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### Indonesia: Country Assistance Strategy

The ongoing crisis management in Indonesia illustrates the major challenges which the Indonesian Government and people have to face. Yet, this political and economic transition and the Government's action and reaction are also a major challenge for multilateral and bilateral agencies.

Given the uncertainties it is appropriate to work in scenarios. The base case program interprets well the current circumstances, which are worrisome and require the assistance of the Bank as a reliable partner to a country in need. The Bank's report flags the issues, as e.g. deep structural flaws in economy, weak institutions and an entrenched bureaucracy. The Bank's focus on poverty reduction, broad-based and sustained economic growth and institution building are appropriate in any of the three scenarios.

We endorse the priority given to quality in portfolio management and consider adequate a base-case well below historic levels. An increase in lending in the course of the coming months and years should be envisaged, provided that policy and the monitoring results improve. It is also reasonable that the Bank anticipates realistic actions in case of a crisis or an external shock (par. 76).

The "triple A" Program (Analytical and Advisory Activities) rightly emphasizes the prerequisites in bringing about structural and corporate reforms. There is no doubt that many sectors require additional assistance to reach international standards, especially the banking sector. More generally, macro-economic management has to be able to respond to many current and future risks (e.g. oil price development, fiscal instability and debt).

The Government's decentralization program represents crucial element for the country cohesion. However, the report rightly points out the risks involved in such a process. Strong political leadership is required to decentralize key government functions without losing sight of national interest. We see a high priority in the Bank's support to decentralized structures.

Private sector development will also play a major role in enhancing economic growth. The rule of law and the eradication of corruption will be necessary to create a favorable

environment for domestic and foreign investment. Thus, we much welcome the envisaged private sector activities of the Bank Group and in particular the focus on assistance to SMEs. We agree with establishing a decentralized facility and reinforcing local banks capacity for lending to SMEs. We encourage Bank to promote privatization and private ownership in economic infrastructure. However, in the energy sector solutions will have to be found with the Government of Indonesia to the problem faced by Independent Power Producers before the Bank Group should participate in investing in new projects.