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Statement by Rosemary Stevenson
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Indonesia: CAS

We welcome the quality, clarity and scope of this CAS, with its emphasis on collaboration and consultation with Government, civil society and other donors. We also recognise that the World Bank Group's programmes in Indonesia have gone through a sea-change in recent years, resulting in a much clearer focus on poverty reduction and governance.

This CAS comes at a critical juncture for Indonesia, both with regard to economic recovery and administrative reform. On the economic front we are pleased to see some signs that the nascent recovery is taking hold, but market confidence remains fragile and private capital flows have yet to recover. While some solid progress has been made on structural reforms, much more needs still needs to be done, for example on asset recoveries and corporate debt restructuring, and Bank support in these areas should remain a high priority. In this context we believe the lending scenarios have been appropriately and flexibly designed. Given the inherent uncertainties, we wish to underline the need to ensure that reforms and up-front actions are clearly seen to be sustainable and irreversible before the higher levels of lending envisaged under the " performance" scenario are made available. We also wish to stress the significance for investor confidence and continued donor support of a speedy and successful completion of theThird Review under the Extended Arrangement with the Fund.

Decentralisation:

This truly is a change of historic significance for Indonesia, representing the culmination of a debate about governance structures which has been underway for more than three decades. While we agree with the Bank's assessment that in the long run decentralisation should prove its worth in terms of strengthening pro-poor policies and providing more responsive programmes tailored to local needs and wishes, there are major short and medium term risks. These centre on the speed and scale of the changes envisaged, the lack of skills and systems at the local level to take on the new responsibilities, and the need for stronger fiduciary safeguard mechanisms to be put in place. The surest means to reduce vulnerabilities in this regard is to ensure the maximum level of transparency with the closest possible involvement of civil society. We agree that it will be essential for the national government to keep a very tight rein on domestic and foreign borrowings by the district authorities. On a more specific point, experience elsewhere has shown that the devolution of health sector powers can adversely affect communicable disease control, monitoring of health service performance and referrals from primary health care centers to hospitals.

Gender:

We would welcome more detailed information on the Bank's plans given that gender inequalities persist in Indonesia and the paper notes (Box 1.3) a concern that decentralisation may reduce attention to gender issues.

Environment/Forestry:

Although country performance to date is assessed in the CAS as 'poor', the paper also highlights the additional risks posed by decentralisation. Although Indonesia has successfully diversified her economy, the country remains heavily dependent on the exploitation of her natural resources. The Bank analysis correctly identifies the mismatch between installed pulp and paper and plywood manufacturing capacity and the carrying capacity of the forests in terms of sustainable yields as a fundamental risk to the long term viability of the industries. If it has not proven possible as yet to reduce manufacturing capacities through dialogue at the national level what are the chances for this after decentralisation takes place ? Given the significance of forestry both in terms of its contribution to the economy and its environmental protection values for watersheds and soils etc, we believe it would be appropriate to include a base to high case forestry trigger in the lending programme.

Trade:

While the paper appropriately identifies the importance of rice prices and the negative impacts which import controls and higher tariffs will have on the poorest, this also needs to be seen in a wider context of international trade issues which will ultimately affect the outcomes sought through changes to domestic policies. The Bank should continue to provide appropriate advice on this and other trade issues within its areas of competence, if so requested by the Indonesian Government.

Private Sector Development Strategy:

We broadly agree with this strategy but would emphasise two points. Drawing on the lessons from the past in Indonesia and further afield, it is clearly essential to ensure that privatisation is correctly sequenced in terms of putting in place an appropriate regulatory system before large scale private investments in a sector go forward. These regulatory skills are often lacking, so technical assistance may be necessary. Also both in relation to this issue, and more broadly, the World Bank needs to show continued leadership on judicial reform issues in Indonesia.

Finally with regard to private sector involvement in the health and social sectors, this should be approached cautiously and on the clear basis that any changes will benefit the poorest through access to improved services.