



# 39<sup>TH</sup> ANNUAL MEETING

## BOARD OF GOVERNORS

ASIAN DEVELOPMENT BANK

Hyderabad, India

4–6 May 2006

GS-40

### INDONESIA

**Sri Mulyani Indrawati**, Governor

On behalf of the Indonesian delegation, let me first convey my appreciation to the people and the Government of India for their generosity and hospitality.

We also would like to express our sincere appreciation and congratulate President Kuroda for making excellent progress on several fronts, including ADB's internal reform agenda within his first year of leading the Bank.

On ADB's regional strategy, we place great importance on regional cooperation and integration, and appreciate ADB's attention to this key area, and its focus on bringing coherence to this process. We recognize the positive attributes of the Bank's strategy for enhancing regional connectivity. It is important for ADB to undertake extensive consultation with regional members, including other multilateral institutions such as the Bretton Woods Institutions, in order to clarify divisions of labor and efficient resource allocation, and to obtain full consensus before new initiatives under the regional cooperation and integration strategy are pursued.

We strongly support efforts to streamline business processes within ADB, such as the innovation and efficiency initiative. This initiative should be translated into reducing borrowing transaction and financial costs, especially reflected in terms of lower commitment fees. We welcome the commitment under the second medium-term strategy (MTS II) of portfolio management, including the quality of project design and implementation as top priorities. We would like to stress the need for ADB's increased quality assistance in capacity building and institutional strengthening in these key areas. Such steps will help alleviate the heavy burden of commitment fees imposed on borrowers like Indonesia, and greatly improve ADB's ability to implement sound projects and programs.

We are pleased with the Bank's decision to maintain loan charges at current levels, including an additional 12-month waiver extension of front-end fees. Additionally, we would be grateful if this could be extended for 36 months in view of ADB's strong financial outlook for 2006-2008. These savings would significantly improve our Government's program borrowing requirements.

We acknowledge the proper allocation of ADB's 2005 net income. In particular, we welcome the generous portion allocated to the surplus account, reflecting ADB's commitment in restoring this to pre-tsunami levels while strengthening the Bank's flexibility and capacity to deal with unexpected emergencies.



ADB

On the issue of ADB's loan conditions, we urge the Bank to explore and develop relevant, appropriate, and reasonable conditions. ADB's recent approach of providing single-tranche programs within a medium-term framework is consistent with our Government's thinking and compatible with our strong ownership of reform. Such an approach also recognizes Indonesia's stature as a growing middle-income country, with a clear development vision and commitment.

Let me now turn to the Indonesian economy. We continue to experience a strong economic recovery. In 2005, our economy grew at 5.6%, the highest since the economic crisis. We remain vigilant in order to preserve our fiscal sustainability and will continue to pursue a prudent and disciplined fiscal policy. We will continue to coordinate closely with our independent central bank, Bank Indonesia, on macroeconomic policies for maintaining a sound macro-environment that supports sustainable high growth.

We are focused on achieving our projected growth of around 6% for 2006, while maintaining macroeconomic policies that can endure potential external shocks and market disruptions. We have launched two comprehensive policy packages, one focused on accelerating infrastructure development, the other on strengthening the investment climate. A third policy package is being developed, with a focus on strengthening the financial sector. These policy packages are designed to address the key constraints in attracting investments, both domestic and foreign.

At the Ministry of Finance, we are continuing to implement major reforms, most notably in the areas of tax and customs, to improve our competitiveness, and to maximize revenue collection. Strengthening our fiscal management, improving the quality of public spending, and strengthening our treasury management are also important to Indonesia in meeting its development priorities.

In addition to private capital, we will look to tap official sources, including ADB, to finance our development needs in the coming years. Among the key areas of support from ADB, infrastructure development will be assigned a high priority. We also seek to catalyze ADB financing to achieve greater efficiency of our public expenditures that target poverty reduction and the accelerate progress toward the Millennium Development Goals. Given our reform and financing needs, we plan to seek greater program lending support from multilateral development partners, including ADB. Such assistance will be blended in a prudent manner with project financing support. As the Government remains fully committed to policy reforms and has shown clear results, we are confident of working closely with ADB.

I wish to emphasize my earlier point on the need to reduce transaction costs of program and project preparation and execution. We understand this applies to both sides—as ADB endeavors to reform its internal processes, the Indonesian Government is fully committed to addressing our constraints. We are keen to work with ADB to design flexible programs and projects under the innovation and efficiency initiative, which has the potential to reduce the transactions costs of financing our development.

Going forward, we also believe our work with the ADB can help deepen our reforms and strengthen our institutions while achieving a mutually beneficial outcome.

Finally, I wish President Kuroda every success in his leadership of this important regional development institution and look forward to a closer partnership.