

# Foreword

The Asian Crisis of the late 1990s affected Indonesia more severely than any other country in that region. The ensuing political and economic changes have been difficult, thus slowing the country's economic recovery. This Country Impact Review (CIR) evaluates the effectiveness of IFC's strategic approach and operations in Indonesia before, during, and after the crisis and covers operations undertaken by IFC over the period of fiscal years (FY) 1990–2006. For most of this period, Indonesia ranked among IFC's ten largest country exposures.

The evaluation concludes that before the crisis IFC had broadened its support to the Indonesian private sector to include more local sponsors and second-tier companies. During the crisis, IFC successfully restructured most of its client companies in financial distress. Post-crisis, IFC began to develop new clients and also increased its support to financial intermediaries focused on SMEs. However, IFC has made little progress in supporting a larger private sector role in infrastructure and in helping deepen the financial markets.

IFC investment projects evaluated over the whole period show a development outcome success rate of 47 percent—well below IFC-wide average of 59 percent, but on par with the average of 45 percent achieved in the rest of East Asia (excluding China). In terms of environmental, health, and social (EHS) outcomes, Indonesian projects have demonstrated far less satisfactory performance (50 percent) than the IFC average (67 percent). Starting in 2002, IFC Advisory Services in Indonesia expanded substantially, with the establishment of the Program for Eastern Indonesia Small and Medium Enterprise Assistance (PENSA). However, there have been limited linkages between IFC's advisory services and investment operations, and most advisory operations were established too recently to be evaluated.

This evaluation calls for a stronger IFC role in infrastructure development going forward, including by strategically and operationally partnering with the World Bank and other multilateral development banks (MDBs) to help dovetail sector reforms and investments. The CIR also recommends that IFC focus on helping Indonesia develop a long-term, local currency debt market while scaling up its support to small and medium enterprises (SMEs) in underserved regions of the country through regional SME-oriented commercial banks. The evaluation also recommends better IFC environmental, health, and social supervision to improve compliance and foster development effectiveness.

The lessons and recommendations in this CIR are consistent with and complement those in the Indonesia Country Assistance Evaluation (CAE) prepared by the Independent Evaluation Group of the World Bank, circulated on June 28, 2007.

Vinod Thomas  
Director-General, Evaluation