

## Indonesia: Country Strategy and Program Update 2004- 06 – A Further Update

*The White Paper:* The Government announced an economic policy package (commonly referred to as the White Paper) in September 2003 as part of the process of ending the economic program with the IMF. The main objectives of the policy package are to (i) sustain and build on the macroeconomic stability that has been achieved; (ii) continue restructuring and reforming the financial sector; and (iii) increase investments, exports and employment. In each of these three main areas detailed policy measures have been enumerated<sup>1</sup>. Progress in the implementation of reforms in the White Paper will be monitored regularly by the Government. This self-monitoring of its internally generated policy reform program will take place along with the continuation of the usual Article IV annual consultations by the IMF. The Government has also agreed that the IMF undertake post program monitoring, which is a monitoring program for countries that have completed economic recovery programs with that institution. These measures are expected to provide a positive signal to the markets, which have been concerned about a possible slow down of reforms after the formal termination of the IMF program at the end of 2003. In fact two credit rating agencies, Moody's and Standard and Poor have upgraded their Indonesia ratings since the White Paper was announced.

The policy measures listed in the White paper contain a considerable number which fall in sectors where ADB is providing critical support towards policy formulation and implementation or has planned support under the CSPU. In the area of macroeconomic stability, for instance, ADB is providing assistance for privatization of state owned enterprises, an important reform initiative to be monitored in the White Paper. On the financial sector initiatives, ADB's support is critical in areas such as establishment of a Financial Services Authority (OJK), and in the development of capital markets and insurance and pensions services. Other important reforms proposed where ADB involvement will be important include the investment law, development of SMEs, support for the establishment of the Anti-Corruption Commission, reforms in energy and other infrastructure sectors (including social infrastructure sectors) and in finalization and implementation of a poverty reduction strategy.

The White Paper's emphasis in areas supported by ADB is broadly consistent with ADB's strategy in these sectors. It could provide a useful forum for monitoring progress on ADB's own program loans especially in those areas of reform that have been delayed and help speed up disbursement of delayed loan tranches.

*The 2003 Program:* The 2003-05 CSP had originally envisaged a program comprising 11 loans totaling \$1.005 billion for 2003. However, owing to slippages in processing, (due *inter alia* to delays in policy changes which affected program lending and lengthier processing time needed for projects involving regional governments), only the following projects are currently being processed for approval in 2003:

	Project	Amount (\$ million)
1.	Participatory Irrigation Sector	74.0
2.	Rural Microfinance	123.8
3.	Second Decentralized Health Services	100.0
4.	Neighborhood Upgrading and Shelter Sector	83.0
5.	Local Government Financing	20.0
	<b>Total</b>	400.8

It is currently expected that a total of 22 TA projects (including 2 standby TA projects) totaling \$12.615 million will be approved in 2003 as against the same number but totaling \$13.05 million originally programmed in the CSP.

<sup>1</sup> Further details may be seen in the 2003 CER