

BOARDS OF GOVERNORS • 2006 ANNUAL MEETINGS • SINGAPORE

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 28

September 19–20, 2006

Statement by the Hon. Ms. **SRI MULYANI INDRAWATI**,
Governor of the Bank for **INDONESIA**,
at the Joint Annual Discussion

**Statement by the Hon. Sri Mulyani Indrawati,
Governor of the Bank for Indonesia,
at the Joint Annual Discussion**

Mr. Chairman, Fellow Governors, Ladies and Gentlemen,

We appreciate the on-going efforts to address change at the International Monetary Fund and to increase the role and voice of developing countries. This change is overdue and should improve both policy and results. I would also emphasize the need to move more quickly and coherently on global macroeconomic imbalances and the need for the Fund and major relevant countries to press this agenda more forcefully.

We very much support the Doha Development Agenda and regret the current impasse. All sides need to press ahead and to be prepared to make concessions, but I request that industrial countries reflect on the fact that this is a development agenda. We appreciate the role that the Bank and Fund have been playing here and would urge them to continue.

Governance

We welcome the World Bank's new strategy on governance and anti-corruption. In Indonesia we need no convincing that good governance and the fight against corruption are central to achieving our goals. Our citizens know this too. They want better services, more jobs, and greater security. They know that unless government is accountable and transparent, their hopes will not be met.

The demand for better governance is the reason that President Yudhoyono received more votes in a Presidential election than any person in history. He promised to make governance reform the centerpiece of his administration, and we are working hard to deliver.

We've got a lot of media attention for the large number of high level corruptors that we have prosecuted. But our plan goes way beyond these headlines. We are tackling the incentives and the opportunities to engage in corruption by introducing new systems to manage public funds, reduce burdensome regulations, and build public-private partnerships based on transparent competition.

And we want to go further to address the real incentives that shape the behavior of our civil servants – low pay and the weak linkages between pay, responsibilities and performance.

We greatly appreciate our partnership with the World Bank and the Fund in this effort. But we can do even better together. I have four suggestions:

First, back up your words with real financial support when we need it. Governments that are trying to undertake difficult governance reforms are fighting all sorts of interests. Financial assistance can make a difference, but only if it comes at the right time. The World Bank needs to stay engaged financially with countries to make a difference, even in the most difficult cases.

Second, support our plans, not ideal plans. Like many governments we have a comprehensive plan to improve governance. It is not perfect. It reflects the real, messy politics of development, especially in newly democratic systems like Indonesia. Please assess the Government's commitment to reform in a consistent and transparent manner and support our momentum for reform. Don't tie support to narrowly defined conditions from an ideal plan.

Third, give us the technical expertise – in country and on our schedule. There are no simple solutions to governance problems and we are all learning by doing. International experience can help enormously. But the era is over when big missions are needed to fly out from Washington to diagnose our problems and suggest solutions all within 2 weeks. We need more people on the ground, who can work with us, side by side, at our pace,

meeting our deadlines, and facing our pressures. And we need different sort of people – specialists on public financial management, public procurement, civil service reform, and anti-corruption. If you want to help us improve governance, start by changing the way the Bank works on the front lines. I’m happy to say this is now happening in Indonesia, with a full time governance team in Jakarta.

Fourth, act as partners, not preachers. If you want us to be open about corruption, the World Bank needs to be more open with us about your own corruption investigations. When corruption is found in Bank-financed projects, let’s use this as an opportunity to target the systems that gave rise to that corruption. But to do this, we need to work together on joint investigations and on joint solutions. The Bank should work in partnership with our own institutions to share information on corruption investigations in a timely manner. We also need to work together on asset tracing and asset recovery . And we need to send a powerful message to investors that bribery will bring few advantages and serious risks.

We are already putting these ideas in place in Indonesia, working together with the World Bank and IMF teams on the ground. The new governance strategy provides an excellent opportunity to deepen this engagement on the critical issues our Government is facing.

Key Developments

In closing, a brief word on Indonesia. It’s been another challenging year, with a severe earthquake in Yogyakarta and Central Java, and another tsunami in West Java. While less dramatic than December 2004’s Tsunami in Aceh, these disasters killed thousands and displaced hundreds’ of thousands of people. And once again we thank the Bank and Fund as well as all our development partners for their assistance.

At the end of last year we doubled domestic fuel prices to remove distortions, and introduced a cash compensation scheme to prevent real incomes of the poorest 60 million people from falling. These measures have been successful, but necessarily resulted in a

slowdown in the first half of 2006. This year should see growth around 5.8% with momentum carrying into next year where we expect to see 6.3% growth.

We have recently announced two new national poverty initiatives to help meet our MDG goal. First, a scaling up of the highly successful Community-Driven KDP program (to be expanded from 40,000 villages today to all 72,000 villages in the country). Second, the introduction of a Conditional Cash Transfer system that will be designed to help finally break the pernicious transfer of poverty from one generation to the next. .

Distinguished Board of Governors

Let me close my remarks by once again pledging my support for our mission to improve governance and reduce poverty.

Thank you.