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STRATEGY
2022-2026

Indonesia

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Indonesia

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CONTEXT: A KEY COUNTRY FOR THE SUCCESS OF THE SDGS IN THE INDO-PACIFIC

1.1. SUMMARY OF THE SUSTAINABLE DEVELOPMENT STAKES

A G20 member, the world's sixteenth largest economic power and fourth most populated country, Indonesia is a key player within ASEAN and the Indo-Pacific. The country's archipelagic character sets it apart from the other "major emerging countries", with whom it shares the same socio-economic challenges induced by rapid growth.

Indonesia, the world's largest archipelago and the leading power in Southeast Asia

Indonesia is a maritime country located to the south of the South China Sea, where the Pacific and Indian Oceans come to meet, close to the regional powers of Australia, India and China and at the heart of international trade. With 108,000 km of coastline bordering tropical seas and upwards of 17,500 islands, 6,000 of which are inhabited, Indonesia is the world's largest archipelago. From east to west, it stretches across 5,000 km and three time zones, giving it the sixth largest exclusive economic zone in the world (spread over more than 6 million km^2), as well as one of the planet's richest areas of marine and terrestrial biodiversity. The country is one of the globe's 17 "mega-diverse" countries and has the second largest forest cover.

With an estimated population of over 276 million people in 2021, predominantly Muslim (87% of the population), Indonesia is characterised by its cultural, religious and ethnic diversity (over 1,300 ethnic groups and nearly 800 languages), without identity differences being exacerbated. The regime is democratic, in a region marked by strong powers. President Joko Widodo ("Jokowi") was re-elected through a direct ballot following his first mandate (2014-2019). The members of the two parliamentary houses – one representing the regions, the other constituting the National Assembly –, are renewed every five years and, since the 2001 decentralisation reform, Indonesian citizens elect their local representatives for the 33 provinces that make up the archipelago. In recent years, the solidity of democratic institutions has been weakened by the rise of Islamic radicalism and religious tensions that are undermining the values of the *Pancasila*[1]. Dormant independentist movements awaken at regular intervals, particularly in the provinces of Papua and Aceh.

[1] Since 1945, this philosophy of the Indonesian state has been based on 5 principles: belief in one God, just and civilised humanity, the unity of Indonesia, democracy and social justice.

Sound economic growth, natural resources under pressure, persistent social issues: the challenges of an emerging country

With a GDP of over USD 1,059 billion in 2020, positioned between the GDPs of Mexico and the Netherlands, Indonesia ranks as the leading economy in ASEAN and fifth among the Asian countries, behind China, India and others.[2] GDP per capita (USD 3,922 in 2020) is close to the average for ASEAN countries, excluding Singapore, and behind that of Thailand and Malaysia, which placed it in the category of **lower-middle-income countries**. The economy is still not strongly service-based (48% of GDP and almost 50% of the labour force in 2020), but services, as well as construction, have been driving growth since 2010. The agricultural sector contributes 13% to the country's GDP and employs nearly 28% of the working population, while industry accounts for around 39% of GDP and 23% of the labour force.

Indonesia is endowed with **abundant natural resources** linked to its terrestrial biodiversity (one of the world's three largest forest areas), its marine habitats (mangroves, coral reefs) and its geographic position where the Indian and Pacific Oceans come to meet. The country draws some of its wealth from the extraction and processing of its natural resources (palm oil, rubber, timber, fishery products, oil, gas, coal, tin, nickel, copper and gold), which receive substantial ongoing state support. Although its productive structure is relatively diversified, the Indonesian economy still relies heavily on its commodities, which account for more than half of the country's exports: production based on natural resources contributed around 20% of added value in 2017.[3] The pressure on natural resources is considerable. Deforestation, the unsustainable exploitation of fish stocks, as well as air and marine pollution threaten their long-term sustainability.

Over the last ten years, significant socio-economic headway has been made, mainly reflected by a **reduction in the poverty rate**, down from 28% in 2006 to 10.2%[4] in 2020, and by better **access to education**[5] **and healthcare**[6]. Even though the country's HDI value lags far behind the other countries in the region (Malaysia, Thailand and China), Indonesia's ranking climbed from 116th to 107th place between 2010 and 2020. The country has also marked up significant progress on gender equality and parity (increased rates of literacy, school enrolment and women's employment).[7] Yet, large **regional disparities** remain, to the detriment of the country's eastern provinces[8] (a 26.3% poverty rate in Papua compared to 8.3% in Java-Bali[9]). In addition, some 40% of the population live only slightly above the poverty line. Lastly, while the **level of inequality** is relatively moderate (GINI Index was 38.2 in 2019) compared to other emerging countries (their median GINI coefficient is 45.9 against 30.3 for developed countries), this indicator has been increasing over the last thirty years, placing Indonesia as one of the nine countries with the highest increase in inequalities. This deterioration is partly due to the mediocre quality of public healthcare and education services, which has led for example to high child mortality rates and disappointing PISA test results.

Indonesia has weathered the Covid-19 crisis relatively well thanks to **strong and steady economic fundamentals** (managed control over the twin deficits, public debt and inflation). The measures taken in response to the Covid-19 crisis represented 11.5% of GDP[10] and helped to limit the recession to -2.1% in 2020. The rebound in economic growth in 2021 was moderate (+3.2% according to the IMF), but the outlook remains favourable in the medium term (growth potentially returning to pre-pandemic levels, i.e. around +5%). Indonesia nonetheless needs to tackle some serious challenges. The weight of the informal sector and the narrow tax base are impacting government revenue (less than 10% of GDP in 2020[11]), which reduces the government's margin of manoeuvre. The crisis worsened unemployment, which rose from 4.9% end 2019 to 6.3% end 2020. It plunged an additional 2.8 million people into poverty and increased the number of people living under the poverty line to 27.6 million by the end of 2020.

New social challenges are emerging. The median age of the population was 28.6 years in 2018 and 69% of Indonesians (181 million) are of working age (15-64). Indonesia could thus benefit from a substantial demographic dividend, but the number of jobs created is not sufficient to absorb the two million young people entering the labour market each year. This can be explained by the mismatch between the supply of service-oriented training and the demand for skilled jobs. The unemployment rate is higher for the 15–24-year-olds, which has led to an increase in informal labour (62% of the workforce, 66% of whom are women). This is driving the impoverishment of the population and thus constraining growth. The same observation applies to the health sector where advances have helped to extend life expectancy (from 45 years in 1970 to 71 years in 2015), but access to good quality health care remains limited due to the lack of health infrastructure, health human resources,

[2] IMF - World Economic Outlook Database, October 2021.
[3] OECD Economic Surveys Indonesia October 2018, Overview, at https://www.oecd.org/economy/surveys/Indonesia-2018-OECD-economic-survey-overview.pdf
[4] Data from the World Bank data and BPS (*Badan Pusat Statistik* – Statistics Indonesia).
[5] A marked increase in school enrolments between 2001 and 2018, with the share of under-15-year-olds rising from 46 to 85% (PISA – Programme for International Student Assessment – OECD, 2018).
[6] WHO: Addressing inequalities on the 'road to health for all' in Indonesia at: https://www.who.int/news-room/feature-stories/detail/addressing-inequalities-on-the-road-to-health-for-all-in-indonesia
[7] Between 1970 and 2019, the Gender Parity Index for girls school enrolment in Indonesia increased from 0.89 to 1, which evidences the achievement of gender parity in education.
[8] Source: *Badan Pusat Statistik* (Statistics Indonesia): Profile of poverty in Indonesia, September 2020 (bps.go.id) (in Indonesian).
[9] Susenas, 2019, compiled by Bappenas.
[10] Indonesia | ADB COVID-19 Policy Database.
[11] Compared to 52% in France, 25% in China, 23% in Vietnam, 19% in Thailand, 17% in Cambodia, 16% in Malaysia.

accessible healthcare products and sickness insurance cover. The challenges relating to an ageing population will also arise over time: in 2050, 22% of the population will be over 60 years old.

In the area of **infrastructure**, substantial investments have been made since 2015 in order to catch up a considerable lag, clearly shown by the value of the country's infrastructure stock as a proportion of GDP: 43% in Indonesia compared to 70% in developed countries. The government's fiscal effort raised EUR 28 billion in 2019 up from EUR 5 billion in 2009. However, the need to catch up remains colossal at an estimated USD 1,600 billion,[12] which is hampering prospects for growth.

Crucially, Indonesia's logistics services need to be effective and competitive to shore up its position in the global supply chains.[13] Moreover, improvements in transportation and inter-island connectivity are major challenges for reducing inequalities between the country's different provinces.

In urban areas, the lack of infrastructure, particularly housing and basic services, creates difficulties in accessing employment, deteriorated living conditions and greater vulnerability to climate change and natural disasters. The proportion of the population living in urban areas is continuing to increase and set to rise from 67% in 2018 to 74% by 2024.[14] Characterised by a large network of secondary cities that have no means of action or management, Indonesia's urban growth is insufficiently planned. Housing supply and, more generally, access to basic public services such as sanitation, education, healthcare and leisure[15] are highly inadequate. Land pressure is driving up the cost of housing, with the result that people are forced to live far from their place of work and nearly 40% of the urban population are settled in substandard housing. This exploding urbanisation also has significant environmental impacts, particularly in terms of air and water pollution.[16] The plan to relocate the capital city, announced in August 2019, is presented as a response to these urban development issues.[17]

A key country for the ecological transition

With almost 1.5 gigatons of CO_2 equivalent (CO_2e) emitted each year, Indonesia is one of the world's top GHG-emitting countries and its emissions could double by 2030 if the current trend continues ("business-as-usual" [BAU] scenario). It should however be noted that relative to the number of inhabitants the country stood in 130th place in 2018 (2.2 tCO_2/capita per year, compared to the world average of 4.5 t/capita and 8.8 t/capita for OECD member countries).

Deforestation and land-use change are responsible for nearly half of the emitted GHGs. The clearance of primary forest and the drainage of wetlands and peatlands linked with the development of agriculture and large agro-forestry plantations (teak, palm oil, rubber, etc.) have led not only to a substantial loss of forest and biodiversity areas but also to the release of large quantities of GHGs. However, Indonesia's tropical forest area, covering 93 million km^2, i.e. nearly 50% of the territory, is still one of the largest in the world.

Energy is the second largest GHG-emitting sector, as electricity production predominantly relies on fossil energies (oil 32%, coal 28%, gas 15%, biomass 13%, as well as geothermal energy and hydropower 12%). Given the growing demand for electricity (an estimated average rise of 6.4% annually between 2019 and 2028), the sector's share of GHG emissions is set to increase from one-third in 2010 to 58% in 2030 absent any proactive intervention (business-as-usual, BAU). The provision of urban public transport is limited but maritime and air links are quite well-developed, which means that the transport sector is still a large consumer of fossil energy.

High vulnerability to climate change and natural disasters

In addition to the geological risks associated with its location on the "Ring of Fire" (earthquakes and volcanic activity), Indonesia is highly exposed to natural disasters stemming from hydrometeorological phenomena owing to its equatorial and tropical climate: flooding, landslides, submersion and coastal erosion, cyclones and tropical storms, drought, etc.

Ongoing climate change could significantly heighten these risks, particularly the risk of floods, which are already the most frequent catastrophes and cause major damage. The country could experience an average temperature rise of between 0.8 and 1.4°C by 2050,[18] with more frequent heatwaves and droughts, and higher rainfall leading to increased flooding. The country is also experiencing rising sea levels, estimated to reach 15-45 cm by 2050 and 90 cm by the end of the 21st century, which will affect the 42 million people living along the coastlines.

12 Country Partnership Framework for the Republic of Indonesia for the Period FY21-FY25, April 6, 2021, The World Bank Group.

13 The county ranks 52nd out of 138 on the Global Competitiveness Index 2017-2018 for infrastructures, notably behind Malaysia and Thailand. http://reports.weforum.org/global-competitiveness-index/competitiveness-rankings/#series=GCI.A.02

14 Bappenas – RJPMN 2020-24

15 According to Bappenas (RJPMN 2020-2024), 74% of households have access to clean water but only 7% to a drinking water supply, 29% to a sanitation network and 9% of citizens have no toilet facilities.

16 The Jakarta metropolitan area is particularly affected, as the particulate matter (PM) thresholds recommended by the WHO are regularly exceeded: PM 2.5, i.e. particles with a diameter of less than 2.5 microns. The cities of South Tangerang, Bekasi and Jakarta are among the top 10 most polluted cities in Southeast Asia, ranking 1st, 3rd and 7th respectively.

17 This decision was taken in response to subsidence in the city and flooding in its northern districts, which are today below sea level. This phenomenon mainly stems from the overexploitation of aquifers by private boreholes that have developed due to the poor quality of the public water supply service.

18 Climate Risk Country Profile – Indonesia – World Bank – ADB (2021).

The impacts of climate change will be considerable for populations and companies that depend on agriculture, fisheries and forestry and agroforestry activities as these combine with other strong anthropogenic pressures.

Powers and challenges of public action: Central government and regional powers, state-owned enterprises and banks

From being a highly centralised state in 2001, Indonesia has become one of the world's most decentralised countries.[19] Since 2015, the government has worked to reinforce decentralisation, allocating more than 50% of the national budget to subnational authorities. However, this process is not fully completed and the human, institutional and regulatory capacities of local authorities remain limited. The weakness and heterogeneity of local counterparties, along with the administrative complexity, hamper project implementation. The local authorities often view the environmental and social aspects, encompassed in the international commitments reaffirmed by central government, as secondary priorities or even constraints on regional development and the improvement of their communities' living conditions.

Indonesia is recognised for its macroeconomic stability and the size of its market. The country attracts foreign investment (with USD 20 Bn in 2018), but, this, like private sector development, is hobbled by the **regulatory obstacles** and **bureaucracy**, despite the government's efforts to remedy this.[20]

State-owned enterprises and banks, key actors of economic development

State-owned enterprises (SOEs – in total 108 banks and companies) play a front-line role in the Indonesian economy, contributing 6 to 8% of GDP. They operate in numerous sectors (mainly infrastructure, energy, telecommunications, pharmaceuticals, etc.), often with a monopoly position. Over the past ten years, they have contributed USD 280 billion to the state budget through dividends, taxes and non-tax revenue (over USD 26 Bn in 2020). In 2018, they invested USD 23 billion in projects to build ports, roads, toll roads and power stations. The largest SOEs play a major role in implementing public policies (energy via the state-owned enterprise PLN, *Perusahaan Listrik Negara*, telecommunications via Telkomsel, oil and gas via Pertamina). The health crisis has exacerbated the financial difficulties of some of these SOEs (the airline company Garuda Indonesia, the construction company Waskita Karya, PLN), which has prompted the government to adapt the planned reform (SOE Roadmap 2020-2024). The **public banks** dominate the local banking market: among the country's five largest banks, four are state-owned (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia and BTPN), with assets totalling some USD 236 billion in 2020. The banking sector is sound and strictly controlled by the financial services authority (OJK) created in 2011. However the rates of bank intermediation and financial inclusion remain low (fewer than 50% of adults hold a bank account, compared to 70% in the region and 56% in the LMCIs).

1.2. ANALYSIS OF NATIONAL PRIORITIES

Indonesia has defined its long-term development priorities in a 20-year development plan (RPJPN 2005–2025, "for an independent, developed, just and prosperous Indonesia"), which is broken down into 5-year plans (RPJMN). The 2020–2024 5-year plan foregrounds five priorities: (i) human development, (ii) infrastructure development, (iii) regulatory simplification, (iv) administrative simplification and (v) economic transformation. The objective of attaining the 17 Sustainable Development Goals is clearly stated by the government, which has set up an SDG Secretariat under Bappenas (Ministry of National Development Planning).

Accelerate the "catch-up" for public infrastructure and human capital development

In 2014, the government placed the emphasis on basic infrastructure investment, particularly in the energy, transport, water and sanitation sectors. For 2020–2024, the government's stated priority is to develop private and public investment. Over this period, the expenditure on infrastructure represents USD 412 billion, of which 40% is financed by the state budget, 25% by large state-owned enterprises and 35% by private investors.[21]

[19] *"La décentralisation indonésienne, Une expérience de démocratisation radicale et chaotique"*, Lucas Patriat, *Les notes de l'Irasec No.1*, August 2007.

[20] These two aspects are the focus of major reforms in Indonesian Vision 2045.

[21] This will involve deregulating investment procedures, integrating regulations into the licensing system, improving Indonesia's ranking on the "Ease of doing business" indicator with the objective of moving up from 73rd place in 2019 to 40th place by 2024 (RPJMN 2020-24).

Human capital development is one of the government's priorities and targets better quality primary education and vocational training, as well as improving health indicators (particularly, to eliminate stunting linked to child nutrition and reduce the infant mortality rate). The latest Human Capital Index (published by the World Bank in 2020) ranks Indonesia 96th out of 173 countries, which marks an improvement on 2018 and reflects the efforts made by the government.

Reform the state, fight corruption and enhance the business climate…

Since the election of President Joko Widodo in April 2014, major reforms have been implemented with a special focus on improving the business climate, opening up to foreign investment and reforming the state (notably fiscal reform).

Corruption is a serious stumbling block to the country's development and attractiveness, but efforts have been made over several years (creation of the Corruption Eradication Commission,[22] KPK, in 2003) that have improved Indonesia's ranking on the corruption index of the ONG, Transparency International (positioned 102nd out of 180 countries in 2020 against 137th in 2005). Protecting and strengthening the Commission's courses of action are critical in order to bolster Indonesia's credibility and reassure international investors.

A major challenge is to ramp up tax revenues to consolidate public finances and the state's capacity to act and invest. Despite an initial reform programme rolled out in 2015, the level of tax receipts remains low. Under the impact of the health crisis, these even fell by around 20% according to government estimates. The weak structure of public revenues complicates post-Covid fiscal consolidation and jeopardises the objective to return to the fiscal rule set out in the Constitution (a deficit below 3% of GDP) by 2023. However, in the post-Covid period, priority has been set on restoring the business climate. The government's aim is to relaunch investments by simplifying regulations and reducing the barriers to competition. The measures of the "Omnibus" Law, adopted in November 2020, such as lower corporate income tax rates and tax relief, will place a strain on government revenue over several years. This could be partly offset by broadening the tax base, increasing VAT and adopting a carbon tax.

…with greater attention to the environment and the fight against climate change

While the economic and social development of the country is a government priority, Indonesia has become aware of its vulnerabilities to the effects of climate change. The Indonesian government has been mobilising for several years to reduce the risks of natural disasters and the impacts of climate change, and has set this as one of its national priorities. The country has made some strong international commitments and taken concrete mitigation steps to tackle climate change.

The nationally determined contribution (NDC) submitted by Indonesia to the United Nations Framework Convention on Climate Change in 2016 and revised in 2021[23] provides for a hefty reduction in GHG emissions by 2030 compared to the business-as-usual (BAU) scenario: – 29% unconditionally and – 41% conditional on assistance from the international community.

Moreover, in July 2021, the President announced that Indonesia was committed to achieving **net zero emissions by 2060**. This commitment, presented by President Joko Widodo at COP26 in November 2021, opts for one of the long-term low-carbon strategies for 2050[24] in which GHG emissions would peak in 2030, then decrease down to 540 $MtCO_2e$ by 2050 with net zero attained by 2060.

Indonesia's objectives to reduce GHG emissions linked to deforestation and land-use change could be achieved if it steps up its efforts to promote reforestation and combat peatland fires (the moratorium on new agroforestry permits expired in 2021 and would need to be renewed; a permanent moratorium designed to protect primary forest and peatlands).[25] In his speech at the Glasgow CPO26, the Indonesian president underscored the marked decrease in deforestation and forest fires in 2020, as well as the goal of transforming this historically high-emitting sector into a net carbon sink by 2030.[26] Yet, the moratorium signed in 2018 on the extension of palm oil plantations expired at the end of September 2021, with no announcement for its renewal. The uncertainties on future control of deforestation and the protection of the tropical forests remain considerable.

[22] KPK: an independent commission that coordinates investigations and judicial proceedings for cases of corruption. Its work has enabled the investigation and arrest of some senior Indonesian officials (e.g. president director of PLN in 2019, the minister of Fisheries in 2021 for illegal trade).

[23] The update to Indonesia's NDC, published in July 2021, is not aimed at revalorising the country's objectives in terms of mitigation, but at strengthening adaptation measures to improve resilience (sustainable agriculture, natural disaster management, coastal protection and restoration of wetland ecosystems).

[24] Indonesia Long-Term Strategy for Low Carbon and Climate Resilience 2050 – LTS-LCCR 2050, published July 2021.

[25] These measure have made it possible to reduce the deforestation rate to less than 300,000 ha a year since 2017.

[26] Indonesia nonetheless subsequently pointed out that this objective did not imply that deforestation would be halted by 2030.

The relative reduction of GHG emissions linked to the **energy sector** will be slower. Indonesia has announced a moratorium on the construction of new coal-fired power plants as from 2025, but future constructions for which financial agreements have already been signed (an additional 13.8 GW over the next ten years) have not been called into question. The impediments to developing the share of renewables in the energy mix – connected mainly to the unfavourable terms for purchasing electricity from private producers and to the Indonesian government's will to prioritise the use of its natural resources (coal, gas) – are also likely to delay a reduction of GHGs. Another contributing factor is the difficulty of defining and implementing public urban transport projects due to the managing and planning capacities of local counterparties.

To address **biodiversity** issues, in 2009, Indonesia set the objective of transforming 200,000 km² of its territorial waters into marine protected areas (MPAs) by 2020, marking its will to protect marine ecosystems and enable the sustainable development of its maritime activities. In 2017, the Ministry of Marine Affairs and Fisheries pledged to increase this area to 300,000 km² by 2030 (i.e., 5% of the country's Exclusive Economic Zone[27]). In 2019, 96% of the targeted objective for 2020 had been achieved, but the management of these MPAs is not yet of a consistent quality.

Lastly, the Indonesian government is committed to combating **plastic pollution**. In March 2019, the Coordinating Minister of Maritime Affairs and Investment joined forces with the Global Plastic Action Partnership to launch the Indonesia National Plastic Action Partnership (NPAP).[28] In April 2020, it published the Multistakeholder Action Plan aimed at reducing marine plastic leakage by 75% by 2025, and eliminating it by 2040, mainly by transitioning to a circular economy based on plastics recycling.

1.3. FINANCING AND DEVELOPMENT

Contained financing needs

Given Indonesia's large financing capacities and the confidence it enjoys on financial markets (although relatively high, this remains volatile, as is the case with all major emerging economies), the country relies little on external aid. In 2021, the state budget was equivalent to USD 192 billion, while revenue amounted to USD 122 billion, up by 6.7% on 2020.[29] Infrastructure spending totalled nearly USD 9 billion (IDR 126 trillion)[30] with 15% allocated to infrastructure and 18% to education. According to the IMF, state financing needs remain contained in the medium term, projected to rise from 8.7% of GDP in 2021[31] to around 5% in 2025. The same would apply to external financing needs (about 7% of GDP) thanks to a relatively orthodox and prudent macroeconomic management since the 1997 Asian crisis.

The IMF considers the Indonesian public debt as "moderate and sustainable". In fact, it declined steadily from 87% of GDP in 2000 to 30.6% in 2019, which is below the debt ceiling of 60%. It marked an increase in 2020 (to 36.6% of GDP) due to financing for the policies and measures to offset the impacts of the Covid-19 pandemic. Indonesia's external debt is stable, standing at 36% of GDP in 2019 then 38.3% in 2020. In the medium term, it should edge down to reach 35%. The major rating agencies have recognised Indonesian bonds as investment grade, which indicates a low default risk and confirms the positive trend for the country's macroeconomic and fiscal management.

Indonesia finances over 70% of its public debt on the financial markets (around USD 3.5 billion of bond issues in 2020 alone). In addition, it calls on international donors to support major public policy reforms (energy, port logistics, taxation, etc.) and finance public investment projects.

State-owned enterprises and banks in a strong financial position are able to borrow directly on the markets or from international donors, with or without a state guarantee. Local authorities are not authorised to contract debts with foreign financial institutions.

27 This figure is lower than the target of protecting 30% of terrestrial and marine areas set at COP15 of the Convention on Biological Diversity.

28 With over 150 member organisations, the Indonesia NPAP is the country's principal platform for public-private collaboration, working to achieve a drastic reduction of plastic waste in the country. The platform works in concert with the NAP (National Action Plan on Marine Debris), the Indonesian National Waste Management Policy and Strategy and other efforts to achieve a 70% reduction of marine plastic leakage by 2025 (Indonesia's Plan of Action on Marine Plastic Debris 2017-25 – Coordinating Ministry of Maritime Affairs).

29 Over 15% of which is allocated to infrastructure and over 18% to education.

30 Proposed 2021 Budget, Accelerating Economic Recovery and Strengthening Structural Reforms, Ministry of Finance, Directorate General of Budget.

31 Source: Central Bank – BI.

A weak dependency on donor finance

As a middle-income country with a solid credit history and a structured and transparent public finance system, Indonesia enjoys the support of many international institutions, mainly in the form of loans. The official development assistance disbursed represented an average USD 2.23 billion in 2018 and 2019, the bulk of this going to the infrastructure and services sectors. The total contribution of bilateral and multilateral donors remains modest relative to the state budget (as a reminder, USD 192 Bn in 2021).

Borrowing from donors is managed centrally through a "Blue Book" and "Green Book" system. The "Blue Book 2020–24" lists 73 projects, particularly infrastructure projects (transport, energy, water and sanitation) for a total loan amount of USD 25.37 billion.[32]

1.4. ELEMENTS FRAMING THE FRENCH STRATEGY

France is seeking to consolidate its presence in the Indo-Pacific

Present in both the Indian and Pacific Oceans with more than one and a half million nationals in the region, France is an Indo-Pacific coastal power. It wishes to contribute to peace, stability and growth by strengthening its partnerships with countries in the region, notably India, Indonesia, Japan, and with the international organisations (ASEAN, IORA[33], CPS,[34] etc.). The European Union became a strategic partner of ASEAN in 2020 and France a development partner in September 2020.

France has defined four lines of intervention in the Indo-Pacific : i) peace and regional stability (with 7,000 defence personnel, France is the only European country able to fight against piracy and trafficking), ii) economic cooperation mainly to improve connectivity and physical and digital infrastructures in a region with very significant needs, iii) the strengthening of multilateralism to ease regional tensions, and iv) the preservation of common goods and the fight against climate change, notably support for the energy transition, biodiversity protection and sustainable ocean management.

France is strengthening its bilateral relationship with Indonesia

Indonesia is a strategic priority for France for multiple reasons: its demographic weight, the role that Indonesia can play in preserving global public goods, its democratic regime in a region marked by strong powers, its role within ASEAN and its place in the G20, but also because of its infrastructure needs, which offer a buoyant market for French businesses.

Trade between France and Indonesia is relatively limited, amounting to EUR 1.6 billion of French exports each year, with the aeronautics sector accounting for 30% to 70% depending on the year.[35] Around 180 French subsidiaries and companies are located in Indonesia (L'Oréal, Michelin, Airbus, Danone, Naval Group, AXA, Crédit Agricole, Décathlon, etc.), but their weight is still modest with less than 1% of total market share.

France and Indonesia maintain close diplomatic relations under the "Strategic Partnership", signed during Prime Minister François Fillon's visit in July 2011. This partnership highlights the will to strengthen the political dialogue and sectoral cooperation (maritime dialogue, economic dialogue, defence dialogue, etc.), intensify French economic presence (visits and exchanges, contracts awarded), and promote training.[36] Letters of intent have recently been signed at ministerial level to develop cooperation on energy and the low-carbon transition (November 2021) and further the dialogue on maritime matters (June 2021). A joint declaration (June 2021) also provides for stronger cooperation on the sustainable resource management, the conservation of marine ecosystems and economic development of coastal populations.

[32] Budget financing needs were evaluated at USD 68 billion for 2021.
[33] Indian Ocean Rim Association.
[34] The Pacific Community.
[35] In 2019, Indonesia chiefly imported products from China (26% of imports) and Singapore (10.1%). It exports mainly to ASEAN countries (25% of its exports) and China (top destination country, 17%).
[36] Only 1% of Indonesian students who study abroad choose France.

Renewed cooperation that relies on multiple actors

In July 2021, France adopted a new programming act on development. In emerging economies, France's policy on **inclusive development and combating global inequalities** is grounded on the principles of shared responsibility and reciprocity, notably in matters of managing global public goods and the fight against climate change, poverty and inequality. AFD's action in Indonesia falls within this renewed strategic framework and France's Indo-Pacific Strategy.

Activity aligned with the Group's Indo-Pacific strategy

In line with its mandate for intervention in major emerging countries and France's Indo-Pacific Strategy, AFD Group's action in Indonesia is perfectly aligned with the roadmap the Group has adopted for the Indo-Pacific region. This involves promoting the global commons, such as the fight against climate change and biodiversity conservation – in this instance, marine biodiversity by combating plastic pollution and its impacts on the oceans and seas bordering the country. Indonesia will be one of the Southeast Asian countries (along with Vietnam and the Philippines) in which the first phase of the Energy Transition Partnership programme is to be rolled out. This initiative is supported by AFD and aims to coordinate and bolster the efforts of donors and philanthropists to develop sustainable infrastructure and renewable energies in the region, in support of the implementation of the Paris Agreement. AFD is also working on the launch of a programme to develop and structure the public policies of partners in the region to improve air quality by focusing this first phase on three countries: Cambodia, Indonesia and Thailand. In addition, AFD is supporting the development of the blue economy in the world's largest archipelago by financing maritime connectivity projects that have already enabled the sharing and promotion of French expertise in this field, while also helping to reduce environmental impacts. Lastly, AFD is broadening and deepening its partnerships with regional actors in Indonesia, such as multilateral (ADB) and bilateral development banks (JICA, PT SMI), as well as with regional organisations (ASEAN, ADFIAP).

AFD Group has been a partner of Indonesia for almost 15 years. It has financed 60 operations and committed EUR 3 billion, including 1.2 billion over the period 2017–2021. The Agency's financing – which, excluding expertise, has incurred no cost to French taxpayers since 2014 – aims to contribute to Indonesia's socio-economic development and its international commitments to fight climate change. Proparco has been intervening on private-sector development since 2011 through its regional office based in Bangkok. Its activity represents a cumulative amount of EUR 130 M for 10 projects, mainly in the energy and financial inclusion sectors (support to the banking sector, microfinance institutions and local investment funds). These operations mobilise the entire range of available financial tools (senior loans, equity investments and guarantees). Expertise France has ensured the technical cooperation between France and Indonesia since 2018, more particularly through experience-sharing between the French and Indonesian tax administrations.

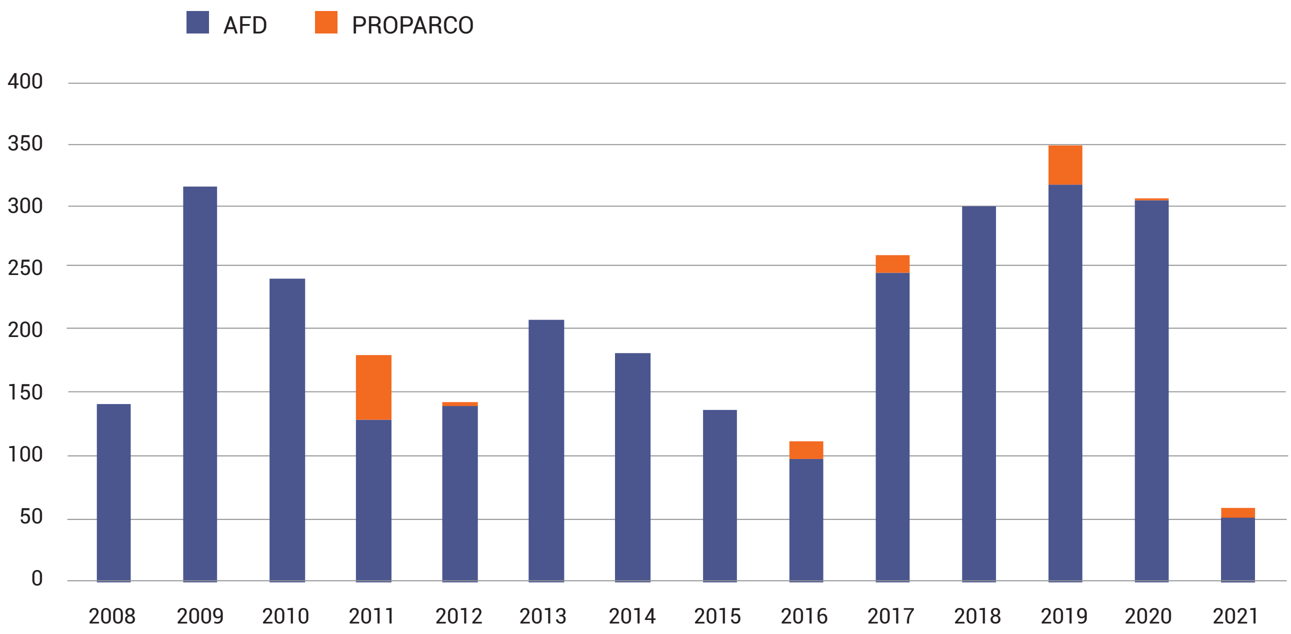
Furthermore, scientific, technical and cultural cooperation draws on several actors present in Indonesia, including the French National Research Institute for Sustainable Development (IRD), which works on the ecology of humid tropical forests and mangroves, human migration, fishery research and marine biodiversity; the French Agricultural Research and Cooperation Organisation (CIRAD), which mainly focuses on natural resources management, the sustainability of perennial crop systems and the supply of agroforestry seeds; the French School of Asian Studies (EFEO); and the Institut français Indonesia (IFI).

The French businesses are supported by the Economic Service of the French Embassy (FASEP for smart power grids, Treasury loans for methodology), Business France (exchanges on the energy, maritime transport, shipyard sectors), the Indonesian French Chamber of Commerce and foreign trade advisors.

Overview of AFD's past activities, added value and constraints

Over fifteen years, AFD Group has committed some EUR 3 billion, including EUR 2.8 billion by AFD and EUR 130 million by Proparco.

Total commitments by year, in euro millions



One of the strengths of AFD's activity in Indonesia lies in the **diversity of its financial tools** (sovereign and non-sovereign loans, delegated grant funds, FEXTE, FAPS, credit lines). Over the period 2017–2021, the commitments break down into sovereign loans (87%), non-sovereign loans (12%) and grants (1%). Development policy loans (DPLs) represent 74% of commitments, investment loans 14%, credit lines 11% and grants 1%.

The Agency has forged **robust partnerships with other donors**, enabling it to take a position on key sectoral reforms and mobilise French expertise in many sectors. As a result, substantial development policy loans have been implemented jointly with the WB, ADB, JICA, DUE, and French public actors have been mobilised for technical assistance and expertise-sharing initiatives (IRD, CIRAD, Grand port maritime du Havre, DGFiP). This capacity to bring French expertise to the maritime field is particularly appreciated by the Indonesian authorities.

A **structuring partnership** has also been established **with PT SMI**, a financial institution fully owned by the Indonesian state and specialised in infrastructure financing. In the near future, PT SMI's mandate is due to be expanded to become the "Indonesian Development Finance Institution" (LPPI). Under this partnership, a Memorandum of Understanding was signed in 2022 between the French **Caisse des Dépôts et Consignations, PT SMI and AFD**, with a view to exchanging on matters of common interest.

AFD's activity in Indonesia **generates climate co-benefits**. Between 2017 and 2020, climate co-benefits increased significantly to reach 24% of total commitments in 2018, 63.2% in 2019 and 66% in 2020 (44% adaptation and 22% mitigation). In 2020, 75% of implemented projects involved at least one French economic actor.

Finally, the Agency has demonstrated its **responsiveness** to the requests of the Indonesian government: in the area of disaster risk reduction (relaunching the fisheries sector post-tsunami in 2018, the DREAM programme in 2020) and in the context of the pandemic with a DPL to boost the resilience of the financial sector in 2020).

2.

AFD GROUP'S INTERVENTION STRATEGY

2.1. STRATEGIC ORIENTATIONS

Indonesia's capacity to achieve a just and low-carbon transition as well as the sustainable development goals will certainly impact the capacity of Southeast Asia and the world to successfully tackle global challenges. Over the period 2022–2026, the overarching goal of AFD Group's activity in Indonesia will be to **accompany the country on its path towards low-carbon development, in the context of a just and resilient transition.**

This goal is in line with the Indonesian government's priorities set out in the 5-year plan 2020–2024, with the priorities of the French policy on **inclusive development and combating global inequalities**, as well as with the Group's strategy and its Southeast Asia Regional Strategy 2020–2024. The overall goal will translate into four priorities:

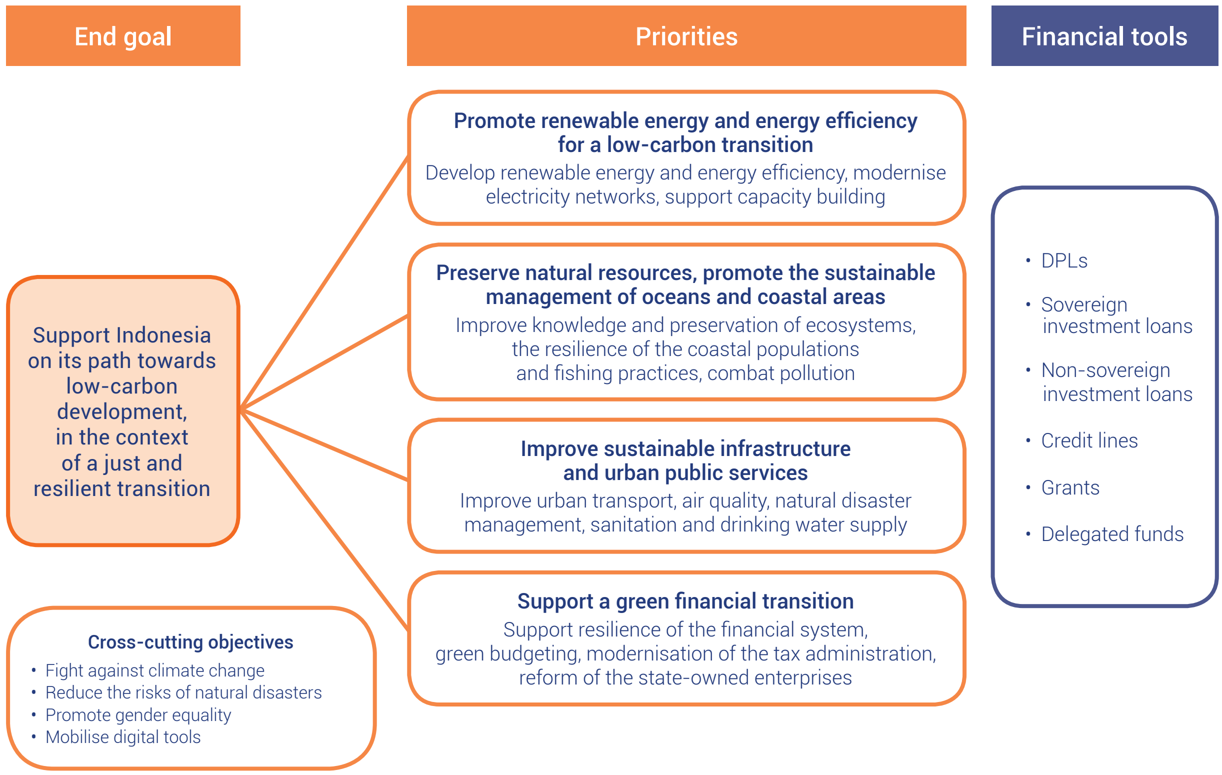
1. Promote renewable energy and energy efficiency for a low-carbon transition
2. Preserve natural resources, promote the sustainable management of oceans and coasts
3. Improve sustainable infrastructure and urban public services
4. Support a green financial transition

Support for more resilient and lower-carbon development in Indonesia is now a critical issue, given the country's high level of GHG emissions, the environmental risks threatening its natural capital and the country's objectives for economic growth. **The fight against climate change will continue to serve as a strong marker for the activity** of AFD Group in Indonesia. The Group will support operations that have a positive impact on the adaptation to climate change and the mitigation of its effects, and will ensure at the very least that there is no harm to the environment. AFD Group will be particularly attentive to the convergence between climate and biodiversity objectives and will ensure that **natural disaster risk reduction** (resilient infrastructure, public finances, natural resources management) is mainstreamed into its interventions.

Social issues, especially during the post-Covid period, are central to the country's development priorities. AFD Group will ensure that the challenges to **improve the populations' living conditions and fight against inequality** are integrated into all its operations. It will also support **gender equality** (mainstreaming of gender issues into the management of natural disaster risks, the fight against gender-based violence in urban mobility projects, women's role in the different fisheries sectors, etc.). It will encourage the **mobilisation of digital tools** (satellite monitoring systems for coastal and marine ecosystems, smart power grids, public finance management, urban transport, etc.).

Additionally, AFD Group will continue its support to modernise the State and develop citizen participation. For this reason, it will pay attention to **building the capacities** of the institutions and actors that it works with. It will support **reforms** to promote green and inclusive growth and to **modernise the governance of state-owned enterprises**. It will also work to develop **exchanges with civil society**, particularly through the Advisory Board created by AFD's Jakarta office in 2021 and comprising nine members of Indonesian civil society committed to sustainable development. The Board will endeavour to promote **user participation** in project design and management: more inclusive governance of AFD-funded ports, support for arrangements to co-manage protected areas; fair access to spaces and resources; deployment of meteorological services that meet the needs of users, including the most vulnerable...

AFD's Logical Intervention Framework for Indonesia



2.2. PRIORITIES

2.2.1. Promote renewable energies and energy efficiency for a low-carbon transition

In light of Indonesia's economic growth, its rising energy demand and its ambitious objectives to reduce GHG emissions, AFD Group will continue and step up its interventions to support the **development of renewable energy and energy efficiency** with a view to a low-carbon transition and the phase-out of coal.

As an international coalition is to be created to support a just energy transition in Indonesia, AFD Group could actively contribute to this alongside other development partners, given its expertise in this sector.

AFD Group has already been supporting Indonesia's energy transition for several years through sovereign and non-sovereign investment financing. The Strengthening West Kalimantan Power Grid project co-financed with ADB has made it possible to connect the electricity grid in the Indonesian part of Borneo island with Malaysia's hydropower capacities. This has helped drive down local power production costs by 40% and reduced Indonesia's total emissions by 400 000 tCO_2e per year. The USD 100 million green credit line granted to the financial institution PT SMI has helped finance investment projects worth USD 330 M, enabling the installation of 25 MW of renewable energy (hydropower, biomass), GHG reductions equivalent to an annual 0.3 $MtCO_2$ and access to a drinking water supply for 1.5 million people.

Considering the new commitments recently made by Indonesia to promote the energy transition (net zero emissions by 2060, moratorium on the construction of new coal-fired power plants, introduction of a carbon tax, etc.), AFD will support the structural reforms and investments in favour of a lower-carbon energy policy in Indonesia, in conjunction with other donors operating in the sector (WB, ADB, KfW, JICA, UK, etc.).

AFD Group will also continue to support the investment projects of both public and private actors, mainly through non-sovereign loans. In this context, AFD will assist in preparing and implementing public investments for renewable energy production (wind, geothermal, hydropower and solar) or energy efficiency (smart grids, green buildings, industrial energy savings), developed primarily by the national power utility, PLN, but also by other state actors (e.g., PGE for geothermal energy). AFD will also continue to implement green credit lines so that Indonesia's public banks can finance smaller-scale investments more effectively (mini-hydropower plants, energy efficiency for industry or construction).

If Indonesia's energy policy makes headway and if the electricity tariff structure becomes more conducive to private investment, Proparco will seek to assist independent energy producers through loans. A co-financing approach with actors such as ADB or IFC will be prioritised so as to mobilise the necessary funds and promote satisfactory management of the environmental and social risks specific to such projects.

The Agency will be able to test whether transformational financing for state-owned enterprises or banks can be mobilised based on a programmatic approach whereby annual disbursements would be conditional on the realisation of ambitious energy transition objectives.

AFD will seek to mobilise grants to accompany its loans through EU delegated funds (TEIs), the Green Climate Fund (mainly the PEEB Cool programme for the construction of more environment-friendly buildings) and technical assistance from the Energy Transition Partnership (ETP).

2.2.2. Preserve natural resources, promote sustainable management of the oceans and coasts

As the world's second largest producer of fishery products but also the second largest producer of marine plastic debris, and as a biodiversity hotspot harbouring the world's largest area of tropical forest but also one of the countries with the highest deforestation rates, Indonesia concentrates the most critical challenges for the preservation and sustainable management of ecosystems in Southeast Asia.

Although the exploitation of these resources has underpinned Indonesia's development in recent decades (mining, agriculture and agribusiness, fisheries, tourism), the economic and social benefits of this growth model could be durably challenged given the degradation of the ecosystems and the services they provide. Moreover, the impacts of this degradation are not limited to Indonesia: air pollution linked to forest fires, plastic marine debris, GHG emissions from deforestation and land-use change are also having visible impacts on the whole region and the entire planet.

In recent years, AFD has been working to support sustainable ocean management, particularly by strengthening the capacity of the Ministry of Maritime Affairs and Fisheries to use satellite technology to detect illegal fishing vessels and monitor oil spills at sea. AFD will continue to support the preservation and sustainable management of ecosystems, focusing its action on coastal and marine natural habitats, a domain in which the Agency has recognised experience and expertise. These actions will contribute to preserving marine biodiversity and tackling climate change.

The Agency will continue to work on **capacity building for Indonesian institutions to foster better knowledge and management of marine and coastal environments** (assessment of fishery resources, oceanography, ocean modelling, etc.). As regards priority projects funded by external debt (Blue Book/Green Book), AFD will intervene via sovereign loans and associated grants to mobilise expertise and also develop partnerships with French public actors (fishing ports, research institutes, etc.).

AFD will also seek to assist the Indonesian government in **developing a sustainable maritime economy**. Alongside other donors, AFD has financed the reform aimed at improving the performance of logistics and ports with the result that the number of ports and maritime terminals using an ISO 9000-certified management system has increased. It has also contributed to opening up the transit sector to competition, increased warehousing and storage, and reduced waiting and unloading times in the ports. By supporting the modernisation of fishing ports through an eco-certification and energy efficiency approach and improving the traceability of seafood products and the management of fishery resources, AFD's interventions will help to create sustainable incomes for populations whose livelihood depends on the sea. Upgrades to maritime transport infrastructure can be supported in order to enhance the sector's performance and reduce its impact on the environment and the climate (energy efficiency, better management of liquid effluents and solid waste, etc.).

As for public policy dialogue, AFD will seek to assist the implementation of the **National Action Plan on Marine Debris** through development policy loans and expertise, with co-financing from other donors. In addition, by mobilising the Research Facility on Inequalities, co-financed with the EU, and by drawing on the results of projects financed by the Blue Action Fund in Indonesia, AFD will initiate a dialogue and assist the government in its objective to deploy 30 million hectares of effectively managed **marine protected areas** by 2030.

Given that the Indonesian authorities have decided to cease borrowing for subjects related to biodiversity or forestry management, and in the absence of investment grants ("major emerging countries" mandate), AFD's contribution to the preservation of terrestrial ecosystems and the fight against deforestation in Indonesia will continue to be limited to indirect support. AFD will thus mobilise French public expertise, particularly through CIRAD, to bolster training schemes on the sustainable management of agroforestry production (agroecology, biodiversity, soil management, social inclusion), in line with France's national strategy to combat imported deforestation.

2.2.3. Improve infrastructure and sustainable urban public services

One of the government's priorities is to develop infrastructure and public services given that the needs to respond to growing urbanisation and fight against territorial inequalities are immense.

AFD will support more sustainable urban development by seeking to tackle negative externalities (air and water pollution, traffic congestion, etc.). This will involve, on the one hand, **assisting the development of infrastructure and a good level of management** in terms of operation and maintenance to ensure the provision of adapted and sustainable services. It will also involve supporting **capacity building for institutions and operators**, particularly in urban transport sector (planning, regulations, contracting, monitoring, etc.).

In partnership with the World Bank, AFD will support the implementation of integrated and inclusive urban transport projects, mainly in the metropolitan areas of Bandung and Medan (MASTRAN– Indonesian Mass Transit Program). In Medan, the Sustainable Urban Mobility Plan for the metropolitan area, supported by AFD through the MobiliseYourCity programme, has been developed and was finalised early 2022. In parallel, investment loans and targeted grants can be mobilised. AFD will finance a pilot air quality project with the intention of supporting the development of larger-scale measures.

The Agency, along with JICA, will also continue to finance the DREAM programme aimed at **natural disaster risk management**. This financing will go hand in hand with French public expertise provided by CEREMA.

Depending on requests from the Indonesian authorities, interventions in the drinking water supply sector can be envisaged through the intermediation of public banks able to finance municipalities. Lastly, the urban sanitation sector, which is sorely lagging, as well as urban flooding risk management, could benefit from investment loans co-financed with other donors.

2.2.4. Support a green financial transition

The financial system plays a key role in financing the energy transition and low-carbon infrastructure. In line with the above-described priorities, AFD will continue its support for a financial transition that promotes capital allocation consistent with the Paris Agreement and contributes to managing the climate risks weighing on the financial system.

To achieve this ambition, the Agency can bolster its collaboration with local public banks via credit lines and technical support, for example, by improving their internal procedure practices, or supporting the integration of climate risk into their operations. French and European experience in public finance related to climate can be mobilised by Expertise France (green budgeting, carbon tax, etc.). The Agency can also pursue its collaboration with other donors on public policy dialogue, as in the case of previous financing operations (fiscal reform DPL, financial sector DPL). Support to the banking regulator OJK in promoting sustainable finance principles (integrating environmental and social risks, implementing climate stress-tests) is also envisaged.

Lastly, the Agency will seek to support the reform of state-owned enterprises on measures that provide climate co-benefits, with a view to identifying new non-sovereign counterparties.

2.3. PARTNERSHIPS AND KNOWLEDGE PRODUCTION

The Agency's partnership strategy will be reinforced, based on five objectives.

Continue collaboration with donors

Collaboration with the main donors operating in Indonesia will be pursued over the period 2022-2026, particularly the participation in major reform programmes. These partnerships enable AFD to co-finance reform programmes in areas such as energy, transport, the modernisation of state-owned enterprises, taxation and the financial sector. The just energy transition will be an opportunity for sectoral dialogue and partnerships with the WB, ADB, KfW and JICA, or other institutions (UK, Denmark, UNDP).

AFD Group will work actively with the members of Team Europe with a view to improving effectiveness and complementarity. The **European Commission will remain a foremost partner** for joint operations or knowledge production. The regional Team Europe Initiatives involving the Green Alliance (biodiversity, ocean governance, energy transition, water management, fight against deforestation and pollution) and sustainable connectivity (policy dialogue, sustainable economic connectivity and regional integration) are particularly consistent with the interventions envisaged by AFD. This same holds true for the Team Europe Initiative proposed in Indonesia concerning the Green Deal (energy, natural resources and ocean management, circular economy). Several joint operations are under discussion with the Delegation of the European Union in Jakarta (energy transition, oceanographic research, ecoports, blue carbon, etc.). **Close collaboration will also be sought with European bilateral partners** including **KfW**, a longstanding partner of AFD in Indonesia, and **EIB**, which opened a representation office in Jakarta end 2021.

Strengthen the partnership with PT SMI

In 2015, AFD established relations with PT SMI (PT Sarana Multi Infrastruktur), a public financial institution (three financing agreements signed on the sidelines of COP21 in Paris and a partnership agreement signed in 2018). Since then, PT SMI has joined the IDFC and started its transition towards the status of development bank. The collaboration with PT SMI will be pursued and developed (MoU renewed for the period 2022–2026), not only as a client but also as a privileged partner for SDG financing in Indonesia. AFD will assist PT SMI in developing its partnerships at the international (e.g., with ADFIAP) and French level (tripartite cooperation memorandum of understanding signed in March 2022 with the Caisse des Dépôts to promote cooperation in the field of municipal financing).

Develop the local presence

Special attention will be paid to exchanges with civil society interlocutors. In 2021, the Agency set up an Advisory Board comprising nine Indonesian members working in various sectors (experts, civil society representatives, academics, researchers, business women and men) and all directly or indirectly involved in sustainable development. This committee will provide a new critical perspective of AFD's action in Indonesia and not only provide it with better knowledge and understanding of the concerns of Indonesian civil society but also enable it to link its interventions with these concerns, in addition to its exchanges with the government. At the Board's first meeting, its members welcomed AFD's initiative in Indonesia and this body's role. They noted that AFD's action effectively took into account the different challenges facing Indonesia today. The importance of the topics related to climate and the energy transition was underscored. In their view, these are crucial challenges for Indonesia which AFD operations must address as a priority over the coming years.

In addition to the exchanges with the Advisory Board, the Agency can initiate partnerships with universities through research and exchanges (LPEM – Institute for Economic and Social Research, SMERU – Research Institute, University of Indonesia, etc.).

Boost knowledge production

The knowledge produced by the Agency aims to inform the thinking and decisions of AFD and its partners. This involves documenting and creating debates around public policy options compatible with the just and resilient transition that is central to AFD's strategy in Indonesia. Several studies are underway to feed into public policy dialogues on key topics such as the low-carbon pathway in the context of the 2050 Facility (energy efficiency in industry or blue carbon under appraisal); the preservation of natural resources taking account of the social dynamics induced via research on marine protected areas under the Research Facility on Inequalities partnered by the EU Delegation; and an inclusive, low-carbon and resilient economic and financial transition also financed by the 2050 Facility. These different strands of work could be further expanded to include other subjects, depending on the Agency's operational priorities and advocacy stakes – a strategic positioning and public policy dialogue identified as critical to achieving the fixed objectives. This work will be promoted to our partners by sharing it, presenting the results in short formats for decision-makers or bringing it up for discussion, particularly with the Advisory Board. Special attention will be given to ensure that these studies are disseminated across the Group's entities: not only in Proparco in order to incentivise synergies with the private or financial sector (e.g., a study on the housing sector by *Terao* as part of the appraisal for a credit line to the BTN), but also in Expertise France as input to help with context analyses in its scope of intervention.

Develop the partnership with ASEAN

AFD Group intervenes to promote sustainable development in seven of ASEAN's ten member countries – AFD accompanies States and their public institutions, Proparco provides private-sector financing and Expertise France delivers technical assistance. The Group also contributes to several regional projects and initiatives: the Asean Catalytic Green Finance Facility (ACGF) with ADB, the ECOMORE Project mobilising the Institut Pasteur, Plastic Debris through Expertise France and GIZ, etc. Under the development partnership signed in 2020 between France and ASEAN, AFD's Southeast Asia regional office, supported particularly by the Jakarta office which is the contact point for the Jakarta-based ASEAN General Secretariat, will work to promote the Group's interventions in the seven ASEAN member countries in which it operates. It will also seek to develop regional interventions directly with ASEAN (air quality, plastics, etc.) and identify ways of supporting (technical assistance, studies, conferences…) the ASEAN General Secretariat or its thematic focuses (energy in Jakarta, biodiversity in Manilla, sustainable development in Bangkok) by mobilising French expertise. These contributions can provide the underpinnings for a dialogue between France and ASEAN during the annual partnership reviews.

These different forms of collaboration will help to strengthen the dialogue with Indonesia not only within the France-ASEAN development partnership but also the French and European Indo-Pacific strategy, the consolidation of the Finance in Common Initiative and future G20 exchanges.

3.

INTERVENTION MEANS AND MODALITIES

3.1. FINANCIAL MEANS

Following on from the Indonesia Strategy 2017-2021, AFD aims to commit an average EUR 250–300 million each year, by way of sovereign and non-sovereign loans (credit lines to public banks, investment loans to state-owned enterprises) and grants. The financial resources deployed by AFD in Indonesia, in line with the mandate conferred on AFD by the French State in the "major emerging countries", will incur no cost for the French taxpayer, except for expertise. The loans will not be subsidised and French government grants will be used to finance expertise and not investments. The use of grants will remain key to the competitiveness of the Agency's offer in Indonesia, particularly for funding preparatory studies and project implementation monitoring, capacity building for counterparties, and the partnerships between Indonesian and French public institutions. AFD will seek to mobilise grants representing 1% of its average annual commitments, particularly via delegated funds. It will give special attention to ensuring that grants delegated by the European Commission continue to be mobilised and that the projects are in line with the priorities jointly defined under the Team Europe Green Deal (natural resources management, energy, circular economy). It will also aim to mobilise a first-time grant from the Green Climate Fund.

3.2. MODALITIES

Mobilising AFD's different financial tools will continue to be a central objective. The financing volumes mobilised each year and the diversity of available instruments constitute an advantage: sovereign loans to finance the Indonesian State's priority investment projects, non-sovereign loans to state-owned enterprises, development policy loans, non-sovereign credit lines for public banks, French public expertise and technical assistance.

AFD will be particularly attentive to developing non-sovereign financing, which makes it possible to support public investment without directly burdening the country's finances. It will be crucial to look for new counterparties with a sound financial situation and transparent governance in order to diversify the Agency's portfolio.

The maturity of the borrowing operations will continue to be tailored to the characteristics of the operations financed.

While the volume of development policy loans remains high, the priority will be to step up investment aid. AFD will continue to identify and prepare investment financing, which is more conducive to visibility and French economic interests, particularly when it comes to financing the energy transition (project for hydropower plant, wind farm, etc.), the blue economy (fishing ecoports, reinforcing the satellite data acquisition centre, etc.) and urban development (public transport). AFD will support the major reforms of the Indonesian State, along with other development partners. Given the progress made on the public policy dialogue, AFD will work to maximise the added value that France can bring to these reforms (mobilisation of French expertise, studies, sectoral knowledge, communication).

The goal will be to mobilise the whole of the Group's offer in Indonesia, particularly by bolstering the interventions of Proparco and Expertise France. This mobilisation can, for example, be structured around support for the energy transition, for which a letter of intent between France and Indonesia was signed in November 2021. AFD will participate in the public policy dialogue and in monitoring the advancement of the country's energy policies, alongside the other donors (WB, ADB, KfW). It will appraise development policy loans or sectoral programme loans, and non-sovereign loans to state-owned banks and enterprises (credit lines, investments). Expertise France will mobilise French public expertise and experience-sharing requested by the Indonesians (regulation and pricing in the electricity sector, integration of intermittent energies, carbon tax and carbon market, etc.). Proparco will study the possibility of financing independent renewable energy producers that have competitive electricity purchasing agreements. Synergies between the Group's entities will also be sought on other subjects or themes of interest to Indonesian partners.

ACRONYMS AND ABBREVIATIONS

ADEME *Agence de l'environnement et de la maîtrise de l'énergie* (French Agency for Ecological Transition)

ADFIAP Association of Development Financing Institutions in Asia and the Pacific

AIF Asian Infrastructure Facility (EU)

ASEAN Association of Southeast Asian Nations

BAPPENAS *Badan Perencanaan Pembangunan Nasional* (Ministry of National Development Planning)

ADB Asian Development Bank

Blue Book Programme of priority investments eligible for funding through external loans

BMKG *Badan Meteorologi, Klimatologi, dan Geofisika* (National Meteorological Agency)

BTN *Bank Tabungan Negara* (Indonesian state-owned mortgage bank)

CCPL Climate Change Programme Loans

CDC *Caisse des dépôts et consignations* (French public financial institution)

CIRAD *Centre International pour la Recherche Agronomique et le Développement* (French agricultural research and cooperation organisation)

DGFiP *Direction Générale des Finances Publiques* (Directorate General of Public Finances)

DGT *Direction Générale du Trésor* (Directorate General of the Treasury)

DPL Development Policy Loan

DREAM Disaster Resilience Enhancement and Management programme

DRR Disaster risk reduction

DUE Delegation of the European Union

FAPS *Fiche d'amorçage, de préparation et de suivi de projets* (Project Start-up, Preparation and Monitoring Facility)

FASEP *Fonds d'études et d'aide au secteur privé* (Private Sector Study and Aid Fund)

FEXTE *Fonds d'expertise technique et d'échanges d'expériences* (Fund for Technical Expertise and Experience Transfers)

GDP Gross domestic product

GHG Greenhouse gas

GIZ *Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation)

HDI Human Development Index

IDFC International Development Finance Club

IDR Indonesian rupiah

IFC International Finance Corporation

IFI Institut Français Indonesia

IMF International Monetary Fund

INDESO Indonesian Space Oceanography

IRD *Institut de Recherche pour le Développement* (French National Research Institute for Sustainable Development)

JICA Japanese International Cooperation Agency

KfW *Kreditanstalt für Wiederaufbau* (Reconstruction Loan Corporation)

KKP *Kementerian Kelautan dan Perikanan* (Ministry of Marine Affairs and Fisheries)

KPK *Komisi Pemberantasan Korupsi* (Corruption Eradication Commission)

LMCI Lower-middle-income country

MASTRAN Indonesian Mass Transit Program – Support Project

METI *Masyarakat Energi Terbarukan Indonesia* (Indonesia Renewable Energy Society)

tCO_2e Tons of carbon dioxide equivalent

NDC Nationally determined contribution

NSL Non-sovereign loan

ODA Official Development Assistance

OFCE *Observatoire Français de Conjoncture Economique* (French Economic Observatory)

OJK *Otoritas Jasa Keuangan* (Financial Services Authority, Indonesia)

NGO Non-governmental organisation

P4R Program for Results

PEEB Programme for energy efficiency in buildings

PGE Pertamina Geothermal Energy

PISA Program for International Student Assessment

PLN *Perusahaan Listrik Negara* (Indonesian state-owned electricity company)

PT SMI *PT Sarana Multi Infrastruktur* (Indonesian state-owned bank)

RBL Results-based loans

RPJMN *Rencana Pembangunan Jangka Menengah Nasional* (National 5-year development plan)

RPJPN *Rencana Pembangunan Jangka Panjang Nasional* (20-year development plan)

SIEP Sustainable and Inclusive Energy Program

SL Sovereign loan

TEI Team Europe Initiatives

WB World Bank

Towards a world in common

AFD Group implements France's policy in the areas of development and international solidarity. The Group includes Agence Française de Développement (AFD), which finances the public sector and NGOs, as well as research and education in sustainable development; its subsidiary Proparco, which is dedicated to private sector financing; and Expertise France, a technical cooperation agency. The Group finances, supports and accelerates transitions towards a fairer, more resilient world.

With our partners, we are building shared solutions with and for the people of the Global South. Our teams are at work on more than 4,000 projects in the field, in the French Overseas Departments and Territories, in 115 countries and in regions in crisis. We strive to protect global public goods – promoting a stable climate, biodiversity and peace, as well as gender equality, education and healthcare. In this way, we contribute to the commitment of France and the French people to achieve the Sustainable Development Goals (SDGs). Towards a world in common.

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