We welcome the opportunity to discuss this joint Country Assistance Strategy for Indonesia and commend Bank and IFC staff for preparing this concise and useful analysis of Indonesia’s development challenges and medium-term growth prospects. It is evident that the lessons learned from the last CAS were incorporated into the new CAS and will be reflected in the Bank’s proposed operations in the country. The document also describes the current relationship between the Bank and the Government of Indonesia and is candid in outlining their areas of disagreement.

The Indonesian economy continues to perform well, registering an 8 percent annual real GDP growth in the last five years. Inflation fell to 8 percent in 1996 and the proportion of the population living below the official poverty line declined dramatically from about 60 percent in 1970 to an estimated 11 percent in 1996. The substantial increase in private capital flows in recent years, largely in the form of foreign direct investment, is also noteworthy.

In addition to the joint preparation of this CAS with IFC, there are a number of other innovations which we welcome and hope to see reflected in future CAS documents. These include a strategy matrix which links objectives with actions, benchmarks and Bank Group lending and non-lending instruments; a portfolio matrix with clearly delineated risks and rewards of planned lending activities and a separate private sector strategy. In our view, these initiatives are worthy of commendation, and the improved format enhances the quality of the Bank’s assessments of its own performance.

We see a lot of merit in incorporating OED and QAG’s findings in the CAS as this will provide more insight into the outcome of the Bank’s operations in the country. While updates on the state of portfolio management are important, we believe that information on whether the projects, both lending and non-lending, have actually met their objectives, is equally essential. We are therefore pleased to note the emphasis placed in the CAS on this matter, and that 96 percent of Bank-funded projects in Indonesia are judged to be achieving their developmental objectives.

We agree with the proposed increase in the Bank’s lending to Indonesia to $1.5 billion annually. We also believe that it should be directed to areas that are unattractive to the private sector, and to improving the framework for private sector participation in future sectors.
emphasis on assisting the Government of Indonesia to gain access to the Bank Group’s knowledge and expertise and to strengthen its institutional capacity is also appropriate in our view.

With respect to the financial sector, we are encouraged by the recent legislation passed by the government and look forward to its enforcement. The banking sector should be strengthened by improving institutional capacity and data systems coupled with efficient off-site and on-site supervision of banks’ compliance and adherence to new regulations. Equally, efforts should be geared towards the development of long-term finance instruments.

We note that the Indonesian government has made considerable progress in the last two decades in the education and health sectors. However, the challenges are still enormous, with an annual primary school drop-out rate of over 1 million and about 30 percent of pupils not continuing to junior secondary school. Also, in the health sector, mortality rates are still high and the level of malnutrition has increased; there is a prevalence of infections and communicable diseases and inadequate access to safe water and sanitation. We are, however, happy to note that the Bank’s future lending and non-lending activities will include projects targeted to the poor villages, especially in the areas of education, health and basic infrastructure.

In spite of the dramatic reduction of poverty in Indonesia over the last twenty five years, growing inequalities among different groups of people and different regions, especially in the urban areas, have the potential of leading to social tension. This problem should be addressed through, among other things, well-designed targeted interventions that direct resources to income-generating activities for the poor, and also by providing social amenities such as housing, water, electricity and health care. Where the private sector is the provider of these essential services, care should be taken to ensure that the poor are not priced out and thus unable to afford access to these basic services.

We agree that in order to enhance equitable and sustainable development in Indonesia the Bank’s strategy should focus on balancing development among the regions, taking into consideration the specific characteristics of each one. The strategy to prepare individual projects at the regional level is therefore appropriate, particularly with respect to social sector projects such as health, education and water supply. We would like to see the Bank’s presence in the sectors where its activities are likely to yield the highest impact, i.e. where we can maximize the Bank’s value added to Indonesia’s development process.

We are also pleased with the level of the Bank’s partnership in Indonesia with non-governmental organizations and note with satisfaction the Bank’s close collaboration with other development partners. However, the Bank should ensure appropriate coordination of donor assistance with a view to maximizing effectiveness while avoiding overlap and duplication.

In conclusion, we are pleased to give our support to this CAS and wish the Government of Indonesia continued success in achieving the ambitious development goals it has set for the country.