



Canadian International
Development Agency

Agence canadienne de
développement international

INDONESIA

COUNTRY STRATEGY

(Effective as of 2009)

CIDA reviews all country strategies periodically and may revise them to reflect changing priorities or circumstances in countries.

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Canada 

INDONESIA COUNTRY STRATEGY 2009

1. Country Development Context

Current Context

- Indonesia, with a population of 226 million, contains the largest Muslim population in the world and has significant regional influence. It is a lower middle-income country that is vulnerable to economic crises and natural disasters. Wide inequalities, deep poverty and regional disparities persist. Indonesia was ranked 109 on the Human Development Index in 2008 and 21.5 percent (2005) of the population lives on less than \$1.25/day. Rural farmers and fisher folk comprise the largest segment of Indonesia's poor. 50 percent of all jobs depend on natural resources. Access to land, property, financial services and employment remains inequitable.
- The country is on track to meet many developmental targets but national indicators conceal important disparities among provinces and districts. Lack of progress on the environment remains a concern. Women remain excluded from decision-making processes and budget allocations for services to women and the vulnerable are inadequate.
- Security and stability in Indonesia is improving. The government has been effective in addressing recent security issues related to international terrorism. Indonesia's growth and stability have been bolstered by substantial political (introduction of democracy) and economic (regional decentralization introduced in 2001) reforms.
- Indonesia has instituted a major program on anti-corruption, which, if successful, will allow for more effective and efficient use of resources for development.
- Indonesia had finally recovered from the hard-hitting Asian 1997 financial crisis, but the current global crisis threatens gains made (GDP growth for 2008 was 6 percent, and is estimated at 4 percent for 2009). This could send 1 to 2 million people back into poverty and reverse the downward trend for unemployment (unemployment is expected to increase by 25 percent over the next two years). Indonesia has proactively secured a stand-by agreement with the World Bank and other donors to access US\$5.5 billion if needed.
- While Indonesia experienced a spike in food prices in mid-2008, prices have returned to relatively normal levels. Indonesia has the resources to ensure food security for all and has been rice self-sufficient since 2007. Historically, performance in Indonesia on food security has been good.
- 2009 elections (broadly seen as free and fair) returned President Yudhoyono and his party to power and highlighted the public's approval of the government's performance in implementing democracy, combating corruption, improving living standards, and managing the economy. Public support past 2009 will depend on sustained governance reforms and economic growth.

Aid Effectiveness Context

- In response to the Paris Declaration and the Accra Agenda for Action, Indonesia established the Jakarta Commitment: Aid for Development Effectiveness - Indonesia's Road Map to 2014. Main elements of the Jakarta Commitment are: strengthening country ownership; building more effective and inclusive partnerships; and delivering and accounting for results. Several donors, including Canada, have adopted the Jakarta Commitment.
- CIDA was asked by the Government of Indonesia to be the donor focal point for Indonesia's response to aid effectiveness that it presented in Accra in 2008.
- Consultations are held annually between the Government of Indonesia and CIDA on development assistance.
- The main multilateral donors to Indonesia are the World Bank and the Asian Development Bank (AsDB), respectively providing \$2 billion and about \$800 million per year. The World Bank focuses on five core areas: private sector development, infrastructure, community development and social protection, education and environmental sustainability. The AsDB focuses on infrastructure, education and the environment. The major bilateral donors are Japan, Australia and the US. Indonesia is not aid dependent; the ratio of aid to GNI is less than 1 percent.

INDONESIA COUNTRY STRATEGY 2009

- The successful completion of the reconstruction program after the devastating December 2004 Tsunami has contributed to the Government of Indonesia's confidence in its ability to provide leadership to donors and promote donor coordination.

2. Priority Needs and Canada's Value Added

- Indonesia's development plan is not presented as a single, comprehensive document. The Five-year Medium Term Development Plan forms a loose framework for development work in Indonesia and is complemented by a number of other policies such as those related to regional autonomy and decentralization processes. Indonesian priorities for 2010-2014 include: strengthening the state; improving the quality of human resources; developing the capacity of science and technology and strengthening economic competitiveness. The need to continue reforms fuelling economic growth in the regions and better management of natural resources are identified as specific areas of attention.
- **Human Development:** Regional disparities remain a key development challenge for Indonesia – making economic performance at the local level essential to improve the lives of all Indonesians. The role of women has improved but access to services and economic opportunities remains restricted.
- **Economic Growth and Sustainability:** Since 2007 Indonesia has had good GDP growth (6 percent in 2008), but is being affected by the current global crisis. Given Indonesia's dependence on natural resources for growth and job creation, sustainable management of these is crucial for continued development. Canada has a long-term, successful program in the sustainable use of natural resources and ecosystems, and has the expertise to share.
- Successful implementation of decentralization remains a high priority. District-level governments now spend over 60 percent of the national budget and their responsibilities are wide-ranging from managing infrastructure, promoting industry and agriculture, education, health and social welfare. The successful execution of these responsibilities has a direct impact on the nature and pace of economic growth in the regions and districts. However, many local governments lack the capacity to plan, budget and deliver programs. As a result, their ability to promote economic growth is limited. Canada has experience and expertise in these areas that is valued by Indonesians.
- **Security and Stability:** Indonesia's role in regional security and stability is increasing. Stability in Indonesia depends on continued progress in poverty reduction, sustained economic, social and political reform, and effective response to crises and disaster risk management. Canada is a valued partner when Indonesia faces crises such as the 2004 Tsunami.
- Indonesia is an important partner for Canada for political, security, commercial and development reasons. It is a key ASEAN player, a member of the G20, a voice of moderation among Muslim countries, Canada's fourth largest trading partner in Asia and a pivotal regional model for democratization and environmental management. The CIDA Program provides an entry point for other Government of Canada initiatives.

3. Strategic Direction

- The objective of CIDA's program in Indonesia is to support [sustainable economic growth](#).
- In 2008, the Program focus was on improved capacity of government and civil society to develop and implement policies, processes and systems for effective, decentralized service delivery, and good management of renewable natural resources to protect and generate incomes for vulnerable populations in a manner that is sustainable and more equitable. Decentralization, the key reform in Indonesia, was the overarching principle, and programming was geographically focused in Sulawesi.
- Selected achievements over the last year include: a computerized budget system and training for 1,500 accounting personnel in 21 local governments that improved financial management in Aceh; over 1,000 representatives of the quarter million people who live in the fragile Bone-Bolango and Konawe watersheds in Sulawesi started to learn how to lead the management of

INDONESIA COUNTRY STRATEGY 2009

their watersheds and plan projects to improve their lives; environmental awareness was raised in Sulawesi through training of over 1,000 local government and community stakeholders.

- In 2009, the focus will be stimulating sustainable economic growth and in order to reduce vulnerability to poverty by:
 - o Working with national and local partners to strengthen local and regional economic planning and programming; and
 - o Promoting good management of renewable resources in support of local and regional economic development.
- Local and regional economic planning and programming in key areas such as infrastructure, industry and agriculture is the responsibility of local governments. Better performance by these governments in improving the business climate (through better business development plans and improved infrastructure) will have a critical impact on the private sector and help economic growth. This will require building their planning and programming skills in areas that directly support economic growth (such as investment promotion and enterprise development).
- The economy in Indonesia is natural resource based - over 50 percent of jobs are related to this area and resource exploitation and processing accounted for about 44 percent of GDP. Strengthening natural resource management is even more important for poverty reduction as the majority of the poor live in rural areas and depend on natural resources for their incomes. As there is increasing pressure on marginally productive and fragile natural resources, improved and sustainable management of these resources will support economic growth and directly contribute to raising the incomes of the poor.
- Programming will continue to be concentrated in Sulawesi, Indonesia's third most populous island and a driver for change in Eastern Indonesia (the poorest region in the country). CIDA's past and present successful relationships with a number of key civil society partners, importance of civil society engagement to development results, lessons learned through Tsunami reconstruction programming in Aceh and Indonesian government commitment to expand dialogue suggest that civil society is emerging as a full partner in development in that country. Ongoing consultations with the Government of Indonesia and other stakeholders help to inform the strategic direction of the Program.

4. CIDA's Programming Plan

- **Policy Dialogue:** Canada is well placed to dialogue with Indonesia on regional economic development and decentralization. We are a trusted partner and have been the Chair of the Donor Working Group on Decentralization for two consecutive years.
- **Bilateral Program:** CIDA's main programming channel will be bilateral. The Program will implement the Jakarta Commitment for aid effectiveness by enhancing Indonesian ownership and increasing collaboration with other donors. Indonesia does not currently offer an opportunity for Program Based Approach programming. A watching brief exists for climate change programming and disaster risk reduction.
- **Canadian Partnership Branch (CPB):** In FY 2007/08 CPB disbursed about \$3.1 million. Sectors included: private sector, governance, health, education, etc. 32 percent of programming was related to bilateral sector/sub-sectors.
- **Multilateral and Global Programs Branch (MGPB):** \$1 million (through the Micro-nutrient Initiative) of CIDA's current multilateral and global budget directly targets Indonesia. CIDA is ready to provide humanitarian assistance if needed. The top two multilateral partners for Indonesia are the World Bank and the Asian Development Bank. Both Banks include decentralization and natural resource management in their portfolios, thus acknowledging these key factors for sustainable growth. CIDA collaborates with the Banks in various multi-donor groups and has existing complementary investments.

INDONESIA COUNTRY STRATEGY 2009

Country Program Notional Budget (Bilateral only)

- FY 2009/10: \$23 M
- FY 2010/11: \$25 M
- FY 2011/12: \$25 M

INDONESIA COUNTRY STRATEGY 2009

5. Results and Risk Identification

Results:

Economic Growth: Regional Economic Development and Public Financial Management

EXPECTED Intermediate Outcomes:

- Improved framework for regional economic growth.
- Improved capacity of local governments to plan and program for regional economic growth.
- Improved capacity of civil society and the private sector to work with government in planning and budgeting for regional economic growth.

EXPECTED Immediate Outcomes and Outputs:

- Assistance to national and sub-national institutions to clarify and implement functions directly supporting economic growth.
- Training and technical assistance to local governments to ensure efficient use of public funds to enhance economic growth.
- Business development programs are improved and broadly used. (e.g. one stop shops, business training)
- Training and technical assistance to ensure local plans and budgets integrate the needs of women and the poor.

Economic Growth: Sustainable use of renewable natural resources

EXPECTED Intermediate Outcomes:

- Improved natural resource management of selected watersheds and community based forests that generate and protect incomes for the poor.

EXPECTED Immediate Outcomes and Outputs:

- Training and extension services to restore and sustainably manage Mangrove forests in South Sulawesi.
- Adopt multi-stakeholder and micro-enterprise approach to managing high-value tree crops and aquaculture.
- Introduce and implement new ways to manage forest and water resources (e.g. Pilot Canadian led Model Forest approach).

Risks:

Indonesia is prone to crises. New natural disasters/crises in Indonesia could have consequences for program delivery. Building on the country program-level risk profile prepared in 2008, the Bilateral Program is developing a Disaster Risk Reduction strategy. CIDA, through the multilateral channel, is ready to respond if required. The absorptive capacity of Indonesian partners is increasing, but remains limited. The Bilateral Program collaborates with other donors to reduce the administrative burden on Indonesian partners, actively promotes coordination among projects in the field, and assesses skills and competency of potential partners during project design.