

Canadian Delegation statement to the CGI: Jakarta, 7-8 November 2001

Ensuring Economic Stability and Recovery

Canada supports the Government of Indonesia's **economic strategy**, and in particular these five elements: improving the quality and pro-poor emphasis of government spending; prudence with new borrowing; reducing subsidies that do not have strong pro-poor benefits; divestiture of IBRA assets and non-strategic state-owned enterprises; and increasing revenues, including more transparent and progressive income taxation. With poverty reduction as the central driver in such a strategy, then the short-term objective could be to increase quality development spending with an emphasis on basic social services; the medium-term objective could be maintenance and improvement of productive infrastructure - especially power and transport; and the long-term objective could be debt reduction.

Unfortunately the strategy itself, on which everyone seems to be in general agreement, is not the problem. The critical issue is swift, decisive and confident implementation across all departments and at all levels of government. As each opportunity for an asset sale goes past, as each economic target is deferred and as each sensitive decision is postponed, it becomes progressively more difficult for Indonesia to lift the growing weight of its debts and deficits, and there is an increasing risk of losing a generation of young people to poverty and unemployment in this stagnant economy.

Specifically on the question of **SME development**, which remains key for recovery and growth, Canada would like to emphasise that, above all else, SMEs need a favourable macro-economic environment, and a regulatory framework that removes unconstructive controls, thereby leaving SMEs as free as possible to innovate and grow.

Strengthening governance and fighting corruption.

Unfortunately there are two major bottlenecks inhibiting the success of this economic programme: **corruption and insecurity**. In our view, the overall economic programme will certainly fail if the government is not first and foremost clearly committed to cleaning up the justice system, and providing a stable environment for businesses of all sizes. We are not only talking about the climate for foreign investment, where a combination of astounding legal decisions in some cases, absence of legal processes in other cases, and apparent official tolerance of threats to foreigners are likely to have a combined effect of **freezing foreign investment** and leaving IBRA assets without buyers. We are also talking about the problems of chronic corruption and wastage in government spending that directly affect ordinary poor Indonesians, and the **insecurity experienced by tens of millions of Indonesian villagers who find themselves threatened by violent local conflicts** or forced to abandon their livelihoods as they are displaced. We recognise that there are no easy solutions or quick fixes to either of these complex sets of problems, but we also conclude from observation over the last three months that the government is not clearly doing all it can to tackle them. The President's clear statement of her priorities in her first cabinet speech was very welcome, but unfortunately there has not been the concerted, clear and disciplined follow-up required to break out of the status quo. Decisive public actions to tackle corruption in the judiciary and in the police are needed soon, and the efforts of the Government to date are frankly disappointing. At the same time, we should not forget that clear promises were made nearly two years ago to investigate alleged human rights abuses in **East Timor**, and that Government action on that file is now long overdue. We are heartened by the President's recent reiteration of the commitment regarding the ad hoc courts - but we want to see these become a reality soon.

One area of immediate concern, and where we are pleased to note that the Government has started to take steps, is **cutting off the financial flows to terrorist organisations** and introducing measures to prevent **money-laundering**. Given the Government's urgent needs for financing for the deficit and the linked undisbursing ADB loan, we cannot stress strongly enough that the work being done in this area should receive the full and pressing attention of the authorities. We expect that both of these issues will figure prominently on the agenda of the G-20 meeting in two weeks time, as well at G-7 next year. Indonesia's efforts in this field could make an important contribution to the fight against terrorism. At the same time, we feel we must express our profound disappointment that the several ministerial promises to

resolve the **Manulife** case, so clearly expressed to us all here last April, have not yet been fulfilled.

The session yesterday on the achievements of the **Governance Partnership** was most interesting, and we are pleased to continue to support this innovative multi-stakeholder mechanism. We would, however, welcome an increased role from the Indonesian Government and non-government Board members in setting the overall direction of the Partnership, and we would hope that, in time, this unique body could become a forum for practical consultation with donors and a wide range of Indonesian stakeholders on the prioritisation and sequencing of the governance reform agenda.

With regard to **forestry**, Canada shares the deep concerns expressed by the Government of Indonesia, Indonesia's civil society and the international community on the rapid deterioration of natural forests in Indonesia. This situation has severe short- and long-term negative impacts on the socio-economic situations of local communities, the private sector and Indonesia as a whole. We acknowledge that the Government of Indonesia has made progress in recognising the root causes and the magnitude of the problems, and that some processes have been initiated namely within the Ministry of Forestry. We also encourage civil society organisations to continue their public education role. Unfortunately, experience of the last two years shows that all those commendable initiatives are insufficient. It has become ever more imperative that an effective inter-departmental and multi-stakeholder body immediately address the multi-dimensional aspects of sustainable management of forestry. This is a matter of political and environmental security, a matter of long-term economic prosperity, a matter of social justice and equity.

Beyond forestry, on natural resources management more generally, Canada remains most concerned that **overlapping jurisdictions and inattention to critical governance bottlenecks** have prevented concerted action to protect conservation areas from illegal exploitation, while in some cases having the opposite effect of preventing legitimate and economically important new investments. We also believe that effective structures for sustainable management of natural resources need to consider communities as stakeholders alongside investors and conservationists, and that a genuine poverty analysis will appreciate the relationship between poor communities and the natural resources that they rely upon for their livelihoods.

Empowering and investing in the poor.

With regard to **decentralisation** and civil service reform, Canada remains strongly supportive of government initiatives, and we hope to be able to focus a substantial part of our cooperation programme in this area. Indonesia seems to be at something of a crossroads with regard to the financial framework for decentralisation, and we would encourage the government to resist pressures from certain regions to adjust the formula for financial allocation in ways that accord higher priority to powerful vested interests than to the poor.

Decentralisation, if conducted in an effective, transparent manner and implemented with due regard to principles of efficient public policy and fiduciary responsibility, is an important opportunity to correct historical and economic inequalities across this wonderful and diverse country -- inequalities in incomes and in opportunities for the poor, as well as inequalities in political access. We are hopeful that the **special autonomy packages**, if effectively implemented, can help address some of the demands for greater self determination within Aceh and Papua. In order for Indonesia to remain strong and united, these autonomy packages will have to provide concrete benefits to the people of those troubled regions. If managed firmly and in a coordinated way across government, we also expect that decentralisation can make a major contribution to reducing poverty by improving the quality and relevance of all government programmes, as well as ensuring greater transparency and accountability to communities.

Civil society has a very important role in reform at every level, particularly during this transition period towards full democracy when parliamentarians are not directly elected, and there are few mechanisms whereby the public can directly hold government officials accountable for their performance. By the same token, civil society has a responsibility to understand and represent a wide range of publics, and not give priority to fringe groups or narrow interests. In our opinion, government and civil society should both make greater efforts to understand the viewpoints of the other party, and work together to achieve shared

goals. By way of example of unbalanced perspectives, we would have preferred to see the government engage civil society much earlier in discussions about the CGI agenda, and in particular in the context of a poverty reduction strategy we see civil society involvement as a prerequisite to effectiveness - not an afterthought or an optional extra.

With regard to **poverty strategies**, be they national, local or project-level, Canada has a very strong preference for integrated approaches that recognise that up to half of the population of Indonesia is vulnerable to poverty -- in some regions an even higher percentage. We are also very conscious of the **persistent gender gap** in decision-making and in access to resources for development. Because of the depth and complexity of poverty, welfare approaches that attempt to compensate the extreme poor are not sufficient. We also feel that the **urban poor have problems and rights** that are not being well addressed by municipal authorities. In addition to targeted programmes to assist the destitute, we believe that governments at all levels should make it a high priority to appreciate the ways that their policies and resource allocation decisions impact upon the poor and upon women. Decisions across all departments and through all levels of government, ranging from accepting new aid loans and adopting new taxation strategies, through social service priorities and security arrangements, constitutional reform and local regulations, to infrastructure and technology choices, all such decisions can be made in ways that are pro-poor and that reduce the gender gap. We believe that such integrated approaches are needed in order to come to grips with the scale of poverty and gender inequality in Indonesia, and that coordinated pro-poor policies across departments and levels of government are an essential component of good governance.

As far as **basic education** is concerned, we support the recommendations of the working group and their focus upon quality of education services as well as quantity. Together with the ADB, Canada is proud to be supporting the Islamic education system of Indonesia, which has the potential to have a greater impact upon the poor, upon rural populations and upon girls than the secular system. We would urge that the ministries of education and religious affairs work closely together to ensure that their reforms and priorities are synchronised, and that they include a focus on reducing the **significant gender gaps** in the whole education system.

More generally, Canada is very preoccupied by the evidence that **social services like basic education and core public health care programs are not being maintained**. On the one hand, Indonesia has made remarkable progress with its high vaccination coverage and its family planning programme, but it has also lagged behind comparable countries with its maternal mortality and tuberculosis, and its low levels of investment in the health and education sectors. Recent reports indicating reduced vaccination coverage and the introduction of user fees in core public health programs are particularly troublesome. Faced with budget constraints, it seems that many districts are struggling to pay staff salaries and have no money for other initiatives, and it is certain that this affects the poor most of all. In summary, there is an urgency to protect basic health and education services, which are fundamental building blocks of development and not to be confused with special social welfare programs. Access to basic health and education is a right, and measures must be taken to ensure financing is available for such essential programs. For these reasons, we would welcome including **health as a topic for discussion at the next CGI**.

In light of some recent Government statements, a few comments on the **special situation of IDPs** is warranted. As the Government implements its new three-point plan to resolve the IDP problem, we believe it is important that the authorities respect the UN's humanitarian principles, while at the same time addressing the root causes of the various conflicts. Specifically, Canada is concerned that the proposed timeframe for resolving the many and varied IDP situations is too aggressive. We believe that it will take more than the 13 months allocated to find durable solutions for this population of 1.3 million IDPs -- if this is done in a way that will not create additional conflict and perhaps new displacements. Given the extraordinary vulnerability of IDPs and the depth of their poverty, we would like to impress upon the Government the need to look for solutions that are both expedient and sustainable. Simply redefining IDPs as "the poor" and moving them over from one part of the government's budget to another does not seem to be a sustainable solution. We recommend that the Government work closely with the UN Humanitarian Coordinator on the development of more sustainable plans.

Strengthening aid effectiveness

Canada shares with other donors a keen interest in improving the effectiveness of aid, and we are open to consider a wide range of options in Indonesia including parallel financing of well-performing pro-poor initiatives in our areas of programme focus, shared assessments and sector evaluations, and harmonised reporting systems. We would like very much for our activities to be anchored to clear priorities and strategies of the Indonesian government, but must admit that there are **few areas of unambiguous and demonstrated commitment to reform to which we can attach our future programme**. We sincerely hope that this situation will have changed by the next CGI. Finally, with reference to the important matter of taxation that figured quite prominently in the interim CGI meeting, we are very grateful to the government for its steps to revise the regulations pertaining to taxation of foreign workers on development projects, and we trust that any minor unresolved matters can be handled sympathetically by the government, as and when they might arise.

Pledging statement

Canada is pledging up to **24 million** Canadian dollars of country to country grant assistance to Indonesia for the period from 1 April 2001 up to 31 March 2002. Furthermore, we anticipate contributing at least an additional **4 million** Canadian dollars over this period to Indonesian businesses, universities and NGOs, from other CIDA programmes outside the country to country allocation. This represents a package equivalent to last year's contributions.

It is not in Canada's habits and practice to pledge amounts that we know we will not deliver. But it is clear to all of us around the table, as well as in the Bank's document for this meeting, that last year's actual disbursements from CGI members were far below the Tokyo pledges. Only the Government of Indonesia can reduce that gap - not through further commitments but through **implementation**.