

TRANSCRIPT

Presentation by Dr. Andrew Steer.

**“INDONESIA RISING :
Reflection of a World Bank Country Director”**

Hosted by Dr. Dino Patti Djalal
Special Staff and Spokesperson of the President for International Affairs
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**DINO PATTI
DJALAL**

Bismillahirrahmaanirahiim, assalamualaikum warahmatullaahi wabarakaatu.

Let me introduce myself first. I am the man who is replacing Dr. Dino Patti Djalal as spokesman of the President of Indonesia. (Laugh) I have to keep doing that joke over and over again, at least for this week.

There are three things that I consider rare and precious in politics: energy, idealism, and leadership. I say they are rare and precious because they do not come around very long and, even when they do come around, they don't stay around for very long.

We in Indonesia are very fortunate because after the 2004 elections, we have the combination of these three elements. We have lots of energy, which produce a lot of hope and expectations. We have lots of idealism, based on the belief that Indonesia not only should change but CAN change. And we have a new leadership in President Yudhoyono, who has a very strong electoral mandate--Andrew Steer likes to say that he's the president with "the most votes in human history", isn't that right, Andrew ? And also in President Yudhoyonowe have a leader with strong ideas about what needs to be done for this country.

In many countries, the combination of these three elements would be enough to change for the better. The question for us in Indonesia is whether we in Indonesia too are on the brink of great transformation--the same transformation that permanently changed China, changed India, changed South Korea, changed Chile, changed South Africa, and other nations.

We may have to wait a little while until 2009, or maybe even 2014, to find out the answer, after all, there're still lots to be done, the presidency of President Yudhoyono is still barely halfway in his term. But today, Andrew Steer will try to give us his thoughts in his presentation about "Indonesia Rising"--and by the way, this is the title that he himself chose for today's presentation. Andrew Steer is a very special friend of Indonesia. I know there's a lot of media back there; forget what you hear about the World Bank; Andrew is a very different breed. Even people who work for the World Bank and people whom we've interviewed say that Andrew is a very different kind of person. He is very much into listening. He's very passionate about Indonesia. He believes in Indonesia. He is an optimist. I don't think I've met anyone who is more optimistic than you, Andrew; every time I feel down I just give you a call and then I always feel optimistic after I talk to you. (laugh)

But the reason why Andrew's presentation today is special is because Andrew is leaving us, which means that, two things. First, whatever Andrew has to say today, he really has nothing to lose. So I think you can say all the things that you wanted to say but just couldn't say before and then get on that plane within a few days and you'll be gone. (Laugh) But, really, I think the significance of your talk today is that whatever you have to say comes from Andrew's experience of working for Indonesia and in Indonesia for the last five years and from an extensive knowledge and compassion about Indonesia. And you know that whatever he says comes from his heart. He genuinely cares about Indonesia. He goes to do his work, not just in the cities, not just in Jakarta but he goes down to the villages. I think your program on *Program Pembangunan Kecamatan* is one of the most successful World Bank programs that we've seen in Indonesia relating to development project. So you will be sorely missed, Andrew, and Dede will have lots to say about that later on.

But before I give the floor to Andrew on Indonesia's rise, I just want to let you know a small point about the subject of Indonesia Rising.

First, you will see indications of Indonesia's rising in the numbers and statistics. You will see it in more GDP growth, you will see it in more investment, you will see it in more tax revenues, more agricultural production, more industrial production, hopefully less poverty, more employment, low inflation, more exchange reserves, stronger stock market, and so on. So, the numbers are important. The statistics are important. You just know China changed for good when their economy doubled in ten years in mid-1980s, and then doubled again ten years after that. You know India changed when the middle class grew to over two hundred million--almost the entire population of Indonesia--and the elite grew to 40 million; you know from these numbers that something was happening in India.

But that's only half of the story--the numbers and the statistics. My experience, and I realized this after moving from Deplu to the palace--is that what you really need to do to make Indonesia transform and rise is that along the process of getting more numbers, more statistics, you have to change the mindset, you have to become a different nation, and unless you change the way you see yourself, and you change the way you see where you are placed in the world, then the numbers will not add up too much. And this change of mindset means that we need to be more confident and more open about our nationalism; we need to be more outward looking; we need to be more internationalist; we need to be more competitive, we need to be more opportunity-driven, we need to be more easy-going, and we need to be more mature with our democracy. And if you look at all the countries that experienced the great transformation, you will all see that they ALL begin with a change of mindset.

So I'll leave it to Andrew Steer to disagree or agree with me and I will give him the podium to give his special presentation. But before that, let me also acknowledge the presence of Professor Dr. Juwono Sudarsono in our midst, thank you very much for coming. We are very much honored to have you with us. Thank you.

[Applause]

**ANDREW
STEER**

Thank you very much indeed, Dino. Mr. Juwono, Excellencies, Ladies and Gentlemen.

I think I'm gonna stand over here because I want to show you a few slides. First, let me apologize for my voice. Six hours ago I couldn't speak at all, now I can speak a little, so I don't know if you're lucky or unlucky, but I will do my very best. I agree with everything you just said, Dino, and it's a great honor to be here. This is not something that I take lightly. I know that you work faster, more energetically than any west wing anywhere. And even as we were coming down Gatot Subroto, we were held up in a dreadful traffic jam, and then a set of limousines went past and I said to Joel I said that's Dino going past because the President just landed at the airport. So I know you came straight from the airport and it's a huge, huge honor.

(Presentation with slides begins)

I've had the privilege of living in Indonesia now twice. The first time I came here was in 1979, in May, to look at the impact of the devaluation, the previous year, *KNOP limabelas*, when the exchange rate was devaluated from 450 to 625 Rupiah per Dollar. A lot has changed since then; when I came to Indonesia to live, per capita income was just over one thousand Dollars purchasing power parity. Now look at the top way over there, well over three and a half thousand Dollars purchasing power parity. Amazing trajectory. That little dip down there, not so little, the crisis. Each year that passes, we put the crisis into better perspective. And Indonesia now needs to look back over a longer period, with unbelievable pride. When I first came to Indonesia in 1979, the poverty rate was at 46 percent, today it's 17 percent, and next year I will put a lot of money on the fact, that's 2008, that it will fall way back down to about 13 or 12 percent next year. We've got very good reasons for saying that.

What I want to do is two things: first, just give a reflection on my five years here, some of the headlines that I take away with me to really capture the nation. And I do believe that Indonesia is rising. I do believe exactly what you said, Pak Dino. Let's just go to the next slide.

Indonesia is the election capital of the world; no country on Earth has more elections than Indonesia. Last year there were 73 elections. Go to the next slide. It is absolutely true, unless you give me a different example, no human being in history to my knowledge won more votes than Susilo Bambang Yudhoyono. This had a huge psychological impact on this nation. Indonesia should be extraordinarily proud. I said this once, and a Brazilian ambassador said "oh no, no. Lula won more votes." Not true, Lula won nowhere close the number of votes. Go to the next one.

When I arrived here there wasn't a single *bupati* or *walikota* or *governor* who had been elected. Today 63 percent of them had been elected. Two years from now, they all would have been elected. And you know what's special about elections in this country, is that you throw out incumbents much more than you do in most countries. 40 percent of incumbents have lost in the last three years. Very few countries where you'd have that. Another words, the

elections, the democracy is a very, very serious lead. Next.

Since I came here five years ago, these are the new institutions of the new Indonesia. Some people would say "my goodness, Indonesia is moving slowly." There is no nation on Earth that is moving as fast as Indonesia. Five years in a normal nation is a blink, is a very brief period of time. Five years in Indonesia is a huge length of time. All of these are brand new. Every one of them is playing a role in the new Indonesia. Of course, not all of them are performing perfectly, but it took many decades for equivalent institutions to start performing in the West. Next.

Now, a freedom of speech knows no limit, unfortunately. This was just outside our office last year. I wasn't quite sure you were saying that I was an abnormal World Banker; you mean most of them are dreadful? No, I assure you, that they're all like me now. So, I mean the freedom of speech is astonishing. Next slide.

You know, people still say this is an indebted country; of course it's an indebted country. But, this was the foreign debt before the economic crisis, this is the foreign debt today. Of course there's now domestic debt because of the crisis. Indonesia is now not an indebted country in any serious sense; it is indebted, but it is not a highly indebted country. Go to the next slide and that shows what's actually been happening as the fiscal space has doubled. Fiscal space is simply how much money the government has to spend in a discretionary way after it has paid all the administration and all of its debt service. And what's happened since I came five years ago, is that it has doubled and since 2004, the current administration, it's almost doubled. Indonesia has acquired more resources in the last 18 months from good economic-policy making than it did at the time of the oil price increase in 1970s. Go to the next one.

This illustrates the point when I came to Indonesia, the biggest item on the budget in 2002 was interest payments. More than 25 percent of government spending went to interest payments. Today interest payments is down to 10 percent, and today the number one item is not interest payments, it is education spending. Education in the last three years has doubled; you can't see it here because this is a percentage of total spending. The education in the last three years has doubled, and if you look at the next slide, most Indonesians don't know this, Indonesia has launched what we believe, our education specialists believe, is the largest education reform program in the world today. There are 2.7 million teachers in Indonesia, many of them, sadly, are not very well qualified. There is a program now, not only to rebuild the classrooms, which is well under way, but to certify all of these teachers over time, and then to reward them with very significant doubling of their salary if they honor the certification process. Very remarkable thing. Next slide.

Other things that have happened, these are headlines that I take away with me. Everybody knows that I think the *bursa*, I saw Lin Che Wei, he's dressing much better nowadays because last year the Jakarta Stock Exchange was the third best performing stock exchange in the world. Next one.

Do you remember August 2005, I certainly do, when the exchange rate

suddenly went way up there. And we really did believe we would be up in the twelve thousand to a Dollar exchange rate. Since then, good economic management exchange rate has strengthened and now stabilized. Next slide.

When I came to, this is umm for those of you who care about these things, this is the risk premium on Indonesian bonds. This is good news for Indonesia but bad news if you want to hold Indonesian bonds, because now they are no longer regarded as really risky. When I came to Indonesia in September 2002, Indonesian bonds, these are international bonds if you bought the Yankee bonds for example, you were getting 400 basis points over U.S. treasures. Now that's the risk premium that the market gave to Indonesia. Today, those same bonds, you're getting 100 basis points. In other words, the risk premium has fallen from four percentage points over U.S. treasury, to one percentage point. Amazing achievement, really. And most people don't really sort of talk about that or think about it. Next one.

Goodbye CGI. This is good news and bad news. I regard it as good news. This is the President addressing the CGI last year, the last ever CGI. I believe that the cancellation of CGI is an incredibly healthy sign of a much, much stronger, much more confident economy. And it relates, of course, to the previous slide because Indonesia now can borrow from many different sources. It is no longer dependent upon anybody. That doesn't mean it won't want to borrow from the official lenders; it just will borrow when it chooses to borrow. We do believe some alternative to the CGI, not in terms of some big forum, but a continued dialogue should take place. Next slide.

You know, if you ask the people in Jakarta what's one of the biggest problems in Indonesia, they'll say decentralization; it's simply not working. Well, if you ask people in Jakarta, they'll tell you it's not working. But actually if you ask the people who really matter, and that's the parents of children who go to school, it's patients who go to *puskesmas*, it's small businesses who have to get licenses at the local level, it's farmers who need to get services from extention or irrigation, all these services provided by local governments, if you ask them, and we've just done a major survey of 32,000 people across the entire country, this is what you find:

If you ask them "have services improved in the last two years?" 70.4% say yes in health. 72%, 73% in education. Amazingly even if you judge them on administration, 56% say things have improved. Even the police, 45% say they've improved. 23% say "no change." Red is "got worse." So even the police at the local level, umm things are improving. Why? Because the whole principle of decentralization is to make accountability more direct. These numbers are not out yet; they will be out very soon. So it's hot off the press. But it's very, very encouraging news actually about the quality of services in this country. Next slide.

By the way, this also from the same thing, just one of the questions is "are local officials showing more courtesy? Are they more or less polite?" And amazingly, 60% say in the last two years they become more polite. Not surprising because two thirds of bupatis, of course, are now elected. So there's an incentive that didn't exist there before. Next.

Now, this also is from the same survey, by the way. It basically says "how

long do you have to wait to get a KTP?" And it turns out that if you're in the rich quintile, these are the richest people, you actually only have to wait about eight days. If you're in the poorest quintile, you have to wait about 25 days. So not everything is changing in the right direction and we wonder why. Next.

I'm coming to the end of the first part of what I'm saying, headlines that I take away with me. I think this is certainly for me and my wife, Elizabeth, who's here tonight, I think the tsunami is absolutely the defining memory; to see a nation of responding the way that Indonesia did to the tsunami, and I should say not only the tsunami but other natural disasters that have sadly befallen Indonesia, is a truly remarkable thing. And also to see the international community support Indonesia, but led so much by Indonesia. Next slide.

The largest construction site in the world became Aceh. And the BRR, whilst it took a while to get up and running, I think now as the international community worldwide is looking at the performance of Indonesia, Sri Lanka, and others, and trying to learn lessons, it is the Indonesian model which set up an agency with real accountability and, second, chose to put communities at the very heart of the reconstruction effort. Those are the two defining things, if you like, that is hugely successful. And some people might say "well, only 60 thousand houses are being built and we need a hundred thousand." 60 thousand houses is a huge number of houses, and it's a great pride as I look around the room and see members of the multi-donor fund for Aceh and Nias here. And I think we should take great pride the fact that 15 donors decided, rather than going to all their separate own things, they would pool their money in a common fund which is the largest fund for any post-disaster in history, it's now disbursing beautifully. These little houses are built by that. It's disbursing better than we thought. The quality of the houses and other infrastructures are better than we thought. And whilst I lost seven kilos in the six months after the tsunami, and I think all of us went through a really, really sort of very tough time, I never thought I would go 20 times to Aceh in my time in Indonesia, but I think this was a really striking memory for me, and a wonderful achievement, I believe, for the government of Indonesia and the people of Indonesia. Let's go on to the next one.

This is the second part of what I'm going to talk about, and now heading towards the end. Indonesia on the threshold. What I've talked about so far are sort of, if you like, headlines that to me characterize my time here, mainly on the economic side, but not exclusively. Here are four ideas that will change the nation. These are not my ideas; they are ideas that are cooking today in the government that, if implemented, will change the nation dramatically.

Number one, Indonesia's poverty program goes national. President Yudhoyono announced that there will now be a nation-wide poverty program. Already Indonesia has the largest village program in the world and many people regard them most successful. It's in about 21 thousand villages. He announced that that is going to all the villages in Indonesia by the year 2009. If this is implemented, Indonesia will stand extremely tall, in terms of international opinion, but much, much more important in terms of reducing poverty. A second component of that is the conditional cash transfer, the so-called CCT. The conditional cash transfer is not Indonesia's idea; it actually

comes from Mexico, Brazil, and others. But last year, as you know, Indonesia introduced the largest unconditional cash transfer system in the world. And it was brilliantly successful. I gotta confess, we advised the government that trying to introduce it in three months; there's going to be all kinds of problems. There were problems, but overwhelmingly it got the job well done. It meant that you could raise, you could double fuel prices, and the bottom 25% of the population would not get hurt. It was brilliantly successful from that standpoint. What the government now plans to do is to pilot and then mainstream the conditional cash transfer system which says to poor people "we will give you a cash transfer if you do the right thing; buy your children's education, in terms of nutrition, in terms of healthcare and so on. Go to the next slide.

This is what actually will happen by 2009. This is a headline that could come in 2009. Nine to twelve million families pulled out of poverty. Short term employment for 27 million families. Quality infrastructure in every village. Improved education and health indicators, and communities participating directly in their own development. Go to the next slide.

This is what would happen, for example, if these programs are implemented. This is just for health. This is SMP enrollment; it would jump up from 58% way up to 78% by 2010. In other words a 10 percentage point increase over what it would be without this. These are brilliant ideas, led by the government, and financed by the government, and we really want to do whatever we can to help the government implement these. The next one is another one, this is what would have happened to immunization of measles actually, you see the increase there up to about 94% rather than the 82% if this CCT is introduced in parallel with the PNPM program. Okay, enough of that.

Second, that was the first, headline if you like that could change this nation. The second headline, which I believe we will see two years from now, that is Indonesia climbs 20 places in the Transparency International governance rating. Indonesia then would be overtaking some of the countries in this region. Go to the next slide. By the way, some people would say the anti-corruption campaign is now not as strong as it was. These are each institutions which are being investigated by KPK or have been investigated already. It's the who's who of the institutions in this country. There is a very, very serious effort to investigate and prosecute. What now needs to happen in order to improve the place, go to the next slide, would that the anti-corruption campaign needs to move from prosecution to prevention, and this is a very difficult thing to do. We understand the government is trying to do exactly that right now. It requires looking much more detailed at the whole incentive structure within the civil service. It may require that ministry by ministry teams would go and really diagnose where the weaknesses are in terms of corruption. It will require a seriousness that hasn't been possible to date because rightly there has been an emphasis on prosecution. Second thing it would require is that the civil service reform would really ramp up. Some people say "let's launch a massive civil service reform program." Very few countries can do that across the board. But what Indonesia has already started to do is to pilot an extremely professional world-class reform in the Ministry of Finance. That now needs to be spread out to other ministries.

Next slide.

But it's not only in the central government where governance reform needs to be made. As everybody knows the regional governments, despite the nice things I said about it a minute ago, they simply don't have the wherewithal administratively to implement the large sums of money that they're getting right now. These are their bank accounts right now; they have umm...this is the kabupaten and the kota, these are the provinces, they have about 10 billion Dollars in their bank accounts, and that's a good thing. It simply means they couldn't spend the money that the central government has given them. And it's much better not to spend it than to spend it badly. What would it take? There needs to be a national program to build a local capacity. At the moment, there are some very good efforts on the way, but it needs to be as sort of high profile as, if you like, the PNPM program, whereby over time the government says "okay, we are going to transfer large sums of money to local government, but we're gonna link it to governance reform. We can have indicators for all 450 of you." By the way, there are now 450, in 1999 there were 290. 290 to 450, no wonder they can't spend their money. They don't know how to procure; they don't know how to do financial management; they don't know some of the most basic things. But, there are certainly well-known ways to help them and in linkage of the DAU, for example, to governance indicators would be an important way forward. Next.

Number three. The headline that I believe will happen in the next two or three years. Infrastructure LEADS rather than drags economic development. In some countries infrastructure leads development. In other countries it drags. Since the crisis, because Indonesia hasn't had the money, it has dragged Indonesia's development. Now, Indonesia has the money, and we will see a real change, I believe. Go to the next slide.

Let me give you just three examples. Electricity for all. Why is it that a third of the household in Indonesia today lack power? It's because there is a common tariff across the whole country, and for PLN to put more houses on the grid it would lose money on every single house. So there's no incentive at all for PLN to do that. What's the solution? Well there are two solutions that are possible. One, you could change the rule that there's a common tariff across the country, but many countries don't want to do that. Second approach is, what Vietnam and many other countries have done, is to say "okay, PLN, your job is simply to take the power to the central kecamatan—or even the kabupaten—and then you will have cooperatives or private companies or local state enterprises who can charge what they want and their job is to take it there. So for example Indonesia has gone from electrification from about 48% to about 62%, at the same time Vietnam has gone from 24% to 82% electrification. Why? Because they manage to solve this problem. This is being thought through right now by the government. If it's implemented, it could radically change the lives of these three children.

The next example is exactly the same. Water for all. Why is it that only 23% of households have pipe water? It is because the PDAMs are under local government, and the local governments to date have simply not had the incentive or the vision to sort out the finances or the leadership of the PDAMs. There are at least 100 PDAMs to date that could be reformed quite

quickly, that could borrow, and could radically change things. There're some very, very good ideas that the government are looking at right now. If that were to happen, the lives of millions of people would be radically changed.

The next one, major infrastructure. All it would take is a couple of major infrastructure projects to be competitively build, succesefully build, and up and running. And that could be done in about 18 months, we believe. It's very, very important that while crash programs are going on, which are very good, at the same time there'd be projects are protected to do it right over the long term. This I believe will happen. The government has protected 10 projects. Once two of them get tenders bid out. And one, we will start seeing perceptions change dramatically. Next one.

The fourth one. So these are the four I'm gonna end with. High quality investment resort. Before the crisis as you know just nudging up on 30% of GDP was the investment rate, fell way down to 20% and has tended to stay there. Now I must admit, when I first came here I thought it had to rise back up to 30%. I've changed my mind. I actually don't think that investment will rise back up to 30% and I'm not even sure it should. I actually believe that the quality of investment today is much higher than it was before for several well-known reasons. And what you're finding in the region as a whole is that even Malaysia for example, which was 42%, Malaysia's investment rate is now down here. Now obviously it needs to increase it. I think the quality of investment is higher today, but there's no question that we do want to see an increase up to about 25, 26 percent, it is about 23 and a half percent now adds up from 20% in 2004. What would it take? Well of course, everybody talked, next slide, everybody talks about all the things that are needed and I'm not gonna talk about that. We have Pak Sofyan (Wanandi) here and he knows far more than, where are you Pak? He must've left cause I haven't talked enough about eh, oh there he is. He'll tell you everything that's wrong and I actually agree with him about almost everything, but you know there's a dramatic change in perception in the last three years. This is the bluest perceptions in 2003. And you ask a lot of businessmen "how are things, eh, what are your main constraints?" And what you see over three years to 2006 is that the constraints have come down a lot. So in almost all of these, except for infrastructure, which have got worse. So infrastructure, electricity and transport have got worse, but everything else; economic policy, predictability, corruption, tax administration, and so on have got better. Just because they've got better, though, doesn't mean enough has been done. What's necessary is to rigorously see this through. Now here's the thing, go on to the nexts slide.

We spent a lot of time at the World Bank asking a very difficult question. And that is when everybody is saying out there that the sort of reform momentum in 2006 have slowed down. I'm sure, Pak Dino, you've heard that quite a bit, when they say "you know, has the reform momentum in the investment climate has slowed down?" We've been asking: is that true? Or is it a result of the fact there was a recession in 2006 caused by the fuel-price increase and the macroeconomic. We've come to the conclusion that it's the latter. We actually think that there is momentum still there, that doesn't mean that everything is going fine. It just means that it's a mistake to look at investment levels last year and say therefore investors are not willing to invest. Life last

year was very difficult, and it should have been difficult because the government took the measure in the end of 2005 that was a very, very important measure but it really hurt business temporarily. This is the inflation rate; we're now back down again. Go to the next slide. This is the industrial production. Look at what happened during 2006. We're now back there. Industrial production is coming back. It doesn't mean it's high enough, but it's come back. Go to the next one.

Obviously everybody knows that cars and motorbikes, I mean with the fuel-price increase, high interest rate, high inflation, came back down, is now starting to come back up. Final slide.

This is capital goods import, which is actually a leading indicator of investment. This is pre-crisis, here. And this is now. And you see actually this massive surge of capital goods import, which is very encouraging. So I'm not wanting to shock at good things at all, but I do believe perceptions are very important, and I think perceptions have been too negative recently. And I think if you look at the cyclical behaviour of the last year you'll actually see a very healthy rise that's going on right now. This, of course, should embolden the government to do even more in terms of reforms, but I do believe we've got grounds for encouragement.

Now, just to end, some people say that the World Bank preaches, but actually almost everything we've been doing here has been joint with the government. Let me just tell you what you can see on our website now. This is joint with BRR, for example. Next: this is also a joint one on corruption. This is all the water report. These are examples, just keep going. There's one on non-financial bank institutions; one on fiscal situation; there's one on voices for the poor. These are all the poverty reports that came out a couple of months ago. Doing business, next. Investing in Indonesia's education. So these are all examples of the partnerships that the Bank has. It really is a huge privilege to work here in a way that the government allows us to work so effectively. Go to the next slide.

Now, sometimes we get criticized for preaching too much. This is Minister Sri Mulyani who actually gave a very good speech in Singapore at the annual meetings and she was saying "the World Bank, why are you preaching so much?" She was talking about one narrow thing, it was on corruption: "why do you ask for your money back if we find corruption?" That's what she was saying. Because in the press here it got sort of taken out of proportion, you know, you're preaching. Well, I hope we don't preach. A little bit of preaching is okay, but I don't believe we do preach. I believe we have an incredibly privileged relationship here, and it's a sign of great confidence on the side of the Indonesian government. They allow institutions like ourselves to play the role that Indonesian wants us to play. Indonesia owns the World Bank. We are here simply as humble servants of the fourth biggest country in the world. The next slide.

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But anyway, Dino, it is a huge honor. My view, and I leave very emotionally and actually I lost my voice I think actually because leaving Indonesia is actually quite an emotional thing. I believe that this country is on the move. I believe the changes Indonesia are going through are unique in the period.

We sometimes say "but oh, Indonesia recovered from the crisis more slowly than the other East Asian countries. Well what I say is "yeah, but look at the reforming countries and the former Soviet Union in Eastern Europe, Indonesia is streets ahead of them. Indonesia went through and has gone through a transition as great as them. Has come through it much, much quicker, much more successfully than the former Soviet Union did. Now the challenge is, now that confidence is back, and now that the wherewithal to move forward is there, I believe that days ahead are really fantastic. I actually asked my people today if they could do a picture of you 20 years ago and 20 years from now, with a beard on in the fourth SBY administration, but they couldn't come up with it quick enough. So thank you all very much, it is a huge honor to be with you tonight.

[Applause]

**DINO PATTI
DJALAL**

Thank you, Andrew. It was a very, very excellent, deep presentation. Now you know why we have a very high regard for him. In fact, if I could spill the beans, this Friday, Andrew Steer has the honor of giving a presentation to the President on, more or less, what we're seeing today. So I think this reflects the high standing in which Andrew is being held by the President and by the team around him. So now we get into the discussion time. I would like to open the floor to the first four, it can be a question, it can be comments, it can be any response from you. So, I will open the floor to four questioners or comments.

Ambassador of Pakistan.

QUESTION 1:

I would like to thank Mr Andrew Steer for putting us wise on his assessment about Indonesia. I also totally believe that what you've said is good in that one can experience seeing around. I have just one question, in fact, it's very destined and sure the distribution of money with government agencies. More money is with the center, followed by the kabupatens, and the provinces in between have comparative less money. Some of the services which are in fact supposed to be provided across the country to the nation, like for example clean water 100%, electricity, health, education. So these are some of the services in fact which are supposed to be undertaken by the central government. But due to decentralization, a lot of hopes are being haste on the kabupatens because there is decentralization. Don't you think that it would be more wise for Indonesia—I would like to know your suggestion because we are also in the same category, Pakistan is also working on the same lines, don't you think that the government has to put in more money, and for it to centralize in some way that the distribution of money to the provinces and to the center instead of leaving it totally to the provinces or to the kabupatens? Thank you.

**DINO PATTI
DJALAL**

Can I have the second quesiton?

Ambassador Charles Humphrey.

QUESTION 2: Andrew, in most fairy stories people allow three wishes, and what I'd be very interested to hear would be your three wishes. Three wishes each; three wishes from what you hope that Indonesia will concentrate on next and what you hope the foreign friends of Indonesia will do in relation to Indonesia. Thank you.

**DINO PATTI
DJALAL** Pak Soemadi... Ambassador Soemadi.

QUESTION 3: Thank you very much. Really, I share your deep regret seeing Mr Andrew Steer away because I used to work closely with him when he was in Washington. One thing, Mr Steer, you underlined the importance of perception, and you said that on infrastructure that now instead of speeding up or boosting development, infrastructure is dragging development. I have the impression that perception now among the people is reaching that infrastructure is dragging development. With all due respect, the whole things that you have done is very, very helpful but if you, the World Bank, who said that to the people, only few would believe it. My question is, what is your advice, how the government to convey such an optimistic message so that the people can change the perception and instead of dragging development, it's going to boost our development. Thank you.

**DINO PATTI
DJALAL** I'll take the fourth question?
Leonard.

QUESTION 4: Alright, a little bit echoing what Charles Humphrey asked, I would like to, now that you have nothing to lose, Andrew. What was your most difficult moment during your assignment as Country Director. But perhaps even more importantly, what was the most rewarding moment in your stay here in Indonesia professionally. Thank you.

**ANDREW
STEER** I must say I wish you guys had given a little notice, these questions are very difficult indeed. The first question, I think I should ask Professor Dede Basri to answer. I think your question, Mr Ambassador, is whether or not parcelling out money to 450 kabupatens every year, is this running the risk of lack of coordination or wouldn't it be better to coordinate it more at the center. I think it's an imperial question. I think that's why the surveys that we've done are so important because *[recording interrupted]* how to manage education, irrigation or whatever and I mean it looks like results are coming in and actually, despite all their weaknesses, they're doing rather well. Now obviously the trick is to get the right degree of central rule-setting so minimum standards and all that sort of things, and this is clearly an unfinished agenda. The relationship between center and local in all of the institutional and policy issues, I mean this would take 20 years before it all settles down. Most important of all, and because we can't change the rules,

it's in the constitution now. The most important thing is to build the capacity of those local governments.

Ambassador Charles Humphrey, by the way I should say that it's a great honor to join Her Majesty's government after this. Charles said to me once, you know, you're a disloyal fellow. You know, you left the United Kingdom in 1978 when it was going downhill fast, its per capita income had fallen below that of Italy. He said "come back and help us out." So actually Britain needs no help whatsoever because Britain has now sort in capita terms past Italy, France and Germany, so I'm not certainly going back to England because they need any help, but because they've chosen to double their aid program in the next three years. And the government has kindly asked me to go and help them as Director of their Policy and Research Department in the Department for International Development. All that, by way of deflecting from your question about the fairy story, well I was worried that you thought that everything I've been saying was a fairy story. I guess there are two things that are preventing more rapid poverty reduction in this country. One is investment climate isn't strong enough. So my dream would be, that umm, that which I believe would come true. Two years from today, it would just be Jakarta and other major cities would be places where businesses, the British business group must be wanting to come all the time. More important than the international business group, the domestic business groups, the small and medium enterprises will come alive. I actually believe there's no reason why that shouldn't happen.

The second thing that's stopping growth, is quality of services: education, health, agricultural services and so on, isn't high enough. My dream would be that the accountability of the service provider to the final user would be strengthened so that, for example, we are helping the Ministry of Agriculture right now to bring agricultural services to the farmer in a way that the farmer, farmers group, are in charge of it. They actually choose what services they want. They can get from private sector; they can choose what kind of crops they want to grow. So if they want to switch from rice into horticulture, they can do it. So that if they want to be able to grow carrots that can be sold in Carrefour, they can get the right kind of help from the private sector. When I lived in Indonesia 20 years ago, when I went home to my house in Kemang and ate a carrot, it came from Indonesia. When I go home today and eat a carrot, it comes from Australia. Why? Is it because Indonesia can't grow carrots? They grow brilliant carrots; much tastier than Australia. But because there hasn't been a backward linkage from Carrefour and the other places, because Carrefour needs straight orange carrots. The carrots that are grown in Bandung aren't straight enough. That's the kind of thing that I would dream that we would figure out how to provide public services in a way that puts the client in charge so that he, the farmer, can choose how to make his products, whether it is carrots or whatever else it is, more suitable for today's world.

Ambassador Soemadi, I agree with you totally, that perceptions are not caught up with reality, and Indonesia is doing better than many Indonesians think it's doing. I do believe that you're right that if the World Bank goes out and announces it, no one will believe it. I'll tell you one thing, I think, actually, clustering programs together, in a way like the government is doing now in

PNPM can help hugely. It's going to be very important that currently there are about 20 different programs. There important to be brought together because it enables Pak Dino to help the President lay out this is a national priority. If you go to the Agriculture Department today, they'll say "ah, we've got 50 programs." Yeah, but what do they add up to? Much better to say what we're trying to do in agriculture, and then merge programs to do together and then keep your eye on the ball. And I think that can help the perception as well.

Umm, Ambassador Leonard, what's my most painful memory? I mean, I really do think Aceh was the most painful, and I think you and I actually went through that together. The reason it was painful is partly because you spent so many hours with so many people who had lost everything: all their children, their husbands. I mean, the grief you share. But the other reason, that mixed with that, was the feeling of helplessness; there was a time when we just didn't know how to do it, it was just too difficult. I think most of us in our professional lives don't come across a situation in which we feel helpless. And I think we, and the NGOs, I think we reached a stage about six months on where we really didn't know how to do it.

My most joyful, well there are so many. I think being with my four-year old son, that's probably my most joyful. Taking him and my five-year old daughter up to Aceh, spending Christmas there last year, showing them around the housing program for the first time in their lives, they got it, they went in the houses and they understood what their dad was trying to do. I think that was the happiest time for me.

[Applause]

**DINO PATTI
DJALAL**

I wonder if I can just pick up on the question that Pak Charles asked, because I think there's some relevance to the topic of what will change Indonesia. You asked what you wish us to see more. I think one answer would be this : I'd like to see more coverage and more role of what I see as the new generation of Indonesian leaders. I've been pleasantly surprised to see this trend. I didn't spot them in the media because they tend to be media-shy, they're not asking for attention, but I've been surprised by the quality of the new leadership at the local government. In Gorontalo, there's a new governor who tripled the salary of civil servants without even raising a cent of the provincial budget. It was amazing, I asked him how he did it, he said "hey, all you need to do is just be creative." In Tangerang, there's a mayor who allocated 43% of government budget on education. I mean, that's twice over the national education limit that the central government has not even reached. It's incredible. And he did it without even raising the provincial budget. In Sragen, there's also a bupati who employed IT so extensively that he's now the talk of the other bupati because everything in public service became very efficient, free—if not cheap—and instant. And in Papua, recently we heard a presentation by Governor Barnabas Suebu, who gave us his presentation on his plan to develop a development model in Papua which is villaged-based, where he's identified all the villages around Papua, and he intends to give each of the villagers between 300 to 500 million Rupiah and ask them to have ownership and accountability for each

village. So they can decide what to do with the money, and to have a development model whereby nothing is done without having relevance to and consultation with the thousands of villages in Papua.

All these local leaders have different ideas and different challenges, but they have one thing in common, which is that they are very innovative. And like I said, they don't scream for media attention; they're very low profile. But these are the people who will eventually change Indonesia for good. And the more we see them in public service at all levels, in central, provincial and kabupaten levels, I think the more Indonesia will change for better and the more numbers that Andrew was showing on screens will improve greatly also.

Now I'll open the floor to four more questions.

Pak Sabam, please.

QUESTION 4: Actually, Andrew, I agree everything with you and we've invited you in Jakarta Post next Friday, after you see the President. Then the real question we'll fire next Friday, and you as readers will read it Saturday morning. My question now is this, not that important: you know very well the World Bank office in Jakarta was opened when Robert McNamara became the World Bank President. As a matter of fact, because of his transit with Ambassador Sudjatmoko, he made the Jakarta World Bank office, really, as an urgent program item for the World Bank. Now, you know, another Pentagon man became World Bank President. Do you feel any change in internal leadership, I mean granted that Pak [Wolfowitz?] is a former ambassador to Indonesia? I'm just curious what you can share with us.

**DINO PATTI
DJALAL**

Next question. You in the back there.

QUESTION 5: Rebecca Hickey from Radio 60.88. I'm wondering if you have any regrets as a Director and also the World Bank in general in Indonesia? I guess it's had its ups and downs in terms of the relationship; are there mistakes that you admit the World Bank has done in Indonesia? Could it have done things better? I'm thinking of Gedung Ongbow in the past. Also in terms of privatization policies. Are there things that you yourself think the World Bank could do better?

**DINO PATTI
DJALAL**

Ok. Andrew, can we answer the two question.

**ANDREW
STEER**

Well, Pak Sabam... Ya, I guess first time I met Paul Wolfowitz when he took over his job I said I have the best job in the Bank and the worst job. Best because you care more about my country than any other president has and certainly than any other country, but also you care about my country more than anybody else. And you know more about it than I do, perhaps. And he takes Indonesia very seriously indeed. I mean, he loves this country, and

he's determined to be as helpful as he possibly can.

How is he changing the World Bank? Well, you mentioned Robert McNamara and you're right, he put Indonesia right, he put a vice president out here, Bernie Bell. He said we will work for this country harder than we've ever worked before. I think Paul Wolfowitz will say exactly the same. He obviously cares a great deal about issues of governance. He looks at Indonesia as a model, actually, of how in a very messy situation you can sort of gradually start to improve things. So when he came out here we had a very unusual World Bank office here, very different from most countries. I mean most countries have one office; we have five here. We're the largest; we've just overtaken India as the largest in the world. We have over 250 staff now, of which 90% of them are Indonesian.

We take a lot of risks. We benefit hugely from our international friends. I see you're sitting next to Nikolaos Van Dam, the Dutch Ambassador. Here we have other ambassadors who work with us very closely and channel funds through the World Bank, which enables us to be much more nimble. Paul Wolfowitz likes that very much. He's absolutely not interested in sort of heavy beurocracy. So we're given a freedom here that is very unusual. And for which I'm truly thankful, actually. And in the World Bank... I mean one of the reasons I, uh, even though he very kindly asked me to go back to Washington to do a very nice job, one of the reasons I'm doing something fresh is because there's no job in the world like this one for the World Bank. And there's no other country that would be as stimulating as this.

Rebecca asked an interesting question, do I have regrets about the World Bank. Yes, see I think the World Bank has made lots of mistakes. And I think any institution that they haven't made mistakes is an institution you want to avoid like the plague. We made mistakes, yes, I think Ongbow was a mistake. I actually think the transmigration program was a mistake, although quite honestly if you look at the results it's not as bad as some of us think it was. When I lived here in the early 1980s as a young economist at the World Bank, the size of the office was about maybe 40 people, almost all of us were expatriates, almost all of us had this sort of expert mentalitly, and we dealt with the central government. We had engineers that would go out and check on the irrigation. We had very, very good staff. It was totally different today. I was saying, 90% of the staff are Indonesian. You would never recognize them as World Bankers at all. They certainly don't have any, and one of the many great things, it sounds ridiculous, the great thing about them is they actually don't have real royalty to the World Bank. They have a loyalty to this country and getting the job done. They simply see the World Bank as the best instrument they can find to do with their lives what they want to do. And they happen to believe that the World Bank is a development institution that can help them get the job done. And the fact that we are now supporting development in 21 thousand villages is something we simply couldn't have done before. We can only do it because it's led not only by the Indonesian government, supported by our Indonesian staff, who are out there all over the place, and look a lot more like NGOs often than gray-suited World Bankers from Washington.

**DINO PATTI
DJALAL**

Thank you. I think we need to close the session. I will now invite Dr Chatib Basri to deliver closing statement and also a word of thanks.

CHATIB BASRI

Well, Andrew, after we listen your excellent presentation now how good your answer to all the questions and comments, allow me to say my impression of few things, my experience with Andrew. I've got three things, actually. The first one is about his optimism, because Andrew is always positive about Indonesia. As a lecturer at the Faculty of Economics, I have to explain to my students why the price of diamond is higher than the price of water. Or why diamond is more expensive than water. And the answer is lies because diamond is scarce compare to other. So I got the similarities with Andrew here because it is lonely being an optimist in this country. But I think Andrew is an exception, because everytime you talk to him, and you will listen that he's always very optimistic about this country and his optimism is always backed up with a sensible argument. I can always remember when we had lunch talking about this unconditional cash transfer. I was so pessimistic about this program before. I understand that you were also a little bit pessimistic. But I was more pessimistic than you. And this program turned out to be better than we expected. So Andrew was right. And also I remember when he gave a presentation, I think here at the Grand Hyatt. He said that the difference between Indonesia and Vietnam lies in the issue of expectation. Because in Vietnam people think maybe ten years from now, then you can expect this country is going better. But it's different here. So what we need to do is to, sort of like, boost the optimism to the people here in this country. So everytime I get frustrated I talk to Andrew and I feel relieved. As Andrew mentioned also when he took over the Country Director position the GDP growth was less than five percent, and last year, the last two years we're already about 5.5 percent.

The second thing I would like to say. Andrew, he always believes what he thinks, even though it is not very popular. I don't know how much rice Andrew eats everyday, but I do believe he loves Indonesia, including Indonesian food. And I also believe that his concern about the rice price is not because he likes to eat rice or *nasi padang*, but simply because he's also concerned about the impact of the very high price and poverty. And today I think his argument which sparked a controversy the other day turned out to be right.

The third thing I would like to also talk about: he loves Indonesia and is concerned with the poor. And I think in his presentation he already mentioned, I quote one of his presentation, he said that the secret of reducing poverty is to help these people participate in Indonesia's rising economic growth. And I think we can see the implementation of this statement in the idea reflected on the World Bank project on *Program Pembangunan Kecamatan* and also *Program Pembangunan Kelurahan*. It, to some extent, inspires the government for the PNPM program. I understand this program does not originally come from Indonesia. But I do believe if we implement this program then it can be a good strategy for poverty reduction. We will certainly miss you, Andrew. And finally, let me thank you, Andrew, for your friendship and the honor of having worked with you. And for your new post in the Department of International Development

in the U.K., I wish you very best, I wish you very much success in your deliberation. Thank you very much.

[Applause]

**DINO PATTI
DJALAL**

Andrew, I know you're not supposed to receive gifts from government officials (laughter), but Minister Juwono Sudarsono has something on behalf of all of us to express our appreciation for your friendship and for all that you've done for us.

**H.E. JUWONO
SUDARSONO**

Andrew, this the *kujang*, which symbolizes courage, honor and friendship, and also marks one of the best of the army strategic reserves symbols. So it's part of governance, part of the ability of this country to revive its ability to govern effectively. Thank you.

[Applause]

**DINO PATTI
DJALAL**

Thank you everyone for coming. I appreciate your taking the time to be here, and see you at our next event. Thank you.

[Applause]