INDONESIA: Country Assistance Strategy Progress Report

We welcome the opportunity to comment on this well-written update that we hesitate to call Country Assistance Strategy Progress Report since we had never have the chance to start the implementation of the last full CAS. We find the report well balanced in terms of assessing the Government of Indonesia’s responses to the economic and social crisis, which struck East Asia region at mid-1997 and which is not yet over at this moment. The report complements the OED’s CAN discussed at a CODE meeting on February 19, 1999, by presenting a Bank Group’s assistance strategy for Indonesia for the coming 18 months during which important political transitions are expected to take place. We have also benefited from a very useful and important Board Briefing on the East Asian Crisis, by the regional Vice President on February 11, 1999.

Prior to the regional economic crisis in 1997, Indonesia experienced 30 years of virtually uninterrupted rapid growth, low inflation and declining poverty. Poverty declined from 60% in 1970 to 11% in 1996. The social impact of the crisis has been devastating: up to 15% of workers in the formal sector are unemployed; per capita income has dropped from about US $1,000 to $ 300; the population below the poverty line has increased from 17 to 30 millions. Fiscal surplus of 1997 has turned to a deficit of 9% of GDP, and incomes have fallen by 13,7% in 1998.

The Government, supported by the Bank and other donors, has reacted by developing a comprehensive and credible program aiming at:

(i) stabilizing the economy, reforming and strengthening the banking system and restructuring corporations;

(ii) protecting the poor by ensuring the availability of food and by preserving critical social services;
(iii) introducing structural reforms coupled with efforts to reduce corruption and improve governance.

We commend the Government for the progress achieved in implementing its vigorous program. As can be seen on table 1, significant progress has been made in stabilizing macro-economic conditions; establishing frameworks to facilitate bank and corporate restructuring, and implementing significant reforms of trade, competition and investment policies. The Government has also expanded social safety net programs to protect the poor, and launched actions to combat corruption and improve governance and transparency.

We are aware of the severe criticisms in the newspapers regarding the slow pace with which some of those reforms are being implemented. While we encourage the Government to accelerate the pace of the reform implementation, we must keep in mind the fact that these delays are sometimes due to weak implementation capacity, and not only to lack of political commitment.

We support the Bank’s assistance strategy in Indonesia with focus on:

(i) reinforcing social safety nets to help protect the poor and preserve human assets;

(ii) stabilizing the economy by helping restore banks and businesses to financial health, maintain physical assets and resume growth;

(iii) strengthening institutions to support sustainable growth in the future.

This strategy aims at helping Indonesia meet the immediate challenges created by the crisis. It also provides the next government with the institutional foundations from which to build future policy reforms. In that context, we are pleased to learn about the “National Institutional Review” which will provide an assessment of current institutional issues and suggest priorities for reform and capacity building. We support the proposed lending program, which seems to be well in line with Bank’s assistance strategy.

Finally, we appreciate the candidness of the report on risk analysis. We agree with Management’s assertion that while the risks involved in supporting a strong reform program in Indonesia are significant, they are less than the risks of not supporting such a program.