

**Statement of the Canadian Delegation
Meeting of the Consultative Group for Indonesia (CGI)
Jakarta June 14, 2006**

Mr Chairman,

Canada would like to thank the Government of Indonesia for their efforts in setting up this meeting and providing the necessary arrangements to make it a successful event. That this event nonetheless takes place following the earthquake that struck in central Java is a tribute to the capacity and resilience of Indonesia today. Canada would like to reiterate, on behalf of all Canadians, our condolences to all those affected by this tragedy and assure Indonesia that Canada will work actively with the government of Indonesia and in close coordination with other donors to relieve human suffering and provide reconstruction assistance commensurate with the needs of the people affected by this tragic event.

Mr Chairman,

There are two main issues that Canada would like to touch on briefly, before addressing coordination issues, and ending with our pledge.

The first point is growth. On the macro-economic front, although having had to face a number of serious shocks - the aftermath of the tsunami, the rising international oil prices and their impact on the budget deficit, the increasing threat of the avian influenza, another bombing in Bali - to name a few, Indonesia's performance has been remarkable, with growth exceeding 5%, inflation well under control, and exchange rates stabilized. We would like to congratulate the impressive achievements of the government of Indonesia in the past 18 months. The Government has managed prudently but has also taken swift and bold policy action, such as the reduction of fuel subsidies, to maintain stability and achieve a high level of growth.

It is well known that, for effective poverty reduction in Indonesia, higher levels of growth are required. Indonesia needs to unlock its growth potential, currently set at around 5%. The realization of this potential is closely tied to improving Indonesia's international competitiveness for foreign investment, as well as encouraging increased levels of domestic investment. This in turn hinges on two key factors.

One major factor is addressing corruption. We applaud the demonstrated commitment of the Government and the significant progress made by the Anti-Corruption Commission (KPK) in investigating and prosecuting high profile cases of corruption. We encourage the government to pursue with unrelenting determination its fight against corruption, including in such areas as the administration of justice and tax administration, so critical to investors, who need access to fair hearings and treatment.

Secondly, we share fully the views of the Government that there is still a need to deepen and accelerate structural reforms. Canada welcomes the efforts and the diligence of the new economic team in framing new policies and legislative reforms destined to improve the investment climate. Such policies and legal frameworks are a necessary, but not sufficient condition, for success. We urge the government to speed up reforms and address implementation bottlenecks. In large part, the reform policy framework exists. Performance in implementing reforms, particularly at the administrative level, is one of the most crucial issues.

Decentralization is the second issue at the forefront of Canada's concerns. Indonesia's process of decentralization, which involves a deep and broad devolution of powers to local governments, has been under way for a number of years. Yet, there is still a need for further clarification with respect to the actual division of responsibilities between various levels of governments, and with respect to the coordination role of various ministries of the central government. We feel it is imperative that responsibilities be clarified and that the process of decentralization be more strongly co-ordinated within GOI. Various central ministries have complementary mandates and there is a risk that, without an effective system to co-ordinate their work, conflicting or diverging measures may be promoted and adopted which will create a confusing implementation platform for local governments and will also result in serious inefficiencies in

the allocation and realization of development assistance projects. This will also affect negatively the delivery of quality public services.

In relation to the issue concerning the division of responsibilities, we press the government to urgently examine how this may hamper efforts to contain and combat the spread of Avian Influenza. AI is an emerging threat that can wreak havoc to the Indonesia economy, in addition to hurting many people. It is a national emergency, which knows no administrative borders and requires in our view a strong, reliable and orderly national response.

Turning now to the subject of coordination, Canada would like to raise the issue of aid effectiveness for consideration by the government, which is directly related, in our view, to the *raison d'être* for the CGI. Last year saw the signature of the Paris Declaration for Aid Effectiveness by a majority of donors, as well as numerous developing partners, including Indonesia. Let us remember that the ultimate goal of improved coordination is more effective aid for better development impact. In order to achieve that goal we need, amongst other measures, to simplify, rather than make more complex, the aid architecture and its approaches.

Canada, like all the signatories to the Paris Declaration, looks forward to aligning our assistance programs on Indonesia priorities, policies and systems. The government of Indonesia has accomplished a lot with respect to policies and priorities. The PRSP has been completed, following broad-based consultations, and it has now been integrated into an MTEF-based planning and budgeting process. It is premised on a rights-based approach, strongly linked to the achievement of the MDGs. It therefore provides a platform of priorities well suited to Indonesia's needs.

We believe there is scope for further improvement of donors' alignment on policies and priorities, and that more efforts are warranted by the government of Indonesia at preparing a comprehensive and integrated architecture clearly identifying responsibilities within the government of Indonesia (who), activities and results (what), and time frames and resources needed (how). These can then become an integrated policy framework from which a donor assistance framework, clearly articulated and co-ordinated, can emerge.

One program area where many donors look toward the Government for greater leadership and coherence to ensure better alignment and improved effectiveness is decentralization, because it is an area where many donors are involved and which affects tangentially so many other areas - as an example, local regulations affecting the business enabling environment.

There are some early and positive indications that the government is addressing this issue. We welcome the creation of a Permanent Secretariat in support of the Joint Working Group on Decentralization, which, by regrouping Bappenas, MoHA and MoF, will help address issues of internal coordination within the Gol system. The drafting of a Grand Strategy for decentralization is also a positive step in our view. Understanding its importance, we urge the government to strengthen the Secretariat, reinforce its leadership capacity to ensure it has the means to bring together, under a comprehensive plan, the work of the various ministries, including, as necessary, line ministries such as Health and Education, and frame an overall architecture for donor support in the areas that will have been identified as in critical need of assistance. In this context, Canada would like to express our interest in supporting the strengthening of the Permanent Secretariat.

With respect to systems, given the pervasiveness of corruption, further efforts are required, both at the national and local levels, to ensure transparent budgeting, expenditure and control systems that can provide a high degree of fiduciary confidence for donors and allow donors to make use of government's public financial management system. We look forward to the government's effort in developing a national framework for capacity building in support of decentralisation and local governance.

As mentioned above, the CGI is closely linked to the question of coordination. There have been discussions in the past few years, on the future of the CGI. Canada strongly supports the CG process, as owned and led by the recipient government. We think that the aid effectiveness JWG should be revived

and revitalized and tasked to look into this issue. In the meanwhile, we would like to offer some preliminary observations. First, that the CGI should be scheduled more regularly. The uncertainty related to the dates of a CGI can only be detrimental to high-level participation by the donor community. Second, that in addition to macro-economic issues, the CGI should start focusing on precisely the comprehensive plans that the GOI can lay out to lead and direct donor assistance in a co-ordinated manner, as such the importance of an active Joint Working Group for important thematic areas. Thirdly, regarding the format, that a pre-CGI day be devoted to finalization of a summary presentation by key JWG's to the CG assembly the following day.

Mr Chairman, at this point, we would like to conclude by stating Canada's anticipated levels of assistance for the 2006-07 period. Our programming includes three thematic areas of focus: support for the expansion of SMEs, improving access to and management of natural resources, and supporting local governance. We will maintain our presence and support to the national government agencies, understanding the importance of maintaining coherence in the policy framework at national and local level. At the local level, our bilateral assistance will be geographically targeted on the island of Sulawesi, where we believe Canada has a comparative advantage given a long-standing presence. In addition to this bilateral programming, we have also a meaningful reconstruction program to help the people of Aceh and Nias, focusing on similar themes as our regular bilateral assistance, namely Private Sector Development, Natural Resources Management and local governance. We will also provide support for the reconstruction efforts in the region affected by the recent earthquake, and will continue provide support through WHO to address the threat of Avian Flu.

For the 2006-07 period, Canada plans to disburse \$23 million in regular bilateral assistance, which includes our support for Avian Flu, and a further \$46 million in reconstruction assistance for Aceh and Nias. In addition, up to \$6 m. will be provided for relief and reconstruction efforts in central Java.