

PRESS RELEASE



World Bank Office Jakarta
Jakarta Stock Exchange Building
Tower 2, 12th Floor
Jl. Jend. Sudirman Kav. 52-53, Jakarta
Contact:
Mohamad Al-Arief (021) 5299-3084
malarief@worldbank.org

GOOD GOVERNANCE FOR GROWTH AND POVERTY REDUCTION

THE WORLD BANK GROUP UNVEILS ITS NEW COUNTRY ASSISTANCE STRATEGY FOR INDONESIA

Jakarta, December 3, 2003 – The World Bank Group* today released its new Country Assistance Strategy (CAS) for Indonesia. The strategy, which is agreed with the Government and based on extensive public consultations, will guide the World Bank Group’s overall program in the country for the next four years. The CAS was reviewed and approved by the World Bank Board of Directors** in Washington, D.C. last week. The full CAS document is available to the public from today.

“The World Bank will do all in its power to help support Indonesia at this crucial time in its development” said the **World Bank’s Country Director in Indonesia, Mr. Andrew Steer**. *“We share the view of those in Government and civil society who regard governance reforms as essential to raise investment and growth and improve the quality of public service. So our entire program will be focused on helping to improve the quality, responsiveness and accountability of public institutions as they seek to promote development. This will determine how we work, what we do, and who we work with. Thus, for example, all local governments needs better roads, schools, clinics, irrigation etc, but we will give preference to those that are willing to adopt more transparent, accountable, efficient and pro-poor approaches, and we will help build their capacity towards this end. Together with our partners in government, civil society, the private sector and the international community, we will do all we can to help make services more responsive to those who are intended to benefit from them, especially the poor”*, he added.

More Funding, But Higher Performance Standards. The CAS proposes a base case lending program ranging from US\$450 to US\$850 million a year. Under the new strategy, a majority of the available funds are intended to support poverty oriented projects at the local and community level. How much the World Bank will actually lend within this range will depend on eligibility of local governments and communities for these funds based on criteria and performance in the areas of good governance. Mr. Steer said that the financial side of the CAS had to be seen against a backdrop of clear performance benchmarks which first had to be achieved. *“These are all indicators that come from the Government’s own policy statements, including the recent White Paper,”* said Mr. Steer. *“They are ambitious, but we are willing to go the extra mile if the pace of reforms is strong”*, he continued.

* Four key institutions makes up The World Bank Group: the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA). The term World Bank usually refers to both IBRD and IDA.

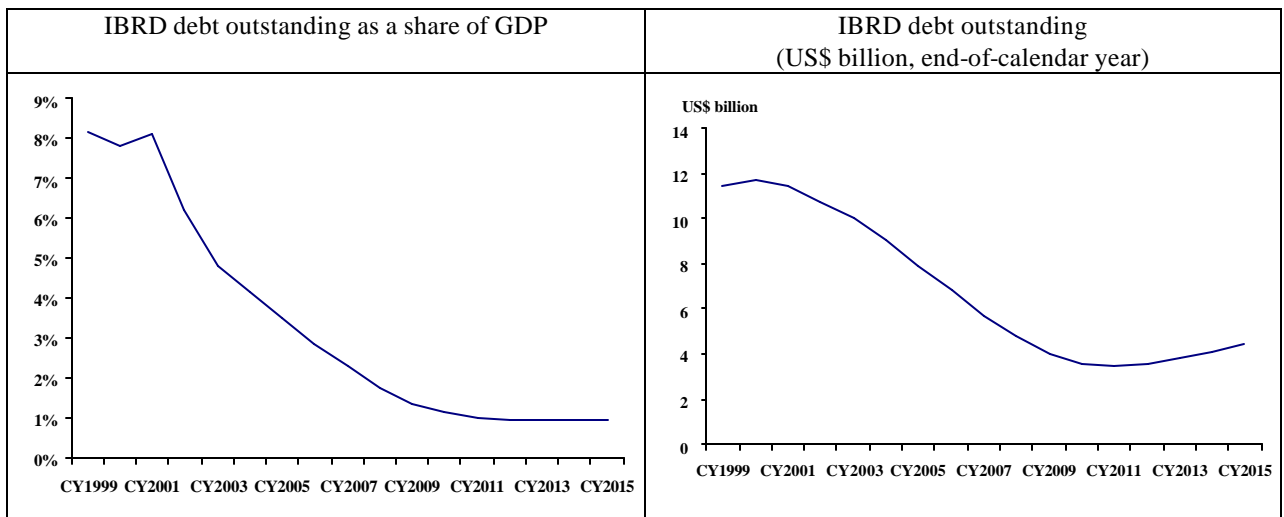
** As owners and shareholder of the World Bank Group, each member countries—including Indonesia—are represented in the Board of Executive Directors.

“While with this new CAS, the World Bank can potentially make more funds available to support Indonesia’s development than did the last CAS,” said **Mr. Joel Hellman, World Bank’s Chief Governance Adviser in Indonesia**. “Our joint challenge with Indonesia is to find ways we can support well governed initiatives and to improve governance and development in doing so. It is only in these circumstances that the World Bank will actually increase lending to Indonesia relative to the past three years.” Over the last three years, the World Bank committed on average US\$400 million per annum, significantly below the levels of funding prior to 2001.

In the event that Indonesia performs exceedingly well in implementing key areas of reform that improve the investment climate, strengthen service delivery, and improve governance, the World Bank could provide more financing through the CAS’s high case lending program. Under this scenario, key reforms will need to be undertaken, particularly in areas that protect public funds from misuse and channel them effectively to the poor and that more effectively address corruption issues. Better policies and stronger institutions would also lead to higher growth and increase the government’s capacity to service debt in a sustainable manner. In this case, and upon careful internal review, the World Bank would be prepared to increase the funding made available to Indonesia to US\$1.4 billion a year.

About one-third of the total amount of funds (about US\$230 million a year) made available to Indonesia will be in the form of highly concessional credits from the International Development Association (IDA). IDA credits are repayable over 35 years, with no interest (there is an administrative fee of 0.75% on the undisbursed balance).

“Indonesia’s debt to the World Bank has fallen significantly and will continue to do so under the proposed program,” said **Mr. Bert Hofman, the World Bank’s Chief Economist in Indonesia**.



The Bank Group Strategy. The World Bank Group's strategy is based on the assessment that restoring macroeconomic stability has brought poverty down, but further progress is needed. Indonesia has successfully regained macroeconomic and political stability, but economic growth remains below 4 percent, poverty reduction remains a challenge, and governance concerns continue to cloud its achievements. Public debt has declined from 100 percent of GDP to 72 percent, inflation is now below 7 percent, and income poverty has fallen from 27 percent in 1999 to 16 percent today. However, 110 million people still live on less than \$2 a day, and remain vulnerable to falling back into severe poverty. Indonesia continues to under-perform its neighbors in access to quality health, education and other basic services, as reflected in the Millennium Development Goals (MDG) indicators.

Further progress in reducing poverty is prevented by two major factors—low investment, and weak service provision—which in turn are caused primarily by problems of governance. The Bank Group's entire efforts -- in the form of analytical and advisory services, lending, IFC and MIGA activities, and donor coordination -- will be to help address these problems:

- ***Improving the Climate for High Quality Investment.*** Bank Group support will be directed to address five key areas that are essential to raise the rate of investment from its current level of 20 percent of GDP: deepening macroeconomic stability, building a stronger financial sector, fostering a competitive private sector, building Indonesia's infrastructure, and creating income opportunities for poor households and farmers.
- ***Making Service Delivery Responsive to the Needs of the Poor.*** Weak service delivery is undermining Indonesia's goal of improving the quality of life of its citizens and the attainment of its MDGs. Bank Group support will thus be devoted to help revamp the management and accountability systems for service delivery to make providers more directly accountable to their clients. Focus will be given to implementing the principles of the World Development Report 2004, especially in health and education, but also in agricultural research, extension and irrigation, and in public services in general.
- ***The Core Issue of Governance.*** Advances in governance will be needed to address both CAS objectives. Four areas will be given priority: (i) making development planning more responsive to constituents; (ii) improving public financial management; (iii) strengthening the accountability of local governments under a more coherent decentralization framework; and (iv) enhancing the public credibility, impartiality and accessibility of the justice sector. Corruption poses a special problem in Indonesia, and the Bank aims to integrate governance and corruption issues through the entire Indonesia program, shaping how projects are selected, designed, implemented and monitored.

Business Platforms—How the World Bank will Deliver. Indonesia's massive decentralization calls for a new approach to the delivery of development assistance. The Bank will leverage the projects it finances with analytical work, policy advice, technical assistance, strategic partnerships and capacity building to systematically increase standards of governance at each level of government the Bank engages. Four business platforms are envisioned:

- The Community Driven Development Platform: about 25 percent of all lending (about \$200 million per year) would be allocated to scale up this successful program.
- The Local Services Platform: about 40 percent of lending would be allocated to help create accountability at the district and provincial levels.

- The Public Utility Platform: about 15 percent of lending would help support investments in good corporate governance and efficiency in water supply and energy.
- The National Lending Platform: about 20 percent of lending would be allocated to address central problems.

The CAS proposes to increase the amount of analytical work and advice the World Bank provides to Indonesia in the critical areas of reducing poverty through improving the investment climate, improving service delivery, and improving governance. In doing so, the World Bank proposes to engage intensively with Indonesian society. Reflecting the shift in its focus, the World Bank will also provide increased analysis and advice on how to help local governments and communities do a better in providing opportunities and services to their populations, and particularly to the poor.

The CAS for Indonesia also outlined the assistance strategy of other parts of the World Bank Group, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) in their role to help improve the poor business climate as well as investor confidence. *“The IFC hopes to expand its support to Indonesia”*, said **Mr. German Vegarra, IFC’s Country Manager in Jakarta**. *“We believe that if the Government’s White Paper policies are implemented firmly, the climate for productive private investment will improve significantly”*, he added.

For more information on the World Bank’s program in Indonesia, visit the Indonesia country website at : www.worldbank.or.id