

PROCESS OF COUNTRY STRATEGY AND PROGRAM PREPARATION

1. The 2002 Country Strategy and Program (CSP) follows from the 2001 Country Operational Strategy (COS). Its strategic vision was maintained in the CSP. The overall process relied upon the development of the Poverty Reduction Partnership Agreement, which was signed in April 2001 and reviewed in March 2002, providing scope for reviewing and validating the direction of the CSP.
2. Other international funding agencies were also reviewing the strategy of their assistance programs in 2001 and 2002; including the World Bank, Department for International Development (DIFD), United States Agency for International Development (USAID), Canadian International Development Agency (CIDA), Australian Agency for International Development (AUSAID), and German Agency for Technical Cooperation (GTZ), providing scope for extensive discussion. The draft CSP was presented to international development partners during the March-April 2002 Country Programming Mission, which provided the opportunity to discuss project cooperation.
3. The COS was based on extensive discussion with local government officials and civil-society groups. More discussion on the CSP followed. In 2002, consultations were held with local governments and civil-society groups in West Kalimantan, Southeast Sulawesi, and North Sumatra, where the strategic thrust of operations of the Asian Development Bank (ADB) was generally appreciated. However, the absence of an on-lending policy clearly affected the discussions, as local governments cannot ascertain the costs of anticipated foreign assistance channeled through the central Government. One concern is that ADB's increasing emphasis on a geographic focus may leave some areas ineligible for support. However, the intent of the geographic focus was explained as centering activities, and that regions would not be left uncovered by international assistance.
4. Discussions with civil-society groups revealed an increasing unease with the costs of poor governance associated with international assistance: much of the potential benefits from foreign assistance are widely perceived to be lost due to corruption. Debt forgiveness due to past corruption was a recurring theme, although ADB's lack of a mechanism for such activities was noted. Civil-society groups were generally willing to help ADB design better monitoring mechanisms to enhance future project effectiveness. Nongovernment organizations (NGOs) also said that perceived corruption is a factor in their opposition to such policies as privatization. No strong consensus has yet emerged in favor of some aspects of Government policy. On the whole, NGO and civil-society groups welcomed better interaction and participation in ADB activities.
5. The CSP was based on a governance assessment conducted by the Indonesia Resident Mission (IRM). This document is being reviewed for external dissemination. It provides one of the few comprehensive pictures of governance issues in the country. The study provides an analytic base to address problems such as corruption and understand the need to strengthen law preparation and public sector administration, advance civil service reform, and meet judicial system requirements.
6. The CSP builds on work done for the COS, including the extensive 2000 *Assessment of Poverty in Indonesia* and preliminary assessments of the environment, gender and development issues, and private sector development. In 2002, a country economic report provided background analysis on economic developments. Economic Thematic and Sector Works (ESW) in a large number of sectors also provided input for the CSP, including on agriculture,

competition policy, financial sector, poverty, Small- and Medium-Sized Enterprises (SMEs), the urban sector, and water resources. A full private sector assessment is planned for 2002. Preparation of detailed road maps in all sectors and thematic areas considered for inclusion in the CSP were also an important feature of the CSP process.