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Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

COUNTRY
STRATEGY

Swiss Economic Cooperation and Development **Indonesia**

2017–2020



Abbreviations

AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
CEPA	Comprehensive Economic Partnership Agreement
CHF	Swiss Franc
CO₂eq	CO ₂ equivalent
DAC	Development Assistance Committee
EAP	East Asia Pacific
EFTA	European Free Trade Association
EU	European Union
G-20	Group of Twenty
GDP	Gross domestic product
GNI	Gross national income
IBRD	International Bank for Reconstruction and Development
IDR	Indonesian Rupiah
IFC	International Finance Corporation
KfW	German Reconstruction Credit Institute (<i>Kreditanstalt für Wiederaufbau</i>)
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, small and medium-sized enterprise
Nawa Cita	National Priority Agenda of the Indonesian government
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
O&M	Operation & Maintenance
PEFA	Public Expenditure and Financial Accountability Programme
PFM	Public financial management
RPJMN	Medium-term Development Plan (<i>Rencana Pembangunan Jangka Menengah</i>)
SDG	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
UN	United Nations
USD	United States Dollar

State Secretariat for Economic Affairs SECO – Economic Cooperation and Development

SECO's Economic Cooperation and Development division is responsible for the planning and implementation of economic cooperation and development activities with middle income developing countries, with countries of Eastern Europe as well as the new Member States of the European Union. It coordinates Switzerland's relations with the World Bank Group, the regional development banks and the economic organisations of the United Nations. SECO is part of the Federal Department of Economic Affairs, Education and Research (EAER).

Switzerland's international cooperation efforts as defined in the Federal Council's 2017–2020 Message on International Cooperation aim to reduce poverty and global risks, alleviate suffering, and promote peace and respect for human rights. Accordingly SECO's economic and trade policy measures strive to support sustainable and inclusive growth. The Economic Cooperation and Development division focuses its activities on its specific areas of competence and experience in four target outcomes aligned with the 2030 Agenda for Sustainable Development: 1) effective institutions and services, 2) more and better jobs, 3) enhanced trade and competitiveness and 4) low-emission and climate-resilient economies. Special emphasis is placed on issues related to economic governance and gender.

Editorial

With the present Country Strategy 2017–2020, SECO reiterates its commitment to supporting inclusive and sustainable economic development for a prosperous Indonesia.

Today, poverty remains a crucial issue also for middle-income countries like Indonesia. While a number of these countries have experienced significant growth in recent years, the gap between rich and poor has widened in many cases. In an increasingly interconnected world, middle-income countries are often particularly vulnerable to global risks, such as climate change, economic and financial crises, or political instability. It is thus more important than ever to ensure that all sections of the population can benefit from sustainable, resilient economic growth. This is where SECO applies its core competencies and comparative advantages in economic cooperation and development.

In line with the UN 2030 Agenda for Sustainable Development and the Federal Council's 2017–2020 Message on International Cooperation to the Swiss Parliament, SECO aims at fostering sustainable and inclusive growth in its partner countries. Such growth addresses economic as well as social and ecological aspects

and shall not compromise the well-being of future generations. It contributes to reducing poverty and the impacts of global risks. It enables the private sector to create more and better jobs and the state to provide adequate services. Competitive economies and effective institutions are also key to reinforcing the resilience of societies increasingly confronted by different dimensions of fragility.

This Country Strategy defines the following two objectives of the economic and trade policy measures deployed by SECO in Indonesia. First, SECO supports improved public service delivery through efficient and sustainable use of resources. Second, SECO's measures strive towards a more competitive and job-creating private sector with access to sustainable resources and markets.

Building on lessons learnt and the encouraging results achieved in the past cycle 2013–2016, this Country Strategy sets the frame for SECO's continued activities in Indonesia for the next four years. Based on the goals and priorities described therein, we firmly believe that we can make a significant contribution to Indonesia's further development path.

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Marie-Gabrielle Ineichen-Fleisch
State Secretary,
Director of SECO



Raymund Furrer
Ambassador,
Head of Economic Cooperation
and Development SECO



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1
Indonesia's exports to Switzerland are rising steadily.

2
Agriculture remains an important part of Indonesia's economy.

3
An intact environment is crucial for the growing tourism industry.

4
Working conditions and job status are important for both men and women.

Country context

Political and institutional

Indonesia is the tenth largest economy in the world as measured by purchasing power parity, the largest economy among the ASEAN member states, and the only South-east Asian member of the G-20. Indonesia has emerged over the past 15 years as a vibrant democracy and a self-assured middle-income economy with growing regional and global influence, achieving a GNI per capita of USD 3,492 (2014, Atlas, current prices). With its population of over 250 million, Indonesia is the fourth most populous country in the world. It has the world's largest Muslim population and a democratic and pluralistic constitution. Indonesia's people belong to more than 270 ethnic groups, speak more than 700 languages and dialects and live on 6000 of the 13,500 islands of the archipelago. The island of Java, home to 58% of the population, is the world's most densely populated island, and 11 Indonesian cities have more than one million inhabitants. The largest city is Jakarta with approximately 10 million people.

Following the elections in 2014, the newly elected President Joko Widodo began a five-year term in October 2014. The election of President Widodo, who in less than five years transformed from being the mayor of a small city to the Governor of Jakarta and subsequently President, was widely viewed as a reformist victory. The start of the new administration coincided with the end of a 10-year commodity boom, raising the urgency for a fundamental economic transition that included implementing structural reforms and opening trade. Within weeks of taking office, the new administration set a reform path it described as a "mental revolution" and launched economic reforms, including a bold energy-subsidy reduction and a broad infrastructure development program. However, maintaining reform momentum is challenging and will require unified positions within the government and together with the parliament. Furthermore, long-standing special interests and political elites can be expected to continue acting as counter forces to the reform efforts.

Economic

The past decade saw robust economic growth, as Indonesia benefited from a boom in commodity exports, increasing investor confidence and substantial capital inflows, as well as a demographic dividend. Since 2012, Indonesia has experienced the macro-fiscal effects of commodity price declines in a resource-driven economy. The prices of key export commodities peaked in 2011 and dropped by almost 50% by the end of 2015. The decline in export commodity prices severely reduced Indonesia's trade surplus and led to the opening of a significant current account deficit for the first time in 15 years. Lower export commodity prices, combined with lower production of oil and gas and lower demand from China as well as rising spending on energy subsidies increased fiscal pressure throughout the latter part of the previous President's term in office.

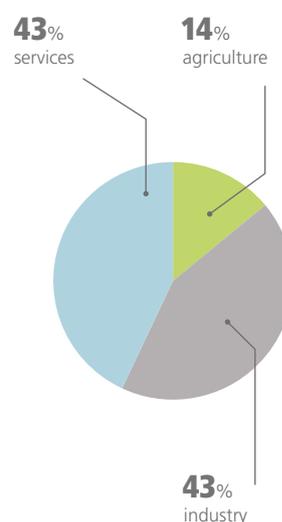
Indonesia's macroeconomic policies have been significantly adjusted since mid-2013. Bank Indonesia tightened up its monetary policy to reduce rapid credit growth, before easing its key reference interest rate again,

reacting to the volatile international markets. Between early 2012 and 2016, the rupiah depreciated by 55%. The currency did, however, strengthen against the US Dollar in late 2015 and levelled out in the first quarter of 2016. In October 2014, the new government completely removed the subsidies for petrol and capped subsidies for diesel using a new market-based price determination formula. The Widodo administration has introduced comprehensive policy reform packages, which, if successfully implemented, could significantly increase the competitiveness and openness of the economy. Financial-sector stability has nonetheless remained a priority of the Indonesian government for two decades now.

Indonesia's GDP growth has slowed down since 2011 from 6.2% to 4.8% in 2015. Fixed investment growth halved from end-2012 to end-2015 and exports contracted slightly, recording a 2% decrease in 2015. The pace of consumption growth also slowed in 2015, although this trend is expected to turn around in 2016 and return to over 5%. Consistent with slower output growth since 2012,

Economic sectors in Indonesia

Primary (agriculture), secondary (industry) and tertiary (services) sector in %.
Source: Central Intelligence Agency, World Factbook (2015)



net job creation slowed to a level only just enough to maintain employment stability of the majority of working-age Indonesians.

Looking ahead, four mega-trends are likely to shape economic prospects, with the associated policy reforms becoming powerful drivers of growth and long-term economic transformation. These factors are Indonesia's demographics, the urbanisation trend, commodity prices, and developments in China.

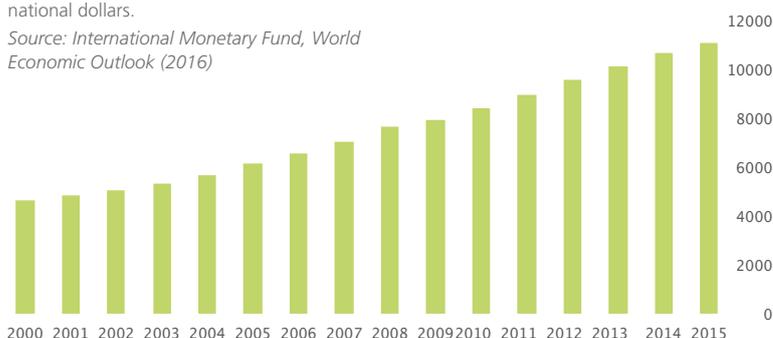
One of the main contributions to economic growth in the period 2016 to 2020 is expected to come from consumer spending, which should be supported by a stabilisation of inflation, the rising number of formal-sector jobs, the expansion of the social-welfare net and looser monetary conditions. The second main contribution to economic growth is expected to be significant investments in the country's infrastructure. In addition to growth and fiscal risks, commodity-dependent economies like Indonesia need to manage risks arising from further currency depreciation. The return to higher economic growth depends on stable fiscal management, successful implementation of the government's ambitious infrastructure development plans, and further improvement of the business environment to reignite private investment. On the revenue side, the government has already introduced important measures, such as the electronic tax return submission and improvements in the income-tax audit strategy. There is significant scope to further

optimise the tax regime, improve corporate income taxation, and revise value-added tax exemptions to increase equity. At the same time, improving the business environment hinges on greater consistency and simplification of regulations that define the functioning of markets, including firm entry, competition, recruitment of workers, and trade. Indonesia's declared intention to join the Trans-Pacific Partnership will guide its trade policy in the coming years. Increased availability of power and improved transportation logistics will be critical for manufacturing competitiveness to support growth and job creation. Particular attention will have to be given to the negative impacts of natural resource depletion on land and in the sea and to the increasing air and water pollution so as to sustain growth in the mid to long-term future.

GDP growth of Indonesia

Gross Domestic Product (GDP) per capita based on purchasing power parity (PPP) in current international dollars.

Source: International Monetary Fund, World Economic Outlook (2016)



Social, humanitarian and security

Indonesia was successful in achieving its Millennium Development Goal (MDG) targets of reducing poverty, increasing access to primary education, and reducing the prevalence of certain diseases. Poverty in Indonesia was halved from 23% in 1999 to 11% in 2015, based on the national poverty line. This progress is in line with other high-performing East Asia Pacific (EAP) countries since the Asian financial crisis. Indonesia, however, still faces significant economic and social development challenges at a time when the pace of extreme poverty reduction has stalled and inequality is on the ascent.

Indonesia's increase in inequality has indeed been among the highest in the EAP region over the past decade; between 2003 and 2014, consumer spending by the bottom 40% grew at 1 to 2% annually, while that of the two richest quintiles grew by some 6%. Consequently, the Gini coefficient rose from

0.30 to 0.41 over this period, before decreasing again slightly to 0.40 in 2016. Education and ownership of assets are the key factors determining inequality in Indonesia.

Further progress in reducing poverty and inequality is proving challenging, and lifting the poorest of the poor permanently out of poverty will require greater focus and new programmes. In terms of geographical distribution, poverty rates are highest in eastern Indonesia, with 30% in Papua, and lowest in Kalimantan, one of the resource-rich and low-density regions. Poverty rates are also highest for households living in and on the edge of forests, and above average for people living in coastal areas. Yet all areas are impacted; even relatively well-off Java and Bali, which account for about 60% of the total population, are home to just over half of Indonesia's poor.

The relative success in reducing extreme poverty masks the extreme vulnerability of the bottom 40% of households, which are not officially poor but prone to falling back into poverty. Together, the poor and the vulnerable account for 38% of Indonesia's total population. The ability of the poor to permanently exit poverty is proving increasingly difficult. To counter at least some of the vulnerability aspects, the government introduced a universal health and education scheme in late 2014, making use of part of the funds saved on former energy subsidies. Additionally, the government has placed greater focus on financial inclusion, with the formalisation of the Indonesia National Strategy for Financial Inclusion and the setting of the target of 75% of the adult population that shall have access to financial services by 2020.

Gender differences in terms of job status imply that women tend to be more vulnerable than men. Women constitute the majority of the self-employed and unpaid family workers, making them more susceptible to personal and financial insecurity. The gender wage gap in Indonesia is larger than in other countries in East Asia, with women earning about 70% of men's earnings, in part because female workers tend to have less secure terms of employment and are more likely to be self-employed, doing unpaid family work or working in the informal sector.

Indonesia has more volcanoes than any other country in the world and is plagued by various natural hazards such as earthquakes, volcanic eruptions, tsunamis,

floods, droughts, and forest fires. The combination of a high population density and high levels of biodiversity, together with a staggering 80,000 kilometres of coastline and 13,500 islands, makes Indonesia one of the countries most vulnerable to the impacts of climate change. The government of Indonesia recognises the importance of the problem and has committed to reducing its greenhouse gas emissions by 29% against the business-as-usual scenario by 2030 by implementing significant adaptation measures. Indonesia is home to an enormous biodiversity. However, this diversity is being threatened by intensive deforestation, in particular to gain additional land for extensive palm oil plantations. According to the Indonesian Palm Oil Association, the country's long-term target is to produce 40 million tons of crude palm oil per year from 2020, an increase of 25% from the estimated production of 32 million tons in 2016. The only sustainable way to achieve the increase will be to double the production efficiency of the two million smallholders throughout the country.

National security, which has been comparatively good in the first half of the decade, has started to slightly decline in 2016. External factors like returning fighters of the Islamic State (IS) group added to the consistent but, so far, comparatively small threats of local pockets of extremists. The Indonesian government is committed to cracking down on extremist groups and returning IS fighters. The security and human rights situation continues to be challenged occasionally in some peripheral provinces, in particular Aceh and Papua.

GINI-coefficient of Indonesia

0.40

Degree of income inequality within the population (0 = complete equality; 1 = complete inequality).

Source: Statistics Indonesia (2016)

Bilateral economic relations

The economic relations between Indonesia and Switzerland have intensified and show a great potential for further development. Swiss exports to Indonesia were relatively stable during the first half of the decade, whereas Swiss imports from Indonesia show a clearly upward trend. Swiss exports to Indonesia consist mainly of machinery, technical instruments and electronics, followed by chemicals and pharmaceutical products, precision instruments, watches and jewellery. Switzerland mainly imports textiles and shoes as well as precious stones and metals from Indonesia. In 2015 Swiss companies completed 103 investment projects in Indonesia, making a total investment volume of CHF 62 million, mainly in the food-processing and chemical/pharmaceutical sectors. For the most part, the roughly 150 Swiss companies and joint ventures registered in Indonesia follow a long-term strategy.

Since 2011 Indonesia has been negotiating with the European Free Trade Association (EFTA) on a Comprehensive Economic Partnership Agreement (CEPA). The Widodo government revived negotiations in May 2016 and hopes to conclude the process soon. Negotiations will include a chapter on cooperation and capacity building, and SECO's activities in the area of trade will help Indonesia to benefit even better from the agreement. The Indonesian government has announced the termination of the bilateral investment protection agreements, including with Switzerland, as of April 2016 with the intention of re-negotiating and streamlining all agreements. The Swiss Business Hub, assisting Swiss business in Indonesia and hosted by the Embassy in Jakarta, will be expanded in January 2017.



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1
Solid waste management – a government priority for better public service delivery.

2
Indonesia, a unique tourism destination.

3
Skills, labour standards and financial inclusion help local SMEs.

Development cooperation context

Partner country development strategy

The government's development vision is set out in the **Mid-term Development Plan (RPJMN 2015–2019)**, which was issued in early 2015. The main paths by which the government looks to achieve its vision are: (i) a strengthened national security that protects the sovereignty of the nation, sustains its economic independence by securing its maritime resources and is reflective of Indonesia as an archipelago state; (ii) achieving a country that is more equitable, democratic and law-abiding; (iii) improving the quality of life for all Indonesian people within a more advanced and prosperous economy; (iv) making the nation more economically competitive; and (v) preserving Indonesian culture and identity.

The RPJMN includes a range of targets to be achieved by 2019 including: (i) GDP growth at 8%; (ii) an improved Gini index to 0.36; (iii) a GDP per capita of IDR 72.2 million (USD 5,300) compared to IDR 43.4 million (USD 3,200) in 2014; and (iv) a poverty rate of 7 to 8% compared to 11% in 2014.

Regarding economic development, the government has set the following priorities:

- **Public sector management**, decentralisation and the linkages to service delivery, which is focused on minimum service standards and increased public participation in decision-making, are on the top of the government's priorities. Ongoing reforms include improving the results-led approach in the state budget and modernising treasury management, improving public procurement systems, reinforcing government accounting and audit functions, debt management and, broadly speaking, strengthening central and local governments' public financial management.
- **Infrastructure**: Dealing with the enormous infrastructure backlog across the country is the single most important constraint to economic growth. The government is committed to addressing structural impediments that have delayed infrastructure projects, including the limited capacity of central and local governments, a complicated regulatory framework, and protracted land acquisition procedures. Of the total planned investment of more than USD 400 billion between 2015 and 2019, 60% is earmarked

for three focus areas: maritime, road-works and energy. Around one-third of the investment is to be financed by the private sector, thereby underlining the need for reforms in the legal framework for public-private partnerships.

- **Private sector**: Improving the business environment and the investment climate, including simplification of licensing procedures and the implementation of one-stop services, are amongst the government's top priorities in order to attract private-sector financing. Supporting skills development, improving labour policies and substantially increasing the level of financial inclusion, which so far remains at a low level in Indonesia, are considered recognised measures to support local micro, small and medium enterprises and job creation. The government has defined a number of sectors of specific development interest, among them tourism and industry.
- **Trade**: The Indonesian government's priorities for enhancing domestic trade are to improve the distribution system for staple food and reduce logistics cost and dwelling time. For international trade, the priority is to increase the competitiveness of export products while increasing in-country value addition.

The government is pursuing its **long-term decentralisation policy**, which implies the assignment of more functions and resources to subnational levels of government. The absorptive capacity of local governments to manage large revenue transfers and their allocative efficiency in spending, however, remain weak. At the end of 2015, unspent local government budgets amounted to some USD 76 billion or an equivalent of almost 1% of the country's GDP. Therefore, improving public financial management and governance systems across the subnational governments is imperative in order to increase economic gains from fiscal decentralisation.

The government expects to finance the **five-year plan through a more efficient use and allocation of government revenues**, greater engagement of state-owned enterprises (SOEs) in infrastructure development, increased private-sector engagement, and higher levels of borrowing from development partners. Planned spending between 2015 and 2019 is USD 424 billion.

Donor landscape

Overall official development assistance (ODA) to Indonesia in the form of grants and loans has been slowly but continuously decreasing since the mid-2000s. In 2013, the total amount of ODA disbursed was nearly USD 1.1 billion in grants (0.12% of Indonesia's GDP of USD 910 billion, with a state budget of USD 179 billion). Indonesia received another USD 0.8 billion of concessional loans.¹ In 2014, the net flow of ODA became negative (– USD 307 million) due to loan repayments.

There are presently 25 active development partners. The largest bilateral development partners in 2015 included Japan, Australia, USA and Germany. Among multilateral development partners, the World Bank ranks first, followed by the Asian Development Bank. A large part of bilateral support comes increasingly from loans. Bilateral grant funds, however, continue to play an important role for technical assistance and capacity building, and these are increasingly connected to larger investments (loans) provided by development banks. The support provided by bilateral development partners is steadily declining, and tending to become more specialised in the areas of climate change, aid for trade, and economic development.

In the context of its programmes, SECO collaborates closely with a number of bilateral development partners such as Canada, Netherlands, Germany, Australia and the EU, either through coordinated support to selected sectors, or through joint projects.

SECO also cooperates closely with multilateral institutions, which have a dominant position in the development partner landscape. The World Bank Group (IBRD-IFC-MIGA) has developed a new Country Partnership Framework for the years 2016 to 2020, with a programme organised around six engagement areas: i) delivery of national infrastructure; ii) energy for all; iii) maritime connectivity; iv)

local infrastructure and services; v) sustainable landscape management; and vi) collecting more and spending better. The Asian Development Bank has developed a new Country Partnership Strategy for the years 2016-2019, which is structured under three strategic pillars: (i) infrastructure development, which contributes to energy security and food security; (ii) human development, which contributes to improving the quality of life; and (iii) enabling economic policies to contribute to enhanced economic competitiveness. The focal areas of the KfW are energy and climate change as well as “widespread growth”. The Islamic Development Bank has a large loan portfolio covering private-sector and infrastructure development, education, skills and agriculture. Indonesia is a founding member and the eighth-largest shareholder within the newly established Asian Infrastructure Investment Bank (AIIB). It has committed to investing USD 672 million in the AIIB over the next five years. The AIIB has started its lending operations in the country and could play an important role in the infrastructure sector in the coming years. Indonesia is a key partner in OECD's Southeast Asia Regional Programme, for example as a partner of the “Services Trade Restrictiveness Index”.

Aid coordination: Due to the relatively limited significance of aid as compared to the overall budget, country strategies are generally aligned with the government's priorities. The government oversees ODA both through the National Development Planning Agency (Bappenas) and the Ministry of Finance. There are, however, no formal aid coordination mechanisms. Coordination or information exchanges in specific sectors, for example in public finance, financial inclusion, trade, climate change, renewable energy, agricultural development, and vocational skills training, are initiated on an ad-hoc basis by lead development partners or projects. Policy dialogues with government partners take place either during government-to-government consultations or through project-supported activities.

Lessons learnt from 2013–2016

The overall strategic orientation of SECO has proven to be well aligned with Indonesia's national priorities and to be responsive to the country context. SECO's efforts

to contribute to improving macroeconomic stability has yielded good results in terms of strengthening public finance management and the financial sector, while its support to

¹ <http://www.aidflows.org/>, with source from OECD/DAC; State Budget of Revenue and Expenses 2013.

the private sector has contributed to improving the business climate, providing better access to finance, and establishing more open trade conditions. Environmental protection, climate change mitigation and sustainable urbanisation have equally been strategically supported; however, some projects in these sectors started late in the 2013 to 2016 cycle. Nonetheless, some important lessons can be drawn:

- **Remain responsive and flexible:** SECO's activities in Indonesia are perceived as relevant, timely and welcome in its grants nature. In order to capitalise, SECO needs to remain flexible and responsive to the demands expressed by the partners. These are qualities established by Switzerland's long-standing development cooperation with Indonesia, on which SECO can build further.
- **Fill relevant niches and gain visibility through strategic sectors with strong Swiss expertise:** Indonesia is one of the fastest moving economies in South-East Asia. Development partner assistance is well below 1% of GDP. The volume of financial aid from development partners is thus of decreasing importance, while technical assistance and capacity building remain important needs for the government and society at large. To distinguish and strengthen SECO's value addition among other development partners, it is important to expand the existing engagement in strategic sectors with extensive Swiss experience, such as in tourism, so as to reach relevant impact at scale, achieve sustainable results and strengthen Switzerland's visibility in the country.
- **Balance support at the macro level with projects "on the ground":** Projects at the macro level addressing framework conditions have high potential for catalytic results. They constitute contributions to process-oriented reforms aiming at sustainable results in the longer term. Projects addressing development issues at the local level can yield tangible results at the level of the people with more immediacy and higher visibility for Switzerland. SECO will strive to achieve a good balance between these two levels of project delivery, while ensuring results-orientation in all its interventions.
- **Partner-mix:** Relying on a bilateral delivery mode through multilateral organisations remains important, given the presence of strong and well-established multilateral organisations and the leverage multilateral organisations can have with the central level government. Bilateral cooperation with government authorities produces more visibility for Switzerland but also requires more SECO-internal resources. SECO will maintain a well-balanced mix of the multilateral and bilateral mode in an effort to exploit complementarity and potential synergies.
- **Focus on the subnational level:** More than half of the government's budget is spent by entities at subnational levels. Improving framework conditions at the national level is important but is often not sufficient. SECO's programme will strive to identify opportunities across its programme focus areas where work on the subnational level with provinces, districts and municipalities is needed and justified, for example in strengthening public finance management capacities at the subnational level, or implementing improved municipal solid waste management and urban transport systems.
- **Stay engaged in policy dialogue and development partner coordination:** Development partner coordination often takes place in informal ways. SECO will participate in programme-relevant coordination meetings with development partners and will support the strengthening of coordination. It will take leading roles, either directly or through implementing partners, in sectors where its projects are a major contribution to sector development.
- **Size matters:** In view of the size of the country and the complexity of issues to be addressed, small interventions are not likely to have a significant development impact. SECO will aim at reducing the number while increasing the size of its interventions and at the same time defining clear scaling-up-strategies at the outset. This will further assist the intensification of the sectoral and/or policy dialogue and the reduction of transaction costs.
- **Need for champions:** No matter how good a programme is, it may never push forward if it does not have a champion within the government at the right hierarchical level, taking responsibility and ownership.
- **Response to green economy challenges:** Environmental issues, climate change, biodiversity and disaster risk reduction are important dimensions to be taken into account in engaging with the public and private sectors.



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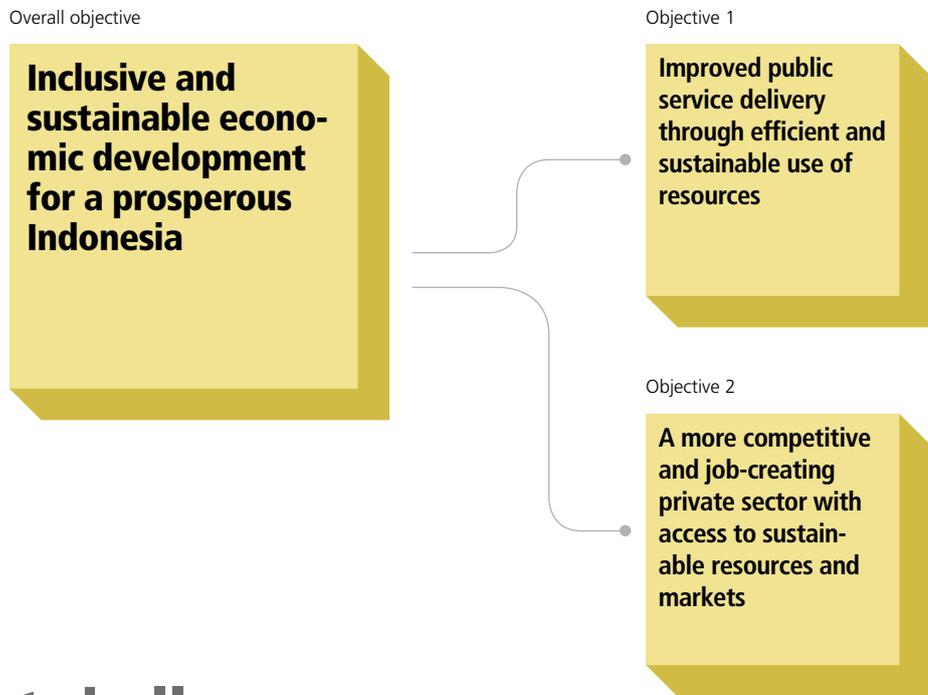
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1
SECO contributes to improving public services for the citizens.

2
SECO fosters sustainable value chains, like e.g. sustainable cocoa value chains for better livelihoods.

3
SECO enables market access for Indonesian export products.

4
SECO supports local production of seaweed, which is bundled exclusively by women.



Development challenges and SECO's response

The overall objective of Switzerland's economic cooperation and development programme is to contribute to an "inclusive and sustainable economic development for a prosperous Indonesia". The main objective is reaching out to the Indonesian government's definition and understanding of priorities as defined in Indonesia's Mid-term Development Plan (RPJMN 2015–2019).

The main objective is further specified along two strategic sub-objectives addressing the public and private sphere, while intending to grasp important elements of quality and efficiency of services delivered, using available resources wisely, as well as putting jobs high on the development agenda.

SECO will address environmental protection, climate change mitigation and disaster risk management as integral parts of its two objectives and will integrate these dimensions into project design and implementation wherever it can contribute to one of the dimensions and at the same time promote the efficiency and effectiveness of SECO's projects. It will explicitly address the Rio Agenda on Climate Change (Rio Marker) through dedicated projects in partnership with both the public and private sectors.

Objective 1

Improved public service delivery through efficient and sustainable use of resources

Under this objective, SECO intends to foster inclusive and sustainable economic development by improving service delivery to the Indonesian population. It will do so by supporting public-sector reforms targeting more efficient and effective use of public resources and better provision of public-sector infrastructure.

Challenges

A sub-optimal performance of public-sector service delivery has constrained the provision of public services – for example water and sanitation, education and health – and led to a backlog of investment in the infrastructure sector. Even if considerable progress has been made in improving service delivery to the population, a combination of weak tax collection and lack of performance-orientation of the budget have prevented recent economic progress from fully translating into tangible life improvements for the population. The bold reform path, recently adopted by the government of Indonesia, opens opportunities to address these challenges. Developing a more efficient and effective public sector will call for both macroeconomic reforms and an improvement in effective service-provision mechanisms. Further strengthening public finance management, ensuring a stable, deep and inclusive financial sector and the provision of affordable and reliable public-service infrastructure in cities constitute necessary conditions to achieve longer-term sustainable and inclusive economic development. Most of the public funding for basic services and infrastructure is decentralised. Addressing Indonesia's unfinished decentralisation agenda will be crucial to improve the quality and sustainability of public services and their distribution across the archipelago.

Focus

SECO will support economic policy reforms and improved financial policy that lead to broader resource mobilisation, more reliable management of public finances, and ultimately transparent and efficient use of public resources. Building on achievements, and guided by the vision of “collecting more and spending better”, SECO's activities will assist the government to better mobilise resources through an improvement of tax policy, collection and administration. SECO will further provide support to improve the sustainable and inclusive use of resources in a more transparent, effective and targeted manner by addressing existing shortfalls in the budget management process and in debt management. SECO

will contribute to improving decentralised spending quality by addressing deficiencies and weak capacities at a subnational level. Furthermore, SECO will contribute to improving the regulation and supervision of the Indonesian financial sector, as the basis for a stable, diversified and competitive financial market and a stronger relationship to the international financial system. SECO will support Indonesia's efforts to seize the opportunities and tackle the challenges posed by the country's rapid urbanisation and its resultant demands in terms of sustainable urban development and infrastructure by supporting concrete infrastructure-related projects in three distinct but connected manners. Firstly, it will support integrated urban development through improved planning tools and targeted actions in areas such as strategic investment planning, urban transport systems and management of disaster risks affecting poor neighbourhoods. Secondly, it will assist public utilities in offering reliable and affordable public services such as water and sanitation, which includes solid waste, wastewater, and water supply. To that end, SECO will provide capacity-building measures to central and local governments and foster the development of economically viable service models. Finally, SECO will support reforms and investments by promoting sustainable and climate-compatible aspects of power supply. SECO contributes to improving the energy policy reforms and to increasing energy efficiency and long-term supply by fostering renewable energy. These activities are part of SECO's contribution to addressing the challenges Indonesia faces in terms of climate change.

Proposed SECO measures

- SECO intends to further engage in economic policy reforms and in improving financial policy, which will lead to more transparent and efficient resource mobilisation and more reliable public financial management.
- Improved planning criteria and financing mechanisms and selective innovative measures to promote sustainable urban development in Indonesian cities will be at the core of SECO's activities in the sector.
- SECO intends to assist public utilities in improving their offering of reliable and affordable public services through capacity building as well as technical and financial support.

SECO contributions

First priority

- Transparent resource mobilisation and reliable public financial management
- Reliable basic public services
- Integrated urban development
- Sustainable energy supply

Second priority

- Stable and deep financial sector

- The inclusion of sustainable and climate-compatible aspects, so as to improve energy reforms and investment measures and to increase energy efficiency and supply by promoting renewable energy, will be the heart of SECO's activities in the sector.
- As a second priority, SECO intends to contribute to improved regulations and supervision of the financial sector, so as to foster a stable, diversified and competitive financial market and strengthen the financial system through its existing programmes.

Contribution to Indonesia's country development objectives

With these proposed measures, SECO aims to contribute to Indonesia's public-sector reforms, as defined in the Mid-term Development Plan (RPJMN 2015–2019). It will specifically support the Indonesian government in the implementation of its public finance management (PFM) reform, which aims at creating fiscal space via revenue collection and energy subsidy reform to allow for higher investment in infrastructure and social welfare programmes. It will also contribute to the optimisation of the "contributive, stable and inclusive role of the national financial services sector" in line with the Indonesian Financial Services Sector Master Plan 2015–2019. Finally, it will assist the government in delivering better infrastructure and more reliable and sustainable energy, to enable decent living conditions and support inclusive economic growth.

Objective 2

A more competitive and job-creating private sector with access to sustainable resources and markets

Under this objective, SECO intends to foster inclusive and sustainable economic development by improving competitiveness of the private sector, resulting in the creation of more and better jobs for both men and women. The private sector is further assisted in gaining easier access to resources in national as well as international markets in a sustainable manner.

Challenges

The improvement of the regulatory environment for businesses and investors is essential in order to realise Indonesia's potential and achieve sustainable and inclusive economic growth. The further simplification of licensing procedures for a number of sub-sectors is required so as to help boost foreign and domestic investment for infrastructure development and to boost the productive industry. Indonesia's international competitiveness is still underperforming while seeking to significantly improve the quality of life for all Indonesian people. Dynamic entrepreneurship, a well-developed workforce and a responsive labour market are core factors in achieving the necessary job creation and income growth and improving Indonesia's capability to weather external shock. Access to finance so as to create a more vibrant private sector, strengthen SMEs and generate income growth in general still constitute major challenges in Indonesia's vast archipelago.

Shortcomings can still be discovered along the financial infrastructure, suboptimal utilisation of micro-finance by enterprises, retail banking and payment schemes, particularly for the rural population. Changes at policy and sector levels in terms of the legal and regulatory framework are required, while the impact at firm and individual level will need to take pilot experience to scale.

Focus

SECO will continue to engage in sustainable trade and private-sector development with a view to improving the global division of labour, creating jobs in Indonesia and contributing to the reduction of poverty and inequality. In trade, it will assist Indonesia's efforts to obtain non-discriminatory and improved market access for goods, services and natural resources including, where applicable, in relation to benefitting from multilateral or bilateral trade liberalisation. SECO will focus its support on value chain development of export commodities such as cocoa or tourism, and address the use of voluntary standards in palm oil and other relevant commodities as well as efforts in establishing traceability through this business line. In addition, export opportunities, labour issues and adherence to internationally required norms and standards need to be tackled. To further stimulate private-sector development, SECO will address the business environment, gaps in SMEs' access to finance, the lack of skilled labour, and weaknesses in innovation.

SECO contributions

First priority

- **Dynamic entrepreneurship, strengthened skills and flexible labour market**
- **Access to long-term capital**
- **An efficient business environment**
- **Greater international competitiveness of SMEs and facilitated market access**

Second priority

- **Favourable framework conditions for sustainable trade**
- **Resource-efficient private sector**

Proposed SECO measures

- SECO intends to contribute to improving the business environment by reducing bureaucracy and developing effective regulations, so as to promote the growth and competitiveness of Indonesian businesses and Indonesia as an attractive investment destination.
- More efficient work processes by producers and SMEs, improvement in their productivity, compliance with international standards and promotion of international competitiveness will be at the core of SECO's contributions in the sector.
- SECO intends to contribute to the promotion of entrepreneurship, technical and vocational expertise and partnership that will help increase employability as well as improved framework conditions for the labour market and the social partnership so as to help to create new jobs and retain existing jobs.
- Easier access of businesses to mid and long-term investment capital through innovative and more efficient financial instruments as well as public-private partnerships which create new jobs will be at the heart of SECO's activities in the sector.

- As a second priority, SECO plans to continue promoting a better understanding of the framework conditions for international trade, facilitating sustainable trading of Indonesian products domestically and internationally through its existing programmes.
- Promotion of a resource-efficient private sector is considered important and will be addressed by SECO on an ongoing basis, albeit as a second priority through its existing programme only.

Contribution to Indonesia's country development objectives

The proposed measures are expected to contribute to Indonesia's Mid-term Development Plan objectives regarding investment in the business sector, i.e. the demands to be facilitated through enhanced legal certainty, better information systems, simplification of procedures, the provision of an adequately trained workforce and the development of special economic zones.

Programme implementation and management

Implementation modalities

SECO's international cooperation seeks to deliver inclusive sustainable growth. To reach this objective, the 2030 Agenda for Sustainable Development and the Addis Ababa Financing for Development Action Plan provide a common language and direction, whereas international aid and development effectiveness principles² provide the common ground on which SECO and its international partners cooperate.

SECO uses an appropriate mix of modalities for its development cooperation, consisting of technical assistance and capacity

building at an individual, organisational and institutional level. SECO has however no loan facility in place.

Partnership and dialogue are necessary to promote reforms as well as to develop and implement policies. This dialogue involves players on several levels that can contribute to coherent and synergistic solutions to development challenges: governments, private and civil society players as well as other donors and multilateral institutions. SECO balances bilateral cooperation and cooperation with multilateral partners and has established guidance

² These development effectiveness principles are rooted in, for instance, the 2005 Paris Declaration, the 2008 Accra Action Programme and the 2011 Busan Partnership for Effective Development Cooperation, which links all players in the development cooperation space.

to help implement the principles of alignment, harmonisation, and accountability and, when appropriate, the use of national systems.

Partner strategies: SECO's operational activities to deliver inclusive sustainable growth in partner countries are aligned with national development strategies, thereby applying the principles of national ownership and partner focus. The activities are harmonised with those of other donors and rely on the principle of mutual accountability. SECO's local experts are systematically involved.

SECO increasingly provides targeted impulses to mobilise resources. A relatively

modest, yet very specific, Swiss contribution can go a long way. For instance, to leverage the impact of Swiss ODA, SECO supports Indonesia in developing framework conditions that foster domestic resource mobilisation and private enterprise. Similarly, innovative programme and project approaches as well as innovative financing mechanisms are effectively used to stimulate new forms of collaboration and increase effectiveness.

SECO's activities include sharing of Swiss knowledge and facilitation of technologies. Specificity, high quality and effectiveness are the hallmarks of SECO's cooperation with Indonesia.

Cross-cutting issues

To meet its objectives, SECO focuses on two transversal topics: **gender equality and economic governance.** Making a highly relevant contribution to inclusive sustainable growth, gender equality and economic governance are systematically integrated into all SECO activities.

Gender equality: SECO considers gender equality an important element of poverty reduction, social inclusion and economic development. Therefore, it is essential to systematically address the gender dimension (social norms, legal provisions and gender-specific risks) in its economically oriented projects. No projects should place either women or men at a disadvantage.

Economic governance: Strengthening economic governance is another essential component of SECO's commitment to promoting inclusive sustainable growth. It is a subset of good governance and refers to the entire set of economic rules and frameworks accounting for a transparent and accountable public and private sector. It is a prerequisite for a stable economy and success in the fight against corruption, which undermines inclusive economic development.

The gender and economic governance dimensions are taken into account regarding the project design, implementation, risk assessment and monitoring in order to contribute to the greater effectiveness and sustainability of SECO's projects.

Accountability and monitoring

The country strategy will be monitored annually for the following purposes (cf. also chapter on Results monitoring):

- **Steering:** Data and information for evidence-based decision-making
- **Risk mitigation:** Identification of relevant risks and mitigation measures
- **Learning:** Identification of factors for success and failure, challenges, gaps and good practice
- **Accountability:** Data and information for accountability towards SECO headquarters, the Swiss government, the Swiss public, and the partner country

The country strategy is aligned with Indonesia's development goals and strategies as well as with the SDGs. Therefore, the annual monitoring ensures that SECO's portfolio does indeed contribute to the achievement of Indonesia's goals.

In the case of major changes in the country context or development goals, the results framework for the country strategy would have to be adapted.



1



2



3

1
SECO engages in technical assistance and capacity building at an individual, organisational and institutional level.

2
SECO supports gender equality by addressing gender aspects systematically within its projects.

3
SECO aims at improving economic governance, fostering an accountable and transparent public and private sector.

Financial resources

SECO's activities under this strategy will be financed through the Swiss framework credit 2017–2020 for economic and trade policy measures within development cooperation. The final allocation of funds to individual countries, programmes and projects will depend on the identification of suitable interventions, the absorption capacity as well as the efficiency and effectiveness of the cooperation with the relevant partners in each priority country.

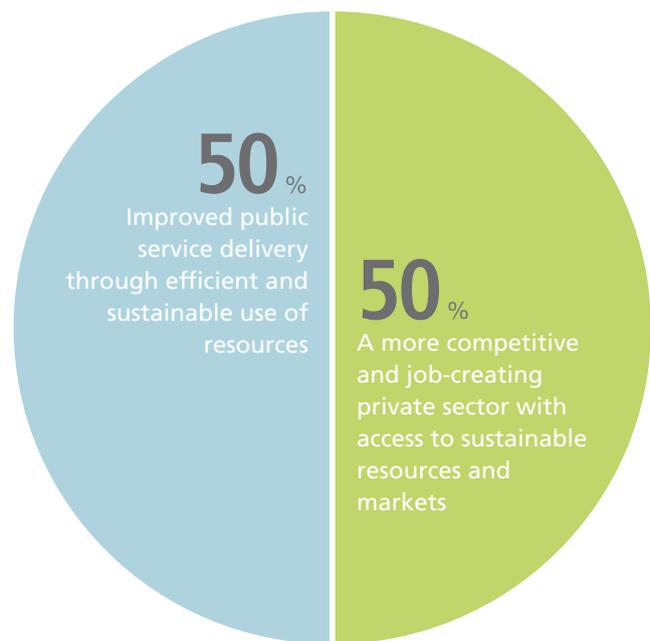
Accordingly, the following information on planned commitments for the four-year period of this strategy is indicative. It cannot be considered a firm commitment or claimed as such by the partner country. This information serves merely as a basis for the forward spending plans that are reviewed each year by the Swiss Parliament. Actual disbursements will depend on various factors, such as the changes in the project portfolio and the framework conditions of the partner country as well as available disbursement credits authorized by the Swiss Parliament. Portfolio and planned disbursements are regularly discussed with the partner authorities.

Planned commitments for Indonesia 2017–2020:

75 CHF million*

*Indonesia also benefits from regional and global initiatives financed by SECO. When these measures cannot be earmarked to a specific country, they are not accounted for in the financial projections mentioned above.

Projected funds allocated to each objective



Results monitoring

The following table contains the results framework for Switzerland's economic cooperation and development programme with Indonesia. It will be monitored under the SECO quality management system, which is based on international standards (results-based management). These are aligned with Indonesia's country development objectives as well as with the SDGs and will be monitored at outcome level.

The results framework covers the overall economic cooperation and development portfolio. However, the proposed indicators will be measured only in relevant projects and will provide a selection of key data for steering and accountability.³

The results framework allows for focused monitoring, reporting and evaluation of key issues identified by and agreed between SECO and the partner country counterpart. Both are committed to results orientation and the highest possible effectiveness of economic cooperation. Both want to learn about factors for success and failure as well as about risk management and mitigation in order to continuously improve results. Even though the results framework should contribute to efforts to capture and assess SECO's contribution to achieving Indonesia's development objectives, it is not meant for measuring Indonesia's achievements as a whole.

³ For the systematisation of results measurement and the collection of aggregated data, SECO has formulated so-called Standard Indicators which are part of Country Results Frameworks and most project logframes. The Standard Indicators also allow for the collection of results information on cross-cutting issues (see also Chapter 4.2.). With regard to economic governance, many Standard Indicators require the collection of relevant data. Regarding gender, the Guidelines on Results Reporting with SECO Standard Indicators explain in detail which kind of relevant information (e.g. gender disaggregated data) should be collected per Indicator.

Overview

SECO overall objective in Indonesia: Inclusive and sustainable economic development for a prosperous Indonesia

SECO objectives	SECO contributions			
<p>Objective 1 Improved public service delivery through efficient and sustainable use of resources</p>	<p>First priority Transparent resource mobilisation and reliable public financial management</p> <p>Reliable basic public services</p> <p>Second priority Stable and deep financial sector</p>			<p>First priority Integrated urban development</p> <p>Sustainable energy supply</p>
<p>Objective 2 A more competitive and job-creating private sector with access to sustainable resources and markets</p>		<p>First priority Dynamic entrepreneurship, strengthened skills and flexible labour market</p> <p>Access to long-term capital</p>	<p>First priority An efficient business environment</p> <p>Greater international competitiveness of SMEs and facilitated market access</p> <p>Second priority Favourable framework conditions for sustainable trade</p>	<p>Second priority Resource-efficient private sector</p>
	<p>Effective institutions and services</p>	<p>More and better jobs</p>	<p>Enhanced trade and competitiveness</p>	<p>Low-emission and climate-resilient economies</p>

SECO's target outcomes

Economic and trade policy measures deployed by SECO in its development cooperation efforts with its partner countries are targeted towards achieving the above-mentioned four outcomes.

Objective 1: Improved public service delivery through efficient and sustainable use of resources

Partner objectives

First priority

Transparent resource mobilisation and reliable public financial management

Economic policy reforms and an improved financial policy lead to more transparent and efficient resource mobilisation and more reliable public financial management.

Selected indicators:

- Measures for improving public financial management
- Key PFM indicators as per the PEFA framework
- Measures for improving capacity development
- Resources mobilised

Reliable basic public services

Through technical and financial support, public utilities are better placed to offer a reliable and affordable public service.

Selected indicators:

- Number of persons with access to better (basic) services
- Proportion of O&M costs recovered through charges
- Measures for improving capacity development
- Leverage effect of SECO's financing in USD

Integrated urban development

Improved planning criteria and selective measures promote sustainable urban development in partner countries.

Selected indicators:

- Number of inhabitants benefiting from sustainable urban development projects
- Number of cities with urban development measures (including for improving governance) in the sectors of public transport, energy efficiency and natural disaster risk management
- Greenhouse gas emissions saved or avoided in t CO₂eq

Sustainable energy supply

By including sustainable and climate-compatible aspects, SECO contributes to improving the energy policy as well as reforms and investment measures and to increasing energy efficiency and supply (e.g. by promoting renewable energy).

Selected indicators:

- Kilowatt hours saved through energy-efficiency measures and kilowatt hours additionally produced from renewable energy
- Greenhouse gas emissions saved or avoided in t CO₂eq

Second priority

Stable and deep financial sector

Better regulation and supervision of the financial sector contribute to a stable, diversified and competitive financial market and strengthen the international financial system.

Selected indicators:

- Measures for financial market regulation and supervision

Effective institutions and services

Increased fiscal capacity and monetary stability, 8% economic growth, 16% tax ratio of GDP (including local, 1% of GDP), 3.5% inflation rate; rate of people living in poverty reduced to 7–8%

Infrastructure development for growth and equity

0% urban slum areas, 100% coverage of water supply, 100% access to decent sanitation, 96.6% electrification ratio, 35.9 gigawatt of installed capacity (7.5 gigawatt of which are renewable energy)

Low-emission and climate-resilient economies

Reduction in carbon emissions by 26% and improve the Environmental Quality Index to 66.5–68.5

Objective 2:

A more competitive and job-creating private sector with access to sustainable resources and markets

Partner objectives

First priority

Dynamic entrepreneurship, strengthened skills and flexible labour market

The promotion of entrepreneurship and skills together with improved framework conditions for the labour market and the social partnership help to create new jobs and retain existing (better) jobs.

Selected indicators:

- Number of jobs created and retained
- Number of persons undergoing training or continuing education (entrepreneurs, producers, staff)
- Measures for improving working conditions

Access to long-term capital

Easier access of companies to long-term investment capital through innovative and more efficient financial instruments as well as public-private partnerships creates new jobs.

Selected indicators:

- Number of companies with access to capital
- Capital mobilised (loans, participation, etc.) in USD
- Number of jobs created and retained
- Measures for improving working conditions

An efficient business environment

Improving the business environment through less bureaucracy and more effective regulation promotes the growth and competitiveness of businesses.

Selected indicators:

- Direct compliance cost savings (mio. USD)
- Investments generated (mio. USD)

Greater international competitiveness of SMEs and facilitated market access

More efficient work processes by producers and SMEs improve their productivity and promote international competitiveness. Sustainable standards facilitate access for partner countries' goods and services to the Swiss and EU markets.

Selected indicators:

- Increase in trade volumes (as a % and in USD million) of sustainably certified commodities (soya, coffee, cocoa, cotton, timber, palm oil, tea, BioTrade products) from developing countries
- Number of jobs created and retained
- Increase in export volumes
- (as a % and in USD million) of sustainable goods and services (textiles, furniture, tourism, etc.) from developing countries
- Productivity increase in export value chains
- Percentage of producers with better living conditions

Second priority

Favourable framework conditions for sustainable trade

A better understanding of the framework conditions for international trade facilitates access for partner countries' products to the global market.

Selected indicators:

- Improved rules and regulations and enhanced competitiveness for facilitating market access

Resource-efficient private sector

Promotion of a resource-efficient private sector.

Selected indicators:

- Number of jobs created and retained
- Greenhouse gas emissions saved or avoided in t CO₂eq
- Kilowatt hours saved through energy-efficiency measures and kilowatt hours additionally produced from renewable energy
- Increased resource efficiency
- Green investments additionally triggered in USD and financing instruments supported

More and better jobs

Unemployment rate of 4–5% by 2019

Private sector, trade and competitiveness

A more conducive environment for investment and trade through reduced licensing processes at national and local levels, and supporting labour-intensive investments

Increased contribution from the industrial sector towards GDP to 21.6% by 2019

Increased contribution from the MSME (micro-small-medium enterprises) sector and cooperatives towards GDP to 6.5–7.5% by 2019

Increase in productivity and SMEs' access to finance (25% of SMEs to have access to finance by 2019) and implementation of quality standardisation

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Sources

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