Statement by H.E. Mr. Prijadi Praptosuhardjo
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Indonesia
On behalf of the Southeast Asia Group
On behalf of my constituency, let me first take this opportunity to congratulate H.E. Mr. Yashwant Sinha, in his role as the new Chairman of this Committee and wish him well in the conduct of its deliberations. I would also like to express our heartfelt appreciation to Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand, for his valuable leadership as the Chairman of this committee for the past two years.

Although the global economy appears to have ascended from the financial crisis and as we are witnessing conditions pointing to stronger growth performances, we must, nevertheless, devote adequate attention to the significant risks that still remain and the wide disparities in the performance of countries across regions. For the developing countries, continuous and steady growth of major industrial countries, particularly the USA, and the return of world oil prices to its normal level are especially critical for their economic prospects in the short to medium terms.

In East Asia, we are also beginning to observe that the economic recovery has begun to move beyond the susceptible stage, even though in several countries crucial corporate and financial restructuring efforts have yet to be completed. In this context, we fully welcome the thrust of the agenda of our meeting today, which is to ensure that the Bank continues to remain relevant and play a vital role in helping its borrowing member countries to address the challenges while at the same time exploit the benefits of increased globalization.

**Poverty Reduction and Global Public Goods**

Let me now address the first item in our agenda, namely, poverty reduction and its link to global public goods. The growing openness of countries has brought about potential huge benefits for developing countries, but at the same time it has also increased the threat of global systemic risks. Moreover, the strength of non-state transnational actors has contributed to the cross-national spillovers of the causes and effects of poverty. It is, therefore, imperative for the
Bank to sharpen its focus on global public goods in selective priority areas and act on the basis of its existing comparative advantages and experiences. In this regard, we strongly endorse the Bank’s intention, in cooperation with other partners, to develop appropriate instruments for its future interventions both at the global and country levels.

We endorse the working definition of global public goods as presented, but we expect that a sharper definition will evolve as the Bank gains experience in global public goods. We also support the proposition that in taking action at country level, such an action must have a strong direct impact on poverty reduction.

International financial stability is critical to the global economy. In this respect, we would urge the Bank to approach the issue of international financial stability as a global public good more systematically. Based on its mandate and comparative advantages, the Bank together with all relevant partners should address the systemic risks inherent in international rules, standards, and policies that have substantial cross-border externalities.

With regard to the financing of global public goods, it is imperative that an equitable burden sharing among all stakeholders be formulated. We expect that ways would be found to strengthen cooperation with other development partners especially the United Nations. Stronger international cooperation is particularly critical given the limited resources available to the Bank to cater for global public goods. In this connection, we have some concerns about the appropriateness of relying too heavily on the Development Grant Facility as the main financing vehicle for the Bank, given its relative small size, unless additional resources are mobilized to supplement the DGF. Moreover, there may also be scope for more systematic use of donor trust funds or co-financing for both IDA and IBRD borrowers. It is our strong view that additional resources must be mobilized so as not to displace the present allocations for country level
operations. Consequently, Bank/IDA administrative efforts and resources should also be supplemented to enable it to deliver global public goods that can effectively complement its operations.

Supporting Country Development: World Bank Role and Instruments in Low- and Middle-income Countries

International consensus on the need to put poverty reduction at the top of the development agenda has duly increased the attention given to the role and effectiveness of international financial institutions (IFIs) in addressing poverty. We, therefore, see the need to ensure a clearer division of responsibilities between the Bank and its partners in general, and with the IMF and regional development banks in particular. In this regard, we very much welcome the initiatives taken by the Bank to reassess the Bank's performance and to strengthen its ability to meet the realities facing its borrowing member countries today.

It is clear that the Bank should focus its works on individual borrowing country because supporting country development is at the core of the Bank’s development agenda. In this regard, we welcome the adoption of the Comprehensive Development Framework (CDF) and the PRSP as the basis for Bank's involvement at the country level. However, they should be aligned with country-led processes, as this is critical if we are to mobilize the country's ownership of the program. Whilst the Poverty Reduction Strategy Paper (PRSP) is indeed a specific output of the CDF, we should always be mindful that the PRSP is essentially intended to ensure the redirection of resources freed through debt-relief towards poverty reduction initiatives.

For non-HIPC countries, without this debt-relief leverage, PRSP measures that are additional to what the governments are already undertaking may only be sustained with the injection of additional resources. Therefore, the proposed Poverty Reduction Strategy Credit
(PRSC) for IDA countries is a good initiative that we can support. At this moment, we would like to express our view that a more balanced dose of growth-enhancing structural and institutional reform measures are critical in its design. Perhaps more time and experience are needed with the implementation of the PRSP so that the Bank can draw out more clearly the limitations to its current design before we can develop the proposed PRSC accordingly. The issue of conditionalities and other requirements and their implications should also be adequately assessed.

Regarding the role of the Bank Group in the middle-income countries, we would like to support the proposed agenda for the Task Force on the Bank Group’s Strategy in Middle-Income Countries to find ways to simplify the Bank's instruments and processes in helping their more diverse economies. The existing instruments and processes have become more complicated and sometimes even confusing. Furthermore, we need more clarity about the respective roles of IFIs, their visions, instruments as well as programs. We feel it is necessary for the Task Force to closely and thoroughly consult with the middle-income countries and ensure that their views, experiences and perspectives are adequately considered.

Finally, we agree with the priority accorded to further work on the country program approach, particularly the strengthening of the Bank’s diagnostic economic and sector work (ESW) and the enhancement of operational modalities for CAS-based programmatic lending.

**Progress Report on the Comprehensive Development Framework**

Since its inception, the CDF approach has rapidly caught on with all development stakeholders, with the Bank taking a leading role in its implementation on a pilot basis. We
welcome the candid tone of this report and would like to urge the Bank to adequately address the areas identified as lagging with the right support including capacity building.

In defining their long-term vision and strategy, countries would need to be assisted in institutionalizing the consultation processes that feed into their policymaking systems. The Bank, in our view, should pay adequate consideration to the constituents of these local processes, and in view of that, tailor its support or capacity building assistance that would enhance broad inclusion and participation in these processes.

To this end, the establishment of open and transparent development management information systems is vital although it may take time to build and develop. We therefore ask donors to provide adequate resources over a long-term horizon and to introduce greater flexibility in the implementation of their programs, bearing in mind the complexities of institutions and differing backgrounds and circumstances. We also urge the Bank to take into consideration the additional costs faced by developing countries in doing business with the Bank using the CDF approach. Similarly, selectivity and prioritization of the Bank’s administrative resources are crucial and must be aligned to expected results on the ground.


We welcome the progress achieved to date and would like to express our appreciation to creditors who have made commitments to provide assistance under the enhanced framework. The progress of the PRSP is also commendable and this must continue to be enhanced in concert with the implementation of enhanced debt relief to ensure the effective redirection of debt-servicing resources towards poverty alleviation.
In view of the high dependence of most HIPC countries on commodity markets, we would like to urge both the Bank and the Fund to fully consider the implications of commodity market trends on HIPC countries’ ability to sustain the gains from debt relief. While some countries may benefit and others may suffer, it is essential that good overall assessments be maintained in order to reinforce implementation decisions. We also encourage the Bank’s and the Fund’s regular updates of overall HIPC costs, because of weak (debt) information capacities of HIPC countries and the uncertainties that may be inherent in Bank/Fund projections of government revenues.

With regard to PRSPs, we agree with the concerns expressed by the Bank's Board on the issue of quality versus timeliness. Poverty reduction should remain the fundamental goal. Hence, the links between growth, debt reduction, and poverty reduction must be made clear and strongly pronounced in PRSPs. To this end, we would encourage donors to boost their technical assistance and capacity building support to help HIPC countries with their PRSPs.

**Update on IBRD’s Financial Capacity**

Whilst IBRD’s risk-bearing capacity is currently adequate, we recognize the limitations to increased lending in the event of a crisis-like situation. We therefore will reiterate our call to management to continue to develop other options to enhance the financial capacity of IBRD.

This must be developed in the context of the Bank’s budget framework to ensure sustained and achievable revenue gains that can be achieved without further worsening IBRD’s already over-stretched administrative costs. The Board must also prudently manage the allocation of IBRD’s net income, and make certain that only initiatives that effectively add value to the Bank’s poverty reduction agenda at the country level are funded.
International Financial Architecture: An Update of Bank Activities

We would like to acknowledge the significant progress made by the Bank in all areas it is directly involved in, and see that the makings of a coherent framework clarifying the contribution of these important areas to the overall design of the architecture is taking shape. The Bank, based on its experience so far, must continue to work on identifying and addressing challenges and limitations, while building on opportunities where its mandated role can further the agenda.

We therefore support calls to have a clear strategic framework and action plan on how the Bank intends to prioritize and pursue its work on this agenda. The strategy must be realistic and also clearly outline opportunities for and limitations to the Bank’s role. In this regard, we would like the Bank to examine the role of the private sector. It is our belief that private sector involvement is crucial for crisis prevention and resolution.

On this note, we are reiterating the call made earlier by the G7 Finance Ministers in Fukuoka in July this year, where it specifically recommended the prompt implementation of collective action clauses by the Bank and other MDBs for sovereign bonds and loans they guarantee. If we may recall, they had also encouraged the Bank and the Fund to seek active dialogue with private creditors in normal times to facilitate more orderly crisis resolution.

Finally, we would like to support the Bank on its emphasis on bolstering national financial systems as the basis for international financial stability and ultimately reducing domestic vulnerability and poverty. Good governance, sound structural and sectoral policies, including social policy and trade liberalization, and accountable and transparent institutions, are
all vital ingredients. Furthermore, the Bank must strengthen its role in addressing the global
public good dimension or externalities of international financial stability.