

**Twelfth Meeting of the Consultative Group on Indonesia
Bali, Indonesia, January 21-22, 2003**

Chairman's Report to the Board

The 12th meeting of the Consultative Group on Indonesia (CGI) was held in Bali on January 21-22, 2003. The meeting was chaired by Mr. Jemal-ud-din Kassum, Vice President for the East Asia and Pacific Region. The Indonesian delegation was led by Mr. Dorodjatun Kuntjoro-Jakti, Coordinating Minister for Economic Affairs, and included ten ministers and other high-ranking officials. Delegations representing twenty-one countries and twelve institutions participated. Representatives from eight civil society groups and two private sector groups attended as observers. Background documents prepared by the World Bank and the joint donor/government working groups were distributed prior to the meeting.

The meeting had been postponed due to the Bali bombing, and was held in Bali as a sign of support in response to the tragedy. The meeting included special sessions on the response to the Bali tragedy and the cease-fire in Aceh. Delegates warmly commended the Government's actions in both of these areas.

CGI members also welcomed the good progress Indonesia has made in its macro-economic program. However, they noted a large unfinished agenda of reforms and called on Indonesia to redouble its efforts to improve the climate for investment as a means to stimulate growth and reduce poverty. They urged that the same resolve that had been applied to achieving macro-economic stability and responding to Bali now be applied to other issues such as corruption, governance, forestry, and legal reform.

The Government of Indonesia explained the policy actions it would pursue in key areas on the agenda, particularly improving the investment climate, enhancing governance, reforming the justice sector, and formulating its PRSP. The Chairman's Closing Statement (Attachment I) and the Press Release (Attachment II) capture the tone and substance of the meeting.

In response, the donor community pledged to disburse up to \$2.7 billion in 2003. This figure is within the range of the Government's total budgetary requirement of \$2.4 - \$2.8 billion. Additional pledges of around \$0.4 billion were announced for technical assistance grants and support for regional governments and Indonesian NGOs.

A number of CGI related events took place during the two days preceding the CGI meeting. On January 19, the Partnership for Governance Reform group held a conference in Yogyakarta to present the progress and remaining challenges in governance reform, with special focus on the achievements in Yogyakarta. In addition, a series of seminars were presented on January 20 in Bali concerning: (i) issues in infrastructure; (ii) deepening the peace in Aceh; (iii) response to the Bali bombing; and (iv) the climate for private sector.

The next full meeting of the CGI is tentatively scheduled for November 2003. The location of the meeting will be decided following further consultation with Government and CGI members.

**12th Consultative Group Meeting on Indonesia
Bali, Indonesia
January 21-22, 2003**

**Concluding Statement of Mr. Jemal-ud-din Kassum
Chairman, Consultative Group on Indonesia, and
Vice President, East Asia and Pacific Region, The World Bank
January 22, 2003**

Coordinating Ministers, Ministers, Excellencies, Distinguished Representatives, Ladies and Gentlemen,

After a day and a half of very productive discussions, I would like to sum up as best I can where I believe we came out. First, let me thank, on behalf of all of you, the Government of Indonesia and the people of Bali for their warm hospitality. We were here in Bali to support the people of Bali in their recovery from the horrific events of three months ago. I hope our presence here contributes in some small way to Bali's early recovery and sends a strong signal of our sympathy and support. I also want to express my appreciation to Pak Dorodjatun, Pak Boediono, and all the economic team, as well as to all the many ministers who took the time to attend these meetings. To all the CGI member representatives—especially those who came from far away—thank you for participating and for pledging so generously. Our special thanks extend to your staff who participated in the preparatory working groups. And finally, our thanks go to the civil society representatives who added valuable perspectives to our discussions.

The main message from the CGI

If I had to summarize the main message from this, our 12th meeting, it is that we all believe that the resolve government has shown on macro policy and on security and on Aceh now needs to be applied to improving the investment climate and governance. As we have seen with our own eyes in the wake of the subsidy reductions on January 1, pursuing reforms is more complex in a newly democratic Indonesia, and will require all the skills and resolve of government, especially in the run-up to the elections. At the same time, I think we all see that the government has a real opportunity to deliver a healthier economy, and less poverty by election time, if it tackles the key reform challenges ahead.

I believe that the government is fully on board on this agenda. As Coordinating Minister Dorodjatun and Minister Boediono set out so clearly, with macroeconomic stability returning, the government's program for 2003 is shifting its focus from macroeconomic stability to microeconomic issues that improve the investment climate and governance, with three program priorities—(i) increasing investment, exports, and employment; (ii) continuing to reduce the burden of foreign and domestic debt; and (iii) increasing

infrastructure investment. These priorities underline the government's objective to reestablish the foundations for higher growth—and higher quality growth—that delivers good jobs and low inflation to reduce poverty and create hope for a better future.

Enhancing pro-poor growth

We all congratulated government for its achievements in macroeconomic policies and management, especially the continued fiscal consolidation and restoration of debt sustainability. We were pleased to hear that Government remains committed to move from untargeted price subsidies to better targeted interventions for the poor. I think there was broad understanding of the political necessity to make some adjustments, and donors welcomed the announcement by Minister Boediono that such mid-course corrections would not affect the budget. Some of you pointed out the importance of making the compensation measures and the social safety net work better, and to communicate these measures more broadly, in order to gain broader social acceptance of the reforms. As civil society representatives noted, it is also clear that acceptance of such reforms will be easier if people see genuine progress in tackling high level corruption.

Minister Boediono announced several steps undertaken to improve the investment climate and committed to taking more, including improvements in tax structure and tax and customs administration. We are encouraged by the Government's initiative in establishing an Investment and Export Promotion task force at the highest level to address issues affecting the investment climate. It will be up to this high level team to turn decisions into actions and results. Donors were also pleased with the emphasis in the pre-meeting on infrastructure, and the thorough analysis of problems the Government presented. We would now welcome an opportunity to work with Government to find solutions to these problems, especially for the looming power shortage. Minister Laksamana Sukardi spelled out the Government's continued commitment to IBRA sales and privatization of State enterprises, which would contribute to making Indonesia more competitive. Donors emphasized the importance of SMEs to the investment climate, as they are a key link in the supply chain, and urged the government to implement the Medium-Term Action Plan already formulated.

The government announced that over the coming months it will spell out its strategy for 2004 and beyond. It has formed a team to look into the economic reform program and budgetary needs for 2004, and to investigate the government's financing options. I think all donors would really like Indonesia to be able to complete its recovery from the crisis as soon as possible, and to no longer need exceptional financing from the international community. At the same time, that same international community stands ready to support sound policies and programs in Indonesia in 2004 and beyond, should the need arise.

Responding to Bali and Aceh

We had a useful discussion on both Bali and Aceh, and I am grateful to Coordinating Ministers Kalla and Yudhoyono for the strong leadership they have brought to the response to these two events.

Bali. Participants expressed their continued sympathy to the victims of the bombing and to the people of Bali. Members also noted the positive and highly professional response by the government to the bombings. As Ambassador Iimura of Japan noted, it was indeed a considerable relief to the international community that the police investigation into the Bali bombing went so far and so quickly. It was also a relief that the impact of the Bali bombings on the national economy has been more limited than initially anticipated.

As Dan Citrin (IMF) observed, markets bounced back faster than any one had thought possible. However, prospects in the more directly impacted areas remain uncertain. December tourists arrivals provided only partial relief. The wider social and economic impacts of the continued slump in tourism on and off-Bali, such as East Java and Lombok, may yet deepen. Therefore it is critical that government continues to put in place contingencies and social safety nets to be able to respond effectively.

Donors have responded quickly by supporting new recovery and development programs to Bali, and expanding or accelerating existing commitments. They remain committed to help see through this crisis. Government and donors acknowledged the importance of security in restoring the image of Bali and other tourism areas in Indonesia, and a number of donors look forward to continuing work with the government in this regard. However, as Minister Kalla acknowledged, countries will have to be confident of the security of their citizens before they lift such advisories. So a systematic effort to strengthen security and combat terrorism was underscored by several of you. Finally, donors agreed to support strengthened monitoring and assessments of responses both on and off Bali impact areas.

On Aceh the signing of the Cessation of Hostilities Agreement for Aceh on December 9 offers a solid possibility for peace after more than two decades of conflict. CGI members welcomed the signing and commended the Government, particularly the Coordinating Minister for Political Affairs and Security, for leadership and willingness to step away from the traditional patterns of the conflict and pursue peace with energy and creativity. Minister Yudhoyono has also played a key role in enabling the international community to formulate its support to Aceh in the post-conflict period. He participated in the "Preparatory Conference on Peace and Reconstruction in Aceh" in Tokyo in December, where he provided valuable guidance to the donors in the form of clear priorities, and he led the high-level visit to Aceh by the four Preparatory Conference co-chairs last week. I believe I speak for all of us in expressing our sincere appreciation to Minister Yudhoyono.

Having concluded at the December 3 preparatory conference in Tokyo that the international community could contribute substantially to building and sustaining peace in Aceh, we wanted to maintain the momentum at this CGI. The discussion from the special pre-CGI workshop revealed a remarkable similarity in donor and Government views of priorities for promoting peaceful development – support of the peace process; humanitarian assistance for internally displaced persons, widows and other vulnerable groups; quick-impact community development via existing, proven delivery mechanisms, governance, and infrastructure rehabilitation. Donors and GOI noted the importance of providing support to the Peace Zones, and of the improved governance for sustaining peace in Aceh, Menko PolKam and the Governor of Aceh endorsed the idea of a participatory public expenditure review open to civil society in order to establish a consensus for using aid transparently and well. Donors also noted the need for visible local government commitment to a peace and development process in Aceh.

Improving Governance

The theme of corruption ran consistently throughout the CGI. Minister Kwik's passion and his refreshing frankness on this issue was a reminder of the harsh realities within which we are all operating. Anti-corruption is central to the development agenda. It was central to the concerns of those protesting the price hikes, and the civil society representative who sought debt cancellation. It is important that the government is seen to move on this issue. With the recent passage of legislation for the establishment of an anti-corruption commission, the donor community will follow with keen interest the work of the Indonesian authorities to bring this commission into operation. There can be no doubt that, within and outside Indonesia, the continuing perceptions of Indonesia as a country where corruption continues to flourish, hurts it enormously and makes hugely more complex the tasks of consolidating the democratic transition and achieving a full recovery from the economic crisis. The donor community will of course be prepared to assist in all appropriate ways the authorities in the task of ensuring the commission will be as effective as possible.

Reform of the Justice Sector is seen by government and donors alike as key to winning back investor confidence and addressing corruption. Progress in the past has been erratic, but here in Bali we have heard some good news. The holding of two national Law Summits was a welcome first step in what will inevitably be a long process of developing and carrying out a comprehensive reform agenda. It is now very important that this process build on the work of the National Law Commission and reach out to the broader community of stakeholders and civil society, for the ultimate challenge for Indonesia in justice sector reform is gaining the people's trust in their law enforcement institutions. In this regard, donors are particularly heartened by the initiatives of the Supreme Court to improve its professionalism, and would welcome other similar initiatives, for example to help improve the functioning of the commercial courts.

Reform of the Security Sector was a theme that understandably recurred in many interventions, by government and by some members. The Bali bombings, it was felt,

underscored the importance of strong security, good intelligence, a strong police force and an effective justice sector. A strengthened sector would bring with benefits to the law and order situation, the government's ability to counter terrorism and to curbing the illegal trafficking in persons, drugs and natural resources such as timber and oil. This required increased professionalism, including larger and more accountable budgets for the police and the military. Effective implementation of the new law on money laundering was also seen as key. Coordinating Minister Yudhoyono's statement and the speech he made at the heads of delegations dinner suggests that the government is on board on much of this agenda. Donors offered to enhance support for the security sector and welcomed the governments' efforts to establish a mechanism for coordinating donor assistance in counter-terrorism and hoped this was the beginning of similar efforts to coordinate assistance for the sector as a whole.

Decentralization. The Government reported considerable progress in implementing decentralization. Some early results on service delivery and reforms in the regions are encouraging. Those of us who visited Yogyakarta in the run-up to the CGI were very impressed by the regions' plans for civil service reforms. Donors urged the government to address some of the weaknesses of decentralization, including initiating a process to avoid conflicts between the decentralization laws and other laws and regulations, tighter supervision of illegal taxes and levies, and a comprehensive plan for revision of the intergovernmental fiscal system. The Government detailed its plans for an on-lending framework, following up on the policy statement made last November at the interim CGI, and donors welcomed the government's openness to improving the framework over time. Donors also welcomed the introduction of a special allocation grant to the regions, but expressed concern on the large inequalities in fiscal capacity among the regions.

Enforcing sustainable forestry management. I believe it would be correct to say, having heard the presentations from the Minister of Forestry, the Forestry Working Group, and civil society, that all parties are disappointed with the insufficient progress in addressing the forest crisis. In the measures that count most—the rate of deforestation and the level of illegal logging—the nation and the forests are losing the battle. We heard of numerous arrests but, regrettably, almost no prosecutions. We heard of conflict between local people and the military and police, and between local people and loggers. Donors and civil society called for attention to protect the rights of people and monitor the actions of the military and police. Transparency will be key to achieving this. The secondment of senior staff from the National Police and the Attorney General's office that Minister Prakosa described may be a sign of improved collaboration on enforcement, and the fact that control of illegal logging featured prominently in Minister Mahendra's remarks on reforming the justice sector is also encouraging. However, Minister Prakosa's statement and the others made it clear that the Interdepartmental Committee on Forestry has not been effective. This is notable, for example, in the management of forest industry debt, where IBRA continues its sales without consulting the Ministry of Forestry. I was pleased to hear in Minister Dorodjatun's opening statement his resolve to establish effective interagency coordination to support Minister Prakosa's priority programs. We will closely follow progress through the Donor Forum on Forestry. Finally, on forestry, I hope all delegates will give serious consideration to Minister Prakosa's concluding

request, that all the CGI member countries make formal declarations that they will not import illegally-harvested timber. International as well as interagency cooperation is required to save Indonesia's forests. This issue is an urgent priority for us all.

Towards a Poverty Reduction Strategy

Next steps in a poverty reduction strategy. As Minister Kalla noted, in moving to a decentralized form of governance, Indonesia has entered a new era. This transition represents a new opportunity for the country to refine and improve its strategy to address poverty and equity. The Government needs to be congratulated on moving decisively to prepare Indonesia's Interim Poverty Reduction Strategy Paper, recently approved by the inter-ministerial Poverty Reduction Committee. The IPRSP presents a road-map to develop a national Poverty Reduction Strategy in the first half of 2004. The strategy would be built around four strategic pillars: (i) creating opportunity; (ii) empowerment; (iii) capacity building and human capital development; and (iv) social protection. Minister Kalla stressed the roles of multiple stakeholders—including Government, the private sector, and communities—in developing and implementing such a strategy over the coming months. While Indonesia is building this strategy through consultation, Government has already committed to poverty reduction as the top national priority.

Donors committed to support the Government in its effort to develop a national poverty reduction strategy through a participatory process which reflected the aspirations of the Indonesian people. In moving forward, there was consensus that the Government would organize the work around the four strategic pillars in order to develop specific goals, strategies, policies, and program options. The critical importance of linking the development of the poverty reduction strategy to the Government's regular planning and budgeting process was stressed by most interventions. Efforts would build upon a framework of overarching goals, based on the MDGs adapted to the Indonesian context. Mark Mallalieu of the UK reinforced the point that improving governance, combating corruption, and improving security are important aspects to enhancing poverty and should be appropriately reflected in the national poverty reduction strategy. The New Zealand ambassador noted the importance of coherent, locally-owned national sustainable development strategies for Indonesia and other countries to benefit fully from open trade and investment policies. Equally, he rightly stressed the importance of donors pursuing coherence between their aid and their trade policies.

It was agreed that the Government would lay out an analytical work-program to address pressing issues—such as the link between macroeconomic policy decisions and poverty goals, and the effectiveness of current safety net programs—as an immediate next step. Donors stressed a pilot approach to regional level poverty reduction strategies that could then be scaled up on the basis of good practice. It was also agreed that refining the DAU formula and developing alternative DAK proposals to improve its link to achieving the eventual goals of the poverty reduction strategy would be important next steps in improving the pro-poor focus of decentralization.

In relation to health, Minister Sujudi pointed out the slowing down of improvements in key measures of Indonesia's health status, and the disproportionate burden of ill-health borne by the poorest groups in the population. Investment in health is low, both as a proportion of government expenditure and within international development assistance. However it is also clear that more money will not be enough to solve these problems, and I was pleased to see the high level of consensus between the Government and the donors that policy reform is also needed for improving the targeting of public funds, maintaining a safety net mechanism, and increasing the contribution of private and non-government service providers to national priority programs. The donors and international agencies strongly endorsed the working group's action plan, especially as it links to the achievement of the Health Indonesia 2010 and the MDGs.

Using Aid Effectively

Let me now turn to the discussion on the use of aid effectively. Many of us spend a great deal of resources to protect our projects from corruption. However, there are limits on what we can achieve by ourselves. We urge the Government to clarify the role of central agencies in fiduciary oversight control. CGI members acknowledge progress as reported by Minister Boediono on various fronts, including actions to reform public procurement and financial management systems. We hope that the Presidential decree revising Keppres 18/2000 be signed quickly so that the action plan to have the Institute for Public Procurement Policy (LKKP) established in August 2003 could be achieved. With regard to the draft laws on state finance, treasury and audit, we encourage the government to reach consensus with key stakeholders in the near future on the broad principles, framework, and objectives for a modern financial management system for Indonesia.

We are pleased to learn that the Minister of Finance's decree on on-lending arrangements to local governments has now been signed. We hope that the Government's team will more swiftly determine the criteria for the regions' fiscal capacity and categorization of projects.

Minister Boediono's statements also included a number of other welcome commitments to address aid effectiveness issues, including reforms on treasury operations and budgeting administration to improve the flow of funds to the regions and line ministries. The follow up actions will be critical.

Aid indications

Donors pledged support for Indonesia's development efforts. The total amount pledged in disbursements for the government's budget in 2003 was \$2.7 billion. This is at the top end of the requested range of \$2.4 - \$2.8 billion. In addition, donors pledged \$0.4 billion in technical assistance and grants through other channels, including NGOs and local governments.

Conclusion

I regard this as a very successful meeting, and again, I am so happy that we could hold it here in Bali, which is facing such difficult challenges, as a signal of our support.

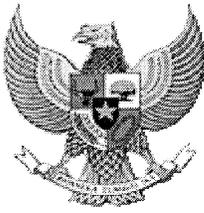
In conclusion, let me once again thank the government, led by Pak Dorodjatun, for all its commitment, hard work and preparation for these meetings, and also thank all the participants for helping to make this 12th CGI meeting so useful. I must say I feel the quality and tone of the collective dialogue do seem to go from strength to strength.

No doubt the coming 18 months will present the government with significant challenges and I think I speak for all of us in reaffirming this support in the months and years ahead.

Finally, regarding our next CGI meeting, the government has signaled its intention to host the next meeting in Indonesia in November this year.

Thank you.

PRESS RELEASE



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CGI URGES GOVERNMENT TO MAINTAIN STABILITY AND DEEPEN REFORM

Nusa Dua, Bali, 22 January 2003 – At the end of two days of deliberations, the Consultative Group on Indonesia (CGI), comprising representatives of 30 bilateral donors and multilateral agencies called on Indonesia to redouble its efforts to improve the climate for investment as a means to stimulate growth and poverty reduction. The meeting was also attended by 11 Government Ministers and representatives of civil society. The 12th meeting of the CGI noted significant progress in stabilizing the economy but pointed to a large unfinished agenda of reforms, especially those needed to deal with corruption, governance, forestry and legal reform. The CGI also congratulated the Government on signing a ceasefire in Aceh, and for its response to the Bali bombing of last October. Donors stressed that continued attention to security would be an important ingredient of rebuilding confidence in Indonesia as a tourist destination.

The Bali bombings, it was argued, lent new urgency to Indonesia's reform efforts. In this context, they welcomed the statement by **Mr. Dorodjatun Kuntjoro-Jakti, Coordinating Minister for the Economy** that the Government will place more emphasis in 2003 on micro-economic issues particularly those related to the investment climate. *"The investment climate is the most significant obstacle to accelerating growth from the recent rather modest rates, and thus for reducing poverty and vulnerability,"* said **Jemaludin Kassum, World Bank Vice President for East Asia and the Pacific Region and Chairman of the CGI.**

The meeting of donors concluded by pledging up to \$2.7 billion in disbursements in FY 2003, a figure within the range of the Government's total budgetary requirements of \$2.4-2.8 billion. *"This represents the lowest requirement from the CGI since the crisis – and that is good news,"* said **Mr. Kassum.** *"It means Indonesia's need for budget financing is diminishing as its fiscal deficit is falling steadily".* CGI members welcomed the significant progress Indonesia had made in its macro-economic program and asset restructuring. The recognition of this progress by financial markets through a strengthened Rupiah and lower interest rates has facilitated strong fiscal consolidation and enabled a sharp reduction in Indonesia's public indebtedness as a ratio to GDP from nearly 100 per cent at the end of 2000 to 70 per cent in 2002. *"Thanks to the significant achievements in 2002,"* said **Daniel Citrin, chief of the visiting IMF mission,** *"the Government has begun to lay a solid foundation for Indonesia's economic recovery from the crisis".* Donors expressed continued support for Government action to move from untargeted price subsidies to more targeted programs for the poor, including provision of

health cards and rice for the poor. Donors recognized, however, that such actions were often delicate and controversial, and should be accompanied by better communications and consensus-building.

To fully capitalize on the benefits of the economic stability, donors urged the Government to take steps to rebuild investor confidence. They noted that money was still leaving Indonesia faster than it was coming in, and said no sustainable growth and poverty reduction would be possible until this trend was reversed. *“On the pressing challenge of investment, the issues are well known,”* said **Joseph Eichenberger, Vice President of the Asian Development Bank**. *“While some positive steps have been taken, major and fundamental concerns have only deepened since we last met about the integrity of contracts, the reliability of impartial recourse through the legal system, and the availability of capital allocated on the basis of risk. The centrality of these issues for Indonesia’s future, and the urgency of clear public sector actions and leadership, cannot be overemphasized.”*

Urgent attention needed to be paid, inter alia, to improved security, strengthening the justice sector, reducing bureaucracy and red tape, ensuring planned new regulations maintained labor market flexibility, reducing the uncertainties caused by decentralization, and avoiding a severe power crisis.

Dr. Boediono, Minister of Finance, outlined a package of measures being considered to strengthen the investment climate. These included speeding up the rebate of value added taxes, increasing the number of sectors that qualify for expedited customs processing of imports, continued efforts to improve the delivery of tax and customs services, and the establishment of a high level investment and export promotion task force that will comprehensively review factors affecting Indonesia’s competitiveness. Members welcomed the Government’s decision to establish this task force and urged inter alia that it set a clear and comprehensive medium-term road map and establish regular routine consultations with domestic and international business communities. Donors welcomed the Government’s commitment to continued privatization and IBRA asset sales. Some donors called for greater coordination between IBRA and other stakeholders and creditors. Donors also welcomed the Government’s attention to the serious infrastructure gap, particularly in the power sector. They encouraged the Government to focus attention on the most pressing areas, and promised financial support to build much-needed capacity.

Participants expressed their continued sympathy and concern for the victims of the Bali bombing, and for the people of Bali. Members noted that holding the CGI in Bali was a strong signal of donor commitment to supporting the government’s impressive efforts to overcome the economic and social impact of the Bali bombing. **Coordinating Minister for People’s Welfare, Minister M. Jusuf Kalla**, noted the need for a coordinated approach to efforts to assist those hurt by the socio-economic impact of the Bali bombings. He also underscored the need for a coordinated national security program. He stressed the importance of quickening the pace of donor disbursements, and also encouraged more countries to consider easing travel advisories to Indonesia. Tourism was

vital for Bali's recovery, he noted, and the Government's response showed its seriousness in ensuring security for visitors.

Members noted the government's efforts to strengthen security since the Bali bombing. Some donors expressed willingness to provide additional support for such measures – as well as broader support to Bali's economic recovery -- and encouraged the Government to coordinate the support. The progress of the anti-terrorist measures and the success of the police investigations had provided a sense of relief both to the Indonesian people and to the international community. Continued security sector reform, bringing anti-money laundering regulation in line with international standards, and a firm stance against terrorism will be important factors in restoring international confidence.

Members also welcomed the Cessation of Hostilities Agreement in Aceh. Although signs of peace were visible throughout Aceh, **Coordinating Minister for Political and Security Affairs, Susilo Bambang Yudhoyono**, explained, it is new and fragile. *“With the socio-economic life of the province strengthened, the peace process will gain momentum, God willing, until all of us achieve the ultimate victory: enduring peace”*, he said. Donors agreed broadly with the main priorities for building and sustaining the peace and on the need for careful coordination in mobilizing international support. They also offered support in key areas such as peace monitoring, humanitarian assistance, quick impact community development, governance and infrastructure rehabilitation.

Donors remarked that reforms in the justice sector are key to restoring the investment climate and trust of the people. Donors welcomed a number of initiatives over the past 12 months, including the establishment of a Law Summit process under the auspices of the Partnership for Governance Reforms, the initiatives taken by the Supreme Court to improve its professionalism, and the establishment of an Anti-Corruption Commission. Donors encouraged all government stakeholders to support the action plan arising from the Law Summit. They said, however, that progress had been slow and inadequate to address the many serious issues involved. They noted that the continuing weakness of the legal and judicial system undermined efforts to deal with systemic corruption, to encourage investment, to deal with illegal logging, and to ensure the basic rights of Indonesians. They encouraged the government to work with civil society and the National Law Commission to prepare a comprehensive strategy and action plan with broad stakeholder support. Justice sector reform was seen as the key to reform in all areas where Indonesia faced development challenges, and they urged the Government to show the same resolve in reforming the sector as it had shown following the Bali bombing.

Chairman of the National Planning Agency (BAPPENAS), Kwik Kian Gie, also presented his vision on good governance and its challenges in Indonesia. *“The prerequisite for good governance is no doubt the eradication or the significant lessening of KKN – corruption, collusion, and nepotism,”* said **Mr. Kwik Kian Gie**.

Participants also welcomed the progress shown in implementing the decentralization agenda. They showed particular appreciation at the efforts being made in Yogyakarta,

which they had visited prior to the meeting in Bali, to reform the civil service in a decentralized setting, and hoped the Central government would encourage this process. They noted the Government's intention to revise Law 22/99 and urged that this be done through a structured consultation process. Donors welcomed the introduction of a DAK (special allocation grant), and the presentation of the long awaited on-lending mechanism. They noted that a possible revision of Law 25/99 and 34/00 should be used to create a more equalizing intergovernmental fiscal framework.

Despite increasing efforts by the Ministry of Forestry, it was noted that all stakeholders, including the Ministry, were disappointed with the lack of progress in addressing the forest crisis. They reiterated their conviction that sustainable solutions required government-wide collaboration. **Minister of Forestry, Mr. Muhammad Prakosa**, observed that collaboration needs to extend even beyond Indonesia's national boundaries and called on CGI delegates to "*declare that no CGI country will import illegally-harvested timber*". Donors and civil society representatives emphasized the need for greater transparency and scrutiny in all aspects of forestry, including tighter control of the activities of the police and military in the sector. Several donors and civil society spokespeople highlighted the link between illegal logging, corruption and human rights abuses, and called for coordinated and concerted steps to address these issues and the outstanding reform agenda.

Members congratulated the Government on having successfully prepared an approach paper on a poverty reduction strategy. They agreed that the papers constituted a good basis to focus the country's efforts on poverty reduction. They noted the importance of developing policy and program options based on a sound understanding of the causes of poverty, including the governance dimensions. They urged the government to refine the intergovernmental fiscal transfers to make them more pro-poor. They noted that a results oriented strategy called for a sound monitoring and evaluation system. They also urged that the poverty reduction strategy be mainstreamed into the government's planning and budgeting process as well as its sector programs. In relation to non-income dimensions of poverty, the **Minister of Health, Dr. Achmad Sujudi**, stressed the importance of health as a foundation for economic development and poverty reduction. The meeting noted the low current levels of investment in health, as well as the urgent need to improve the access of poor families to effective services. This should be achieved through greater pro-poor targeting of public funds and through new policies to increase the contribution of private and non-government service providers in meeting national health priorities. These policies and investments are needed in order to reduce the burden of disease on poor families and to meet Indonesia's Millennium Development Goals.

The meeting was attended by senior government officials, including Coordinating Minister for Economic Affairs Dorodjatun Kuntjoro-Jakti, Coordinating Minister of Politics and Security Susilo Bambang Yudhoyono, Coordinating Minister for People's Welfare Yusuf Kalla, Minister of Finance Boediono, Minister of Justice Yusril Ihza Mahendra, Minister for National Planning/Chairman of Bappenas Kwik Kian Gie, Minister of State Owned Enterprises Laksamana Sukardi, Minister of Health Achmad Sujudi, Minister of Housing and Regional Infrastructure Soenarno, and Minister of

Forestry M. Prakosa. Chairman of the Indonesian Investment Approval Board, Theo Toemion also attended. Thirty donor agencies –bilateral and multilateral – as well as observers from civil society and the private sector were present. Several events preceded the meeting, such as the Governance Partnership Meeting in Yogyakarta (January 19) as well as additional pre-CGI sessions on infrastructure, Bali, Aceh, and investment climate.

Eight civil society observers also participated in the meeting and presented their views in the various sessions. They represented the NGO community, labor groups, environment groups, indigenous communities, academia, and think tanks.

Next meeting: Coordinating Minister Dorodjatun announced that he had invited the CGI to hold its next annual meeting in early November 2003. The venue will be decided at a later date.

For more information about the World Bank in Indonesia, and to view papers presented at the CGI, visit :
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