

**INDONESIA**  
**PRIJADI PRAPTOSUHARDJO, Governor**

It is a great privilege for me to represent my country, the Republic of Indonesia, here at this important meeting.

I wish to express my appreciation to the people and government of this beautiful state of Hawaii for the gracious hospitality given to me and my delegation since our arrival at the Honolulu International Airport. I also wish to extend my appreciation to the Asian Development Bank (ADB) for the excellent organization arrangements made for this meeting.

I would start my statement by commenting on the current status of the major reform programs in my country.

Allow me, first of all, on behalf of the government and the people of Indonesia to thank President Chino of ADB for its continuing support and partnership in the institutional reform of our country. Indonesia is the sixth largest shareholder in ADB and has almost 5 percent of the voting power of ADB's total members. Since becoming a member in 1966, Indonesia has received at least 254 loans from ADB, excluding nongovernment guarantee private sector loan, with the two largest lending sector areas, namely social infrastructure (38 percent), and agriculture and natural resources (31 percent). Of the total loans, 71 loans were still ongoing as of December 2000.

The similarity in current sector priorities of ADB and the government of Indonesia over the continuation of Indonesia's structural reforms in economic areas and other issues of governance, decentralization, poverty reduction, and social protection further underlines the important partnership that has evolved between the Indonesian government and ADB. On poverty issues, the government shares ADB's strategy in reducing poverty through private sector development and human and social development. A broad range of issues that ADB is covering such as decentralization, legal and judicial reforms, corporate governance, and environmental management are also priority areas for the Indonesian government.

We therefore want to remind you that the people and the government of Indonesia are determined to overcome the massive challenges we face, socially, politically and economically. Not only do we want to emerge from the crisis but also we want to excel in building a stronger economy and a more democratic society. We know that this is a difficult road and we are taking all the necessary steps despite the difficult process and environment we are facing. We are glad that our partners from the international community, ranging from foreign governments, international organizations, and the private sector, have lent a helping hand, helping us to be more determined to overcome this crisis.

At the macroeconomic level, you may have been aware that we are concerned with our deteriorating budgetary outlook in 2001 due to the recent depreciation of the

exchange rate and increase in domestic interest rates. The 2001 National Budget projected an economic growth rate of 5.0 percent with an estimated budget deficit of 3.7 percent of the GDP. But the sudden slowdown in the United States (US) and Japanese economies have inevitably dragged down regional and global economies, which in turn has hampered our economic recovery process and are now already hurting our non-oil export growth. Our currency has fallen and the estimated budget deficit has increased to 6 percent of the nominal GDP because one third of our budget expenditures has been allocated for servicing our bank bonds interest and higher domestic debt service payments.

During the past months, our economic team has been pursuing intensive discussions with the International Monetary Fund (IMF), both with the Jakarta resident team and the technical team from Washington that visited Jakarta in April. And we are pleased to report that an agreement with IMF has been reached on most issues, including the size of the budgetary problem and the direction of the solution that we will take. In close cooperation with IMF, ADB, and the World Bank, the Indonesian government has also formulated strategy measures called the Fiscal Adjustment Package. initiatives that the government of Indonesia commits to deal with our fiscal position to reduce our current estimated deficit to level of around 3.7 percent of the GDP. This package consists of increasing the value added tax (VAT) tariff in certain commodities, reducing fuel subsidies, enhancing efficiency in allocating decentralization contingency funds, streamlining development spending, and adopting more rigorous measures within the fiscal decentralization framework.

Given the magnitude of the challenges faced by the government, bold initiatives are needed and they will take some time to be formulated. However we are determined to maintain the momentum of economic reforms by (i) carrying forward the corporate and state banks restructuring; (ii) accelerating asset disposal and privatization; and (iii) improving broad areas of governance issues, including judicial reforms to restore market confidence.

As progress is made with our third review with the IMF program, our government is also finalizing negotiations on the bilateral agreements as part of the Paris Club rescheduling program in 2000. While we are expecting the bilateral negotiations to be completed at the end of May this year and hoping that the second phase agreement can be implemented soon after the completion of the IMF review, we remain committed to the agreement and obligations we have to the Paris Club.

Let me now turn to our development program. Poverty reduction is one of the most important priorities for the Indonesian government. To reflect this, our government has established the Coordinating Agency for Poverty Reduction. This agency has a mandate to develop new programs and policies to address poverty reduction and to facilitate and coordinate mainstreaming poverty reduction efforts at the national and regional levels. Strategic preparation is also under way through bottom-up participatory mechanisms, which will include working closely with key agencies that are responsible for essential service delivery to the poor, the design of the budget-financed programs

affecting the poor, and the development of pro-poor formula on general funding allocations to the regions. The Government is pleased that it has entered into a poverty reduction partnership agreement with ADB. We commit to work hand-in-hand with ADB to achieve the poverty reduction targets outlined in the agreement.

On small and medium enterprise (SME) development, the government of Indonesia recognizes the important role of the SMEs in economic recovery. We are therefore taking the necessary steps to ensure successful reform of the SMEs, which have been strategically coordinated at the national level. These include improving the enabling administrative and business environment, promoting financial services through microfinance institutions, and providing support for business development. The government is also encouraging the local government's ownership of SME development in the context of implementing decentralization in the region.

Even though we recognize that there are some outstanding issues that need to be resolved, it is worth noting that on decentralization the government is making progress. First, the regulatory framework for implementing decentralization has already been completed; second, local government organizations are working to implement that framework, especially with the preparation for laws on special autonomy for certain regions. In order to achieve better equality and service delivery, procedures to redesign and improve the distribution of the General Allocation Fund for the next fiscal year are also being introduced. The central government has taken an initiative in prohibiting the local governments from borrowing in 2001 to ensure that our debt management is under control. Our central government is also committed to protect and promote foreign direct investment throughout the regions in the context of decentralization by putting in place regulations to honor all existing commitments with the foreign investors.

Currently, we have completed the draft framework for decentralization capacity building in which we emphasize the need to monitor and evaluate activities in the regions as a crucial aspect for the success of decentralization. A Regional Autonomy Advisory Council (RAAC) has also been established to facilitate the transition process to decentralization and to monitor the implementation of the program, together with inspector generals in each province, to increase the accountability of the local governments.

Restoring market confidence is the highest priority for our country. For instance, the Indonesian government has identified as priority a wide range of governance issues, from reforming the civil service system to working closely with the business community to improve corporate governance. At the same time, we are involving civil society in this program to increase transparency and to fight against corruption. We are also actively pursuing criminal cases against individuals for past corruption both to achieve justice and to act as a deterrent. As part of these efforts, the government is pressing ahead to process a number of cases related to foreign investors.

There is little doubt that Indonesia must confront a number of important challenges, from the challenge of improving the democratic life of our country to the task

of better adjusting the economy to the challenges of globalization. All of this must be carried out at a time when the US and Japanese economies may be slowing down, although we are confident that global growth will pick up later this year, which will have much benefit for our economy.

Soon after the crisis in 1997, our economic improvement began with increased consumer spending and strong non-oil export growth. By the fourth quarter of 2000 and now into 2001, however, export growth has slowed substantially while demand for imports has accelerated. In the first quarter of 2001, the inflation rate had risen due to the continuing weakness of our currency. To deal with this problem, Indonesian Central Bank implements some monetary policy measures to restrain the growth of the base money. In the short run, it may hurt the banking system, but this step is necessary to bring macroeconomic stability in the medium term and to lower the nominal interest rate in the future.

We are stepping up efforts to recapitalize and consolidate the banking sector by the end of this year. The Indonesian Banking Restructuring Agency (IBRA) is continuing to restructure portfolios of nonperforming loans and provide new loans. Last year, about Rp45 trillion of new loans was offered by the banking system, though total lending decreased.

Ongoing progress in corporate debt restructuring and asset sales has been the responsibility of IBRA and the Jakarta Initiative Task Force (JITF). Recently, Parliament has approved the sale of the government shares in Bank Central Asia and Bank Niaga to be proceeded by June of this year.

We are very determined to move quickly to resolve outstanding cases by implementing new standards for reviewing debt-restructuring deals with more transparency. IBRA has also made a commitment to meet our revenue targets for privatization and asset sales as scheduled on the timetable, and to advance the privatization of its other banks to be privatized. Finally, in order to achieve effectiveness in providing credit to private sectors, our government is determined to resolve the corporate debt problems without delay and provide more resources to IBRA's Oversight Committee to facilitate and improve the reporting and review of the process. The government's next steps now are accelerating the restructuring of companies and employing privatization to include public participation in the management of the state owned enterprises.

We recognize that the private sector, especially foreign investors are instrumental in the rebuilding of our economy. Our government therefore is committed to accelerate the process of privatization and offers strategic investors to come to our market. To ensure optimal conditions for investment, the government will do its utmost to ensure that the security situation improves and that macroeconomic stability prevails. The government's economic team is examining ways to improve the investment climate, the credit available for SMEs from the banking system, and the legal system in the country. We also want to ensure that corrective policies are introduced so that the

government's budget deficit does not undermine private investment.

The economic and social challenges we face are daunting but I believe we are beginning to make serious progress that will see Indonesia on the road to economic recovery. Again, on behalf of our people and our government, I would like to encourage you to continue to join us in supporting the painful, but ultimately rewarding, process of economic and institutional changes that my country is experiencing. To the foreign donors among you, let me assure you that we are committed to ensuring that assistance is used effectively and efficiently and that accountability of donor funds is something we put the highest priority on. My government committed to establish a High Level Commission on Financial Management and Procurement to formulate procurement policy and procedures and monitor compliance to improve the future management of our public finances.

In closing, I would like to remind you that before the 1997 crisis, Indonesia was recognized as a favorite destination of investors. While the crisis has created profound challenges for us, we still believe that, with the right reforms, the long-term outlook for our economy can be a shiny one. We believe that the underlying economic potential of the country is good and that with your support to accelerate reforms, we will once again experience economic growth and prosperity to achieve common well-being for the Indonesian people.