial forgiveness of penalties and other fees. While this represents an important step forward, restructuring of regional government loan arrears is still in a comparatively early stage. Any donor loan financing for PDAMs, including from ADB, must be channeled through their respective regional governments. One of the main conditions for a subsidiary loan to a regional government is, however, the absence of loan arrears.</p>
<b>Priority Theme</b>	
Governance (CSP heading: Governance and Anticorruption)	There have been no significant changes since the adoption of the country strategy and program 2006–2009.

ADB = Asian Development Bank, CSP = Country Strategy and Program, LGFGR = Local Government Finance and Governance Reform, MDG = Millennium Development Goal, MOF = Ministry of Finance, PDAM = perusahaan daerah air minum (regional water enterprise).

<sup>a</sup> The coverage here will be restricted to the areas of intervention during the COBP period of 2009-2011.

Source: ADB staff.