



Project Summary Information

Date of Document Preparation/Updating: November 24, 2023	
Project Name	Competitiveness, Industrial Modernization, and Trade Acceleration Program (CITA) – Subprogram 2
Project Number	P000761
AIIB member	Indonesia
Sector/Subsector	Economic Resilience/ Policy Based Financing (PBF)
Alignment with AIIB's thematic priorities	COVID-19 Crisis Recovery Facility (CRF)
Status of Financing	Approved
Objective	The Program objective is to support the Government of Indonesia (GoI) to foster a more competitive and investment-friendly business environment in the country and to support an accelerated economic recovery from the coronavirus disease (COVID-19) pandemic.
Project Description	<p>This proposed Program will provide a policy-based financing under the COVID-19 Crisis Recovery Facility of the Bank and will be co-financed with the Asian Development Bank (ADB).</p> <p>The pandemic has driven up unemployment and poverty levels in Indonesia. The adverse impact of reduced working hours, lockouts and unemployment caused a reversal of the structural transformation of the economy. The risk of a prolonged recovery from the COVID-19 pandemic could further stall economic development. While domestic consumption has been the main driver of economic growth, it is likely to remain dampened due to the income loss experienced by households. In the post-pandemic context for Indonesia to meet its target of becoming a high-income country by 2045, critical reforms are needed to address productivity, creation of quality jobs, and income growth.</p> <p>The proposed Program is anchored on GoI's structural reforms, combining reforms in the investment, trade, and MSMEs (micro, small, and medium-sized enterprises) sectors. The proposed Program will support the following three reform areas:</p> <ul style="list-style-type: none"> (i) Reform 1 (creating an enabling environment for investments) - this reform area aims to improve the business climate; (ii) Reform 2 (easing barriers to trade) - this reform area will reduce impediments to trading, both domestic and cross-

	border; and (iii) Reform 3 (growing and upscaling enterprises) - this reform area will help firms increase their productivity and upscale operations.
Expected Results	<ul style="list-style-type: none"> Indonesia's score in the Organization for Economic Co-operation and Development FDI Regulatory Restrictiveness Index improved to 0.10 in 2026 from 0.30 in 2019. Online single submission is operational in 38 provinces in 2026 from none in 2019. FDI increased to USD30 billion per annum in 2026 from USD25 billion in 2019. Indonesia's score in the World Bank Logistics Performance Index improved to 3.5 in 2026 from 3.1 in 2019. Cost of logistics reduced to 20.0% of GDP in 2026 from 23.9% of GDP in 2019. Manufacturing exports increased to USD230 billion per annum in 2026 from USD115.7 billion in 2019. Integrated multimodal goods transportation under the National Single Window and border clearance fully upgraded and operationalized in line with MOF's plan in 2026. Micro small and medium-sized enterprises' output increased to 65% of GDP in 2026 from 57% of GDP in 2019. Share of value added by small and medium-sized enterprises in total value added by the processing industry (nonoil and gas) increased to 21.4% in 2026 from 18.5% in 2019. An integrated system to improve inter-ministerial policy coordination and targeting for MSMEs operationalized in 2026.
Environmental and Social Category	C
Environmental and Social Information	<p>The Program will be co-financed with ADB as the lead co-financier, and the Program's Environmental and Social (E&S) risks and impacts have been assessed in accordance with the provisions of ADB's Safeguard Policy Statement (SPS) applicable to policy-based lending. AIIB's Environmental and Social Policy (ESP) was designed to apply to investment projects and has no provisions for its application to policy-based financing operations. Therefore, as permitted by a decision of the Board of Directors, AIIB will apply the provisions of ADB's SPS applicable to policy-based lending to this PBF in lieu of the ESP. This will provide for a harmonized approach to addressing the environmental and social risks and impacts of the Program.</p> <p>Based on the E&S assessments carried out according to the SPS requirements, no adverse impacts have been identified with respect to involuntary resettlement, Indigenous Peoples, or the environment. Hence, ADB has categorized the Program as Category C with respect to all three aspects.</p> <p>Data from the Ministry of Cooperatives and Small and Medium-sized Enterprises (SMEs) show that Indonesia had 64.2 million business units in 2018, of which 99.9% were MSMEs. Micro enterprises make up 98.7% of the total, while 1.2% are small enterprises, and 0.1% are medium-sized enterprises. Government contracts have been awarded to only 0.26% of these SMEs, with even lower levels for women-owned SMEs as they generally have more restricted access to financial</p>

	<p>resources. A 2021 presidential regulation set a minimum of 40% of government procurement spending on MSMEs and cooperative domestic products. However, data on cooperatives and MSMEs, including WOB (Women-owned Business), are still disorganized and non-uniform, which has compromised the effectiveness of empowerment programs for cooperatives and MSMEs. To address this, The Ministry of Cooperatives and SMEs, in collaboration with Statistics Indonesia and supported by the Ministry of National Development Planning (BAPPENAS), is conducting an exercise called Complete Data Collection on Cooperatives, Micro, Small and Medium Enterprises, 2022–2024.</p> <p>The program addresses gender-related constraints through the (i) implementation of a program to support the participation of WOB in government procurement, including gender-responsive procurement training and annual reporting on and identifying areas for strengthening the participation of WOB in government procurement; (ii) establishment of an inter-ministerial committee, chaired by the minister of cooperatives and SMEs with committee members including the minister of women empowerment and child protection, to improve the delivery of government services to enterprises; and (iii) development of an integrated MSME system, with sex-disaggregated data, for monitoring and reporting on the performance of WOB. The program has synergies with subprogram 2 of the Promoting Innovative Financial Inclusion Program, particularly in promoting access to finance by MSMEs and marginalized groups including women and youth.</p>		
Cost and Financing Plan	Source of Financing	Amount (USD million)	Percentage
	ADB	500.00	50.00%
	AIIB	500.00	50.00%
	Total Program Cost	1000.00	100.00%
Borrower	Republic of Indonesia		
Implementing Entity	Coordinating Ministry for Economic Affairs (CMEA)		
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Date of Concept Decision	2023 September 20		
Date of Appraisal Decision	2023 September 20		
Date of Financing Approval	2023 November 22		

Independent Accountability Mechanism	AIIB's Policy on the Project-affected People's Mechanism (PPM) addresses issues raised under AIIB's ESP, which does not apply to this operation. Submissions to the PPM under this Program would, therefore, not be eligible for consideration by the PPM. Instead, pursuant to AIIB's agreement with ADB, complaints brought by third parties relating to compliance with ADB's SPS will be addressed by the Special Project Facilitator or Compliance Review Panel, each established under ADB's Accountability Mechanism Policy. Information on ADB's IAM is available at: https://www.adb.org/who-we-are/accountability-mechanism .
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