

Priority area ***Inclusive Growth*** (status: March 2016)

1) Strategic goals

In the last 10 years Indonesia's per-capita income has increased by an average of 6% a year, the "middle-class" (people with a disposable income of between 2 and 20 USD a day) has increased from 37% to 56% and the poverty rate has decreased from 16.7% to 11.4%. At the same time, however, Indonesia is still facing great challenges and risks. These are, especially:

- General and vocational education levels which are still too low. In the latest OECD-PISA study, Indonesia was ranked last but one.
- Diversification and the degree of processing in the Indonesian economy are too low and dependence on the export of (mainly unprocessed) commodities is high.
- Infrastructure is structurally underdeveloped, also compared with other countries in the region. For example: 60 million Indonesians are still not connected to an electricity network. High logistic costs are a major locational disadvantage in Indonesia.
- Too much "red tape" in the public sector and high corruption. In the *Doing Business Report* published by the World Bank, Indonesia was only 120th out of a total of 189 countries assessed. In the *Corruption Perception Index* published by Transparency International in 2013, Indonesia only ranked 114th (out of 177).
- High and increasing income disparity. Between 2000 and 2013 the Gini coefficient increased from 0.30 to 0.42.
- High social vulnerability due to inadequate social security systems. A high proportion of the Indonesian population is thus at risk of falling into poverty.

There is a danger that, because of this, Indonesian economic development will stagnate (middle-income trap), and that poverty and the risk of poverty will become entrenched for broad segments of the population, thereby endangering social cohesion and stability.

The topic of "Inclusive Growth" is therefore very high on the Indonesian government's political agenda and is an integral part of its most important strategies for the country's economic and social development. German development cooperation is supporting the efforts of the government to implement these strategies. The focus here is on topics and approaches that Indonesia (and the world) associates with Germany: social protection ("from Bismarck to Hartz"), practice-oriented vocational training in schools and companies, and promoting technology and "green" value chains.

2) Approaches within the priority area

(i) *Sustainable Growth and Investments:*

Within the field of "Sustainable Growth and Investments", a program for sustainable regional economic growth and investment operating in close cooperation with German, international and Indonesian

companies is supporting the inclusive and ecologically sustainable development of two value-added chains – namely agro-business and tourism – in the two pilot regions of West-Kalimantan and West Nusa Tenggara. In addition to improving the business and investment climate and public support strategies in these two sectors, the main focus is on developing business services and the use of adapted technology with the aim of increasing value creation and ecological sustainability for 100 small and medium-sized enterprises (SMEs) and for 5,000 small farmers, and improving the reach of these activities in selected value chains. At the national level, German development cooperation is supporting the implementation of the reform agenda of the Indonesian government with the aim of (i) improving the investment climate, (ii) improving the financial possibilities for infrastructure investments and (iii) accelerating and increasing the transparency of public tendering. German development cooperation, along with other development partners, is engaged here in financing large-volume programs, accompanied by selectively applied consultation services.

(ii) Practice-oriented vocational training

The focus of the vocational training program implemented jointly through technical and financial cooperation is on improving the employability of vocational training graduates and of employees in selected regions of Indonesia. The project is supporting the efforts of education, industry and labor ministries, local governments, 23 selected vocational schools and centers, and selected German, international and Indonesian companies to improve the quality and practice-orientation of vocational qualifications along with the management of the vocational training sector and the transition to the labor market. In addition to advisory services and training qualifications, the support also includes equipping workshops in the above-mentioned 23 vocational training schools and centers, as well as continuing technical training of teaching staff. A vocational training partnership in Central Java and North Sumatra is also focusing on strengthening the role of (organized) industry in certification and training.

(iii) Social Protection

In the field of “Social Protection”, the Indonesian Planning Ministry and the Council for Social Protection are being supported in setting up the contributory health insurance system newly established on 1 January 2014, which should cover all Indonesians by 2019. Linked to this is the financing of health infrastructure (hospitals and health clinics, incl. modern equipment) in selected provinces (starting in Aceh), in order to improve the health services on offer as well. Secondly, the social ministry is receiving support for its efforts to broaden the system of conditional basic social insurance to cover 3.2 million beneficiary families, and also to make the management of health funds more efficient. Thirdly, the program is helping to improve the inclusion of persons with disabilities in social systems and their access to vocational education and employment.

Furthermore, German development cooperation is supporting various innovative approaches to improve access to financial services for people and companies. In addition to these bilateral projects, the Responsible & Inclusive Business Hub for South-East Asia and the Asian coordinator for the program “Global Alliance for Social Protection” are located in Jakarta. The DEG also has an office there.

3) Financial contributions

Between 2007 and 2014, Germany provided more than half a billion euros for the priority area “Inclusive Growth” – 47.8 million euros for Technical Cooperation (grants), as well as 478.0 million euros for Financial Cooperation (loans and accompanying measures). Of this amount, 368.9 million euros was for “Sustainable Growth and Investment”, 41.6 million euros for “Practice-Oriented Vocational Training” and 115.3 million euros for “Social Protection”.