

Eleventh Meeting of the Consultative Group for Indonesia
Jakarta, Indonesia
November 7, 2001

Opening Statement by the Chairman
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Vice President, East Asia and Pacific Region,
The World Bank

Honorable Ministers, Your Excellencies, Ladies and Gentlemen:

It gives me great pleasure to declare open this 11th meeting of the Consultative Group for Indonesia. Let me begin by thanking the Government of Indonesia for agreeing to host these meetings in Jakarta, and, as always, for such generous hospitality. We are particularly grateful to the Governor of the Bank Indonesia for allowing us the use of these excellent facilities.

May I welcome the new economic team led by Pak Dorodjatun to this your first CGI in your present capacities. We look forward to working closely with you and your team in the years to come.

This CGI meeting comes at a critical juncture for Indonesia. In the 12 months or so since the Tokyo CGI, progress on structural reforms and the long term development agenda has been slow. This has resulted in a shortfall in utilization of the aid pledged at Tokyo. But more important, through the first half of this year, investor confidence in Indonesia was weakening rather than strengthening. Consequently, the smooth political transition followed by the good beginning by the new administration have been welcomed by the investor community. Notable among these are the signing of the LOI, and the passage, under the able leadership of the Finance Minister, of a strong, reform-oriented budget for 2002, including a significant reduction in fuel subsidies. I compliment Pak Dorodjatun and his team for this strong start. However, September 11 and the events that followed have worsened the external environment and caused a significant erosion of investor confidence.

We at the World Bank believe that Indonesia now has a narrow window of opportunity over the coming 6 months to restore that confidence. This immediate opportunity needs to be seized urgently by Indonesia's political leaders to lock in macroeconomic stability, restore momentum to the policy reform agenda, and move decisively to reduce poverty and vulnerability.

In saying this, I do not wish to suggest that the task ahead will be easy. The policy reform agenda itself is long and difficult. Managing the consequences of September 11 will impose additional burdens on Indonesia's leadership. Moreover, the agenda must be implemented in a much more difficult environment. For the first time since the onset of the crisis, the huge domestic risks that Indonesia faces are now covered by a new layer of

equally dangerous external risks, with a more prolonged and deeper downturn in the external economy on the cards.

Moreover the unenviable inheritance of this government imposes severe constraints on what can be realistically achieved. Strong vested interests, weak institutions, and a turbulent political transition with ill defined boundaries between the three branches of government make this task unusually difficult. But, as the economic team I am sure is painfully aware, inaction or a weak reform effort will carry its own severe costs and undermine Indonesia's efforts to restore the economy back to a growth path and to reduce poverty.

The CGI meeting provides the Government an opportunity to address these issues and to provide a road map for how it intends to move the agenda forward. This meeting is not about the amounts pledged at tomorrow's pledging session, important as these are. Indeed a strong reform effort will itself create much needed rationale for an increase in donor support and will trigger a resumption in private investment flows. If at this meeting, we can agree to the key elements and actions of a time-bound agenda for reform, and if we can take up Pak Dorodjatun on his offer to review progress in these actions at local level meetings periodically, we will have made real, visible progress.

The overarching theme for this meeting - *Working Together to Reduce Poverty*-succinctly summarizes our ultimate goals as well as the goal of this meeting. The theme correctly emphasizes that our task of working together to reduce poverty does not end with this meeting, but that it is part of a continuous effort in which all of us are engaged. Poverty in Indonesia, we have learnt, is not just about the 10-20% of the population that lives in extreme poverty. It is about the three-fifths or more of the population that lives on less than \$2 a day and is highly vulnerable to both income poverty and social poverty such as lack of access to education and health and vulnerability to malnutrition. Thus poverty is *the* development challenge. It is about keeping faith with the millions of people who patiently queued to vote for democracy and development two years ago .

The discussions at the CGI begin this morning with an overview of issues relating to the macro-economic preconditions for poverty reduction, with a special focus on fiscal sustainability and the enabling environment needed to stimulate growth in small and medium enterprises

Our second session will address issues of governance and corruption which have severe direct and indirect consequences for the poor. We will look closely at the justice sector, a major factor in the slow recovery in investment levels, and at forestry, a subsector that is paying a particularly heavy price for poor governance.

Our third session this afternoon focuses specifically on delivering services to the poor through decentralization, focusing on education.

At the end of the day, we will have an opportunity to review the day's discussions and pull together the key messages and common lessons for Indonesia's poverty strategy.

Tomorrow, we will look at issues of aid effectiveness with a strong focus on how to make aid work better for the poor. This will be followed by the usual pledging session.

Ladies and Gentlemen, I believe we have a rich menu before us. The excellent preparatory work that has been taking place through a series of working groups of CGI members and government representatives has laid the ground work for a good discussion. I have seen the papers from the working group sessions and they are really very helpful. However I will be guided by our discussion here to determine the direction that we want to take. For these sessions to be productive, I would encourage you to keep the discussion informal, interactive and spontaneous. Please table, as far as possible, your formal interventions for the record. I would also encourage you to be as specific as possible with regard to the actions you think are needed by both the Government and the international community, to help move the reform and poverty agenda forward.

Before we proceed any further, may I ask if there are at this stage any comments on the agenda? If not, I would like to call on Coordinating Minister Dorodjatun to speak.