



The World Bank and Indonesia

Our dream is a world free from poverty

THE WORLD BANK

Past

The World Bank has been active in Indonesia since 1967 and has financed close to \$25 billion worth of development projects in all sectors of the economy – agriculture, education, health, social development, transport, energy, urban development, infrastructure – while providing advice with economic policy making, institutional development, and poverty alleviation programs. The Bank helped finance Indonesia's first real road network, electrical grid, and telephone system; built schools, provided textbooks and teacher training nationwide; supported the national *Family Planning Program* by financing headquarters and supply warehouses in Jakarta, 27 provincial capitals, and 301 district capitals; and improved the lives of urban and rural dwellers by building small infrastructure, irrigation and sanitation systems.

From 1967-1997, Indonesia saw its economic performance soar, with growth at 7% a year; its poverty rates fall from 60% of the population to 11%; and standards of living improve. Adult literacy went from 56% of the adult population to over 90% today. Fertility rates declined from 5.4 in early 1970s to 2.6; life expectancy increased by nearly 20 years – from 46 years in 1967 to today's age of 65. Production of food doubled; trade volume of exports grew at 8% a year – Indonesia was considered a “model” of development success. Then the Asian Financial Crisis struck in mid-1997.

Crisis

In the two and a half years since the crisis hit Indonesia, the country has been subjected to unprecedented economic, social and political pressures. The World Bank has been steadily adapting the focus of its program to meet the changing needs of a country in crisis:

- **pledged \$4.5 billion to Indonesia** as part of IMF-led assistance program, and stepped up lending in the context of the Consultative Group on Indonesia (CGI) framework, committing a total of \$3.6 billion during FY98-00.
- **shifted focus of lending from project to adjustment lending** – which are quick-disbursing funds in exchange for government commitment to policy reforms – and directed priorities to reinforcing social safety nets; stabilizing the economy by helping restore banks and businesses; and building foundations for strengthening institutions.
- **continued to support the IMF program** and participate in the formulation of the Letter of Intent (LOI), with responsibility for the structural reform agenda – social safety nets, corporate restructuring, banking reform (jointly with IMF) – and in coordination with IMF and ADB, advising on agriculture and trade policy; corporate governance; privatization and state enterprise reforms; legal reforms; small and medium enterprise reform; energy sector; and environment.
- **canceled \$1.5 billion in undisbursed commitments** and redirected another \$1 billion into crisis-targeted programs such as school scholarships, social and human development and rural investment – to help maintain the relevance our programs, while reducing the overall financial burden Indonesia carries.

Change

Two and half years later, Indonesia is slowly emerging from the political and economic crisis, and has embarked on a democratic transition with a new President committed to fighting corruption and building a competitive and just economy. Indonesia has undergone tremendous change – as has the World Bank, in both its program and its approach, in Indonesia. The Bank has:

- **Increased engagement with NGOs**, academics, and leading thinkers on issues important to the future of the country – social safety nets that reach the poor, growing debt and effective use of foreign borrowed funds; and improved transparency of the development agenda.
- **Tightened internal controls of its lending program**, working to eliminate waste, to investigate allegations of corruption within its own projects, and to resolve implementation problems in procurement, financial management and flow of funds.
- **Addressed concerns over corruption and good governance** in Indonesia, tying adjustment lending to governance improvements in the national social safety net program, halting budget support over the Bank Bali scandal, and seeking new ways to improve governance through a multi-donor coordinated program of anti-corruption initiatives, legal and judicial reform, institution building, and assistance with decentralization. (see World Bank-UNDP Partnership on Governance)

Challenges

While Indonesia’s gains in achieving political transition, economic stabilization and signs of recovery are encouraging, the remaining challenges are formidable. Sectarian violence and regional tensions have exposed deeper social problems in the country. The crisis has revealed deep structural faults in the economy. The government has accumulated record levels of debt. And it faces the difficult trade-off, as it moves towards a longer-term development strategy, of limiting foreign borrowing and cutting spending while still trying to provide essential services such as health, education, roads, irrigation and, at the same time, ensuring that public funds are not wasted — against the backdrop of an increasingly active and demanding political environment.

Through our “Country Assistance Strategy”, the World Bank is hoping to develop – in close coordination with Government, civil society, and donors – a coherent strategic framework to guide our assistance program over the next three years, according to Indonesia’s medium-term priorities. We aim to focus on areas key to Indonesia’s future – poverty reduction, good governance, and economic reform – while continuing to provide global knowledge and policy advice, and improve the effectiveness of our ongoing lending program.

economy

Restructuring for a competitive and just economy. Sustained growth is essential for sustained poverty reduction – this is why we, together with the Fund, have emphasized restoring macro stability – and pushing ahead with bank and corporate restructuring. But progress has been slow, and commitment to reforms has been delayed and, at times, lost, in the implementation, in the face of strong political and vested interests. Although Indonesia has seen some signs of recovery and dropping off of poverty levels, much remains to be done. Both the Indonesian Bank Restructuring Agency (IBRA) and the Jakarta Initiative – a framework for debtors and creditors to negotiate restructuring plans – need to be strengthened and improved, and given stronger political backing and the “teeth” to move seriously ahead in addressing the public and private sector debt overhang. Also, we need to think about how to sustain this growth over the medium term. That will require investment – in both human resources and physical infrastructure. It will also require closer attention to protecting the natural resource base of this country, including forests, water and land.

poverty

Understanding and responding to the poor. Estimates show that the number of poor doubled from 11 percent in 1996 to over 20 percent in end-1998 – 40 million Indonesians are living in poverty. To respond to the growing poverty, the World Bank assisted the Government with improving the design, implementation, and monitoring of a national social safety net program (JPS) that provides rice, short-term income-generating opportunities, and access to social services, as well as helped set up the Social Monitoring and Early Response Unit (SMERU) to gain better knowledge of the impacts of the crisis through field assessments and

community monitoring. We are in the process of completing a new Poverty Assessment to improve understanding and lay the groundwork for the design and implementation of post-crisis poverty programs, and are assisting the Government make the transition to medium-term poverty programs and investments in health, education, and job-generating opportunities.

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Building good governance and fighting corruption. Corruption, collusion and nepotism (KKN) is the biggest obstacle to reducing poverty in Indonesia. Indonesia needs to embark on a long-term program of institution building accompanied by decisive early actions that send strong signals of the government's commitment as well as contribute to the reduction of corruption and leakage in the short run. This program will need to focus on legal and judicial reforms, civil service restructuring, decentralization, government procurement and financial management and corporate governance. The Bank is supporting governance reforms through: (1) analytical work on public expenditures, public procurement and financial accountability; institutional and governance reforms; (2) assistance with the decentralization process; (3) innovative projects in the urban, transport, education and health sectors; and (4) future loans that directly support nation-wide governance reforms in areas that emerge as priorities, and (5) coordination work through the World Bank-UNDP Governance Partnership. To work on reducing leakage in our own projects, we have been helping the Government improve its procurement and financial management, are reinforcing our efforts to monitor and enforce compliance with World Bank accounting and auditing requirements and systematically following up on all significant audit findings with executing agencies, and have begun investigations that have resulted in barring some firms from participating in future procurement and refunds for projects that were ineligible for bank financing. (for more on this see CGI note: Controlling Corruption in World Bank-Finance Projects)

Working with Others

Since the crisis began, the Bank has been part of a collaborative effort with the IMF, ADB and bilateral donors to help the Government define its response to the crisis, and to arrange adequate international financial support. As Indonesia moves out of the crisis and into a medium-term development strategy, the Bank will continue to work with donors and other agencies around an agreed country framework, selecting areas of focus and intervention among donors, and working together to help Indonesia meet its development goals.

As chair of the Consultative Group, the World Bank organizes the Consultative Group Meeting on Indonesia, (CGI) an annual meeting among the 33 bilateral and multilateral donors to Indonesia, the last one held 1-2 February 2000 for the first time in Jakarta. The purpose and format of this group has changed dramatically in recent years, with the focus now much more on improving the effectiveness of development assistance.

program

World Bank Program in Indonesia – At a Glance

- 59 investment and 2 adjustment operations
- \$3.65 billion undisbursed -- \$6.25 billion committed
- FY99 (July 1998-June 1999): \$2.15 billion disbursed (\$1.55 billion in adjustment lending)
- FY00 (July 1999-June 2000): planned project lending-\$243 million (\$88 million IBRD, \$155 million IDA). \$748.6 million disbursed as of April 2000 (\$300 million in adjustment lending).

INDONESIA - BANK GROUP PROGRAM SUMMARY, FY 1999-2001

<i>FY</i>	<i>Project</i>	<i>US\$(M)</i>
1999		
	ADJUSTMENT LENDING PROJECTS	
	POLICY REFORM SUPPORT LOAN (A)	1,000.0
	SOCIAL SAFETY NET ADJUSTMENT	600.0
	PRSL II	500.0
	WATSAL (SECAL)	300.0
	INVESTMENT/TA PROJECTS	
	EARLY CHILD DEVELOPMENT (A)	21.5
	SULAWESI BASIC EDUCATION	63.8
	SUMATRA BASIC EDUCATION	74.6
	FIFTH HEALTH PROJECT (A)	44.7
	URBAN POVERTY ALLEVIATION	100.0
	CORPORATE RESTRUCTURING (TAL)	31.5
	LEARNING AND INNOVATION LOANS (LILs)	
	MUNICIPAL INNOVATION	5.0
	SUBTOTAL	2,741.1
2000		
	COMMUNITY EDUCATION	48.5
	DISTRICT HEALTH	50.0
	WATER SUPPLY & SANITATION FOR LOW INCOME COMMUNITIES II	60.0
	DECENTRALIZED AGRICULTURE AND FORESTRY EXTENSION (A)	18.0
	SUBTOTAL	183.7
2001 (TENTATIVE)		
	PROVINCIAL HEALTH	75.0
	BASIC EDUCATION V	60.0
	LAND ADMINISTRATION II	70.0
	WATER SECTOR MANAGEMENT	100.0
	EASTERN ISLANDS ROADS	100.0
	LOMBOK POVERTY	15.0
	URBAN SECTOR &/or WATER SUPPLY SECTOR	100.0
	POLICY REFORM SUPPORT III	600.0
	SUBTOTAL	1,120.0

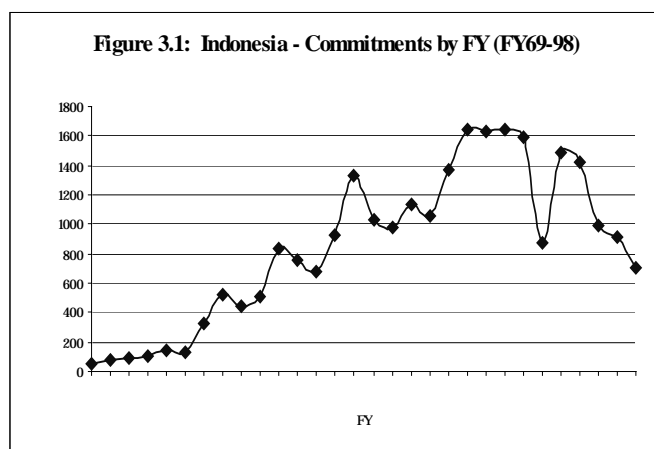


Table 1: Sectoral Distribution of Bank Lending, FY69-98

Sector	US\$M	Percentages			
	1969-98	1969-98	1969-79	1980-89	1990-98
Infrastructure ^a	10,196	40.2	36.9	34.3	46.9
Agriculture	4,880	19.2	34.8	24.7	9.5
Education/Health, Nutrition & Population	3,301	13.0	7.3	11.6	16.0
Urban/Water Supply & Sanitation	2,624	10.4	6.1	6.6	15.1
Finance	1,818	7.2	6.6	10.4	4.2
Adjustment	1,200	4.7	-	8.7	2.2
Other	1,351	5.3	8.3	3.7	6.1
TOTAL	25,370	100.0	100.0	100.0	100.0

For more information, please visit the World Bank's East Asia and Pacific website at: <http://www.worldbank.org/eap>

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