

**INDONESIA**

**COUNTRY STRATEGY PAPER**

**2002-2006**

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## SUMMARY

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The current political and economic situation of Indonesia is characterised since 1999 by the transition from thirty years of autocratic leadership to a more democratic, pluralistic and open society. The reform process has already made remarkable progress in the field of human rights. The ongoing decentralisation process is a fundamental change to the political and institutional set-up of the country. The main political challenges are the introduction of good governance and the rule of law, the fight against corruption and containing regional unrest.

In economic terms, the country is still struggling to emerge from the 1997-98 crisis. In August 2001 the new Megawati government made rapid progress in re-establishing IMF agreement and disbursements. Declared intentions for economic liberalisation and restructuring continue to be positive – although implementation is still too slow. At around US\$ 135 billions Indonesia's outstanding external debt burden equals its GDP and the economic policy and external payments situation is precarious.

This Country Strategy takes into account main priorities of the Indonesian government; (1) reinforcing good governance and the rule of law, (2) increasing the capacity of regional governments in a framework of decentralisation, (3) alleviating poverty through provision of basic services and increasing employment particularly in rural areas, thus (4) to reduce social unrest. This Country Strategy Paper concurs also with the World Bank Country Assistance Strategy dated February 2001, and the World Bank's November 2001 report "Indonesia: the Imperative for Reform" and simultaneous World Bank report entitled "Poverty Reduction in Indonesia: Constructing a New Strategy".

Over the last 25 years, the EC contribution to development aid for Indonesia amounted to nearly € 300 million. Previous EC co-operation traditionally comprised a basic rural sector project approach with peripheral attention to sectoral policy issues. Failure to address good governance and policy issues mitigated the impact of past aid. Only in the forestry sector has the Commission's past aid addressed policy and governance issues – and this is something upon which to build in future.

In its "Communication on Indonesia" (in March 2000), the Commission recognised the need to re-assess and up-grade relations between EU and Indonesia; through an enhanced political dialogue, promotion of trade and investment, and increased development assistance to be framed in a clearer policy framework to reinforce development impact and poverty reduction.

This CSP, drafted after dialogue with the Indonesian authorities, civil society, and other donors introduces a sector-focussed programme. This should improve the impact of the EU aid by setting it into a clearer policy framework and thus also achieve a higher visibility and impact for the European Union's support to Indonesia.

It is proposed to concentrate future EC co-operation assistance on two sectors:

- **good governance**, including economic liberalisation, democratisation, and public administration with a particular accent on provision of basic health and education services to the poor to enhance poverty reduction,

- the preservation and **sustainable management of natural resources** (forests, water, communities and environmental) in rural areas.

The good governance and the natural resources/forestry/water sectors are interconnected and interdependent through such policy issues as; land rights, illegal logging, and the respect of the human rights of the poor and local communities in rural areas. Provision of basic health and education services will become an increasingly critical part of Indonesia's poverty reduction programme – especially since decentralisation to the regions will mean that quality assurance and delivery systems may become more fragmented and vary from region to region. In order to reinforce the consolidation of democratisation and civil society the private sector will also be promoted. Economic growth is a pre-condition to enhancing Indonesia's self-sustaining and self-financing poverty reduction in the long term. In this framework a closer synergy with aspects of Indonesia's commercial relations with the European Union including economic co-operation and Trade-Related Technical Assistance will be envisaged.

Key developmental **cross-cutting issues** that will be taken into account throughout the whole programme to address the overarching objectives of development co-operation are: poverty alleviation, capacity building, human resources development, environment, civil society, gender, human rights and conflict prevention.

The EC budget for co-operation assistance to Indonesia is expected to be **€ 216 millions (€ 188m. B7-300; and €28m. B7-301)** for the five-year period 2002-2006. Given the diversity of Indonesia's needs, additional amounts from horizontal thematic budget lines such as, for example; for aid to uprooted peoples, emergency aid, democratisation, tropical forests, NGOs, and the conflict prevention and rapid reaction mechanisms may also be made available, as appropriate. In addition, Indonesia is one of twenty-nine 'focus' countries in the 2002 EC programme for the European Initiative for Democracy and Human Rights with an indicative programmed amount of **€2,5m.** (These indications do not pre-empt the powers of the European Union's budgetary authorities.)

### **INDONESIA AT A GLANCE**

<b>Land area</b>	<b>Population</b>	<b>Population density</b>
1,919,440 sq. km 18,000 islands Geographic spread as wide as Western Europe	approx. 215 million (2000)	116.2 sq. km
<b>Population of capital city Jakarta:</b> 10.2 million (2001 est.)		
<b>Annual population growth rate (% per year):</b> 1.6% (2001 est.)		

## Political Situation

Former colonial territory and part of the Dutch empire until independence in 1945 under the leadership of Soekarno. His rule was followed by decades of authoritarian rule by President Soeharto, who allowed technocrats to run the economy with considerable success, but with scant regard for human rights and democracy. As a result, Indonesia emerged as one of the “tiger” economies in Asia, and as a pillar of stability for the entire region. This economic success was hampered, however, by domestic political issues. Soeharto’s policy of allowing army involvement at all levels of government down to village level did not adequately subject the army to civilian rule. Aspects of the structures fostered corruption. Furthermore, his “transmigration” programmes were responsible for fanning ethnic conflict. Following the mid 1997 Asian economic crisis, Indonesia began to appear less stable. Indonesia has seen unprecedented turmoil over the past four years: the Asian financial crisis; the fall of President Soeharto after 32 years in office; the first “free” elections in 1999; the loss of East Timor; independence demands from restive provinces; bloody inter-ethnic and religious conflicts; and unresolved corruption scandals came to surface. It is hoped that the current President, Mrs. Megawati Soekarnoputri, will spearhead the much-needed national reforms to get Indonesia’s economy, and its political transition to a more open and democratic style polity, back on track. Current issues Indonesia faces are: implementing IMF-mandated reforms for the state enterprise and banking sector; effecting a transition to a popularly elected government after four decades of authoritarianism; addressing charges of cronyism and corruption; holding the military accountable for human rights violations; and resolving growing separatist pressures in Aceh and Papua (Irian Jaya).

## Economic Summary<sup>1</sup>

Indicators	Pre-Crisis	During Crisis		After Crisis	
	1996	1997	1998	1999	2000
<b>Real GDP growth (% change YOY)</b>	8.0	4.0	-14.0	1.0	4.8
<b>GDP US\$ billion (p.p.p.)</b>	227.4	215.8	98.8	142.5	153.3
<b>Real GDP per capita (US\$)</b>	1,160	1,080	480	680	720
<b>Inflation (annual %)</b>	9.0	13	73	17	3.7
<b>Exports US\$ billions</b>	49.8	53.44	48.84	48.67	62.12
<b>Imports US\$ billions</b>	42.93	41.69	27.34	24.00	33.51

<sup>1</sup> Source: World Bank Report/Nov 2000 “Indonesia: The Imperative Reform”  
World Bank Development Indicators and latest IMF and ADB figures

<b>Overall budget deficit, including grants (% of GDP)</b>	1.2%	-	-	-1.1%	-2.6%
<b>Private Capital Flows net US\$ millions</b>	11,511	-338	- 13,846	-9,923	-9,516
<b>Total external debt US\$ billions</b>	128.93	136.16	151.23	150.99 0	141.95 1

### **Economic Situation**

Indonesia, a vast polyglot nation, faces severe political and economic problems stemming from secessionist movements and the low level of security in the regions, the lack of reliable legal recourse in contract disputes, corruption, weaknesses in the banking system, and strained relations with the IMF. Until mid-1997, the economy had been growing rapidly for 30 years, with annual GDP growth of 5-7%. The Asian economic crisis that started in 1997 and the subsequent economic and political turmoil in 1998 has reversed this pattern of economic growth, and resulted in Indonesia seeking assistance from the International Monetary Fund (IMF) in return for significant economic and other structural reforms. In 1998, inflation was running at 70%, the rupiah had, at one stage, lost 80% of its value against other currencies. Bank interest rates reached close to 70% and trading in many sectors of the economy came to a standstill. As a result, the country's GDP shrank by almost 14% in 1998. This trend was gradually reversed in 1999 and 2000. Inflation has been contained within reasonable levels and GDP grew modestly at around 1% in 1999. Indications are that the crisis has bottomed out at a macro level. However, much remains to be done at the macro and micro level. Indonesia's policy reforms after letters of intent with the IMF have started to help Indonesia deal with the economic crisis, and they spell out the government's intentions on key macro economic, fiscal and judicial issues and structural reforms across key industries and sectors. Investor confidence remains low, however, not enough new jobs are being created. Growth of 5% recorded in 2000 has been attributed to favourable short-term factors, including high world oil prices, a surge in non-oil exports, and increased domestic demand for consumer durables. Outstanding external debt at US\$ 135 billions (2001) expected. (debt service US\$ 22 billion in 2002) is huge and will require rescheduling.

### **Selected Social Indicators<sup>2</sup>**

<b>Indicators</b>	<b>Before Crisis</b>		<b>During Crisis</b>		<b>After Crisis</b>	
	<b>1975</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Life expectancy at birth</b>	47.9	63.2	-	65	65.5	68

<sup>2</sup> Sources: World Bank Report/Nov 2001 "Indonesia: The Imperative Reform".  
World Bank Report/Oct 2001 "Indonesia: Constructing a New Strategic Poverty Reduction".  
World Development Indicators and latest UNICEF figures.

<b>Infant mortality (per 1000 live births)</b>	118	56.0	52	-	46.0	44.0
<b>Mortality rate of children &lt; 5 yr. old per 1000)</b>	125 (1980)	70.4	56	52	59.6	44.7
<b>Adult literacy rate</b>	69% (1980)	85.3	-	-	88.4	88.6
<b>Elementary school net enrolment ratio (% of group)</b>	Primary school (net) 75.6	94.8	-	-	92.7	94.9
<b>Junior high school net enrolment ratio (% of group)</b>	Secondary school (net)	48.6	-	-	59.2	60.8
<b>Senior high school net enrolment ratio (% of group)</b>	-	-	-	-	38.5	39.8
<b>Poverty (head count index) %</b>	64.3	11.4 (1995)	11%	-	27%	-
<b>Number of people under poverty line (millions)</b>	-	34.5/a	-	-	48.4/a <sup>3</sup>	-

## 1. EU CO-OPERATION OBJECTIVES

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**The legal basis.** Article 177 of the EU Treaty sets out the three broad objectives for Community development co-operation. These are; the fostering of sustainable economic and social development; poverty reduction; and, the integration of the developing countries into the world economy. Community policy should also contribute to the general objective of developing and consolidating democracy and the rule of law and encouraging the respect of human rights and fundamental freedoms. The concept of sustainable development is an over-riding co-operation objective. It combines economic growth, poverty reduction, good governance, social development and environmental conservation. It is therefore distinctly greater than traditional project-based development and implies a sectoral, policy-framed approach – which is proposed in this CSP for Indonesia.

<sup>3</sup> Using Susenas 1998 definition of the poverty line (the “new” definition)

Indonesia is signatory to the 1980 Co-operation Agreement between the European Community and the ASEAN countries. The Agreement covers trade, economic co-operation and development as a basis for institutionalised dialogue. There is no bilateral Co-operation Agreement with Indonesia, however, the Council's ALA Regulation<sup>4</sup> applies to Indonesia.

**The Communication.** Since 1997 and especially 1999, Indonesia has seen fundamental changes, including the Asian financial crisis, the fall of the Soeharto regime, the introduction of a democratic government and administrative decentralisation, and the separation of East Timor. Therefore, the Commission has reviewed bilateral relations in a Communication to the Council and to the European Parliament on "Developing Closer Relations between Indonesia and the European Union"<sup>5</sup>. This Communication provided a comprehensive re-assessment of EC-Indonesia co-operation. The document identified significant past achievements, such as poverty alleviation 1975-1996, progress towards democracy beginning in 1999, increased school attendance and family planning, and recalls the fundamental changes necessary, following the impact of the Asian crisis and the political transformation. It suggests focusing the EU's approach on four basic objectives:

- (1) Establishment of a comprehensive political dialogue to reflect Indonesia's role as an important partner for the EU, and a re-emerging major player in the security and stability in the region. A dialogue would support the anchoring of democracy and would involve the promotion of human rights, the rule of law, good governance, and internal dialogue and reconciliation within the country.
- (2) The Union should intensify its trade and investment relations with Indonesia and support the process of restructuring Indonesia's economy.
- (3) Any future strategy to strengthen links with Indonesia should aim to raise the EU's profile in the country.
- (4) The EU contributes to the sustainable development of Indonesia through its co-operation instruments. Particular attention should be paid to addressing the needs of poorer target groups suffering from the impact of the crisis and needing assistance in poverty alleviation, and to the sustainable management of natural resources.

The Country Strategy outlined in this Paper is therefore focussed on these objectives.

It is proposed that the Commission, EU Member States, private sector, other donors, and civil society should pursue the above approach in partnership with Indonesia, with the following specific parameters:

- A sufficiently flexible approach, to enable the EC to respond to Indonesia's rapidly changing and unpredictable needs,
- An approach co-ordinated with that of the EU Member States and other development agencies,

<sup>4</sup> Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America

<sup>5</sup> COM (2000) 50, dated 02.02.2000

- Consistency with the governmental decentralisation process currently underway in Indonesia,
- Within budgetary limits, an upgraded level of EC development co-operation, more consistent with Indonesia's needs, supported by economic co-operation, and,
- A programme directed at maximising the value and contribution of the Government's sectoral policies.

Based on the Commission's Communication on Indonesia, the Council released its conclusions in March 2000. And a year later, in May 2001, the Council reassessed and re-asserted its findings<sup>6</sup>. It is against this background that the strategy of EU co-operation with Indonesia is proposed.

**Objectives** for the coming five years 2002-2006 are therefore:

- Intensification of a comprehensive European Union **dialogue** with Indonesia, particularly as regards **good governance and human rights**;
- Assistance in development particularly as regards **forestry, water environmental resources**, and the provision of **health and other basic services to the poor** reducing barriers to utilisation of existing services, and increasing their responsiveness for the needs of the poor;
- Support to **trade and investment** in a framework of more intensive **economic co-operation with the European Union** and,
- To achieve a **higher visibility** for both European Union aid and the **European Union as an economic, and political partner for Indonesia** - commensurate with the scale of EU trade and finance for Indonesia.

## **2. INDONESIA'S POLICY AGENDA**

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**Aims and objectives of the government.** The government's agenda must be placed in the increasingly challenging economic and political context since 1996 characterised by:

- severe economic downturn: since the 1997/98 Asian economic crisis the structural weaknesses in the Indonesian economy have become more apparent,
- declining social conditions: economic stress since 1997 has set back social conditions to pre-crisis levels and halted previous positive trends in poverty reduction, and,
- since the elections of June 1999 democratic principles and institutions have begun to be introduced, but their consolidation is not yet complete and recent gains need to be preserved and built upon.

As a result, the government has placed the promotion of good governance and sound development and economic management policies high on the reform agenda. But it is still struggling with the practical consequences of their implementation. The consequent

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<sup>6</sup> See annexes 4 and 5

mix for cross-sectoral priorities for national development comprises several policy challenges.

**reinforcing the rule of law**, fighting corruption at the top, and insecurity at the bottom;

**increasing the capacity of regional governments**<sup>7</sup>: shifting of expenditure responsibility and associated revenue to the regions;

**reducing social unrest**: dealing with social problems in a responsible way respecting human rights; and,

**alleviating poverty and increasing employment** by: a) promoting economic opportunities (particularly employment creation), b) empowering the poor (through sustainable rural development), and, c) enhancing the effectiveness of the social safety net (with improved social indicators in health, education, nutrition, upgraded health services and access to clean water as benchmarks), by encouraging,

**economic growth in a context of liberalisation.**

**National Development Programme.** The Indonesian government proposes to achieve its objectives by implementing a national programme (*Propenas, program pembangunan nasional*), the final version of which for 2000-2004 was adopted as a law<sup>8</sup>. The *Propenas* openly addresses the political challenges: social conflicts, emerging symptoms of national disintegration, weak enforcement of law and human rights, slow economic recovery, declining level of social welfare, and slow progress of decentralisation. It then identifies the national priorities for development.

**Link with poverty reduction strategy (PRSP).** The World Bank, as Indonesia's leading development finance partner, released its Country Assistance Strategy (CAS)<sup>9</sup> in February 2001, and then at the 7/8 November 2001 CGI in Jakarta, its reports "Indonesia: The Imperative for reform", and 23028 "Indonesia: Constructing a New Strategy for Poverty Reduction" were also made available. It is the European Commission's clear objective to work within the relevant national policy framework, based on the February 2001 CAS, and the above-referenced reports to the November 2001 CGI.

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<sup>7</sup> Throughout this document, the term "Regional government" refers to both provincial and district administrations.

<sup>8</sup> Article 3 of the 1945 Constitution mandates the People's Consultative Assembly to issue State Policy Guidelines. On this basis, the National Development Planning Agency (*Bappenas*) developed the *Propenas*, which in turn was adopted as law no. 25/2000. For the full text see [www.bappenas.go.id](http://www.bappenas.go.id).

<sup>9</sup> Memorandum of the President of the IBRD, the IDA and the IFC to the Executive Directors on a Country Assistance Strategy of the World Bank Group for Indonesia, 8 February 2001, Report no. 21580-IND; for the full text see <http://wbln0018.worldbank.org/eap/eap.nsf>, see also under 4.3

### 3. COUNTRY ANALYSIS

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#### 3.1 POLITICAL SITUATION

**General.** Political instability has resulted from the transition since 1999 from a decades-old autocratic regime towards a more representative democracy. While strategically positive, this process has brought institutional and capacity weaknesses to the surface. This fragile situation translates into a threat to national coherence. Besides maintaining territorial integrity the government is challenged at the same time to maintain the pace of political, administrative and economic reform. For some years to come, the reform agenda will profoundly occupy the political process.

**Human rights.** Since the downfall of President Soeharto following the 1998 Asian economic crisis and subsequent free elections in 1999, there has been remarkable progress in the implementation of democratic rights and civil liberties. It includes pre-conditions for free media; the absence of political prisoners; the separation of the police from the military; a civilian minister for defence; and a human rights agenda including investigation of past violations of human rights. Despite regional problems, a flourishing civil society ensures effective human rights transparency, although monitoring and follow-up needs to be improved. Although Indonesia adheres to several international human rights instruments<sup>10</sup>, the complete practical implementation of their guidelines still lags behind the declared intentions of the government. Particular weaknesses persist, e.g. in the judiciary<sup>11</sup> and in the lack of full civilian control of the military.

**Decentralisation.** The importance to the political, economic and social future of the country of the process of decentralisation that began in 1999 cannot be overestimated. Since January 2001, provinces (*propinsi*) and districts (*kabupaten*) have been given power to identify their own priorities. Most importantly, as a result of decentralisation, financial, administrative and developmental responsibilities are to be mainly with the *kabupaten*. But still, by November 2001, the implementation of administrative decentralisation had not yet reached cruising speed, mostly due to a lack of preparation and a lack of necessary capacities. Over two million civil servants have been decentralised from the national level, but the budgetary and financial management implications of decentralisation have not yet been fully worked out into practice. This, among other things, delays the reform agenda. The transfer of important responsibilities to the districts rather at provincial level should help empower civil society better to control their administration. During 2001 Aceh and Papua (previously Irian Jaya) have

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<sup>10</sup> The Convention on the Rights of the Child (ratified 5 Sept.1990) and its Optional Protocol, the Convention on Elimination of All Forms of Discrimination against Women (13 Sept. 1984), the International Convention on the Elimination of All Forms of Racial Discrimination (25 July 1999), the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (28 Oct. 1998), and ILO Conventions No 182 on the Worst Forms of Child Labour (March 2000) and No 138 on Minimum Age (June 1999).

<sup>11</sup> Legislative and judicial changes are slow and often not properly sequenced. Some prosecution cases, significant because of their symbolic nature, have been delayed and charges have been dropped, or judges have been changed. Money politics, criticised time and again, seems to continue.

been the subject of radical regional autonomy laws proposed by the government, and finally approved by the parliament, after lengthy debates. Their practical implementation remains a major political and administrative challenge.

The national government, which still plays an essential role in setting development priorities and macro-economic direction, remains the EC's privileged partner in terms of identifying Indonesia's development needs. While the central government signs the agreement with the external donor, a region can now play a larger role in implementing the agreement and for providing counterpart funding – but this still needs to be clarified in practice. The main problems linked to decentralisation are the need to transfer budgetary resources, expertise and human resources and the co-ordination between districts and provinces on cross-border issues. While the process of decentralisation appears both desirable and unavoidable, it might disintegrate the internal market and increase regional disparities in terms of regulation, taxation, wages, prices, public services and development coherence. The ongoing process of decentralisation has yet to prove that it can help to mitigate regional unrest.

**Regional unrest.** Several regional political groups support independence or autonomy for their areas<sup>12</sup>, some of their factions use armed violence, and action by the central government security forces can be insensitive to human rights. Reasons for seeking separation from the central government range from past repressive policies to the desire to keep revenues from the exploitation of natural resources in the region. Generally, none of these movements, nor their political goals, enjoys international support and this is not expected to change. The successful practical implementation of regional autonomy legislation for Aceh and Papua (previously Irian Jaya) will be a key indicator of progress in this regard.

In other regions, conflicts have appeared as a result of earlier policies, like for example, internal resettlement (*transmigrasi*) to the Kalimantan and Madura. Another case is West Timor with about 80,000 remaining displaced persons as a consequence of the separation of East Timor in 1999. Altogether, in November 2001, Indonesia counted about 1 million internally displaced persons, for whom the central Government is ultimately responsible but in many instances unable to provide.

**International relations.** In the past, Indonesia, was the leading regional power, and actively contributed to stable relations in the region<sup>13</sup>. Since 1998-1999, because of the economic crisis and internal difficulties, Indonesia's external leadership has become less consistent, depending to a certain extent on international political support. The international community has been explicit about its continued support to Indonesia's territorial integrity.<sup>14</sup> This has been re-emphasised following the events of September 11, 2001, given Indonesia's Moslem majority, and taking into account the Megawati government's delicate position and its pragmatic support for the struggle against international terrorism. It has been asserted that Jakarta will continue to enjoy the support of its partners, as long as the "fundamentals" of a democratic system are still in

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<sup>12</sup> Such as the Free Papua Movement (OPM – *Organisasi Papua Merdeka*), Free Aceh Movement (GAM – *Gerakan Aceh Merdeka*).

<sup>13</sup> e.g. as a founding member of the NAM (1955), of ASEAN (1967), with pro-active policies in AFTA, the ARF, APEC and ASEM.

<sup>14</sup> See Conclusions of the General Affairs Council of 14-15 May 2001, annex 5.

progress of being put into place. Reconciliation with East Timor – on a broad basis – will be important for domestic and regional reasons and seems to be progressing well at least at the level of the respective political leaderships, although resolution of outstanding human rights cases in the courts is still too slow.

## 3.2 ECONOMIC AND SOCIAL SITUATION

### 3.2.1 STRUCTURE AND PERFORMANCE

**Before the Crisis.** Indonesia's economy grew impressively from the 1970s to the mid-1990s. Before the financial crisis of 1997-98, GDP was growing continuously at an average of almost 7% over a 30-year period. Annual per capita income rose from \$ 50 to around \$ 1000 – a material increase in the standard of living and a significant reduction of poverty. Massive external aid, export revenues from oil and gas, and inward private investment and capital flows financed these positive developments – despite many structural deficiencies and imbalances remaining in the economy. Indonesia had an economy regularly at the top of the world's economic growth rate tables.

**The Crisis.** The deep and prolonged Asian crisis in 1997-98 hit Indonesia very hard and halted decades of economic growth bringing long-standing structural weaknesses to the fore. In 1998 GDP declined by 14%, and in 1999 it increased by only 1%. The overall head count expenditure poverty rate at least doubled from a previous low of 13% (in February 1997) to over 27% at end-1999. Moreover, up to 60% of Indonesians after the crisis were facing a greater chance of periodically experiencing extreme poverty.<sup>15</sup> Although since 1999 the steep fall in rice prices has cushioned the impact on rural income and poverty levels.

**Recovery?** Some early signs of macro-economic recovery emerged in 1999 and 2000. GDP growth in 2000 reached about 4.8%, but is projected to be only around 3% per year for 2001 and 2002. Current trends include a weakening of the earlier strong export performance and inflation likely to accelerate, as well as increased pressure on the budget, with the need to control spending and increase revenues – complicated by the implications of the decentralisation process. Dwindling confidence in the *reformasi* government has partly translated into continued economic instability and a downward pressure on the Rupiah. Net direct foreign capital flows and private investment were still negative in 2000, indicating net capital outflows. Immediately after the installation of the new Megawati government its rapid agreement in August 2001 of a new Letter of Intent with the IMF led to a brief rally in sentiment and in the Indonesian Rupiah. But the grave uncertainties of September 2001 combined with a lack of real progress in implementing Indonesian policy reforms led to a rapid depreciation back to the levels of July 2001 (I.R.10,800 = US\$1). The overhang of external debt is huge. At end-2001 US\$ 135+ billions will be owed externally by Indonesia and debt service in 2002 is projected at US\$ 22 billions – which will require debt rescheduling – and still remain a drain on Indonesia's finances. In the context of the present gloomy world economy the mid-term

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<sup>15</sup> Annex 1 taken from the most recent World Bank reports: No. 23093-IND: Indonesia: The Imperative for reform; and No. 23028-IND: Indonesia: Constructing a new Strategy for Poverty Reduction, distributed to the 7/8 November 2001 CGI in Jakarta provides a summary of Economic and Social Indicators for Indonesia.

economic outlook for Indonesia is for an oscillating performance and precarious economic stability.

**Structural aspects of poverty.** For much of the early period since independence, prosperity gains also trickled down somewhat to rural areas, as agriculture was still the most important employer. The rural elite prospered through their control of land and through their success as crop exporters. Later with industrialisation in the cities, however, wealth has shifted to urban areas of Java and Bali, being derived from manufacturing, infrastructure projects, and the services sector – and from the margins from trading and arbitrage. Overall inequality of income distribution is lower in Indonesia than in other SE-Asian countries, largely because Indonesia's wealth is still very concentrated on a small proportion of the population who are very rich indeed. National surveys show that differences in income and expenditure are greater within given provinces than between provinces. On average, rural households dispose of only half the income of urban ones.

**Rural population falling behind.** Most of the rural population currently still relies on subsistence farming, with uncertain and low incomes. In addition, the infrastructure of rural areas is lagging behind that of urban areas, due to their less competitive employment and business activities that generate insufficient income, inadequate education and health conditions, low level of housing facilities, water and sanitation<sup>16</sup>. While overexploitation of forests and their disappearance, the loss of biodiversity, and the alienation of traditional land rights, and displacement of poor rural communities are threatening the livelihood of millions of poor rural citizens.

### 3.2.2 SOCIAL DEVELOPMENTS

**Past achievement.** Thirty years of sustained, albeit unevenly distributed, economic growth has resulted in widespread social achievements. This has been manifested in an overall reduction of the poverty head count index from 64% in 1975 to 11% in 1995, a halving of the child mortality rate (118>51 per 1000 in the same period), and a rise in life expectancy from 47 to 65 years between 1975 and 1996. Considerable progress was achieved in food security<sup>17</sup>, child and maternal care, and delivery of health services, access to clean water, availability of family planning, access to elementary schools and increases in literacy rates. (See Annex 1 for more statistical details).

**Demographic challenges.** Despite a falling rate in population growth<sup>18</sup>, the annual increase of +3-3.2 million persons poses a serious challenge for employment, wealth- and welfare-creation. The cities are under an increasing strain to provide education and health services for their 100 million citizens. It is recognised that only an annual GDP growth rate of more than 5% is necessary allow new entrants into the labour market to be absorbed by new job creation – and present economic growth rates at around 3% per annum for 2001 and 2002 are inadequate to achieve this.

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<sup>16</sup> For details see *Proopenas*, chapter IX on Rural development, and the World Bank report on "Constructing a New Strategy for Poverty Reduction in Indonesia".

<sup>17</sup> Including self-sustainability in rice since 1995, leading the WFP to close its operations in Indonesia.

<sup>18</sup> During the 1980s: 2.1%, 1999: 1.5%, 2005: est. 1.4%

**The Social Impact of the Asian Crisis.** The effect of the crisis in Indonesia on the poor and vulnerable was significant. The considerable social gains of the past thirty years are in danger of being reversed. Before the 1997-1998 crisis, poverty had decreased in absolute and relative numbers, but World Bank estimates show that the proportion and number of poor more than doubled after the crisis from about 11% of the population in 1996 to 27% in 1999<sup>19</sup> and the impact of the crisis on the urban poor is accelerating the development of a chronic, urban underclass with concomitant security concerns. However, poverty in rural areas is three times the rate in urban areas. 8% of Indonesians earn less than US\$ 1 equivalent per day, and around 60% of Indonesians earn less than US\$ 2 equivalent per day. Moreover, the declining nutritional status of children, especially in poor, rural areas, remains a pressing concern.

**Social Services and Health.** Poor health keeps or draws poor segments of society in absolute poverty. There is a need to re-focus health care back onto primary care and health education and prevention measures rather than curative action with its higher unit costs. During the 1997-98 crisis, the government focused on the availability of medication and on the Social Safety Net. But comparatively, Indonesia's public health expenditures are still far below Asian standards. Indonesia spends around 0,7% of GDP on public health, less than half the average spent in other Asian countries, and less than one tenth of that spent by much richer developed economies. Yet the richest 20% of the Indonesian population is three times more likely to use the free public health facilities than the poorest 20% of the population.

Major sector challenges are: (i) *Responsiveness*: inefficient use of health services because these do not respond to expectations, under-utilisation of facilities (pointing to insufficient central planning). The quality of PHC is (perceived to be) poor, which also has to do with pay and incentive schemes, and – due to past centralisation – with little influence on human resource management. (ii) *Fair financing*. Financial accessibility to quality services is a major problem for the poor; major or catastrophic illness draws poor families into absolute poverty. 85% of the population have no insurance coverage. (iii) *Decentralisation*. The role of the provinces vis-à-vis the central health ministry has to be defined; (iv) *Civil Society Involvement* is demanding quality care, as well as regulation and integration of *private service providers*.

**Education.** Over the past two decades, Indonesians have attained higher educational levels<sup>20</sup>, with significant gains for women and children. Since the mid-60s, the government embarked on an ambitious programme to build elementary schools in even the most remote areas. Enrolment in primary schools has become remarkably high and there has been a marked increase in secondary school enrolment. Despite these achievements, some deficiencies should be noted: the poor quality and relevance of the education offered in many elementary schools, gaps in access to basic secondary education, the inefficient management, outdated teaching methods and a lack of parent involvement in their children's education.

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<sup>19</sup> "Indonesia: Constructing a New Strategy for Poverty Reduction", World Bank, October, 2001, poverty head count index.

<sup>20</sup> For details on educational problems see Bappenas and UNICEF (ed.), *Challenges for a New Generation: The Situation of Children and Women in Indonesia*, Jakarta, September 2000.

**Regional Disparities.** All statistical data points to considerably lower availability and standards of social services in rural areas, especially in the Eastern provinces (Nusa Tenggara Barat, Nusa Tenggara Timur, Maluku, Maluku Utara, Papua (=Irian Jaya) which rank well below the national average in terms of all available development and social indicators, particularly of health and education. For this very reason, the National Development Programme puts special emphasis on accelerated development of the Eastern part of Indonesia, the border regions and other less developed rural areas.

**Gender issues.** Simple generalisations should not be made about Indonesian (or any) women. While men and women legally enjoy equal rights, the possibilities for women, especially in rural areas and as workers in industry, are not satisfactory. On the other hand, women occupy important posts in the administration and in business. Religious issues constrain the status of women less in Indonesia than elsewhere in Asia.

### 3.2.3 THE REFORM PROCESS

The post-Soeharto governments have initiated ambitious reform programmes that include the political, administrative spheres and economic restructuring. Virtually every institution in the government will undergo transformation and a radical programme of private sector industrial, and financial sector bank, restructuring is under way.

**Economic restructuring.** The government is aware of, and trying to address the interdependence between the economic reform process, and political stability and governance reforms.

Since October 1997– together with the IMF – Indonesia has formulated the agenda for economic reform in several Letters of Intent, the most recent dating from August 2001. The detailed reform programmes contain strict targets, requiring legal, institutional and bureaucratic support. Such conditions are hard to agree politically and hard to fulfil. The benchmarks and conditionalities of progress, required by international financing institutions to extend their support, are debated and disputed in the government and parliament. The current proposal to eliminate energy subsidies at end-2001 –anyway they tended to benefit the richer middle classes – is a recent example.

Since 1999, some progress has been made. Bank and corporate restructuring have begun and continued, although at a slow pace, through the Indonesian Bank Restructuring Agency (IBRA). Corruption, an endemic “structural” problem, has always been a commonly known feature in Indonesia’s public sector and in its public businesses. But it has now become more openly discussed (such as in the November 2001 CGI where civil society representatives also participated). But growing social and political disorder, and the decentralisation process may in fact offer new opportunities for corruption.

As to restructuring the corporate debt burden, Indonesia turned to the IMF for assistance. So far, however, restructuring of the financial sector has only just started. The IBRA has acquired (effectively nationalised) 70% of the assets of the banks and large industrial companies and has only just begun to restructure and to privatise them. Meanwhile since 1997 the SME sector has flourished during the crisis years, underpinning growth and remarkable export performance in the period 1998-2000.

### 3.2.4 PUBLIC FINANCE AND SECTORAL POLICIES

The structure of revenues is based mainly on indirect taxes. Food and petroleum subsidies and subsidised electric power to households pose heavy burdens on public finances. But the IMF has insisted on the reduction of energy subsidies as a condition of its latest facilities. The huge public sector, employing over four million civil servants, amounts to 20% of the GDP (2000). The budget deficit is regularly financed by international aid, both through programme and project aid. Pledges recently at the November 2001 CGI in Jakarta were for US\$ 3,14 billions of official aid flows in fiscal 2002.

Before the crisis, Indonesia had already built up an unsustainable level of private and public external debt. But the crisis exacerbated the problem of massive corporate debt, (and since 1997 the government has also resorted to local borrowing). The lack of appropriate institutional and legal frameworks, especially ineffective bankruptcy mechanisms and a hardly credible court system are not helpful in solving the problem of restructuring and refinancing corporate debt. Private and public external debt will be around US\$ 135 billions (80+55) at end-2001<sup>21</sup>. And public domestic debt service is an additional burden on public finances.

The prolonged economic crisis, along with the non-economic factors like political uncertainty, ineffective bankruptcy laws and security concerns, has damaged the Indonesian banking sector that was already in frail health before the crisis. The government-sponsored programme – a difficult and costly process being undertaken through the Indonesian Bank Restructuring Agency– to restructure the sector, will take years to be completed. The total cost has been estimated at between 50 and 100 % of GDP i.e. between US\$ 75 and 150-180 billions. Significant receipts from privatisations are crucial to future public budgetary balance, but privatisation is proceeding very slowly and at prices that can be as little as 25% of the government's expectations.

### **3.2.5 EXTERNAL ENVIRONMENT**

Indonesia was the object of WTO trade policy reviews in 1998 and in 2000. Indonesia is a member of ASEAN<sup>22</sup>. In 1992, the ASEAN members launched AFTA, the ASEAN Free Trade Area, to ensure the liberalisation of trade within the region. Some members are encountering difficulties in meeting the ambitious liberalisation goals in some protected sectors. By 2002, when most tariffs are supposed to be removed within ASEAN, intra-ASEAN trade may absorb an increasing share of Indonesian exports, currently representing only 12.2 % of its total exports and being its fourth export market. Indonesia is a member of APEC<sup>23</sup>. In 1998 its 21 member economies had a combined GDP of over € 16 trillion and represented 42 % of global trade. In 1994, APEC members agreed to achieve free and open trade and investment in the region by no later than 2010 for the industrialised economies and 2020 for developing economies. Priority areas, such as encouraging non-fossil fuel energies, have been identified at ASEAN level

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<sup>21</sup> See World Bank Report "Indonesia: The Imperative for Reform".

<sup>22</sup> Association of South-East Asian Nations.

<sup>23</sup> Asia-Pacific Economic Co-operation, established in 1989; members are Canada, Chile, Australia, Brunei Darussalam, PR China, Hong Kong, Indonesia, Japan, Mexico, South Korea, Malaysia, Mexico, New Zealand, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the USA, and Vietnam.

which produce useful pointers to the Indonesian authorities in sectors important to EU-Indonesian co-operation.

The EU is the second largest export market of Indonesia and the biggest investor. The European Union has been instrumental in reducing the impact of the Asian financial crisis on the Indonesian economy by absorbing a substantial and increasing share of the burgeoning exports from the flourishing non-oil and gas SME private sector. Indonesian trade with the EU has rapidly moved from broad balance in the years up to 1997 towards a surplus of US\$ 4,5 billion in favour of Indonesia in 2000. (Although recent statistics show Indonesian exports and the surplus with the EU moderating during 2001.)

### 3.3 SUSTAINABILITY OF CURRENT POLICIES

**Fiscal sustainability.** The crisis has led to a sharp increase in government debt (domestic and external) and created a major challenge for fiscal sustainability in the short to medium term. In 2000, the ratio of government-debt to GDP was around 100 %, and 40% of total government revenues went to debt service. Under pessimistic scenarios, the magnitude of government debt could increase even further.<sup>24</sup>

**Budgetary discipline.** The politically sensitive issue of cutting domestic fuel subsidies and increasing fuel and electricity prices is on the agenda for end-2001. Another important issue, the impact of decentralisation on the budget, is being felt already at regional level in the competition between recurrent (staff) and development expenditures. And in coming months and years, as an increasing amount of revenues will be withheld by regional and local governments, the decreasing revenues for the central government, at a time when expectations of its performance are increasing, will have important and unpredictable political consequences.

**Environmental issues.** As one of the most populous countries in the world, Indonesia is a key country in global environmental issues and MEA's. While Indonesia is endowed with enormous natural resources, its environmental problems are also huge. Forestry (see below), agriculture, fishery/marine environment, and urban development (urban pollution) are the areas most affected by either poor legislation or weak or non-existent law enforcement. The government has admittedly shown its readiness to tackle these problems, but implementation lags far behind declared intentions. Sustained donor pressure, especially in the forestry sector, will be a key element in the future.

**Forest issues.** High and conflicting stakes in terms of government credibility, the threatened supremacy of law, significant economic interests, environmental degradation and vital interests of local residents mean that Indonesia's forests are managed less sustainably than ever before. The amount of illegal logging is still growing. At present, Indonesia is losing forests at the rate of 1.7 million ha. per year. At this rate within 10-15 years there will be no virgin forest left. This does not include forests already degraded but not yet totally deforested. More timber is exploited illegally than legally<sup>25</sup>.

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<sup>24</sup> See World Bank, Report November 2001, "Indonesia: The Imperative for Reform".

<sup>25</sup> By definition, illegal logging refers to logging carried out against the laws of the respective country. Legal logging, therefore, is not necessarily sustainable but at least it meets a country's own criteria of legality.

The capacity of the timber industry, particularly in saw and pulp mills, has increased beyond forest sustainability. Forest fires, often set off to clear land for conversion, contribute to the degradation and loss of forested areas, and to atmospheric pollution and “haze” affecting widespread areas of South East Asia.

### 3.4 MEDIUM TERM CHALLENGES

**Stabilisation of the political situation.** Indonesia’s current difficult situation will not be over soon. Vested interests remaining from the era of autocratic government remain influential. As long as the “fundamentals” of a democratic system are still in place – with a government committed to reform – the main challenges are: the perseverance of good governance and the rule of law, the fight against endemic corruption, dealing with regional unrest and violence, and the repositioning of the military. As to decentralisation, the paramount challenge relates to the careful preparation and implementation of the dramatically increased local autonomy. The communication of clear policy directions and guidelines will be most important, thus conveying a strong sense of leadership when difficult decisions have to be explained and implemented.

**Economic reforms and recovery.** In the near future, the economic policy agenda will have to follow the stringent requirements set by the international financial markets, leaving little room for manoeuvre. Economic and fiscal reforms are taking place at the time of massive and rapid political change. Macroeconomic stability must be ensured, with carefully reduced expenditures and a broader tax base, therefore containing inflation and ensuring low interest rates. Improving the performance of the civil service is one most challenging task, as is the continuation of the industrial and financial restructuring and privatisations by the IBRA. At the same time, the extraordinary recent resilience of the SME sector in generating new employment and exports growth despite, and during, the 1997-1999 crisis is something that Indonesian and donor policy-makers can build upon.

**Natural resources.** Indonesia has been overexploiting its natural resources base unsustainably. Until 1997 high GDP growth has been partly at the expense of the stock of natural wealth in terms of forests, soil, and basic mineral resources. The conservation of the environment and the sustainable exploitation of Indonesia’s renewable resources have become a special challenge complicated by the issue of decentralisation. This is particularly valid for the protection and the sustainable development and use of Indonesia’s forests and rural environment. The present rampant illegal logging is destroying an economic base and has serious negative economic and social impacts on the 15-20 million rural poor living in or on the margins of these forests. Moreover, it results in region-wide haze, in the reduction of the water retention capacity of eroded soils, in increased flooding hazards in the wet seasons, and a reduction of the irrigation potential in the dry seasons. Forestry, water and rural socio-economic structures and systems need to be preserved and developed in tandem – with careful assessment of, and attention to, their long term economic values. The loss of bio-diversity, much of it of economic importance, hurts, in particular, the poor.

**Social policies and Health.** In the social sector, the overall challenge consists in making up for lost gains in previous social development, and reforming the health sector in a way that

makes quality services accessible to the poor. The Government of Indonesia has launched a strategy “Healthy Indonesia 2010”. The strategic goal is to achieve universal coverage on an equitable basis. The strategy is based on four pillars: (i) Health promotion, (ii) Professionalism, (iii) Community managed health care and insurance programmes (JPKM), and, (iv) Decentralisation. A key target must be to ensure that a much larger proportion of public health care provision reaches the poor, especially in rural areas.

**Education.** In terms of education, the attempt to improve basic education, across the country but with a focus on the disadvantaged regions, is clearly a main challenge for the government. Linking up with international partners to improve broad academic standards offers opportunities to introduce more equitable and efficient management of education and to develop better curricula.

## **4. PAST AND ONGOING EC CO-OPERATION**

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### **4.1 OVERVIEW**

The EC contribution to development aid in Indonesia during the last 25 years has been about €300 million, over one third of which (€106 millions in the last ten years) was related to the forestry sector.

During the 1980s and the early 1990s, the European Commission’s development co-operation programme focused on support for the Indonesian government’s efforts to maintain self-sufficiency in rice. A more diversified agricultural base was developed. Commission-funded projects consequently focused on irrigation and drainage, production and marketing of seeds for upland crops, animal husbandry, fisheries and rural credit.

Since the mid-1990s, the direct development co-operation between the European Commission and Indonesia has focused on the following priority areas: forestry, water, and support to the social safety network. In addition to development co-operation with the Indonesian government as the main counterpart, the European Commission has implemented a programme providing support to European and Indonesian non-governmental organisations (NGOs). Since 2000, a number of projects have been supported in the field of human rights and democratisation.

### **4.2 PAST EXPERIENCES AND LESSONS**

**Flexible and speedy delivery.** There is a need for more flexibility and to decrease delays between programming of development activities to the identification of projects, their negotiation with the beneficiary and their implementation. The ongoing de-concentration process of the European Commission’s human resources could help in this respect.

**Budgetary constraints.** The limited EC financial aid budgetary resources available - versus the huge scale of the problem in Indonesia - has not permitted a strategically significant EC contribution to Indonesian poverty alleviation at the national level. This will not fundamentally change in the near future, although some increase in funding, compared with pre-crisis levels is envisaged. Therefore, a clear strategic focus primarily

on only a couple of well-defined sectors that are likely to remain a long term priority and targeting pragmatic solutions at local/regional level is required.

**Capacity shortages.** Indonesia continues to lack organisational and management capacity, especially concerning public administration and natural resources management. Furthermore, decentralisation will lead to staff shortages, as there is a strong preference for *putra daerah*<sup>26</sup>. Assisting in the “good governance” of public and semi-public affairs (i.e. support to: public administration, development of community organisations, civil society, co-operatives, local services and NGOs) will be essential. This participatory approach, targeting human development implies a diffuse, slow – and less visible – rate of progress (compared to past classic infrastructure project aid interventions) and implies a sectoral approach.

**Small scale projects.** Local and prompt access to financing is an essential element in stimulating a sense of local ownership in small-scale developments. This component should therefore be given some attention in the future. This type of intervention requires further examination of implementation and delivery procedures, and exit strategies, taking into account regulatory constraints. The Commission itself needs to make sure that its own de-concentration mechanisms respond to this need.

**EU visibility in Indonesia.** Clearly, the major international economic relevance to Indonesia of the EU as a donor, trade partner and investor is not matched by an equivalent conceptualisation of the EU within Indonesia. Relevant information about the EU’s objectives, values, institutions and working methods could begin to fill this gap.

**Economic co-operation.** Apart from the highly successful (and since discontinued) European Community Investment Partners programme (which greatly benefited Indonesia) all the other EC-financed actions within the field of economic co-operation in the past have been financed through regional facilities. These are programmes such as, Asia Invest, IT&C, Asia Link and Asia Urbs. Indonesian Institutions should be encouraged to participate in these programmes. Indonesian projects within the ASEAN-EU University Network Programme also need to be encouraged. But Indonesia has lacked a bi-lateral facility for economic co-operation with the EU. The Commission intends to remedy this lacuna in the period 2002-2006.

**Regional co-operation.** Besides assistance to development, the Commission has regional programmes of economic co-operation. As a signatory to the 1980 co-operation agreement between the ASEAN countries and the EC, Indonesia has consequently also been participating in EC-ASEAN regional programmes, covering energy, environment, transport, education and communication technology. In addition, Indonesia is associated with EC-Asia horizontal co-operation programmes such as Asia-Urbs and Asia-Invest.

The **European Investment Bank** participates in implementing the Union's development aid and co-operation policies through long-term loans from own resources or subordinated loans and risk capital from EU or Member States' budgetary funds. In Indonesia, the EIB has financed the extension of Sumatra’s gas transmission network.

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<sup>26</sup> Officials from the area being preferred over others transferred there.

## **PROGRAMMES OF EU MEMBER STATES AND OTHER DONORS**

**EU Member States** have been involved in development co-operation with Indonesia for decades. In 2000, the total contribution from the Union was of the order of € 215 million, to which the 15 Member States contributed € 182 million and the Commission € 33 million. On the basis of the pledges at the November 2001 Consultative Group International meeting in Jakarta this amount is expected to increase to around € 250 millions in 2002. But this only represents about 8% of the external aid expected to Indonesia in 2002 - nevertheless EC and EU Member States' aid is high in aid element.

The individual EU Member States with the largest external financing pledges for 2002 (in terms of grant content taking no account of export credits) at the CGI in November 2001 were the Netherlands, Germany, and the United Kingdom in that order. Those with the most extensive ongoing development co-operation with Indonesia are also Germany, the Netherlands and United Kingdom, in that order of magnitude.

For Germany, the focus sectors are, since 2000, transport, health including drinking water, economic reform and advice for decentralisation. The United Kingdom has identified three working areas, namely pro-poor policy formulation and budgetary management, governance reforms, and promotion of forest management reforms. The Netherlands gives sectoral support through multinational donors and has decided to make Indonesia a country of co-operation. Netherlands assistance focuses on water management and community services. Other donors among EU Member States include Austria, Belgium, Denmark, Finland, France, Luxembourg, Italy, Spain and Sweden; they operate in forestry, urban water, human rights and democratisation.

### **Other important bilateral and multilateral development partners.**

The largest portion of bilateral and multilateral aid is given in the form of loans and requires counterpart funding. The ongoing decentralisation process is complicating this mechanism since the central government is not giving guarantees for borrowings by regional authorities. Accordingly, grants coming from the Commission and EU member states are particularly important during the decentralisation phase.

Japan is by far the largest bilateral donor. Indonesia is the number one priority country for Japanese ODA and receives more than 40% of its assistance from Japan. Japanese development aid is widely spread among the community development, education, environment and forestry, governance, industry/SME, health, social safety net, water and sanitation sectors. The USA is the second largest bilateral donor to Indonesia. US assistance is focused on democratic reform, decentralisation, economic growth, the energy sector, natural resources management, health of women and children, conflicts and crisis prevention. USAid puts a strong emphasis on channelling assistance through local NGOs and this approach has intensified since the crisis. Indonesia is the second largest recipient of Australian aid. The focus is on education followed by health, governance, rural development and environment. Canada has been a donor in Indonesia for decades and recently the effort has been concentrated on environment (forests), the private sector, good governance, human resources and gender. The World Bank is the leading multilateral donor and, as elsewhere in the world, often sets the policy framework. In line with the approved Country Assistance Strategy (CAS), it focuses on community-based development, anti-corruption measures, poverty reduction, sustaining

economic recovery, national institution building and improvement of public services - all framed within macro-economic and budgetary conditionality. The Asian Development Bank, ADB, is also a key actor and the assistance is mainly carried out in the fields of policy and institutional reforms, decentralisation, poverty reduction, social protection, women's health, education and income. ADB has recently stressed that their approach will give greater focus to specific geographical regions. UNDP has its focus on governance (Partnership for Governance Reform in Indonesia), community initiatives, conflict resolution, and development and environmental management.

Detailed donor matrices are provided in Annex 3 to this document.

## **5. EU RESPONSE STRATEGY**

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### **5.1 PRINCIPLES AND OBJECTIVES**

The **basic principles** underlying future EC development co-operation with Indonesia are laid down in the relevant EU Treaty objectives and in the Commission Communication on Development Policy of April 2000 which give general guidance<sup>27</sup>. The latter document centres Community development policy on poverty reduction, and in particular on six priority areas: (i) trade and development, (ii) regional integration and co-operation, (iii) support for macro-economic policies which are explicitly linked with poverty reduction strategies, (iv) transport, (v) food security and sustainable rural development, (vi) institutional capacity-building, good governance and the rule of law. This Country Strategy is focused on these themes.

More specifically for Indonesia, the Council declarations in 2000 and 2001 (see Annexes 4 and 5) and the Commission's Communication to the Council and to the European Parliament on "Developing Closer Relations between Indonesia and the European Union" provide an agreed and comprehensive re-assessment of future EC-Indonesia co-operation. The Communication identifies the significant past achievements in Indonesia's development and recalls the fundamental changes, following the impact of the Asian crisis and the political transformation<sup>28</sup>. Indonesia's sustainable development must be seen as an equilibrium between good governance, economic growth, social development and environmental conservation conditioned in a sound policy framework (as opposed to "development projects only"). It also takes account of the approach developed in the Commission's Communication of May 2001 on the EU's Role in Promoting Human Rights and Democratisation in Third Countries<sup>29</sup>.

The government's plan for the decentralisation of budgetary responsibility from central government level to the provinces – although actual administrative and management mechanisms are only slowly being put into place. As a result donor co-ordination will

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<sup>27</sup> The European Community's Development Policy, document COM (2000), 212 final.

<sup>28</sup> Since then the resolution of the East Timor issue has helped further improve bilateral political relations.

<sup>29</sup> COM(2001) 252 final of 8 May 2001.

become more difficult and needs to be intensified<sup>30</sup>. The new system will certainly generate a whole series of new priorities and requests for donor support as well as providing a fresh opportunity for institutional development and capacity building within the administration.

**Forecast of future annual commitments.** Total EC financing commitments over the five year period 1995-99 were less than € 98 million. For 2002-2006 an additional effort will be made to upgrade co-operation to a level consistent with Indonesia's needs. In the **period 2002-2006**, based on the extrapolated "indicative multi-annual allocation of resources" of **€ 216 millions for Indonesia, average annual commitments of € 43,2 million are foreseen (budget lines B7-300 AND B7-301)** during the five-year period. (However, this indication should not pre-empt the budgetary authorities' decision-making procedures.)

There will be a shift of the emphasis towards sectoral support. During the major political and economic transition and in light of the move towards a more decentralised administration, the government's sectoral policies will need to be reviewed, amended and in many cases substantially revised. The European Commission's programme can both assist and support this process of policy re-formulation and can support the practical implementation of policies in its target sectors which are to be:

- **good governance**, public administration and the provision of public health and education services to the poor, including support to economic liberalisation linked, as far as is appropriate, with developing trade and investment relations with the EU,
- **natural resources management** (forests, water and rural environment).

Given the scale and diversity of Indonesia's political, economic and development challenges it is also possible, indeed likely, that other thematic sources of EC budgetary funding for actions such as; conflict prevention, rapid reaction, uprooted peoples, emergency aid, tropical forests, and democratisation, *inter alia*, as well as ASEAN, and South East Asian regional programme financings may be appropriate for Indonesia during the planning period. These will be programmed within the process for these horizontal facilities.

## **5.2 SECTORAL PRIORITIES FOR CO-OPERATION**

It is thus proposed that the EC's development co-operation programme for the period 2002-2006 will be set within two sector-policy frameworks for:

- **Good governance**, public administration including the provision of public health and education services to the poor; and support economic liberalisation and international economic co-operation,
- **Natural resources management** (forests, water and rural environment).

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<sup>30</sup> It is likely that during the transition phase, donors themselves will need to ensure adequate co-ordination between the central planning authorities and the local administrations.

The two sectors of focus; good governance/liberalisation and natural resources management, are themselves inextricably interlinked since progress on good governance, for example on illegal logging, regulation of land rights, reduction of the displacement of rural peoples, introduction of the rule of law and security in the rural areas, is essential to making progress in sound forests, water and environmental management. And sound development of natural resources will reinforce good governance, human rights, conflict prevention and poverty reduction. Economic liberalisation and increased international openness will reinforce democracy, civil society and human rights.

### 5.2.1 Cross-cutting Issues.

The crosscutting issues to be reflected in the design of all actions are summarised below:

- Cross-cutting Issues:**
- **Poverty Alleviation:** is the overarching goal of all EC development programmes;
  - **Good Governance:** responsible, effective and transparent management of public affairs;
  - **Capacity Building and Human Resource Development:** improving the capability of public services, the private sector and NGOs to manage their responsibilities efficiently and in a way that responds to the needs of the Indonesian people;
  - **Civil Society and Gender:** encouraging and facilitating the fullest participation of women and men in all aspects of democratic life.
  - **Conflict prevention:** the Commission will seek, as appropriate, to incorporate conflict prevention (and/or resolution) measures into the development actions financed – particularly in difficult regional contexts like Aceh, Papua (=Irian Jaya) and the Moluccas.
  - **Environmental protection and awareness.**

In its communication on conflict prevention (April 2001), the Commission has announced its intention to focus more clearly its co-operation programmes on addressing root causes of conflict in an integrated way.

#### 5.2.2.1. Sectors of Intervention.

The financial support to be provided as development co-operation and as economic co-operation is to be designed and implemented in a manner to ensure complementarity and synergy between the actions financed under the two budget lines (B7-300 and B7-301)

and to be linked, as appropriate and in conformity with WTO and other international agreements, and with the European Union's trade, regulatory and investment relations with Indonesia. In addition, support will be provided through the European Initiative for Democracy and Human Rights (Chapter B-7 - governed by the Human Rights Regulations 975/99 and 976/99), since Indonesia has been identified as a focus country in the programming document for the Initiative<sup>31</sup>.

The co-operation programme will focus on **two broad sectors**, summarised below:

- **Good Public and Private Sector Governance, including public financing and provision of basic health and education services to the poor:** including activities to establish the rule of law, reinforce public administration in the decentralisation framework, initiatives that contribute to conflict resolution to raise awareness of and strengthen respect for human rights, and assistance to reduce the inequalities associated with the country's development path by strengthening the public provision of health and education services to poor sectors of Indonesian society. Support to economic liberalisation and international economic co-operation will reinforce the contribution of the private sector.
- **Natural Resources Management:** interventions designed to optimise the sustainable utilisation of primary natural resources (forests, water, environmental) while preventing negative environmental factors becoming a constraint on Indonesia's development efforts, and ensuring the natural environment provides benefits for poorer rural sections of the Indonesian population.

The proposed content and issues surrounding proposed EC support in these sectors is summarised in the two sections below. Given the scale of Indonesia, combined with its regional decentralisation policies, every effort will be made to ensure **replicability** of project actions so that successful approaches as pilot projects can develop best practices and can be repeated in other regions in the longer term.

#### **5.2.2.2. Good Governance**

The good governance sector is defined to encompass support to: (1) public administration and democratisation (2) the public provision of basic health and educational services for poor sections of the population to achieve poverty reduction,

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<sup>31</sup> Commission staff working paper of 20 December 2001: European Initiative for Democracy and Human Rights Programming Document 2002-2004.

and, (3) economic liberalisation and international business co-operation to reinforce the private sector's role in better governance and economic growth.

Support to NGOs and to international organisations will be provided to initiatives that strengthen democratisation, good governance and the rule of law. These will include a human rights micro-project facility run by the EC delegation in Jakarta to encourage small-scale grass-roots initiatives. EURO 2.5 millions have been earmarked for projects under the European Initiative for Democracy and Human Rights for 2002. The figure will be reviewed on an annual basis.

**Public Administration and Democratisation.** In addition to the ongoing support to the UNDP-managed Partnership for Governance Reform (€ 13,300,000 committed in 2000), and ongoing technical assistance to the Attorney General's Office (€ 1,000,000), the Commission's future support will focus on the establishment of a viable institutional framework needed to ensure the rule of law and the sustainability of the democratic process, particularly taking into account the decentralisation process. Among others, the following interventions may be considered for EC support during the programme period: further capacity-building and technical assistance to the Attorney-General's Office including accounting and asset search and audit systems to reduce corruption and money laundering; assistance to the Ministry of Justice through the establishment of a Bar Association with a code of conduct; training and capacity-building for judges and training for local judicial authorities; support for the Anti-corruption Commission; support for the Law Faculties in Indonesia's universities; support for human rights training for police and military through KomNasHAM; assistance to the Ministry for Women's Empowerment to support legal reforms and training; support for the reconciliation processes in Aceh, Papua (Irian Jaya), and Maluku through raising awareness of Human Rights and conflict prevention issues. The Commission will also investigate in what manner systems and aspects of the governmental decentralisation process can be reinforced and supported to facilitate budgetary management and the provision of basic health and education services to the poor by the decentralised regions while ensuring quality and cost-effectiveness on a comparable basis.

**Health.** The aim of EC co-operation is to support the government's strategic goal to break the vicious cycle of poverty and ill health. Interventions will address short- and medium-term problems arising from the Asian economic and financial crisis or emerging as a result of the political and economic transition process underway in Indonesia. Interventions will need to be highly responsive to changes in Indonesia's social and economic needs. Co-ordinations with other donors active in this area and with the government's own extensive programme of Social Welfare and Social Safety Net activities will be essential. Whereas some interventions under this sector will have a 'temporary', short-term or stop-gap character, every effort will be made to integrate such interventions with the longer term goals of activities undertaken under the cross-cutting issue of Poverty Alleviation. Possible partners for EC actions within this sector are other donor agencies, local and European NGOs, education and social welfare agencies, other central and local government agencies. A focus of action is to support progressive ways of health care financing particularly to address the needs of the poor and promote the

solidarity principle in (social) health insurance and increase insurance coverage for the poorer sections of the population.

**Education.** Serious challenges have been identified, including the low quality of educational services, inefficient school management, the lack of incentive structure to reward good teaching practice, and poor training of teachers. Other problems include school completion, inadequate enrolment and unequal educational attainments with significant gaps between the rich and the poor. Because of the economic crisis, urban secondary school enrolment fell by 6 per cent between 1997 and 1998. Furthermore, 16 million children aged 7-12, and 4.8 million children aged 13-15 years are out of school. The drop-out rates vary radically among provinces. Illiteracy is still an issue. Project support in a sectoral context will be developed in co-ordination particularly with the World Bank, and with the Netherlands who are already active in this field.

**Economic liberalisation and international business co-operation.** The EU is Indonesia's largest trading partner for non-oil and gas products. However, the current volume of bilateral trade and investment between the EU and Indonesia falls short of its potential. In order to respond to that situation, the Commission has in the past supported a number of disparate business promotion activities. However, while such activities were useful to spur EU-Asian business collaboration, they were not of sufficient importance to have significant impact in Indonesia. It has become increasingly clear that at least as important is the creation of a business-friendly environment of law, tax and public-policy within Indonesia to enable well-run businesses to thrive on a transparent and level playing field in an environment of sound and transparent corporate governance. One of the most important ways by which a business-friendly environment can be provided and sustained is through increased economic openness. Increased bilateral economic co-operation with the European Union has been a long-standing request of the Government of Indonesia. The EU would show its full commitment to supporting Indonesia's economic reforms and private sector liberalisation through an extensive economic co-operation package. This would seek to assist the Government of Indonesia in its reform process and would at the same time promote civil society, the rule of law, good corporate governance and promote sustainable development together with a market access and trade orientation. Both regulatory and technical assistance will have a key role to play and projects should be specifically designed to help build capacity in the Government of Indonesia's administration.

Particular attention will be given to the visibility of the European Commission in the context of the economic co-operation with Indonesia. Therefore, in each of the following activities, a particular budget allocation should be added for publications and activities enhancing the visibility of the EC.

Investment promotion assistance could help remove existing obstacles to incoming foreign investment and foster compliance with international and European standards. Focus would be on the removal of obstacles to investment (such as, possible geographical restrictions, joint venture requirements, discriminatory licensing procedures and outright closure of certain sectors to foreigners). Technical assistance could be offered to BKPM, the national investment co-ordinating board, to simplify its responsibilities, reduce regulations and cut red tape. The system of approvals should be

standardised, especially in the light of the decentralisation process currently taking place in Indonesia. Investors should have to face the same requirements and the same procedures and not have to deal with differing local and regional approval processes.

Assistance with regard to customs administration would smooth Indonesia's integration into the global economy. A proposed EC – ASEAN customs protocol seems to be not feasible for the moment but co-operation with Indonesia in the field of customs to reduce red tape and harmonise procedures and to enhance greater mutual understanding of systems used would be opportune to improve the business climate. Promotion of exchange and training of customs officials and joint pilot projects involving new information and communication technologies could be examples of co-operation in this field. Assistance should also focus on questions relating to implementation of the customs valuation agreement, tariff harmonisation, and import-licensing.

More efficient application of international standards would enhance domestic competition within the Indonesian economy. Some confusion exists for Indonesian, and for EU, business in Indonesia concerning standards as they are sometimes different, using different methods and thus create discrepancies. The Indonesian Government has introduced the Indonesian National Standard but discrepancies stem from the lack of competent analysts and the (non) availability of scientific and technical information, related processing technology or intended end-uses of products. Also more information about EC standards should be made known to Indonesian officials and business including exchange of information on conformity assessment and type approval. This bilateral co-operation on standards should liaise with the EC - ASEAN programme on co-operation in the field of standards for quality and conformity and ensure complementarity. This programme should also give attention to the area of capacity building for conformity assessment.

Another action would be promoting dialogue between European and Indonesian companies. The aim of this would be to bring EU and Indonesian companies together to foster stronger relations and increase mutual understanding and co-operation. The dialogue could consist of high level Business-to-Business meetings on a yearly basis plus working groups on sectoral matters. These EU-Indonesian groups could make recommendations for and identifying priorities for policy makers. The European Industrialist Round Table could serve as an example - or even as partner in this project. The European Indonesian Association, which groups together all EU Business Associations represented in Indonesia, should be involved in this dialogue. In addition, the European Business Association needs financial support for its activities.

With regard to the existing WTO Agreements, the European Community will provide technical assistance to Indonesia to support it in its efforts to honour its commitments, and to enhance its capacity to effectively export its products to the European union. Technical assistance can notably be made available for the further development of Indonesia's regulatory capacity, and in areas like customs valuation and trade facilitation, standards (SPS/TBT), competition, services, and foreign investment.

With regard to the Doha Development Agenda, cooperation could include technical assistance to enhance Indonesia's capacity to participate in the negotiations in the areas of intellectual property, market access for non-agricultural products, trade and investment, trade and competition policy, transparency in government procurement, trade facilitation, and trade and the environment.

### **5.2.2.3. Natural Resources Management.**

Support in this broad sector will consolidate and build on the outcomes of the existing EC development co-operation programme, which already focuses on water and sustainable forest resources management. Indonesia used to have abundant natural resources. However, their exploitation has seen a mixed record. In **forestry** the use of industrial technologies and management practices that favour short-term returns from irresponsible logging over long-term sustainability is combined with legalistic over-regulation of the sector, and yet under-implementation, and corrupt application of those rules. In **water and irrigation** investment is in new physical infrastructure rather than in management systems, regulation, revenue collection, institutional and maintenance support. Local stakeholders in rural areas are often ignored or over-ruled. Throughout the **environmental regulation** sector there is inadequate assessment of the environmental consequences of resource exploitation, and inadequate stakeholder involvement, especially as regards the involvement of local communities, and an absence of measures to mitigate the negative long term environmental consequences of resource use, and the negative impacts on poor rural communities.

**Environmental regulation.** The natural resource sector is vital for Indonesia's future both because of the income- and employment-generating potential of the sector and because of the environmental damage and degradation associated with resource exploitation that is extremely expensive to remedy and repair. The global importance of Indonesia's forest resources (global warming, bio-diversity, regional pollution and 'haze') has prompted intense interest on the part of the international community. Donor co-ordination in this sector has been exceptionally effective and must clearly continue. The Commission has developed a respected, lead role in the forestry sector. In the water/irrigation sector, the mechanisms for donor co-ordination are in need of strengthening<sup>32</sup>. Partners for EC actions in this sector are government agencies, private sector bodies, local and international NGOs, research and training institutions and other donor agencies.

**Forestry.** Future EC interventions should take into account the government's CGI (where the Commission is habitually the lead donor) commitment to the development of a national forest programme, in the context of the ongoing process of decentralisation. This should seek to implement the recommendations of the Intergovernmental Panel and Intergovernmental Forum on Forests (IPF/IFF). They should also take account of halting the increasing percentage of unproductive, degraded land in Indonesia which is highly vulnerable to fire and soil erosion. The current incentives encourage companies and local authorities to cut down and burn the remaining forested lands. However, the approach

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<sup>32</sup> In 1999, a water donor co-ordination forum has been established (following the WATSAL model developed by the World Bank).

must also recognise the need to use selected parts of forested land as a basis for economic development. Support should target the basic requirement for regional spatial planning to be undertaken on a sound environmental basis and for innovative approaches to conservation. The current lack of law enforcement in the sector must also be addressed in a wider good governance perspective, given the underlying problems of the sector, particularly concerning illegal logging, and land rights alienation.

**Water.** In order to improve the fiscal, economic, environmental and social performance of its water resources, Indonesia is undertaking a comprehensive policy paradigm shift, including a management institution reform. The WATSAL<sup>33</sup> process triggered the reform, based on principles of transparent governance and agency accountability, public-private partnerships, and community participation. The reform package includes the following: (a) issue of a National Water Resources and Irrigation Policy; (b) enactment of a Water Resources Law and revision of the regulatory framework; (c) redefinition of the roles and workings of national, provincial, river basin and district level agencies; (d) integrated inter-governmental decision-support and data networks; (e) improving water pollution control through financial and fiscal instruments; (f) transferring irrigation network management to autonomous, legally empowered and self-financing water user associations/federations; (g) stakeholder participation in policy-making bodies; and (h) legislative adjustment to administrative and fiscal decentralisation. An inter-governmental and NGO task force under the Co-ordinating Minister for Economic Affairs is preparing the reforms with support from several donors. These donors have indicated their willingness to collaborate with the government in preparing a National Water Sector Management Program, which will consolidate the new policies and institutions, emphasising sustainable sector management over infrastructure development. The programme will consist of individual donor projects all following common program principles and strategies under joint oversight. In its support to the water sector (including irrigation) the EC support will ensure focus on subsistence farmers as main beneficiaries, either directly, or as the peripheral or downstream inhabitants of the concerned watershed areas.

### 5.3 COHERENCE WITH EU POLICIES

The above analysis and proposals take into account all the main precepts of EU development co-operation relations and policies: the focus on good governance, on poverty alleviation, coherence with environmental policies, coherence with European Union trade and regulatory policies, and more particularly the conclusions of the Commission's Communication on Indonesia.

But still coherence and consistency with other EU policies can be further enhanced, in particular in terms of making EU trade, economic co-operation and environment policy mutually supportive. The palm oil issue provides an example: while the Union opposes conversion of forested land into palm oil plantations, for environmental (biodiversity, air pollution) and developmental reasons (unsustainability of plantations, rights of indigenous people), the profitable export of palm oil from converted land is supported by

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<sup>33</sup> WATSAL – (World Bank) - Water Sector Structural Adjustment Loan.

Europe through the GSP. Shrimp farming provides another example of EU-directed exports which while highly profitable in the short-term can do long term permanent damage to coastal protection, and other fish stocks by destroying the mangroves that are important fish breeding grounds. The forestry sector is another and environment sector focus which is clearly targeted towards reducing air pollution, regional 'haze' and global warming - which are the subject of other major EU policies.

Aspects of the European Union's anti-terrorism stance can be supported by appropriate conflict prevention and poverty reduction actions in the regional "hotspots" of Indonesia, in open co-ordination with the Indonesian authorities.

#### **5.4 COMPLEMENTARITY WITH EU DONORS AND WITH OTHER DONORS**

The huge scope of urgent poverty-reduction challenges in Indonesia means that assistance from all but the very largest donors can no longer be expected individually to have a major impact on conditions in a sector. In order to ensure the effectiveness and the impact of EC development assistance it becomes even more necessary to co-ordinate more closely with other donors, and in particular with the World Bank, ADB, Japan and other bilateral donors, particularly EU Member States. Better co-ordination can achieve more easily a critical mass of assistance in important sectors. It is also easier for the government to plan the allocation of the national development budget, and to achieve compliance with policy conditionalities if the messages received from the donor community are to some extent 'harmonised'.

Hitherto, co-ordination has taken place in the context of the CGI and in a number of formal and informal donor forums meeting at local level in Jakarta. The growing role of the CGI process in mediating relations between Indonesia and the international community also places greater emphasis on the need for the donor community to speak with a united voice. The issue of effective donor co-ordination thus becomes even more central and crucial to EC development assistance to Indonesia.

Simple complementarity consists in ascertaining that there is no overlap between donors in a specific sector. Given Indonesia's size and its virtually endless needs, this simple concept of sectoral complementarity is of limited use. It remains inconclusive to address the question of sectoral preferences at an abstract stage. A certain sector may be left out because of the presence of other donors, alternatively and pro-actively, other donor partners already active there could be joined to achieve the above-mentioned critical mass.

In this second and more concrete level, the proposed EC strategy has to be checked against the concepts of other partners and vice versa. This process includes discussions of different types of collaborative financing between the EC and Member States, the identification of comparative advantages and a shared interest in pooling resources. The move towards sector support programmes should facilitate this approach. Proper co-ordination with the activities of other donors is essential, care must be taken to ensure sustainability in the longer term, and those actions do not conflict with sustainable environmental criteria.

Indonesia's own development strategy and policy are the third indicators of achieving complementarity. Donors working together in co-ordinated agreement are more likely to achieve this in a specific sector.

Specific, detailed donor matrices for Indonesia are provided in Annex 3 to this Country Strategy Paper. (Much of this data is of a dynamic and evolving nature as donors move in and out of specific activities.)

Consideration of which other donors are active in the sectors proposed for EC assistance 2002-2006 leads to the following summary comments on priorities for future EC donor co-ordination.

Most major donors are involved in the **good governance** sector. The World Bank and ADB clearly have the lead roles as regards macro-economic and fiscal governance. As regards core issues of governance and corruption-prevention the Netherlands and the United Kingdom, among EU Member States, are particularly significant. Germany (GTZ) is the lead advisor to the government of Indonesia on decentralisation issues. Clearly the Commission needs to co-ordinate closely with at least these donors on these issues and good governance. The UNDP-managed "Partnership for Governance Reform in Indonesia" provides a framework for donor overall co-ordination, dialogue, and transparency on good governance.

In **forestry** the Commission has a lead role itself both within the Ministry of Forestry and in the sector inter-donor, and CGI formats where Japan, the United Kingdom, Germany, Sweden, the USA and Canada are also present. The World Bank plays a significant role on more general environmental regulation issues.

Many donors are involved in support to the education sector, while the World Bank has a lead role in policy formulation. The same is true of the health and water sectors.



6. Map of Indonesia

**List of Annexes:**

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**Annex 1 – Selected Statistical Data**

**Annex 2 – Land and People**

**Annex 3 – EC and EU-Member States co-operation in a full donor matrix**

**Annex 4 – Council Conclusions 20 March 2000**

**Annex 5 – Council Conclusions 14-15 May 2001**

## ANNEX 1 – Selected Statistical Data for INDONESIA

### Key Indicators, pre-crisis to present

Indicators	Before Crisis	During Crisis		After Crisis		
	1996	1997	1998	1999	2000	2001
<i><b>ECONOMIC</b></i>						
<b>Real GDP growth (% change YOY)</b>	8.0	4.5	-13.0	0.3	4.8	1.7*
<b>GDP US\$ billions (p.p.p.)</b>	227.4	215.8	98.8	142.5	153.3	148.8
<b>Real GDP per capita (US\$)</b>	1,160	1,080	480	680	720	690
<b>Inflation %</b>	9.0	13	73	17	3.7	7.2 (EIU estimate)
<b>Exports US\$ billions</b>	49.8	53.44	48.84	48.67	62.12	-
<b>Imports US\$ billions</b>	42.93	41.69	27.34	24.00	33.51	-
<b>Private Capital Flows (net) US\$ millions</b>	11,511	-338	-13,846	-9,923	-9,992	-9,516*
<b>External Debt Total US\$ billions</b>	128.936	136.160	151.235	150.990	141.951	135*
<b>Current account balance (US \$ millions)</b>	-7,663	-4,889	4,096	5,785	7,650	4,162*
<b>Population (millions)</b>	-	199.87	204.42	-	212.6	215
<i><b>EDUCATION</b></i>						
<b>Adult literacy rate over 15s % (male/female)</b>	90/78	90/78	90/78	91/80	-	-
<b>Elementary school enrolment (% of group)</b>	94.8	-	-	92.7	94.9	-
<b>Junior high school enrolment (% of group)</b>	48.6	-	-	59.2	60.8	-

<b>Senior high school enrolment (% of group)</b>	-	-	-	38.5	39.8	-
<b><u>HEALTH</u></b>						
<b>Life expectancy at birth</b>	63.2	-	65	65.5	68	-
<b>Children &lt; 5 with good nutrition (%)</b>	63.9			69.7	71.1	-
<b>&lt; 5 mortality rate (per 1000 live births)</b>	70.4	56	52	59.6	44.7	-
<b>Fertility rate (births per woman)</b>	2.8	-	-	2.6	2.5	-
<b>Children &lt; 5 fully immunised (%)</b>	88.2	-	-	89.9	90.1	-
<b>Medical doctors per 100,000</b>	10.7	-	-	10.8	-	-
<b>Households with access to safe water (%)</b>	-	62	-	-	-	-
<b><u>POVERTY</u></b>						
<b>Number of people under poverty line (%)</b>	34.5/a			48.4/a		
<b>Population under poverty line (%)</b>	17.7/a			23.5/a		

Sources: World Bank Reports: 'Indonesia: The Imperative for Reform', November, 2001, and 'Indonesia: Constructing a New Strategy for Poverty Reduction', October, 2001, and World Bank Development Indicators, and latest IMF and ADB figures

## ANNEX 2 – LAND AND PEOPLE

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Indonesia is an archipelago made up of 17,500 islands with a total area of 1,900,000 km<sup>2</sup> (of which water: 93,000 km<sup>2</sup>), stretching over one eighth (5,100 km) of the equator. Including its exclusive economic sea zone, the area covers over 5 million km<sup>2</sup>. Only half of the islands are inhabited.

**Population.** 212 million people (fourth most populous country in the world), with a current annual growth of approx. 1.5%, and an average life expectancy of 65 years. Throughout history, the peoples of SE-Asia migrated extensively, giving the Indonesian archipelago a mix of more than 100 ethnicities. Minorities comprise Melanesian groups in Irian Jaya and the eastern islands, and a 3%, mostly urban, ethnic Chinese ethnicity. Regional distribution is uneven: Java, Madura and Bali, which account for around 7% of the land area, contain almost 62% of the total population. Since the 1980s, there has been a sharp increase in urban population (22% in 1980 to 31% in 1990). The demographic preponderance of Javanese influences nation-wide collective cultural and social patterns.

**Religions.** Main religions are Islam (88%, making Indonesia the largest Islamic country in the world), Protestantism (5%), Roman Catholicism (3%), Hinduism (2%), Buddhism (1%).

**Language.** *Bahasa* Indonesia, formerly the lingua franca in the coastal trading towns of the archipelago, is the national language. English is widely understood, while ethnic groups throughout the country speak large numbers of local languages.

**Political structure.** The 1945 constitution (replaced temporarily by two other constitutions between 1950 and 1959) is still the basic law of Indonesia. It divides the powers between the People's Consultative Assembly (MPR), the Parliament (DPR) and the President. The MPR elects and appoints the President and Vice-President for a five-year term, adopts the general policy guidelines and amends the constitution. Parliament adopts the laws. The President is head of State and government and accountable to the MPR. It may request an accountability report during a special session. Under the presidential system, the President appoints the cabinet and agrees to bills passed by the DPR without having a veto right. In 1998, a process of legal and constitutional amendments began, aiming at the redistribution of powers between the president, DPR and MPR and between the centre and the regions. These deliberations will continue for a near future. Implicitly, the ongoing process of reshaping the nation's democratic institutions might lead in the short term to uncertainties regarding competencies and responsibilities in implementing policies and, collaterally, donor-funded projects.

Ten political parties and factions are currently represented in the DPR. The wide spectrum covers Islamic, secular nationalist and other movements. In most cases, the personalities of their leaders influence the course of action more than a coherent political programme.

**Decentralisation.** Indonesia is divided into 32 provinces and three special regions (Jakarta, Aceh and Yogyakarta). Provinces are further divided into regencies (*kabupaten*) and cities (*kotamadya*), each having a mayor and locally elected legislature. Since 1999, several areas have been given provincial status. More are likely to follow. The provinces represent the central government and have jurisdiction for cross-boundary issues, e. g. for irrigation.

*Kabupaten* are entitled to several sources of revenues: local taxation, general allocations<sup>34</sup> from the central budget, and special allocations. In the future, regions will implement over 40% of public spending.

The central government retains, however, competencies in foreign policy, defence, justice, monetary and fiscal policy, and religion, as well as a co-ordinating role for development, the latter through the National Planning Board (*Bappenas*) and different ministries (*departmen*). It can enforce compliance of regional legislation and standard with national ones.

**Internal resettlement.** Early in the 20th century, the Dutch began a program to shift people from heavily populated Java to the more sparsely settled parts of Sumatra. The Indonesian *transmigrasi* programme<sup>35</sup> began in 1969, moving families first from Java to Sumatra and later from Java to Kalimantan, Sulawesi, Maluku, and Irian Jaya. At its peak, from 1979 to 1984, half a million families were moved. Since then, however, both the cost of the programme and the shortage of sites for resettlement have caused the number of migrants to drop considerably. With the Abdurrahman government, the programme came practically to a halt.

**Social tensions.** Before independence, Dutch colonialism was the main factor uniting the islands. The Soeharto regime closely checked regional, ethnic and social tensions, while the transmigration programme began to create more tensions with native residents. Some Indonesians have also come into conflict with residents of Chinese origin, who have been historically successful in business ventures and generally enjoy a higher standard of living than Indonesians of Malay descent.

**Selected historic data.** Several of Indonesia's islands hosted powerful trading kingdoms between the 5th and 16th centuries AD. Although Buddhist and Hindu rulers spread their influence widely throughout the islands, none of the native empires ever controlled the whole region. Nor did Buddhism or Hinduism have a significant impact in the Far Eastern region. Islam arrived in the 11<sup>th</sup> century.

The Dutch took control of the islands in the early 1600s and profited from Indonesia's economy, largely at the expense of the local population. Dutch authority over the islands peaked in the early 20th century, before growing Indonesian nationalism led to an armed struggle (1912: *Sarekat Islam* /Islamic Union, the first important nationalist movement; 1916: *Volksraad* /People's Council established. selected representatives of major population groups could advise the government; 1926-27: abortive Communist-led insurrection).

1942-45 Japanese Occupation: a repressive regime, symbolic political freedom for Soekarno.

Indonesia proclaimed its independence from the Netherlands on 17 August 1945 (capital city: Yogyakarta), but achieved it legally only in 1949.

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<sup>34</sup> DAU – *Dana Allokasi Umum*, allocated according to the population, poverty level and economic potential; and DAS – *Dana Allokasi Spesial*, aiming to finance special needs (e.g. forestry projects).

<sup>35</sup> *Transmigrasi* refers only to the government sponsored programme. Besides, spontaneous resettlement – outside any such programme – has been a secular phenomenon in Indonesia.

The time of founding President Soekarno was marked by turbulent domestic developments (“guided democracy”; 1950. The Unitary State of Indonesia replaced the federally structured republic. 1953: “Dar ul Islam” rebellious movement in Aceh; 1958: army dissidents in Sumatra and Sulawesi, with covert aid from the USA and Taiwan, proclaiming a Revolutionary Government, but were defeated; guerrilla actions continued, however, until 1961.); economic decline continued, the army and the communists increased their power;

In 1961, Jakarta took over West Papua/Irian Jaya from the Dutch;

1965: (communist?) coup attempt, General Soeharto took control of the army and increasingly of the state; he eased Soekarno out of effective power by 1966, becoming President in 1967; communist crackdown;

The "New Order/*orde baru*"-regime espoused a largely pro-Western policy. 1967: foundation of ASEAN; economic policy shifted away from a reliance on oil exports; promoting foreign investment and integration of Indonesia into the world economy; solid economic growth, relatively successful family-planning programme; reduction of poverty in absolute and relative terms, but still significant economic and social inequalities;

1975: annexation of East Timor, by that time already abandoned by Portugal; the West (Vietnam context) tolerated the move;

1996: Mrs Megawati Sukarnoputri, Soekarno’s daughter, deposed as chair of the Indonesian Democratic Party, posing a challenge to the incumbent president;

May 1998: the Asian financial crisis hastened the end of *orde baru*. Vice-President, B. J. Habibie, succeeded Soeharto, while embarking on political reform (*reformasi*);

In a changed political landscape, and after free and democratic parliamentary elections in June 1999, Abdurrahman Wahid was elected president in October 1999.

In August 2001 Mrs Megawati Sukarnoputri succeeded Wahid at the insistence of the parliament, and she appointed a new government after some weeks of careful negotiations with the various political groupings and parties.

## **ANNEX 3 – OVERVIEW EC DEVELOPMENT CO-OPERATION (2001)**

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### **Programme to support reform in Indonesia:**

- support to the Office of the Attorney General of Indonesia: started in 2000, € 950.000.
- good governance in forest administration: Illegal Logging Response Centre, € 2 million.
- good governance in Water Resource Management: 3 Water Basins

This project was launched in 2000, with a maximum EC contribution of € 3,7 million (for a period of three years). The overall objective: the improvement of living conditions of communities through a sustained management of natural water-resources.

- Partnership Programme for Governance Reform, € 13,3 million

Programme is valued at US\$ 30 million, Overall objective: to promote democracy and good governance through an Indonesia-led Trust Fund.

### **Forestry Programme:**

- Leuser Development Programme: € 32.3 million (1995)

Objective: to conserve the Leuser Ecosystem/National Park in Northern Sumatra;

- Forest Inventory and Monitoring Project; € 9 million,

Objective: to prepare up-to-date forest maps and compile a resource data bank for forest management and policy decisions;

- Forest Fire Prevention and Control Project Phase II: € 4.7 million,

Objective: To provide a model fire management system for the province of South Sumatra

- Forest Liaison Bureau (FLB), € 0.5 million,

Objective: Policy input and recommendations for the Indonesian authorities;

- South and Central Kalimantan Production Forest Programme, € 33 million,

Objective: to develop sustainable management and optimal utilisation of production forest in order to allow implementation of ITTO guidelines for Global Sustainable Management

- Berau Forest Management Project, € 9 million

Objective: pilot project, transferring research results into practical and sustainable forest management on an operational scale; financed from the Tropical Forests budget line;

### **Other current development projects:**

- Satellite Assessment of Rice in Indonesia (SARI), € 3 million,

Objective: To improve the national capacity for accurately monitoring changes in rice production and to improve yield forecasting

- Social Safety Network-Contraceptive Supply Project, € 15 million,

Objective: supporting the government in maintaining its commitment to family planning services set out in the framework document of the National Health and Family Planning Plan.

### **Human rights:**

- OHCHR: Programme to support national HR capacity development: € 102.880

- National Forum of Concern on Human Rights in Irian Jaya: € 80.000.

Objective: Promotion of Democracy and HR empowerment

- Friedrich Naumann Stiftung: Promoting democracy and good governance by supporting administrative accountability and prevention of corruption - Sumatra € 680.000.

- Institute for Research and Empowerment (RE Indonesia) : Empowering the ADAT People of Indonesian Society € 1.000.000.

Donor activity matrix

Sector Donor	Community development	Environment	Education	Financial	Good governance, Decentralisation	Health, Social safety net	Humanitarian assistance	Industry and Private sector (SME)	Infrastructure, energy, transport, telecommunication	Natural resources, agriculture, forestry, water management	Annually commitment or disbursement (2001) Grant (G) Loan (L)
<b>Multilateral</b>											
ADB	X	X	X	X	X	X		X	X	X	16 M USD G 500 M USD L
EC		X			X	X	X			X	43 M EUR G
IMF				X							395 M USD
WB	X	X	X	X	X	X		X	X	X	400 M USD L
UN			X		X	X	X	X			37 M USD G direct UN and 111 M USD G through other donors
<b>Bilateral MS</b>											
Austria		X	X			X					15-20 M USD G and L
Belgium					X					X	0.7 M EUR G
Denmark	X	X	X		X	X	X	X		X	2.2 M USD G and 2.7 M USD L
Finland					X		X				0.6 M EUR G
France			X		X					X	2 M EUR G

Germany	X	X	X	X	X	X			X	X	15.3 M EUR G and 18 M EUR L
Italy	X						X	X			2.2 M USD G and 10 M USD L
Netherlands	X		X		X		X			X	90 M EUR G
Portugal							X				1 M EUR G
Spain			X		X	X					73 M USD L
Sweden	X	X	X		X		X			X	3.5 M USD G
United Kingdom					X	X				X	10 M USD G
<b>Bilateral Other</b>											
Australia	X	X	X		X	X				X	62 M USD G
Canada	X	X	X		X	X					26 M USD G
Japan		X	X		X	X		X	X	X	G 61 M USD and L 823 M USD
US	X	X		X	X	X				X	128 M USD

## **ANNEX 4 – COUNCIL CONCLUSIONS OF 20 MARCH 2000**

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(1) The Council welcomed the Communication from the Commission to the Council and to the European Parliament on developing closer relations between Indonesia and the European Union. It also welcomed the contributions made by the Secretary-General/High Representative through the Secretariat Policy Unit.

(2) The Council, in recognition of the historic changes which had taken place in Indonesia, and in particular the democratic elections to the Indonesian Parliament and of the President and Vice-President, believed that it was time for the European Union to forge a new and closer relationship with the new Indonesian Government so as to support its efforts to strengthen the country's democracy, ensure respect for human rights, reform its military and judicial systems, enhance the rule of law and good governance, restore the vitality of its economy and solve its internal conflicts through dialogue rather than the use of force.

(3) The Council also recognised the importance of the role that Indonesia can play in the region. It sought an enhanced co-operation with Indonesia in the promotion of regional security. It acknowledged that a closer relationship with Indonesia could enhance the EU-ASEAN dialogue and ASEM process to which the Council remained firmly attached. It encouraged the development of a close and good neighbourly relationship between Indonesia and East Timor as the territory entered in a transition period towards independence. In this context, the Council also noted the commitment of the Indonesian Government to continue to address the question of East Timorese refugees and illegal militia activities in West Timor, as well as to ensure the bringing to justice of those suspected of having committed human rights violations in East Timor.

(4) The Council, while noting the severe impact of the Asian economic and financial crisis on Indonesia, expressed confidence that democratic and political stability would provide the basis for an accelerated process of economic recovery. It encouraged the Government of Indonesia to address macro-economic challenges swiftly and rigorously. In this context, the Council considered reform and re-capitalisation of the financial system, containment of external debt, and tackling the problems of cronyism and corruption as areas of particular importance.

(5) The Council emphasised that support for economic recovery would be a priority in the EU's short-term strategy towards Indonesia. At the same time, it acknowledged Indonesia's substantial development assistance needs as outlined in the Communication. The Council recognised that further prioritisation of the development needs should be the subject of discussion between the EU and the Indonesian authorities.

(6) The Council stressed the importance of strengthening the EU's co-ordination with the International Financial Institutions, particularly the World Bank and the Asian Development Bank, as well as the European Investment Bank. It recognised the important role these institutions can play in the channelling of development funds. It called for the establishment of a regular co-ordination mechanism in Jakarta. The Council recognised the valuable role played by the ASEM Trust Fund in Indonesia.

(7) The Council underlined the EU's interest in developing a more intensive co-operation with Indonesia to facilitate the launch of the new WTO round.

For these reasons, the Council :

(a) Invited Indonesia to engage in a regular political dialogue with the Union, inter alia at ministerial level, through which the EU may support the development of a strong, democratic, united and prosperous Indonesia. This dialogue should include the respect for human rights, the promotion of the rule of law and good governance, as well as co-operation with Indonesia to promote regional stability. The Council will regularly review the results of that dialogue and the ways in which it may be enhanced.

- (b) Invited the Commission to develop assistance programmes that would help to anchor Indonesian democracy, as well as enhance the rule of law, good governance and respect for human rights, as outlined in the Communication.
- (c) Encouraged the progressive development of contacts between Member States' and Indonesian civilian and defence officials in support of reforms by the new Indonesian Government that seek to turn the armed forces and the police into modern, professional defence and security institutions, firmly founded on respect of human rights and of the political authority of the democratically-elected Government.
- (d) Expressed its readiness to support efforts to promote dialogue and reconciliation so as to reduce cultural and religious tensions in Indonesia, promote the country's stability and preserve its territorial integrity.
- (e) Urged the Commission to address the issue of poverty relief in Indonesia, with emphasis on both the dimensions of poverty and the composition of the poor, as well as the particular needs resulting from ethnic conflict and refugee movements in the Moluccas and West Timor.
- (f) Identified the need for appropriate and well-targeted programmes in the social sector, including areas such as health, education and family planning, in particular in co-operation with the relevant Indonesian institutions.
- (g) Welcomed the Commission's intention to develop an EC-Indonesia economic dialogue through regular Senior Officials meetings with the Indonesian administration and to broaden and strengthen its co-operation programmes with Indonesia.
- (h) Noted the Commission's readiness to provide, in close co-operation with the relevant Indonesian institutions, technical assistance to support regulatory reform and the promotion of rule of law and good governance in Indonesia.
- (i) Recalled the trade pledge made in London at ASEM II and underlined the need to start discussions on market access issues between both partners to stimulate two-way trade.
- (j) Invited the Commission to study, on the basis of the relevant data, the application of the GSP graduation mechanism.
- (k) Urged the Government of Indonesia to encourage good business practices and to offer more openness to foreign direct investment in order to stimulate new investments.
- (l) Invited the Commission to make full use of existing EC economic co-operation programmes to promote increased activity and investment by European SMEs in Indonesia.
- (m) Called on the Government of Indonesia to take urgent action on the problem of illegal logging and on the development of a National Forest Programme for sustainable management.
- (n) Invited the Commission and the Member States to follow-up on forestry management and to strengthen co-operation with Indonesia on sustainable natural resource management, in particular forestry.
- (o) Also invited the Commission and Member States to strengthen co-ordination with the aim of maximising the impact of EU assistance to Indonesia." Brussels, 20 March 2000.

## ANNEX 5 – COUNCIL CONCLUSIONS OF 14/15 MAY 2001

1. The Council underlined the strategic importance of a strong, democratic, united and prosperous Indonesia. It firmly supported the territorial integrity of the country. It reaffirmed its wish and commitment to build a closer relationship with Indonesia, as set out in the Council's conclusions of March 2000. It looked forward to developing this relationship at the Ministerial meeting in Beijing on 24 May.

2. The Council expressed concern at developments in Indonesia. It noted some positive changes since March 2000, which included the consolidation of the freedom of expression, association and religion, the strengthening of the legal and institutional framework of human rights protection, the continued growth of an active civil society and improved relations with East Timor. However, the Council also underlined the slow progress in addressing the many other challenges to which the Government of Indonesia has attached priority, not least judicial, legal and economic reforms. The Council expressed its commitment to support further reforms in these areas by the Government of Indonesia.

To achieve these goals the Council:

(i) Encouraged the Indonesian Government to continue governance reform and further strengthen democracy and human rights. In the Council's view, legal reform, the rule of law, civilian control and democratic accountability of the police and armed forces, a vibrant civil society, decentralisation and the strengthening of local administration remain crucial for Indonesia's stability and prosperity.

(ii) Also encouraged the Government to make further urgent efforts to address and resolve peacefully Indonesia's internal conflicts, whether separatist or sectarian in character, such as those in Aceh, Irian Jaya, the Moluccas and Central Kalimantan. The Council underlined that the only viable way to guarantee the territorial integrity of Indonesia is for the Government to engage in a genuine dialogue with the provinces in order to tackle the root causes of separatism. It emphasised the importance of inter-ethnic and inter-regional dialogue and of successful decentralisation. It also underlined the responsibility of the Indonesian Government to meet the needs of internally displaced persons and others affected by internal conflict and to protect any populations at risk.

(iii) Further encouraged the efforts of the Indonesian Government to continue to improve relations with East Timor, with a view to establishing a close and good neighbourly relationship, thereby contributing to the stability of South East Asia. However, it recalled the responsibility of the Government to prosecute those who have violated human rights and international humanitarian law. It expressed concern that recent legal judgements did not seem to meet the international standards of justice and fairness called for in the Chairman's statement at the UN Commission on Human Rights. It also called upon the Government to disarm and disband the militias in East Nusa Tenggara, as well as to enable the refugees to choose freely whether to return to East Timor, in time to vote in the Constitutional Assembly elections, or to resettle in Indonesia.

(iv) Welcomed efforts to increase poverty reduction focus in government planning and encouraged early implementation of the Poverty Reduction Strategy presented by the Indonesian Government in October 2000; it also encouraged further measures by the Government to address the country's many environmental problems, including the alarming pace of deforestation.

(v) Underlined the need for the Union to maintain its efforts to strengthen its long-term relationship with Indonesia, including through the pursuit of the political dialogue with Indonesia. It invited parliamentarians from the EU to intensify their contacts with their Indonesian colleagues.

(vi) Reaffirmed the importance of enhanced economic co-operation, including investment and two-way trade, as set out in its conclusions of March 2000.

(vii) Called for closer co-ordination among Member States and the Commission in the delivery of assistance to meet the challenges set out above so as to promote a more coherent, effective and visible role for the Union as a whole. It recalled the joint Council and Commission statement on EC Development Policy and its conclusions on a framework for Country Strategy Papers. It invited the Commission, in consultation with Member States and the Indonesian Government, to prepare a Country Strategy Paper setting out priorities for assistance. Recalling the guidelines on strengthening operational co-ordination, which it adopted on 22 January 2001, it also invited its competent bodies to seek to consider ways to strengthen EU co-ordination in Jakarta, including in the delivery of assistance.

(viii) Encouraged closer co-operation and sharing of information between the Union and other donors, the UN and the International Financial Institutions.

(ix) Invited its competent bodies to keep the situation in Indonesia under close review.

Brussels, 14/15 May 2001

**NATIONAL INDICATIVE PROGRAMME**

**2002-2004**

**INDONESIA**

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<b>Country/Region:</b>	<b>Indonesia</b>
<b>Budget Years:</b>	<b>2002-2004</b>
<b>Budget Lines:</b>	<b>B7-300, B7-301</b>
<b>Legal Base:</b>	<b>ALA Regulation</b>
<b>Cost of Order:</b>	<b>Euro 144 million</b>
<b>Programming Service:</b>	<b>DG Relex H5</b>
<b>Acting Head of Unit:</b>	<b>Winston McColgan</b>
<b>Coordinator:</b>	<b>Tom Roe</b>

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## Purpose and scope

### **Political and economic situation of the country**

The current political situation is characterised by the transition from thirty years of autocratic leadership to a more democratic, pluralistic and open society. The reform process has already made remarkable progress. The ongoing decentralisation process is a fundamental change to the institutional set up of the country. The main challenges are the introduction of good governance and the rule of law, the fight against corruption and containing regional unrest. In economic terms, the country is still struggling to emerge from the 1997-98 crisis. The public debt burden is close to 100% of GDP.

### **ALA regulation and Country Strategy Paper**

The Council ALA Regulation applies to Indonesia. The focus is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy.

The CSP, drafted together with the competent Indonesian authorities, introduces a flexible, sector oriented programme. Future co-operation will concentrate on two sectors:

- Good governance
- Natural resources management

The cross-cutting issues selected address the main objectives of development co-operation:

- Poverty Alleviation
- Capacity Building and Human Resource Development
- Civil Society and Gender
- Conflict prevention

The overall aim is poverty alleviation and together with the other cross-cutting issues a positive impact from the assistance to Indonesia is possible. The sectors and cross-cutting issues closely correspond to the Government's overall development agenda.

### **Summary of the strategy and priorities**

In accordance with the Country Strategy Paper the focus will be in the sectors:

- Support to Good Governance and Decentralisation
- Sustainable Management of Natural Resources

A new development programme facility will be introduced as an integrated element of the deconcentration process. Each year will 5 million Euro be committed to a Small Ad-hoc Facility programme managed directly by the Delegation. The Small Ad-hoc Facility is supposed to be used in both the Good Governance and the Natural Resource Management sectors.

Priority will also be given to Economic co-operation in the period covered by this National Indicative programme.

### **Indicative budget**

During the period 2002-2004 covered by the NIP a total grant of 144 million Euro is foreseen for commitments under budget lines B7-300 and B7-301 to support the budget of the EC – Indonesian co-operation.

<b>Priority 1: Support to Good Governance and Decentralisation:</b>	<b>70 M Euro</b>
Action 1: Good Governance for the Improvement of Basic Health Services	35 M Euro
Action 2: Good Governance for the Improvement of Basic Education	20 M Euro
Action 3: Support to Good Governance in the Judiciary	10 M Euro
Action 4: Institutional support for Local Democracy	5 M Euro
<b>Priority 2: Sustainable Management of Natural Resources:</b>	<b>51 M Euro</b>
Action 1: East Kalimantan Natural Resources Management Project	15 M Euro
Action 2: Strengthening the Role of the Directorate of Forest Fire Control	1 M Euro
Action 3: Support to Biodiversity Conservation	15 M Euro
Action 4: Social/Community Forestry	10 M Euro
Action 5: River Basin Water Resource Based Poverty Alleviation Program	10 M Euro
<b>Small Ad-hoc Facility for Good Gov. and Sust. Man. Nat. Res.</b>	<b>5 M Euro</b>
<b>Priority 3: Economic Co-operation</b>	<b>18 M Euro</b>
Action 1: Technical Co-operation for Trade and Investment	12 M Euro
Action 2: Economic co-operation small projects facility	6 M Euro
<b>Total 2002-2004</b>	<b>144 M Euro</b>

Support to Good Governance and Decentralisation

**Strategy context/justification**

*1.1.1 Context*

Decentralisation is one of the most important reforms the Government of Indonesia (GoI) has undertaken since the democratic elections in June 1999. It had issued Decentralisation Laws Nos. 22 and 25 in 1999, which allow greater responsibilities for the Regencies (Kabupaten/Level II) to actively involve in the development of their respective areas. The decentralisation opens great opportunities for equitable regional development. It is also an opportunity for the local governments to provide enduring benefits to their own communities and to plan and manage their own resources. There are however concerns that these opportunities may not be realised if decentralisation is not effectively implemented and principles of good governance not adopted and not promoted.

The decentralisation process has only been started in the beginning of 2000. Several problems have already occurred and lead to a process of reform of the two laws adopted in 1999. If much has already been achieved, particularly with regard to the transfer of financial resources and personnel, significant challenges remain for the central and local governments in the areas of regulation, supervision and capacity building. Among the many problems faced by local governments includes lack of local government skills and knowledge in planning and implementing their new roles and responsibilities, absence of minimum standard of public service provisions and lack of law enforcement.

The decentralisation process affects many sectors of the Indonesian society and is a key to Indonesian development, in particular to the performance of the local governments in providing services to the community especially the poor as means to increase their quality of

life. The Justice sector, although being in a need of support for reform at a national level, is facing the same necessity of improving local capacities. Finally, capacity building at the level of the local parliaments and governments is needed to support the development of good governance framework at the level of local decision-making, particularly determinant in the new context of decentralisation.

### *1.1.2 Health*

The financial and economic crisis in late 1997 has worsened the health conditions of a significant percentage of the Indonesian population. The devalued Rupiah has resulted in an increase in the cost of pharmaceutical raw materials as well as medicines and, therefore, affected the ability of low-income families to obtain access to health services. Although it is difficult to obtain complete data on the impact of this crisis on the health sector, the current data shows that there is an increase in the Child Mortality Rate from previously 56 per 1,000 live births to 71 per 1,000 in 1998. The maternal mortality rate is 390 per 100,000. Malnutrition among children has become more evident after the crisis. The proportion of under-weight under-fives reached 30% in 1998 and the number of severely under-weight children appears to have doubled across the 1990s.

The implementation of decentralisation is adding challenges to the improvement of the health system in Indonesia. It provides both benefits and challenges to local governments. It is expected that local governments may be in a position to immediately respond to the needs, problems and conditions in their respective areas. However, as in other sectors, most local government personnel responsible for the health sector lack of the required knowledge, skills and capacity as health planners and managers. It is, therefore, crucial for the EC to strengthen the capacity of local government, non-governmental institutions and civil society to improve the health and nutritional conditions of selected areas in Indonesia.

The approach of strengthening local government in the health sector is in line with the Government of Indonesia strategy called “Healthy Indonesia 2010 “ which focuses on health promotion, professionalism, community health care programmes (JPKM) and decentralisation.

### *1.1.3 Education*

The education sector in Indonesia experienced a significant improvement over the past two decades. In 1998, the primary school enrolment rate was more than 90%. However the education sector was marked with problems such as high dropout rates and low proportions of students proceeding to higher levels of education. The economic crisis also worsened the situation, especially among the poor families.

Moreover, in terms of education quality, Indonesia has the worst quality of local education system in Asia<sup>36</sup> in comparison to 12 other countries in Asia, which placed Indonesia below its South East Asian neighbouring countries. Some deficiencies should be noted, like the poor quality and relevance of the education offered in many elementary schools, gaps in access to basic secondary education, the inefficient management, outdated teaching methods and a lack of parent involvement in their children’s education.

In the context of the newly introduced decentralisation, changing from the centralised approach, where the central government determined mandated curriculum, standardised tests, personnel procedures, teacher allocation to all schools in Indonesia, the regencies are suddenly facing new challenges to make their own decisions on these issues. The knowledge, skills and

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<sup>36</sup> Political and Economic Risk Consultancy (PERC) based in Hong Kong who conducted its survey in 12 countries in Asia.

capacities of local government officials in planning and managing the education sector still needs to be improved.

The main focus of the EC assistance in the education sector is nine-year basic education<sup>37</sup> targeting the poorest districts in selected regions. Basic education determines the early stage of education and plays a major role in improving the quality of life of many poor families.

#### *1.1.4 The Judiciary*

With its decision to support the “Partnership for Governance reform”, the European Commission has made an important step in supporting the general process of governance reform in Indonesia. Apart from the participation in the Partnership, specific and targeted initiatives should follow together with government and non-government partners. The Judiciary appears to be a corner stone of the whole reform process.

The Judiciary in Indonesia is also in great need of reform. Several recent studies have showed a general distrust of the Judiciary among the Indonesian population. Respondents to a recent survey<sup>38</sup> have identified corruption as the leading cause of problems facing the Justice sector. Other causes identified included lack of resolution of cases; lack of professional skills among the staff of legal institutions, excessive government interference and low standards of professional ethics.

In several recent high profile cases related to corruption and human rights, the justice sector has failed to uphold the law and to meet the expectations of the Indonesian civil society. This failure to have satisfactory results in these cases is coupled with the continuation of the old habits of small and daily corruption in most sectors of law enforcement.

Taking advantage of the diversity of EU Member States' Judiciary systems, the European Commission has substantial role to play in supporting good governance in the Judiciary. The Justice sector in Indonesia is still characterised by a clear lack of independence, a high level of corruption, a poor system of recruitment, appraisal and dismissal procedures for judges and attorneys, an influence by civil-military relations inherited from the “Orde Baru” system. The EC programme on good governance in the Judiciary should address all these characteristics to help the Justice Sector in Indonesia to reach better standards.

#### *1.1.5 Local democracy*

With the new and ongoing decentralisation process, some local governments and parliaments have passed new regulations which are not in conformity with national regulations and not in line with good governance principles. Some of the local institutions lack capacity to fulfil their new role in a transparent and competent way. Local democracy and local government accountability should be improved.

<p><b><u>Good Governance for the Improvement of Basic Health Services</u></b> <b><u>(Action 1)</u></b></p>
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A health programme identification mission was conducted in September and October 2001. As a result of that mission, a programme with a decentralised approach is deemed more appropriate for the diverse conditions of different areas in Indonesia. Four provinces (Jambi, South Sumatra, West Nusa Tenggara and Papua) were recommended for EC assistance in the health sector, considering the health, social and economic indicators.

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<sup>37</sup> Elementary school for the 6 years, age 7-12; junior secondary school: 3 years, age 13-16.

<sup>38</sup> AC Nielson, Asia Foundation “Survey report on citizen’s perceptions of the Indonesian Justice Sector, preliminary findings and recommendations”, August 2001.

As a follow-up of the identification mission, in the beginning of 2002, the Commission will launch an appraisal mission to determine the location(s) for the EC assistance and to develop the health programmes in the recommended province(s). Options to implement the health programme are open for Southern Sumatra (Jambi and South Sumatra), West Nusa Tenggara and Papua.

#### *1.1.6 Objective*

The overall objective is to improve the health and nutritional status of low-income families in particular areas of the selected province(s) in Indonesia.

The specific objective is to improve the quality and accessibility of basic health services to serve low-income families.

#### *1.1.7 Expected results*

1. The functioning of basic health service providers to provide accessible and affordable health services for low-income families.
2. Knowledge, capacity and skills of health personnel of selected basic health service providers increased.
3. Health strategy developed at selected areas or health providers.
4. Minimum standards of health service as well as the supervisory and monitoring systems developed.
5. Health and nutritional indicators of the selected areas of the province(s) improved.

#### *1.1.8 Activities*

Activities could involve:

- (a) Identifying and selecting appropriate health service providers/institutions in the selected province(s).
- (b) Identifying health and nutritional interventions needed for each province.
- (c) Conducting socio-anthropological surveys, if necessary, to identify local relevant practices affecting health and nutritional status of local communities.
- (d) Institutional strengthening of the selected health services at the Provincial and District levels by improving the operational and management capacities of those institutions.
- (e) Improvement of capacity, skills and knowledge of the health personnel in planning, managing, implementing and evaluating basic health services to fulfil acceptable standard of health services.
- (f) Development of health strategies to ensure accessibility, affordability and sustainability of the services.
- (g) Development of minimum standards of health service as well as appropriate supervisory and monitoring systems.
- (h) Improvement of funding mechanisms and funds allocation to support health activities, especially to poor districts, originating from public funds or local indigenous/private financial resources.
- (i) Social marketing of health and nutritional information and practices through various media to reach target beneficiaries taking into account local specific circumstances.

### *1.1.9 Implementation*

The appraisal mission, which will be launched in the beginning of 2002, will recommend the best possible options for the location of the EC assistance in Southern Sumatra, West Nusa Tenggara and Papua. The selected locations to implement those activities will be areas which show alarming health and nutritional indicators in the selected province(s).

The mission will identify the detailed nature of EC health assistance in that province(s) and the most suitable partner for implementing the above actions. Possible partners include local government, international health organisations, civil society organisations, private health providers and local NGO(s). In Papua, the identification mission has indicated that working with NGOs is the most feasible approach to cover the political and geographical constraints.

The main principles of the planning and development of the Health Development Programme in each province will be developed in a participative approach involving relevant stakeholders.

Beneficiaries of this project will be personnel of health service providers and community members of selected areas.

### *1.1.10 Risks and conditionalities*

The risks to work in Jambi, South Sumatra and West Nusa Tenggara are relatively low. Based on the findings of the identification mission, the local governments are responsive and open to foreign co-operation. Infrastructure such as road networks in these provinces is also good.

The risks to work in Papua are higher both politically and geographically. Politically, Papua has been accorded a special autonomy for its province to allow the local government to take greater responsibilities than other provinces to determine their internal affairs. Based on the findings of the identification mission, it was not yet feasible to work with the local government due to its institutional development needs. Working with local NGOs was a recommended solution to address the health and nutritional problems in the area. However, the possibility of strengthening selected local health government institutions should be explored by the future appraisal mission.

Geographically, Papua is a province with a relatively small population living in dispersed and mountainous areas throughout the province. Air transport is the only means of transport from some districts to others.

In West Nusa Tenggara and Papua, thorough socio-anthropological surveys have to be conducted during the appraisal mission in order to identify local relevant practices, which affect health and nutritional status of local communities. Nevertheless, the very low levels of health provision (much lower than elsewhere in Indonesia) in these areas warrant a special effort and approach in these regions.

### *1.1.11 Performance/Outcome indicators*

The main performance/outcome indicator is improved health and nutritional indicators for community members of the selected areas.

### *1.1.12 Financial envelope*

A maximum total of 35 million Euro could be committed in 2002 to cover expenses of Technical Assistance, Institutional Strengthening, equipment and supplies, training, operation, monitoring and evaluation. If the part of this health programme concerning Papua takes longer to appraise and to set up then 15 Millions of these 35 million Euro may be committed in 2003.

#### *1.1.13 Indicative timeframe*

The project appraisal missions will be launched in the beginning of 2002 and into 2003. The first health programme could start 2002 and last until 2006 and the Papua part of the programme could start in 2003 last until 2007.

### **Good Governance for the Improvement of Basic Education (Action 2)**

#### *1.1.14 Objective*

The overall objective is the improvement of the quality, indicators and performance of the basic education system with special attention to the needs in Eastern Indonesia.

The specific objectives are that basic education systems fulfil the required education standards and the effective functioning of school based management systems.

#### *1.1.15 Expected results*

Through high involvement of relevant stakeholders, it is expected that the results of this programme will be the following:

- (a) Improved systems and quality of basic education, vocational schools, non-formal and alternative schools in selected districts in certain provinces.
- (b) Developed minimum standard of service as well as supervisory and monitoring systems to measure the quality of education.
- (c) Established school-based management programmes with school boards at the district and provincial levels.
- (d) Increased community involvement in school based management.
- (e) Improved funding mechanisms and funds allocation especially to poor districts and schools.
- (f) Improved knowledge, skills and capacity of school personnel, school boards, relevant parliamentary members, civil society organisations and NGOs involved in the education sector in the selected areas.
- (g) Improved knowledge, skills and capacity of selected personnel from the education services at the district, provincial and central levels in planning, managing, monitoring and evaluating the education services.
- (h) Increased numbers of teachers, educational personnel and other selected scholars receiving higher education in their respective fields of expertise.

#### *1.1.16 Activities*

The activities which could be implemented in conjunction with relevant stakeholders could include but are not limited to:

- (a) Development of a school based management system focusing on the improvement of the quality of basic education, vocational schools, non-formal and alternative schools at selected districts in certain provinces.
- (b) Development of minimum standards of service as well as supervisory and monitoring systems to measure the quality of education.
- (c) Establishment of pilot projects for school-based management programmes with school boards at the district and provincial levels taking into account experience gained by previous pilot initiatives.

- (d) Development of mechanisms to encourage community involvement in school based management.
- (e) Development of new funding mechanisms to improve educational funds allocation especially to poor districts and schools.
- (f) The provision of relevant training for school personnel, school boards, selected parliamentary members, civil societies and NGOs involved in the education sector in the selected areas.
- (g) Provision of training for selected personnel from the education services at the district, provincial and central levels in planning, managing, monitoring and evaluating the education services.
- (h) Establishment of a higher degree scholarship programmes for teachers, educational personnel and other selected scholars in their respective fields of expertise.

#### *1.1.17 Implementation*

The planning and development of the educational programme could involve the National Planning Development Agency (Bappenas), Ministry of National Education, local governments, NGOs, civil society and other international donors actively involved in the education sector. With the new decentralisation laws, it is preferable that the Project Management Unit will be established at the selected provinces.

The programme will be implemented at formal and non-formal schools as well as vocational schools in selected districts with alarming rates of illiteracy, high dropouts, high numbers of poor families as well as low quality of education.

#### *1.1.18 Risks and conditionalities.*

With a core programme of capacity building, the success of this programme will clearly depend on the willingness of relevant stakeholders to actively involve in the programme and also closely link to the educational budget allocation.

The main conditionality is transparency and accessibility of information on budget allocation for the education sector in the selected project areas.

The impact and sustainability of such an approach will require the following:

- a careful and strategic selection of the targeted districts; the key concern should be to select districts where it is feasible to achieve the desired basic education improvements and to do so in a context and an environment that is sufficiently representative to be used as a framework for policy mainstreaming and replication;
- provisions should be foreseen for effective dissemination and preparatory activities for replication; and,
- underpinning by an up-front commitment of Government support is necessary.

#### *1.1.19 Performance/Outcome indicators*

Indicators for the performance of the programme are the functioning of school based management systems, improvement of teachers' capacity and skills and other basic education indicators.

### *1.1.20 Financial Envelope*

The total cost of the proposed project is 20 million Euro for commitment in 2004. The budget is allocated to cover the Technical Assistance, Institutional Strengthening, equipment and supplies, training, scholarships, operation, monitoring and evaluation costs.

### *1.1.21 Indicative timeframe*

A project identification mission will be launched in 2002/3. The project will be implemented starting 2004 up to 2008.

## **Support to Good governance in the Judiciary (Action 3)**

### *1.1.22 Objective*

The overall objective is to support the democratisation process by supporting good governance actions and the rule of law.

### *1.1.23 Expected results*

The programme is expected to lead to overall improvements in the justice sector, particularly in making the judiciary more professional, transparent and responsible.

### *1.1.24 Activities*

The activities should be coherent with the programme of capacity building and training already designed for the Attorney General's Office on investigation methods and techniques (forensic accounting, assets tracing for financial and "white collar" crimes). They will also be in line with the Partnership for Governance reform, which has a legal and judicial reform programme. Close co-ordination is required with other donors and with the Partnership for Governance reform in the design and the implementation of the activities.

Precise activities proposed for this programme will be detailed after the results of the identification mission which will present a detailed description and appraisal of past, ongoing and planned interventions of other donors in the judicial sectors and recommendations for areas of contribution.

The activities proposed for this programme could include the following:

- (a) Training activities, capacity-building for the Judiciary: a review of the present training policies is necessary before designing a training programme (including assessment of the exposure of trainees to foreign legal and judicial concepts and the legal framework for training). The training programmes will not be concentrated at the central government level only but attention will be paid to capacity-building efforts at the level of the regions and districts.
- (b) Review of laws, regulations and procedures related to the following issues:
  - recruitment and dismissal procedures for judges and attorneys, personnel management within the Justice Department
  - relations between the police, the attorney and courts
  - civil-military relations: military courts, judiciary procedures for member of the armed forces
  - human rights
  - anti-corruption
  - commercial law
- (c) Institutional support to identified partners.

The direct beneficiary of this programme will be the Indonesian Judiciary, including training agencies and professional associations. Intermediate beneficiaries will be national and local NGOs associated to the justice sector reform.

#### *1.1.25 Implementation*

The most suitable partners for implementing the different activities of this programme will be determined after the identification mission.

Possible partners are the Ministry of Justice, Anti-corruption Commission, National Commission on Law reform, Attorney General's Office, Supreme Court, Komnas Ham, law faculties, NGOs and professional associations.

#### *1.1.26 Risks and conditionalities*

The main risk for the implementation of this programme is the variable commitment to reform of the Indonesian government and institutions to reform. Therefore, close co-ordination with them is a requirement for the design and implementation of the programme.

#### *1.1.27 Performance/Outcome indicators*

The main outcome indicators are the effective reforms in laws as well as the number of corruption, misadministration and human rights related cases. The global view of the public on the judiciary will also be an indicator.

#### *1.1.28 Financial envelope*

A total of 10 million Euro to be committed for this programme in 2003.

#### *1.1.29 Indicative timeframe*

A project identification mission should start in 2002. The project should be approved and begin implementation in 2003.

### **Institutional support for local democracy (Action 4)**

#### *1.1.30 Objective*

The general objective of this programme would be to support the implementation of decentralisation in Indonesia and promote good governance at the local government level.

#### *1.1.31 Expected results*

Following the adoption of different regional autonomy laws, Indonesia is facing difficulties in managing the recent decentralisation process. The management and monitoring of regional autonomy from the centre have been inadequate and the local capacities have been insufficient. This programme aim at providing selected local governments and parliaments with institutional capacity to enable them to fulfil their functions in a decentralised framework, with transparency, accountability, transparency and professionalism.

#### *1.1.32 Activities*

A project identification mission is needed to plan activities in this sector. Close co-operation with donors and Member States already active in this sector is a prerequisite to any activity in this sector. As an indicative example the following activities can be envisaged. Two Provinces/regions will be chosen after reviewing the needs and prospects of the different provinces in Indonesia. Particular activities will be designed according to the progress and situation in the two Provinces regarding decentralisation. The following activities could be organised:

- (a) Review of local government practices and services to the public; review of the minimum service standards for the region; feedback to the local parliaments.
- (b) Establishment or support to centres for good governance and public policy (within the local administrations) aiming at assessing and fostering policies of the local government on public services and handling suggestions and complains from the public. Independent monitoring of the activities of the centres.
- (c) Training activities for the local administrations on the new guidelines for public service and new regulations that may be adopted by the local parliaments.
- (d) Exchange programmes between the selected local administrations and similar services in local administrations of European Union Members States.
- (e) Publications and information programmes for the public.

#### *1.1.33 Implementation*

A mission will identify the most suitable partners at the local level and in Europe.

#### *1.1.34 Financial envelope*

A total of 5 euro million could be committed for this programme in 2003.

#### *1.1.35 Indicative timeframe*

A project identification mission in 2002 should first evaluate the possibilities for action in this sector. The project to start in 2003 after the results of the mission.

### Sustainable Management of Natural Resources

#### **Strategy context/justification**

The natural resource sector is vital for Indonesia's future both because of the income- and employment-generating potential of the sector and because of the environmental damage and degradation associated with unsustainable resource exploitation that is extremely expensive to remedy and repair. Interventions are needed to optimise the sustainable utilisation of primary natural resources while preventing negative environmental factors becoming a constraint on Indonesia's development efforts.

The global importance of Indonesia's **forest resource** has prompted intense interest on the part of the international community. As bio-diversity is of global concern and not only of importance to Indonesia, continuous support from the European Union will be desirable. Donor co-ordination in this sector has been exceptionally effective and must clearly continue. It is for this reason among others that one of the European Council conclusions of April this year is to invite the Commission and Member States to maintain their focus on the forestry sector.

Recent changes in the Indonesian forestry policy (e.g. the presidential decree against illegal logging the moratorium on the logging of Ramin and placing it on the Appendix of CITES), an overall improved co-ordination and the establishment of a partnership between the government and the donors on forestry issues have increased hope for sustainable management of Indonesia's forest resource.

The importance of sustainable forest management is explicitly mentioned in the PROPENAS (the national development programme) for the period 2000-2004. It states, among others that objectives in this sector are: (a) to improve the management of marginal forest lands and develop community based and community managed social forestry, (b) to increase the real value of the forest, including non-timber forest products and forest services, (c) to increase the role of protected forests and conservation forests in the local economy, (d) to reduce illegal logging and

rampant forest fires, (e) to increase the status of forest lands by recognising the communities, (f) to restructure forest management systems, (g) to increase investment and business opportunities in forestry, (h) to strike a balance between utilisation and conservation, (i) to reduce land conflicts and (j) to develop social institutions that are able to manage land in an integrated manner. Combating illegal logging and illegal trade are related objectives. Activities to be considered for support are: support to the development of a system of third party forest management certification including verification and inspection of logging concessions, continued support to the illegal logging response centre in the Ministry of Forests, monitoring and data collection on logging activities, measures aimed at restructuring the over-sized forest processing industry, and capacity building for border controls on illegal trade.

On the instigation of the Commission, a donor forum on forestry has been established and has proven to be effective in its relation with the Ministry of Forestry in preparation of the interim-CGI of April 2001. An inter Departmental Committee on Forestry has been established and it is expected to become operational in the near future.

The **fresh water resource sector** is vital for Indonesia's future because of the income- and employment-generating potential of the sector, its source for human consumption and the fact the vast majority of Indonesians live in coastal areas prone to flooding under conditions of uncontrolled management of water resources. More than 40 % of the population of Indonesia, and the majority of the country's poor, are employed in agricultural activities. Sustained agricultural production levels depend heavily on reliable supply of irrigation water and control of wet season flooding. The 2 foremost processes endangering the sustainability of the water sector are the environmental degradation of the river catchments, due to rampant illegal logging practices resulting in decreasing dry season water supplies and increases in wet season flooding hazards, and inefficient and uncontrolled exploitation of the available fresh water resources. As a result of these processes, fresh water is rapidly becoming a scarce resource in Indonesia.

In order to improve the fiscal, economic, environmental and social performance of its' water resources and irrigation sector, Indonesia initiated in 1998 a comprehensive policy paradigm shift and a sector management institution reform as part of the World Bank's balance-of-payments support commitment. These reforms are based on principles of transparent sector governance and greater agency accountability, public-private partnerships and community participation. The sector reform agenda includes: (a) issue of a National Water Resources and Irrigation Policy; (b) enactment of a new Water Resources Law and attendant revision of all sector legal and regulatory frameworks; (c) redefinition of the roles, mandates, organisation, financing mechanisms and, management control and information systems of national, provincial, river basin and district level agencies; (d) integrated inter-governmental decision-support and data networks; (e) improving water pollution control to include financial and fiscal regulatory instruments; (f) transferring irrigation network management to autonomous, legally empowered and self-financing water user associations (WUA) and WUA federations; (g) stakeholder participation in all provincial and river basin policy-making bodies including a National Water Resources Council; and (h) sector adjustment to administrative and fiscal decentralisation legislation. An inter-governmental and NGO task force under the Coordinating Minister for Economic Affairs is preparing these reforms with support from several donors. Some draft laws and acts allowing for the introduction of these reforms have meanwhile been accepted by the Parliament and are presented to the President for official enactment. The actual implementation of all these reforms throughout Indonesia is the next step, which will require substantial work and time.

The reform in the water sector and the new development approach of government as formulated in the PROPENAS give clear evidence of a commitment to good governance in general and an awareness of, and desire for, equitable and sustainable water resources development and management and the preparation of policy strategies on the part of the Government of Indonesia (GoI).

The donors active in the water sector have indicated their endorsement of these reforms and their willingness to collaborate and co-ordinate with GoI and amongst the donors to consolidate the new policies and institutions emphasising sustainable sector management over infrastructure development. The aim is to develop individual donor projects all following common programme principles and strategies under joint oversight. A donor water forum was established in 1999 and is currently being chaired by the FAO.

### **East Kalimantan Natural Resources Management Project (Action 1)**

#### *1.1.36 Objective*

The overall objective of this action is to improve the sustainable management of the country's natural resources under decentralised government.

The specific objective or project purpose is to assist local communities, district government agencies, private sector companies and NGOs to develop and implement processes that efficiently manage district natural resources in an objective, planned, equitable and sustainable manner.

#### *1.1.37 Expected results*

The project is expected to have 2 main results:

- (a) A management structure established and equipped within the involvement of all stakeholders in order to facilitate planning, implementation monitoring and evaluation of the natural resources management.
- (b) Contributions to selected local initiatives aiming at sustainable utilisation/conservation of natural resources. These initiatives should contain a poverty alleviation element.

#### *1.1.38 Activities*

Activities could involve:

- (a) Support the development of sound policies, plans and strategies for natural resources management.
- (b) Implementation of baseline surveys required for natural resource management and establishment of a natural resource data bank for the 2 districts.
- (c) Support a transparent consultative planning process as the basis for natural resources management decisions, preventing conflict over land use and/or resources use.
- (d) Support capacity building at the district level for agencies involved in natural resources management.
- (e) Increase the involvement of civil society and private sector in natural resources management.
- (f) Support to the ongoing research in the STREK forest management programme site.
- (g) Support to the development of environmental education- and training activities based on natural resource management.

- (h) Support of selected local initiatives for at sustainable utilisation/conservation of natural resources, contributing to the low-level incomes.

#### *1.1.39 Implementation*

The project will be implemented in the Berau and Bulungan Kabupaten (regencies) in East Kalimantan. The implementation of the Programme will be in line with the current decentralised set-up of the Government, with details still to be worked out with all stakeholders. However it is likely that the project will be co-ordinated at the provincial level while implementation will be the responsibility of the 2 involved Kabupaten (regencies) Government. The project will consist of three units; two implementation units (one in each district) and a co-ordination unit at provincial level.

#### *1.1.40 Risks and conditionalities*

A major risk for the success of this project is the chance that short-term economic gain will prevail over long-term economic benefits, e.g. illegal logging- and coal mining continues, conversion of forest to unsustainable land-uses expands. Conditionality would be the determination of local government to enforce the law and prevent illegal logging and conversion.

#### *1.1.41 Performance/Outcome indicators*

The main performance/outcome indicator is reduced conflict over land-use and natural resource management, which will support sustainable management.

#### *1.1.42 Financial envelope*

The overall financial envelope of this project is 15 million Euro for commitment by the Commission in 2002. This would be used for TA, equipment, training, monitoring, information, contingencies and project running costs. An allocation of 4 million Euro would be for a natural resources utilisation/conservation fund.

#### *1.1.43 Indicative timeframe*

The 'Project Preparation Mission' will be launched February 2002. Project implementation to start 2003 and last until 2007.

### **Strengthening the Role of the Directorate of Forest Fire Control (Action 2)**

#### *1.1.44 Objective*

The Objective of the project is to support the Ministry of Forestry to develop strategies, procedures, standards and systems, including a database, within the Directorate of Forest Fire Control, and advise and assist in co-ordinating activities of projects to the benefit of fire managers in Indonesia.

The project will build on the experience of the Forest Fire Prevention and Control Project and the development of the South Sumatra Forest Fire Management Project, and of other donor projects in the field of forest fire prevention and control.

#### *1.1.45 Expected results*

- (a) The Ministry's capability to take action strengthened.
- (b) A database of information on fire management accessible to policy makers and fire managers established.
- (c) The role of the Ministry of Forestry in forest fire training strengthened.

- (d) Standards and systems to improve fire management harmonised.
- (e) Awareness among the stakeholders of the importance of fire management raised.

#### *1.1.46 Activities*

Review of the work undertaken by the Trans-Boundary Haze Action Plan and identification of resources required and, together with other projects active in the sub-sector, develop training packages which will increase the preparedness of selected districts.

Design and develop a database, which addresses the information needs of the Ministry and other stakeholders and design a network system between fire management centres and other information sources.

Design and develop a national forest fire management and training strategy for all levels of fire management.

Fire equipment specifications standardised and Fire danger rating systems harmonised into a single National Fire Danger Rating System.

Provide assistance to an awareness campaign specifically aimed at the major stakeholders responsible for the occurrence of forest fire.

#### *1.1.47 Implementation*

The project is based at the Ministry of Forestry in Jakarta, which is also the executing agency.

#### *1.1.48 Risks and conditionalities*

No particular risks and conditionalities are foreseen.

#### *1.1.49 Performance/Outcome indicators*

The main performance/outcome indicator is improved forest fire management coordination in Indonesia.

#### *1.1.50 Financial envelope*

A total of 1 million Euro to be committed in 2002 for this programme. It is proposed that this commitment be made as an addendum to the ongoing South Sumatra Forest Fire Management Project already committed in 2001.

#### *1.1.51 Indicative timeframe*

The project proposal is almost finalised and the project should start 2002 and be implemented over a period of 2 years.

<b>Support to Biodiversity Conservation (Action 3)</b>
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#### *1.1.52 Objective*

The overall objective of this action is to assure the protection, conservation and sustainable management of one of Indonesia's conservation areas with high biodiversity.

The specific objective is to ensure that the management of national parks by non-governmental bodies is a viable alternative both technical and financial to State management.

#### *1.1.53 Expected results*

The Leuser forest/park Ecosystem will be developed to generate income out of eco-tourism, carbon sequestration and payment of environmental services provided by the ecosystem to the surrounding urban and industrial areas.

#### *1.1.54 Activities*

Activities could involve:

- (a) Development of a model for transfer payment for environmental services between the management body of the Leuser Ecosystem and private sector in the surrounding industrial areas of North Sumatra and North Aceh. This could include payments for industrial and urban water consumption, hydropower etc.
- (b) Develop a model whereby the management body of the Leuser forest/park Ecosystem can receive some form of revenues out of eco-tourism.
- (c) Assist the management body of the Leuser Ecosystem with developing a training programme for future cadre of the foundation.
- (d) Assist the foundation with developing a membership programme, including a multi-media public relations programme.
- (e) Further develop programmes to integrate biodiversity conservation into the curriculum of schools and institutions of higher education, especially in North Sumatra and Aceh.

#### *1.1.55 Implementation*

A project identification mission would be needed in 2002 to develop this project idea further. Implementation should start in last quarter of 2003 or early 2004.

#### *1.1.56 Risks and conditionalities*

There are several risks related to this proposal that could be identified at present. The main risk for the implementation of the programme is the security situation in Aceh. Another risk is the lack of law enforcement due to the poor judicial system which could result in extensive illegal logging and poaching. Finally there is the chance that either partner (EC/GoI) feels that too much has been invested into the conservation of the mega-fauna (tiger, elephant, rhino and orang-utan) of Southeast Asia. This despite the fact that there is no other area in the region, SE Asia, where these four species share the same habitat.

Conditionality for this project would be the commitment of the Government to the concept of managing conservation area by non-governmental bodies, whereby the role of the Government is that of providing the legal framework and supervise the implementation

#### *1.1.57 Performance/Outcome indicators*

The main performance/outcome indicator is financial viability of the Leuser Ecosystem management body/foundation.

#### *1.1.58 Financial envelope*

A project of this scale and time frame would need at least 15 million Euro for commitment by the Commission in 2003.

#### *1.1.59 Indicative timeframe*

A project identification mission would be needed in 2002 to further develop this project idea. Implementation should start in last quarter of 2003 or early 2004. The project should be for 4 years.

<b>Social/Community Forestry (Action 4)</b>
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#### *1.1.60 Objective*

The overall objective of this action is to assure both equitable and sustainable management of the Indonesian forest resource in selected areas, thereby reducing rural poverty.

The specific objective is to develop a model for small- and medium scale enterprises in the forest sector involving local communities.

#### *1.1.61 Expected results*

Based on the experience of other donors (GTZ-West Kalimantan) develop and disseminate a model for community based small and medium sized forestry enterprises utilising both timber and non-timber forest resources.

#### *1.1.62 Activities*

A list of activities will have to be developed at a later stage, but should include:

- (a) Inventory of models of community based forestry in the region.
- (b) Inventory of laws and regulations related to community forestry.
- (c) Community based resource mapping.
- (d) Silviculture and marketing training.

Geographical area could be Papua or another province in Eastern Indonesia with major forest cover (e.g. Seram). Target groups would be local communities with a tradition in utilising forest resources.

#### *1.1.63 Implementation*

An in-depth feasibility study would be necessary, before committing a project preparation mission. Depending on the location such a project would take at least six years to achieve tangible results, although financial implementation could be completed within five years.

#### *1.1.64 Risks and conditionalities*

To be assessed but certainly would involve the risk of over exploitation ("tragedy of the commons") while the major conditionality would be the Government's commitment to community based resource management.

#### *1.1.65 Performance/Outcome indicators*

To be decided at a later stage.

#### *1.1.66 Financial envelope*

Any project in Eastern Indonesia is costly because of the travel distances involved. A commitment of 10 million from the 2004 budget is foreseen.

#### *1.1.67 Indicative timeframe*

A project feasibility study would be needed in 2003 and a project identification mission should be launched in 2003. The project could start late 2004.

<b><u>River Basin Water Resource Based Poverty Alleviation Program</u></b> <b><u>(Action 5)</u></b>
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#### *1.1.68 Objective*

The overall objective of this action is the introduction of sustainable and efficient management of water resources under decentralised government in a still to be selected river basin in Eastern Indonesia.

The specific objective or project purpose is to assist local communities, district government agencies, private sector companies and NGOs to develop and implement processes that efficiently manage water resources in an objective, planned, equitable and sustainable manner.

### *1.1.69 Expected results*

The expected results of this project are fourfold:

- (a) To increase low-level rural household incomes supporting regional economic growth.
- (b) A management structure at river basin level established and equipped within the involvement of the stakeholders in order to facilitate planning, implementation monitoring and evaluation of the utilisation and conservation of water resources.
- (c) To increase capacity building/human resources development in natural resources management.
- (d) To empower civil society/and improve gender balance.

### *1.1.70 Activities*

The specific activities possibly to be implemented are:

- (a) Establishment of an efficiently running river-basin waterboard (Balai PSDAs) and supervising body (DEWAN AIR) with stakeholder participation and own funding mechanisms.
- (b) Development of an integrated river basin management plans including database and information systems.
- (c) Support the development of sound policies, plans and strategies for water resource management.
- (d) Support a transparent consultative planning process as the basis for water resource management decisions.
- (e) Support capacity building at the basin level for agencies involved in water resource management.
- (f) Increase the involvement of civil society in water management.
- (g) Handing-over of ownership and O&M of irrigation- and drainage systems to autonomous, legally empowered and self-financing water user associations (Gabungan P3As).
- (h) Development of institutional capacities at district and basin level to allow for stakeholder involvement in planning and design procedures.
- (i) Provision of support (technical and financial) for 'Kabupaten Irrigation Improvement Funds' (KIIF) for rehabilitation/upgrading of water infrastructure (irrigation- and drainage systems, rivers, floodways) for agricultural and domestic water users.
- (j) Implementation of erosion prevention and -preservation works in the catchment.
- (k) Strengthening local institutions and human resources development of project population in fields of decision making, income generation and gender.

### *1.1.71 Implementation*

The programme will be implemented in a still to be selected river-basin, preferably in East Indonesia. Activities will be at provincial-, district- and field levels with intensive participation of the project's main beneficiaries, non-governmental organisations and local governments (province/districts). The European funding covers the institutional/ capacity building activities and (part of) the foreseen infrastructure repair works. Funding for routine activities, as well as a part of the costs for the infrastructure repair works should come from the recipient. European

TA will be required for capacity building/training, conflict mitigation, specialised topics and project management. Routine project implementation and technical supervision will be done by Indonesian parties, such as universities, NGOs and local consultants, recruited by, and under supervision of the PMU. Total European and national TA to be decided by a project preparation mission.

#### *1.1.72 Risks and conditionality*

The main risk for the implementation of the programme is the stability of the Indonesian society and the authority of the National- and Regional Authorities.

The main conditionality is that the provincial- and district governments have passed the necessary legislation and established the required river basin water boards.

#### *1.1.73 Performance/Outcome indicators*

The main performance/outcome indicator is reduced conflict over water resource management, and improved water conservation. Indicators for the performance of the programme are the increase in efficiency in the water quality and quantity in the irrigation schemes resulting in higher cropping intensities and increased planted areas and consequent increase in farmers income.

#### *1.1.74 Financial envelope*

The total costs for the proposed project are around 20 million Euro, with exact costing to be determined at appraisal/identification. An EC commitment of 10 million Euro is foreseen from the 2004 budget. (This action could be envisaged to absorb larger funding should this be available.) The remainder will be GoI contribution, preferably from provincial/district level.

#### *1.1.75 Indicative timeframe*

An implementation period of around 4-5 years will be required. It is expected that the project can be launched in 2004, with appraisal/identification in 2003.

#### Small Ad-hoc Facility

### **Small Grants for Initiatives in the Framework of Good Governance and Decentralisation and Natural Resource Management**

#### *1.1.76 Objective*

The overall objective of the Small Ad-hoc Facility (SAF) is to support small activities in the sectors of Good Governance and Decentralisation and Natural Resource Management. At the same time it will allow the Delegation to react very quickly to unforeseen needs in a way that is common among bilateral donors.

#### *1.1.77 Expected results*

Increased impact, flexibility and visibility of EC Development aid by creating complimentary small ad-hoc projects. The projects will be managed on a decentralised basis directly by the Delegation to allow the EC to react to actual and unforeseen needs in the Indonesian society in a rapid and flexible manner.

#### *1.1.78 Activities*

Activities will include projects carried out in co-operation with the Central and Local Governments, NGOs or other partners from the civil society. The projects can also include EC contributions to activities established by multilateral donors e.g. UN-Agencies. All initiatives will be below one million Euro while there is not any fixed minimum amount. A small contribution to an activity can at times be very valuable and give a high return.

### *1.1.79 Implementation*

Implementation of the programme will require development of a Manual for Utilisation of the Small Ad-hoc Facility.

The Manual should include guidelines on:

- Definition of activities to be financed
- Evaluation and selection of proposals submitted
- Monitoring of the activities
- Accounting procedures

The manual will have to be developed before submission of the Small Ad-hoc Facility proposal to Brussels.

A mission is foreseen to further define the Small Ad-hoc Facility and prepare a Manual in co-operation with the Delegation.

The activities will be implemented after assessment of project proposals by the Delegation and the Head of Delegation will approve the projects and activities in accordance with the guidelines given in the manual. The use of European Technical Advisors as well as local consultants might be appropriate in some projects.

In all activities proper accounting will be required to guarantee transparency and avoid misuse of funds. The activities will have to be designed in a way that eases the monitoring workload for the Delegation.

### *1.1.80 Risks and conditionalities*

The programme might be difficult to implement within the expected timeframe due to the high degree of innovation that is associated with this activity. The workload created from programming, identification, formulation, financing, implementation and evaluation is difficult to foresee and there might be a demand for strengthening of the human resources in the Delegation.

### *1.1.81 Performance/Outcome indicators*

The programme is expected to improve the flexibility of our cooperation programme and its ability to react rapidly as needs arise. The programme is expected to increase the visibility of the European Commission and raise the confidence among Indonesians and other donors in the EC's ability to deal with problems and create adequate solutions.

The programme be monitored will on an on-going basis by the Delegation and will later be evaluated by external consultants.

### *1.1.82 Financial envelope*

The commitment of 5 million Euro for this Small Ad-hoc Facility programme is foreseen in 2003.

### *1.1.83 Indicative timeframe*

Preparation for the programme should be carried out in 2002 for commitment the following year (2003). The duration of the programme should be ongoing with an evaluation in 2004 of the programme to decide on further continuation.

## Economic Co-operation

### **Strategic context/justification**

The EU is Indonesia's largest trading partner for non-oil and gas products. However, the current volume of bilateral trade and investment between the EU and Indonesia falls short of its potential.

In order to respond to that situation, the Commission has in the past supported a number of business promotion activities. However, while such activities are necessary to spur EU-Asian business collaboration, they are obviously not sufficient. It has become increasingly clear that at least as important is the creation of a business-friendly environment of law, tax and public-policy that enables well-run businesses to thrive in a transparent and level playing field. One of the most important ways by which a business-friendly environment can be provided and sustained is through increased economic openness.

Bilateral economic co-operation with the European Commission has been a long time request of the Government of Indonesia. The EU would show its full commitment to supporting Indonesia's economic reforms and liberalisation through an extensive economic co-operation package. This economic co-operation package would seek to assist the Government of Indonesia in its reform process and would at the same time promote civil society, the rule of law and sustainable development together with market access and trade orientation. Both regulatory and technical assistance will have a key role to play and projects should be specifically designed to help build capacity in the Government of Indonesia's administration.

Given its influence on trade relations, particular attention will be given to the visibility of the European Commission in the context of the economic co-operation with Indonesia. Therefore, in each of the following activities, a particular budget line should be added for publications and activities enhancing the visibility of the actions.

### **Technical co-operation programme in the field of trade and investment (Action 1)**

#### *1.1.84 Objective*

The general objective is to foster a business environment favourable to enhancing EU-Indonesia economic relations (i.e., in the areas of trade, investments and standards).

A technical assistance in the field of modernisation and decentralisation is foreseen.

#### *1.1.85 Expected results*

The Technical Co-operation Programme should result in:

- Removing existing obstacles to foreign investment and fostering compliance with international and European standards
- Improved capacity of the Indonesian Government to manage its integration into the global economy
- Enhanced competition in the domestic economy

#### *1.1.86 Activities*

(a) Investment:

Focus on the removal of obstacles to investment (possible geographical restrictions, joint venture requirements, discriminatory licensing procedures and outright closure of certain sectors to foreigners). Technical assistance could be offered to BKPM, the national

investment co-ordinating board, to simplify its responsibilities, reduce regulations and cut red tape. The system of approvals should be standardised, especially in the light of the decentralisation process currently taking place in Indonesia. Investors should have to face the same requirements and the same procedures and not have to deal with uncoordinated local and regional approval processes.

(b) Customs:

A proposed EC – ASEAN customs protocol seems to be not feasible for the moment but co-operation in the field of customs to reduce red tape and harmonise procedures and to enhance greater mutual understanding of systems used would be opportune to improve the business climate. Promotion of exchange and training of customs officials and joint pilot projects involving new information and communication technologies could be examples of co-operation in this field. Assistance should also focus on questions relating to implementation of the customs valuation agreement, tariff harmonisation, import-licensing etc.

(c) Standards:

There is some confusion for EU business in Indonesia concerning standards, as they are sometimes different, using different methods and thus create discrepancies. The Indonesian Government has introduced the Indonesian National Standard but discrepancies in results stem from the lack of competent analysts and the (non-) availability of scientific and technical information, related processing technology or intended end-uses of products. Also more information about EC standards should be made known to Indonesian officials and business including exchange of information on conformity assessment and type approval. This bilateral co-operation on standards should liaise with the EC - ASEAN programme on co-operation in the field of standards for quality and conformity and ensure complementarity. This programme should also give attention to the area of capacity building for conformity assessment.

(d) WTO:

With regard to the existing WTO Agreements, the European Community will provide technical assistance to Indonesia to support it in its efforts to honour its commitments, and to enhance its capacity to effectively export its products to the European union. Technical assistance can notably be made available for the further development of Indonesia's regulatory, legislative and institutional capacities in areas like customs valuation, SPS/TBT, Trade related Intellectual Property Rights (TRIPS) and Services.

With regard to the Doha Development Agenda, co-operation could include technical assistance to enhance Indonesia's capacity to participate in the negotiations in the areas of intellectual property, market access for non-agricultural products, trade and investment, trade and competition policy, transparency in government procurement, trade facilitation, and trade and the environment.

### *1.1.87 Implementation*

The Delegation is proposing an identification mission to visit Indonesia as soon as possible to establish a bilateral economic co-operation programme with the Government of Indonesia in areas such as standards, investment, and customs. This mission should also look at four economic co-operation projects identified by the Indonesian government and presented to the Commission during the EC – Indonesia SOM in June 2001 including technical assistance to Technology Centres.

#### *1.1.88 Risks and conditionalities*

To be assessed.

#### *1.1.89 Performance/Outcome indicators*

To be defined together with the detailed description of the projects.

#### *1.1.90 Financial envelope*

Three EC commitments of 4 million Euro each are foreseen one in each of the years 2002, 2003 and 2004, giving a total of Euro 12 millions.

#### *1.1.91 Indicative timeframe*

Urgent preparation should be carried out in 2002 for the first commitment the same year. The duration of the programme should be three years to allow for both short term and some longer-term interventions depending on the needs.

### **Small Projects Facility (Action 2)**

Regional and bilateral programmes are sometimes complex and cumbersome to manage. Most of the projects that could be developed in Indonesia are on a small scale and need a quick and relatively flexible procedure to be implemented effectively.

The Delegation's work would be much more effective if a budget for micro-projects could be made available with a posteriori control from Brussels.

#### *1.1.92 Objective*

A budget for a small project facility should be allocated for ad hoc measures focussing on economic co-operation. This facility will be directly administered by the Delegation.

#### *1.1.93 Expected results*

The Delegation will have a more flexible and manageable facility for the realisation of small-scale activities responding to the rapidly evolving needs of the business community in Indonesia.

#### *1.1.94 Activities*

Possible activities that could be financed by the small project facility are:

Promoting dialogue between European and Indonesian companies. The aim of this project would be to bring EU and Indonesian companies together to foster stronger relations and increase mutual understanding and co-operation. The dialogue could consist of high level Business to Business meetings on a yearly basis plus working groups on sectoral matters. Making recommendations for and identifying priorities for policy makers. The European Industrialist Round Table could serve as an example or even as partner in this project. The European Indonesian Association, which groups together all EU Business Associations represented in Indonesia, should be involved in this dialogue.

In addition, the European Business Association needs support for its activities. This will function as a separate, independent association financially supported by the European Commission and would be responsible for designing and organising activities such as market studies and networking activities. This association needs to be independent in deciding on its projects in order better to respond to the evolving local environment.

The small project facility should where appropriate respond to trade related technical assistance needs in relation to the implementation of existing WTO agreements and the Doha Development Agenda.

*1.1.95 Implementation*

The implementation of the Programme will be defined during the formulation stage.

*1.1.96 Risks and conditionalities*

To be assessed.

*1.1.97 Performance/Outcome indicators*

To be defined.

*1.1.98 Financial envelope*

Three EC commitments of 2 million Euro each are foreseen in each of the years 2002, 2003 and 2004 giving a total of 6 millions.

*1.1.99 Indicative timeframe*

The proposed duration of each programme is three years. The first budgetary commitment of Euro 2 millions should take place in 2002.

Annex 1<sup>39</sup>

<b>Commitments by the Commission per sector in Mio. Euro per year:</b>				
<b>Sector/ year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Total</b>
Good governance in health	35*			35
Good governance in education			20	20
Good governance in public administration		15		15
Nat. res. man. forestry	15+1	15	10	41
Nat. res. man. water			10	10
Small ad-hoc facility for good governance Nat. res. man.		5		5
Technical co-operation for trade and investment	4	4	4	12
Economic co-operation small project facility	2	2	2	6
<b>Total</b>	<b>57</b>	<b>41</b>	<b>46</b>	<b>144</b>

\* The Euro 15 Mio. earmarked for Papua may only be committed in 2003.

<b>Commitments by the Commission per sector in Mio. Euro per year from 2000 to 2006:</b>						
<b>Sector/ year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005*</b>	<b>2006*</b>	<b>Total</b>
Good governance in health	35					35
Good governance in education			20			20
Good governance in public administration		15				15
Nat. res. man. forestry	15+1	15	10			41
Nat. res. man. water			10			10
Small ad-hoc facility for good gov. NRM.		5				5
Total development co-operation /year	51	35	40	31	31	188
Economic co-operation	6	6	6	5	5	28
Total/ year	57	41	46	36	36	
<b>Total for 2000-2006</b>						<b>216</b>

\* Distribution on sectors and activities for 2005 and 2006 is not included in the table except for economic co-operation.

<sup>39</sup> These tables provide a pipeline of identified possible projects which exceeds the probable available financing for 2002-2006 since it is considered prudent to have project ideas in reserve in case one or other of the project actions foreseen is not realised for specific unforeseen reasons.