

EN

EN

EN

ANNEX

INDONESIA - MID-TERM REVIEW (MTR)

PART 1. EXECUTIVE SUMMARY

From a low-income country in the mid-1960s, Indonesia transformed itself into a middle-income country in the mid-nineties. Although it was the country hardest hit by the Asian financial crisis in 1997-98, recovery began in 2000, and average annual growth has been close to 6% since 2003. Indonesia was initially not spared from the current global financial and economic crisis. However, its economy has proven to be remarkably resilient. Prudent economic management with an emphasis on fiscal stabilisation and a strong domestic demand has placed Indonesia among the handful of countries with positive growth in 2009 of 4,6% GDP; in 2010 a GDP growth of approximately 6% is expected. However, these growth rates have not translated into substantial reductions in poverty and unemployment (around 16% and 9% respectively).

The outcome of the legislative and presidential elections in April and July 2009, respectively, led to the re-election of President Susilo Bambang Yudhoyono which was a reassuring demonstration of the solidity of the Indonesian democratic transition. This now needs to lead to wider socio-economic reforms and market opening.

The signing of the EU-Indonesia Partnership and Cooperation Agreement (PCA) in Jakarta on 9 November 2009, together with the EU decision last July to partially lift the air restrictions that had strained relations for the last two years, signals the beginning of an enhanced and strengthened relationship.

The existing focal sectors under the first Indicative Programme 2007-2010, namely basic education, support for trade development and investment, and improving governance thorough law enforcement and justice, are still highly relevant for supporting key policy priorities in Indonesia. In addition, the reinforced commitment by the EU and Indonesia to fighting climate change and to reduce tropical deforestation calls for specific and significant intervention in this area, which is fully supported by Indonesian Authorities.

These sectors are also in line with the new policy orientations in the Indonesian Medium-Term Development Plan covering the period 2010-2014. The overall progress in implementing reforms in these focal sectors is reasonably satisfactory, providing a basis for further EU support to pursue reforms in these sectors over the period 2011-2013.

In the light of these considerations, the Commission proposes the following budget breakdown.

Budget allocation

The financial allocation for the **period 2007-2010** was **€48 million**

Priority 1 — Education: **€198 million** or 80 %

Priority 2 — Trade and investment: **€30 million** or 12 %

Priority 3 — Law enforcement and justice: **€20 million** or 8 %

The indicative financial allocation for **2011-2013** is up to **€200 million**:

Priority 1 — Education: €144 million or 72 %

Priority 2 — Trade and investment: €25 million or 12.5 % (including FLEGT)

Priority 3 — Law enforcement and justice: €16 million or 8 %

Specific intervention — Climate change: €15 million or 7.5 %

PART 2 MID-TERM REVIEW (MTR)

(I) ANALYSIS

Main political, economic, social and environmental developments in Indonesia

Regarding the **political situation**, the legislative and presidential elections on 9 April and 8 July 2009, respectively, dominated all political activities during the year. The elections were characterised by lively but peaceful campaigns, so despite the problems with voter data during the legislative elections, the overall assessment is quite positive as regards the consolidation of Indonesian democracy. The winner of the legislative elections was President Yudhoyono's Partai Demokrat, which nearly tripled its vote from 2004, although it did not obtain sufficient votes to control parliament.

At the presidential elections, the current President, Susilo Bambang Yudhoyono, won a clear victory with close to 61 % of the vote, obtaining a second five-year mandate. The voters trusted his commitment to continue to fight corruption and his promise of effective management of the economy. These results have given him a strong mandate to pursue a reformist policy agenda with more determination in his second term. This should lead to wider socio-economic reforms and market opening. President Yudhoyono was inaugurated on 20 October 2009. His cabinet represents a compromise between his desire to create a reform-minded government team and the need to include representatives of political parties able to provide support in Parliament. Mr Yudhoyono's Democratic Party is the largest in Parliament, but will still require the support of other, often uncooperative parties to pass legislation. For President Yudhoyono, holding a coalition government together will be a difficult task in his second term.

Terrorism remains a concern as shown by the attack on 17 July 2009 at two international hotels in the capital, which killed nine people and injured many, and a series of arrests of suspected terrorists in early 2010. These events underlined the continuing security risks in Indonesia, despite the government's objective progress in reducing Jemaat Islamia capabilities, but also highlighted the law enforcement and counter-terrorism efforts undertaken by the authorities. Cooperation in the fight against terrorism through various means is one of the areas in the Partnership and Cooperation Agreement where there is likely to be intensified work with Member States in future. In the Country Strategy Paper, this issue is also addressed through cooperation on law enforcement and strengthening of the legal framework, which remains a priority for the 2011-2013 period and aims to have a positive impact on security.

As regards **the economy**, Indonesia is one of the few Asian countries registering significant economic growth, with a GDP growth of 4.5 % in 2009 which is expected to expand up to 6% in 2010. This is mainly due to sustained private consumption boosted by a government fiscal stimulus designed to protect Indonesia from the effects of the global economic recession. Despite the encouraging growth prospects, however, many investment plans in Indonesia have been postponed or dropped given the difficulties for domestic firms in obtaining capital and due to bureaucratic barriers. Official unemployment rate decreased from 9,8% in 2007 to expected 7,6% in 2010.

Although formally committed to the G-20 pledge to refrain from protectionism, the government has taken a number of trade and financial measures, including stricter controls on imports and investment as well as the implementation of non-tariff trade

barriers, with the aim of supporting domestic industry. Moreover, global economic weakness will affect exporters, while imports are also likely to decline. In the current context, the reforms to improve the business environment is one of the main political targets of the Indonesian government.

With regard to **Indonesia's Development Goals (MDG's) achievements**, the latest review of MDG indicators provide data for 2008 showing that the country is well under way to reaching many MDG targets at national aggregate level by 2015. Poverty alleviation continues to be a key priority of the government's Medium-Term Development Strategy, pursued through three main programmes: cash transfer and subsidies for certain basic commodities, a comprehensive community development programme, and support for provision of micro-credit. Indonesia has made significant progress in reducing poverty, boosting primary education enrolment, and improving children nutrition and gender equality. However, current progress on maternal mortality, access to potable water, and sanitation remains insufficient. Some of the major challenges that Indonesia needs to address are poor capacity at local level, the low quality and outreach of public services and old infrastructure, particularly in rural areas. Poverty reduction and work towards the MDG's are likely to continue to be key issues in Indonesia's development policies in the coming years

Indonesia is a key partner for the EU in the ASEAN region. As the country with the world's largest Muslim population and a member of the G-20, with a growing market for trade and investment opportunities and increasing regional relevance, a stable, democratic, open and prosperous Indonesia that can cooperate effectively in dealing with common global challenges like climate change, maritime security or the fight against extremism is in the interest of the EU. Although bilateral relations have traditionally been good, the decision by the EU in 2007 to include Indonesia airlines in the EU air ban black list because of air safety concerns had strained relations for the last two years. The EU's removal of four Indonesian airlines, including the main one Garuda, from the black list in July 2009 as well as the signature of the EU-Indonesia **Partnership and Cooperation Agreement (PCA)** in Jakarta on 9 November 2009 have opened the way for a new closer and intensified relationship. The PCA, which is the first of its kind to be signed with an ASEAN country, provides a modern and comprehensive framework to strengthen and enhance political, economic and sectoral cooperation in a broad range of policy areas.

In the field of **environment**, Indonesia has become the third world's largest emitter of green house gases (GHG). Tropical deforestation – responsible for about 80% of the country GHG emissions – is driven mainly by illegal logging and agriculture expansion, including for oil palm production. This said, the government is increasingly aware of the challenge that climate change poses globally and the country own vulnerability to it. Indonesia has moved forward in the direction of establishing a low carbon development strategy, including a political pledge to reduce unilaterally GHG emissions by 26% by 2020, compared to business as usual projections, and up to 41%, if international financial support is provided. It has also associated with the Copenhagen Accord and expressed intention to put in place a monitoring, reporting and verification (MRV) system. The country has also taken increasingly strict measures to combat illegal actions in the forest sector, including the development of a timber legality assurance system (SVLK) for the purpose of guaranteeing the legality of timber exports to the EU and other consuming markets. Finally, a major ongoing forest administration reform is shifting forest management responsibilities towards local authorities.

New EC/EU policy objectives and initiatives.

Climate change has become a major aspect of the EU's internal and external policy. The EU has closely engaged with Indonesia on the United Nations Framework Convention on Climate Change (UNFCCC), as the country is one of the world's largest emitters and a strategic partner in the negotiation of a post-Kyoto agreement. Besides the influence the EU may have in the UNFCCC context, the EU's own commitments and internal policies serve as a reference for countries like Indonesia. The European Trading Scheme in particular is closely monitored by local stakeholders interested in exploring the potential of carbon markets to control emission levels. Likewise, EU policies on tropical deforestation and legal timber trade (FLEGT¹ Action Plan, Draft 'due diligence' regulation, 2008 EC Communication on Tropical Deforestation) and on bio fuels promotion and sustainability (Renewable Energy Directive) are of particular relevance for Indonesia as 80% of the country emissions come from land-use change due to forest and agriculture sectors. In this regard, the on-going negotiation of a FLEGT Voluntary Partnership Agreement (VPA) and its link to the Indonesian Timber Legality Assurance System also remains essential. The European Investment Bank plans a stronger involvement in the country in the area of climate change mitigation and cleaner energies in the years to come, which could offer opportunities for complementary interventions.

As far as **migration** is concerned, Indonesia is a source of unskilled workers with a low level of education, who are mainly attracted by wealthy ASEAN neighbours such as Singapore and Malaysia, the Gulf States, Japan and Korea. Therefore, migration is not an issue of concern in bilateral relations with the EU. During 1996 to 2005 an estimated 4 million Indonesian workers were working overseas, with a significant percentage of women.

Concerning **human rights**, Indonesia has made undeniable progress in their promotion and protection and has ratified all the major human rights conventions. However, there remain particular concerns with regard to the situation of human rights defenders in Papua. An EU-Indonesia dialogue on human rights was officially launched in Jakarta on 9 November 2009 and the first meeting took place in Jakarta on 29 June 2010.

Concerning civil society, the Commission has mainly focused on dialogue and operations with NGOs, given their prominent role in development activities. There is, however, general acceptance that the EU must reach out more broadly to CSO's, including trade unions, community-based organisations, universities, foundations, professional associations, and others. Civil society has also been given a role in the human rights dialogue. For the mid-term review, the Delegation held a consultation meeting with a wide selection of CSO's, which endorsed the proposed priorities.

The role of the Non State Actors and Local Authorities and European Instrument Democracy and Human Rights country programs has been so far key in helping civil society's involvement in the focal Country Strategy Papers. Moreover, these thematic programs have ensured complementarity in particular in the education and law and enforcement areas and have provided entry points for democratic governance.

¹ Forest Law Enforcement Governance and Trade

With regard to **aid effectiveness**, progress improved in 2009. When the Consultative Group on Indonesia was discontinued by the Government in 2007, donor coordination in specific policy areas became ad hoc and there was no longer a joint donor platform. In January 2009, however, Indonesia took an encouraging step with the signing of the Jakarta Commitment by the government and 22 donors, including the EU. This agreement, although not legally binding, provides a roadmap to help implement the principles of the aid effectiveness agenda at national level. The EU played a significant supporting role in helping the government draft this agreement, which will serve as a reference for discussions between the government and donors in work on cooperation strategies. The EU has pledged financial support for implementation of the Jakarta Commitment. It is also actively pursuing improved aid coordination in the education sector through the Education Sector Support Programme (ESSP), which is viewed by the government as an early example of good practice in implementing the Jakarta Commitment.

EU-ASEAN negotiations for a region to region Free Trade-Agreement (FTA) have not progressed as expected and efforts are now directed to the negotiation of bilateral agreements, without, however, losing the regional perspective. Indonesia has not shown so far an interest in embarking in FTA negotiations with the EU. However, it can join the process at a later stage when conditions are mature

The EU is also committed to supporting the ASEAN integration process, which is going through an accelerated phase with the entry into force of the ASEAN Charter, the endorsement of various blueprints for institutional reform, and the establishment of the ASEAN Intergovernmental Commission for Human Rights. Regional ASEAN integration is a priority for Indonesia, which has been an active participant in EU-ASEAN cooperation projects.

Results, performance and lessons learnt

The overall assessment of progress made by the Government of Indonesia in implementing reforms relating to the priority sectors of the Strategy Paper is satisfactory.

Concerning **education** reform, in accordance with the EU Multiannual Indicative Programme for 2007-2010, the Commission and Indonesia completed the design of a joint EU-Australia Education Sector Support Programme (ESSP), intended to support implementation of the Government's reform programme in the (basic) education sector. This was approved by the Development Cooperation Instrument (DCI) Committee in October 2009. Current EU support includes a sector budget support component, complemented by a jointly funded EU-Australia 'analytical/capacity development partnership' component. Progress so far in implementing education reform policies and targets, set out in the previous education strategic plan (Renstra), has been very encouraging, but significant challenges remain in terms of reducing provincial/district disparities in access to education, improving education quality and standards, and improving planning and managerial capacity. External assistance to education has been delivered through a wide range of modalities, often piloted in a limited number of districts, leading to fragmentation and risk of duplication and preventing proper feedback into nationwide policy formulation and implementation and system-wide reform.

In the trade and investment sector, the EU has a balanced portfolio of cooperation actions, and progress in implementation has been satisfactory. Specifically, Trade Support

Programme I showed positive results in terms of the improved capacity of the government agencies involved the improved quality of Indonesian exports (particularly seafood) and better interaction between the public and private sector in this area. Public Finance Management has demonstrated reform momentum under the leadership of the Ministry of Finance. Through a World Bank-managed Trust Fund, the EU has provided support to these reform efforts, targeting budget planning and treasury, in particular the tax administration in the redesign of its operational processes, among other things to make tax collection more efficient. The Trust Fund has had the commitment of the government agencies involved and good participation by the contributing donors. With regard to illegal logging and associated domestic and external trade, as well as the impact on sustainable forest management, the EU will build on the lessons drawn from the ongoing FLEGT support project to continue working on VPA negotiations and on forest governance issues.

Law enforcement and justice. This is an area where serious issues remain unresolved. The underlying problem is the government's failure to develop a comprehensive sector policy and strategies for judiciary and police reform, which has reduced the effectiveness of interventions in this sector.

Despite these shortcomings, some developments can be seen in the preparation of several National Action Plans on Access to Justice, the Fight Against Corruption, and Human Rights led by the government, supported by the EU and other donors. Moreover, continuing efforts to eradicate corruption and combat the so-called '*legal mafias and their corrupted practices*' is among the main priorities of the new executive, underscoring the need to support Indonesia in the pursuit of these goals. While the programme supporting good governance in the judiciary was deemed to be successful and instrumental in reforming training for existing judges, it appears that overall improvements in the sector will take longer to materialise. It is too early at this stage to draw lessons learnt from the Rule of Law and Security Programme financed under the MIP 2007-2010, as implementation started only in late 2009. The programme will provide support to anti-corruption institutions, community policing and the Jakarta Centre for Law Enforcement Cooperation (JCLEC). The relevant implementing agencies are adjusting their work plans to take into account the implications of the newly passed Anti-Corruption Court Bill.

(II) PROPOSED RESPONSE IN 2011-2013.

Political, economic and social developments in Indonesia since 2007 confirm the validity of the CSP 2007-2013 for the MIP 2011-2013. Indeed, the existing focal sectors are still highly relevant for supporting key Government of Indonesia (GoI) policy priorities. They are also in line with the new policy orientations reflected in the next Medium-Term Development Plan covering the period 2010-2014. The overall progress made by GoI in implementing reforms is reasonably satisfactory in the CSP priority sectors, providing a sufficient basis for committing additional EU support to GoI reforms in those sectors for the period 2011-2013. The MIP 2011-2013 should therefore continue to focus on:

Education, through an additional contribution to the Education Sector Support Programme (ESSP). In education, disparities between rich and poor, rural and urban populations remain significant. Also, the quality of the basic education system, as measured by student outcomes and the expertise of the teaching force, leaves substantial room for improvement, including in the Islamic schools, or madrasahs, managed by the

Ministry of Religious Affairs. While Indonesia is nearing universal primary enrolment, about one-fifth of children (approximately 5 million) do not graduate from primary school, and 30 % (about 4 million) do not enrol in junior secondary. Improving education access, quality and governance remains a key priority of the government. The additional contribution would further support the country's new education programme (Renstra 2010-14), building on the objectives and resources of the ESSP under the current MIP. It should have duration sufficient to support achievement of education performance targets until the end of the Indonesian MTDP in 2014.

Trade and investment, which is a critical area for improving the economic conditions of the country. In the current global financial and economic crisis, improving the investment climate and trade opportunities is even more crucial to regain sustainable economic growth in the future. Support for this sector should build on and provide continuity to the projects and instruments already in place. Also, the FLEGT Action Plan in Indonesia and the VPA, which is still under negotiation, will require significant efforts for their implementation.

Law enforcement and justice, which is still paramount for improving governance in Indonesia and for achieving development objectives in other sectors. The continued fight against corruption and the strengthening of the judiciary are both critical for enhancing sustainable growth, as those reforms will also contribute to improving the business and investment climate. The FLEGT VPA negotiations with Indonesia focus on the need to improve governance and transparency in the management of the forest sector of that country.

In addition, the reinforced commitment by the EU and Indonesia to fight climate change and protect the environment calls for specific and significant intervention in the area of **climate change**. Indeed, the country still faces enormous challenges to control deforestation and limit carbon emissions, of which it is the third largest emitter. In other sectors such as energy, both policy coherence and financing remain obstacles to achieving progress towards a low carbon economy.

PART 3 THE INDICATIVE PROGRAMME 2011 – 2013

It must be noted that the programmes proposed under section 4) of each priority sector are indicative. The specific actions will be defined following a proper identification and formulation process with the recipient government and other donors.

Priority 1 — Education

1) Strategy Context

The EU, Australia and Indonesia have completed the design of a joint EU-Australia Education Sector Support Programme (ESSP), which was approved for financing by the EU in December 2009. The programme will support the implementation of the Government's reform programme in the (basic) education sector on the basis of the education strategic plan (Renstra) 2010-2014. Current EU support includes a sector budget support component covering the first 3 years of the Renstra, complemented by a jointly funded EU-Australia 'analytical/capacity development partnership' component to be managed by the Asian Development Bank. (ADB). The overall objective of subsequent EU support under the Education Sector Support Programme during the MIP 2011-2013 will be to further contribute to implementing Indonesia's medium-term development policies/strategies for poverty reduction, the achievement of EFA (Education for All) targets and education-related MDG's, and improved regional and global economic competitiveness. An overarching objective is to help promote policy dialogue as well as institutional and organisational reform to underpin policy implementation and help reduce provincial and district disparities in education performance.

Impact indicators will include:

Continued improvement in education performance indicators.

Continued improvement in EFA and MDG access and quality performance indicators, including reduced gender, socio-economic and geographical disparities.

Overall improvement in living standards and reduced socio-economic and provincial/district disparities.

2) Specific objectives

The specific objective of the ESSP is to further support the policies and strategies of the education Renstra 2010-2014 for achieving: (i) equitable access to high-quality basic education; (ii) improved quality and relevance of basic education; and (iii) improved governance and accountability.

Outcome indicators will be based on the results framework agreed for the EU-funded ESSP, and will be subject to its mid-term review. These may include:

improvements in ECCD² gross enrolment rates

improvements in junior secondary school gross enrolment rates

increase in schools achieving national education standards accreditation

increasing number of school and district staff receiving training and being accredited

² Education Childhood Care for Development.

increase in schools achieving minimum service standards for education
increasing number of province and district staff receiving financial management training

3) Expected results

The overall expected results of the EU-funded ESSP are sustained improvements in sector-wide organisational performance at central, provincial, district and school levels and in implementing equitable access, quality/relevance and governance/accountability policy and priorities, including reduced district education performance variations, along with specific improvements in key indicators to be specified in the results framework.

4) Programme that could be implemented in pursuit of these objectives

The EU will continue to support implementation of the policies and strategies in the government's education Renstra 2010-2014, through an additional contribution to the ESSP in order to cover the full cycle of the education Renstra 2010-2014.

Added value of EU intervention: the EU-funded ESSP is jointly implemented with Australia, thus bringing together the two largest grant donors in the education sector, and offers potential for further coordination with other development partners. An additional allocation to the EU-funded ESSP is necessary to cover the full cycle of the education Renstra 2010-2014. Support for this period will again be fully coordinated with Australia which has already made plans to cover this period. .

Risks: the risks are the same as outlined during the design of the ESSP and include: no leadership from or policy dialogue with GoI; lack of attention to district disparities in sector performance; lack of predictability in public expenditure on education; and lack of robustness in education performance monitoring. It is anticipated that these risks will be mitigated through the existing education programmes, including the technical cooperation programme under the analytical/capacity development partnership.

5) Integration of cross-cutting issues

Poverty: Poverty reduction is the overarching goal of EU development assistance. The ESSP is expected to contribute to reducing current disparities between provinces and districts, and between public and private providers, which often correlate with poverty levels. Equitable access policies are well defined in the Renstra.

Gender: Gender parity has broadly been achieved in primary and junior secondary enrolment. Mainstreaming policies are planned by a gender unit in the Ministry of National Education.

Good governance: this is a core issue in the education Renstra 2010-2014, to be supported by the ESSP.

Environmental and resettlement issues: these are addressed by GoI and will be specifically monitored under the Australia supported community infrastructure programme.

- Climate change: The EU will use the opportunity for policy dialogue on education with the Indonesian authorities to underline the importance of incorporating appropriate elements of climate change (such as adaptation preparedness, responsible management of natural resources and disaster risk reduction) in both teacher training and education curricula.

6) Financial envelope

To ensure consistency with the level and trend of support provided under the current MIP as well as the predictability of external aid resources, it is recommended to set aside an annual EU contribution of €72 million, i.e. €144 million, for the 2013-2014 period.

7) Coordination with EU Member States and other donors

Most external assistance focuses on achieving EFA goals through support for formal basic education. There are increasing efforts and commitment towards greater harmonisation and alignment with GoI education sector priorities. The joint and inclusive EU-Australia - ADB approach under the ESSP provides an opportunity for harmonisation with other development partners and better alignment of external support with the education Renstra. Among the EU Member States, the Netherlands is the only donor significantly involved in the education sector and maintains close cooperation, but its future support for education is uncertain.

8) Activities under other EU budgetary instruments in the country

The annual Call for Proposals for Non State Actors (NSA) /Local Authorities (LA), which include a focus on education, complements the education sector focus of the CSP/MIP.

Priority 2 — Trade and investment

1) Strategy Context

The overall trade and investment cooperation priority for the MIP 2011-2013 is to support the economic reform plan adopted by the new government, which is expected to continue previous reforms. While the outgoing government has made substantial progress, there is still an important need to keep improving the trade and investment climate, step up the modernisation of the public finance and revenue administration system, persist with forestry law enforcement, governance and trade issues to eradicate illegal logging and help ensure sustainable forest management, and increase the economic management capacity of local authorities in order to distribute economic growth more evenly. However, given the broad scope of potential activities in this field but the limited funding available, cooperation in this area may not be able to address all the outlined needs.

2) The specific objectives of the MIP 2011-13 are to:

- Support the consolidation of the Indonesian fiscal framework, which would provide a solid base for economic growth. Indicator: improvement in Public Expenditure and Financial Accountability (PEFA) survey results;
- Strengthen the economic management capacity of local authorities in order to ensure the even distribution of economic growth benefits. Indicator: reduced gap between high- and low-income per capita regions;
- Keep supporting Indonesia's reform efforts to improve trade and investment conditions. Indicator: higher exports and investment realisation figures;
- Support the EU FLEGT Action Plan and other initiatives such as REDD³ to eliminate illegal logging, reduce deforestation and contribute to sustainable forest management.

³ Reducing Emissions for Deforestation and Forest Degradation

Indicator: Growth of trade in sustainable and legally certified FLEGT timber products.

3) *The results to be achieved are:*

- Adequate allocation and control of budgetary resources.

Indicator: new budget and treasury management IT systems in place (SPAN)

- Modernised customs organisation:
- Indicators: reduced time and costs incurred in import/export of goods, increased customs revenues and clarified users' rights
- Improved local economic management:
- Indicator: selected local authorities with defined and implemented plans for economic growth, poverty reduction, infrastructure development, and investment facilitation in their regions
- Better budget execution at local levels:
- Indicators: increased percentage budget spending levels by region, more evenly distributed budget execution across the fiscal year
- Improved investment climate in Indonesia:
- Indicator: improvement in international rankings for economic competitiveness and ease of doing business
- Improved trade policy processes in Indonesia:
- Indicator: improved trade policy assessment in WTO reports
- Strengthened dialogue between the EU and Indonesia on trade and investment matters:
- Indicator: regular dialogue forums established, resulting in the definition of aid priorities in this sector
- Improved capacity of Indonesia to negotiate and implement free trade agreements with the EU (this includes assistance to analyse possible FTA impact and benefits):
- Indicator: reports/studies on the impact of an EU-Indonesia FTA are produced and trade officials are trained in negotiation matters
- The EU-Indonesia VPA is concluded and implementation is successfully prepared by improving the capacities of relevant stakeholders and promoting forest governance reforms.

Indicator: Necessary legislation specifically drafted to deal with timber administration and forestry governance is in force.

4) *Programmes that could be implemented in pursuit of these objectives:*

- **Support to improve public finance management**

The added value of EU intervention will be to continue to support the already successful reform process in the public finance management area by complementing existing major donor programmes with a flexible instrument. An additional contribution to the existing PFM Trust Fund is an option, as it provides an adequate platform for donor coordination. A potential risk is the failure of the new government to continue the reform process in the public finance management area, and for this reform process to lack a comprehensive strategic roadmap.

Potential activities could include:

- Support to implement the automated budget and treasury system (SPAN)
- Support for the application of advanced budgeting mechanisms: performance-based budgeting and medium-term expenditure framework
- Support to implement public procurement, auditing and accounting standards,

(these three activities may — if required — have a particular focus on the education sector, to ensure complementarity and proper articulation with the EU support provided under Priority 1 — Education)

- Support for implementation of the operational transformation programme in the tax department
- Support for modernisation of the customs administration: implementation and roll-out of a national single window and streamlining of customs entry processes

- **Strengthening local economic management capacity**

The added value of EU intervention in this area will be to complement ongoing cooperation actions, which mostly focus on the central Indonesian government, by providing assistance to local authorities, which have previously not been sufficiently supported by the government or foreign donors. As in other areas, a potential risk is the failure of the new government to continue the reform process in this specific sector.

Potential capacity building activities for local authorities could cover:

- Economic development planning
- Infrastructure development and execution
- Promotion and facilitation of investment through the establishment of one-stop-shops (OSS)
- Facilitation of trade flows through their regions by streamlining logistical issues
- Public budgeting planning and execution
- Public procurement

- **Forestry law enforcement, governance and trade issues**

- The added value of EU intervention in this area will be to address the needs of the FLEGT process, and will focus on capacity building needs identified to implement new timber administration standards that are currently being developed by Indonesia. Specific activities could include technical assistance to GoI for forest administration policy reform, support for relevant stakeholders (government, verification bodies, trade, NGOs) to implement new licensing requirements, the establishment of business centres/facilities to support SME's and forest communities in meeting certification requirements in consumer markets, the promotion of civil society's voice in forest management, and raising awareness of causal links between deforestation and disaster risk reduction. In view of the UK's

significant involvement in the FLEGT process, delegated cooperation through DFID is a potential implementing modality for this action. Alternative modalities are not excluded.

- Risks: the main uncertainty concerns the progress of the VPA negotiations and the extent to which the EU and Indonesia are able to ensure compatibility between the Indonesian Timber Legality Assurance System and the EU FLEGT requirements.
-

- **Potential support for further actions building on programmes under the 1st MIP**

Actions to support may include the possible extension of existing programmes under the MIP 2007-10, in particular the EU-Indonesian Cooperation Facility and the Trade Support Programme II. The needs for such support will be further assessed towards the end of these programmes.

5) *Integration of cross-cutting themes*

- Good governance will be the cross-cutting theme directly impacted by the actions suggested. Environment and gender are not specific targets of the programme. However, the specific activities to be implemented should be checked against possible environmental impact and the need to ensure fair gender participation.
- Considering the particular challenges posed by climate change to productive sectors and international trade in goods and services, and the opportunities it offers as well, relevant actions to address capacity building needs in this area will be taken into account in the programme.

6) *Financial envelope*

The indicative funding allocation for actions under this priority amounts to €25 million.

7) *Coordination with EU MS and other donors*

The Commission will continue to coordinate with Member States through the regular development cooperation and commercial counsellors meetings. Coordination with other donors would be based on the different forums established by the government.

The EU Delegation has played an active role in forestry coordination in Indonesia over the past years. The Delegation regularly hosts a timber trade working group meeting. In terms of development cooperation, FLEGT-related activities are very closely coordinated with DFID. This approach will be continued over the coming years. Engagement with a larger group of donors and trading partners will be pursued in the future.

8) *Activities under other EU budgetary instruments in the country*

Forestry: There are currently 2 projects in Indonesia funded under the Regional SWITCH programme and a SWITCH policy support component is under preparation. Complementarities will be sought with the Asia FLEGT Facility.

Priority 3 — Law enforcement and justice

1) *Strategy context*

A better functioning judiciary, reduced corruption and improved governance will strengthen the rule of law, improve the business climate, increase access to justice and have a positive impact on security. These aims are fully in line with the existing Indonesian Medium-Term Development Strategy and the orientations of the new strategy being prepared. EU cooperation in this sector has focused mainly on providing assistance to relevant government agencies at central level. In response to the extensive decentralisation in the country, and to spread benefits more widely across the country, it will be necessary to support actions at sub-national level.

2) *The specific objectives of the MIP 2011-13 are:*

The specific objectives of EU-Indonesia Law Enforcement and Justice co-operation will be to:

- Contribute to Indonesia's fight against corruption through support for improving the capacity and performance of law enforcement agencies.

Indicator: reinforced investigative capabilities of law enforcement agencies to tackle growing caseloads and increasing sophistication in corruption offences.

- Improve the performance and integrity of the judiciary to carry out legal proceedings, with a potential focus on commercial and environmental cases.

Indicator: reduced opportunities for corruption in all court proceedings, through the adoption of a judicial code of conduct, the computerisation of court files, and the establishment of an independent, credible and responsive complaints mechanism.

3) *The results to be achieved are:*

- Improved handling of corruption cases by the law enforcement agencies through increased skills, capacity and coordination.

Indicator: improved coordination and operational capacity of law enforcement agencies to ensure successful prosecutions and the repatriation of stolen assets.

- Increased capacity and accountability of the judiciary to better respond to the justice needs of the people and business community, including strengthened alternative dispute resolution mechanisms.

Indicator: judicial accountability mechanisms in place, restored public trust and confidence in the justice system, increased public knowledge of the criminal justice system, and a strengthened judicial oversight mechanism.

4) *Programmes that could be implemented in pursuit of these objectives:*

- **Fighting corruption and promoting the integrity of law enforcement agencies**

The added value of EU intervention will be to complement and reinforce ongoing EU support for the Corruption and Eradication Commission and the Supreme Court, by providing assistance to local law enforcement agencies, which have not been sufficiently supported by the government or foreign donors.

Activities would focus on:

- Support to implement the Government's anti-corruption strategy (STRANAS)
- Support for the Corruption and Eradication Commission to implement its Strategy Plan 2008-2011, with a particular focus on coordination and supervision policies as well as corruption prevention policies
- Support for the development of regional anti-corruption strategies, and its effective implementation at sub-national level
- Support for civil society organisations in monitoring and advocacy for the implementation of regional anti-corruption strategies

The new government is expected to continue to be strongly committed to anti-corruption initiatives, thus considerably reducing the potential risks for these activities.

- **Support for improvement of the judiciary**

The EU's support could include strengthening the capacity of the judiciary to carry out legal proceedings, with a focus on commercial elements. It could also include promoting an alternative dispute resolution mechanism (consumer rights, consumer protection, land rights, etc.) and improving the integrity and participation of Indonesia in international arbitration.

Activities would focus on:

- Support for the Supreme Court to improve court administration, including case management.
- Enhancing the capacity of the commercial courts
- Enhanced coordination among law enforcement agencies
- Support for judiciary oversight mechanisms

A potential risk is the failure of the new government to pursue effective reform of the law enforcement and justice sectors. There is, however, an internal commitment from the Supreme Court to reform the institution through the development of blueprints for Supreme Court reform and the formation of a reform team to coordinate its implementation.

With regard to Aceh, it is proposed at this stage to leave open the possibility for specific assistance to reinforce the planning and implementation capacities of the provincial government, including the new Acehese parliament, in the context of the Aceh special autonomy law. This would contribute to consolidating the considerable political and financial investment by the EU in Aceh to assist in the peace process and in the post-tsunami reconstruction.

5) Integration of cross-cutting themes

Good governance, gender, human rights and the environment will be the cross-cutting themes directly impacted by the actions suggested, in particular as governance issues such as corruption need to be addressed at all levels.

6) Financial envelope

The indicative funding allocation for the two actions considered under this MIP is €16 million

7) Coordination with EU Member States and other donors

The Commission will continue to coordinate with EU Member States through the regular development counsellors meetings. Coordination with other donors would be based on the different forums established by the government.

8) Activities under other EU budgetary instruments in the country

Complementary actions will be funded under the EIDHR, where in particular the local call for proposals may support the role of civil society organisations (CSO's) in oversight of and demand for good governance. Support under the Aid Programme to Uprooted People will contribute to reducing conflict potential and assisting in the integration of internally displaced people, with a programme amounting to €5 million starting in 2010. The Instrument for Stability, which is currently financing an action in Aceh, might continue to support activities with a view to further consolidation of the peace process.

Specific intervention in climate change

1) Strategy Context

Indonesia is the world's third largest emitter of greenhouse gases. It is a country particularly vulnerable to climate change, and faces continuing challenges to achieve sustainable forestry management.

In 2007, the Ministry of Environment formulated a National Action Plan setting out the commitments of Indonesia to combat climate change, specifying the government's objectives and outlining action plans for key sectors. Policies have been promulgated and institutional arrangements have improved with the creation of a National Council on Climate Change to coordinate and harmonise policies. The President recently committed Indonesia to reducing emissions by 26% by 2020 in a business-as-usual scenario, and up to 41% if international support is provided. This framework provides a good basis for donor engagement. However, implementation poses difficulties and efforts are needed to make the policy framework more coherent. Improving consistency in the policy framework and supporting its implementation would be in line with Indonesia's needs.

- **Goal for climate change priority⁴:** By 2020, reduction of emissions against business as usual of 26% to 41% and the country successfully adapts to climate change impact

Typical impact-level indicators for climate change mitigation and adaptation include:

- GHG emissions per unit of GDP

⁴ Note: The above goals express the vision of the Commission for long-term achievements in the climate change and forest sectors. The achievement of these goals depends on many other factors outside the MIP, which can only be seen as one contribution to these ambitious targets.

- Proportion of energy production from renewable sources
- Population and infrastructure located in coastal areas at risk from sea-level rise
- Number of lives and infrastructure lost due to weather-related disasters
- Surface of natural areas effectively protected
- Water management efficiency in drought-prone areas

2) *Specific objectives (including outcome indicators)*

- **Specific objective for the climate change priority:** An ambitious climate change response strategy is designed and effectively implemented in Indonesia by 2013.

Proposed outcome indicators:

- Policy and sectoral level: increase in number and effectiveness of laws passed/implemented to limit greenhouse gas emissions, increase in legislation that takes into account adaptation needs through sustainable water management, forestry, building regulations, and the absence of new policies that run counter to the country's commitments
- Budget, investment and fiscal level: government budgets for climate change actions, increased fiscal incentives for businesses and consumers to reduce greenhouse gas emissions, increased investment in climate change adaptation strategies/programmes
- Non-state actors and private sector: increase in funding and activities for research, education programmes addressing climate change, business initiatives reflecting sustainable/low-carbon practices, number of relevant civil society events and campaigns

3) *Expected results and related output indicators*

- **Results for climate change priority:** By 2013, 1) A clear climate change / low-emission development strategy framework is formally in place; 2) New national and local policies in relevant sectors (mining and energy, forestry, fisheries, etc.) are coherent with the policy framework; 3) Pilot projects and demonstration activities are successfully implemented; 4) Stakeholders at national and local level demonstrate a better understanding and capacity to deal with climate change.
 - Proposed outcome indicators:
 - Indonesia establishes a low emission development strategy;
 - Total number/ratio of ministerial strategy documents and policies that effectively integrate climate change
 - Number of relevant pilot projects in relevant areas such as REDD and clean/renewable energy, emission reductions generated through carbon market mechanisms.

4) *Programmes that could be implemented in pursuit of these objectives*

- **Climate change priority**
 - **Activities:** Climate change support should focus on the policy level, in particular on the elaboration of a low emission development strategy for Indonesia and nationally appropriate mitigation actions. In this context, Indonesia's efforts to reduce greenhouse gas emissions from deforestation and forest degradation (REDD) should be strengthened seeking synergies with Indonesia's FLEGT programmes. Policy support could be combined with pilot activities in the regional or local administration. Large projects such as infrastructure for adaptation will not be funded. Activities will be based on a further needs analysis as well as the progress of international climate change negotiations and a possible post-2012 agreement. Possible activities will

include technical assistance and capacity building for policy development, facilitating access to international financing mechanisms for mitigation and adaptation, community-level actions (vulnerability assessment, renewable energy pilot activities), and development of guidelines to promote private-sector investment in low-carbon business activities, including through carbon market mechanisms.

- Risks: There is a risk that Indonesia's stated commitment to combat climate change will not be truly confirmed through concrete actions. There are also some risks related to the delivery mechanism of such actions. In mid-September 2009, however, the government launched a Climate Change Trust Fund, which might be an option for channelling EU resources.
- Alternative options: the interest of most EU Member States in climate change in Indonesia provides opportunities for coordinated EU actions. The above-mentioned trust fund would be a sensible option for channelling EU resources, provided the design is compatible with EU criteria and meets EU expectations in terms of priorities, policy objectives and dialogue, etc. Should there be constraints on participation in the trust fund, the EU will favour the design of alternative actions in cooperation with/through Member States in areas of specific relevance to the EU.

5) Integration of cross-cutting issues

- Fight against poverty: Specific activities will contribute to addressing poverty reduction. This will be done through adaptation and 'green growth' promotion under the climate change umbrella. Under forestry cooperation, various activities will support forest communities and small enterprises.
- Civil society development and multi-stakeholder approach: Cooperation in climate change will promote the involvement of civil society in related activities, including the implementation of the Indonesian Climate Change Trust Fund. Forestry cooperation will also actively promote the participation of civil society, which is already a feature of the FLEGT Action Plan being implemented in Indonesia.

6) Financial envelope

The indicative funding allocation for this activity is €15 million

7) Coordination with EU Member States and other donors

- EU coordination and information exchanges on climate change issues are relatively satisfactory. However, further efforts are needed to improve coordination.

8) Activities under other EU budgetary instruments in the country

- Thematic Programmes: four ongoing environment-related projects are funded under thematic programmes (Non-State Actors and Environment and Natural Resources thematic programmes)

LIST OF ANNEXES

- Annex 1 Country at glance/Macro indicators**
- Annex 2 MDG Indicators**
- Annex 3 Summary Table of Focal/Non-Focal Sectors**
- Annex 4 Country Environment Profile**
- Annex 5 Donor Matrix**
- Annex 6 MTR Drafting Process**
- Annex 7 Governance Profile**
- Annex 8 MDG Progress**

Annex 1: "Country at a Glance"

a) Macro-economic indicators

		2005	2006	2007	2008e	2009e	2010f	2011f
Basic data								
1	Population (in million)	219,9	222,7	225,6	228,5	231,4	234,2	237,8
	- annual change in %	1,41	1,32	1,30	1,28	1,25	1,21	1,55
2a	Nominal GDP (in billions US\$)	287	364	433	500	565	556	612
2b	Nominal GDP per capita (in US\$)	1.259	1.420	1.529	2.246	2.029	2.155	2.281
2c	- annual change in %							
3	Real GDP (annual change in %)	5,7	5,5	6,3	6,1	4,5	5,6	6
4	Gross fixed capital formation (in % of GDP)	23,6	24,1	24,9	27,7	n/a	n/a	n/a
International transactions								
5	Exports of goods and services (in % of GDP)	35	31,6	30,1	31,7	29,1	27,6	26,1
	- of which the most important (in % of GDP):							
	Oil & gas	6,7	6,3	5,8	7,1	6,6	7,1	6,3
	Garments	1,7	1,5	1,3	2,0	1,8	n/a	n/a
	Crude Palm Oil (CPO)	1,3	1,3	1,8	1,8	1,1	n/a	n/a
6	Trade balance (in % of GDP)	9,7	10,9	9,2	1,6	5,3	5,2	4,2
7	Current account balance (in % of GDP)	0,1	3,0	2,4	0,1	-0,4	-0,7	n/a
8	Net inflows of foreign direct investment (in % of GDP)	1,85	0,60	0,42	0,54	0,60	0,65	0,66
9	External debt (in % of GDP)	46,6	35,5	31,7	28,3	25,5	23,6	21,6
10	Service of external debt (in % of exports of goods and non-factor services)	23,3	32,6	27,1	28,6	38,2	n/a	n/a
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	4,4	4,7	5,1	5,1	5,3	5,6	5,7
Government								
12	Revenue and grants (in % of GDP)	17,9	19	17,8	20,4	20,1	19,9	19,3
13	Expenditure (in % of GDP)	18,2	19,9	19,1	22,4	22,2	21,7	21,2
	- of which: capital expenditure (in % of GDP)	2,3	3,1	2,9	3,5	1,7	n/a	n/a
14a	Deficit (in % of GDP) including grants	-2,1	-1,4	-0,8	-0,2	0,2	0,0	0,1
14b	Deficit (in % of GDP) excluding grants ¹⁾	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15	Debt (in % of GDP)	45,8	39	35	30,8	29,4	27,9	26
	- of which: external (in % of total public debt)	23,4	18,2	16,5	15	12,2	10,8	9
Other								
16	Consumer price inflation (annual average change in %)	17,11	6,6	6,6	9,8	4,8	5,4	5,9
17	Interest rate (for money, annual rate in %) ²⁾	12,75	9,75	8,00	9,25	6,50	6,00	6,00
18	Exchange rate (annual average of national currency per 1€)	11.655	11.712	12.526	14.486	15.068	13.514	n/a
19	Unemployment (in % of labor force, ILO definition)	11,2	10,3	9,1	8,46	8,14	n/a	n/a
20	Employment in agriculture (in % of total employment) ³⁾	39,02	39,78	37,48	36,92	n/a	n/a	n/a

Notes:

¹⁾ Data is not available. Total grants account to around 0.1% of GDP and do not have significant contribution to the state budget deficit

²⁾ the Central Bank benchmark (BI rate)

³⁾ Employment in agriculture, forestry, hunting and fishery. The National Labor Force Survey is conducted twice a year in the month of February and August.

2008, 2009 e) estimates

2010, 2011f) forecast

n/a data is not available

Several data (in blue and bold) are revised based on recent report of the World Bank and The Indonesian Central Bank (December 2009)

Data source:

a) IMF Country Reports 2008

b) OECD

c) The Indonesian Central Bank (Bank Indonesia)

d) The National Statistical Bureau (BPS)

e) The Indonesian National Development Planning Agency (Bappenas)

f) World Bank's Indonesia Economic Updates

Annex 2: Indicators derived from the MDG

Key indicators	1990b	2006	2007	2008	2010e	2015t
1. Proportion of population below 1\$/day in PPP	20,6%	-	7,5%	-	-	10%
2. Prevalance of underweight children	31%	28%	24,4%	-	23%	18%
3. Under 5 child mortality (per 1000 live births)	81	-	40	-	37,8	32
4. HIV prevalence rate of women aged 15-24	-	-	0,1	-	-	-
5. Proportion of births attended by skilled health personnel	40,7%	72,4%	-	73%	-	90% ¹⁾
6. Proportion of 1 year old children immunised against measles	44,5%	71,6%	-	72%	-	90% ²⁾
7. Net enrolment ratio in primary education	88,7%	94,7%	-	-	97,6%	100%
8. Ratio of girls to boys in primary and secondary education	96% (primary), 83% (second.)	100% (primary), 99,4% (second.)	-	-	-	100% (both)
9. Primary school completion rate	62%	74,7%	80%	82%	85%	100%
10. Proportion of population with sustainable access to an improved (drinking) water source	38,2%	57,2%	-	-	-	67%
11. Fixed lines and mobile telephone per 1000 inhabitants ³⁾	-	11,2% (fixed lines), 24,6% (cell phones)	-	-	-	indicator
12. Formal cost required for business start up ⁴⁾	101,7	86,7	80	77,9	-	-
13. time required for business start up	151 days	97 days	105 days	76 days	-	-
14. GDP per capita	US\$ 1,308	US\$ 1,663	US\$ 1,942	US\$ 2,271	US\$ 2,155	US\$ 5,000
15. Access of rural population to an all season road ⁵⁾	n/a	74%	n/a	n/a	n/a	n/a
16. Household electrification rate	41,7%	-	61,6%	-	-	-

Notes:

1990b = baseline for MDGs

2010e = intermediate target/estimate

2015t = MDG target

1) National target

2) National target

3) data available is only for 2006

4) in % GNI per capita

5) Villages with concrete/asphalt road. Data available was published in 2006 based on the 2000 survey

Sources:

a) World Development Indicators Database

b) MDGs Progress Report Indonesia UNDP-Bappenas (2006, 2007, 2008)

c) The World Bank Report "Ease of Doing Business" (2006,2007, 2008, 2009)

d) The National Statistical Bureau (BPS)

Annex 3: SUMMARY TABLE OF FOCAL SECTOR

MIP 2007 - 2010

MIP Priority Sectors		Tentative Allocation	AAP 2007	AAP 2008	AAP 2009	AAP 2010	TOTAL
		M Euro	M Euro	M Euro	M Euro	M Euro	AAP
Priority 1: Focal sector: Basic Education - 80%		198	-	-	201	-	201
Action 1	Basic Education Sector Programme		-	-	201	-	201
Priority 2: Trade and Investment - 12%		30	-	20	-	-	20
Action 1:	Trade Support Programme II			15	-	-	15
Action 2	Support to Local Economic Development / PNPM		-	5	-	-	5
Action 3	Trade and Investment Climate		-	-	-	-	-
Action 4	FLEGT II		-	-	-	-	-
Action 5	Climate Change		-	-	-	-	-
Action 6	Others		-	-	-	-	-
Priority 3: Law enforcement and judicial reform - 8%		20	12	-	-	-	12
Action 1	Strengthening the Rule of Law and Security in Indonesia		12	-	-	-	12
Action 2	New Project		-	-	-	-	-
TOTAL		248	12	20	201	15	248

**UPDATE OF THE COUNTRY ENVIRONMENTAL
PROFILE FOR INDONESIA
FINAL REPORT**

Julian Caldecott and Mochamad Indrawan

AGRECO Consortium, 251 Avenue Louise, 1050 Brussels, Belgium

3 December 2009

1. Summary

1.1 Aims and activities of the mission

Purpose. This mission aims to update the Country Environmental Profile (CEP) for Indonesia which, as an annex to the Country Strategy Paper (CSP), is one of the main tools used by the EC to integrate environment in development cooperation planning. In 2009, the EC launched a Mid-Term Review of all CSPs for the period 2007-2013, thus providing an opportunity to adapt them in light of new needs and priorities. The mission is focused on the linked subjects of climate change, forestry, and sustainable consumption and production (SCP), corresponding to key programming areas of the EC.

Progress. The diversity and complexity of Indonesia's environmental circumstances made it impossible to do more than obtain an overview of recent and current events and trends, and explore a few key highlights. Nevertheless, the team had substantive discussions with individuals representing Indonesian government institutions, donor agencies, international organisations and academic, charitable and private-sector actors. The team also visited the provinces of Papua and Yogyakarta, to explore opportunities for local implementation partnerships.

1.2 The climate change context

Indonesian vulnerabilities. Climate change will cause severe adverse impacts on rainfall patterns, agricultural potential, water resources, and terrestrial, wetland, aquatic and coastal ecosystems, besides increasing the range of disease vectors and rendering coastal areas vulnerable to inundation and saline intrusion. With an extremely long coastline, a large and often densely-populated coastal zone, and landscapes that are becoming more prone to droughts and fires, Indonesia is particularly vulnerable to climate change.

Climate change in the CEP. The understanding of Indonesia's vulnerability to and role in climate change, and policy responses to this, arose since the CEP was prepared in 2004-5. The CEP did flag some key issues, however, including: the increasing rate of GHG emissions, the importance of land use change and forestry as a source of GHGs; the potential for carbon projects in forestry, the detection of early climate change consequences, the potential for harmful impacts, and the interest of a few donors in the subject. Lacking, however, was the sense that climate change was an emerging global emergency with the potential to undo Indonesia's past development gains and to render much of the country uninhabitable within a few decades.

Policy commitment. Indonesia is a key actor in the climate change arena, as one of the largest emitters of GHGs (potentially the third-largest after China and the USA if LULUCF emissions are taken into account), and as a developing nation diplomatically close both to northern and southern country groupings. The need for action on climate change has been recognised at the highest levels of the Indonesian government, with policy commitments to mitigation and adaptation through reduced deforestation, economic transformation and disaster risk reduction.

1.3 Responses to the climate change challenge

The National Council on Climate Change. The DNPI (*Dewan Nasional Perubahan Iklim*) was established by Presidential Decree in 2008 and has mobilised wide-ranging expertise, but it has limited political authority and is not integrated structurally within the *Indonesia CEP Update: Final Report 6*

government system. Its impact depends on continued presidential support, but an organic law is also needed to ensure its structural integration.

The Pittsburgh commitment. The immediate driver of government thinking on climate change mitigation is the President's unilateral commitment, at the G-20 Leaders' Summit on 25 September 2009, that Indonesia will by 2020 reduce its GHG emissions by 26% of 2005 levels, compared with the 'business as usual' scenario. The announcement also foresaw further reduction of up to 41% in the same terms, if international help is forthcoming. This commitment will need to be confirmed through official policy instruments (and budget allocations), and the sectoral ministries will need to develop specific plans, in dialogue with one another, for managing their own contributions to meeting the target. Ministries such as Finance, Energy, Forestry and Environment are all actively considering how best to contribute, and are wrestling with new policy mandates while trying to coordinate with each other.

The State Ministry of Environment (*Lingkungan Hidup*, LH). Act 32/2009 on Environmental Management and Protection gives greater powers to LH, while also raising the profile of climate change. Some of the ministry's new responsibilities will be very demanding (e.g. developing criteria for climate-change impacts, and the instrumentation, guidelines, instructions and protocols needed for GHG inventories), although they should give it greater leverage over polluting industries and sectors. Key provisions in the Act are: that private companies must obtain environmental permits from provincial, district or city authorities before starting operations (the role of LH is to monitor and if necessary correct the permits issued); that LH must publish documents on climate change adaptation and mitigation, and develop relevant regulations by 2010; that LH must publish criteria for identifying damage due to climate change, and develop relevant regulations by 2010; that LH must implement or coordinate a GHG inventory process to quantify emissions at the national, provincial, district and city level, and produce a framework for how to do this in 2009; that LH must set minimum standards for environmental assessment strategies, which are required by companies and government units and should take into account spatial planning and carrying capacity, and criteria for vulnerability and adaptation issues; and finally that LH can mobilise government investigators directly rather than only through the National Police.

Donor interventions. The Indonesian Climate Change Trust Fund is about to become operational under UNDP management. It aims to fund urgent initiatives from line ministries on renewable energy, forest and peatlands, and resilience or adaptation (a small-grants mechanism to fund actions by other stakeholders is also being discussed). Donors are supporting Indonesian institutions in pilot projects to field-test solutions to deforestation and degradation of forests and peatlands, usually with local participation and often involving the calculation of baseline GHG emission profiles and the measurement of emission changes associated with land and forest use.

1.4 Forestry, deforestation and forest degradation

Forests and climate. The forestry issue has unfolded in various ways since 2004, some of them positive but others less so. Meanwhile, the realisation that the conversion or logging of forests, whether legal or illegal, have implications for GHG emissions means that forestry and land-use issues have become conflated with the climate change issue. This can be approached from several directions, all of which have implications for climate change negotiations, including the role of Indonesia as a major GHG emitter, the

possibility of earning carbon storage credits in some way from avoided deforestation or improved forest management, and the role of forests in helping Indonesians adapt to climate change.

Indonesia CEP Update: Final Report 7

Deforestation. After peaking at nearly 2 million ha/year in 2002-3, the deforestation rate is now about half that. Deforestation is largely driven by the conversion of forest land to plantations, particularly of oil palms by large enterprises and smallholders, and of pulpwood trees by large companies. The issue is complex, however, since it involves such factors as: the transfer of ‘conversion forest’ from control by the Ministry of Forestry to that of other line ministries, in a situation where maps are poor, inaccurate and ecologically unfounded, and where ‘institutional’ forests are often not the same as real forests; the abandonment of forests that have been allocated to companies for conversion to plantations, but that have simply been heavily logged and left unsupervised to be occupied informally by smallholders who clear the land using fire; the allocation of portions of ‘conversion forest’ within landscapes otherwise dedicated to ‘production forest’, which then become vulnerable to fire as a whole; the creation of new districts and provinces, which induces their governments to finance themselves by selling deforestation rights; and corruption, collusion and nepotism that still pervade the forest and land-use sectors despite strenuous efforts in recent years.

Illegal logging. This is of concern to government partly because of lost tax revenues which would have been obtained if the same timber had been harvested legally, partly because it can do far more damage to forest ecosystems than well-managed legal harvesting, and partly because it endangers forests that have been set aside for conservation and may lead to the loss of biodiversity and ecosystem services such as water catchment and carbon storage functions. At the local level, intact forests are often all that stand between communities and the impacts of failing water supplies, siltation of waterways, loss of forest products, wild fires and land slides. All agree that illegal logging is pernicious and must be halted, but efforts to do so have often resulted in the criminalisation of small-scale forest users and in criminal conspiracies that evade punishment for large-scale illegal logging activities. Anecdotal evidence suggests a major decline in illegal logging and log smuggling, but isolated problems remain. Illegal logging is a key indicator of forest governance, the high quality of which is critical for anything to do with REDD and avoided deforestation. Efforts to combat illegal logging are being reinforced by new US and EU rules that require chain-of-custody and -legality documentation for wood products imported from Indonesia and other countries. This has prompted negotiations towards a Voluntary Partnership Agreement with the support of the FLEGT Support Project.

Peatlands. Indonesia possesses immense areas of peatland, especially in Sumatra, Kalimantan and Papua. Peatland degradation may account for some 65% of Indonesia’s GHG emissions, yet is ambiguously treated in national land-use planning and allocation systems. The precise location and depth of peat deposits are uncertain because of poor mapping, but about half the remaining lowland forests in Indonesia are believed to grow on peatlands. Policy development on peatlands has been limited, although their significance for GHG emissions in the context of UNFCCC negotiations is quickly changing this. The discovery that peatlands are good for growing oil palms has dramatically changed their land-use dynamic, and government policy is for smallholders to grow oil palms, with a target of 4 million hectares to be converted in this way.

REDD. The IPCC has estimated that tropical forest clearance results in 15-25% of total GHG emissions by people. REDD is based on the idea that funds are provided to developing countries for reducing emissions from forest and land degradation by means such as through strengthened law enforcement, fire management and sustainable forest

management. REDD is thus a generic term for a range of options and financing mechanisms that might be used to reduce deforestation and degradation, with the goal of mitigating climate change. Various proposals have been put forward for REDD, but the *Indonesia CEP Update: Final Report 8*

analysis used here focuses on avoided deforestation and examines at a technical level what a REDD system ought to involve if it is to be effective.

REDD design criteria. The owners of forest and peatland should earn income by setting those ecosystems and lands beyond use, so that their carbon would not be released for many decades, if ever. The income should be related to the amount of carbon stored, shared according to ecosystem ownership and/or control, and at least some of it financed by global society. Single, up-front payments in return for promised ecosystem protection would be ineffective, and a series of payments would be needed instead, perhaps at ten-year intervals and each conditional on verified land and ecosystem protection. Moreover, all the stakeholders who could influence the fate of the lands and ecosystems concerned would need to benefit from their protection. This criterion could be met by an arrangement such as one in which 30% of funds to go to central government, 30% to local government, 30% to communities, and 10% are used for monitoring/verification and scientific research to find long-term, non-carbon revenue sources in the forests that have been preserved. These design criteria would ensure that no group need be excluded from carbon financing, that conditional funding would be available to reward effective conservation over 50 years or so, and would also offer long-term, 'post-carbon' incentives for ecosystem and biodiversity conservation.

Forestry in Papua. Some 80% of Papua is still under natural forest, but various groups are looking to the province as the next venue for large-scale logging and forest conversion. Many indigenous Papuans are inclined to keep their ancestral domains under forest, and the provincial government is seeking new ways to develop sustainably. But there are fractious and potentially corruptible leaders in multiplying regional governance units, who have considerable power over land use. Papua is the last great forest frontier in Indonesia, where 'business as usual' is becoming established and where irreversible damage to Papuan, Indonesian and global interests could soon occur. This would justify emergency intervention to finance sustainable forms of development and empower those who advocate them.

1.5 Sustainable Consumption and Production

Application of the SCP approach in Indonesia. The SCP approach looks at economic systems holistically from the point of view of their capacity to 'dematerialise' (use fewer resources, waste less) and 'decarbonise' (release less carbon), as well as their tendency to do so. The current CEP has sections on aspects of this, including air and water pollution, recycling, and energy use and carbon emissions. The main conclusions, for which no evidence to the contrary was found, are: that there is serious air pollution in urban areas, mainly due to increasing numbers of vehicles, poor emission standards, and the absence of urban planning and transport policy (and to forest fires in some areas); that water supply is increasingly a problem with water sources particularly at risk in upper catchment areas and through direct pollution, while in urban areas pollution is the major issue and is linked to the absence of proper sewerage systems; that there are inadequate sites for the proper disposal of solid waste and there is poor waste management, while little is done to encourage waste reduction, reuse, recovery or recycling; and that Indonesia derives the vast majority of its energy consumption from fossil fuels, and its carbon intensity is above the Asian average.

Energy subsidies. Indonesia's economy has become steadily more carbon-intensive, due to under-investment in clean technologies, energy conservation and renewable energy sources. This is largely due in turn to a policy and fiscal environment that encourages

wasteful use of energy and discourages investment in conservation and renewables, reflected primarily in fuel and electricity subsidies that are designed to ensure price stability for domestic consumers. Another factor is a rapid and continuing increase in the share of energy-sector GHG emissions from burning coal, again largely driven by subsidies and a lack of incentives to promote renewable energy supply. A key problem is that the state electricity supplier PLN applies a national subsidised electricity tariff, but faces different supply costs in different parts of the country. The cost of subsidies is a severe one for government, and effectively starves it of resources to invest in new power infrastructure and other measures to decarbonise the economy.

National energy policy. Policies call for growth in renewable energy production, but are undermined by price distortions and the expansion of emissions-intensive coal-fired power plants. It is clear that dramatic reform is going to be needed to release the kind of creative energy and scale of investment required to shift the economy in a low-carbon direction. Phasing out energy subsidies and diversifying energy supplies and suppliers would be a necessary element of this, and is being partly addressed through Act 30/2009 on Electricity which allows for tariff differences between regions, and for regions to establish their own public or private power utilities. Political costs associated with further transformation would need to be offset by clear messaging on the threat of climate change, and by the stimulation of public and private investment in new energy systems. Institutions such as the Ministry of Finance and the National Energy Council are now thinking along these lines, but the scale and rate of change that will be needed should not be underestimated. Encouraging and enabling such change through the supply of new knowledge and technologies would be a wise and realistic priority for Indonesia's development partners.

1.6 Recommendations of the CEP update mission

Diplomatic initiatives. There is an urgent need for diplomatic initiatives by the EC and EU Member States to maintain the President's personal focus on climate change, to encourage him to chair at least one meeting of DNPI, and to seek ways to embed DNPI structurally within the Indonesian government system.

Multi-Ministerial Support Facility. This is proposed as a vehicle through which to provide technical assistance to support ministries in key tasks related to climate change and environment, at a time when new policies and regulations are being demanded in response to the Pittsburgh commitment and the post-Kyoto UNFCCC process. The most receptive and strategic ministries seem to include: **Finance** (on incentives for REDD and RE), **Energy and Mineral Resources** (on mapping renewable energy potentials and technology transfer for carbon capture and storage), and **Environment** (on regional and sectoral carbon profiling, and emission-reduction options). There is also a need to facilitate inter-departmental dialogue (e.g. on peatlands, REDD and between DNPI and Bappenas), and to respond to other TA needs across government which might be met through the same facility (and/or through cooperation with other donors). The introduction of the **Forest Management Unit** model in Indonesia offers a number of challenges and opportunities. A key weakness lies in a lack of knowledge among FMU managers on potential forest values, their markets and how to access them, and on best practices within Indonesia and elsewhere. A network of Forest Information Systems (each modelled on that developed in Jambi with EC support and proposed for Papua) could ensure that best practices and other insights spread quickly among FMUs. Design criteria for such a network should be explored with **Bappenas**, in dialogue with the **Ministry of Forestry** and relevant donor-supported projects.

Cooperation with Papua. It is recommended that dialogue be continued to explore how to establish an impartial **Sustainable Development Helpdesk**, to strengthen the

provincial government's capacity to explore ideas on sustainable development, and *Indonesia CEP Update: Final Report 10* facilitate access to knowledge and other resources with which they can be tested and applied. Priority subjects for the Helpdesk would include biodiversity as a resource, compliance with chain-of-custody and -legality certification for timber products, decisions on the use of Papua's nine million hectares of conversion forest, REDD arrangements, and assessment of resources within Forest Management Units. Also recommended is a **Forest Information System** like that developed with the support of the FLEGT Support Project in Jambi, which would respond to the Papuan Provincial Government's plan to organise all forest management through FMUs, based on sitespecific inventories of forest values and capacities but generating a large need for digital information management.

Cooperation with Yogyakarta. It is recommended that dialogue be continued to formulate a comprehensive SCP programme, both to place the city's development on a lower-carbon and more sustainable trajectory, and also to demonstrate new SCP systems that would then be available for replication in other Indonesian cities.

**Annex 5: DONOR MATRIX
DISBURSEMENTS 2008**
(in million USD)

Sector by DAC Code	Education	Health	Population Policies	Water Supply and Sanitation	Government and Civil Society	Other Social Infrastructure and Services	Transport and Storage	Communications	Energy	Banking and Financial Services	Business and Other Services	Agriculture, Forestry, and Fishing	Industry, Mineral Resources and Mining, Construction	Trade and Tourism	Multi-sector/Cross-cutting	Commodity Aid and General Programme Assistance	Action Related to Debt	Emergency Assistance and Reconstruction	Support to NGOs	Unclassified/Unspecified	Total by Donor
Donors																					
MULTILATERAL																					
European Union (EU)	X	X	X	X	X			X			X	X		X				X	X		
Asian Development Bank (ADB)	X	X		X	X	X	X		X	X		X			X			X			
Islamic Development Bank (IDB)	X					X	X	X				X			X						
World Bank (WB)	X	X		X	X	X	X		X	X			X	X	X			X	X		
United Nations (UN)	X	X	X	X	X	X			X			X			X	X		X	X		
BILATERAL																					
Korea/Pinjaman dan Hibah					X	X	X	X				X			X						
China/Pinjaman						X	X		X												
Jepang/Pinjaman	X			X	X	X	X		X			X				X		X			
Canada (CIDA)/Hibah					X							X	X		X			X	X		
Australia (AusAID)/Pinjaman dan Hibah				X	X	X	X					X	X	X	X	X		X	X		
Amerika (USAID)/Hibah		X	X	X	X	X						X	X	X	X	X		X	X		
New Zealand (NZAID)/Hibah	X				X							X			X			X	X		
Jerman/Pinjaman & Hibah	X		X		X					X					X		X	X			
Inggris/Hibah															X		X	X			
Belanda/Hibah	X	X		X	X				X									X			
Spanyol/Pinjaman		X				X	X		X			X									X
Total by Sector																					

Sector by DAC Code:

- | | |
|---|---|
| 110: Education | 250: Business and Other Services |
| 120: Health | 310: Agriculture, Forestry and Fishing |
| 130: Population Policies | 320: Industry, Mineral Resources and Mining, Construction |
| 140: Water Supply and Sanitation | 330: Trade and Tourism |
| 150: Government and Civil Society | 400: Multi-sector/Cross-cutting |
| 160: Other Social Infrastructure and Services | 500: Commodity Aid and General Programme Assistance |
| 210: Transport and Storage | 600: Action Related to Debt |
| 220: Communication | 700: Emergency Assistance and Reconstruction |
| 230: Energy Generation and Supply | 920: Support to NGOs |

DONOR MATRIX
PROJECT AND PROGRAM LOAN DISBURSE
(in million USD)

PROJECT LOAN

No	Donors	Irrigation	Road	Water Supply and Sanitation	Transport	Energy-Power	Communications - IT	Other Infrastructure	Agriculture	Land Reform	Financial Services
1	World Bank	20,00	81,50	183,30		70,00		4,50	11,10	6,80	0,10
2	ADB	5,20	25,42	17,93		12,77					0,00
3	JICA	185,12	20,13	9,19	38,09	494,26		3,10			
4	IDB							0,00	1,97		8,65
5	IFAD								0,00		
6	Australia		7,83								
7	Netherland				5,19						
8	Belgium					0,00					
9	China	25,14	55,44			76,85					
10	Germany				97,03		15,88				
11	Korea						1,89				
12	France										
13	Spain		27,18				3,62				
	TOTAL	235,46	217,50	210,42	140,31	653,88	21,39	7,60	13,07	6,80	8,75

PROGRAM LOAN

No	Donors	Financial Services	Governance
1	World Bank	1.200,00	
2	ADB	0,00	830,00
3	JICA	244,43	
4	IDB		
5	IFAD		
6	Australia		
7	Belanda		
8	Belgia		
9	China		
10	Jerman		
11	Korea		
12	Perancis		
13	Spanyol		
		1.444,43	830,00

Annex 6: The MTR drafting process

The MTR reflects the ongoing dialogue on EC development cooperation with GoI, other donors and civil society. The more targeted consultations on the content of the MTR document was mainly conducted in the context of a joint RELEX/H/5-AIDCO/D/1 mission which took place in the week of 16-20 March 2009, with additional consultations with GoI at the occasion of the EC-Indonesia Senior Official's Meeting in JogJakarta in July 2009 and with MS and the new elected Parliament in November 2009

1. Political Dialogue with the partner country.

The main GoI dialogue partner on development cooperation issues Bappenas, the Ministry for Planning and Development. Formal policy dialogue takes place in the context of the EC-Indonesia SOM, Working group on Development Cooperation, co-chaired by the Director of Bappenas and AIDCO D1. The last meeting of the WG took place as a part of the SOM in July 2009. SOM are typically held annually. The SOM included a presentation of the MTR and orientations for the MIP 2011-13, which was fully supported by Bappenas.

The dialogue on development cooperation, in particular on aid modalities does also involve the Ministry of Finance, which is the party that signs financing agreement. Particularly in the context of the budget support for the education sector project, dialogues with MoF have been extensive.

Regarding the MTR process, a first exchange of views with GoI took place during a session organised by Bappenas with participation of more than 50 GoI staff representing all sectors in which the EC is active. The Delegation presented the results of the MTR checklist. The GoI recommended continued focus education and trade & investment, recognised the need for more coherent overarching strategy for justice sector reform, and supported the possibility of stronger focus on climate change in the second MIP.

At the end of the abovementioned RELEX/AIDCO mission, a second consultation on the MTR took place with the Deputy Minister For Development Cooperation and echelon 1 GoI officials from relevant line ministries which confirmed the interest in receiving further support in line with the CSP plus interest in Climate Change.

Policy dialogue specifically related to the MTR has mainly taken place in the context of the above consultations. At the same time, the Delegation has an ongoing dialogue with sector ministries which are direct beneficiaries of our portfolio..

2. Consultations with other donors.

EU Member States have been consulted on the outcome of the EC "internal review" at a EU Development Counsellors meeting convened in the context of the RELEX/AIDCO mission (20 March 2009). Member States expressed agreement in principle to continued relevance and validity of the overall orientations of the EC CSP.

The MTR was last discussed with Member States during the EU Development Counsellors meeting on 10 September and on 13 November on the occasion of a mission of the Indonesia Relax desk to Jakarta where MS confirmed their agreement in principle to maintain the existing priorities and add climate change as outlined in the draft MTR.

Australia as major donor is consulted regularly. Discussions on the new education sector support programme and its future under the next MIP have been extensive.

The Delegation has regular meetings with World Bank and UN where general issues relating to our cooperation are discussed. The last discussion with World Bank took place on 7 September 2009. The UN was visited on 29 September 2009. In this discussion complementarity of the CSP with the new UN Development Assistance Framework for Indonesia (UNDAF 2011-2015) was discussed.

Donor coordination at sector level takes place in each of the focal sectors, however with varying degree of comprehensiveness and GoI leadership.

EU MS in Jakarta will again be consulted on the full draft of the MIP 2011-2013 in November 2009.

3. Consultations with non-state actors.

Civil society organisations in Indonesia have been invited to express themselves on the MTR and the orientations for the MIP 2011-13 mainly during a CSO workshop organised by the Delegation during the RELEX/AIDCO mission. The delegation presented the MTR process as well as issues pertaining to the three focal sectors plus climate change.

Participants (list attached) expressed their satisfaction for being consulted on the CSP and raised a number of interesting questions on the EC development cooperation. Given the diverse nature of Indonesian civil society, it is not possible to draw a common conclusion on recommendations for the future direction of EC development assistance but the present priorities seemed to be broadly supported by the attending CSOs.

A separate report from this consultation is attached as annex 1.

4. Consultations with Parliament

Due to the elections to Parliament in April 2009 and the subsequent Presidential elections of July 2009 and despite the Delegation's efforts to arrange meetings it was not feasible to engage with the outgoing members of Parliament.

The new Parliament took office on October 1st 2009. The Delegation organised a consultation with the new heads of the relevant parliamentary commissions on 12 November 2009, following the EU-Indonesia Troika Ministerial and the signing of the Partnership and Cooperation Agreement in Jakarta on 9 November 2009.

This consultation allowed a broad discussion on the EU-Indonesian relations including the nature, scope and orientations for EC development assistance and in particular the MTR end the emerging priorities for the period 2011-2013 as described below.

On 12 November the EC Delegation and the Indonesian Relex desk conducted a lunch meeting with six Members of Parliament of Indonesia (DPR) in order to discuss the review of the EU cooperation strategy with Indonesia. This was done in light of the on-going mid-term review with a view of receiving the MP's comments on the validity and relevance of the proposed cooperation priorities for the period 2011-2013.

EC had invited ten members from five Parliamentary Commissions as follows:

Commission XI Finance, national development planning, banking and non-bank financial institutions

Commission X Education, youth, sports, tourism, arts and culture

Commission VII Energy, mineral resources, research & technology, environment

Commission VI Trade, industry, cooperatives, SMEs, investment, state-owned enterprises

Commission IV Agriculture, plantations, forestry, fisheries, maritime, harvests

Six MPs attended (whereof one Chairman and two Vice Chairmen) but no representative from the commission on development planning. Participants from EC were Erik Habers, Pedro Martinez-Vargas, Florian Witt and Åsa Larsson.

Fruitful exchange of views where EC introduced by describing the wide-ranging cooperation with Indonesia and more specifically the development cooperation, including our three focal sectors of education, trade & investment and good governance. The contents of the PCA were outlined, which drew quite some interest from the MPs, however no concrete views on specific areas of enhanced cooperation. Some obvious wariness emerged regarding FTAs: one MP asked if PCA included a FTA or was a precondition for a FTA. One MP noted that the DPR had in the past had some constructive exchange with the EP, which they wished to be expanded, in order to learn more about the legislative process on the EU level.

As to input to the CSP, several comments were brought forward:

On climate change and forestry:

- * Need to change Indonesia's image as a country with rampant illegal logging. Cooperation activities should focus on changing this image and to develop eco-labeling standards.

- * Support requested to calculate and measure forest degradation and also the compensation mechanism for conserving forest, which the DPR believes would be best served at the local community level.

- * Support to develop carbon capture and storage in Indonesia.

On trade

- * Support to make Indonesia's products more competitive on international market and able to reach international standards. EC explained that this is one of the focal areas for our cooperation with Indonesia (trade and investment), referring to the Trade Support Programmes. In that respect, one MP mentioned that EC should also consider supporting the standardisation body for manpower, BNSP, so that Indonesian manpower could also be competitive internationally.

On education

- * The Deputy Chairman for the Commission on education while underlining the importance of support to basic education as well as of the efficiency of funds management for this sector, suggested that higher education be supported, which is an area where Indonesia is lagging behind. Support to increasing research, especially engineering, and vocational training, was mentioned as important aspects in increasing Indonesia's competitiveness in the future.

EC suggested a follow-up where HoD participates, expanding into political issues but also targeting DPR commissions in sector specific topics.

Annex 7: GOVERNANCE PROFILE

INDONESIA – June 2009

Following the overthrow of General Suharto after three decades in power, Indonesia began a political transition under extremely inauspicious conditions in 1998. The economy shrank 14% that year, the largest single year economic contraction of any economy since the great depression. The economic crisis plunged millions into poverty and social violence erupted in parts of the country.

Indonesia has since recovered well, consolidated democracy, restored economic growth and resolved major social conflicts. Since the fall of Suharto, Indonesia has held three parliamentary elections in 1999, 2004 and recently April 2009, which international observers deemed free and fair. In 2004, Indonesia elected its president directly for the first time. The next president direct election will be held July 2009.

I. POLITICAL/DEMOCRATIC GOVERNANCE

According to Freedom House ratings, Indonesia is considered as the most democratic country in Southeast Asia. Indonesia transition over the last decade has led to a more mature democracy and shown great progress in its democratic consolidation. The success of the democratic government was seen in the improvement of delivery services, reformation of the police and the judiciary, radical decentralization of government, improvement of security while ensuring that the armed forces stay out of politics.

No less significant is the continuing strength of moderate, mainstream Islam in Indonesia. The government has shown deep commitment in the reform process and to establish an Indonesia's profile as the world's largest Muslim democracy, committed to a form of pluralist and tolerant Islam civil society.

Respect and Protection of Human Rights and Fundamental Freedoms

The government generally respected the human rights of citizens and upheld civil liberties. In order to strengthen the public oversight mechanism over human rights condition in Indonesia, the National Human Rights Commission of Indonesia (Komnas HAM) was established in 1993. The Commission has the functions of study and research in laws and issues concerning human rights, both at the national and international levels; raising public awareness on human rights issues through educational institutions and other channels; investigating incidents of human rights abuses; summoning witnesses; issuing subpoenas to parties to provide written statements; and acting as a mediator between disputing parties. The Commission has branches in Nanggroe Aceh Darussalam, West Kalimantan, West Sumatera, Central Sulawesi, Ambon and Papua.

Another oversight mechanism is the National Ombudsman Commission (*Komisi Ombudsman Nasional*) which was established in 2000. The major function of the Ombudsman Commission is to monitor and formally query the judiciary in cases involving alleged irregularities or illegalities, and to follow up on the judiciary's compliance with the Ombudsman's recommendations.

The government policy on human rights is based on a five-year National Action Plan on Human Rights (*Rencana Aksi Nasional Hak Asasi Manusia* or RANHAM). The current National Action Plan will expire in 2009 and the new one is now in the developing stage by the Ministry of Legal Affairs and Human Rights. The National Action Plan includes human rights education, ratification of international human rights treaties and harmonization of law and regulations to human rights standards and norm embedded in international human rights treaties.

Indonesia is state party to almost all major international human rights treaties. The cooperation of the Indonesian government has been also extended to the UN Special Procedures (the Special Rapporteur on Torture and the Special Rapporteur on Human Rights Defenders). Indonesia had just ratified the International Bills of Rights (International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights) in 2005. Even though ratifications of the International Criminal Court Statute (Rome Statute) and the Refugee Convention are included in the RANHAM 2004-2009, thus far, this has not been realized.

Death penalty is provided for in Indonesian law for a very large number of criminal offences, such as drug offences. Moreover, the Law on Human Rights Courts (Law No. 26/2000) and the Law on Combating Criminal Acts of Terrorism (Law No. 15/2003) also contain provisions for the death penalty.

Despite the establishment of a Human Rights Court in 2000 to deal with gross human rights violations, including crimes against humanity and the setting up of ad-hoc human rights courts to consider past crimes, perpetrators of serious human rights violations continue to enjoy impunity. These mechanisms have failed to deliver justice and reparations for the victims and their families. Moreover, the Attorney General Office (AGO) has rebuked Komnas HAM's recommendations to file charges of gross human rights violations in the Wamena-Wasior, Trisakti, Semanggi I and Semanggi II and forced disappearances. These have fueled the lack of trust by the local population in state institutions and government seriousness to adequately address gross human rights violations abuses committed in the past. However, some positive development was shown with the acknowledgement and acceptance of the current government of the conclusion and recommendation of the Indonesia/Timor Leste Commission on Truth and Friendship that the Indonesian security forces bore institutional responsibility for the 1999 human rights abuses in East Timor and should undergo enhanced human rights training.

Domestic human rights organizations operated throughout the country and actively advocated for improvements to the government's human rights performance. The government is quite responsive to CSOs concerns over human rights condition in Indonesia. In the issue of human rights defenders, the government had vigorously investigated the 2004 killing of a human rights activist, Munir Said Thalib, and the Supreme Court had reinstated the 20-year sentence against the perpetrator. Nevertheless, civil society organizations addressing human rights related issues are often subjected monitoring, harassment and interference by the government. Moreover, civil society organizations in Papua continued to report widespread monitoring of their activities by intelligence officials as well as threats and intimidation.

In the past, the State restricted free speech and communication of information, including peaceful critics of the government, through criminal prosecution of 'hate showing' offences. The Indonesian Criminal Code (article 154 and article 155) criminalised 'public expression of feelings of hostility, hatred or contempt toward the government' and 'prohibited the

expression of such feelings or views through the public media'. However, basic freedoms have expanded since 1998. The Constitution and the law provide for freedom of speech and freedom of the press. In July 2007, the Constitutional Court declared the 'hate showing' offences to be unconstitutional because they violated the right to free speech protected in the Constitution. This decision has been welcomed as a sign of Indonesia's transition to democracy and to greater protection of the freedom of expression in Indonesia.

However, in practice, the government at times restricted these rights. Politicians and powerful businessmen filed criminal or civil complaints against journalists whose articles they found insulting or offensive. Moreover, some journalists also faced threats and intimidations. However, vigorous and independent media operated in the country and expressed a wide variety of views generally without restriction.

The government continues to restrict foreign journalists and civil society organizations from travelling to the provinces of Papua and West Papua by requiring them to request permission to travel through the Foreign Ministry or an Indonesian embassy. The government approved some requests and denied others. However, there have been no reports of restrictions on journalists travelling to previous areas of conflict such as Aceh, Maluku, North Maluku and Sulawesi.

The law provides for freedom of assembly and the government generally respected this right. The law generally does not require permits for social, cultural or religious gatherings, however, any gathering of five or more persons related to political, labour, or public policy requires police notification, and demonstration require a permit. In general these permits were granted routinely.

The law provides for freedom of association, and the government generally respected this in practice. In terms of freedom of religion, the Constitution provides for "all persons the right to worship according to his or her own religion or belief" and states that "the nation is based upon belief in one supreme God". The government generally respected the former provision for the six acknowledged religions and beliefs, namely, Islam, protestant, Catholic, Hindu, Buddha and Confucian. However, for people whose religions outside these six official one, they have difficulties in obtaining identity card, which was necessary to register marriages, births, and divorces. Men and women of different religions experienced difficulties in marrying and in registering marriages. The civil registration system continues to discriminate against members of minority religions. Moreover, there has been disturbing signs of religious intolerance in the country, such as the State interference in religious affairs in curbing the rights and activities of the Ahmadiyah, a small Islamic sect.

Citizens enjoyed freedom of movement within the country and, with a few exceptions, were able to travel outside the country. The exceptions are usually at the request of the police, the AGO, the Anti-Corruption Commission (*Komisi Pemberantasan Corruption* or KPK), and the Department of Finance. Some of those barred from leaving were delinquent taxpayers, convicted or indicted persons, and persons otherwise involved in legal disputes.

The government passed the Freedom of Information Act in 2008, which acknowledges the right of the citizens to access governmental information and provides mechanism through which citizens can obtain such information. The law also provides for sanctions on public institutions for non-compliance.

Constitutional Democracy and Electoral Process

Indonesia is a republic based on the 1945 Constitution, providing for a separation of executive, legislative and judicial power. The Constitution specifies that executive power is exercised by the president, supported by bureaucracy and cabinet. The legislative power is vested in both the government and the Parliament. The judiciary is independent of the executive and the legislature. Following the reformation, several political reforms were set in motion through the four amendments to the 1945 Constitution. These amendments were intended to foster the principles of a democratic rule of law state and constitutional democracy.

The amendments put a term limit of up to two five-year terms for the President and measures to institute checks and balances. In the New Order era, the executive exercised its power with few checks and balances. Now, the Parliament and civil society exert rigorous checks on the executive power. The highest state institution is the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat* or MPR) with the functions, among others, to amend the constitution. Following the 2004 election, the MPR became a bicameral parliament, with the creation of the *Dewan Perwakilan Daerah* (DPD) as its second chamber in an effort to increase regional representation. The Parliament (*Dewan Perwakilan Rakyat* or DPR) members are elected for a five-year term.

The political pluralism in Indonesia was upheld through the multi-party system. The political parties in Indonesia reflect all kinds of ideological lines such as nationalism, religion-based (Islam, Christian, Hindu), race (Chinese parties) and class (labour parties). Moreover, through the Peace Agreement between the Indonesian Government and the Aceh's Freedom Movement (*Gerakan Aceh Merdeka* or GAM), establishment of local political parties are allowed. To accommodate the demands of the GAM in Aceh during the peace negotiation, establishment of local political parties are allowed.

In the 2004 election there were more than 200 registered political parties, 24 parties contested the elections and 17 won the representation in the Parliament. In the 2009 parliamentary election, 34 political parties contested in the 2009 Parliament election and 9 parties won the representation in the Parliament.

The parliamentary and presidential elections take place every five years. The first election held after the collapse of the New Order was held in 1999. Prior to the 2004 election, the president and vice president were elected by the MPR. For the first time in 2004, the president and the vice president were elected by direct popular vote. Then, in the 2009 parliamentary election, candidates were elected by direct popular vote for the first time. This to some extent could guarantee the full-representativeness of the public in the Parliament. The changes to direct elections are major steps for Indonesia on the road towards a full democracy.

II. POLITICAL GOVERNANCE/RULE OF LAW

The amended 1945 Constitution has since laid solid foundation for the rule of law, including a human rights catalogue, judicial and constitutional review of the legislation and independence of the judiciary. The Indonesian judicial system is extraordinarily complex due to a confluence of three distinct inherited sources of law: customary or *adat* law (basis for resolving interpersonal disputes in the traditional village environment); Islamic religious law (sharia); and the Roman Dutch colonial law. Judicial power is vested in the Supreme Court (*Mahkamah Agung*) and other judicial organs. The Supreme Court exercises the highest level of

supervision over the lower courts and courts of law which are organisationally, administratively and financially under the jurisdiction of the Court.

The Constitutional Court (*Mahkamah Konstitusi*) was established in 2001 whose main duty is to be the guardian of the constitution and the sole interpreter of the constitution. The Court has the jurisdiction to hear cases involving the constitutionality of particular legislation, results of general election as well as actions to dismiss a President from office.

Oversights mechanisms were established as external supervisory system. Among these mechanisms are the National Law Commission (*Komisi Hukum Nasional* or KHN) established in 2000 with the decisive role in bridging the various legal reform steps undertaken by the executive, legislative and judiciary as well as various organisations involved in legal reform. The Judicial Commission was also established with the responsibilities to process reports or complaints on judiciary from the public, investigating judiciary alleged to have misused their power, sanctioning against violating judiciaries, and formulating a code of conduct for the judiciary.

Key constraints and challenges are, among others, the complexity of the legal and judiciary system, unpredictable and inconsistency in decision making and accountability, poor management and capacity, inadequate budget and corruption. Corruption among judges in Indonesia remains a key problem and the whole judicial system still needs a root-and-branch overhaul. Moreover, legal uncertainty and perceived graft in the judicial system are among some of the most frequent complaints of foreign investors operating in Indonesia.

III. CONTROL OF CORRUPTION

There was a widespread domestic and international perception that corruption was a part of daily life in Indonesia. However, some positive developments in the efforts against corruption in Indonesia was shown in the adoption of the National Action Plan on Corruption Eradication (*Rencana Aksi Nasional Pemberantasan Korupsi* or RAN-PK) 2004-2009, which was adopted through the Presidential Instruction (Inpres) No. 5/2004. The Government is currently developing a new RAN-PK for 2010-2015.

The Anti-Corruption Commission (*Komisi Pemberantasan Korupsi* or KPK) with a prosecutor power to deal with corruption cases in Indonesia was establishment in 2003 under the Law No. 30/2002. KPK coordinates with the police and the Attorney General's Office (AGO) in discussing the handling of corruption cases. In 2008, KPK handled 46 graft cases, up from 27 cases in 2007. It has managed to retrieve a massive amount of state assets at government agencies amounting to EUR 40.2 million. In 2009, KPK has arrested eight members of the Parliament, a former national police chief and ambassador to Malaysia, a senior prosecutor and three central bank officials including the governor.

The Corruption Court (*Pengadilan Tindak Pidana Korupsi* or *Pengadilan Tipikor*) tries all corruption cases initiated or taken over by the KPK. The Court has jurisdiction all over Indonesia. Moreover, repressive steps to fight corruption are also being carried out by the Financial Transaction Report and Analysis Center (PPATK) that function as a financial intelligence unit and a focal point which coordinates prevention and eradication of money laundering in Indonesia.

Despite a high profile anti-corruption campaign by President Susilo Bambang Yudhoyono, Indonesia remains one of the world's most corrupt countries, placing 143 in Transparency

International's 2007 corruption index. Moreover, a recent survey conducted by the KPK singled out the judiciary as the most corrupt public institutions in the country. Indonesian Corruption Watch (ICW) – an Indonesian NGO watchdog – also revealed that district courts had released 60% of those convicted in corruption, while 30% of those convicted of graft were sentenced to less than a year in prison. Survey by the Political and Economic Risk Consultancy (PERC) also showed the low performance of the Indonesian judiciary, where the practice of judicial corruption remains excessive.

IV. GOVERNMENT EFFECTIVENESS

The Ministry of Finance has introduced a Bureaucracy Reform Initiative in 2007 aiming to improve almost 6,500 public services procedures performed by the Ministry, prioritising the reform on tax and customs services. The salaries of public officials have been raised to reduce incentives for corruption and performance-related pay structures have been introduced. Moreover, the State Ministry of Administrative Reform (*MenPAN*) also announced a plan for civil service reform in 2007. This includes performance-related reforms along with a greater focus on supervision and accountability. The National Committee for Bureaucracy Reform chaired by MenPAN will be an important coordination mechanism for ongoing reforms in various institutions and provide for sustainability as it will address the regulatory body governing the civil service and the management system.

A limited number of local governments have taken on reform of their own administrations, including its business processes, staffing and human resource management. However, this scope of reforms is limited by rigid civil service regulations and there is a lack of central regulatory reform.

Nevertheless, bureaucratic reform in Indonesia has been very slow as corruption remained prevalent. According to the World Bank survey in 2007, Indonesia ranks 123rd out of 178 countries in terms of ease of doing business.

Started in 2001, decentralisation process has brought shifts in power relations not only between the centre and the regions, but also between the branches of government at local level. Some of these changes have given rise to rampant 'money politics' by the head of districts seeking to gain and maintain support from the legislature, and legislators exploiting their newly acquired power over local budgets to secure financing of their political parties. However, most commonly, all sides have taken the chance to embezzle funds for self-enrichments. Opportunities for corruption have been opened up further by the enactment of inconsistency regulations governing local budgets by the national and local parliaments, as well as low levels of public participation and control in local governance.

Local governments are vested with new responsibilities for local public services and around 2.6 million central government employees became employees of the local governments. Decentralisation has also transferred significant power to local governments, and since 2005 there have been over 350 elections for local officials with approximately 2,300 local and provincial officials were directly elected.

Decentralisation could be considered as a driving force in Indonesia. A public opinion survey in 2008 funded by the USAID found that trust in local government officials grew from 42% in 2006 to 55% in 2008; and approximately 56% had more confidence in their local government than in the central government. Nevertheless, decentralisation has not solved all of

Indonesia's corruption problems, with investigations on-going in as many as a quarter of Indonesia's local governments. Moreover, weak capacity and limited resources of the local governments have become obstacles in the process.

Indonesia is currently confronted by very adverse international economic conditions. However, a recently conducted IMF Article IV mission concluded that Indonesia is regarded to be very well positioned to weather these adverse conditions and is one of only three economies in Asia showing positive growth for the first quarter of 2009.

Macro Economic Framework

The Government's five year plan, 2005 to 2009, stresses goals for high economic growth with stability as a means to increase employment and living standards, while significantly reducing poverty. Macroeconomic management is mainly the responsibility of (i) Ministry of Finance (MoF); (ii) Bank Indonesia; (iii) Bappenas; and (iv) Coordinating Ministry of the Economy. Although not in a formal program Indonesia remains in close consultation with the IMF, World Bank and other major development partners (DPs). Indonesia repaid its debt to the IMF in 2006, ahead of schedule. Recently the World Bank (with ADB, Japanese and Australian support) has approved a Contingent Financing Facility of US \$ 5.5 billion for Indonesia indicating both a proactive approach by Indonesia as well as confidence of major DPs in the macroeconomic policy stance and medium term outlook for Indonesia. In addition, ADB announced in early June a US\$ 1 billion loan for expenditure in social protection, poverty alleviation and improvement in infrastructure to mitigate any effects of the global economic crisis

Recent macroeconomic reforms, management and performance has been sound and favourably assessed by the IMF and World Bank as demonstrated by recent World Bank approval of the US \$ 5.5 billion Public Expenditure Support Facility.

Public Financial Management

The quality of PFM systems have improved significantly since 2002 starting with the issuance of a White Paper to guide PFM reforms, resulting in major institutional and legal reforms during 2003 to 2006, with more recent focus on implementation. The first ever PEFA completed in 2007 shows that these reforms are being implemented with only around one-third of PFM indicators considered weak and further improvements being made since 2007. Major strengths include (i) Indonesia has made significant changes in the way its public finances are managed, with increased transparency and oversight; (ii) a constitutional mandate has been clarified resulting in a strengthened role for the external audit agency; (iii) in almost all areas of PFM, a sound and modern regulatory framework is in place, incorporating MoF mandating and reorganisation for better leadership of PFM reforms; (iv) greatly strengthened quality and comprehensiveness of budget documents (v) moves towards programme-based budgeting and MTEF formulation; and (vi) implementation of a single treasury account to strengthen cash management. The overall outlook is that PFM reforms and PEFA indicators are likely to continue to improve.

Nevertheless, a number of challenges need to be addressed especially related to a consistent implementation of the regulatory framework in the form of a clearer PFM reforms roadmap. Weaknesses remain around budget execution and control, notably (i) expenditure patterns being skewed towards the end of the year; (ii) a greater focus needed to link policy/planning with budgets; (iii) weak internal controls and internal audits, including low audit capacity and

non-compliance with procurement procedures. Other challenges remain in off budget operations, the oversight of risks from other public entities and taxation administration. The Government is making a concerted effort to address the identified weaknesses, particularly through steps towards reforming revenue administration, including customs reform and computerisation of tax administration, gradual implementation of performance based budgeting, the establishment of a National Procurement Office to oversee and streamline procurement procedures, and steps to clarify and strengthen the authority of the internal audit function.

Clear arrangements have been put in place at the central level to support PFM reforms at the sub-national level, underpinned by the National Action Plan for Fiscal Decentralisation. PFM capacity at the sub-national level is a challenge but has improved due to efforts by the Ministry of Finance and the Ministry of Home Affairs, with support from a large number of development partners.

Overall, since 2001, the GoI commitment to PFM reforms has been strong. It is anticipated that PFM improvement will be a key pillar in the next five year National Development Plan 2010-14. Indonesia has also been strongly supported in the design and implementation of its PFM reforms by key development partners, particularly the IMF and World Bank. While the 2009 elections bring uncertainties, the strong reform momentum provides realistic hope that arrangements for guiding reform can continue to strengthen, possibly backed by a second version of the White Paper or other consolidated medium term strategy focusing on implementation of the legal framework

V. ECONOMIC GOVERNANCE

Investment climate has been and to a great extent is considered difficult in Indonesia. Investment procedures are cumbersome both at central and local levels. The decentralisation law of 2002 gave ample powers to the regions, including investment management. However, this was not accompanied by clear implementation regulations and improved management capacity within the local authorities. Moreover, lack of legal clarity, lack of transparency or public consultation in the legal process, vested political interests and commercial court biased against foreign companies are common constraints faced by foreign investors.

Governance problems related with customs and tax administrations also limit the investment climate in Indonesia, for example unofficial payments required to speed up the release of goods and for resolution of tax discrepancies. However, modernisation of the Tax Directorate and the implementation of the pilot project of the National Single Window for the flow of goods and customs have been considered a progress to tackle this problem.

Labour market condition is unattractive where the Government had to withdraw its labour market reform plan in 2006 in view of massive street protests. Thus far there is no revision of this law.

Indonesia's infrastructure is crumbling after a decade of little maintenance and requires significant upgrading in order to continue the economic growth. This is shown by the poor condition of the public road network and port facilities, which only add to the costs of doing business in Indonesia. The electricity distribution network has already reached its maximum capacity and blackouts have been commonplace all over Indonesia.

Indonesia is part of the countries that have signalled their intent to implement the EITI, and are working to meet the four signup indicators. Once these indicators are met, Indonesia will become an EITI Candidate country. These are the four indicators that countries are required to meet in order to become a Candidate country: government unequivocal public statement of its intention to implement EITI; government commitment to work with civil society and companies on EITI implementation; government appointment of a senior individual to lead on EITI implementation; publication and availability of a fully costed Work Plan, containing measurable targets, a timetable for implementation and an assessment of capacity constraints (government, private sector and civil society).

Indonesia is one of the main partners of the EU FLEGT Action Plan. Indonesia is one of the countries currently negotiating a Voluntary Partnership Agreement (VPA) with the European Commission in order to ensure the legality of timber products exports from Indonesia to the EU market. Negotiations started in 2007. Indonesia has recently passed timber administration legislative reforms which might help the country negotiate the VPA with the EC. Dialogue is ongoing with the EC on the FLEGT Action plan and in particular on the proposal for an EU regulation concerning the placing of timber products on the EU market.

As FAO member, Indonesia should collaborate in the fulfilment and implementation of the objectives and principles contained in this Code. Indonesia has recently showed the importance it gives to sustainable fisheries as the organizer of the World Ocean Conference in Manado in 2009. The fishery sector in Indonesia remains characterized by a number of unsustainable practices however such as illegal fishing or fishing with explosives.

VI. INTERNAL SECURITY

Internal conflicts

The democratic process has encouraged the peaceful resolution of longstanding conflict. The government signed a historic peace agreement with the Aceh Freedom Movement (*Gerakan Aceh Merdeka* or GAM) in 2005 which ended three decades of fighting. In 2006 local election, a former GAM leader serves as Governor of Aceh.

In Papua there is an active independence movement in which the Indonesian security forces have at times responded with the use of excessive force, including extrajudicial executions as well as torture and arbitrary detentions. However, direct elections for provincial governor and an increase in spending on social services have to some extent dampened the appeal of the Papuan separatist movement.

Counter-terrorism

Following the 2002 Bali bombing, the Indonesian National Police (INP) established the Detachment 88 as the counter-terrorism squad. The Detachment has had considerable success against the terrorist cells linked to Central Java-based Islamic movement, the Jemaah Islamiah (JI). In 2007, the INP had uncovered the JI's new command structure and discovered a weapon depot in Java. In the same year, the INP also detained Abu Dujana, suspected leader of JI's military wing. In 2008, the INP has arrested 418 suspects, of which approximately 250 have been tried and convicted.

In response to the UN's Security Council Resolution 1566/2004 and the UN Convention on Terrorism which calls for member countries to fully cooperate in fighting terrorism, Indonesia

had already concluded anti-terrorism cooperation agreement with Australia, India, Pakistan, Sri Lanka, Romania, Russia and Egypt. Indonesia had also established cooperation in the same field with European Union countries, the United States, Canada, Japan, New Zealand and ASEAN countries even though it had not been formalized in memorandums of understanding.

The activities carried out so far under the international anti-terrorism cooperation agreements included training in crisis-handling capabilities, chemical, biological, radiological and nuclear (CBRN) management, intelligence, police, military, mutual legal assistance, legal enforcement and institutional capacity and human resources capacity building. Moreover, within the framework of ASEAN, Indonesia had signed the ASEAN Convention on Counter Terrorism in 2007 as the legal basis for cooperation to crack down terrorism in Southeast Asian region.

VII. SOCIAL GOVERNANCE

Gender Equality

Much of the Indonesian legislation emphasizes the importance of equal opportunities for men and women, however, typical stereotypes and sex roles prevail in rural Indonesia. While 50% of Indonesian women are economically active, only 30% constitute salaried employees outside the agriculture sector. The Civil Code stipulates that men and women have the same legal capacity and as such women have the right to own and manage land. Some societies even favor women in terms of land inheritance. More common, however, are patriarchal traditions and norms that limit women's access to productive resources. Moreover, there are no legal restrictions on women's access to bank loans and credit. Women also have the legal right to conclude various contracts, although some discrimination can be observed in reality. Women enjoy freedom of movement, although locally imposed restriction based on Sharia may apply in certain regions.

HIV/AIDS

The first case of AIDS was reported in 1987 in Indonesia. In 2004, there were 3,368 HIV and 2,682 AIDS reported cases. The actual number of HIV/AIDS cases is estimated between 90,000-130,000 people. The report from the Ministry of Health (MoH) in 2002 stated that Indonesia has moved from a low prevalence to a concentrated area country. Until the end of 2004, there were 12 provinces concerned by the high number of HIV/AIDS cases and have become "priority provinces", namely Jakarta, Papua, Bali, East Java, West Java, Riau, West Kalimantan, North Sumatera, North Sulawesi, Central Java, Yogyakarta and Banten.

Indonesia has established a National AIDS Commission (*Komisi Penanggulangan AIDS Nasional* or KPAN) in 1994 and developed a four-year HIV/AIDS National Strategy. All provinces and districts have been instructed to have their own Provincial/District AIDS Commission and also HIV/AIDS Provincial/District Strategy. However, in reality many of these regional commission are not well functioned.

In 2003, the National Narcotics Board and the KPAN signed a Memorandum of Understanding to accommodate several pilot districts harm reduction programmes for IDUs. In 2004, the Ministry of Manpower also declared a commitment to fight HIV/AIDS and urge companies to integrate HIV/AIDS programmes as a way to protect its employees from the transmission. In the same year, a meeting between the KPAN and 6 governors from priority

provinces adopted the Sentani Commitment which stated that HIV/AIDS is a major threat to their provinces development programmes and a serious action should be taken immediately including self-funding, acknowledge sex industry to make 100% Condom Use Programme (CUP) success and the need of harm reduction programmes for IDUs.

VIII. REGIONAL CONTEXT

The Association of South-East Asian Nations (ASEAN) has reaffirmed its commitments towards closer economic and political integration with the adoption of the ASEAN Charter in 2007. The ASEAN Economic Community alone would create a single market of 570 million people based on the free flow of goods, services and skilled professional labour.

Indonesia has been proactive for the drafting and adoption of the Charter. Indonesia has also participated in all meetings and participated to the funding of ASEAN Secretariat operational costs on equal basis with other member states. Currently, the government is restructuring the Deplu ASEAN DG in an ASEAN National Secretariat, as requested by the Charter. However, this process goes very slow and there is a problem of lack of staffing.

Jakarta, the capital city of Indonesia, hosts the ASEAN Secretariat. However, despite an old agreement between the ASEAN Secretariat and the Indonesian Ministry of Foreign Affairs, getting visa for the Secretariat staff is difficult. Nevertheless, the ASEAN Secretariat and the Ministry of Foreign Affairs is currently undertaking a negotiation for a new agreement. Apart from the ASEAN Secretariat, Indonesia also hosts the ASEAN Centre for Energy.

With regard to Economic Integration, Indonesia is regularly participating in all meeting of the ASEAN Collegial bodies. Indonesia has been active the development of a National Single Window for customs which then become a part of the overall ASEAN customs clearance system. On the other side, Indonesia has decided unilaterally to postpone the entry into force to 2011 the ASEAN Cosmetic Directive which foresaw the implementation of a single system in all ASEAN starting from 2008.

In general, each line ministry is responsible for the implementation of the regional commitments taken under their respective ASEAN Ministerial Meetings, and endorsed either by ASM or ASEAN Leader. At this point, the biggest issue for ASEAN and ASEAN Secretariat is to monitor the integration process. The slow progress in the development of ASEAN National Secretariat may hinder this.

Annex 8: Indonesia's progress towards MDGs

Key indicators	1990b	2006	2007	2008	2010e	2015t
1. Proportion of population below 1\$/day in PPP	20.6%	-	7.5%	-	-	10%
2. Prevalence of underweight children	31%	28%	24.4%	-	23%	18%
3. Under 5 child mortality (per 1000 live births)	81		40	-	37.8	32
4. HIV prevalence rate of women aged 15-24	-	-	0.1	-	-	-
5. Proportion of births attended by skilled health personnel	40.7%	72.4%	-	73%	-	indicator
6. Proportion of 1 year old children immunised against measles	44.5%	71.6%	-	72%	-	indicator
7. Net enrolment ratio in primary education	88.7%	94.7%		-	97.6%	100%
8. Ratio of girls to boys in primary and secondary education	96% (primary), 83% (second.)	100% (primary), 99.4% (second.)	-	-	-	100% (both)
9. Primary school completion rate	62%	74.7%	80%	82%	85%	100%
10. Proportion of population with sustainable access to an improved (drinking) water source	38.2%	57.2%	-	-	-	67%
11. Fixed lines and mobile telephone per 1000 inhabitants ^{a)}	-	11.2% (fixed), 24.6% (mobile)	-	-	-	indicator
12. Formal cost required for business start up ^{b)}	-	101.7	86.7	80	-	-
13. Time required for business start up	-	151 days	97 days	76 days	30 days	-
14. GDP per capita	US\$	US\$ 1,663	US\$	US\$	US\$	US\$ 5,000

	1,308		1,942	2,271	2,155	
15. Access of rural population to an all season road ^{c)}	n/a	74%	n/a	n/a	n/a	n/a
16. Household electrification rate	41.7%	-	61.6%	-	-	-

Notes:

- 1990b = baseline for MDGs; 2010e = intermediate target/estimate; 2015t = MDG target

a) latest available data is 2006; b) in % GNI per capita; c) Villages with concrete/asphalt road. Data available was published in 2006 based on the 2000 survey.

Sources: World Development Indicators Database, MDGs Progress Report Indonesia (2006, 2007, 2008), World Bank