



Kingdom of the Netherlands

# Multi-Annual Strategic Plan

Update development cooperation of the Multi-Annual Policy Framework

2014 - 2017

*Indonesia*

Ghana Ethiopia Horn of Africa South Sudan Kenya Rwanda Burundi Uganda Grote meren Mozambique Palestinian Territory Yemen Afghanistan Bangladesh Indonesia



# Update development cooperation 2014-2017 of Multiannual policy framework

Embassy of the Kingdom of the Netherlands in Jakarta



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### *Disclaimer*

*The policy priorities and ambitious goals of the Dutch government for Indonesia are set out in the so-called Multi-annual Policy Framework 2012-2015 (MIB). The Embassy in Jakarta does not have a separate Multi-annual Strategic Plan for development cooperation (MASP), as its development cooperation policy is an integral element of the wider objectives of the MIB. The request to revise the MASP was therefore understood to mean a revision of Chapter 4 of the MIB.*

*In this revised Chapter 4 of the MIB the principles of the policy paper “A world to gain: a new agenda for aid, trade and investments” have been elaborated. The document applies for a period of four years (2014-2017), but interim adjustments are possible: for example, in the case of major political or other changes, or in order to align Dutch initiatives with the so called EU Joint Programming.*

## **Revision of Chapter 4 of the Multi-annual Inter-ministerial Policy Framework (original timeframe: 2012-2015)**

Embassy of the Kingdom of the Netherlands in Jakarta  
October 2013

### **1. Summary**

The Dutch government's policy priorities and ambitious goals for Indonesia are set out in the so-called *Multi-annual Policy Framework 2012-2015 (MIB)*. The Embassy in Jakarta does not have a separate Multi-annual Strategic Plan for development cooperation, as its development cooperation policy is an integral element of the wider objectives of the MIB. The request to revise the MASP was therefore understood to mean a revision of Chapter 4 of the MIB.

To quote the MIB, Indonesia is a key strategic partner for the Netherlands in Asia. The countries' shared history and the countless ties forged on this basis, give the Netherlands a potential advantage in seizing political, economic and cultural opportunities. Indonesia also sees the Netherlands as a special partner, bilaterally and within the EU. Regular strategic contacts at political and other levels are crucial to this. However, the Netherlands' relatively strong position cannot be taken for granted. In defining the forward looking bilateral relationship consideration should be given to: value added, reciprocity and the Dutch interest.

Over the next four years, the ODA priority sectors will continue the transition to partnerships and commercial relationships, be it at different speeds.

### **2. Lessons learned**

The transition to a trade and aid relationship, with emphasis on bilateral partnerships, is feasible and already on-going in Indonesia. Dutch private sector, knowledge institutes and NGOs contribute to achieving the development cooperation goals. Development cooperation programs can provide a platform for Dutch companies in support of their commercial activities. Whereas the ODA financial sums involved may often be lower than in the case of traditional development projects, creating genuine partnerships is time consuming and does require secured funding. The Jakarta coastal development program is but one example; the horticulture food security program another.

With reduced budgets and less staff than in the past, further focus has to be brought to the embassy's activities. Compared to what is stated in the MIB 2011-2015, the Embassy will no longer implement stand-alone activities in the area of environment and climate change. It will exercise restraint in developing new ODA programs, will take into consideration the scale of projects, and must pay attention to the appropriate role it should play.

### **3. Indonesian-Dutch relationship in 2020/"Strategische doorkijk"**

The interest in each other's country can be deduced from the high number of visits by Indonesian ministers and senior government officials to the Netherlands, and vice-versa. In 2013 the Netherlands minister of Foreign Affairs and the minister for Foreign Trade and Development Cooperation have visited Indonesia twice. Furthermore there were visits to Indonesia in 2013 of the minister of Defence and of the minister for Agriculture, while the highlight undoubtedly was the November 2013 visit by Prime Minister Rutte, accompanied by more than 100 companies covering five sectors.

The Joint Declaration on a Comprehensive Partnership reaffirms the intention for close cooperation between Indonesia and the Netherlands on a wide range of policy areas such as foreign policy, peace and security, human rights, sustainable development, economic partnership, and cooperation on social, cultural and education.

In the Dutch policy paper *A World to Gain: a new agenda for aid, trade and investments* Indonesia is identified as a so called transitional partner country. This means that the program for development cooperation will be phased out gradually and be replaced by a stronger focus on economic cooperation: from aid to trade. Poverty reduction programs in the priority areas, or

spear heads, will be complemented by support to Indonesia to increase market access, in both directions, and improve its business climate.

To support the revised section on development cooperation of the MIB, a description of recent developments in Indonesia and our bilateral relation will be followed by some thoughts on how the bilateral relationship could develop over the next five to ten years.

## 3.1 Developments in Indonesia

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### *Indonesia's economic development*

In 2008 Indonesia formally became a lower middle income country. Notwithstanding the onset of the global economic crisis that year, Indonesia has since achieved annual growth rates of over 6 percent. In 2011 the size of Indonesia's economy surpassed that of the Netherlands, when Indonesia became the 16<sup>th</sup> economy in the world.

The Indonesian economy is roughly composed of 50% services, 25% manufacturing, 15% agriculture and 10% mining (including oil and gas). The country is the largest exporter of palm oil, and the second largest exporter of cocoa, tin and coal. Over the past years, mining has grown by a mere 0.3% per year and agriculture by 2.6%, compared to growth in services of more than 6% in real terms. Domestic growth is driven to a large extent by domestic consumption and investments.

Public financial management, although under pressure during this pre-election year, has been sound. Government debt has been on a steady decline since 1998, with external public debt decreasing significantly between 2005 and 2012, from 28.4 percent to 14.8 percent of GDP. The fiscal deficit, while on the rise due to increasing energy subsidies, has been kept below 3 percent of GDP. Overall, macro-economic policies are conservative while economic nationalism is particularly strong in natural resources sectors (oil&gas, mining and agriculture).

Recent developments have dampened growth prospects somewhat. Expectations are for investments to slow as well. In October 2013 the World Bank, in its Indonesia Economic Quarterly, lowered its growth forecast for the current year to 5.6%, whereas the IMF predicts GDP growth to stall at 5.3 % for the year. Furthermore, productivity increase is flat. This is attributed to a large extent to the poor quality of education which is exacerbated by malnutrition (37% of children under 5 years old suffer from stunted growth).

Looking beyond economic figures, Indonesia ranked 118 out of 176 countries on Transparency International's 2012 Corruption Perception Index. On the World Bank's Logistics Performance Index 2012 Indonesia ranked 59<sup>th</sup> out of 155, behind for instance the Philippines and Vietnam. The country has a poor score on the ease of doing business - Indonesia was placed 128 out of 185 countries in the Doing Business 2013 report. The Economist Intelligence Unit believes Indonesia will improve on its business environment score over the next 4 years, but insufficiently to improve its ranking compared to regional peers.

The ASEAN Economic Community to be launched in 2015 is set to develop gradually. Nevertheless, AEC could provide an additional incentive to Indonesia to focus on its competitiveness.

Continued urbanization will contribute to further economic growth, as well as further growth in disparity between urban and rural areas. A demographic dividend is expected from Indonesia's young population entering the workforce. The Economist Intelligence Unit forecasts real GDP growth to average 5.6% a year in 2012-20 (note: the average pace of GDP growth in 2000-2010 was 5.2%), and per capita growth 4.6%. According to a report by the McKinsey Global Institute<sup>1</sup> Indonesia has the potential to become the 7<sup>th</sup> largest economy by 2030 if and when it manages to overcome three major challenges: achieving a significant increase in productivity growth, addressing uneven distribution of growth across the archipelago and rising inequality, and ensuring growth is not inhibited by infrastructure and resource constraints.

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<sup>1</sup> The Archipelago Economy: Unleashing Indonesia's Potential, September 2012

### *Social and political developments in Indonesia*

Since 1998 Indonesia has become a stable democracy and an open pluralistic society. Important progress has been achieved regarding human rights. With the Bali Democracy Forum, the country has taken on a leading role regionally. Constraints nevertheless still exist, e.g. with respect to religious tolerance and minority rights. Indonesia will continue to face challenges regarding bureaucratic reforms. Furthermore, the country needs to reduce incentives for corruption and better enforce laws against it<sup>2</sup>.

In 2014, Indonesia will hold direct legislative and presidential elections. Lack of an incumbent running for the top government seat and a higher parliamentary threshold to enter the national legislature will likely mean a change in the domestic political arena and discourse. Nevertheless, it is expected that a new government and parliament, and thereby new complex interactions and interests between major players, will not affect stability.

### *Indonesia's efforts in reducing poverty*

Poverty reduction is one of the three main aims of the current government, and progress has been made. The vision behind the National Mid Term Development Plan and the Masterplan for the Acceleration and Expansion of Economic Development of Indonesia is to transform Indonesia into one of the 10 major economies in the world by 2025. To achieve this, the government of Indonesia has emphasized that real economic growth must reach 7-9 percent per year, on an ongoing basis. As set out on the preceding page it is unlikely Indonesia will reach this growth target, with outlooks forecasting growth between 5 and 6 %. For the poor, this difference is significant: the government of Indonesia expects that 200,000 jobs are created for every additional percentage point of growth.

Indonesia displays an uneven distribution of wealth. According to the World Bank, 70% of the poor live in rural areas. Whereas according to the official criteria only 12% of the population is defined as poor (2012 figures, from 16.7% in 2004), a significant number are near-poor and at high risk of falling back into poverty. According to the Bank approximately half of all households remain clustered around the national poverty line. A 2010 household survey found that 53% of poor people moved out from poverty, but 28% moved in again (BPS). In addition, the rate at which poverty is declining has come down.

Indonesia has made significant progress towards attaining the Millennium Development Goals by 2015. For example, Indonesia can boast a 95 percent enrollment rate in primary school, and claims a 95% literacy rate among the population aged 15-24. However, maternal mortality figures still are relatively high at 359 per 100 thousand live births (BPS, 2011). HIV/AIDS cases are said to be accelerating and mostly affect the population between 15 and 24 years – one third of them women. Papua and high-risk urban areas are of particular concern. Achieving the MDGs on sanitation will require additional efforts. Present access to improved sanitation in rural areas is only 35%.

An OECD<sup>3</sup> report also raises the key question of equality: "It must build and upgrade its infrastructure primarily to close the development gap between the urban and rural areas and the west and east of the country. (...) The same gap – west-east, urban-rural – affects education and, by the same token, human resource development. (...) Widely available health-care systems need to be established. Indonesia's expenditure on health care is among the lowest in ASEAN. Health-care provision and facilities are limited and over one-third of the population has no health insurance."

Decentralization of power and strengthening of capacity at local and provincial levels are particular challenges to effectively implement policies.

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<sup>2</sup> OECD Economic Outlook for Southeast Asia, China and India 2014

<sup>3</sup> Structural Policy Challenges for Southeast Asian Countries, 2013

## 3.2 The bilateral relationship

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### *Genuine partnership*

In the course of preparing this document, Indonesian and Dutch counterparts were consulted about their views on developments of our bilateral relationship. The main conclusions from both sides were remarkably similar. Starting point: to succeed, the bilateral relationship should be a genuine forward looking partnership between equals, based on mutual respect and mutual benefit. The relationship should leverage our common history as a platform for the future.

The added value of the Netherlands for Indonesia lies in the water sector (governance, integrated approach), agriculture (food safety and security), urban planning, legal cooperation/judiciary. The need for higher education and scholarships to study in the Netherlands was underlined by all.

### *Political and security cooperation*

Indonesia could increasingly become a valuable partner for the Netherlands in the sphere of regional and global security and stability. A forward looking bilateral relationship between the Netherlands and Indonesia should be built on a close, multi-faceted cooperation. This includes partnering on foreign policy and security issues in areas of shared interests. Specifically, dialogue could center on topics such as terrorism, piracy, non-proliferation, internet safety and cybercrime, as well as issues raised multilaterally and themes such as global public goods.

### *Dutch economic interests*

For Indonesia, the Netherlands is the 'Gateway to Europe'. In 2012 Indonesian exports to the Netherlands amounted to EUR 2.8 billion, equal to 2% of total Indonesian exports. Traditionally the main products have been vegetable oils and fats, as well as organic chemicals and crude rubber.

Conversely, Dutch exports to Indonesia were a modest EUR 630 million. By value, the most important Dutch exports products are dairy products and machinery. Overall bilateral trade grew by an impressive 18% in 2012 (CBS).

The Netherlands ranks around fifth place as origin of foreign direct investments into Indonesia. However, one has to acknowledge that economic ties with Indonesia still lag behind the existing economic ties with other countries in Southeast Asia such as Malaysia and Thailand, with a much more favorable business climate.

In 2020, bilateral trade should be double the total trade figure in 2013.

For the Netherlands, important economic growth sectors in Indonesia according to the top sector strategies are water, agro-food and horticulture, transport & logistics, and health care. Across these sectors, cooperation on sustainability will be in the interest of both countries, for instance in palm oil where the EU market is moving towards 100% sustainable sourcing.

### *Cross-cutting themes*

Similar to sustainability, several other cross-cutting themes are also important to our bilateral cooperation. Much remains to be improved in Indonesia's business enabling environment, as identified by McKinsey Global Institute and as the trade and investment figures in Southeast Asia demonstrate.

Furthermore, Higher Education merits specific attention. Indonesia has repeatedly stated that bilateral cooperation on higher education is a priority for them, including through scholarships. The Netherlands could serve its own interests in entertaining this request, particularly if linked to the ODA spearheads and the top sectors: Dutch academic institutions depend on foreign students, it will contribute to achieving the objectives of the spearheads, Indonesia will be exposed to Dutch expertise in commercially important sectors, and new informal ambassadors for the Netherlands are created.

New opportunities may arise from Indonesia's emerging role as an international donor. Triangular cooperation, most likely focused on the (Southeast) Asian region of interest to Indonesia, can be a tool to exchange knowledge and experience within the Dutch ODA spearheads. Promoting intraregional trade in sustainable products such as palm oil and timber is another possibility.

Particularly in a transition phase and with less resources (funding, HR) available, clear priorities should be set for Indonesian-Dutch cooperation. These mainstreamed themes such as climate change and environment should remain integrated within the spearheads.

### 3.3 From ODA spearheads to economic top sectors

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#### *Water sector*

Developments in the Indonesian water sector will vary according to subsector, geographical location, and the type of market - public or private.

With respect to the different subsectors, the Netherlands supports the implementation of the five year plan for urban sanitation that was initiated in 2010. Jakarta and the Citarum basin are of particular interest for sanitation, waste water treatment and water quality management. Rural sanitation will maintain its focus on increasing access to sanitation through off site technologies. Even if Indonesia is interested in Dutch expertise in the field of drinking water management, the commercial opportunities will be limited due to limited capacity at local government level and of the Netherlands drinking water sector. Opportunities in land reclamation and port development will present themselves on an ad hoc basis, while competition will be heavily influenced by financing packages. There is significant Indonesian demand for Dutch consultancy and knowledge regarding Delta technologies.

Geographically, the most interesting commercial opportunities will be found in urban areas of North Java. Prospects are also good in densely populated agricultural areas, while poverty alleviation remains important in e.g. Eastern Indonesia.

There is a significant potential for bilateral public partnerships, including knowledge institutes, to develop the strategic and policy frameworks.

The following vision emerges for the bilateral water cooperation in 2020:

- a) The majority of Dutch activities in the Indonesian water sector will be based on private sector (private – private) projects, focused on urban areas and densely populated rural areas in particular on Java and Bali. These projects address delta technology, maritime construction, effluent water management and purification and drinking water supply. These will be taken on in an integrated approach with city planning, logistics, cultural heritage, and the environment.
- b) In 2020, government to government cooperation will focus on supporting the strategic, policy and knowledge frameworks for the Indonesian water sector and broad based bilateral cooperation (private to private, knowledge to knowledge).

The governments of the Netherlands and Indonesia, with the assistance of knowledge institutions and private sector will jointly develop the strategic, policy and institutional contexts for large scale programs in delta and water management. The Netherlands advises on policy and technical matters. From time to time partnerships will be formed with third parties - bilateral and multilateral - to provide leverage, financing and/or additional capacity.

Seven years from now, the government to government cooperation will require modest funding volumes and be financed from non ODA funds. The government of the Netherlands, particularly the ministries of Infrastructure and Environment, and Foreign Affairs, together with the sector (NWP), will guide the cooperation together with the Indonesian counterparts. Cooperation between knowledge institutes will to a large degree be generated by the knowledge institutes themselves. However, complementary to and integrated in this cooperation, education and training of Indonesian students and professionals in the



Netherlands will continue to receive substantial support from delegated and central Netherlands government funding.

The main areas where government to government cooperation will operate include the Jakarta coastal development program, the scaling up of the Jakarta coastal development pilot to other areas in Northern Java, water security and catchment area management, water purification and quality control, food security under circumstances of water and land scarcity, capacity development and cooperation between Netherlands and Indonesian knowledge institutes.

- c) In the coming years a decision should be taken on whether to continue ODA-funded programs in eastern Indonesia and other areas that lag behind in development. Such programs could support cooperation programs between governments and NGOs on drinking water and sanitation, or on water and food security.

### *Food security*

Horticulture and aquaculture in Indonesia have a tremendous potential to supply the domestic market and to become major export products. With the rising middle class, animal protein from poultry and fish will be increasingly in demand. However, Indonesia still has a long way to go if it is to realize its potential to serve these markets. As mentioned above, 70% of the poor can be found in rural areas, while 37% of children under the age of 5 suffer from stunting. Indonesia is one of the countries vulnerable to price volatility on (world) food markets. To increase agricultural production and productivity while enhancing sustainability, in line with G20 recommendations, Indonesia will need to invest in research and innovation and create a conducive environment for investments. Markets will need to become more transparent, and value chains shortened, to benefit farmers and fishermen. Furthermore, investments are required in the logistics chains, including cold storage facilities and reduction of transportation costs, as well as in food processing.

Sustainability will no longer be a choice, but a requirement to enter the European market – for which Rotterdam and Amsterdam are the gateways. The Netherlands is a global leader in Climate SMART agriculture and as such a logical partner, both in the field of knowledge exchange and as a gateway to the European market. Public private partnerships through the IDH program and the bilateral food security cooperation can assist Indonesia on its path towards food security and sustainability by drawing on Dutch expertise in horticulture & seeds as well as agro-food to support the innovation of the Indonesian Agricomplex.

The recently initiated food security programs in fisheries, aquaculture, and poultry will need to be continued for the medium term for the envisaged improvements in food quality and safety to become sustainable. By including Dutch companies in these programs, the private sector contributes to Indonesia's development while positioning itself to take advantage of these potential growth sectors: an example of modern development cooperation with both an aid and a trade aspect. From 2018 onwards there will be a sharp reduction in required delegated ODA-funding. Indonesia will continue to draw on central funding instruments.

In 2020 both countries will have a strong commercial partnership in the field of agrofood and horticulture. This partnership will be based on investments by the Dutch private sector in Indonesia, and on cooperation between Dutch and Indonesian knowledge institutes. Production in the agriculture and fisheries sectors will have been reformed in a sustainable way. The processing sector will have been developed and will be producing export products with added value in food crops and cash crops.

### *Security and Rule of Law*

Our shared history has left its imprint on the Indonesian legal system. The common heritage of the legal systems has created a niche for partnerships. Comparisons between the legal systems of our countries are valid and instructive as the Indonesian legislation is to a large extent based on the Netherlands' civil and criminal code. This makes that the Netherlands has a distinct added value for Indonesia. The relevant institutions in both countries such as the Supreme Court, Public Prosecutor, Ministry of Law and Human Rights, the Ombudsman and others recognize this and have the interest to continue working together, i.e. in seeking answers on questions of how international obligations can be harmonized with national policies and legislation, and how justice sector institutions can deliver services to the population in a more effective manner. This offers both countries a unique opportunity to continue their cooperation based on a common

understanding of fundamental principles of democracy, human rights and the rule of law. The objective of the rule of law program is to enhance service delivery and accountability of the justice sector through coordination and synergies among the many activities dedicated to capacity building and service delivery to the public in the sphere of access to justice.

Through the Netherlands Indonesia Justice & Development Working Group of the Security and Rule of Law Knowledge platform rule of law cooperation can also be steered more and more towards areas of commercial interest to the Netherlands and Indonesia. In this context the Netherlands aims to strengthen rule of law cooperation in areas such as water and food security, as well as the general investment climate through cooperation between government institutions dealing with trade and commercial law as well as other judicial institutions, such as administrative and tax courts. This is important, since a well-functioning justice sector – from police to the judiciary and the prisons system – is an important factor for creating a favourable investment climate. A conducive legal and regulatory environment, for example in the field of labour and commerce, may positively influence the willingness to invest in Indonesia.

In 2020 we expect the rule of law and the reform processes in Indonesia to have been consolidated. In this area, given our common history, Indonesia and the Netherlands will remain tied to each other. More and more we will see that the bilateral cooperation between the two sides in the field of rule of law is one of equal partnership in which both countries have experience and knowledge to offer each other. Although capacity building of Indonesian institutions will remain an important part of the rule of law program, Indonesian experiences with legal reform process will have an added value for Dutch counterparts.

#### *Other areas of cooperation: Investment Climate and PSD*

Support to Indonesian Private Sector Development through organizations such as CBI and PUM will continue beyond 2020. Access to central funding instruments, e.g. DGGF, will remain essential for the long term, and will not terminate in 2020.

To the benefit of both domestic and international companies, including Dutch firms, Indonesia will be supported in improving its business climate. Delegated ODA funds will be used for Investment Climate programs and activities that improve the ease of doing business in Indonesia both generically and targeted to the Dutch ODA spearheads and top sectors, i.e. water, agro/food, horticulture, transport and logistics, health.

In 2020, bilateral cooperation to improve the business environment will be based on equal, long-term partnerships between Dutch and Indonesian organizations.

## **4. Update MIB development cooperation: 2014-2017**

The MIB 2012-2015 integrates Trade and Aid, particularly in the water and agri/horticulture sectors and investment climate. Synergies have been realized with Indonesian and Dutch companies (and knowledge institutes), where the private sector supports the achievement of development goals, and the development programs support the Dutch companies in positioning themselves on the Indonesian market.

### **4.1 Water**

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The efforts of the embassy will continue to be aligned to the broad efforts of public, private and knowledge organizations and institutions in the field of integrated water resources management and the realization of the embassy's strategic vision for 2020. The strengthening of the capacity, relevance and competitive edge of the Dutch water sector is essential in this context.

The envisaged program is ambitious, and achieving the results will to a large extent depend on the continuing close cooperation among all partners.

#### *4.1.a Water & Safety*

**Objective:** application of the jointly generated Indonesian and Dutch knowledge and experience in the field of flood control, delta management and integrated water, land and spatial management at the level of government policy and planning and private sector investment activities

**Results:** The Netherlands' share in the effective implementation of the Jakarta coastal development Master Plan by private and public investments is substantial. Flood and water management programs are operational or completed in similar delta or flood prone areas (Semarang, Surabaya, Bandung, Maluku river basins).

**Activities:** Completion of the Netherlands' support to the Master Plan NCICD, the setting up of the PMU (2014), and support to the process management of NCICD implementation (2014-17). Completion of the Semarang Banger project and conceptual planning for other delta cities (Surabaya) and flood prone areas (Bandung, Maluku).

#### *4.1.b Water, food & eco/river basin systems*

**Objective:** improved land- and water-management on Java and Bali contributes to higher yield level and more efficient water use in agriculture through use of Dutch water and agricultural expertise.

**Results:** Firms from the Netherlands continue to play a significant role on the water & food (security) nexus. Improved operation and management of irrigation systems and (irrigated) land in Indonesia by applying the approach of the Participatory Irrigation Sector Project in the Indonesia Irrigation Sector Programme (IISP). Intensive agriculture approaches for peri-urban areas (re-use, water efficiency) are applied.

#### **Activities**

- Support to the formulation of the IISP (2014)
- Support to the roll out of the program for the protection of high potential agricultural land (2014-15)
- Development of pilot cases for efficient water (re-)use in peri-urban settings.

#### *4.1.c Sanitation and waste water treatment*

**Objective:** The Netherlands has a strong role in sanitation programming and implementation in the public sphere broadened into a similar role in private (urban) markets and towards the use of Dutch experience in the field of water treatment, monitoring of water quality and environmental regulations

**Results:** The Netherlands will acquire a central position in the areas of urban sanitation and water quality management. The Urban Sanitation approach (PPSP) will be applied in all 490 urban centres (policy, plan, implementation). Off-site sanitation installations operational in selected cities in Indonesia. (Post-) MDG targets on sanitation and national STBM objectives reached in selected districts and villages in East Indonesia and South Sumatra (persons and districts). Inclusion of the PPSP/USDP and STBM experience within the Five Year Plan 2015-2019.

#### **Activities**

- Completion of the USDP program (early 2015)
- Implementation of the SHAW program (2014), Lampong (2015-17) and Sumbawa programs on urban and rural sanitation
- Support to the implementation of selected fields of the Five Year Plan 2015-2019 (consolidation PPSP, water treatment, capacity building)

#### *4.1.d Capacity development*

**Objectives:** long-term technical, scientific and educational cooperation between Dutch and Indonesian knowledge institutes results in a strong bilateral knowledge network. Strengthened capacity of key institutions in the field of water management. Application of Dutch knowledge on key water issues (e.g. delta management, water treatment) in all three layers of cooperation

(government to government, business to business, knowledge institute to knowledge institute) contributes to a competitive edge for the Dutch water sector.

**Results:** a substantial number of staff in key positions at key water institutions have been educated / trained by Dutch knowledge institutes. Monitoring and management tools for key areas of water management.

**Activities:**

- Joint Cooperation program between Deltares, KNMI, BMKG, Pusair, Alterra, Bakosurtanal. Pusdiklat Pertanian (2014-17)
- Higher education program for water professional (integrated in all areas of the water cooperation)
- Capacity development, human resource development and knowledge management components in all major programs of bilateral water cooperation
- Bilateral cooperation relations between public and privately funded NL and Indonesian knowledge and education institutes in the field of water management
- NICHE program for water resources education
- Young Professional Development programme of the Ministry of Public Works

## 4.2 Agro-food/horticulture

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Indonesia is looking to increase sustainable food production, combat malnutrition and boost agro-food exports. Dutch companies can contribute to these aims by supporting innovation in the value chains. It is furthermore in the interest of the Netherlands, that the main commodities it imports from Indonesia are produced sustainably.

Although Indonesia is a middle income country the agricultural, fisheries and food processing sectors will continue to require support through government to government assistance, as well as through public private partnerships to reach the embassy's envisaged goals for 2020. It is therefore foreseen that for the period 2014 – 2017 the embassy will continue implementing the food security program that has been developed over the past two years.

### 4.2.a Innovation

**Objectives:** Through innovation in the agri-food and horticulture value chains, the objectives are to increase sustainability, increase productivity in horticulture, fisheries/aquaculture and animal husbandry, increase food safety and security, and increase the dietary intake of protein and micro-nutrients to reduce stunting.

**Results :**

- The Netherlands agro-food and horticulture sectors have a strong position in Indonesia.
- Value chains are organized more efficiently and farmers and fishermen receive a fair share of the price for their sustainable products.
- Indonesia has made progress in becoming self-sufficient in food production and/or is exporting processed products with an added value
- Pesticide use has been reduced and production takes place under acceptable social and environmental circumstances
- Particularly women have more knowledge about nutrition in the rural areas where the percentage of stunted children currently is very high (37 %)
- The fodder production and the quality and availability of feed concentrates has been improved by the use of alternative species and foreign investments in the cattle feed sector.
- Both the dairy and the poultry chain have developed higher sanitary standards and can produce on a more sound economic viable scale with respect for the environment and animal welfare. There is an increased awareness among consumers about food safety and quality.

**Activities**

- Continue the on-going horticulture program Veg-Impact
- Continue the Fisheries and aquaculture program
- Animal Husbandry (poultry and dairy sectors)

- Nutrition programs in cocoa, tea and coffee sectors, complementary to IDH programs. Potentially an environmental project to complement the IDH shrimp program.

#### *4.2.b Capacity development*

**Objectives:** Long-term scientific and educational cooperation between Dutch and Indonesian knowledge institutes results in a strong bilateral knowledge network. Dutch expertise applied in Indonesia. Strengthened capacity of key institutions.

**Results:** a substantial number of staff in key positions at key agro-food/horticulture institutions have been educated / trained by Dutch knowledge institutes.

**Activities:**

- Higher education program for professionals
- Capacity development within the bilateral programs

### 4.3 Security and Rule of Law

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The Embassy continues to support the strengthening of Indonesia's rule of law and reform agenda. To achieve this the Embassy fosters the ongoing legal cooperation between Indonesian and Dutch justice sector institutions, supports service delivery in the legal field as well as initiatives that contribute to enhancing economic relations between Indonesia and the Netherlands.

#### *4.3.a Rule of law*

**Objective**

The Rule of Law Program Fund will facilitate peer to peer cooperation between Indonesian and Dutch justice sector institutions, will support the strengthening of service delivery and accountability of the justice sector to citizens, and encourages legal research between Indonesian and Dutch legal institutions. These forms of cooperation also contribute to enhancing the investment climate. The Rule of Law Fund is implemented in a strategic way by ensuring coherence between different activities and rule of law actors.

**Results**

- Peer to peer cooperation has resulted in
  - a substantial number of Netherlands expert missions annually during which legal questions (i.e. international obligations and domestic policies), management of institutions as well as exchanges of best practices of reform policies have been discussed.
- Access to legal services for citizens in Indonesia has been increased.
- Legal research cooperation between Indonesian and Dutch knowledge institutions
  - has increased the knowledge over legal issues of common (economic) interest
  - has strengthened the other activities supported by the rule of law program and
  - has served as a basis for political discussions with the Indonesian government on issues of common interest.

**Activities**

- Expert missions from justice sector institutions that seek for better understanding of the rule of law in order to strengthen justice sector institutions as well as economic and legal interests of both countries
- visits of Indonesia Justice Development working group of the Security & Rule of Law Knowledge Platform that prepares the agenda for the annual bilateral rule of law expert / high level meeting
- Support to strengthen justice sector institutions that promote access to justice; Community Policing, Ombudsman, Mahkamah Agung.
- Support to civil society organizations that promote transparency and accountability of justice sector institutions.
- Support to civil society organizations that promote religious tolerance and human rights.

- Support to bilateral legal research programs that work on legal issues that are relevant for the other priorities/spearheads food security, water management and higher education.

#### *4.3.b Capacity development*

**Objectives:** Long-term scientific and educational cooperation between Dutch and Indonesian knowledge institutes results in a strong bilateral knowledge network. Dutch expertise applied in Indonesia. Strengthened capacity of key institutions.

**Results:** a substantial number of staff in key positions at key justice sector institutions have been educated / trained by Dutch knowledge institutes.

**Activities:**

- Higher education program for professionals
- Capacity development within the bilateral programs

## 4.4 Higher education

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Dutch education and knowledge institutions continue to be well regarded in Indonesia. Taking a targeted approach to awarding scholarships and strengthening institutional cooperation between knowledge institutions in both countries will enable higher education to continue making a positive contribution to both strengthening capacity in the Netherlands' strategic areas in Indonesia, and upholding and promoting the Netherlands as a leading country for knowledge and research.

Higher education funds are required to implement the on-going StuNed program in 2014 to 2016. Further capacity development and scholarships will be firmly integrated within the ODA priority areas. However, in addition, Private Sector Development funds will be used from 2015 to develop Indonesian capacity in strategic areas that are commercially important for the Netherlands and that lie outside the ODA priority themes.

**Objectives**

Contribute to Indonesia's development through access to higher education, including in priority areas for Indonesian-Netherlands partnerships.

Secondary objective: strengthen people to people ties between Indonesia and the Netherlands

**Results**

The Netherlands is a preferred destination for higher education. A significant number of Indonesian students study in the Netherlands.

**Activities**

Disburse a substantial number of scholarships per year.

## 4.5 Investment climate

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**Objectives:** achieve an efficient, open, transparent and consistent trade and investment climate that benefits Indonesian and Dutch companies.

**Results**

The Netherlands is viewed by Indonesia as a valued partner in improving the business environment. More Dutch companies, including SMEs, enter the Indonesian market while they report fewer issues with market access and a reduction in costs of doing business in/with Indonesia.

**Activities:**

- Establish and maintain bilateral, long-term partnership programs between Dutch and Indonesian organizations and institutions
  - Contribution to World Bank - or other relevant, neutral and capable third party – Investment Climate trust fund
  - Scholarships related to developing the business enabling environment, including in transport and logistics, and physical and social infrastructure.
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## 5. Financial implications

Financial ODA implications 2014-2017 in € (budget-code, description of policy area)

Budget 2014-2017		
1.3	Stronger private sector and better investment climate in developing countries	10.500.000
2.1	Improved food security	13.650.000
2.2	Improvements in water management, drinking water and sanitation	22.368.000
2.3	Sustainable use of natural resources, combating climate change, increasing population's resilience to unavoidable climate change in developing countries	4.000.000
3.4	More professionals, institutions for higher and vocational education strengthened; promoting research with policy relevance	10.460.000
4.3	Developing the rule of law, reconstruction, peacebuilding, strengthening the legitimacy of democratic structures and combating corruption	18.665.000
<b>Total</b>		<b>79.643.000</b>