



REPUBLIC OF INDONESIA

**PRESIDENTIAL REGULATION
NUMBER 7 OF 2005**

ON

**THE NATIONAL MEDIUM-TERM DEVELOPMENT PLAN
2004 – 2009**

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PRESIDENTIAL REGULATION
NUMBER 7 OF 2005

ON

THE NATIONAL MEDIUM-TERM DEVELOPMENT PLAN
2004 – 2009

WITH THE GRACE OF ALMIGHTY GOD,

THE PRESIDENT OF THE REPUBLIC OF INDONESIA,

Having Considered: that for implementing the stipulation of Article 19 paragraph (1) of Law Number 25 of 2004 on the National Development Planning System, it is deemed necessary to issue the Presidential Regulation on the National Medium-Term Development Plan of 2004–2009;

Having Taken Into Account:

1. Article 4 paragraph (1) of the 1945 Constitution of the Republic of Indonesia;
2. Law Number 17 of 2003 on State Finance (State Gazette of the Republic of Indonesia of 2003 Number 47; Addendum to the State Gazette of the Republic of Indonesia Number 4287);
3. Law Number 25 of 2004 on the National Development Planning System (State Gazette of the Republic of Indonesia of 2004 Number 104, Addendum to the State Gazette of the Republic of Indonesia Number 4421).

HAS DECIDED:

To issue the: **PRESIDENTIAL REGULATION ON THE NATIONAL MEDIUM-TERM DEVELOPMENT PLAN OF 2004–2009.**

Article 1

In this Presidential Regulation, the following terms are used:

1. The National Medium-Term Development Plan of 2004–2009 (*Rencana Pembangunan Jangka Menengah Nasional Tahun 2004–2009*), henceforth called *RPJM Nasional*, refers to the national development plan document for the five (5) years period, from 2004 through 2009.
2. The Medium-Term Development Plan of Ministries/Agencies of 2004–2009, henceforth called the Strategic Plan of Ministries/Agencies, refers to the planning document of Ministries/Agencies for the 5 (five) years period from 2004 through 2009.
3. The Regional Medium-Term Development Plan of 2004–2009 (*Rencana Pembangunan Jangka Menengah Daerah Tahun 2004–2009*), that henceforth is called *RPJM Daerah*, is the regional development plan document for the five (5) years period, from 2004 through 2009.
4. The Minister refers to the State Minister for National Development Planning/Chairman of the National Development Planning Agency.

Article 2

- (1) The *RPJM Nasional* is the elaboration of the vision, mission, and programs of the President who has been elected in the General Election, that had been carried out in a direct manner in 2004.
- (2) The *RPJM Nasional*, as referred to in paragraph (1), becomes the guideline for the:

- a. Ministries/Agencies in formulating the Strategic Plans of Ministries/Agencies;
- b. Regional Governments in formulating the *RPJM Daerah*; and
- c. Government in formulating the Government Work Plan (*Rencana Kerja Pemerintah/RKP*).

Article 3

Ministries/Agencies and Regional Governments execute the programs in the *RPJM Nasional* as contained in Strategic Plans of Ministries/Agencies and in the Regional *RPJM (RPJM Daerah)*.

Article 4

Ministries/Agencies and Regional Governments can consult and coordinate with Ministers in the formulation of the Strategic Plans of Ministries/Agencies and of the Regional *RPJM*.

Article 5

The Minister monitors the implementation of the *RPJM Nasional* which has been specified into the Strategic Plans of Ministries and in the *RPJM Daerah*.

Article 6

The *RPJM Nasional* is as contained in the Attachment of this Presidential Regulation and constitutes one integral and inseparable part of this Presidential Regulation.

Article 7

In order that it be known by everyone, to instruct the enactment of this Presidential Regulation by its placement in the State Gazette of the Republic of Indonesia.

Issued in Jakarta

on the 19th of January, 2005

PRESIDENT OF THE REPUBLIC OF INDONESIA

signed

Dr. H. SUSILO BAMBANG YUDHOYONO

Enacted in Jakarta

on the 19th of January, 2005

MINISTER OF LAWS AND BASIC HUMAN RIGHTS,

signed

HAMID AWALUDIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2006
NUMBER 11

Copied in accordance with the original

Deputy for Cabinet Secretary
on Laws and Law Regulations,

signed

Lambock V. Nahatthands

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CHAPTER 1

ISSUES AND AGENDAS OF NATIONAL DEVELOPMENT IN 2004–2009

Article 19 paragraph (1) of Law Number 25 of 2004 on the National Development Planning System states that the National Medium-Term Development Plan is to be issued not later than three (3) months after the installation of the President. The National Medium-Term Development Plan is an elaboration of the vision, mission, and programs of the President for five (5) years, which is to be pursued through the Basic Strategy that is further specified into the National Development Agenda, which contains the main targets that must be attained, policy directions, and programs of development.

The issuance of the 2004–2009 National Medium-Term Development Plan is based on the consideration that the President elect is installed in October 2004 and to be followed up by the President elect by formulating the 100 days Program, which constitutes part of the 2004–2009 National Medium-Term Development Agenda of the United Indonesia Cabinet.

A. NATIONAL DEVELOPMENT ISSUES IN 2004–2009

The economic development that has been carried out in the past has yielded various significant achievements. On the other hand it has also led to various problems that need to be urgently resolved. Development that in the past emphasised attaining high economic growth had increased income per capita, reduced the total number of poor and unemployed people, and had on the average improved the quality of life.

Nevertheless, the economic development that had been very much oriented to increasing the national product had not been accompanied by the development and strengthening of public institutions nor market institutions, mainly financial institutions that should have carried out the function of efficiently and wisely allocating resources. In fact, the economic development process, that had been buttressed by a repressive

and closed system, had paralyzed various strategic institutions, such as the law system and judicial system that should have ensured legal certainty and justice, the political system for assuring the checks and balances system, and the social system that is required for maintaining a harmonious and peaceful life. The results of development had in fact led to adverse effects in the form of gaps among different income brackets, among regions, and among social groups. Meanwhile, the erosion and paralysis of various systems and strategic institutions, have produced a fragile system that is very vulnerable to shocks that arise from within the country as well as from international development on account of the globalization process.

The economic crisis in 1997/98 has given a costly and yet valuable experience to the Indonesian people. The crisis forced Indonesia to carry out reforms that are necessary for correcting the weaknesses and mistakes of the past. Reforms have been made in the economic, political, social and law areas so that these areas have undergone a transformation towards a new system that is expected to be able to be more just, reliable, and sustainable. Nevertheless, such reforms and transformations have not yet been able to produce satisfactory results. In fact some of the initial reforms and transformations have produced various complicated implications that demand continued resolutions in a systematic and consistent manner. The problems and challenges of development faced in the period five years ahead will determine the agendas, targets and programs of development, which must be of a cross areas and nature and require coordination among all the areas of development activities.

First, economic growth has still been at a low level and has resulted in the low and declining welfare of the people and in the emergence of basic social problems. In 2003, the total number of open unemployment had reached 9.5 million persons (9.5 percent of the work force). Moreover, each year there is an additional 2.5 million persons entering the work force. The percentage of poor people had increased to 16.6 percent in 2004 and it still constituted a large absolute number, namely 36.1 million persons. In addition, the decline in the total number of the unemployed and poor population is very vulnerable to changes in the political, economic situation, to social conflicts that have broken out in various regions and to natural disasters.

The welfare of the people is very much affected by the capability of the economy to enhance income in a just and equitable manner. Up to 2004, macro economic stability had been well maintained as reflected in the stable rupiah exchange rate, in the decline of the inflation rate and interest rates, in the well-preserved foreign exchange reserves, and in the improving fiscal sustainability. In the last five years, the ratio of loans/GDP fell by around 35 percent. Monetary stability has also been supported by resiliency of the financial sector. In 2003, the average banking CAR rose to 19.4 percent and the gross NPL fell to 7.7 percent.

Even though stability has improved, economic growth has not yet been adequate for enhancing the welfare of the people. In 2000–2003, at 1993 constant prices, the economy has grown at an average of only 4.3 percent per year. On the expenditure side, economic growth has been induced by private consumption, investment in the form of gross fixed capital formation, and by the exports of goods and services. The stimulus of investment and exports of goods and services to economic growth in 2000 was mainly due to the very strong external demand. In 2001–2003, investment and exports of goods and services have grown merely by respectively 3.5 percent and 2.1 percent per year. Until 2003, the investment level reached only 69.2 percent of that in 1997 (at constant 1993 prices) due to the decline of the attractiveness of investment and to the increased international competition (PRC and Vietnam) in attracting investment.

From the production side, the 2000–2003 economic growth had been contributed by the growth of the agricultural sector by an average of 2.9 percent and of the industrial sector by 5.0 percent per year; while other sectors have grown at an average rate of around 4.5 percent per year. The growth rates of the agricultural sector and industrial sector in 2000–2003 were lower than before the crisis in 1991–1996 of respectively 3.1 percent and 11.3 percent on the average per year.

Measures to stimulate the agricultural sector had faced various basic problems, in the forms of: the shifting of agricultural functions of land to non-agricultural uses; the decline in availability of water and supporting capacity of irrigation infrastructure, the low productivity and quality of agricultural products, and the low capability and access of farmers to productive resources. Meanwhile, there is an imbalance

between the utilization of marine resources and fisheries among regions; there are illegal destructive utilization of marine resources and fisheries, such as illegal fishing, the not yet optimal development of fishery cultivation; the increasing damage and pollution of coastal areas that have reduced their carrying capacity; and the still inadequate regulatory framework for the utilization of marine and fish resources, including law enforcement.

The mining sector is faced by the problem of reduced contribution of oil and gas to government revenues due to the declining capacity for producing crude oil because most of the production comes from old oil fields. Meanwhile, the contribution of mineral resources has also decreased due to the declining prices of mining commodities in world markets in the last several years. In addition, investment in the mining sector has declined due to the lack of legal certainty in conducting business operations and due to regional regulations that have increased the costs in doing business. Moreover, there has also been an increasing number of mining activities without permits.

Utilization of the production capacity in the industrial capacity is still relatively low, namely amounting to only 67.4 percent in 2003. Furthermore, the need to enhance Indonesia's image as a safe tourist destination area is still difficult to attain due to the bomb tragedies in Bali and in front of the Australian Embassy. The development of infrastructure, especially electricity, has faced serious constraints due to the difficulties in making investments and the limited purchasing power of the people. The limited increase in capacity has resulted in increasing procurement costs.

The capacity of development in taking advantage of scientific and technological progress is also still very low. In terms of technological progress, Indonesia is ranked in 60th among 72 countries measured by the Technological Achievement Index. In this regard, Indonesia ranks the 61st among 64 countries that are classified as dynamically adapting countries. The development of science and technology is facing the problem of the not yet optimal utilization of resources (human, capital, facilities, infrastructure and information) in the conduct of research and development, the inadequate integration of researchers mobility policies,

intermediation mechanism and innovation, encompassing the areas of education, fiscal, industry, banking and science and technology.

Domestic trading activities have not yet progressed efficiently due to among others the implementation of regional autonomy, which has significantly impeded the smooth flow of goods and services among regions. International trade has also been facing various impediments, such as the elimination of the Textile and Textile Products quota system, the threat of bio-terrorism, health issues, protectionism (subsidies) of developed nations; non-tariff barriers; and the oligopoly and cartel practices of MNCs.

Secondly, the quality of Indonesia's human resources is still low. The development of education has not yet been fully able to meet the basic rights of its citizens. In 2003, the average school duration of the population aged 15 years and above is 7.1 years and the proportion of the population aged 10 years and older that have a Junior High School (SLTP) and above education is still around 36.2 percent. Meanwhile, the illiteracy rate of the population aged 15 and older is still 10.12 percent. At the same time, the School Enrollment Figure for the population aged 7–12 years has already reached 96.4 percent, even though the School Enrollment figure for the population in the 13–15 age bracket has only reached 81.0 percent, and the School Enrollment Figure for the 16–18 age bracket has still reached 50.97 percent. The challenge has become more burdensome with the still high disparity of education level between groups in society, such as between the rich and the poor, between males and females, between the population in urban and rural areas, and among regions.

The quality of education is also still low and not yet able to meet the competence requirement of the those being educated. This is mainly attributed to the shortage and not yet well distributed educators in terms of quantity as well as quality while the welfare of the educators is also still low. In addition, the teaching facilities are also not adequately available. At the same time, there are also still many students that do not have text books.

Meanwhile, the implementation of decentralization and regional autonomy in education cannot yet be fully made due to the not yet fully

settled sharing of roles and responsibilities of the respective levels of government, including in their respective contribution to allocating budget funds to education and the not yet implemented standards of minimal services, that should have been determined by the respective districts and municipalities on the basis of general guidelines determined by the central government. In addition, the effectiveness of the roles and functions of the education councils and school/*madrasah* committees have also not yet become optimal.

With amendments to the 1945 Constitution and the issuance of Law Number 20 of 2003 on the National Education System, that stipulates that education funds other than for teachers salaries and service education, are to be at least 20 percent of the National Budget (APBN) and at least 20 percent of the Regional Budgets (APBD), and obligating the national government and the regional governments to implement basic education without collecting levies so that the education budget allocation in 2004 will obtain an even greater portion. With the limited budget, such stipulation can only meet 6.6 percent of the APBN. Such budget allocation also does not yet include the allocations made by the regional governments through the APBDs. The national government and regional governments also have not yet been capable to provide free basic educational services.

The health level and nutritional status of the population is still low, as reflected among others in the still high infant mortality rate, the high maternal mortality ratio and malnutrition of children under five years. In addition to the communicable diseases that are still generally found among the population, there are also non-communicable diseases such as cardiovascular diseases, as well as diabetes mellitus and cancer all of which have also tended to increase.

There is also a shortage of health personnel in Indonesia, pertaining to all types of the needed health personnel, and there are also imbalances between production and absorption, and its distribution and equitable access. In addition, the health funding per capita in Indonesia is the lowest among ASEAN nations. The health funding in Indonesia in ten years has reached an average of only 2.2 percent of GDP, much lower than the recommended figure by the WHO of 5 percent of GDP.

Another problem concerns the still high growth rate and total number of population; the still high birth rate of the population; the inadequate knowledge and awareness of fertile couples and youth on reproduction rights; the still low first marriage age of the population; the low participation rate among males in the family planning program; the still low level of economic well-being and resilience of families; the still weak institutions in the regions in implementing the family planning program; the still not yet consistent population policies in supporting sustainable development; the still not yet well organized population administration in developing the system of development, governance, and sustainable development; the low quality of youth; and the low sports culture among the people and the still left behind sports achievements of Indonesia.

The social welfare of the people is still low, as reflected among others in the condition of children and the old aged being neglected, the disabled, the condition of those with a-social problems, and in occurrences of natural and social calamities. Meanwhile, the quality of handling those afflicted with social problems and victims of natural and social disasters is still low.

In the development of women empowerment, one basic problem is the low participation of women in development, in addition to the still prevalent discrimination against women. Another basic problem is the insufficient participation of women in political activities, which is attributed to the socio-cultural structural gap in society. In the social context, this gap reflects the still restricted access of the majority of women in obtaining good health services, in obtaining higher education, and in involvement in broader public activities. Another problem is the quality of life and role of women; the high rate of violence against women and children; the low welfare and protection of children; the low Gender-related Development Index (GDI); and the low Gender Empowerment Measurement (GEM); the many laws and regulations that are gender biased, discriminatory to women, and not yet concerned about children; and the weak institution and mainstreaming network of gender and children, including the availability of data, and the low participation rate of society.

The understanding, full acceptance and practice of religious teachings in the life of the society, the people, and the nation are still very low. Religious teachings have not yet been fully actualized in religious life. The behavior of society with a negative tendency, such as amoral behavior, KKN (Corruption, Collusion and Nepotism) practices, abuse of drugs, and gambling have become more prevalent. In addition, the problem in the development of religious life is that harmonization in social life has not yet been conducive. Social tensions that have triggered internal conflicts and tensions among religious faiths will destroy social order that will ultimately reduce social welfare itself.

As a whole, the quality of man in Indonesia is still relatively low. On the basis of the Human Development Report of 2004, which has used the 2002 data, the Human Development Index (HDI) of Indonesia is 0.692. This index is a composite of the life expectancy at birth of 66.2 years; the literacy rate of the population aged 15 and older of 87.9 percent; the combination of crude participation rate from basic education through high education of 65 percent; and the per capita Gross Domestic Product computed on the basis of the purchasing power parity of US\$ 3,230. Indonesia holds a mere 111th ranking among 177 countries.

Third, the quality of human resources is also affected by the ability to manage natural resources and the environment. The main problem faced in the management of natural resources and the environment is the inconsistency between activities for conserving the environment and activities for exploiting natural resources so that frequently conflicts of interests arise between the uses of natural economic resources (mining, forestry) and the protection of the environment. Economic policies have thus far tended to favor more the activities of exploiting natural resources thereby leading to the weak institutions for managing natural resources and the law enforcing institutions.

Meanwhile, the quality of the environment has also continued to decline as indicated by the increase in the pollution of water, the air and atmosphere. Generally, the water pollution attributed to man's activities, encompass industrial activities, household activities, and activities in mining and agriculture. The pollution of the air and atmosphere can be attributed to natural causes such as the eruption of volcanic mountains,

forest fires, and other. The prolonged change in the quality of the air and atmosphere can result in the accumulation of various elements and compounds that are hazardous to the continuity of life of the ecosystem. In addition, the application of the sustainable development principles in governmental system, organization as well as work programs, at the central government as well as at the regional governments, has not yet been effective. Forest degradation due to various illegal activities has increased from around 1.6 million hectare per year in the 1985–1997 period to 2.1 million hectare per year from 1997 to 2001. The area of degraded lands has continued to increase and has reached 23.1 million hectare in 2000. The continuing degradation of forests and lands can result in the decline of the carrying capacity of the ecosystem to agriculture and irrigation works and will result in drought and floods.

Fourth, the development gap among regions is still wide, such as between Java and outer Java, between the western part of Indonesia and the eastern part of Indonesia, and between urban and rural areas. The first two gaps have directly resulted in the emergence of narrow regionalism, that at the extreme, will be manifested in separatist efforts. The third gap – the gap between urban and rural areas – is attributed to investments (infrastructure and institutions) that have tended to be concentrated in urban areas. As a result, urban areas have experienced faster growth while the rural areas have become left behind.

The rural areas being left behind is also attributed to the still low productivity and quality of the farmers, the limited access of farmers to capital resources, and the low quality and quantity of the agricultural and rural infrastructure. As a result, the welfare of the people in the rural areas, which still comprises around 60 percent of the total population of Indonesia, in particular farmers, is still very low, as reflected in the total number of the unemployed and the total number of the poor, constituting larger numbers than in the urban areas.

The acceleration of decentralization and regional autonomy has encountered constraints, such as the limited availability of competent and professional human resources; the limited availability of financing sources, from the regions themselves as well as from outside the regions; the still absent institutional capabilities; the not yet built clear and consistent regulatory framework; the inadequate creativity and

participation in a more critical and rational manner of the people. The not yet optimal process of decentralization and regional autonomy, due to among others the still not yet clear division of authority between the central government and regional governments, has resulted in the overlaps of central and regional policies, the still low capacity of regional governments, the still inadequate cooperation among the regions in the provision of public services, and the rising aspirations to form new autonomous regions that may not yet be in accordance with the objectives.

Fifth, improvement in the welfare of the people is very much determined by the infrastructure in development. Since the crisis in 1998, the condition of the infrastructure, encompassing transportation, electricity, energy, post, telecommunications and information, water resources, and housing, drinking water services, and the environment, all has experienced a decline in quantity as well as in quality. The reduced quality and services and the postponement of the development of new infrastructure have impeded national development.

In the future, the development of infrastructure will be faced by the limited capability of the government to deliver. For some of the infrastructure, the government is still responsible for their construction and maintenance, such as the construction of roads and rail tracks, irrigation networks, clean water and sanitation facilities in rural areas, sea-ports and air-ports in underdeveloped regions, and rural electricity. For other parts, the supply and construction of various types of infrastructure can actually be fully carried out by the private sector, such as toll roads, commercial air-ports, oceanic ports, electricity generating stations, and telecommunications.

Some of the infrastructure problems that need to be addressed are as follows. *First*, around 30 percent of the irrigation networks, especially in the national rice producing regions in Java, Sumatra, and Sulawesi, are damaged. Such damage is mainly caused by the low quality of the operation and maintenance of the irrigation networks. The shift of use of irrigated areas in the national rice producing regions, especially in Java, has tended to become more extensive, thereby continually and significantly reducing the irrigated areas. In addition, the ever more threatening shortages of water due to the reduced carrying capacity of

the environment, could trigger water conflicts that may lead to various forms of disintegration threats. *Second*, the decline of transportation services, especially infrastructure and public facilities for which the operation, maintenance and construction are still the responsibility of the government. *Third*, the still large backlog of available houses that are fit for being housed by the population. Fourthly, the increase in the gap between the supply and demand for electric power on account of the absence of construction of electricity generating projects, in the Java-Madura-Bali (Jamali) system, as well as in the system outside the Jamali system.

Sixth, the not yet fully resolved problem of separatist movements in Nanggroe Aceh Darussalam (NAD) and in Papua that could threaten the integrity of the Unitary State of the Republic of Indonesia and the still lingering horizontal conflicts in various areas of Indonesia, such as Maluku, Poso, and Mamasa. The efforts to nurture harmony in social life is faced by real challenges in the form of social tensions that have given birth to internal conflicts and conflicts among different religious adherents by utilizing religious sentiments that have been interpreted in a narrow sense, social and economic gaps, and taking advantage of the low level of education of the public at large. Previously, such conflicts have never grown into large scale disputes because society already had local wisdom and customs that could act as forms for communicating and consulting among regions, among different religions and among the diverse elements of the nation. Meanwhile, the role of the government as a facilitator and mediator in the settlement of conflicts has not yet run effectively and national reconciliation has not yet progressed satisfactorily.

Seventh, the rate of conventional and transnational crimes is still high. Even though still under control, the variation of conventional crimes has tended to increase with types of violence that has created apprehension among the people at large. Furthermore, transnational crimes, such as smuggling, narcotics, money laundering and other, have continued to rise. The very wide extent of the seas, the bio-diversity of the seas, and the natural resources contained in the seas, the many entry gates into the Indonesia territorial waters and the still weak supervision, capability and coordination for maintaining sea security, have resulted in the rise of disturbances to the security, defense and law violations on the

seas. The existing potential of terrorism requires a more comprehensive approach and handling; meanwhile, the effectiveness of early detection and pre-emptive steps, for the safeguarding of vital targets, uncovering of cases, the identification of factors that trigger terrorism, and for protecting the people at large, is not yet adequate.

Eighth, with a very large territorial area, and the diverse social, economic and cultural constellation, and the serious external and internal threats, the TNI is faced with the problem of inadequate number of personnel and weaponry that is far from being adequate. Currently, the defense capacity of the TNI AD (army) only relies on war vehicles, of which only 60 percent is in ready condition. The ships of the navy as an attacking force, encompassing submarines, destroyers equipped with missiles, and rocket carrying speedboats, and the patrol boats are already relatively obsolete. Meanwhile, only 28 percent of fighter planes of the TNI AU (air-force) is ready for operation; and only 11 of the 23 air-transport planes are in ready condition.

Ninth, there are still many laws and regulations that have not yet reflected the sense of justice, equivalence, and respect and protection of basic human rights; there are still many overlaps in laws and regulations at the central and regional levels, that have not been conducive to the business climate and in turn has impeded efforts to increase the welfare of the people; law enforcement has not yet been carried out in a strict, non-discriminative and favoring the have-nots manner; and court rulings have not yet been perceived as being just and non-discriminatory through a transparent manner.

Tenth, the low quality of public services, due to among others the abuse of power; the low performance of the state apparatus personnel; the inadequacy of the institutional system (organization) and in the management system of the government; the low welfare of civil servants; and the many laws and regulations that are no longer in line with the current situation and demands of development.

Eleventh, is the not yet strengthened political institutionalization of the state apparatus agencies and social institutions; the still low internalization of democratic values in the life of the nation and the people, as reflected among others in violence and money politics; the still

not yet fully resolved long-standing problems, such as serious basic human rights violations and political crimes; the existence of threats to the commitment of unity and cohesion; the tendency towards unilateralism in international relations.

In addition to the above basic problems, there are also fundamental problems that require special attention in the implementation of development ahead, among others: (1) the still weak character of the nation; (2) the still not yet established systems of development, government, and sustainable development; (3) the still not yet developed humanity nationalism and a democratic politics and economics; (4) the still not yet manifested basic values of nationalism and the still not yet developed system that will enable the people to adopt and understand contemporary values in a wise manner; and (5) the ambivalence in facing the future and the vulnerability of the system of development, governance, and national life in facing changes.

Such basic problems have significantly contributed to the vulnerability of the system of government and state system. The non-systemic handling of such basic problems has often given rise to new problems that are currently emerging in the economic field as well as in the social, political, institutional, as well as security fields, that have made the solution to the problems becoming more complicated. The basic problems need to be addressed in a systemic and continual manner, that frequently require a long time to resolve. Meanwhile, the people tends to expect and wish to see results that can directly be felt in a short period. On the other hand, efforts to resolve urgent problems that have currently emerged, must still have a perspective and consistency in policies with a long-term time framework. The steps today must constitute initial efforts for the solution of basic problems in the long-term. This is reflected in the government agenda that is contained in the 100 days Program, which has been designed in accordance with the consistency in the theme and direction of policies with programs in the annual, five-year medium, and in twenty-year long-term time dimension.

On the basis of the problems, challenges, and constraints faced by the people and the nation of Indonesia, the **VISION OF NATIONAL DEVELOPMENT FOR 2004–2009**, has been determined, namely:

1. The realization of life of the people and the nation, that is safe, united, harmonious and peaceful;
2. The realization of the people and nation that upholds the law, equality, and basic human rights; and
3. The realization of an economy that can create employment opportunities and a reasonable living and that provides a solid foundation for a sustainable development.

On the basis of the national development vision, the **three (3) NATIONAL DEVELOPMENT MISSIONS FOR 2004–2009**, have been determined, namely:

1. The realization of a Safe and Peaceful Indonesia
2. The realization of a Just and Democratic Indonesia
3. The realization of a Prosperous Indonesia

In realizing the above vision and in implementing the above national development missions, there are two (2) Main Development Strategies that will be pursued, namely:

1. **The Strategy for Reforming Indonesia**, which is directed at rescuing the governmental system of the Republic of Indonesia, on the basis of the spirit, fervor, values and basic consensus that constitute the bases for the founding of the National State of the Republic of Indonesia, which encompass the Pancasila, the 1945 Constitution (especially the Preamble of the 1945 Constitution); at ensuring the continued upholding of the Unitary State of the Republic of Indonesia; and also at ensuring the flourishing of pluralism and diversity under the principle of the *Bhineka Tunggal Ika* (Unity in Diversity).
2. **The Strategy for Developing Indonesia**, which is directed at developing Indonesia in all areas, which constitutes the realization of the message which is explicitly contained in the Preamble of the 1945 Constitution, particularly in meeting the basic rights of the people and in creating a solid development foundation.

The first development strategy is aimed at developing a social and political system that is solid, so that the built system of governance, as a sustainable political and social system, will become resilient in facing

various shocks. On the basis of this sustainable social and political system, the system for enhancing the capacity and ability of society, as an important part of the second development strategy, will be built. In accordance with the message of the constitution, enhancing the capacity and ability of society must be endeavored through the provision and meeting of the basic rights of the people.

This strategy is also aimed at developing a democracy that is imbued by the Pancasila and the Preamble of the 195 Constitution, namely a democracy that contains the elements of responsibility and right. An excessive emphasis on rights will form a society that is individualistic, anarchic, and full of conflict. Conversely, an excessive emphasis on responsibility can create a society that is in miniature, repressed, not creative, and ultimately will give birth to resistance and revolt.

In this strategy, the Indonesian people onward need to jointly ascertain: (1) that the Pancasila and the 1945 Constitution are no longer being debated; (2) that the Form of the State is still the Unitary State of the Republic of Indonesia; (3) that the Government is elected and replaced by the process of the general election that is democratic and elected directly by the people; (5) that all laws must be imbued by the spirit of the Pancasila and the Preamble of the 1945 Constitution and that laws should be formulated and submitted in a manner that as far as possible involves public debates; (6) that all regulations must not be contrary to higher laws and regulations and must be based on the spirit and zeal of the Pancasila and the Preamble of the 1945 Constitution; (7) that laws and regulations that are discriminatory against citizens must be averted; (8) noble values that are intrinsic in society ought to be strengthened in order to avert coercive acts against individuals by other individuals or the use of force by one group against another group in ways that are not in line with regulations and laws that have been jointly agreed; and (9) that the State must preserve and respect the basic rights of its citizens.

The second strategy, the Strategy for Developing Indonesia, is aimed at two main targets, namely, the meeting of the basic rights of the people and the creation of the basis for a solid development process.

The basic rights of the people in the form of freedom from poverty, unemployment, backwardness, injustice, repression, fear, and the freedom of expression, have a high priority for being realized. The meeting of basic rights encompasses: (1) the right of the people to obtain proper employment that is worthy for mankind; (2) the right of the people to obtain legal protection; (3) the right of the people to obtain a sense of security; (4) the right of the people to have access to the basic needs (clothing, food and shelter), that are affordable; (5) the right of the people to have access to education; (6) the right of the people to have access to health; (7) the right of the people to obtain justice; (8) the right of the people to participate in politics and in instituting changes; (9) the right of the people to innovate; and (10) the right of the people to adhere to their respective religions and to worship in accordance with their faiths. Without meeting such basic rights it will be difficult to expect the participation in freedom and in equality.

In the past, recognition of basic rights of the people was been reduced, neglected and only became a by-product in the development process, in spite of the fact that these basic rights have obviously been stipulated in the constitution. Development that places too great an emphasis on the attainment of high economic growth only neglects the aspects of justice and the meeting of basic political and social rights of the people. In view that the meeting of basic rights of the people, especially in the economic field that requires the capability to mobilize funding and to have the appropriate policy direction, it is necessary to pursue an economic growth strategy that yields a quality of equity and meeting of basic rights and that is not only fixated to a high economic growth rate.

A solid foundation is required for attaining a sustainable development and for having better future generations. The leeway for attaining such a better life will become wider if the economy is stable, self-reliant, and has a high growth rate; and that there is the assurance and consistency of the laws and regulations; and there is an enhancement of the capacity of the nation itself and of the quality of life of the people.

On the basis of the vision, mission, and the development strategies referred to above, the three (3) **NATIONAL DEVELOPMENT AGENDAS FOR 2004–2009** are set and are as follows:

1. Realizing a Safe and Peaceful Indonesia
2. Realizing a Just and Democratic Indonesia
3. Enhancing the Prosperity of the Indonesian People.

The three basic development agendas for 2004–2009, are subsequently translated into development programs that are to be attained within the next five (5) years.

B. PRIORITY OF THE 2004–2009 NATIONAL DEVELOPMENT

On the basis of the aforementioned problems and challenges, the targets, priorities, and basic policy directions have been set for the 2004–2009 national development, which are as follows.

AGENDA FOR REALIZING A SAFE AND PEACEFUL INDONESIA

In relation to the Agenda for Realizing a Safe and Peaceful Indonesia, the three (3) basic targets, priorities and policy directions, are set, and are as follows:

The first target is the enhanced sense of safety/security and peace, that is reflected in the reduced tension and threats of conflicts among groups as well as among social groups; the actual reduction of the crime rate in urban and rural areas; and the actual reduction of sea piracy and crimes and cross-border smuggling.

To attain this target, the priorities of the 2004–2009 national development are the following:

1. **Enhancing Mutual Trust and Harmonization among Social Groups**, through policies that are directed at: (1) strengthening the existing harmony and averting actions that can lead to injustice so as to create a civil society that is solid, and includes the revitalization of confidence among groups in society; (2) strengthening and articulating national identity; and (3) creating an internal condition and life among different religious faiths that are based on mutual respect in the context of creating an atmosphere of safety and peace and for settling and averting conflicts among different religious

adherents and for enhancing the quality of services in religious life for all of the people in order that they can have their basic rights in adhering to their respective religions and to worship in accordance with their religions and faiths.

2. **Developing a Culture That is Based on Noble Values**, through policies that are directed at: (1) encouraging the creation of an open and democratic means for conducting cultural dialogues so that clashes that occur will not widen into social conflicts; (2) encouraging the full settlement of the modernization process that is characterized by the realization of the National State of Indonesia that is modern and sustainable, and the strengthened civil society; (3) the revitalization of values on local wisdom as one of the bases for the development of the ethics of social relations in the context of strengthening national identity; and (4) enhancing love of society for domestic culture and products.
3. **Enhancing Security, Order and Overcoming Crimes**, through the firm, just and non-discriminatory enforcement of the law; enhancing the capacity of state security institutions; increasing the participation of the people in averting crimes and disturbances to law and order within their respective vicinities, overcoming and preventing the growth of problems that are related to the use and spread of narcotics, enhancing the awareness on the legal rights and responsibilities of citizens, and strengthening international cooperation in the fights against crimes and transnational crimes.

The second target is the ever stronger NKRI (Unitary State of the Republic of Indonesia) on the basis of the Pancasila and the 1945 Constitution, and the *Bhineka Tunggal Ika* (Unity in Diversity) principle, as reflected in the effective handling of actions that attempt to separate from the NKRI; the increased ability to protect the nation from the threats of terrorism in the context of maintaining the sovereignty of the Unitary State of the Republic of Indonesia, from internal as well as external threats.

To attain this target, the priorities of the 2004–2009 national development have been placed on the following:

1. **Preventing and Overcoming Separatism**, particularly in Aceh and Papua, through comprehensive policies, including affirmative

actions against separatist movements, by still respecting the basic rights of civilians.

2. **Preventing and Overcoming Terrorist Movements** which is aimed at the formulation and effectuation of an effective legal framework on anti-terrorism, enhancing the capability and capacity of anti-terrorist institutions, capacity building for preventing and overcoming terrorism and by consolidating the operational aspects in overcoming terrorism, and increasing cooperation for fighting terrorism.
3. **Increasing the State Defense Capability**, which is aimed at enhancing the professionalism of the TNI (Indonesian Armed Forces) in the modernization of state defense equipment and through the repositioning of the TNI role in the social and political life, gradually promoting the defense support system and increasing the welfare of soldiers.

The third target is the increased role of Indonesia in the creation of a peaceful world. In this respect, the development priority is placed on the Consolidation of Foreign Policy and Increasing International Cooperation., with policies directed at enhancing the quality of Indonesia's diplomacy, in the context of promoting the national interest; continuing Indonesia's commitment to identity forming and consolidating regional integration in ASEAN; and continuing Indonesia's commitment to promote peace in the world.

AGENDA TO REALIZE A JUST AND DEMOCRATIC INDONESIA

In relation to the Agenda for Realizing a Just and Democratic Indonesia, five (5) main targets have been formulated with the priorities and policy directions, that are as follows:

The first target is the enhanced justice and law enforcement, which is to be reflected in the creation of a law system that is just, consistent, and not discriminatory and that provides protection to and respect for the basic rights of man; that ensures consistency of the entire legal framework at the central as well as regional levels, as part of the efforts to restore confidence of the society in the consistent enforcement of the laws. With regard to law enforcement, priority is placed on the eradication of corruption by taking action against the actors of

corruption and the steps to return funds that have been obtained from corruption to the state, the prevention and overcoming of terrorism, and the eradication of the abuse of illegal drugs. Specifically on the eradication of corruption, attention is given to efforts for empowering the Commission for the Eradication of Corruption (KPK) and the Court for handling the Corruption Cases and the empowering of the Commission for Supervising the State Attorney Office, as an external control by society over the performance of the apparatus of the state attorney's office.

To attain this target, the priorities of the 2004–2009 national development, are set as follows:

1. **Reform of the National Law System and the Political Law**, directed especially at strengthening efforts for eradicating corruption, through improvements of the law substance, the structure of the law, and the law culture by enhancing professionalism and improving the quality of the system in all aspects of the courts, simplifying the court system and ascertaining that the law is enforced in a just manner by respecting and strengthening the wisdom of custom laws, which are of a local nature, in order to enrich the system of laws and regulations.
2. **Elimination of All Forms of Discrimination**, including discrimination in the field of law, by the enforcement of laws in a just manner and by at the same time eliminating regulations that are discriminatory, involving gender injustice, and violating the principle of justice, to ensure that all citizens are equal before the law.
3. **Respect, Compliance With, and Enforcement of the Law and Recognition of Basic Human Rights**, by among others, implementing various action plans, such as the Action Plan on Basic Human Rights for 2004–2009; the National Action Plan for the Eradication of Corruption; the National Action Plan for the Eradication of Sexual Commercial Exploitation of Children; The National Action Plan for the Eradication of Forms of the Worst Employment for Children; and the National Program for Indonesian Children (PNBAI) of 2015.

The second target is the assured gender justice for increasing the role of women in various development fields, so as to be reflected in various laws, development programs and public policies, improvement in the

GDI (Gender-related Development Index) and in the GEM (Gender Empowerment Measurement); and the reduced violence against women and children; and the improved welfare and protection of children.

To attain this target, the priority is placed in **Enhancing the Quality of Life and the Role of Women and the Welfare and Protection of Children** through policies that are directed at : (1) promoting the involvement of women in the political process and in holding public positions; (2) enhancing the standard of education and health services and other programs for enhancing the quality of life and the resources of women; (3) increasing the anti-violence against women and children campaign; (4) improving the penal law framework so that it becomes more comprehensive for the protection of each individual against violence in households; (5) increasing the welfare and protection of children; and (6) strengthening the institutions and network for the mainstreaming of gender and children, including the availability of data and enhancing the participation of the general public.

The third target is the enhanced services to society by implementing regional autonomy and regional good governance and by maintaining consistency of all central and regional regulations, and to eliminate regulations that are in contravention with higher regulations in the context of enhancing justice for the regions in their development activities. In order to attain this target, the development priority is placed in the Revitalization of the Decentralization and Regional Autonomy Process, directed at: (1) making explicit the division of authority between various levels of government; (2) encouraging cooperation among regional governments; (3) reforming government institutions in the regions in order to become more effective and efficient; (4) increasing the quality of the state apparatus in the regions; (5) increasing the financial capacity of regional governments; and (6) reforming a new regional autonomy.

The fourth target is the improved services of the bureaucracy to the general public, to be reflected in the: (1) effective reduction in the practices of corruption in the bureaucracy, and to be started from the highest level positions; (2) attainment of a government and bureaucracy system that is clean, accountable, transparent, efficient and credible; (3) elimination of regulations and practices that are discriminatory against

certain citizens, groups or segments in society; (4) the increased participation of the people at large in the public policy decisions.

To attain this target, the development priority is placed in the **Creation of a Clean and Credible Government**, with the following policy directions: (1) completely resolving efforts to overcome the abuse of power in the form of corruption, collusion and nepotism (KKN) by applying the principles of good governance, increasing the effectiveness of supervision, and enhancing the work culture and ethics in the bureaucracy; (2) improving the quality of state administration through reforms of institutions, public management and by increasing the capacity of human resources of the apparatus; and (3) increasing the empowerment of the people in the implementation of development activities through the increase of the quality of public services.

The fifth target is the democratic, honest, and just implementation of the 2009 general election, by maintaining the momentum of consolidation of democracy that has been in the process on the basis of results of the direct general election in 2004. In order to attain this target, the development priority is placed in the Realization of Solid Democratic Institutions, with policies directed at optimizing functions and relations among the executive, legislative and judicial institutions; further encouraging efforts to empower the people at large; enhancing the quality of political parties and the implementation of general elections, in line with the stipulations of the constitution.

AGENDA FOR INCREASING THE WELFARE OF THE PEOPLE

With regard to the Agenda for Increasing the Welfare of the People, the following five (5) basic targets with their respective priorities and policy directions have been formulated, and are as follows:

The first target is the reduced total number of the poor population, to 8.2 percent by 2009 and the creation of employment opportunities, which will be able to reduce open unemployment to 5.1 percent by 2009, and supported by the continued maintenance of macro economic stability. Poverty and unemployment are to be overcome by the economic development strategy that encourages the desired quality of

growth and that takes into account the dimension of equity through the creation of a sound business climate.

To attain this target, efforts will be made to increase economic growth from 5.1 percent in 2005 to 7.6 percent in 2009, representing an average growth rate of 6.6 percent per year. The efforts to stimulate economic growth are to be pursued by creating a sound business climate for enhancing the participation of the private sector. From the expenditure side, economic growth is to be stimulated mainly by encouraging investment and increasing non-oil/gas exports. The role of private investment in the GNP will be increased from 16.0 percent in 2004 to 24.4 percent in 2009; while the role of government investment in the GNP will be increased from 3.4 percent in 2004 to 4.1 percent in 2009. In line with the improving world economic condition, non-oil/gas exports are expected to gradually increase from 5.5 percent in 2005 to 8.7 percent in 2009. In line with the increased investment and competitiveness of the economy, efforts will be made to increase the growth rates of the agricultural sector, the non-oil/gas processing industry, and other sectors, to an annual average of around 3.5 percent, 8.6 percent, and 6.8 percent respectively.

In order to attain this target, the following development priorities and policy directions have been set:

1. **Alleviating Poverty**, through policies that are directed at respecting, protecting and meeting the basic rights of the poor people, which encompass the rights to food, health, education, employment, clean water, land, environment and natural resources, sense of security, and the right to participate in the formulation of public policies.
2. **Increasing Investment and Non-Oil/Gas Exports**, through policies that are directed at eliminating the high cost economy, among others by simplifying the investment licensing procedure, including for the UKM (Small and Medium Enterprises); creating legal certainty that can reduce business uncertainties, including the reduction of overlapping policies between the central and regional governments and among sectors; improving the investment institutions so that these become competitive, efficient, transparent, and non-discriminatory; simplifying the tax and customs administration through tax and customs reforms; creating the right investment incentives in the efforts to distribute more investment to

regions outside Java, especially in the Eastern Part of Indonesia; encouraging the restoration of the banking intermediation function; increasing the availability of infrastructure; revitalizing the export promotion institution; increasing at the company level support services; promoting trade financing facilities; and strengthening anti-dumping safeguard institutions. Furthermore, for the purpose of increasing foreign exchange earnings, the tourism policies are directed at increasing the effectiveness of efforts to promote and develop tourist products and enhancing synergy among tourists service providers.

3. **Enhancing Competitiveness of the Manufacturing Industry** through policies that are directed at increasing the utilization of installed capacity; strengthening the industrial structure; strengthening the production base; enhancing competitiveness with the emphasis on industries that absorb larger numbers of workers and that meet domestic demand; have export potentials, and that process natural resources in the country.
4. **Revitalization of Agriculture**, in a broad sense, which is directed at the greater security of food resiliency, enhancing competitiveness, diversification, enhancing productivity and value-added of agricultural products, livestock breeding, estate products, fisheries and forestry in order to enhance the welfare of farmers and fishermen, through: (1) increasing the capabilities of farmers and fishermen and strengthening the supporting institutions, (2) securing food resiliency, (3) increasing the access of farmers and fishermen to production resources, such as technology, market information, processing and capital sources, (4) improving the business climate in the context of increasing business diversification and expanding business opportunities, (5) increasing managerial capacity and entrepreneurial competence among businessmen engaged in agriculture and fisheries, (6) inducing the increased quality standards of commodities, reforming and promoting industries that process agricultural and fishery products in order to increase competitiveness and value-added, (7) increasing efficiency in the system for distribution, collection and marketing networks of products for the expansion of marketing channels, and (8) increasing the utilization fishery resources and optimizing the utilization of natural forests, developing crop forests and non-timber forest products, in order to

support economic growth while still maintaining the conservation of natural resources and the environment.

5. **Empowerment of Cooperatives, Micro, Small and Medium Scale Enterprises**, through policies that are directed at the: (1) promotion of small and medium scale enterprises (UKM) so that these enterprises can give a significant contribution to economic growth, employment creation and enhancement of competitiveness; (2) promotion of micro-scale enterprises in the context of increasing income of the low income bracket population; (3) strengthened institutions by applying the principles of good governance and taking into account gender aspects by improving the business climate and simplifying licensing procedures, expanding access to funding sources, specifically the banking system, expanding and increasing the quality of supporting institutions that carry out the intermediation function as the providers of services for the promotion of business undertakings, technology, management, marketing and information; (4) expansion of the business base and opportunities and for promoting new entrepreneurs that have a comparative advantage, including efforts for increasing exports; (5) increased activities of the UMKM (Small and Medium Scale Enterprises) as suppliers of goods and services to the domestic market, in particular for meeting demand of the people at large; and (6) increased quality of the cooperative institution in accordance with the cooperative identity.
6. **Enhancing Management of the BUMNs** (State-Owned Enterprises), in the context of increasing the performance and competitiveness of the BUMNs, through policies that are directed at continuing the restructuring of the BUMNs so as to become more effective in accordance with their orientation and functions.
7. **Enhancing Capability in Science and Technology**, through policies that are directed at: (1) enhancing the focus and capacity of research and development in science and technology; (2) accelerating the process of diffusion and utilization of science and technology products; (3) strengthening the science and technology institutions; and (4) creating the innovative climate in the form of incentives.
8. **Improving the Manpower Climate**, by promoting a flexible labor market policy and by reforming industrial relations, that reflect the principle of justice and that is conducive to increasing productivity and innovation.

9. **Consolidating Macroeconomic Stability**, which is directed at maintaining macroeconomic stability that has already been attained by providing greater room for maneuver for promoting economic growth. In this respect, the efforts pursued will encompass: (1) the formulation of the APBN (National Government Budget) with the objective of restoring the fiscal capability to become one of the effective economic instruments for creating employment opportunities through the stimulation of a sustainable and employment creating economic growth; (2) promoting a management strategy for foreign loans as a supplement for the financing of development, on the basis of the principle of an efficient management and that enhances the capability to repay; (3) enhancing coordination of fiscal and monetary policies between the Government and Bank Indonesia by still maintaining their respective roles; (4) enhancing efforts for the restructuring of financial institutions and banks in enhancing their intermediation role to the production sectors.

The second target is the reduced inter-regional gaps that will be reflected in the increased role of rural areas as the basis of economic growth in order to be able to increase the welfare of the rural population; the increased development activities in left behind areas; the increased development of areas that is induced by the competitiveness of the areas and by selected products of the areas; and the enhanced balance in the growth and development among large, moderate and small metropolitan urban areas that takes into account the synergy in the utilization of space and land layouts.

To attain this target, the following priorities and policy directions have been set:

1. **Rural Development**, by promoting the diversification of rural economic activities; increasing the promotion and marketing of agricultural and other rural products; expanding access of the rural population to productive resources, to public services and to markets; empowering the rural population by increasing their quality, by strengthening the institutions and social capital of the rural population; increasing the welfare of the rural population and minimizing the vulnerability risk; and by developing activities in

agricultural cultivation and non-agricultural undertakings that are environment friendly and are sustainable.

2. **Reducing Inter-Regional Development**, by: (a) accelerating the development and growth of strategic and fast-growing areas, which thus far have not yet optimally grown, so as to be able to become the engine of growth for left-behind areas in its vicinity within one synergic “economic development system”; (b) enhancing the concern of the government for promoting left-behind and remote areas, so that these areas can grow and develop faster and will be able to catch up with other areas in their development; (c) promoting border areas by changing the development policy direction that thus far had tended to be inward-looking to become outward-looking, so that these areas can function as the gateways of economic and trading activities with neighboring countries, through the prosperity approach as well as the security approach; (d) attaining greater balance in the growth and development among large, medium and small urban areas, hierarchically in a ‘national urban development system’; (e) increasing the links of economic activities that are found in rural areas with those found in urban areas; (f) to make operational the Spatial Plan (*Rencana Tata Ruang/RTR*), in accordance with the planning hierarchy (National-RTRW, the Island-RTRW, the Provincial-RTRW, and District/Municipality-RTRW) as the basis for coordination and synchronization of development among sectors and among areas.

The third target is the increased quality of human resources, which in a comprehensive manner is reflected in the improved Human Development Index (HDI) and in the increased understanding and practice of religious teachings. This target is elaborated as follows:

1. The increased access of the people to education and the increased quality of education, as indicated among others by the: reduced total number of illiterates; the increased percentage of population that can complete the nine years primary education program; the growth of vocational education that is characterized by the increased number of skilled persons; the increased quality and relevance of education, that is indicated by the: (a) increased proportion of formal and non-formal education that have a minimum qualification and certification in conformity with the level of authority to teach; (b) the increased quality of learning results that is measured by the increased

percentage of scholars that have passed the evaluation of learning results; and (c) the increased research outputs, development and creation of science and technology by institutions of higher learning and research and development institutions and their dissemination to and application in society.

2. The increased access of the people to public health services, that is indicated by the increasing life expectancy figure, the decline in infant mortality rate and maternal mortality rate, and improvement in nutrients status.
3. The increased social protection and welfare, that is indicated by: (a) the increased quality of and access to services provision, rehabilitation, social assistance, and social welfare security for social welfare problem individuals (PMKS); (b) the increased quality of the management and professionalism of social welfare services; (c) the establishment of a national social protection system; (d) the increased synergy of social welfare policies; (e) the increased access of the people to basic social services through social institutions; (f) the ensured social assistance for victims of natural and social disasters.
4. The controlled population growth rate and the increased total number of small and resilient families, that is indicated by: (a) the decline in the population growth rate to 1.14 percent; the total fertility rate becoming 2.2 per woman; the percentage of fertile aged couples that are not served (unmet needs) to 6 percent; (b) the increase in the total number of male family planning participants to 4.5 percent; the effective and efficient use of contraceptive devices; the first marriage age becoming 21 years; (c) the increased participation of families in the development of children upbringing; (d) the increased total number of Pre-Welfare Families and the Welfare-I Families, that are active in productive economic activities; and (e) the increased total number of social institutions in the provision of family planning services and in reproduction health services; the well-organized administration of population matters, that is characterized by: (a) the increased consistency of population policies in increasing the quality, controlling growth and quantity, direction of mobility and dispersion of population that are in line with the supporting capacity of nature and the accommodation capacity of the environment, at the national as well as regional levels; and (b) the increased coverage of districts (*kabupatens*) and

municipalities (*kotas*) in the Information System of Population Administration; and the increased youth participation and culture and sports, as indicated by: (a) increased synergy of various youth policies at the national and regional levels; (b) the increased quality and participation of the youth in various development fields; (c) the increased synergy of various sports policies at the national and regional levels; (d) the increased physical health of the people and in sports achievements; and (e) the availability of sports facilities and infrastructure for the people in accordance with the major sports activities in the regions.

5. The increased understanding and practice of religious teachings in the life of the society and nation, and the increased concern and awareness of the people in general for meeting their obligations in the context of reducing income gaps in society.

In order to attain that target, the following priorities and policy objectives have been set.

1. **Increasing Access of the People to Quality Education**, through policies that are directed at implementing the nine years primary education program; significantly reducing the total number of illiterates; the further expansion and equitable distribution of high education and higher education; the greater expansion of education for early age children; implementing high quality non-formal education in order to provide education services to citizens who otherwise cannot possibly meet their education needs through the formal channels; reducing the education participation gap among groups in society by providing greater access to the groups in society that thus far could not be reached by the education services, such as the poor, those living in rural, remote areas and on remote islands, those living in conflict areas, the disabled, including the provision of alternative and special education; developing curriculums that are adjusted to the progress of science and technology, and to global, regional, national and local developments; developing education on citizenship, multi-cultural education, and education on moral ethics, including education to broaden the horizon on the arts, culture, and the environment; providing teachers and educators and providing educational facilities and infrastructure in the appropriate quantity and quality; enhancing the welfare and legal protection to teachers; promoting the information and communication technology in the

education field; developing the system of evaluation, accreditation and certification, including the system for testing and evaluation of education; improving the management of education by enhancing the autonomy and decentralization of education management; increasing the participation of the general public in the development of education; reforming the education financing system that is based on the principles of justice, efficiency, effectiveness, transparency and accountability, including the application of the student-based financing and increasing the budget allocation for education so as to reach 20 percent of the APBN and the APBD; and increasing research and development in education, especially for supporting the endeavors for effectuation of the Nine-Years Mandatory Primary Education program.

2. **Improving Access of the People to Improved Quality Health Services** through policies that are directed at: (1) increasing the total number, networks and quality of public health centers; (2) increasing the quantity and quality of health personnel; (3) developing the health security system, mainly for the poor; (4) increasing the socialization of health environment and the modes of healthy living; (5) increasing health education for the people since the early age; and (6) increasing equity and quality of primary health facilities.
3. **Increasing Social Security and Welfare** through policies that are directed at: (1) developing a national social security system; (2) increasing the quality of basic services and assistance of social welfare for those having social welfare problems; and (3) increasing the empowerment of the poor, invalids and other socially vulnerable groups.
4. **Developing Population Matters and Good Quality Small Family and the Youth and Sports** through policies that are directed at: (1) controlling population growth and increasing the good quality small family by: (a) controlling the population birth rate; (b) increasing the empowerment and resilience of the family; (c) increasing the reproduction health quality of the young and the maturing of the marriage age; (d) strengthening the KB (Family Planning) institutions and networks; (2) reforming the development of population matters by: (a) reforming policies on the balanced dispersion and mobility of the population; and (b) reforming population administration policies; and (3) increasing youth participation in development activities and promoting sports culture,

by: (a) realizing the synergy of youth policies in various development fields; (b) increasing youth participation in social, political, economic, cultural and religious development; (c) enhancing the potential of the youth in development pioneering and leadership; (d) protecting the young generation from the abuse of NAPZA (drugs), alcoholic beverages, the spread of HIV/AIDS diseases, and contagious sex diseases among the youth; (e) promoting sports policies and management; and (f) promoting and socializing sports activities.

5. **Increasing the Quality of Religious Life**, through policies that are directed at enhancing the quality of services, understanding of religion and religious life; and increasing internal harmony and among different religious adherents.

The fourth target is the improved quality of the environment and the management of natural resources that are oriented to the mainstreaming of the principle of sustainable development in all development sectors.

In order to attain this target, the development priority is placed on **Improving the Management of Natural Resources and Conserving Quality of the Environment** through policies that are directed at: (1) managing natural resources for being utilized in an efficient, just and sustainable manner to be supported by reliable institutions and strict law enforcement; (2) preventing the occurrences of damaged natural resources and a more serious degradation of the environment, so that the rate of degradation and pollution will be reduced; (3) restoring natural resources and the environment that are in degraded condition; (4) preserving natural resources and the environment that are still in good condition for being utilized in a sustainable manner, and enhancing their quality and potentials; and (5) enhancing the quality of the environment.

The fifth target is the improved infrastructure as indicated by the increased quantity and quality of various facilities that support development.

In order to attain this target, the priority is placed on the **Acceleration of Infrastructure Development**. This is initially carried out by repairing the damaged infrastructure for restoring the provision of services with the emphasis on improving the agricultural and rural infrastructure, the strategic economic infrastructure, and infrastructure in conflict regions. The next measure is the expansion of the infrastructure

capacity by focusing on the construction of new infrastructure that is oriented at infrastructure in remote and left-behind areas, infrastructure that serves poor communities, and infrastructure that connects and/or serves inter-regional needs.

Private participation is encouraged, especially in regions that have a high economic growth potential in order to ensure a proper rate of return. In addition, private enterprises will also be encouraged to provide infrastructure services on behalf of the government, in the form of the universal service obligation (USO) or the public service obligation (PSO). Improvements in the PSO mechanism will emphasize the services provided by the BUMNs (State-Owned Enterprises) and by opening up PSO opportunities for non-BUMNs/BUMDs. To ensure transparency and accountability in service provision, the minimum service provision standards in infrastructure will be launched, to become the benchmark for the quality of government services.

On the side of the government, efforts will be made so that the allocation of infrastructure funding will not decline. To encourage the participation of private enterprises, the priority is placed on the creation of investment funds for infrastructure that can facilitate the acceleration of realized private investment in infrastructure.

In the next five years, the development of water resources will prioritize conservation efforts in order to realize the continuity of water supply capacity. The use of water resources will be directed at meeting basic needs, especially in water shortage areas, in left behind areas, and in strategic areas. In addition, water use will also be directed at meeting the water needs of smallholders agricultural irrigation, in the context of supporting the program on food resiliency and for enhancing the welfare of the people. The supply of irrigation water will be carried out by increasing the function of irrigation networks, through their rehabilitation, and by enhancing the operation and maintenance performance that takes into account the availability of water and the readiness of farmers, especially in the major rice producing regions. The efforts to control the damaging capacity of water, especially in overcoming floods, are carried out by reaching a balance between the construction approach and the non-construction approach. The institutions for managing water resources will be developed by enhancing

the role and involvement of all stakeholders, and by mobilizing and expanding social capital.

The development of transportation will place priority on such efforts as: improving the quality of infrastructure and facilities, particularly for eliminating backlogs in maintenance and rehabilitation, among others the road infrastructure and transportation, the railway infrastructure and facilities, the river transport facilities, lake transport facilities, ferry transportation, sea and air transportation; improving services in accordance with standards of services that meet stipulations on international standards; supporting the more equitable and just transportation services, among regions as well as among social groups, through the integrated transportation development, which is based on regional development, especially by constructing the network of infrastructure and facilities services provision and by subsidizing transportation services in remote border areas and in areas that are still left behind, as well as by developing an urban transportation that is affordable and continuous.

The development of housing places the priority on efforts for increasing the total number of the population owning and living in houses that are reasonable for being lived in, by increasing access to capital that is needed for the construction and repair of houses, especially for low-income bracket people in the informal sector; developing simple apartment houses for the low income population, to be funded by the government as well as by the private sector; and by reducing the extent of slums in urban areas, in fishermen villages, and in villages inhabited by former transmigrants.

The development of drinking water facilities and improved environment are aimed at efforts for increasing the coverage of drinking water provision through pipelines and the basic sanitation at the national level, so that these are of high quality, efficient and affordable tariff for all income brackets in society, and that drinking water will be available in a continual manner; increasing the quality of surface water that is used as raw material for drinking water; increasing the utility of the IPLT (Dirt Waste Processing Installation) and the IPAL (Waste Water Processing Installation) that have already been built; further developing the waste

water disposal system; gradually developing the centralized sewerage system for metropolitan and large cities.

The priority of energy development lies in efforts for increasing efficiency in the use of energy; rehabilitating the energy infrastructure; reducing dependence on imported BBM (Oil Fuel); for gradually and systematically reducing subsidies; and developing the energy infrastructure, encompassing processing facilities (oil refineries, electric power generating stations), transmission and pipeline distribution facilities (gas fuels and oil fuels), and storage depots.

The priority in the development of the national electricity is directed at restoring the reliability of electric power availability, especially for meeting domestic demand for electricity, especially in electricity shortage areas; increasing the efficiency of the national electricity system from the standpoint of producers: increasing efficiency in the generation, transmission, and distribution of electricity, from the standpoint of users; developing rural electricity in the context of developing the social and economic activities of rural areas, especially areas that have economic potentials and have the local energy potentials.

The development of post and telecommunications & informatics places the priority on increasing efficiency through the restructuring of implementing post and telecommunications and informatics, encompassing improving and enhancing the performance of State-Owned Enterprises (BUMNs) that carry out the postal and broadcasting services provision, and for creating a level-playing-field in the implementation of telecommunications activities; enhancing access to postal and telecommunications & informatics services in the USO/PSO areas; and increasing access of the general public and domestic industries in utilizing and developing the information and communication technology and in its application.

In the context of increasing the effectiveness of development implementation for attaining the development targets, it is necessary to have accurate data and information. In this regard, the program is implemented for improving and promoting statistics with the aim of: ensuring the continuity of available primary statistical data that are complete, accurate, and timely, through various censuses, surveys,

studies, and compilation of administrative products, for supporting all fields of development, at the national as well as regional levels; increasing the quality and professionalism of human resources in the technical and management aspects of statistics and in the computation of data and administrative products; and for promoting a statistical information system, a geographic information system, the dissemination of statistical information, and the information management system, in order to support the effectiveness of primary statistical activities and for meeting the needs for statistical information and data for the government as well as for the general public, in the country as well as abroad.

PLAN TO REHABILITATE AND RECONSTRUCT ACEH AND NORTH SUMATRA

At the end of December 2004, a natural catastrophe in the form of an earthquake and tsunami tidal waves struck the Province of Nanggroe Aceh Darussalam (NAD) and North Sumatra. This catastrophe has resulted in: (a) the large number of human victims; (b) the paralysis of basic public services; (c) the non-functioning of basic infrastructure; and (d) the collapse of the social and economic systems. Up to 13 January 2005, the number of victims recorded as dead reached 196,523 persons, received hospital treatment totaling 925 persons, missing reaching 12,147 persons, those becoming refugees reaching 694,760 persons, comprising vulnerable groups of the population, such as girls and the aged. This disaster is expected to have a significant psychological impact on the population; the paralysis of basic services, such as education, health, security, social and the deficient governance functioning was due to the annihilation of basic facilities and infrastructure and the shortage of human resources of the state apparatus. The infrastructure that has been destroyed comprises over 30,000 houses, 1,644 government offices, 270 markets, and 2,732 worship facilities. Production activities, including trade and banking, totally stagnated and require immediate rehabilitation. The transportation and telecommunication systems also experienced serious damages and must urgently be handled in order that the disaster sites can be immediately accessed. The social-economic system and social institutions require revitalization in order to restore the social and economic activities of the population in Aceh and North Sumatra.

The planned efforts for overcoming the earthquake and tsunami waves in the NAD and North Sumatra regions, encompass three main phases: the emergency response phase; the recovery phase that covers the social rehabilitation and physical restoration activities; and the reconstruction phase. The emergency response phase will be implemented from 6 to 20 months, while the phase for social rehabilitation and physical reconstruction will be carried out from 1.5 to 2 years and the reconstruction phase will be implemented in 5 years. The target in the emergency response phase is the rescuing of victims, through: (a) construction of general kitchens; (b) construction of basic infrastructure; (c) burying of dead victims; and (d) rescuing of victims that are still alive. The target in the recovery phase is the restoration of the minimum services standards, through: (a) rehabilitation of human resources; (b) rehabilitation of public services; (c) rehabilitation of economic facilities, banking and financial institutions; (d) restoration of law and order; and (e) rehabilitation of rights on land. The target of the reconstruction phase is the rehabilitation of the entire social and economic system, through: (a) rehabilitating human resources; (b) redeveloping the economic system; (c) redeveloping the regional and local infrastructure system; (d) revitalizing the social and cultural system; (e) redeveloping the institutional system; and (f) developing the early warning system for minimizing the disaster impact.

Details of the plan for rehabilitating and reconstructing Aceh and North Sumatra will be elaborated in a separate planning document.

CHAPTER 2

ENHANCING MUTUAL TRUST AND HARMONIZATION AMONG SOCIAL GROUPS

Mutual trust and harmony among social groups are essential factors for creating a sense of security and peace. Disputes and conflicts which have been occurring among social groups, that have characterized the political developments in our country, are indications of the low mutual trust and lack of harmony in society. Therefore, to create a sense of security and peace in a continual manner, it is necessary that mutual trust and harmony among social groups be continuously nurtured and developed, and that such disputes and conflicts be immediately handled and resolved.

A. THE PROBLEMS

The problems of social and economic discrepancies have not yet been resolved. Multidimensional discrepancies have the potential to exacerbate the unhealthy divisions among social groups. This can disrupt social relations and create a sense of injustice, that in turn can become the initiator towards the process of national disintegration.

National reconciliation has not yet been effective. Social and political conflicts in the past have the potential to reemerge if no measures are taken to resolve them in a comprehensive manner through the appropriate methods. To ensure that the process of democratic consolidation proceeds in an effective manner, it is necessary that the Indonesian people carry out more just and comprehensive national reconciliation efforts for resolving such past conflicts.

The role of the government as facilitator and mediator in the settlement of conflicts has not yet been effective. The government does not yet have the capacity and professionalism to respond to conflicts, and has not yet been transparent and has not yet involved the participation of the general public in the determination of public policies that will be issued by certain regions. The lack of coordination and the

low mutual trust among government agencies and between government agencies and the general public in the creation of peace have resulted in the not yet effective efforts to resolve conflicts.

Policies on national communications and information have not yet been optimal. The large policy intervention in the dissemination of information, such as the excessive censor policy and one-sided information, can have counterproductive consequences in the efforts to maintain mutual trust and harmony in society. Policies that enlarge access of the people at large to the process of public policy formulation, which also reduce information gap among social groups, will be essential for enhancing mutual understanding among existing social groups.

B. THE TARGETS

The targets in the efforts for enhancing mutual trust and harmonization among social groups are as follows:

1. The reduced tension and threats of conflicts among social groups or among groups of people in conflict-prone areas;
2. The maintained situation of security and peace; and
3. The enhanced participation of the general public in the decision making process of public policies and in the settlement of social problems.

C. POLICY DIRECTIONS

The policy directions for the efforts for enhancing mutual trust and harmony among social groups are as follows:

1. Empowering social organizations and non-governmental organizations in the prevention and correction of injustice, discrimination and social discrepancies, as an important part of the efforts to develop a solid civil society;
2. Consistently encouraging the continual process of national reconciliation;
3. Consolidating the role of the government as the credible and just facilitator and mediator in the efforts to maintain security, peace and harmony in society; and

4. Applying national communications and information policies that are in conformity with the principles of transparency and equity in the access to information.

D. DEVELOPMENT PROGRAMS

The policy directions for enhancing mutual trust and harmonization among social groups are further specified into the following development programs:

1. PROGRAM FOR RESTORING POST-CONFLICT AREAS

This program is aimed at the reconstruction of the social and political infrastructure, and at restoring the mental condition of communities in conflict affected areas

The main activities that will be carried out are among others:

1. To rehabilitate the social and economic facilities and infrastructure that have been destroyed in the conflicts;
2. To facilitate efforts for strengthening social institutions as forums for conflict resolution and for enhancing mutual trust and harmonization among social groups; and
3. To facilitate efforts for intensifying the restoration of the traumatized mental state of communities affected by the conflicts.

2. PROGRAM FOR ENHANCING THE COMMITMENT TO MAINTAINING NATIONAL UNITY AND COHESION

This program is aimed at reaffirming the important meaning of national unity in the constellation of a dynamic national life and for creating the harmonized relations among social units.

The main activities that will be carried out are among others:

1. To facilitate various social forums in developing social and political discussions for enhancing the understanding of the importance of national unity;

2. To facilitate the implementation of quality political education for the general public together with the related parties, so that the general public can understand and implement their rights in accordance with the 1945 Constitution;
3. To improve access of the general public to economic and social resources;
4. To facilitate the process of national reconciliation;
5. To facilitate the implementation of communications, information and education of the democratic culture, anti corruption, collusion and nepotism practices, and is concerned with Basic Human Rights and Political Ethics;
6. To develop and implement various forms of national alliances; and
7. To develop conflict handling that places the importance on social harmony through the optimization and empowerment of functions of local and traditional institutions that have high credibility.

3. PROGRAM FOR REFORMING THE RELATION OF THE STATE AND THE GENERAL PUBLIC

This program is aimed at enhancing the maturity and self-reliance of the general public in resolving social problems.

The main activities that will be carried out are among others:

1. To facilitate and encourage the implementation of political education for enhancing the political participation of the people;
2. To facilitate and encourage the realization of independent and autonomous social organizations for assisting the general public in resolving social problems;
3. To empower and provide the opportunity to social organizations to participate in giving inputs and for implementing supervision to the decision-making process and implementation of public policies;
4. To facilitate the restoration and re-empowerment of traditional institutions and traditional social and cultural institutions so that these can become credible and self-reliant;
5. To facilitate and encourage political efforts in enhancing the knowledge and skills of the general public; and
6. To enhance the professionalism of the state apparatus and institutions, including efforts to enhance coordination in the

settlement of conflicts and/or in preventing the emergence of political and social tensions/conflicts.

4. PROGRAM FOR ENHANCING THE QUALITY OF PUBLIC INFORMATION SERVICES

This program is aimed at enhancing the quality of information services and flows to and from the general public in the context of supporting the process of socialization and political participation of the people.

The main activities that will be carried out are among others:

1. To realize better quality multimedia information services;
2. To provide information that is oriented and to the demand and real needs of the general public in accordance with the standards of public information services;
3. To expand the network and infrastructure for providing information and public broadcasts, particularly in isolated areas;
4. To utilize the network of the information technology and communications on a broader basis for opening the opportunity for the access, management and utilization of information in a broader and more speedy and accurate manner;
5. To facilitate the development and investment in private television broadcasting; and
6. To facilitate the creation of a society that is aware of the importance of information.

CHAPTER 3

DEVELOPMENT OF CULTURE BASED ON NOBLE ANCESTRAL VALUES

The very rapid developments of society, due to globalization and the rapid progress of the communication and information technology, have required adjustments in the value system and in behavioral patterns. In such a dynamic situation, it is expected that the development of culture can provide direction to the realization of the national identity that is in conformity with the noble ancestral cultural values of the nation. In addition, the development of culture is meant to create a conducive and harmonious climate, so that values inherent in local wisdom will become able to positively and productively respond to modernization, in line with the values of nationalism.

A. THE PROBLEMS

The inadequate ability of the nation to manage its cultural diversity. This indication is evident from the strengthening of orientation to particular associations, ethnical and religious groups, which has the potential to create social conflicts and might even lead to national disintegration. Such a phenomenon needs to be watched for because Indonesia comprises around 250 ethnical groups. This problem has also become increasingly serious due to the ever more limited public forums that can be accessed and managed jointly by multicultural communities for accommodating their aspirations. Currently, there is a tendency for shifting the public forums to the private forums due to economic pressures.

The national identity crisis. The values of social solidarity, brotherhood, social congeniality, and love for the country, which at one time was the uniting force and unique trait of the Indonesian nation, have been fading away together with the strengthening of materialistic values. Likewise, the pride for national identity, such as manifested in the correct use of the Indonesian language, has been eroded by values that are deemed to be more superior. The national identity has become

eroded due to the rapid absorption of negative global culture, and the inability of the Indonesian people to adopt more relevant global values that can positively contribute to national and character building. The fast pace of economic development that has not been adequately balanced by the pace of nation and character building has resulted in a cultural crisis that has in turn weakened cultural resiliency.

The inadequate ability of the nation to manage its tangible as well as intangible cultural assets. In the era of regional autonomy, the management of cultural assets has become the responsibility of regional governments. The low quality of management is not only attributed to the small fiscal capability of the regional governments but also to the regional governments' inadequate understanding, appreciation, awareness of and commitment to cultural assets. Such management of cultural assets has also not yet fully applied the principles of good governance. Meanwhile, the appreciation and affection of the people to its domestic culture and products are still low, due to among others its limited availability of information.

B. THE TARGETS

The targets of developing culture based on noble ancestral values are:

1. The reduced tension and threats of conflicts among social groups;
2. The increasingly solid NKRI (Unitary State of the Republic of Indonesia) that is based on the Pancasila, 1945 Constitution, and the *Bhinneka Tunggal Ika* (Unity in Diversity);
3. The continued development of the application of positive and productive new values, in the context of consolidating national culture, that is realized in each aspects of national policies; and
4. The enhanced preservation and development of cultural assets.

C. POLICY DIRECTIONS

The policy directions for the development of culture based on the noble ancestral values are the following:

1. Developing social assets by encouraging the creation of open and democratic forums for conducting cultural dialogues;
2. Encouraging the accelerated process of modernization, which is characterized by the realization of the nation-state of Indonesia that is modern and sustainable, and by the strengthened civil society;
3. Re-actualizing the values of local wisdom as one of the bases for developing the ethics of social interaction in order to strengthen national identity; and
4. Enhancing the love of society for domestic culture and products.

D. DEVELOPMENT PROGRAMS

The policy directions for the development of culture based on noble ancestral values are further specified into the following development programs:

1. PROGRAM FOR MANAGING CULTURAL DIVERSITY

This program is aimed at creating harmonious relations among social units and among cultural groups, in the context of reducing tensions and threats of conflicts and at the same time strengthening the NKRI (Unitary State of the Republic of Indonesia).

The main activities that will be carried out are among others the following:

1. To conduct open and democratic dialogues among cultural groups;
2. To develop multicultural education for enhancing tolerance in society;
3. To develop various forms of national bondage, such as through the development of infrastructure for enhancing access to transportation and communications among regions and across cultures;
4. To preserve and develop public forums/debates for enhancing social assets; and
5. To enhance law enforcement for the creation of the sense of justice among cultural units and among social units.

2. PROGRAM FOR DEVELOPING CULTURAL VALUES

This program is aimed at strengthening national identity and consolidating national culture. This aim is to be attained through among others efforts to strengthen the resiliency of national culture, so as to become capable to deter the penetration of negative foreign culture and to facilitate the process of adopting and adapting positive and productive foreign culture. In addition, efforts are to be made to develop moral values of the nation that place priority on the values of honesty, reliability, exemplary behavior, sportsmanlike behavior, discipline, achievement orientation, mutual cooperation, self-reliance, tolerance, self-respect and responsibility. The aim is also to be attained through the mainstreaming of cultural values in each aspect of national development.

The main activities that will be carried out are among others: to actualize moral and religious values, to revitalize and re-actualize local culture that contains noble ancestral values, which include the development of the maritime culture and to transform culture through the adoption and adaptation of positive new values so as to enrich and solidify the cultural richness of the nation, such as: the orientation to enhancing performance, the culture of being critical, the adherence to accountability and the application of science and technology.

3. PROGRAM FOR MANAGING CULTURAL ASSETS

This program is aimed at enhancing appreciation and affection of the people for domestic products and culture, encompassing tangible as well as intangible cultural assets.

The main activities that will be pursued are among others the following:

1. To preserve cultural assets, encompassing their history, ancient assets and cultural preserved assets;
2. To develop the information and database system on cultural matters, such as cultural maps and state archive documents;
3. To enhance the capacity of human resources in the management of cultural assets;

4. To enhance institutional capacity through the reform of the managerial system of the institutions that manage cultural assets so as to be able to adhere to the principles of good governance;
5. To promote the participation of society and the private sector in the management of cultural assets;
6. To review laws and regulations pertaining to the management of cultural assets; and
7. To transcribe and transliterate ancient documents.

CHAPTER 4

ENHANCING SECURITY AND ORDER, AND OVERCOMING CRIME

The threat to security is generally still under control, even though there are variations in crimes, in the actualization of horizontal conflicts and in the increased security threats in the vicinity of border areas and in the marine jurisdiction area of Indonesia that have created uncertainty and have resulted in the fading sense of security of the local communities. Various security threats in Indonesia that cannot yet be countervailed by the effective handling by the law enforcing apparatus, can weaken the trust of local communities to government institutions in general.

A. THE PROBLEMS

Crime has not yet been handled optimally. Crime is a real threat to the sense of security, tranquility and peace of society. The resurgence of the crime index from 86 in 2002 to 99 in 2003 should be watched and anticipated by the security apparatus in the efforts to enhance their performance, so as to provide a security guarantee to society. Furthermore, the settlement of crime cases that have been resolved in the 1999 to 2003 period, has stagnated to an average of only 55.5 percent of total cases being handled.

Increased threat of transnational crimes to domestic security. Globalization and the effectuation of free trade will enhance the flow of population within individual nations as well as among nations. Meanwhile, the organizational advance of international crime, that is supported by technological progress in communication and information and in the technology of weaponry, have resulted in international crimes, pertaining to among others narcotics, smuggling, money laundering, trafficking of women and children, and even involving threats to the safety, security and nuclear transactions, and so forth, have made transnational crimes to become difficult to cope with. The effectiveness of intelligence and safety to state confidential information, are

determining factors in the prevention, revelation and handling of transnational crimes.

Proliferation in the circulation and abuse of narcotics. The circulation and abuse of narcotics are serious threats to the survival of the nation. Most (around 90 percent) of the two million narcotics addicts comprise the young generation. The impact of the circulation and abuse of narcotics encompasses the physical and mental health dimension of the users, the economic dimension with the increased costs of health maintenance, the social dimension with the increased threat to security and order, and the cultural dimension with the negative effects to the patterns and norms of behavior of society as a whole.

Increased security threats and law violations on the seas. The wide extent of the seas, the marine bio-diversity, and the rich marine resources, have induced foreign parties to participate in the illegal exploitation of Indonesia's marine resources, in the form of among others illegal fishing and illegal mining activities. Such illegal exploitation of marine resources have substantially brought adverse effects to the local communities, the people and the nation. In addition to the limited human resources and inadequate equipment and infrastructure, the weak supervision and law enforcement in the marine jurisdiction areas of Indonesia, has also been attributed to inadequate coordination.

The inadequate supervision and law enforcement in the management of forest resources. The excessive exploitation of forests for short term interests and illegal logging practices, have resulted in excessive deforestation, that ultimately will adversely affect the local communities, the people and the nation. Crimes involving forest resources that has recently proliferated comprise the practices of over-cutting, illegal logging and illegal trading among regions as well as to other nations. The continued proliferation of such practices ultimately originates from the weak supervision and law enforcement in the management of forest resources, that are not independent from the inadequate capacity an consistency of the law enforcing apparatus and from the inadequate facilities and equipment needed to support the tasks of the law enforcing apparatus.

Declining compliance with the law. The various crimes and law violations, that have resulted in the fading sense of security of society, have basically been attributed to the declining compliance with the law of society. Society's compliance with the law is a prerequisite and also a challenge for creating security and order in society. The diverse perception of the diversity of cultures, social conditions, welfare gaps, unemployment rate, poverty rate and population density, are correlative crime factors and police hazards, that if not well handled can encourage the emergence of crimes and horizontal conflicts. Such correlative crime factors and police hazards can be mitigated only by the attitude and behavior of society that is compliant with and upholds the law.

Low professionalism of the police institution. One of the main causes of the not yet optimal handling of crimes, law enforcement, management of order in society, and the slow anticipation for handling transnational crimes, is the low professionalism of the police institution. Therefore, it is necessary to have a police institution that is effective, efficient and accountable. The police institution must become professional in integrating structural aspects (institution, organization, structure and tasks) with instrumental aspects (philosophy, doctrine, authority, competence, capacity, functions, and science and technology), and cultural aspects (management of resources, operational management, and the system for maintaining security in society). Human resources as the backbone of the institution of the Indonesian police force, are still inadequate, with the total number of the police force not yet meeting the standard determined by the United Nations, namely 1 police for 400 population. The ratio of the total number of the police personnel to the total number of the population in 2004 is 1 to 750, even though this is already an improvement to the preceding year of 1 to 900. Enhancing the professionalism of the Indonesian police force as a whole, requires capacity strengthening, encompassing improvements in the work culture, motivation, education and training and equipment. In addition, to enable local communities to oversee the system of security and order in their respective environments, it is necessary that the police acts as the provider of guidance in supporting the mechanism of community policing.

B. THE TARGETS

The targets of the efforts to enhance security, order and to overcome crime, are the following:

1. The reduced number of law violations and crime index, and the increased effective handling of crime cases for the purpose of creating a sense of security for society;
2. The exposition of international crime networks, especially in narcotics, human trafficking, and money laundering;
3. The enhanced protection to confidential information flow of state institutions after the effectuation of AFTA and other free trade arrangements, especially for vital state institutions/ facilities;
4. The reduced total number of drug (narcotic) addicts and the revelation of cases and the eradicated main networks and supply chain of narcotics and precursors;
5. The reduced total number of security threats and law violations at sea, especially at trade and distribution routes and in international shipping routes;
6. The exposed main networks in illegal logging activities, and the improved law enforcement practices in the management of forest resources, in the context of eradicating illegal logging, over cutting and illegal trading;
7. The increased compliance with the law of society;
8. The enhanced performance of the Indonesian police force, as evident from the reduced crime rate. law violations, and the increased settlements of law violation cases.

C. POLICY DIRECTIONS

The targets are to be attained by enhancing the participation of the people and by enhancing the professionalism of institutions that are related to security issues, in the context of maintaining security and order in society, upholding order and law enforcement, and the provision of protection and public services to society. The policies that will be pursued for those purposes encompass the following:

1. Intensifying efforts for the prevention and revelation of conventional crime cases, including new forms of crimes and white collar crimes, in a simultaneous manner, by enhancing the capacity

of security institutions, including the intelligence and counter-intelligence institutions;

2. Enhancing the capacity to prevent, deter and the taking of action to transnational crimes, through early detection and through land, sea and air interdiction, and through international cooperation;
3. Carrying out of synergic and comprehensive efforts in balancing and integrating the efforts to reduce the supply of and demand for narcotics;
4. Securing sea waters for the prevention, deterrence and taking action to violations in the exploitation of marine resources, by domestic as well as by foreign parties;
5. Preventing and taking action to illegal logging actors, pertaining to production forests, protected forests as well as to conservation forests;
6. Providing examples to non-discriminatory law enforcement practices, that can build up trust of the people to comply with the laws and for the building up of community policing, in order to bring the police closer to local communities, so as to build up cooperation in the maintenance of security and order;
7. Enhancing the professionalism of the police force, through the development of the performance of the police force, by enhancing the competence of core tasks, operational management, the development of organizational and managerial capacity of human resources and consolidating the organizational structure of the police force and enhancing the ratio of the police force to the total population to reach 1,500 by the end of 2009;
8. Enhancing the performance in the supervision and control mechanism of the law enforcing institutions, especially the police.

D. DEVELOPMENT PROGRAMS

The policy directions for enhancing security, order and for overcoming crime, are further specified in the following development programs:

1. PROGRAM FOR THE DEVELOPMENT OF INVESTIGATIONS, SAFEGUARDS AND MOBILIZATION OF STATE SECURITY

This program is aimed at enhancing the capacity of intelligence professionalism so as to become more responsive, sharp and anticipative in the early detection and elimination of various threats, challenges, obstructions and disturbances that affect the national interest in the context of enhancing security, order and for overcoming crimes.

The main activities that will be carried out are the following:

1. To carry out intelligence operations on early detection for enhancing security, order and overcoming crimes;
2. To coordinate the entire central and regional intelligence agencies throughout Indonesia for early detection and for enhancing security, order and overcoming crimes;
3. To assess, analyze intelligence on changes in the strategic environment, management and formulation of intelligence products with regard to early detection for enhancing security, order and overcoming crimes;
4. To procure facilities and the infrastructure for the operations of intelligence activities at the central and regional agencies.

2. PROGRAM FOR THE DEVELOPMENT OF THE SAFEGUARDING OF STATE SECRETS

This program is aimed at enhancing the safeguarding of state secrets for supporting national development in the enhancement of security.

The main activities that will be carried out are the following:

1. To compile the software for the system on state secrets and for maintaining the confidentiality of state documents or archives;
2. To procure laboratory equipment, engineering of code software, engineering of coding instruments, research for the mastery of technology, research on coding instruments;
3. To construct buildings for education and training and the procurement of the facilities and infrastructure of office buildings;
4. To procure coding instruments in the context of developing the coding communication network;

5. To carry out operational coding activities;
6. To provide guidance and facilitate activities of government agencies and private entities on coding aspects;
7. To formulate policies and laws/regulations on coding matters;
8. To provide the regulatory framework for carrying out the System on State Coding, encompassing aspects on human resources, software, hardware and the National Coding Communication Network.

3. PROGRAM FOR THE DEVELOPMENT OF HUMAN RESOURCES OF THE POLICE FORCE

The aim of this program is the development of adequate human resources in terms of quality as well as quantity, in the context of creating a professional police institution.

The main activities that will be carried out are the following:

1. To maintain the archives of personnel of the Indonesian police force, in the form of the maintenance of the capacity of and guidance to the personnel;
2. To develop the personnel force through the recruitment of members of the police force and civil servants;
3. To develop the capacity of the Indonesian police force through the enhancement of the quality for carrying out the education, development of vocational skills and for developing specialized skills of the police force.

4. PROGRAM FOR THE DEVELOPMENT OF FACILITIES AND INFRASTRUCTURE OF THE POLICE FORCE

The aim of this program is to meet the needs and for empowering the physical and services facilities in the context of enhancing the professionalism of the police force in maintaining security and order in society, in enforcing the law, providing protection and services to society.

The main activities that will be carried out are the following:

1. To reform the institutions in the Indonesian police through the development of facilities that support operational tasks;
2. To increase the functions of facilities and infrastructure of the Indonesian police in order to support police tasks;
3. To maintain the infrastructure and facilities of the Indonesia police.

5. PROGRAM FOR DEVELOPING THE STRATEGY FOR MAINTAINING SECURITY AND ORDER

This program is aimed at developing anticipatory strategic measures against the threats to national security and to order in society.

The main activities that will be carried out are the following:

1. To assess the potential of conflicts;
2. To assess the security system;
3. To formulate the grand strategy and the blueprint for developing the management of security;
4. To formulate the management of special instrument assets for maintaining security;
5. To develop the system, in the form of providing guidance on the system and method for supporting the main tasks of the organization/unit and for developing the information system for the management of security;
6. To activate functions, covering the provision of support for meeting needs for implementing functions of the organization, for technical aspects, work procedures, human resources and for equipment.

6. PROGRAM FOR EMPOWERING THE SECURITY POTENTIAL

The aim of this program is to bring closer the police and the local communities so that the local communities become induced to cooperate with the police through the provision of guidance to local communities in assisting the main task of the police in creating security and order in society.

The main activities that will be carried out are the following:

1. To empower local communities through the establishment of anti crime groups in society;
2. To empower members of the communities in implementing self-initiated security efforts;
3. To provide guidance and information on security.

7. PROGRAM FOR MAINTAINING SECURITY AND ORDER IN SOCIETY

The aim of this program is to realize a system of security and order in society that can protect all citizens of Indonesia from the threats to security and order in society, in conformity with the laws that are in force.

The main activities that will be carried out are the following:

1. To increase the quality of police services;
2. To provide guidance and protection to the general public;
3. To regulate and put in order the activities of the general public/government agencies;
4. To safeguard the general public by providing assistance/help and to evacuate refugees and victims;
5. To restore security through the restoration of police emergency steps, implementation of police operations and restoring areas affected by vertical as well as horizontal conflicts;
6. To secure border areas of Indonesia by securing cross-border activities in the state border areas, and to take measures to secure the outermost islands of the nation's borders;
7. To engage in the cooperation between the police force of Indonesia and the Indonesian armed forces;
8. To engage in cooperation with regional governments/related government agencies;
9. To engage in bilateral/multilateral cooperation in the prevention of crimes as well as well as cooperation in technical aspects and in education and training.

8. PROGRAM FOR EXAMINING AND INVESTIGATING CRIMINAL ACTIONS

The aim of this program is to realize the enforcement of supremacy of the law in facing criminal actions and other law violations.

The main activities that will be carried out are the following:

1. To intensify the examination and investigation of criminal actions and law violations in a non-discriminatory manner;
2. To carry out activities for the overcoming and handling of transnational crimes;
3. To coordinate and supervise civil servants that are assigned with the technical investigation tasks.

9. PROGRAM FOR PREVENTING AND ERADICATING THE ABUSE AND ILLEGAL CIRCULATION OF NARCOTICS/ ILLEGAL DRUGS

The aim of this program is to realize an Indonesian society that is free from narcotics/illegal drugs.

The main activities that will be carried out are the following:

1. To enhance the quality of law enforcement on narcotics/illegal drugs;
2. To enhance the empowerment of the potentials and capabilities of the local communities;
3. To increase the provision of therapeutic and rehabilitation services to abusers (victims) of narcotics/illegal drugs;
4. To increase communication, information and education;
5. To support the coordination, enhancement of the quality of human resources, administration, management of the budget, facilities and infrastructure;
6. To develop the planning system and model and to promote participation of the youth in the prevention and overcoming of narcotics/illegal drugs abuse as guideline for handling narcotic/illegal drug problems throughout Indonesia;
7. To carry out anti narcotics/illegal drugs national campaigns and socialization activities;
8. To promote investigations and law enforcement on drugs and food.

10. PROGRAM FOR CONSOLIDATING DOMESTIC SECURITY

The aim of this program is to enhance and consolidate security and order in Indonesia, especially in vulnerable regions, such as the marine areas of Indonesia, border areas and the outermost islands, and increasing the security condition of Indonesia for among others preventing and overcoming illegal fishing and illegal mining, and marine crimes and law violations, and overcoming crimes and law violations in the management of forest resources.

The main activities that will be carried out are the following:

1. To enforce the law in sea, air and land border areas, to implement the security of VVIP, and national vital objects;
2. To carry out sea security operations and enforce the law in the sea territory of Indonesia;
3. To carry out arrests and legal processing of actors of illegal fishing and illegal mining, and law violators in the sea jurisdiction of Indonesia;
4. To increase the capacity and institutional aspects of the law enforcement apparatus at sea;
5. To develop the operation and procedural system for the management of sea security;
6. To activate the integrated sea supervision and security that is based on the community and on the apparatus;
7. To revitalize the forest police institution as part of the decentralized authority;
8. To enhance the safeguarding of forests on the basis of the initiatives of local communities;
9. To intensify efforts in the joint monitoring by the apparatus and local communities of forest areas;
10. To enforce laws and regulations and accelerate the process of action taken against law violators in the forest sector;
11. To consolidate security and supervision of traffic in nuclear power, including the formulation of policies, systems and procedures, provision of information services, and ensuring safety.

CHAPTER 5

PREVENTING AND OVERCOMING SEPARATISM

Horizontal conflicts in various regions of Indonesia, such as Maluku and Poso, have significantly been mitigated. The parties involved in the conflicts have, voluntarily as well as through facilitation by the government, shown their resolve to create peace in their respective areas. Nevertheless, in several regions there are potential and real separatist movements that aim to secede from the NKRI (Unitary State of the Republic of Indonesia). Such potential and movements need to be wisely addressed so as to maintain the ever more solid integrity of the NKRI.

A. THE PROBLEMS

The not yet fully resolved handling of the separatist movement in Aceh, even though it is already at the stage of civil emergency phase and preparations are underway to enter the civil order phase. The separatist movement in Aceh, even though already entering the settlement phase with the effectuation of civil emergency and is preparing to enter the civil order phase, still needs affirmative as well as discreet handling for ensuring the integrity of the NKRI. The tsunami disaster at the end of 2004, which has devastated most of Aceh and has resulted in the loss of many lives, has become the unforeseen factor in the efforts to fully overcome separatism and has required a handling that placed greater emphasis on the sense of justice.

The still real threat of the Free Papua Movement (OPM) in Papua. At the eastern tip of the nation, even though the armed Free Papua Movement can already be localized, resulting in the declining number of incidents, the social condition of the local population and the still strong support from a portion of the local population for the struggle of the OPM, it still needs to be carefully watched.

The fact that national development has not yet been equitably implemented. Development policies that are perceived to have disregarded the interest of the Aceh and Papua population, resulting in

the local population to become left behind in terms of economic welfare, education and health compared to other regions in Indonesia, even though these two regions have rich natural resources, can increase the sympathy of the local communities to the separatist groups. Such sympathy can be made as the moral strength for encouraging the local population in these two regions to secede from the NKRI.

The not yet functioning early warning and prevention at the initial phase of separatism. A separatist impetus that has reached a large scale movement will make it difficult to handle and will require its handling over a relatively long period. Such growing separatist actions are evidences of inadequate anticipation and the minimum of efforts to prevent and handle such actions at the early phase of the movements.

The fact that the concept of multiculturalism has not yet been well understood. The existence of the separatist potential is evidence that the conception and actualization of the principles of multiculturalism are still fragile. The still weak understanding of multiculturalism and its actualization is an apprehensive fact as it implies the ease for which differences in ethnical traits, cultures and ideologies can be used as issues for demanding secession from the NKRI.

B. THE TARGETS

The targets of efforts for the preventing and overcoming separatism are the following:

1. The restored normalcy in the life of the population in Aceh and Papua so that there will be no new conflicts in a particular region;
2. The reduced resistance of the GAM (Free Aceh Movement) and the weakening support from sympathizers of GAM in the country as well as abroad;
3. The reduced strength of the OPM (Free Papua Movement) and the weakened support from sympathizers of the OPM within the country as well as abroad;
4. The improved implementation of equitable development in conflict and separatist-prone regions, as reflected in the enhanced social and economic condition of the local population;

5. The early detection and prevention of separatist potentials;
6. The increased understanding and actualization of multiculturalism among the leaders, communities and the media.

C. POLICY DIRECTIONS

The said targets are to be attained through the following policy directions:

1. Restoring security for carrying out strict actions against armed separatists that violate the civil rights of the population;
2. Increasing the welfare of the local communities of conflict or separatist-prone regions, through improvement in the access of the local population to economic resources and through greater equity in development activities among regions;
3. Increasing quality in the implementation of autonomy and decentralization;
4. Ensuring the early detection and prevention at the initial phase of potential conflicts and separatist actions;
5. Implementing political education, through formal, informal channels and through dialogues and through the mass media, in the context of increasing mutual trust;
6. Strengthening the institutions of regional governments in the provision of public services;
7. Strengthening political communication of the government and the local population.

D. DEVELOPMENT PROGRAMS

The policy directions for preventing and overcoming separatism are further specified into the following development programs:

1. PROGRAM FOR DEVELOPING NATIONAL RESILIENCY

The aim of this program is the development and enhancement of national resiliency, national identity and national management system, and the concept of nationalism for citizens in the context of overcoming various threats to the life of the people and that of the nation.

The main activities that will be carried out are the following:

1. To formulate the draft on national policies for promoting national resiliency in order to ensure attainment of the national objectives and maintenance of the national interest and safety of the nation from threats to the sovereignty, unity and cohesion of the nation;
2. To conduct strategic research and studies on actual problems related to the concept of national defense and security, concept of the national archipelago, national resiliency, and the national management system;
3. To carry out strategic education on national resiliency.

2. PROGRAM FOR THE DEVELOPMENT OF INVESTIGATIONS, SECURITY MEASURES AND CONSOLIDATING STATE SECURITY

The aim of this program is to increase the professionalism of the intelligence so as to become more sensitive, sharp and anticipatory in the early detection and elimination of various threats, challenges, impediments and disturbances that can affect the national interest, in order to prevent and overcome separatism.

The main activities that will be carried out are the following:

1. To carry out intelligence operations, in the context of early detection, for preventing and overcoming separatism;
2. To coordinate all central and regional intelligence agencies throughout the NKRI for preventing and overcoming separatism;
3. To assess and analyze intelligence on changes in the strategic environment, management and compilation of intelligence products, in the context of early detection, for preventing and overcoming separatism.

3. PROGRAM FOR UPHOLDING THE SOVEREIGNTY AND SAFEGUARDING OF THE TERRITORIAL INTEGRITY OF THE NKRI

The aim of this program is to realize the readiness for carrying out operations and actions against threats in the form of

invasions/aggressions from the outside and threats from within the country, in the form of military as well as non-military threats.

The main activities that will be carried out are the following:

1. To anticipate and implement military as well as non-military operations against separatist movements that attempt to secede from the NKRI, especially armed separatist movements, that threaten the sovereignty and territorial integrity of Indonesia;
2. To anticipate and implement military and non-military operations against radicalism that are based on ethnical, racial, religious primordial sentiments and on ideology other than the Pancasila, that are acting on their own initiatives as well as those related to forces abroad.

4. PROGRAM FOR CONSOLIDATING DOMESTIC SECURITY

The aim of this program is to increase and consolidate the security and order in the Indonesian territory, especially in vulnerable regions, such as on the seas of Indonesia, in border areas and in the most outer islands, and to increase the security of the Indonesian territory from separatist crimes.

The main activities that will be carried out are the following:

1. To carry out security and law enforcing operations in the efforts to implement actions against the early tendency of separatist activities in the territory of the NKRI;
2. To carry out efforts for securing and maintaining order in border areas and in the most outer islands;
3. To implement the persuasive approach in an intensive manner to communities that are vulnerable to the influences of separatist elements.

5. PROGRAM FOR ENHANCING COMMITMENT TO NATIONAL UNITY AND COHESION

The aim of this program is to reaffirm the important meaning of national unity in an already changed political constellation.

The main activities that will be carried out are the following:

1. To carry out the political education of the general public;
2. To socialize the national archipelago concept;
3. To carry out efforts for realizing and facilitating various social and political forums and discussions that can deepen understanding on the importance of national unity, and eliminate discriminative attitudes, and to promote respect for differences in society.

6. PROGRAM FOR ENHANCING THE QUALITY OF PUBLIC INFORMATION SERVICES

The aim of this program is to enhance the quality of the services and flow of information to and from the general public, in order to support the process of socialization and political participation of the people.

The main activities that will be carried out are the following:

1. To carry out proactive efforts in the provision of information that is more oriented to actual demand and needs of the general public.
2. To expand the information network and public broadcasts for the promotion of values on social unity and equality.

CHAPTER 6

PREVENTING AND OVERCOMING TERRORISM

The various terrorist actions in Indonesia over the last three years have totaled fifteen significant cases, including the Bali Bombing in 2002, which had resulted in the loss of the lives of 243 persons and hundreds wounded. The area and target of terrorism in Indonesia have already broadened to domestic and international interests. In fact Indonesian interest abroad had already become the target of terrorism, with the bombing of the Indonesia Embassy in France in 2004. This is an indication that terrorism that is not effectively handled will increase in its intensity and frequency. The more advanced the knowledge of the actors and the more modern the technology used, the more difficult the early detection and revelation of the actors.

To reveal and early detect each terrorist action is a must. The operation of terrorist networks, that have links to international terrorist networks, have thus far not yet been able to be covered as a whole by the security apparatus in Indonesia.

A. THE PROBLEMS

The limited quality and capacity of the intelligence institutions. The handling of the terrorism problem requires a high quality and capacity of the intelligence in being able to reveal the actors and motives of terrorist activities, and to know the root of the problems. In addition, the operation of a terrorist network in a certain country generally has close links to international terrorist networks. Such a situation has resulted in various terrorist actions in Indonesia not yet being wholly exposed by the security apparatus in Indonesia. Meanwhile, terrorist actions have become increasingly sophisticated, using high technology. Without the enhanced quality and capacity of the intelligence, terrorist actions will become increasingly difficult to expose.

Terrorism can proliferate and paralyze the activities of the general public. The impact of terrorist actions is the degradation of the

mental state, spirit and resistance of the people and on a broad scale and in the long terms can paralyze the life of society. To illustrate, the bomb tragedy in Bali in October 2002, has reduced local economic activities throughout 2003 and has resulted in the decline in the income of the Bali population by around 43 percent, due to among others employment discharges to 29 percent of the work force in Bali. The Bali tragedy has also affected the national economy, among others as is evident in the 30 percent decline in total number of international tourists. At a high intensity and in continuous incidents, terrorism can also threaten the life of the people and that of the nation.

B. THE TARGETS

The targets of efforts to prevent and overcome terrorism are the following :

1. The reduced incidents of terrorism in the jurisdiction area of Indonesia;
2. The enhanced resiliency of the general public against terrorist actions;
3. The increased capacity of the state to prevent and deter threats of terrorism as a whole.

C. POLICY DIRECTIONS

The said targets are to be attained through the following policy directions:

1. Consolidating operations for overcoming terrorism;
2. Socializing and protecting the general public against terrorist actions;
3. Preparing the institutions and enforcing the laws for overcoming terrorism on the basis of the principles of democracy and basic human rights;
4. Developing the capacity for deterring and overcoming terrorism.

D. DEVELOPMENT PROGRAMS

The policy directions for preventing and overcoming terrorism are further specified into the following development programs:

1. PROGRAM FOR THE DEVELOPMENT OF INVESTIGATIONS, SAFEGUARDING AND CONSOLIDATING STATE SECURITY

The aim of this program is to enhance professionalism of the intelligence so as to become more sensitive, sharp and anticipatory in the detection and elimination of various threats, challenges, impediments and disturbances to the national interest, specifically pertaining to the prevention, taking action, and overcoming terrorism.

The main activities that will be taken are the following:

1. To carry out intelligence operations, including steps for the prevention, taking measures, and for overcoming terrorism;
2. To coordinate the entire central and regional intelligence agencies throughout the NKRI in the implementation of intelligence operations, encompassing the prevention of , taking measures to, and overcoming of terrorism;
3. To carry out intelligence assessment and analysis on developments in the strategic environment, and to manage and compile intelligence products;
4. To procure intelligence operational facilities and infrastructure at the central and regional levels.

2. PROGRAM FOR THE DEVELOPMENT OF SAFEGUARDS TO STATE SECRETS

The aim of this program is to enhance the professionalism of counter-intelligence in protecting the national interest from threats, challenges, impediments and disturbances, including the prevention and handling of terrorism.

The main activities that will be carried out are the following:

1. To conduct activities for the education and training of human resources on counter terrorism coding matters;
2. To carry out operations on anti terrorism coding;

3. To procure and develop coding instruments for supporting anti terror operations;
4. To expand the Coding Communication Network in the context of counter terrorism activities.

3. PROGRAM FOR CONSOLIDATING DOMESTIC SECURITY

The aim of this program is the enhanced and consolidated security and public order throughout Indonesia, in the context of preventing and overcoming terrorism, namely by enhancing the capacity of national institutions in the handling of terrorist problems and in the operational handling of terrorism, that is supported by cooperation among government agencies by involving all components of the nation, encompassing the capacity for early detection, early prevention, overcoming and exposition and rehabilitation steps.

The main activities that will be carried out are the following:

1. To enhance the Terrorism Desk in the preparation of policies and in the coordination of steps for overcoming terrorism, so as to create synergy with the construction of the capacity of the respective security institutions;
2. To enhance the capacity of the components of the defense and security forces in the handling of terrorist actions;
3. To restructure the operations of security institutions in the handling of terrorism, including the development of operational and procedural standards in the implementation of joint exercises;
4. To enhance the open security for the safeguarding of the state symbols, in order to minimize the possibilities of terrorist actions and to provide a sense of security to the people and the nation;
5. To enhance the closed security of public areas, in order to optimize the capacity for early detection and for the direct on-the-spot prevention;
6. To socialize to the general public so as to minimize the effects of terrorism;
7. To carry out communication and dialogue activities and to intensively carry out efforts for empowering groups in society in the context of bridging aspirations, preventing the growth of potential

terrorism, and to indirectly de-legitimize the motives for terrorist actions;

8. To enhance regional cooperation among ASEAN nations in the efforts to deter and overcome terrorist actions;
9. To handle terrorism in a multilateral manner under the United Nations, including for preventing the sales of conventional weapons and Weapons of Mass Destruction (WMD);
10. To arrest and process, by the due process of law, the main leaders of terrorist operations;
11. To supervise the transactions of funds and to freeze assets of terrorist groups;
12. To enhance the supervision of immigration matters and to take measures for land, sea and air interdiction;
13. To enhance supervision of production and sales and steps for the disarmament of weapons and explosives as part of the global disarmament efforts.

CHAPTER 7

ENHANCING THE CAPACITY OF THE STATE DEFENSE

State defense refers to efforts for upholding state sovereignty, defending the territorial integrity of the NKRI (Unitary State of the Republic of Indonesia) and the safety of the whole nation from military and armed threats to the integrity of the country and the nation. State defense encompasses the main efforts for realizing one of the main national objectives, as contained in the preamble of the 1945 Constitution, namely to protect the whole nation and the whole country of Indonesia. Indonesia, which consists of over seventeen thousand islands, is a large archipelago nation, having a very wide marine jurisdiction area. Furthermore, in a geopolitical and geo-strategic sense, Indonesia is situated in a strategic and crucial position in international and regional relations. With the not light potential of threats and given the diverse social, economic and cultural condition, it is necessary that the country and the nation require a strong state defense capability for ensuring the continued upholding of sovereignty of the NKRI. Development of the defense capability has been relatively neglected, resulting in the decline of the state defense capability as a whole. The separatist movements in Aceh and Papua and the horizontal conflicts in Maluku, North Maluku, Poso and Mamasa indicate that the defense capability of Indonesia is not only vulnerable to threats from the outside but has also not yet been able to mitigate disruptions from within.

A. THE PROBLEMS

The fact that defense policies and strategies have not yet been comprehensive. Thus far, the defense policies and strategy have not yet fully been comprehensive and have been more focused on the aspects of the core strength of defense. The potential for supporting defense, that is one of the essential aspects in the overall defense system, has also not yet been optimally utilized, due to the still relatively partial defense policies and strategies. In addition, the existing defense posture is also not yet adequate as the basis for developing the land, sea and air defense forces that are capable to prevent and overcome threats in a more

effective manner. In the context of realizing a comprehensive defense policy and strategy for the next five years, Indonesia will require defense policies and strategies in the form of the Strategic Defense Review (SDR), a comprehensive defense strategy, and a defense posture that encompasses the basis for developing the state defense forces.

The fact that civil society is not yet consolidated in the development of defense.. Strong state defense capacity very much depends on defense policies and strategies, the capacity of the core forces of defense, namely the TNI (Indonesian Armed Forces) and the capacity of the components of the defense reserves. In the current period of consolidating democracy in Indonesia, the formulation of plans on defense policies and strategies, in the context of enhancing the capacity of the state defense, is the responsibility of all components of the nation, and requires the active involvement of a solid civil society. In the future, in line with the growth of democratic life, it is necessary to enhance the capacity of the civil society, in order to be able to assume an active role, as a component of the nation that also bears the responsibility for enhancing the defense capacity as a whole.

The inadequate facilities and infrastructure, professionalism and the low welfare of members of the TNI. The basic problems for enhancing the professionalism of members of the TNI in the future are the inadequate education facility, the limited training fields and facilities, instructional instruments and supplementary instruction tools that have become relatively outmoded, and the also limited education and training equipment. In addition, the problem on welfare of the soldiers and the not yet well prepared potential of defense support, such as the trained and adequate total number of people, are problems that are still faced in the efforts for enhancing defense in the next five years.

The low condition and amount of the main weaponry system *.(alat utama sistem persenjataan/alutsista)* The biggest problem faced by the TNI (Indonesian Armed Forces) as the principal strength in the defense capacity is the total amount of the main weaponry system, which is very limited and are on the average in a condition that is no longer suitable to current technological progress.

The main weaponry system of the TNI AD (Indonesian Army) is far from adequate. Currently the defense capacity of the TNI AD relies among others on fighter vehicles of various types, with only 60 percent in ready condition, and on air planes with only 50 percent in ready condition. The need for communication equipment, which forms the main supporting means of the TNI AD defense capacity, also cannot yet be met and the force still uses technology that is vulnerable to being bugged.

The naval defense capacity is not only inadequate in terms of the total number of ships but also the condition of the Republic of Indonesia Ships(KRI) is poor. The striking force, namely submarines, missile equipped destroyers, rocket equipped speed ships, is already over 22 years old. Only the torpedo equipped speed ships and mine sweeping speed-boats are relatively young aged, namely 16 years. Meanwhile, the Republic of Indonesia ships comprising patrol boats and supporting boats are relatively older, namely 46 patrol boats are over 25 years, 10 supporting ships are already over 40 years and 33 boats are between 20 to 40 years old. The total number and condition of the main land and air weaponry system of the TNI AL (Navy) is also not much different from the sea equipment. Currently, the marines are still using fighter vehicles that were produced in the 1960s, which technically have a much reduced striking capability.

Meanwhile, the main weapon equipment system of the TNI AU (Indonesian Air Force) is also relatively limited and is in a relatively low state of preparedness. Only eleven of the twenty three air transportation planes of the TNI AU are currently in a ready condition. In line with the intensive use of the airplanes, it is estimated that only six of the air transportation planes will be in ready condition in the next five years. The strength of fighter planes of the TNI AU is even more apprehensive, namely only 28 percent of the planes are in ready for operation condition. In addition, the air space of Indonesia that cannot be monitored by radar (blank spots) is also still very extensive. A portion of the air space to the west of Indonesia and the major portion of the air space in the eastern part of Indonesia have often used as illegal flight crossing routes because these air spaces cannot be tracked by radar, despite the assistance provided by civil radar equipment.

The weapon embargo imposed by the major producing nations and the low utilization of the national defense industry. Thus far, the efforts to gradually modernize the defense equipment, have been obstructed by the embargo imposed by several nations. Such a condition has been aggravated by the relatively low effort to utilize equipment produced by the national industry in the procurement of defense equipment. The incongruity between the need for defense equipment on the one hand, and the technical and financial capability of the national industry on the other hand, is one of the causes of the defense equipment being left behind and being dependent on other nations.

The fact that the minimum budget allocation need has not yet been met. The decline in the defense capacity thus far has been mainly attributed to the budget allocation constraint. Even though already increased in the last five years, the allocated defense budget still comprises 74.1 percent of the minimum need of the defense budget. Meanwhile, the minimum defense budget has been designed for replacing the depreciated main weaponry system of the TNI and to cover the gap between the actual current condition of the TNI and the minimum need for personnel and equipment of the TNI, as specified in the TOP (Table on Organization and Personnel) and in the List of Personnel and Equipment Composition. Compared to neighboring nations, which face a relatively lower level of threat and have a relatively narrower territorial coverage, the Indonesian budget defense allocation proportion to GDP as well as to the National Budget in 2004 is the lowest, as shown in the following table:

No.	Country	% of GDP	% of National Budget
1	Australia	2.3	7.1
2	Brunei	6.9	18.0
3	Philippines	2.2	19.9
4	Malaysia	4.0	9.1
5	Thailand	2.8	15.0
6	Singapore	5.2	21.0
7	Indonesia	1.1	5.7

The not yet optimal utilization of the civil defense potential. The civil community is one of the main components in a state defense

system. The advantages of civil defense is not only for the state defense interest but much more, namely for changing the mindset and social stance of the people, which have widespread effects to the progress of a nation.

B. THE TARGETS

The targets of the efforts for enhancing the state defense capacity in the next five years are as follows:

1. The formulated Draft on Indonesian Defense Posture, on the basis of the Strategic Defense Review (SDR) and the Overall Strategy on Defense for the 2005-2006 period, which is formulated from the results of cooperation between the civil society and the military;
2. The enhanced professionalism of TNI members in military war operations as well as in non-war operations;
3. The enhanced welfare of TNI soldiers, especially in terms of adequate housing, basic education of the family of the soldier, welfare security at the end of the soldier's military task period;
4. The increased total and condition of defense equipment towards the modernization of the main weaponry system and operational preparedness;
5. The increased utilization of the main weaponsry system that is domestically produced and the adequate maintenance of the main weaponry system by the domestic industry;
6. The optimized defense budget use and the adequate allocation of the minimum budget need, simultaneously with the reposition of the business enterprises of the TNI;
7. The effective utilization of the potential of the civil community in the defense of the country, as one of the main components of the defense system of the country.

C. POLICY DIRECTIONS

The said targets are to be attained through the following policy directions:

1. Sharpening and synchronizing state defense policies;

2. Enhancing the participation of the general public and enhancing professionalism of institutions that are related to state defense;
3. Increasing the capacity and professionalism of the TNI, covering the main weaponry system, material, personnel, and facilities and infrastructure;
4. Increasing the welfare of TNI members and establishing the insurance system for soldiers;
5. Increasing the capacity of the national defense industry with regard to the procurement of needs and maintenance of the existing main weaponry system;
6. Optimizing and increasing the defense budget allocation towards the adequacy ratio, simultaneously with reforms of the business activities of the TNI;
7. Socializing and educating civil defense through formal as well as informal channels.

D. DEVELOPMENT PROGRAMS

The policy directions for enhancing the capacity of state defense are further specified into the following development programs:

1. PROGRAM FOR DEVELOPMENT OF THE DEFENSE SYSTEM AND STRATEGY

The aim of this program is to realize the formulation of general policies and implementing policies and strategic plans, which encompass the guidance and utilization of the state defense components, in the context of facing threats and disturbances, including efforts to prevent and overcome separatism.

The main activities that will be carried out are the following:

1. To formulate the Strategic Defense Review (SDR), the Grand Defense Strategy, the Posture of Defense and Strategic Compartments;
2. To formulate the management of assets of the defense system, including the main weaponry system;
3. To develop the system, in the form of guidance to systems and methods, in the context of supporting the main tasks of the

organization/units, to carry out surveys regarding the explicit borders between the republic of Indonesia and the PNG, Malaysia and the RDTL, to carry out surveys and mapping of the lands, seas and air, and to develop the information system;

4. To revitalize functions, encompassing support to needs in accordance with the organizational functions, techniques, work procedures, human resources and equipment;
5. To develop the national defense system and strategy, encompassing the political system, economic aspects, social cultural aspects, defense and security aspects;
6. To assess/evaluate/appreciate the national strategy and evaluate and monitor national resilience in the political field, economic field, social cultural field, and in the field of defense and security.

2. PROGRAM FOR DEVELOPMENT OF INTEGRATIVE DEFENSE

The aim of this program is to realize the preparedness of the TNI, encompassing land, sea and air defense, in an integrated manner, so as to become capable to carry out state defense in an integrated manner.

The main activities that will be carried out are the following:

1. To develop systems in the form of guidance to systems and methods for supporting the main tasks of the organization/unit;
2. To develop TNI personnel by implementing the maintenance of personnel, in the context of supporting the rights of the soldiers and to implement the werving of TNI soldiers comprising Career Soldiers, Short Term Voluntary Soldiers, Pilots and Civil Servants;
3. To develop the material of the TNI, covering the procurement/maintenance of weapons and ammunition, defense vehicles, communication equipment, special instruments, instruments and equipment for land and air defense;
4. To develop facilities, in the form of the development/renovation of operational supporting facilities, education institutions, and supporting facilities and infrastructure, such as living quarters, dormitories and official housing;
5. To activate functions, encompassing supporting needs in conformity with the functions of the organization, technical aspects, work procedures, human resources and equipment;

6. To carry out integrative military operational and training activities, in the context of providing guidance to the strength and capability and maintenance of operational preparedness;
7. To carry out military operations other than wars, on the basis of the effective laws and regulations, policies and political decisions of the state.

3. PROGRAM FOR DEVELOPMENT OF THE LAND DEFENSE FORCES

The aim of this program is to realize the TNI AD strength that is capable to carry out state defense on land.

The main activities that will be carried out are the following:

1. To develop the TNI AD system, in the form of guidance of the systems and methods for supporting the main tasks of the organization/unit, implementing surveys and mapping of border areas, and to develop the information system for the SIP Command, Control, Communication and Information (K3I);
2. To develop the TNI AD personnel by implementing the maintenance of personnel, in the context of supporting the rights of soldiers, implementing the education of First Cadets of the Military Academy, Privates and Corporals and the procurement of individual field equipment;
3. To develop material requirements, that is directed at the maintenance of the existing/available materials and the procurement of new materials, covering the procurement/ maintenance of motor vehicles, special vehicles and pioneer vehicles, weapons and ammunition, air planes, heavy equipment for civil works, equipment for civil works, equipment for controlling explosives, nuclear, biological and chemical equipment, field unit equipment, mountaineering equipment, personnel equipment, office stationary, ships and floating equipment, special equipment/special forces, communication and electronic equipment;
4. To develop facilities in the form of the development/renovation of facilities for supporting operations, the development/renovation of the regional military command units in vulnerable regions and at border posts, and the development/renovation of other facilities and

infrastructure, covering storage buildings for ammunition, weapons and supplies;

5. To activate functions, covering supporting needs, in accordance with the functions of the organization, technical needs, work procedures, human resources and equipment;
6. To carry out military operations and training of the land forces for enhancing the strength and capacity and maintenance for operational preparedness.

4. PROGRAM FOR DEVELOPMENT OF THE SEA DEFENSE FORCES

The aim of this program is to realize the TNI AL strength, that is capable to carry out state defense at sea, to enforce the law and maintain security on sea waters within the national jurisdiction, in conformity with national law stipulations and international laws that have already been ratified, and to carry out diplomatic mission of the Navy, in the context of supporting foreign affairs policies that are pursued by the government.

The main activities that will be carried out are the following:

1. To develop the TNI AL system, in the form of guidance to systems and methods, in the context of supporting the main tasks of the organization/unit, developing the system for supporting shipping and operations of the naval ships (KRI) at sea, and the system on information and data communication;
2. To develop personnel, in the form of the maintenance of personnel, in the context of supporting the rights of soldiers, selection of officers, career soldiers, and the training of the shipping cadets (*Kartika Jala Krida*);
3. To develop materials, in the form of the procurement and maintenance of naval ships (KRI) and floating equipment, air planes, weapons and ammunition, defense/tactical and special vehicles, heavy equipment for the civil work unit, instruction facilitating instruments, communication equipment, special equipment, and survey and mapping equipment;
4. To develop facilities, in the form of the development/renovation of personnel maintenance facilities, facilities for providing guidance and

training, port facilities, supply facilities, to enhance the navy bases into the main bases of the navy;

5. To activate functions, covering support to needs, in accordance with the functions of the organization, technical aspects, work procedures, human resources and equipment;
6. To carry out military operational and training activities of the sea forces, in the context of enhancing the strength, capability and maintenance of operational preparedness;
7. To enforce the law and maintain security at sea within the national jurisdiction, in conformity with the national laws and international laws that have already been ratified.

5. PROGRAM FOR DEVELOPMENT OF THE AIR DEFENSE FORCES

The aim of this program is to realize the TNI AU forces, that are capable to carry out national defense tasks, enforce the law and maintain the security in the air of the national jurisdiction, in accordance with the national laws and international laws that have already been ratified.

The main activities that will be carried out are the following:

1. To develop systems through guidance to systems and methods for supporting the main tasks of the organization/unit, and for developing the information system;
2. To develop the personnel, in the form of the maintenance of personnel, in the context of supporting the rights of soldiers and civil servants, recruitment of officers, privates and corporals, to carry out First Education of Soldiers, Privates and Corporals, and to carry out intermediate simulator education and training;
3. To develop materials, covering the procurement/maintenance of special equipment of the TNI AU, “kazernering”, office stationary, intelligence and security equipment, individual equipment, special instruments, motor vehicles, special vehicles, weapons and ammunition, radar equipment, avionics, communication and navigation supplementary instruments, electronic equipment, special communication and equipment system, equipment for education institutions and laboratories;
4. To develop the TNI AU facilities, in the form of the development/renovation of operational support facilities, housing for soldiers,

covering official housing, living quarters, barracks and dormitories, and the development/renovation of other facilities and infrastructure;

5. To activate functions, covering supporting needs, in accordance with the functions of the organization, technical aspects, work procedures, human resources and equipment;
6. To carry out military air force operations and training, in the context of enhancing the strength, capability and maintenance of operational preparedness;
7. To enforce the law and maintain security at sea in the national air jurisdiction area, in conformity with national laws and international laws that have already been ratified.

6. PROGRAM FOR DEVELOPMENT OF THE DEFENSE INDUSTRY

The aim of this program is to increase the amount and condition of the modern main weaponry system.

The main activities that will be carried out are the following:

1. To repair, maintain, replace and procure defense equipment, including the main weaponry system;
2. To develop cooperation in the fields of aviation, shipping, civil techniques, heavy equipment industry, automotive, electronic and other national industries;
3. To enhance the quality of human resources in the fields of design and engineering, covering skills and capabilities to develop and manufacture military transport planes, special mission planes, fast patrol boats, war ships, military defense vehicles, weapon system, communication network system, command and control centers and information systems;
4. To empower and enhance the participation of the national industry for the development and expansion of the state defense forces and for creating self-reliance and at the same time reduce dependence of defense matters on other countries.

7. PROGRAM FOR DEVELOPMENT OF CIVIL DEFENSE

The aim of this program is to realize the preparedness of the potential support of civil defense, for being transformed into component forces of the country's defense.

The main activities that will be carried out are the following:

1. To formulate various policies for the implementation of guidance and utilization of the entire potential of national resources;
2. To enhance the strength of the three components of the state defense by being supported by the national human resources capacity, capacity of the national natural resources, and the capacity of the national facilities and infrastructure;
3. To increase the managerial capability and capability of human resources for supporting the implementation of state defense.

8. PROGRAM FOR THE VOLUNTARY OPERATIONS OF THE TNI

The aim of this program is to realize the unity of the TNI and the People through activities in providing humanitarian assistance and social voluntary works, in the context of assisting the civil authorities in creating a conducive climate for the realization of domestic security.

The main activities that will be carried out are the following:

1. To provide assistance to the civilian government on the basis of demand and on the basis of a sense of duty on account of special situations, namely:
 - (i) to implement tasks on humanitarian assistance on the impact of natural disasters that result in victims among the population and infrastructure destruction in the vicinity of the emergency areas, such the waves of refugees due to social conflicts, riots, communal conflicts, natural disasters or other reasons;
 - (ii) to implement humanitarian assistance tasks for overcoming transportation facility difficulties, such as during the holidays, strikes by the transportation workers, or assisting Indonesian migrant workers that are facing problems;
 - (iii) To participate in activities to construct and repair public facilities, such as roads, bridges, education facilities, places of

- worship, health supporting facilities, markets, houses of citizens, and so forth;
- (iv) to provide assistance on health services and medicines for low income communities and to provide logistical assistance especially with regard to the nine basic need goods;
 - (v) to assist the government in the reforestation efforts in areas that have become deforested;
 - (vi) To assist government programs in the fields of education, such as providing assistance in the teaching of the population that are still illiterate, especially in border areas.
2. To carry out non-physical activities, covering the provision of information on health, information on the law, information on basic human rights, and the provision of information on civil defense.

9. PROGRAM FOR INTERNATIONAL MILITARY COOPERATION

The aim of this program is to increase military cooperation with friendly nations, in the context of creating regional and international security and for enhancing relations among nations.

The main activities that will be carried out are the following:

1. To enhance the defense cooperation between Indonesia and Singapore, in the form of exercises and agreement in the Military Training Area (MTA);
2. To enhance the defense cooperation between Indonesia and Malaysia, in the form of joint military exercises, such as the KEKAR MALINDO (Malaysia Indonesia), the MALINDO JAYA, the ELANG MALINDO, the AMAN MALINDO, and the DARSARA;
3. To enhance defense cooperation between Indonesia and the Philippines, in the form of sending military personnel with the assignment as international supervisor in the Moro problem and in border areas through the Joint Commission for Bilateral Cooperation;
4. To enhance the defense cooperation between Indonesia and Thailand, through cooperation in the handling of cross-border separatist movements;
5. To enhance defense cooperation between Indonesia and ASEAN;

6. To enhance the defense cooperation between Indonesia and Papua New Guinea, in the form of cooperation in the handling of cross-border separatist movements;
7. To enhance defense cooperation between Indonesia and European nations, Australia, China and Russia, mainly with regard to assistance on military exercises and in the procurement of TNI equipment;
8. To prepare Peace Keeping Operation Forces, that are ready at any time for being moved and are to be realized at the level of unit training and the formulation of the education curriculum and the establishment of the institution;
9. To dispatch Liaison Officers to countries that border Indonesia.

10. PROGRAM FOR RESEARCH AND DEVELOPMENT ON DEFENSE

The aim of this program is to carry out research and development on the strategy and system of defense, human resources, the capacity and utilization of the national industry and on the mastery and application of science and technology in the interest of the state defense.

The activities that will be carried out are the following:

1. To carry out cooperation in research and development on defense in order to yield analyses on the concept of defense;
2. To carry out research and development in the field of material and human resources;
3. To carry out cooperation in research and development on aviation, shipping, civil techniques, heavy industry, automotive, electronics and the chemical industry, in order to support the meeting of needs for defense equipment.

CHAPTER 8

CONSOLIDATING FOREIGN POLICY AND ENHANCING INTERNATIONAL COOPERATION

Maintaining world order on the basis of freedom, eternal peace, and social justice, is a Constitutional requirement which must be pursued in a consistent manner. As a large nation, Indonesia has the potential to influence and form international opinion in the context of the national interest. The continued and very rapid changes in the international political constellation, have required that Indonesia be actively involved in its foreign policy and cooperation at the regional as well as international levels.

A. THE PROBLEMS

The increasing tendency towards unilateralism in international relations. One of the changes in international relations is the dominant role of a superpower country. The superpower country has emerged as a unilateral force in the handling of various problems, including the problem of international security, that could be in contravention with international law and agreements. In that respect, it is necessary that Indonesia assumes a more active role in maintaining the principles of multilateralism, in opposing aggression and in the use of military force for the resolution of international problems.

The imbalanced relation between developing countries and advanced nations, as a result of globalization. Globalization, including in trade, finance and basic human rights, and various cross border crimes, such as terrorism, money laundering, corruption, smuggling of people and international migration, for economic as well as political purposes, will lead to the imbalanced relation between developing countries and advanced nations. In addition, the greater dynamics of international relations has brought up new issues that are interrelated and non conventional in nature.

The fact that the role of Indonesia at the sub-regional level in South East Asia is not yet optimal. The crisis experienced by Indonesia since 1997 has the implication to the reduced strategic role and leadership of Indonesia in the South East Asia region in the balanced and equivalent relations among the nations in South East Asia.

The fact that border problems are not yet fully resolved. Indonesia still has territorial border problems, on land as well as at sea, with its neighboring countries, that need to be resolved through a border diplomacy in the efforts to overcome various border problems and threats to its territorial integrity and sovereignty. Border crossing problems require the implementation of a more effective cooperation framework for facilitating the activities of communities that are situated in areas that have land borders with Indonesia, such as Malaysia, Singapore, the PNG and Timor Leste. The implementation of border diplomacy is expected to increase or accelerate the social and economic development of border areas, so as to reduce the gaps in economic growth and social condition with neighboring countries that have direct borders with Indonesia, in view that the border areas have the function of being the window to discern the national social and economic condition.

The increasing number of problems faced by Indonesian citizens abroad. The various problems faced by Indonesian citizens abroad, such as the availability of legal documents and committed law violations, require more serious protection measures. The efforts made thus far, have been far from the expectations, such as the emergence of various problems encountered by Indonesia migrant workers abroad.

B. THE TARGETS

The targets to be attained by the efforts to consolidate foreign policy and enhance international cooperation are the increased role of Indonesia in international relations and in creating world peace, and the restored image of Indonesia and confidence of the international community and that encouraged the creation of a better regional and international economic order and cooperation in supporting national development.

C. POLICY DIRECTIONS

The policy directions in the consolidation of foreign policy and enhancement of international cooperation, are the following:

1. Increasing the quality of Indonesia's diplomacy, in the context of striving for maintaining the national interest, that include the resolution of border problems and the protection of interests of Indonesian communities abroad;
2. Continuing the commitment of Indonesia for the establishment of a regional identity and the consolidation of regional integration, particularly in ASEAN;
3. Affirming the importance of maintaining solidarity through international, bilateral and multilateral cooperation, as well as through other regional cooperation, mutual trust and peace in international policies and relations;
4. Enhancing support and role of the international community and attaining the objectives of national development;
5. Enhancing coordination in the implementation of foreign relations, in accordance with the laws.

D. DEVELOPMENT PROGRAMS

The policy directions for consolidating foreign policy and enhancing international cooperation are further specified into the following development programs:

1. PROGRAM FOR CONSOLIDATING FOREIGN POLICY AND OPTIMIZING DIPLOMACY OF INDONESIA

The aim of this program is the enhanced capacity and performance of foreign policy in providing its contribution to the democratization process, political stability and national unity and the more strengthened performance of Indonesia's diplomacy.

The main activities that will be carried out are the following:

1. To formulate concepts for providing more affirmative, visionary and quality response, in relation to strategic international issues;

2. To strive for the entry of such concepts at the end of each negotiation and discussions, at the bilateral, regional as well as global levels;
3. To formulate various international agreements that are in line with the national interest in the development of democracy, national security and the effectuation of basic human rights values, and with the sovereignty of the NKRI (Unitary State of the Republic of Indonesia);
4. To carry out border diplomacy that is well coordinated, in the context of maintaining territorial integrity of the lands, seas and air of Indonesia;
5. To carry out foreign relations and consolidate foreign policy, that are consistent and productive for the performance of Indonesia's diplomacy;
6. To enhance Indonesia's image and promote the achievements of implementing democratic principles, civil freedom and the movement for gender equality in Indonesia;
7. To increase protection for Indonesian citizens and Indonesian legal entities abroad, and to formulate public diplomacy policies that are transparent, participatory, and accountable, in the creation of international peace and security; and
8. To strengthen diplomacy institutions through the reform of institutions and the enhancement of professionalism of human resources.

2. PROGRAM FOR ENHANCING INTERNATIONAL COOPERATION

The aim of this program is the more optimal utilization of various positive potentials at each international cooperation forum, especially the ASEAN, APEC cooperation, other multilateral cooperation, and cooperation among nations that have common interests with Indonesia.

The main activities that will be carried out are the following:

1. To create a better understanding and coordination between the Foreign Ministry and government agencies, such as the Ministry of Defense, the Coordinating Ministry for Politics, Laws and Security, the TNI (Indonesian Armed Forces), Polri (Indonesian Police), and the intelligence community for cooperating with partner institutions

in a bilateral, regional and international manner, in the efforts for enhancing mutual understanding in maintaining regional security, regional integration and the safeguarding of national natural resources;

2. To formulate an improved working framework and follow-up actions for the establishment of the ASEAN Security/ Economic/ Social-cultural Community;
3. To consolidate international cooperation in the economic, trade, social and cultural fields for attaining the objectives of social and economic development that have internationally been agreed, such as the Millennium Development Goals (MDGs);
4. To facilitate the broadly community based and initiated cultural and educational diplomacy network; and
5. To facilitate efforts for expanding the network and for enhancing the already advanced utilization of sister-cities between cities and provinces in Indonesia and cities and provinces in other nations.

3. PROGRAM FOR AFFIRMATION OF COMMITMENT TO WORLD PEACE

The aim of this program is the reaffirmation of Indonesia's commitment to the implementation and formulation of international rules and laws, to the upholding of the principles of multilateralism in international relations, and to opposing unilateralism, aggression and the use of all forms of force in the settlement of international problems.

The main activities that will be carried out are the following:

1. To increase the commitment and to increase the role in the efforts to reform and revitalize the United Nations, including the efforts to reform the Security Council of the United Nations, so as to make it become more democratic in all representation and procedural aspects;
2. To promote and enhance the active role at each international forum for the immediate just settlement of Palestinian problem through the United Nations and for terminating the occupation by Israel, as part of the efforts to take part in the efforts for creating world peace;
3. To enhance efforts for overcoming cross-border crimes, such as terrorism, money laundering, crime involving narcotics, human

smuggling and trafficking, through bilateral, regional and multilateral cooperation, that are carried out in an inclusive, democratic manner, in line with the principles of international law; and

4. To participate in the creation of world peace.

CHAPTER 9

STRAIGHTENING-UP THE LEGAL AND POLITICAL SYSTEM

Paragraph 1, article (3), Chapter I of the Third Amendment of the 1945 Constitution reasserts that ‘the State of Indonesia is a State Based on the Rule of Law’. This means that the Unitary State of the Republic of Indonesia is a state that is based upon the law (*rechtstaat*), not upon power (*machtstaat*), and by the same token, the government is based upon the constitutional system (the basic law), not upon absolutism (unlimited power). As the consequence of Paragraph 1, article (3) of the Third Amendment of the 1945 Constitution, three (3) principles shall be upheld by each and every citizen, namely supremacy of the law, equality before the law, enforcement of the law in a manner that does not run counter to the law.

Good legislative regulations will limit, regulate, and simultaneously reinforce the rights of citizens. Transparent and open implementation of the law can minimize the negative impacts from the actions of the citizen; and simultaneously will promote the positive impacts of the activities of citizen. As such, basically the law will ensure the prevalence of the positive aspects and prevent the negative aspects of citizens.. The execution of the law that is observed and adhered to will give rise to order and maximize the expression of potentials of the society.

It follows, that the maintenance of law and order constitutes a basic prerequisite in the endeavors for making Indonesia peaceful and prosperous. If the law and order enforcement becomes a reality, certainties, feelings of peace, tranquility, or, for that matter, harmonious life will come into being. Failure to maintain law and order will retard the achievement of the goals of the people who make endeavors and work well to satisfy their living needs. This shows that there is close correlation between and among peace, justice, and prosperity. In this regard, improvement of the justice aspect will facilitate the achievement of prosperity and peace.

A. THE PROBLEMS

The problems in the execution of the legal and political system basically encompass the legal substance, the legal structure, and the legal culture.

1. THE LEGAL SUBSTANCE

Overlapping and Inconsistent Legislative Regulations. The existing legislative regulations are still full of overlaps, inconsistencies, and incompatibilities with other regulations of the same level, between the regulations at the central level and those at the regional (local) level, and between the lower-order regulations and the higher-order regulations. The inventory made by the Committee for Monitoring the Implementation of Regional Autonomy yielded only 14.8 percent of 709 regional regulations looked into as not being problematic. The rest, 85.2 percent of the regional regulations made by 134 Grade II regions turn out to be regional regulations which have problems in one way or the other. Most of the procedure, time standard, cost, tariff, and amount to 22.7 percent, and those problems related to judicial references, i.e. they are compatible with the central-level regulations, amount to 15.7 percent.

Ambivalent formulation of legislative regulations will result in the difficulty in implementing them in the fields; or else, it will give rise to many different interpretations resulting in inconsistencies. Very often, the substance or the legislative regulations does not reflect the balance between the rights and obligations of the object being regulated, the balance between individual rights and social rights, so much so that it can be said that the regulations do not take into account pluralism in various matters; and are even not gender responsive.

Implementation of laws is retarded by the implementing regulations. Basically, a good law is one which can be directly implemented and which does not require further regulations. However, the custom to wait for the implementation rules more often than not has slowed down the effective implementation of legislative regulations. Many of the laws produced in the context of reform cannot be effectively implemented. The main reason being that, *inter alia*, no implementing regulations have been immediately issued. According to

the data collected by Bappenas, in 1998 – 2004, of the 383 government regulations mandated by 211 laws, only 60 government regulations were issued. This means that only 15 percent of all of the government regulations mandated had been issued.

The absence of Extradition Agreements and Mutual Legal Assistance (MLA) between the Government and the country which has the potential for becoming the place of escaping in particular by the fugitives who have committed corruption and other crimes. This has greatly slackened the process of investigation, in particular with regard to big corruption cases, so as to hamper the efforts to speed up the judicial court process and the process of retrieving the corrupted funds to the state. In addition, the regulatory framework pertaining to the permission to investigate an official suspected of being involved in a corruption practice, on the issuance doctor's certification for substantiating that the suspect is ill, on the prohibition of the suspect leaving the country, in effect provides various loopholes that provide the opportunity for the suspect to flee out of the country or for eradicating evidence.

2. THE LEGAL STRUCTURE

The lack of independence of the legal institutions, in particular of the law enforcement agencies, also have significant consequences to the legal system. Interventions to judicial power, for example, have brought about partialities in various legal verdicts, in spite of the fact that they violate the principles of impartiality in the prosecution system. The accumulation of instances of verdicts which have been made without observing the principles of impartiality have in the long run given rise to the degradation of the people's confidence in the legal system and to the ambivalent enforcement of laws.

Accountability of legal institutions. Independence and accountability are two sides of the same coin. Therefore, the independence of the legal institutions should be supplemented by their accountability. However, in practice how the accountability of the legal institution is regulated is not clearly specified, both as to whom or to which institution, a given legal institution is accountable to, as to what

methods should be adopted in giving accountability. This has given the impression of the lack of transparency in all legal process.

Human resources in the legal field. Generally speaking, the quality of human resources in the legal field, beginning from the legal researcher, the legislative regulation planner, the implementer of the law, and up to the law enforcer, still need to be enhanced, including the quality of being gender responsive.. The low quality of the legal human resources cannot be separated from the lack of consolidation of the existing legal educational system. Moreover, the system, selection process, and the policy for legal human resources development adopted have proved to be unable to yield quality human resources. In addition, the assumed indication of the lack of integrity on the part of law enforces is very disheartening indeed. Some quarters have even taken advantage of the dire situation. All of these have had a considerable effect on the waning of the legal supremacy and have heightened the degree of distrust of the society towards the existing legal system.

The prosecuting system which is not transparent and not open.. The problem has resulted in the law not fully siding with the truth and justice simply because of the absence of access for the society to have control over the running of the judicature. Such a condition is aggravated by the lack of professionalism and quality of the judicial system to the effect that it opens up the chances of collective deviations in the judicial processes, giving rise to the term, “judicial mafia”.

The one-roof judicial arrangement developed by the Supreme Court is an endeavor to make the independence and impartiality of the judicial power to become a reality. The blueprint to support the Supreme Court in the endeavor to have a one-roof judicial institution has been formulated in a comprehensive manner.. This is aimed at determining the priority steps for straightening the judicial institution.

3. THE LEGAL CULTURE

The legal culture in society has started to degrade. This symptom is characterized by the increase in apathies which is coupled with the decrease in the degree of appreciation of the society, both

towards the existing substance and towards the legal structure. This is reflected in the concrete instances taking place in society.

At the grass-root level, the frequent incidences of taking the law into the people's own hands, the burning of those who have committed crimes, the recurring instances of sweeping by some quarters, should not be seen as just the expression of euphoria in the post-reform era. These incidences more profoundly reflect the low level of the legal culture of society, in which freedom has been interpreted as permissiveness. This is despite the fact that the law is the instrument with which individual and social interests of the people are protected. As a result, legal uncertainties have loomed up, arising from the process of the rationalization of wrongdoings and deviating behaviors; or in other words, the law is seen as just a means of rationalizing incorrect behavior.

The decline in the awareness of the legal rights and obligations of society. People's awareness of their rights and obligations requires, *inter alia*, that their level of education be such that they are able to understand and appreciate the various problems faced. Two parties play an important role: the people themselves and the apparatus that are charged with propagating the law and the legislative regulations. In spite of the fact that the education level of some parts of the society is not sufficiently high, with adequate capabilities and professional ties in doing legal propagation, the messages conveyed to the people can be well received and these methods can be adopted when the personnel in charge come face-to-face with the people who are encountering problems related to their rights and obligations. The other problems arise from the inequality of men and women in having access to and from obtaining benefits from activities of counseling, awareness-making and in the provision of legal services.

B. THE TARGETS

In the context of encouraging reform of the legal and political system, the targets to be achieved in the 2004–2009 period, are the realization of the national legal system which is just, consistent, and non-discriminatory (including non-discriminatory against women or gender-biased); the assurance of all regulations at the central and regional levels

that are consistent, not in contradiction with higher-order regulations and legislation; the realization of authoritative, clean, professional institutions of the judicature and of the law enforcement apparatus, in the efforts to restore the people's trust in the law as a whole.

C. POLICY DIRECTIONS

The efforts to reform the legal and political system in the next five years is directed at improving the legal substance (materials), the legal structure (institutions), and the legal culture by means of the following:

1. Restructuring the legal substance by reviewing and reorganizing legislative regulations to attain order in legislative products by paying attention to the general principle and the hierarchy of the legislative products; by respecting and reinforcing local wisdom and custom law with a view to enriching the legal and regulative system by means of empowering the jurisdiction (legal administration) as a part of the endeavor towards renewing the national legal materials;
2. Reforming the legal structure by reinforcing the institutions enhancing the professionalism of judges and judicial staff as well as enhancing the quality of the judicial system to the effect that it becomes open and transparent and can assure themselves that the law is implemented justly and sides with the truth; reinforcing local wisdom and custom law with a view to enriching the legal and regulative system via empowering the jurisdiction (legal administration) as part of renewing the national legal materials;
3. Enhancing law culture, among other through education and socializing legislative products via the model behavior of the head of state and his ranks and files as well as via the observance of the law and enforcement of the supremacy of the law.

D. DEVELOPMENT PROGRAMS

The steps to be taken in the context of supporting the efforts to reform the legal and political system are elaborated in the following development programs.

1. LEGAL PLANNING PROGRAM

This program is aimed at realizing a common perception among all those in the national development process, particularly those in the field of law, in the context of facing strategic issues and global issues which should be quickly anticipated, so that the consistent enforcement of the law can proceed in a sustained manner. This program is expected to yield legal policies/materials in line with the aspirations of society, both at present and in the future, containing protection of and respect for human rights and fully meet the aspiration of the people as a whole.

The main activities to be carried out in the next five-year period will encompass the following:

1. Collecting, processing, and analyzing law information, in particular those which are related to the implementation of the law development plan as a whole;
2. Convening of various forms of discussion and public consultations involving the government agencies/institutions, communities, and business world with a view to evaluating and to drawing up future legal development plans.
3. Designing and convening of forums with a view to setting the priorities of bills into the National Legislation Program (*Prolegnas*) together with the Government and the Parliament; and
4. Convening of international cooperation forums in the area of law mainly related to problems of corruption, terrorism, trafficking of women and children, of prohibited drugs, child protection, etc.

2. LEGAL DEVELOPMENT PROGRAM

This program is aimed at creating the various legislative products and jurisprudence regulations to serve as a legal foundation for maintaining law and order in the context of how the people live as members of society, of the nation, and of the state. The formation of the legislative regulations will be carried out through the right process by paying attention orderly legislation as well as to the general principle of good legislative regulations. While the formulation of jurisprudence is carried out by the judicial courts in the ruling of certain cases, especially those not yet stipulated in the existing law regulations.

This program is aimed at making available various legislative regulations and jurisprudences for regulating the behaviors of individuals and institutions and for the settlement of legal cases that arise in the day-to-day life.

The main activities to be carried include the following;

1. Conducting legal studies based on the written as well as the unwritten laws related to legal issues, human rights, and judicature;
2. Conducting legal research projects with a view to better understand existing realities in society;
3. Harmonizing laws (written law and unwritten law/custom law) in particular in cases involving controversies between legislative regulations at the central level and those at the regional level which can hamper efforts to realize the goal of improved people's welfare.
4. Writing academic studies on draft laws based upon the needs of society;
5. Convening public consultation forums on the results of studies and those of research as part of the process of involving the society into the process of developing sets of recommendations in accordance with societal needs;
6. Improving, amending, and renewing legislative regulations which are not in line and not in conformity with societal and development needs and which still contain indications of discrimination and which do not abide by the principles of equality and justice;
7. Developing and commissioning of legislative regulations which are based upon the general legal principle which are procedure-consistent and which are in accordance with the development of legislative regulations in effect; and
8. Empowering various court verdicts which have fixed legal force in order to become the legal sources of judges including the law practitioners handling similar cases, to be used as materials for the revising, amending, and renewing laws (i.e. the legislative regulations).

3. PROGRAM FOR ENHANCING PERFORMANCE OF JUDICIAL INSTITUTIONS AND OTHER LAW ENFORCEMENT INSTITUTIONS

This program is aimed at strengthening judicial institutions and law enforcement institutions by way of an integrated penal judicature, involving, *inter alia*, the Supreme Court, the Police, the office of the Attorney General the office of the Corruption Eradication Commission, the Penitentiary Institution, and legal practitioners, with a view of accelerating restoration of the people's confidence in the law and judicature. This program is expected to realize Judicial and Law Enforcing Institutions that are transparent, accountable, as will be borne out by court rulings which side with the truth and societal justice.

The main activities that will be carried out are the following:

1. Enhancing law enforcement activities by paying special attention to operational the eradication of corruption, terrorism, and drug abuse;
2. Enhancing the convening of discussion forums and meetings between the judicial institution and the law enforcement institution which are more transparent and open to the society at large;
3. Reforming the case handling management system to which public access is guaranteed;
4. Developing a transparent and accountable system of control among other things by commissioning the Judiciary Control Commission the National Police Commission;
5. Simplifying the law enforcement system;
6. Renewing the law enforcement concept, among others by developing an integrated penal judicial system and by developing the concept of providing legal assistance as well as by reviewing the legislative regulations on the requirement to obtain a permission for investigating a state official and by reviewing the regulations on the prohibition of a corruption suspect to leave the country;
7. Providing institutional capacity building, including to the Corruption Eradication Commission and to the Corruption Criminal Case Judicature;
8. Accelerating the settlement of cases which are in arrears at the Supreme Court by means of a transparent process;
9. Developing a transparent and accountable judicial and law enforcement institution budget management system;

10. Securing the performance accountability materials of evidence in the form of documents/files of state institutions and government agencies for supporting law enforcement.

4. LEGAL PROFESSION QUALITY ENHANCEMENT PROGRAM

This program aims at enhancing the professional capabilities of the law enforcement personnel encompassing the judge, policeman, penitentiary official, immigration officer, legislative regulation designer, civil investigator, legal practitioner, etc. Expected from this program is the prevalence of legal personnel who are professional, qualified, and responsive in anticipating legal issues in the context of national development as a whole.

The main activities to be carried out will be:

1. The development a transparent and professional human resource management system;
2. The conducting of education and training course programs in the field of law and human rights;
3. Control over legal professions and over the implementation of their code of ethics;
4. The convening of seminars and work shops in the field of law and human rights with a view to better enhancing the perception and knowledge of legal personnel so that they become more responsive to new developments at present and in the future; and
5. Enhancement of intensive cooperation with other countries in anticipating and preventing the spread of transnational crimes by means so highly sophisticated methods that it would be sufficiently difficult to detect using conventional methods.

5. LAW AND HUMAN RIGHT AWARENESS ENHANCEMENT PROGRAM

The aim of this program is to cultivate and enhance the degree of law and human right awareness of the society, including those charged with running state affairs, in order that they not only know about their rights and obligations but also behave in accordance with the rules of law

and have respect for human rights. Expected from this program will be the realization of there being clean state-running officers who are ready to give respect and protection for the sake of human rights.

The main activities to be carried out will include:

1. Consolidating methods for developing and enhancing law and human rights awareness to be developed on a two-directional basis: so that the people is not considered as merely the object of development, but also as the subject of development, who really understand and put into practice the rights and obligations in line with the law stipulations that are in force;
2. Enhancing the use of more modern communication media in the context of achieving the goal of making people from all walks of life aware of law;
3. Enriching methods of developing and of enhancing legal awareness on a continual basis to compensate for social pluralism existing in society or for the implications of globalization; and
4. Enhancing the capabilities and professionalism of those charged with guidance and counseling not only in terms of capabilities in legal substance but also in the sociology of local people's behavior, so that communication for conveying the materials can be more precisely done, better understood, and well received by the general public.

CHAPTER 10

ERADICATION OF DISCRIMINATION IN ITS VARIOUS FORMS

Discrimination is the manifestation of injustice. Paragraph I, article 3 of Law No. 39/1999 on Human Rights states that the notion of discrimination refers to the limitation, affront or segregation which is directly or indirectly based upon human differences in terms of religion, ethnicity, race, ethnic grouping, class, social status, economic status, sex, language, political belief resulting in unemployment, deviation, or refusal to acknowledge, to implement, or to use human rights and basic freedom in individual and collective life in the political, economic legal, social, cultural fields and in other life aspects.

Discriminatory acts are absolutely in contradiction with the 1945 Constitution and its amendments. It strongly affirms equality and justice in social life in the political, economic, socio-cultural, legal aspect and other social aspects. For that matter, the 1945 Constitution and its amendments have a very important position as a universal reference for state-running officers in performing their tasks and functions.

The reinforcement of the Indonesian Government's commitment to rejecting various forms of discrimination is manifested in the International Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) which has been ratified by means of Law No. 7/1984 and reaffirmed in Law No. 29/1999 on the International Convention on the Elimination of All Forms of Racial Discrimination, 1965. By ratifying CEDAW, Indonesia has the obligation to adjust its national legislative regulations related to the International Convention and hence it has the commitment to submit an obligatory report on the execution of the convention in the context of eliminating all forms of discrimination, particularly discrimination against women.

A. THE PROBLEMS

In practice discrimination can occur explicitly or implicitly. Legislative regulations which discriminate against citizens are obviously a form of open discrimination. However, the greater majority is the implicit discrimination in the form of sanctioning the implementation in a manner which is different from citizen to citizen giving rise, in the long run, to injustice.

The dominance of sectoral interests in drawing up legislative regulations. The endeavor to abolish discrimination meets with constraints in the implementation with regard to making adjustment and harmonization of national legislative regulations. In their implementation, clashes of interests, overlaps of arrangements and of sectoral interests dominate endeavors towards the adjustments of national legislative regulations related to various forms of discrimination, restraining the endeavors towards reducing discriminatory regimen against citizens in all walks

The lack of quality of the laws and legal framework in the context of reducing discriminatory practices. Up to now, written law (legislative regulations) constitutes the only legal foundation for state-running officers to exercise the life of the people as members of the state and those of the nation. From the view point of quantity, there is a sufficiently great number of legislative regulations produced annually. However, from in terms of quality, there are still many regulations which contain discriminatory regimens *inter alia* in the arrangements of citizenship, immigration, small scale enterprise, health, and marriage.

The lack of authority of the judicial institution and system. The role played by the judicial institution is very important in reducing the number of cases of discriminatory acts against each and every citizen. The authority of the judicial institution and system is at the moment under the spotlight of attention of the society because the success of the endeavors for creating a prosperous society is determined by the degree the legal system is effectively enforced in a consistent and just manner. The endeavors towards actuating the economy, creating job opportunities, or eradicating poverty will not meet with success if

discrimination still prevails and if justice still sides with the strong, not with the truth.

The low understanding of the importance of non-discriminatory legislative regulations by the public service personnel and system. In line with their functions, those charged with running state affairs should have the awareness and commitment that there shall be no discriminatory acts against each and every citizen pursuant to what is stated in the 1945 Constitution, Paragraph 27, article (1) and Paragraph 28. This should also be taken to mean that there shall be no discriminatory acts whatsoever in Indonesia in all walks of life. Provision of public services, as one of the main functions of state-running officers in the Executive branch, shall uphold highly the principle of equal status of all citizens before the law; they shall enforce the law in a just manner free from partiality based upon skin color, social grouping, ethnicity, religion, or gender. Consequently, in the event that there have been discriminatory acts committed in the context of implementing the legislative regulations, namely practices which violate the principle of justice, then the officers shall be bold enough to follow them up by eliminating them and/or rectifying them.

In spite of the fact that legislative regulations have been drawn up as well as possible, the people behind those regulations are in fact the most decisive factor: after all they are ones who implement, enforce the law, and provide legal services. In practice, discriminatory acts are experienced by citizens, government institutions/agencies, private institutions/business enterprises, committed by personnel who are charged with provide legal services. Such discriminatory acts end up with corruption, collusion, and nepotism practices. This happens because legal implementers (i.e. legal personnel) tend to be considered as giving higher status than the people who need the legal services. Such a condition has prevailed up to this very day owing to the gap between those who need and those who provide public services.

B. THE TARGETS

To support the endeavors for eradicating discrimination in its various forms, the targets to be achieved in the five-years period are as follows:

1. The realization of legislative regulations free from discriminatory acts against each and every citizen, government institution/agency, or private institution/business enterprise in a consistent and transparent manner
2. The realization of the coordination and harmonization of legislative regulation implementation which does not place priority on certain interests so that discriminatory acts against citizens can be reduced;
3. The prevalence of public personnel and public service system that are just and acceptable to every citizen.

C. POLICY DIRECTIONS

The endeavors towards eliminating discrimination in its various forms in the next five years time are directed at there being policies for realizing law enforcement of the laws in a consistent, just and non-discriminatory manner through the following steps:

1. Enhancing efforts towards eradicating all kinds of discrimination including gender injustice the rationale being that citizens, with out exception, have the same legal status before the law;
2. Executing the law in a just manner by way of improving the legal system which is professional, clean, and authoritative.

D. DEVELOPMENT PROGRAMS

The steps to be taken in the context of eliminating discrimination in its various forms are elaborated into the following development programs:

LEGAL AND LEGAL AID ENHANCEMENT PROGRAM

The legal service and legal aid enhancement program is aimed at stepping up government services in the field of law and at providing legal

aids to each and every citizen irrespective of the skin color, grouping, gender, ethnic grouping, ethnicity, religion, economically less able group to the effect that social justice really prevails as it is. Expected from this program is the realization of the equitable legal service in the sense that it reaches people from all walks of life and that each member of the society has an equal opportunity for justice.

The main activities to be carried out encompass the following:

1. Enhancement of the general service in the field of law, in areas of granting clemency, naturalization, granting permits needed in the development field; granting the corporate body status; registration of the intellectual property right; free-of-charge publication of birth certificate pursuant to the law in effect; just civil recording for every citizen, etc;
2. Enhancement of the legal aid assistance provided to the economically less able, irrespective of the gender, in court cases and in the endeavors towards stepping up people's awareness in the legal rights and obligations;
3. Simplification of legal service requirements in all institutions/agencies to the effect that they are understandable, constitute open and transparent information, and are affordable to the society at large.

CHAPTER 11

RESPECT FOR ACKNOWLEDGEMENT OF AND ENFORCEMENT OF THE LAW AND BASIC HUMAN RIGHTS

Human rights are basic and fundamental rights. The satisfaction of human right is a must so that every citizen can live in accordance with his or her human nature. Human rights include the right for free expression, the right for adequate food, the right to have a sense of security, the right to earn a living, the right to a healthy living, and other rights as stated in the 1948 Declaration of Basic Human Rights.

Respect for the law and basic human rights is a must which needs to be exercised without any coercion whatsoever. Nation and state building basically aims at satisfying the basic rights of the citizens. Basic rights are not limited to freedom of expression and freedom for organization, but are also related to meeting the needs for belief, for food, job, education, health, safety, descent living, etc. All of these are not only the duties of the government to make available in a consistent and sustainable manner; they are also the duties of the citizens.

The enforcement law and order is a basic prerequisite for the endeavors towards making Indonesia peaceful and prosperous. If there is law and order, then the sense of security and tranquility and harmonious living can be realized. On the other hand, the absence of law and order will retard the realization of a society that can thrive well and meet its needs. This shows that peace, justice, and prosperity, are closely related. In this regard, improvements in the aspects of justice will facilitate the achievement of prosperity and peace.

A. THE PROBLEMS

Basic human rights violations remain high. Basic human right violations still occur at a high frequency, committed by a certain group or individual against another group or individual. It is therefore imperative to look at various basic human right violations committed

against civilians, then find the solutions in an objective and just manner in line with the rules of law and legislative regulations that are in force.

Many of the human right violators cannot be made responsible and cannot be brought to court (because of impunity). Impunity has become widespread and has become prevalent in every basic human right violation case. Cases in point are the basic human right violations referred to as the Trisakti and Semanggi tragedies. This is discouraging indeed since it has weakened the position of the victims of the basic human right violation.

The dysfunction of the state institutions charged with enforcing basic human rights. This is evident in all of the existing institutions, ranging from the Human Right National Commission (Komnas), Attorney General's Office, Judicial Courts, Ministry of Law and Basic Human Right, House of Representatives, to the Presidency. This results from the fact that all of these institutions have been enmeshed in legal procedural reasons, bureaucratic politics, absence of good will, and avoidance of taking responsibilities.

The consistent enforcement of the law has not yet been applied to the Indonesian society as a whole. A portion of the Indonesian society, especially those in the lower brackets and economically weak, feel that the law has failed to give them a sense of justice, equity and basic human rights protection. The consistent law enforcement still looks at the social status of the person and court rulings often are biased for those with power. The laws in the courts are merely written rules. Law interpretation and jurisdiction have not yet been optimally applied by judges in order to arrive at a verdict which is just to the sense of justice of society.

Unjust, irresolute, and discriminatory law enforcement. In particular, this can be discerned in the endeavors to eradicate corruption, which are attributed to the absence of good examples by the government leadership along with their ranks and files, from the central to the regional level, not only from the executive institution, but also from the legislative as well as the judiciary institutions. A survey conducted by a non-government organization has found that since the onset of the

reform era, corruption has been rampant even in the legislative branch, be it at the central or at the regional level.

The handling of corruption cases by the Office of the Attorney General during the 2001–2004 period has not been optimally and extensively informed to the general public. Of the 1,807 cases handled, 1, 174 cases have been relegated to the district courts, of which 1,099 cases (93.6%) have been given verdicts. The return of the people's money obtained from corruption in the 2001–2004 period has amounted to Rp 70 billion, and the amount of financial replacement which has been claimed from corruption cases through the civil instrument has totaled Rp 12 billion, all of which has been returned to the State Treasury Office. However, as the handled corruption cases have not involved particular persons or groups of persons that have committed corruption in large sums, the corruption cases that have been handled have not been optimally informed to the public at large.

The high hope and demand of the people for performance of the Corruption Eradication Commission (KPK) and of the Corruption Court (Tipikor) to consistently enforce the law. The formation of the KPK and Tipikor pursuant to Law Number 30 of 2002 on the Commission for Eradicating Corruption was the culmination point to meeting the demands of the general public for the eradication of corruption that thus far has created unrest and has obstructed the efforts to enhance the welfare of the people. Corrupt practices in Indonesia have also lowered Indonesia's standing in the international community with Indonesia's designation as being one of the countries with a government most beset by corruption. The reform era, which should provide opportunities to rectify all kinds of deviations and to instill hopes for improvements, has in reality expanded the corrupt practices, not only in the executive branch, but also in the legislative and judiciary branches. Similarly, the implementation of regional autonomy has caused corrupt practices to be more fertile, involving not only the regional government personnel, but also those in the regional legislative institution.

There are currently around six (6) major cases that are being investigated by the Corruption Eradication Commission (KPK), which will in phases be delegated to the Corruption Court (Tipikor). Even

though it is not easy to speedily eradicate corruption, the efforts to consolidate the efforts for eradicating corrupt practices must be continued. For that purpose, the support of the people is imperative in the form of the bigger control and involvement of the public at large in state governance. It is likewise imperative for government officials (in the executive, legislative and judiciary bodies) to set good examples in the implementation of a clean government and to have a strong political will from the highest leadership in the government..

Legal actions against those who have committed corruption are often not followed up thoroughly. Quite a few reports and pieces of information have been provided by the society that corruption has been committed, but in reality only a few of the corruption cases have made its way to the court. The reason often cited is that there is not enough evidence, and therefore at the level of prosecution the individual charged with committing corruption has to be freed. On these grounds, people no longer have confidence in the law enforcement, in particular in the eradication of corrupt criminal acts.

On a continual basis, the government is striving to step up the respect for and acknowledgement of basic human rights through a more transparent process involving not only government agencies, but also various non-government organizations and other organizations. As such, various lines of thinking produced can be deemed to be owned by the whole nation of Indonesia and, hence, can be executed together.

B. THE TARGETS

In order to underpin the respect for and the realization as well as the enforcement of the law and basic human rights, the targets to be achieved within the next five-year period is the success of the implementation of the various action plans related to those endeavors. The action plans include the Basic Human Rights Action Plan 2004–2009, National Action Plan for Corruption Eradication, the National Action Plan for Eradicating Commercial Sexual Exploitation of Children, National Action Plan for the Abolishment of the Worst Jobs for Children, and National Program for Indonesian Children 2015.

C. POLICY DIRECTIONS

The endeavors towards the respect for, realization of, and enforcement of the law and basic human rights are directed policies for promoting understanding and realizing the enforcement and ensuring the consistent enforcement of the law on basic human rights, involving just and non-discriminatory treatment, through the following steps:

1. Stepping up the efforts for the progress, protection, enforcement, realization of and respect for basic human rights;
2. Enforcing the law in a manner that is just, consequential, non-discriminatory and siding with the common people;
3. Using local cultural values as one of the means of the realization of the law consciousness of society;
4. Stepping up harmonious cooperation between and among groups or communities in the society to enable people to reciprocally appreciate and respect their respective beliefs and opinions;
5. Strengthening and enforcing consolidation of democracy.

D. DEVELOPMENT PROGRAMS

The steps to be taken in the context of enhancing respect for, acknowledgement of, and enforcement of the law and basic human rights are further specified into the following development programs:

1. LAW AND BASIC HUMAN RIGHTS ENFORCEMENT PROGRAM

This program aims at performing preventive and corrective measures against deviations of the rules of the law, those of social norms, and human right violations in the process of living as members of the society, of the nation and of the state.

In the next five-year period, the results of the enforcement of the law and basic human rights shall constitute the foundation for restoring people's confidence in the law, by placing priority to three items of the agenda for the law and basic human rights enforcement, which comprises: the eradication of corruption, the fight against terrorism, and the abolishment of the abuse of dangerous drugs and other narcotics. For that objective, it is imperative that the law and basic human rights

enforcement be executed in a firm, non-discriminatory, and consistent fashion.

The main activities to be conducted include the following:

1. Strengthening efforts towards corruption eradication through the implementation of the National Action Plan for the Eradication of Corruption 2004–2009; strengthening of the implementation of the National Action Plan for Basic Human Rights 2004–2009; National Action Plan for the Abolishment of Children Commercial Sexual Exploitation; National Action Plan for the Abolishment of the Worst Forms of Jobs for Children; and the National Program for Indonesian Children 2015;
2. The execution of the National Action Plan for Basic Human Rights 2004–2009 as a national movement;
3. The enhancement of the law enforcement for the abolishment of terrorist acts, abuse of drugs and other dangerous substances;
4. The enhancement of the effectiveness and strengthening of the legal foundations/institutions and those of the institutions charged with the tasks and functions of preventing and eradicating corruption;
5. The enhancement of the effectiveness and strengthening of the legal foundations/institutions and those of the institutions charged with the tasks and functions of enforcing basic human rights;
6. The enhancement of the endeavors towards the respect for the equality of other citizens before the law, by means of the example set by the Head of the State and other leaders in terms of the observance of the law and basic human rights in a consistent and consequential manner;
7. The regular auditing of the properties of all government and state officials;
8. The reviewing and improving of basic concepts in the context of realizing a simpler, quicker, more precise legal process which is affordable for people from all walks of life;
9. The enhancement of operational activities in the enforcement of the law and basic human rights in the context of keeping public order and for maintaining the dynamism of society;
10. Reforming the system of case handling management with a view to guaranteeing public access and developing a transparent and accountable control system;
11. Developing a transparent system of the legal institutions;

12. Salvaging evidence materials on performance accountability in the form of documents/files of state institutions and government agencies with a view to supporting enforcement of the law and basic human rights;
13. Enhancing coordination and cooperation with a view to ensuring the effectiveness of law and basic human rights enforcement;
14. Revising law materials that are related to the eradication of corruption;
15. Enhancing the surveillance of people who are leaving and entering the Indonesian territory;
16. Enhancing the intelligence functions so that terrorist activities can be averted at the very early phase, and for enhancing various security and order operations;
17. Enhancing the handling and the bringing to justice of the abuse of narcotics and other dangerous drugs via the identification and severance of the circulation network, the stepping up of the preliminary investigation, the court investigation, the indictment, and the passing of maximal punishment to the traffickers.

CHAPTER 12

ENHANCEMENT OF THE QUALITY OF THE LIFE AND ROLE OF WOMEN AND ENHANCEMENT OF CHILDREN'S WELL-BEING AND PROTECTION

The basic problems underlying the endeavor for the empowerment of women and children have been the low participation of women and children in development activities, in addition to various forms of discrimination against women. The other problems include the gap in the political participation by women, arising from the imbalance in the socio-cultural structure of the society, colored by the interpretation of the translation of gender-biased religious teachings. In its social context, this imbalance can be seen as reflecting the limitation of the majority of women to better health services, to higher level of education, and to more extensive involvement in public activities.

A. THE PROBLEMS

The low quality of the life and role of women. The main problem encountered in the context of the development of the empowerment of women is the low quality of the quality of their life and role, in particular in terms of education, health economy and political affairs. Data from the 2003 National Social and Economic Survey (Susenas) indicate that the number of women of ten years or over who do not go or who have never gone to school is twice that of the males, the ratio being 11.56 percent to 5.43 percent. Illiterate females number around 12.28 percent, whereas illiterate males number around 5.84 percent. In 2000, the mortality rate of mothers giving birth is the highest in ASEAN, namely 307 per 100,000 live births. The prevalence of iron-nutrition anemic cases in pregnant mothers is also the highest, namely around 50.9 percent according to Household Health Survey of 2001. According to the results of the 2003 Susenas, the labor force participation rate of women was still relatively low, namely 44.81 percent, compared to that of men. In the political sphere, despite the stipulation of Law No. 12/2003 on General Elections that the representative of women be 30 percent in the legislative institution, the results of the 2004 General

Elections show that the portion of women representatives is still a far cry, namely only 11.6 percent in the House of Representatives and only 19.8 percent in the Regional Representative Council/DPD (according to data provided by the General Elections Commission). In 2003, the low involvement of women in public positions can be deduced from the low percentage of women as civil servants holding echelon I, II, and III positions (i.e. 12 percent). Meanwhile, the role of women in the judiciary institution is still low, namely 16.2 percent and 3.4 percent respectively as judges in the public court and in the state administration court respectively, and 17 percent as Supreme Court Justices in 2000 (according to the data from the Civil Service Agency, 2003).

The high frequency of violent acts against women and children. Violent acts against women and children constitute one of the forms of violations of human rights. In spite of the fact that a great deal of endeavors have been made by the government, such as the drawing up of the National Action Plan for the Abolishment of Violence against Women, the establishment of integrated crisis centers in the Regional Police and District Police as well as the integrated service centers for the empowerment of women and children, the fact remains: all of such endeavors are not adequate as a means to curb the high frequency of violent acts against and exploitations of women and children. Accurate data are not available yet because many of the cases of acts of violence and exploitation against women and children are not reported on the presumption that they are family or domestic issues that need not be known by the general public. The data of the Integrated Crisis Center (PKT) of the Cipto Mangunkusumo General Hospital, which was established in 2000, show that the number of violent cases have continued to rise, from 226 in 2000 to 655 in 2003. Of that victim number, almost 50 percent are victims of sexual violence; 47 percent are children (under 18 years of age) and about 74 percent have an education level of elementary school up to Senior High School.

The low level of children's welfare and protection. The government's endeavors have not been fully able to step up the welfare of and the protection for children. In the domain of education (according to the 2003 Susenas), the school participation rates of the 7–12 years, 13–15 years, and 16–18 years age groups were respectively 96.4 percent, 81.0 percent, and 51.0 percent. In the same year, children in the

3–4 years and 5–6 years age groups joining pre-schools were respectively 12.78 percent and 12.39 percent. In the domain of health, infant mortality rate, the mortality rate of children under five years old, the prevalence rate of undernourishment for children under five years old, and the undernourishment rate for elementary school children were still high (see Chapter 28 on the Enhancement of the People's Access to Quality Health). Meanwhile, children protection problems still prevail as can be inferred from the fact that there are still many child workers. According to the 2003 National Labor Force Census, the percentage of working children was around 5.6 percent of the population in the 10-14 years age group, the majority of whom work for over 35 hours per week (73.1 percent) and work in the agricultural sector (72.0 percent). According to the results of Hull *et al* study (1997) and those of Farid (1999), children who were “employed” as prostitutes numbered about 30 percent of the total number of prostitutes (40,000 to 70,000 or even more). In addition, about 60 percent of children do not have birth certificates (2001 National Economic Census). The needs for growing up have not been fully taken into account as the main consideration in the planning of development and its execution. This can be inferred from the low rate of children's participation in development and from the big quantity of development activities which are not concerned with children.

The development achievement disparity between women and men. The gender-related development index (GDI) measures achievements using the same dimension and indicator as used in the human development index (HDI), but also takes into account the disparity of achievement between men and women. . The GDI is the HDI which has been adjusted to the gender-related disparity, so that the smaller difference between the GDI and the HDI means that the gender-related disparity becomes narrower. According to 2004 Human Development Report, the HDI was 65.8 and the GDI was 59.2. The high HDI, compared to the GDI, shows that the success of the human resource development as a whole has not been fully accompanied by the success of gender development: Gender-related disparity still prevails. The other measurement of women empowerment development is GEM (Gender Empowerment Measurement) which emphasizes participation. In this regard, measurement is made in terms of the gender disparity in the economic domain (women in the labor force and the average

remuneration in non-agricultural sectors), the political domain (women in the parliament), and in the decision-making domain (women as professionals, high-ranking officials, and managers). The GEM for Indonesia in 2002 was 54.6, which ranked the 33rd of the 71 countries measured.

Many of the laws and legislative regulations are biased and discriminatory against women and do not yet pay adequate attention to children. The existing legislative regulations are by and large gender-biased and are still discriminatory against women. The existing penal laws are not yet adequate for protecting each and every individual, especially against violence in households. In addition, the existing legislative regulations have not been put into practice in a consequential manner to guarantee and safeguard women's and children's rights, nor have they provided protection against violent, discriminatory, and exploitation acts.

The weakness of institutions and networks for the mainstreaming of gender and children, including the scarcity of data and low degree of the society's participation. In line with the decentralization era, institutionalization and networking problems arise in the regions (provinces, districts (regencies)/municipalities), in particular those which handle the problems of women and children empowerment. It being the case that women and children empowerment programs are cross-sector programs, coordination is needed at the national and regional level, beginning from the planning up to the execution and monitoring, including congruence with international commitments (such as the Convention on the Elimination of All Forms of Discriminations Against Women, Beijing Platform for Action, Convention on the Rights of the Child, and World Fit for Children). The other problem is the unavailability of development data categorized along the gender dimension, making it difficult to identify existing gender-related problems. Society's participation is not maximal enough to enhance the quality of life of women and to step up the welfare and protection of children.

B. THE TARGETS

The development targets that are to be attained in 2004–2009, in the context of enhancing the quality of life and the role of women and to enhance the welfare and protection of children, are the following:

1. The ensured gender justice in various law products, development programs, and public policies;
2. The decreased gaps in development achievements between women and men, which are measured by the GDI and GEM indicators;
3. The decreased violence against women and children; and
4. The increased welfare and protection of children.

C. POLICY DIRECTIONS

With such cultural (related to patriarchal cultural values) and structural (established by the existing social and political system) condition, it is necessary to have unambiguous actions for reducing the gender gap in various development fields. For that purpose, it is necessary to have a strong political will to ensure that all development policies and programs take into account gender equality and justice, and are concerned with children. The development policy directions that will be pursued are the following:

1. Enhancing involvement of women in the political process and in public positions;
2. Enhancing the standards of education and health services and in other development fields, for increasing the quality of life and resources of women;
3. Stepping up campaigns on antiviolence against women;
4. Improving the penal law products so as to become more complete in the protection of each individual from various acts of violence, exploitation, and discrimination, including violence in households;
5. Increasing the welfare and protection of children; and
6. Strengthening institutions, coordination, and the mainstreaming of gender and children in the planning, implementation, monitoring, and evaluation of various policies, programs and activities of development in all fields, including the meeting of international commitments, the provision of gender data and statistics, and enhancing the participation of the general public.

D. DEVELOPMENT PROGRAMS

1. PROGRAM FOR INCREASING THE QUALITY OF LIFE AND PROTECTION OF WOMEN

The aim of this program is to increase the quality of life, role and position of women in various fields of life and various development fields; and to increase protection of women against various forms of violence, exploitation and discrimination.

The main activities that will be carried out cover the following:

1. To increase the quality of life of women through affirmative action, especially in the fields of education, health, law, manpower, social, political, natural environment, and in the economic field;
2. To increase efforts for the protection of women from various forms of violence, exploitation and discrimination, which include efforts for their prevention and for their handling;
3. To develop and improve various law products and policies for enhancing the quality of life and for protecting women in various development fields, at the national and regional levels;
4. To communicate and provide information and to educate for enhancing the quality of life and protection of women, at the national and regional levels;
5. To formulate the system for recording and reporting, and the system for handling and settling cases of violent acts, exploitation, and discrimination against women;
6. To develop integrated services centers, which are hospital-based and community-based, at the provincial and district/city levels, as the means for protecting women that are victims of violence, including women that are victims of violence in the household; and
7. To increase the role of the general public and mass media in activities for overcoming pornography and porno-action.

2. PROGRAM FOR INCREASING THE WELFARE AND PROTECTION OF CHILDREN

The aim of this program is at enhancing the welfare of children and at realizing the goal of the children of Indonesia to be healthy, intelligent,

happy, and having noble morals, and for protecting children against various forms of violence, exploitation and discrimination.

The main activities that will be carried out cover the following:

1. To develop various policies and law products for meeting the rights of children, particularly in the field of education, health, social welfare, law and manpower, at the national and regional levels;
2. To communicate and provide information, and to educate with a view to increase the welfare and protection of children;
3. To carry out policies and legal products for ensuring and protecting the rights of children;
4. To increase efforts for meeting the rights of children, such as the issuance of birth certificates and the provision of public spaces that are safe for children to play;
5. To develop the mechanism for protecting children in specific conditions, such as natural disasters and social upheavals (including conflicts);
6. To develop procedural system for legal handling that is children friendly, including enhancing efforts for providing special protection to children in emergency situations, in conflicts with the law, in exploitation cases, child trafficking cases and other abuses;
7. To establish forums for listening to and for voicing the opinions and hopes of children, as a form of children participation in the development process; and
8. To evaluate the implementation of policies and regulations on children, at the national and regional levels.

3. PROGRAM FOR STRENGTHENING INSTITUTIONS AND MAINSTREAMING OF GENDER AND CHILDREN

The aim of this program is at strengthening institutions that are involved in the mainstreaming of gender and institutions that are involved in the mainstreaming of children, in various development fields, at the national and regional levels.

The main activities that will be carried out cover the following:

1. To develop the substance and implement the communication and provision of information, and education on gender equality and justice, and for enhancing the welfare and protection of children;
2. To enhance the capacity of institutions for the empowerment of women and children at the provincial and district/city levels, including Gender/Women Study Centers, including that of research institutions, observers and institutions which are concerned with the empowerment of children;
3. To formulate various policies in the context of strengthening institutions involved in the mainstreaming of women and institutions involved in the mainstreaming of children, at the national and regional levels; and
4. To formulate the mechanism for the planning, monitoring and evaluation of activities for the mainstreaming of women and children, at the national and regional levels.

4. PROGRAM FOR POLICY CONSISTENCY AND FOR INCREASING THE QUALITY OF CHILDREN AND WOMEN

The aim of this program is to realize policy consistency in various development fields in the context of increasing the quality of children and women, at the national and regional levels.

The main activities that will be carried out cover the following:

1. To assess and revise laws and regulations that are discriminatory against women, which are gender-biased, and still are not concerned with children;
2. To formulate policies and laws and regulations that are aimed at enhancing the quality of the life of women and protect women and the rights of children;
3. To carry out activities for communicating and providing information and educating on policies and laws and regulations on women and children; and
4. To coordinate the planning, implementation, monitoring, and evaluation of policies/laws and regulations, and development programs for the empowerment of women and for enhancing the welfare and protection of children, at the national and regional levels.

CHAPTER 13

REVITALIZATION OF THE DECENTRALIZATION AND REGIONAL AUTONOMY PROCESS

The policy of decentralization and regional autonomy, in accordance with Law Number 22 of 1999 regarding Regional Government and Law Number 25 of 1999 regarding Financial Balance between the Central and Regional Governments, is pursuant to the demands for reform in 1998. This policy has changed the governing of the state from previously centralized to become decentralized, encompassing among others the delegation of authority of the central government to regional governments (with the exception of authority on foreign policy, defense and security, judicial matters, religion, fiscal and monetary policies) and changes in the financial balance between the central government and regional governments.

Through the policy of decentralization and regional autonomy, the decision making in state governing and in the provision of public services is expected to become more simple and speedy, because it can be executed by the closest regional government in accordance with the existing authority. This policy is needed for accommodating changes in conditions that have occurred in the country as well as abroad.

A. THE PROBLEMS

Since the effectuation of the two laws, namely since 1 January 2001, various problems are still being encountered, such as: (i) the fact that the division of authority between the central and regional governments is not yet clear; (ii) differences in perception of those involved in development activities on decentralization and regional autonomy policies; (iii) the fact that cooperation among regional governments is still low; (iv) the fact that effective and efficient regional government institutions are not yet formed; (v) the still limited and low capacity of the regional government apparatus; (vi) the still limited financial capacity of regional governments, and (vii) the formation of new autonomous regions (expansion of regions), has not yet been in accordance with their objectives. These

problems will be resolved through the revitalization of the decentralization and regional autonomy process, that has already been initiated by revising the two laws, to become Law Number 32 of 2004 on Regional Government and Law Number 33 of 2004 on Financial Balance between the Central and Regional Governments.

The fact that the division of authority between the central and regional governments is not yet clear. Many of the authority that should have been delegated to regional governments have not yet been decentralized because the sectoral laws and regulations have not yet been adjusted to the Law on Regional Government. This has resulted in various problems, such as with regard to the authority and the management of the APBD (Regional Government Budget), management of a certain area or a certain type of public service, regulation on the sharing of natural resources proceeds and taxes. In addition, it also creates overlapping authority between the central, provincial and district/city governments, resulting in various problems and conflicts among various parties in the implementation of regulations, such as on education, manpower, public works, land matters, capital investment, forestry and mining.

The not yet optimal process of decentralization and regional autonomy due to differences in perception of those involved in development activities with regard to policies of decentralization and regional autonomy. The fact that there are still different perceptions among those involved in development activities, at the central government, regional governments as well as other parties involved in development has led to various problems in the implementation of state governing. This is signified by among others the weak role of the Governor in coordinating the various districts/cities in his province, because Article 4 paragraph (2) of Law Number 22 of 1999 regarding Regional Government stipulates that the regions are standing on their own and do not have a hierarchical relation with one another. This has then been perceived as the provincial governments and the district/city governments not having a hierarchical relationship. Frequently, policies, planning, and results of developments as well as matters on the implementation of governing are not being coordinated with and reported to the Governor but are reported directly to the central government. On the other hand, the direct hierarchical relation

between the district/city governments and the central government will lengthen the span of control in the management of state governing and in the management of development activities. These matters have the potential in creating inefficiency and ineffectiveness in the utilization of national resources. In relation to the implementation of special autonomy in the province of Papua, there are still several laws and regulations that are not yet consistent to one another

The fact that cooperation among regional governments is still low. The low cooperation among regional governments mainly concerns the provision of public services to isolated areas, border areas among regions, and areas with a high rate of urbanization and economic growth, and on the joint management and utilization of rivers, water resources, forests, mining and mineral activities, and on marine resources that overlap various adjacent regions, and in trade, education, health, agriculture, estates, and fisheries, including post-harvest processing and distribution.

The fact that the performance of institutions of regional governments is still ineffective and inefficient. The organizational structure of regional governments is generally still large and overlapping. Moreover, the facilities and infrastructure of the regional governments are still minimal and the implementation of standards on minimum services has not yet proceeded satisfactorily. In addition, the work relation among institutions, including among regional governments, regional parliaments (DPRD), the general public, and non-government organizations, is not yet optimal.

The fact that the capacity of the apparatus of regional governments is still limited. This is indicated by the limited total number as well as professionalism of the apparatus, the limited welfare of the apparatus and the not yet proportional distribution of the apparatus, which have resulted in the not optimal public services, as signified by the tardy public services performance, the absence of time certainty, non-transparency and low responsiveness of the apparatus to problems that have evolved in their respective regions. In addition, the not yet established adequate system and regulatory framework in the recruitment and career mechanism of the apparatus of regional governments have resulted in the limited number of quality human

resources. Another problem concerns the still low ethics of the leadership in several regions.

The fact that the financial capacity of regional governments is still limited. This is indicated by the limited effectiveness, efficiency and optimization of utilization of regional government revenues, the not yet efficient and proportional determination of priorities on regional budget allocation, and the limited capability to manage budgets, including the limited application of principles on transparency and accountability, and professionalism.

The formation of new autonomous regions (expanded regions) that is not yet in accordance with the objective, namely increasing the welfare of the people. That some regions have been left behind in development due to the very broad span of control of governing, has often become the rationale for proposing the formation of new autonomous regions. Nevertheless, in its implementation, the formation of new autonomous regions have more often been based on political aspects, the desire of the small regional elite in the relevant regions, and have not yet considered aspects other than those stipulated in the existing Government Regulation. Moreover, the formation of new autonomous regions each year will place an additional burden to the national government budget due to the increased regional budget allocation for the establishment of the relevant institutions and for the routine expenditures, so that development in the old (principal) region and in the new regions cannot increase significantly. An enhancement in public services that should have occurred with the formation of the new autonomous region, is not felt by the local community, in fact in several new autonomous regions public services have not improved.

B. THE TARGETS

The targets that are to be attained in the revitalization of the process of decentralization and regional autonomy in the coming five years are as follows:

1. The attained synchronization and harmonization of regulations of the central and regional governments, including regulations on

special autonomy in the province of Papua and the province of Aceh;

2. The enhanced cooperation among regional governments;
3. The established regional government institutions that are effective, efficient and accountable;
4. The enhanced capacity in the management of resources of the regional government apparatus that is professional and competent;
5. The transparent, accountable, and professional management of funds and development funding;
6. The reformed new autonomous regions.

C. POLICY DIRECTIONS

The endeavors to revitalize the decentralization and regional autonomy process are directed at supporting the efforts to enhance the welfare of the people in terms of the provision of public services, the implementation of regional autonomy, and the implementation of good regional governance and are implemented through the following policies:

1. Making explicit the division of authority among government levels, in terms of authority on tasks and responsibilities as well as on the mobilization of financial resources and development financing resources, which is supported by the spirit of decentralization and regional autonomy, in the context of the NKRI (Unitary State of the Republic of Indonesia);
2. Encouraging cooperation among regional governments, including the role of provincial governments, in the context of enhancing public services and welfare of the people;
3. Reforming institutions of the regional governments so as to become more proportional to the actual need of the regions, more streamlined, having a short hierarchy, is flexible, and adaptive, filled with many functional positions, and having a decentralized authority, so as to become able to provide better and more efficient public services, and having a good work relationship with other regional governments, with the Regional Parliament, the local community and with non-governmental organizations, in an optimal manner in accordance with their roles and functions;
4. Preparing the availability of a competent apparatus of the regional governments, in a proportional manner in all regions and areas,

reforming the balance between the total number of the regional government apparatus and the work load of each institution/work unit of the regional governments, and enhancing the quality of the regional government apparatus, through the management of human resources of the regional governments on the basis of competence standards;

5. Enhancing the financial capacity of regional governments, including the capacity on financial management, which is based on the principles of transparency, accountability, and professionalism, so as to have available sources of funds and development financing that are adequate for activities in providing public services and for the implementation of development activities in the relevant regions; and
6. Reforming the new autonomous regions, including assessing the implementation of policies on future formations of new autonomous regions, so as to attain an enhancement in public services and acceleration in regional development.

D. DEVELOPMENT PROGRAMS

The programs that will be implemented in the revitalization of the decentralization and regional autonomy process in the next five years are the following:

1. PROGRAM FOR REFORMING LAWS AND REGULATIONS ON DECENTRALIZATION AND REGIONAL AUTONOMY

The aims of this program are: (1) to enhance the synchronization and harmonization of various laws and regulations pertaining to central and regional relations, and the implementation of regional autonomy, including regulations issued by the regions; (2) to formulate various implementing regulations to Law Number 32 of 2004 on Regional Government and Law Number 33 of 2004 on Central and Regional Financial Balance; (3) to strengthen the vision of decentralization and regional autonomy to those involved in development activities, so as to reach a common perception, especially on state governing, public services and regional development; and (4) to encourage the

implementation of special autonomy in the province of Papua and in the province of Aceh.

The main activities that will be carried out are the following:

1. To socialize and implement Law Number 32 of 2004 on Regional Government, Law Number 33 of 2004 on Central and Region Financial Balance, Law Number 25 of 2004 on the National Development Planning System, Law Number 17 of 2003 on State Finance, Law Number 1 of 2004 on State Treasury, and Law Number 15 of 2004 on the Auditing and of State Finance Management and Accountability, Law Number 18 of 2001 on Special Autonomy for the Province of the Aceh Special Region as the Province of NAD, Law Number 21 of 2001 on Special Autonomy for the Province of Papua, including the formulation, socialization and implementation of their implementing regulations, specifically related to the implementation of state governing and the system of regional development planning.
2. To adjust various laws and regulations pertaining the relations between the central and regional governments, including the sectoral laws and regulations and those related to special autonomy of Aceh and Papua, so as to become harmonious.
3. To adjust regional regulations, so as to become synchronized with higher laws and regulations; and
4. To enhance supervision and evaluation of policies on decentralization and regional autonomy.

2. PROGRAM FOR ENHANCING COOPERATION AMONG REGIONAL GOVERNMENTS

The aim of this program is to increase cooperation among regional governments, including the enhancement of the role of provincial governments.

The main activities that will be carried out in the context of enhancing cooperation among the regions cover the following:

1. To formulate and issue laws and regulations on cooperation among regions, including on the role of provincial governments;

2. To identify, plan, facilitate, and implement strategic functional activities for which cooperation is needed;
3. To enhance the role of the Governor, as representative of the central government, for facilitating the settlement of disputes among regions and disputes within their respective provinces; and
4. To optimize and enhance the effectiveness of the information system of regional governments in the context of strengthening cooperation among regional governments and between regional governments and the central government.

3. PROGRAM FOR ENHANCING THE INSTITUTIONAL CAPACITY OF REGIONAL GOVERNMENTS

The aim of this program is to formulate institutions of the regional government that is adjusted to the needs of the region and to the regional potentials that need to be managed.

The main activities that will be carried out in the context of enhancing the institutional capacity of regional governments cover the following:

1. To reform institutions of regional governments so as to become in line with the load of services provided to the general public;
2. To enhance performance of regional institutions on the basis of principles of modern organizations and oriented to the provision of public services;
3. To formulate guidelines on relation between regional governments and Regional Parliaments so as to create checks and balances in the implementation of regional state governing;
4. To strengthen the implementation of policies on decentralization and regional autonomy in accordance with the National Framework for Development and Enhancement of the Capacity for Supporting Decentralization;
5. To assess and facilitate the implementation of minimum services standards, management of regional authority and the information system for public services; and
6. To enhance the role of non-governmental organizations and of the general public in each decision making at the provincial and

district/city levels, through the application of principles on good governance.

4. PROGRAM FOR ENHANCING PROFESSIONALISM OF THE APPARATUS OF REGIONAL GOVERNMENTS

The aim of this program is to facilitate the recruitment of the apparatus of regional governments, to formulate the management plan and to enhance the capacity of the regional government apparatus, in the context of enhancing public services, implementation of state governing, and of creating a regional government apparatus that is competent and professional.

The main activities that will be carried out in the context of enhancing professionalism of the regional government apparatus cover the following:

1. To formulate regional regulations, guidelines and standards on competence of the apparatus of regional governments;
2. To formulate plans on the management of the regional government apparatus, including the open system for recruitment, mutations, and the development of the career system;
3. To facilitate the recruitment and mutation of the regional government apparatus, and cooperation among the apparatuses of regional governments;
4. To enhance the ethics of regional leaders; and
5. To facilitate development of the capacity of the regional government apparatus with the priority to enhance capacity in the provision of public services, such as meeting the basic needs of the people, maintaining security and the capability to face natural disasters, the capacity to prepare strategic plans for promoting the regional economic growth, the capacity to manage regional finances, and the preparation of investment strategy.

5. PROGRAM FOR ENHANCING THE FINANCIAL CAPACITY OF REGIONAL GOVERNMENTS

The aim of this program is to enhance and develop the financial capacity of regional governments in the context of enhancing public services, implementing regional autonomy, and in creating good regional governance.

The main activities that will be carried out in the context of enhancing the financial capacity of regional governments cover the following:

1. To enhance the effectiveness and optimization of regional revenue sources that is just, including the creation of a conducive condition for carrying out business and investment activities;
2. To enhance the efficiency, effectiveness and priority of regional budget allocations in a proportional manner; and
3. To develop the transparency, accountability, and professionalism in the management of regional finances.

6. PROGRAM FOR REFORMING NEW AUTONOMOUS REGIONS

The aim of this program is to reform and implement policies on the formation of new autonomous regions so that the formation of new autonomous regions will not create a burden for the state finance in the efforts for enhancing public services and for accelerating regional development.

The main activities that will be carried out cover the following:

1. To evaluate the performance of new autonomous regions in the provision of public services;
2. To implement policies on new autonomous regions and/or the merger of autonomous regions, including the formulation of policies and implementation of alternative efforts for enhancing public services and for accelerating regional development other than through the formation of new autonomous regions;
3. To settle the status of ownership and the optimal utilization of regional assets; and
4. To reform the implementation of governing of new autonomous regions.

CHAPTER 14

CREATING CLEAN AND CREDIBLE GOVERNANCE

One of the agendas of national development is the creation of a clean and credible governance. This agenda is an effort to realize good governance, characterized by among others: transparency, accountability, effectiveness and efficiency, the upholding of supremacy of the law, and the opening up of opportunities for the greater participation of society that can ensure effectiveness, consistency and coordination of the tasks and function of the implementation of governing and development activities. For that purpose, it is necessary to have effective policy measures for changing institutions and the administrative system; for improving the quality of human resources of the state apparatus; and improving the system for effective supervision and investigations.

A. THE PROBLEMS

Bureaucratic reforms have not yet proceeded in accordance with the demands of the general public. This is related to the high complexity of problems and in finding their solutions. Likewise, there is still a high level of power abuse, a proliferation of KKN (corruption, collusion and nepotism) practices, and weak supervision of the performance of the state apparatus, which reflect the condition of performance of the bureaucracy that is far below expectations.

The many internal and external problems of the bureaucracy have not yet been fully overcome. From the internal side, various factors, such as democratization, decentralization and internal aspects within the bureaucracy itself, still affect the level of complexity of the problems and of the search for their solutions in the period of five years ahead. On the external side, the factors of globalization and information technology information have also significantly affected the search for policy alternatives in the field of the state apparatus.

From the internal side, democratization and decentralization have affected the public policy decision making process. Such an impact is

related to the increased demands for participation by the general public in public policies, the increased demand for the application of the principles of good governance, encompassing transparency, accountability and enhanced quality of public performance and compliance with the law as well as the increased demand for delegation of authority, responsibility and decision making.

Likewise, specifically on the internal aspect of the bureaucracy itself, there are still many problems faced. These problems are among others: disciplinary violations, abuse of power and the proliferation of practices of corruption, collusion and nepotism; the low performance of human resources and institutions of the apparatus; the institutional (organizational) system and governmental management that are still not yet adequate; the low efficiency and effectiveness of work; the low quality of public services; the low welfare of civil servants; and the many laws and regulations that are no longer appropriate to the current situation and to the demands of development.

On the external side, globalization and the information technology revolution (e-Government) is a challenge by itself in the efforts to create clean, good and credible governance. This is related to the increased uncertainty on account of the very rapid changes in the political, economic and social environment; the increasingly rapid flow of information from other countries that can lead to cultural infiltration and the emergence of information gaps in society (digital divide). These changes have required that the state apparatus have the proper knowledge and skills for anticipating, mobilizing potentials and new methods for accommodating the demands for change. In addition, it is necessary that the state apparatus be capable to enhance competitiveness and maintain the territorial integrity of the nation. In that respect, it is necessary to have efforts that are more comprehensive and integrated in encouraging efforts to enhance the performance of the state apparatus, in the context of creating clean and accountable governance, which is the objective of reforms and in accordance with the demands of the Indonesian people.

B. THE TARGETS

The overall target of state governance for 2004-2009 is the established good, clean, credible, professional and responsible governance, to be manifested in a bureaucracy that is efficient, effective and that can provide satisfactory public services.

In order to realize the above aim, the more specific targets are:

1. The effective reduction in corrupt practices in the bureaucracy, to be started from the top official;
2. The created institutional system and government administration that are clean, efficient, effective, transparent, professional and accountable;
3. The eliminated regulations and practices that are discriminatory to citizens and social groups;
4. The enhanced participation of the general public in public policy decision making;
5. The ensured consistency of all central and regional regulations, and which are not in contravention with higher regulations and laws.

C. POLICY DIRECTIONS

In the efforts to attain the targets of the development of state governance in the context of realizing clean and credible governance, the policy directions for state governance in 2004-2009 are as follows:

1. Fully resolving the problem of power abuse in the form of practices of corruption, collusion and nepotism, by :
 - a. Applying the principles of good governance at all levels and lines of the government and in all activities;
 - b. Imposing the most severe sanctions on those guilty of KKN practices in accordance with the law stipulations that are in force;
 - c. Enhancing the effectiveness of the supervision of the state apparatus through the coordination and synergy in internal and external supervision and in the supervision by the general public;
 - d. Enhancing the work culture of the apparatus that is of high moral standards, professional, productive and responsible;

- e. Accelerating follow-up measures to supervision and audit findings;
 - f. Increasing empowerment of the state apparatus, business community and general public in the eradication of the practices of corruption, collusion and nepotism.
2. Enhancing the quality of public administration, by:
- a. Reforming the functions of government institutions, so as to be better able to function adequately and effectively, with a structure that is more proportional, streamlined, flexible and responsive;
 - b. Enhancing the effectiveness and efficiency of management and procedure at all levels and lines of the government;
 - c. Reforming and enhancing the capacity of the apparatus human resources, so as to become more professional, in accordance with their tasks and functions, for providing the best public services;
 - d. Increasing the welfare of civil servants and applying the career system on the basis of merit;
 - e. Optimizing the development and utilization of *e-Government* in the management of state documents/ archives in the context of the management of governmental tasks and functions.
3. Enhancing involvement of the general public in the implementation of development activities, by:
- a. Increasing the quality of public services, especially with regard to basic services, general services and selected services;
 - b. Increasing the capacity of the general public in meeting their needs, in participating in the development process and in supervising the running of the government;
 - c. Increasing transparency, participation, and quality of services, through enhancing access to and enhancing the dissemination of information.

D. DEVELOPMENT PROGRAMS

1. PROGRAM FOR APPLYING GOOD GOVERNANCE

The aim of this program is to realize a government that is clean, professional, responsive, and responsible, in terms of the implementation of state governing and in the implementation of development activities.

The main activities that will be carried include the following:

1. To increase the knowledge, understanding, skills, and the implementation of the principles of good governance;
2. To apply the values of ethics of the apparatus, in the context of building a work culture that supports a high work productivity in the implementation of tasks and function in state governance, specifically in the provision of public services.

2. PROGRAM FOR ENHANCING SUPERVISION AND ACCOUNTABILITY OF THE STATE APPARATUS

The aim of this program is to improve and enhance the effectiveness of the supervision and audit system and the performance accountability system, in the context of realizing a state apparatus that is clean, accountable, and free from KKN (practices of corruption, collusion and nepotism).

The main activities that will be carried out are as follows:

1. To enhance the intensity and quality of external and internal supervision and audit and supervision by the general public;
2. To reform and improve policies on systems, institutional structure and procedures for supervision that is independent, effective, efficient, transparent and accountable;
3. To enhance the legal follow-up steps to supervision findings;
4. To increase coordination of supervision so as to become more comprehensive;
5. To develop the application of performance-based supervision;
6. To develop professional auditing personnel;

7. To develop the system of performance accountability and to encourage increasing its implementation at all agencies;
8. To develop and enhance the APFP information system and to improve the quality of information from supervision findings; and
9. To periodically evaluate performance and supervision findings.

3. PROGRAM FOR REFORMING INSTITUTIONS AND MANAGEMENT

The aim of this program is to reform and improve the organizational and management system of the central government, provincial governments, and district/city governments, so as to become more proportional, efficient and effective.

The main activities that will be carried out cover the following:

1. To improve the institutional system, so as to become more effective, streamlined and flexible on the basis of the principles of good governance;
2. To improve the system of public administration, in the context of maintaining the integrity of the NKRI (Unitary State of the Republic of Indonesia) and in the context of accelerating the process of decentralization;
3. To improve the structure of state and governmental positions;
4. To improve the management and work relations among institutions at the central government and between the central, provincial and district/city governments;
5. To create a supporting administrative and archive system that is effective and efficient; and
6. To rescue and preserve state documents/archives.

4. PROGRAM FOR THE MANAGEMENT OF HUMAN RESOURCES OF THE APPARATUS

The aim of this program is to enhance the management system and capacity of human resources of the apparatus, in conformity with the needs for implementing governmental tasks and development activities.

The main activities that will be carried out cover the following:

1. To reform human resources of the apparatus, in accordance with the needs in terms of total number and competence; and to improve the distribution of civil servants;
2. To improve the system of management of human resources of the apparatus, especially in the career system and remuneration system;
3. To enhance the competence of human resources of the apparatus, in the implementation of their tasks and responsibilities;
4. To improve the system and quality of education and training for civil servants;
5. To prepare and revise various regulations and policies on the management of personnel; and
6. To develop the professionalism of civil servants, by improving ethical rules and mechanism of the law enforcement of discipline.

5. PROGRAM FOR ENHANCING THE QUALITY OF PUBLIC SERVICES

The aim of this program is the development of management of public services that is transparent, accountable, simple, low-cost, speedy, appropriate and just to the entire public at large, in order to support the interest of the general public and the business community, and to encourage the participation and empowerment of the general public.

The main activities that will be carried out cover the following:

1. To increase the quality of services to the general public and to the business community;
2. To encourage the implementation of principles of good governance in each of the processes of providing public services, specifically in the context of supporting efforts to increase government revenues, such as taxes, customs, and capital investment;
3. To increase efforts for eliminating obstructions to the extension of public services, through deregulation, de-bureaucratization, and privatization;
4. To enhance the application of the merit system in the provision of public services;

5. To consolidate coordination in promoting public services improvements and in developing the quality of the apparatus in the provision of public services;
6. To optimize the utilization of information and communication technology in the provision of public services;
7. To intensify the handling of public complaints;
8. To develop the participation of the general public in districts and cities, in the formulation of programs and policies on public services, through the mechanism of open dialogues and consultations with the local communities of the respective regions; and
9. To develop the mechanism for periodic reporting on the performance of the state apparatus of the central, provincial and district/city governments to the general public.

6. PROGRAM FOR INCREASING THE FACILITIES AND INFRASTRUCTURE OF THE STATE APPARATUS

The aim of this program is to support the implementation of more efficient, effective and integrated governmental tasks and administration.

The main activities that will be carried out cover the following:

1. To increase the quality of facilities and infrastructure that support the provision of services; and
2. To increase facilities for public services and for operational needs, including the procurement, repair and maintenance of buildings and equipment, in accordance with the needs and capacity of the public finance.

7. PROGRAM FOR FACILITATING THE TASKS OF THE STATE AND GOVERNMENTAL LEADERSHIP

The aim of this program is to facilitate the implementation of tasks of the leadership and management function in carrying out state and governmental functions.

The main tasks that will be carried out cover the following:

1. To provide work facilities and needs of the leadership;

2. To facilitate the implementation of tasks and functions of the state and governmental offices, such as personnel expenditures, expenditures for goods, travel expenditures, capital expenditures, and other expenditures;
3. To carry out coordination and consultation in the work plan and programs of ministries and agencies;
4. To develop systems, procedures and standardization of administration that support the provision of public services; and
5. To enhance management functions so as to become more efficient and effective.

CHAPTER 15

REALIZATION OF INCREASINGLY SOLID DEMOCRATIC INSTITUTIONS

Consolidation of democracy will proceed satisfactorily if supported by solid democratic institutions. Up to now, the initial democratization process in social and political life has generally proceeded on the right track and in the right direction, as indicated by among others the implementation of the 2004 direct general election of the President and Vice President and the formation of the newly elected DPR (Parliament), DPD (Regional Representative Council), and the DPRD (Regional Parliaments), the creation of the format for central and regional relations on the basis of the new laws on regional autonomy, the creation of a new format of civilian-military relation, and the relations of the TNI (Indonesian Armed Forces) and Polri (Indonesian Police Force) on the basis of the laws that are in force, and the formation of the Constitutional Court. In the period of five years ahead, the efforts for enhancing the quality of existing democratic institutions will involve the continued endeavors to improve the relation between the state and the people, to resolve past social and political problems, such as violations of basic human rights, and to enhance the role of the communication and information media so as to become the key towards effectuating and consolidating democracy.

A. THE PROBLEMS

The fact that the implementation of the roles and functions of political institutions is not yet optimal. The change in the structure and substance of the 1945 Constitution, and the ratification of various laws and their implementing regulations in the last several years have provided the legal corridor for implementing the roles and functions of existing political institutions. The more optimal implementation of the roles and functions of such institutions will give rise to a better checks-and-balances system, which in turn will also determine the effectiveness of efforts for consolidating democracy. In addition, it is still necessary to carry out further reforms to the existing constitution and laws for laying

down more appropriate and solid roles and functions of the existing institutions.

The relation between the state and the people is not yet consistent with the needs of democratization. A constructive relation between the state and the people will induce the process of consolidating democracy. For this purpose, it is necessary that the people acquire greater freedom and responsibility, so that in time they will have their own dynamics in settling problems that are in the domain of the people in a more autonomous and independent manner, with their own richness of innovations and creations. An autonomous and independent people can become a good partner for the government to jointly support the implementation of the consolidation of democracy.

The fact that the relation between the central and regional institutions is not yet optimal. It is expected that regional autonomy (devolution) can be effectuated in accordance with its basic philosophy, namely the placement of regional development in conformity with each region's respective potentials and diversity of resources, to be adjusted to the aspirations of the people of the relevant region. In addition, it is expected that regional autonomy could proceed in line with the process of democratization. Nevertheless, its implementation thus far has still met constraints, as indicated by distortions and inconsistencies of laws and their implementing regulations and by the fact that endeavors to eliminate adverse impacts of centralization of governance are not yet optimal.

Problems of the past, such as on serious violations of basic human rights and political crimes have not yet been fully resolved. Democratization cannot proceed effectively and will experience impediments if problems of the past, such as basic human rights violations and political crimes, are not yet resolved. Such problems can become the sources of social conflicts and social disintegration in the future.

The fact that the implementation of functions of the mass media in an autonomous and independent manner is not yet optimal. The mass media has often been misunderstood as the party that deliberately aggravates conflicts and that tends to create schisms

between opposing opinions, while in fact the role of the mass media is to objectively communicate the existing realities, so that the issues can be resolved in accordance with the facts. On the other hand, the tendency to criminalize the mass media can in fact result in far greater dangers, in the form of distorted information and information that favor groups that are stronger and are in power.

B. THE TARGETS

The overall target for the realization of increasingly solid democratic institutions is the maintenance of the initial momentum of consolidating democracy that has already been established on the basis of the 2004 general elections through the following more specific targets:

1. The implemented roles and functions of state governing institutions and social institutions, in conformity with the Constitutions and with the laws that are in force;
2. The increased participation of the people in the public policy decision making process; and
3. The implementation of democratic, honest and just general elections in 2009.

C. POLICY DIRECTIONS

The policy directions towards efforts for the realization of the increasingly solid democratic institutions are as follows:

1. Realizing a more solid democratic institutions by affirming the tasks, authority and responsibilities of all state/government institutions, on the basis of the checks-and-balances mechanism;
2. Strengthening the role of the civil society;
3. Strengthening the quality of decentralization and regional autonomy;
4. Realizing institutions and encouraging the proceeding of national reconciliation and all its institutional aspects; and
5. Ensuring the development of the media and freedom of the media in communicating the interests of the people.

D. DEVELOPMENT PROGRAMS

The policy directions for the realization of increasingly solid democratic institutions are further specified into the following development programs:

1. PROGRAM FOR IMPROVING AND STRENGTHENING DEMOCRATIC INSTITUTIONS

The aim of this program is to realize the solid and optimal institutionalization of functions and relations among the executive, legislative and judicial institutions, other political institutions, and social institutions.

The main activities that will be carried out cover the following:

1. To formulate standards and political parameters in relation to the checks-and-balances mechanism among institutions that are involved in state governing;
2. To enhance the capacity of executive institutions so as to become professional and neutral;
3. To formulate a more explicit political framework on the authority and responsibility of the central and regional governments in the context of decentralization and regional autonomy;
4. To facilitate the more comprehensive formulation of all laws and regulations related to state defense and security in order to induce the professionalism of the Police/Armed Forces (POLRI/TNI) and to maintain the neutrality of the two institutions;
5. To facilitate efforts for enhancing the quality of functions and roles of the DPR, DPD and DPRD legislative institutions;
6. To promote and socialize the importance of the independence, capacity and integrity of the Constitutional Court and the Judicial Court, as efforts for strengthening the constitutional authority and certainty in state governance;
7. To institutionalize the Commission for Truth and Reconciliation;
8. To facilitate the empowerment of political parties and the civil society that are autonomous and independent, and that have the capacity to supervise the decision making process in public policies;
9. To facilitate the empowerment of the people so as to become able to apply a democratic political culture.

2. PROGRAM FOR IMPROVING THE POLITICAL PROCESS

The aim of this program is to enhance the quality and effectiveness of the implementation of general elections and the fit-and-proper tests for public office positions and of public policy formulating institutions.

The main activities that will be carried out cover the following:

1. To formulate standards and parameters for convening quality public debates on candidates earmarked for the national leadership;
2. To formulate standards and parameters for the fit-and-proper test in the recruitment of political appointments and public officials;
3. To realize a firm political commitment on the importance of maintaining and enhancing healthy, free and effective political communication;
4. To facilitate the implementation of the 2009 General Election that is of better quality, more democratic, honest and just; and
5. To develop a mechanism for public consultations as the means of formulating public policies.

3. PROGRAM FOR THE DEVELOPMENT OF COMMUNICATION, INFORMATION AND MASS MEDIA

The aim of this program is to enhance the role of the press and mass media in meeting the right of the people for obtaining information in a free manner that is transparent and responsible, and in the context of realizing an information society towards a knowledge-based society.

The main activities that will be carried out cover the following:

1. To facilitate reviews of political aspects affecting laws and regulations that pertain to the press and mass media;
2. To assess and carry out relevant research for the development of the quality and quantity of information and communication; and
3. To facilitate efforts for enhancing professionalism in the field of communication and information.

CHAPTER 16

POVERTY ALLEVIATION

Poverty is a complex problem that is affected by interrelated factors, such as the level of income, health, education, access to goods and services, location, geographical condition, gender, and the condition of the environment. On the basis of the national strategy for poverty alleviation, poverty is defined as a condition in which the basic rights to maintain and develop a decent life are not being met. This definition is based on the recognized right that poor community members have the same basic rights as any other community member.

Poverty is no longer perceived as merely an economic incapacity, but also as the failure to meet basic rights and the different treatment for a person or group of persons in having a decent life. The generally recognized basic rights encompass rights to have adequate food, to health, education, employment, housing, clean water, land, natural resources and the environment, to have a sense of security from acts or threats of violence and the right to participate in social-political life, for females as well as males.

A. THE PROBLEMS

The poverty problems will be viewed from the aspects of basic rights, population burden, and in terms of injustice and gender inequality.

1. FAILURE TO MEET BASIC RIGHTS

Limited Availability and Quality of Food. Having adequate food that meets the nutritional requirements is still a problem for the poor population. Their low purchasing power is the fundamental problem. The problems on the evenly distributed food and at an affordable price are not unrelated to the too high dependence on rice and to inadequate effort to diversify. For the farmers, as producers, the problem pertains to

the not yet efficient production process of food and the low selling price received by them.

The food inadequacy problem is mainly faced by around 8.9 million people, namely 4.39 percent of the poor population that are living below the food poverty line (BPS/Central Agency of Statistics, 2002). This problem is also faced by the poor population who are living below the food and non-food poverty line, totaling 37.3 million persons, namely 17.4 percent in 2003. In fact, on the basis of the data used by the MDGs, the indicator on hunger shows that almost two-thirds of the Indonesian population are still living below the calorie intake of 2,100 calories per capita/day. This indicates that the problem of calorie inadequacy is experienced by not only the poor population but also by the near poor population.

The food supply problem, is related among others to the not yet efficient production process due to the declining average extent of land being tilled (0.25 – 1 Ha); the not yet optimal post-harvest activities; and the limited usage of production inputs, including the use of superior seeds. Meanwhile, the general public perception that rice is the only one food product and source of protein, has resulted in the lack of initiative to diversify food consumption, and in fact there has been a shift in staple food in the form of non-rice to rice. This naturally will place a big burden to the effort for maintaining food resiliency and will continue to encourage dependence on rice. On the contrary there are actually still many carbohydrates and protein containing food types, other than rice, such as corn, sago, cassava, sweet potato and other food materials that can be grown locally and more easily processed in their production, if compared to rice. The public is also starting to abandon the community food resiliency system, such as the food storage (*lumbung pangan*) for facing the drought season, and regional governments have not yet given widespread support.

The measures to import food in order to meet food demand indicates that domestic food production is not yet adequate. Even though import is indeed the answer to the food inadequacy problem and for maintaining rice price stability, it will nevertheless create a problem to the selling price of farmers if such import is made in excessive volumes. Moreover, smuggling and illegal trade activities, such as dumping and the

uncontrolled food imports, have significantly harmed farmers as producers of food products, because such practices will reduce the sales price, especially during the harvest period.

Limited access to and low quality of health services. The main causes of the low health of the poor population are the low access to basic public health services, the low quality of basic health services, the inadequate understanding for having a healthy way of life, and the inadequate reproduction health services.

Even though at the national scale, the quality of public health has improved, the disparity in health status among social groups, among regions, and between urban and rural areas is still high. The infant mortality rate among the poor population is almost four times higher than that among the richest.

Generally, the health level of the poor population is still low. The infant mortality rate among the low income population is still above that of the high income group, even though it fell from 61 per 1,000 live births in 1999 to 53 per 1,000 live births in 2001. The health status of the poor population has been worsened by the high prevalence of contagious diseases, such as malaria, lung tuberculosis, and HIV/AIDS. The economic loss experienced by the poor population due to lung tuberculosis is very high because the patient is unable to work productively. The deaths of men and women patients of such diseases meant the loss of income earners among the poor population.

Another problem is the low quality of primary health services due to the limited health personnel, inadequate instruments and insufficient health facilities. In addition, the 2002–2003 SDKI, shows that 48.7 percent of the problems in obtaining health services are attributed to constraints in finance, distance and transportation. The utilization of hospitals is still dominated by the haves, while the poor population still tend to use the public health centers. Likewise, only 39.1 percent of the poor population count on health personnel as midwives, compared to 82.3 percent among the rich. Health insurance, as one of the forms of the social security system, covers only 18.74 percent of the population in 2001, most of whom are civil servants and the haves. The low health services is also attributed to the high cost of contraception made

available by private entities, so that the poor population cannot afford to obtain reproduction health services. The low quality and the limited availability of reproduction health services has resulted in the high maternal mortality rate and the high rate of abortion.

The limited access to and low quality of education services.

Development of education is one of the important efforts towards overcoming poverty. The various efforts for developing education have already yielded improvements in the education level of the Indonesian population. This is indicated by among others the increased average school period for the population aged 15 years and older to 7.1 years and the lowered illiteracy rate to 10.12 percent in 2003 (Susenas/National Social and Economic Survey of 2003). The enrollment rate for all age groups has also significantly increased.

Development of education has evidently not yet fully provided services in an equitable manner to all layers of society. Until 2003, there were still wide discrepancies among social groups, mainly between the rich and poor population and between the urban and rural population. To illustrate, the school enrollment rate for the population in the 13–15 years age group in 2003 was 81.01 percent, for which the enrollment rate for the richest population was 93.98 percent while that for the poorest was still 67.23 percent. An even wide discrepancy is found for the 16–18 years age group, wherein the enrollment rate for the richest was 75.62 percent while that for the poorest was only 28.52 percent. On the basis of the crude enrollment rate, the enrollment rate of the poor population was also much lower than that of the richest group, specifically for junior high (SMP/MTs) and higher. The crude enrollment rate for the SMP/MTs for the poorest group was still 61.13 percent while that for the richest reached almost 100 percent. For the senior high education level, the discrepancy was highly evident with the crude enrollment rate for the poorest group reaching 23.17 percent and that for the richest group reaching 81.66 percent. The illiteracy rate for the population aged 15 and older also shows significant differences, namely 4.01 percent for the richest group and 16.9 percent for the poor communities.

The enrollment rate of the rural population was also much below that of the urban population. The average enrollment rate of the rural population aged 13–15 years in 2002 was 75.6 percent, while the

enrollment rate of the urban population reached 89.3 percent. The discrepancy in the enrollment rate for the population in the 16-18 years group is more significant, with the enrollment rate in urban areas was 66.7 percent while that for the rural areas was only 38.9 percent. The literacy rate for the rural population was also lower than that in the urban areas, with the illiteracy rate for the population aged 15 and older in urban areas reaching 5.49 percent and that in the rural areas reaching 13.8 percent. Efforts to make education more equitable have not yet been accompanied by greater equity among regions. The 2003 Susenas also shows that there has been a discrepancy in enrollment rates among provinces. The crude enrollment rate for the SMP/MTs ranges from 56.82 percent in the province of East Nusa Tenggara to 100.57 in the province of Yogyakarta. Meanwhile the crude enrollment rate for the senior high education level (SMA/SMK/MA) ranges from 77.47 percent in the province of Jakarta and 33.57 percent in the province of Gorontalo.

The limited access of the poor population to basic education services is mainly attributed to the high costs of education, comprising direct as well as indirect costs. Even though the SPP (Registration Payment) for the SD/MI has already been officially abolished by the government, the fact is that the people still are charged with school fees. Expenses other than the school fees are costs for the purchase of books, pencils and the like, uniforms, transportation costs and pocket money, that form also impeding factors for the poor population to have their children a school education. In addition, until 2003, the available education facilities for the SMP/MTs and above in rural areas, isolated areas and in remote islands, were limited. This has added to the reluctance of the poor population to send their children to school on account of the added expenses that they have to incur.

The limited access of poor families to formal education should have been resolved by providing non-formal education services that can function as a transition from the school circle to the work circle as well as a form of life-time education and is directed primarily at enhancing skills for earning a living and for enhancing vocational competence. Nevertheless, non-formal education, which has the flexibility of time and teaching substance that can be adjusted to the needs of the party being educated cannot yet be widely accessed by poor communities and its

quality is also still low. Therefore, access to the quality and format of non-formal education need to be continuously improved so as to be able to provide quality education services to poor communities.

Limited employment and business opportunities. Poor population generally face the problems of limited employment opportunities, limited opportunities to develop business activities, and have fragile protection to the assets of their business, difference in wage levels and work safety, especially for child workers and women workers, such as migrant women workers and household servants. The poor people, with their limited finance and lack of skills and knowledge, have only a limited choice of decent employment and limited opportunities to undertake business activities. The limited availability of employment opportunities have forced them to currently take high risk employment at a non-commensurate remuneration with no certainty on the continuity of such jobs.

The manpower situation showed no improvements in 2003. In fact, the data on open unemployment for the last five years shows that the total number has continued to rise. Open unemployment that in 1997 totaled 5.0 million persons (4.7 percent of the total labor force) had risen to 6 million persons (6.4 percent of the total labor force) in 1999, and to 9.5 million persons (9.5 percent of the total labor force) in 2003. Of the total open unemployment in 2003, 13 percent are females and 7.6 percent are males. On the basis of the level of education and age groups, most (16.9 percent) of the open unemployed comprise those having senior high school education and 9.1 percent have university education, while in terms of age groups, most, namely 36.7 percent, of the open unemployed are in the young age group (15–19 years). The high level of the young people who are openly unemployed requires special attention, because they should properly be still in school.

Poor population, who generally have a low education level, must accept any work for maintaining their survival. Such condition has weakened their bargaining position, and makes them more subject to adverse treatment. Poor population also have to accept employment at too low remuneration, without being based on contracts or is based on contracts that are vulnerable to uncertain work relations. On the other hand, the economic difficulties faced by poor families has often forced

them to have their children and women to find work. Women workers, specifically migrant women workers and household servants and child workers, are facing a high risk of being excessively exploited, of not receiving their wages or receiving their wages at a very low rate, and are in fact often treated inhumanely.

The low bargaining position of the poor population is caused by among others the inability of workers to bargain. The labor conflicts that have occurred have often been won by the management and adversely affecting labor. The government, as the party that could mediate and defend the public interest, has often been less responsive and sensitive to follow up disputes between workers and company management. The impact of such disputes has often led to unjust discharge of workers, leading to a new group of poor population.

Poor population also have limited access to starting and developing business undertakings. The problems faced are among others the difficulty of accessing funding and at low interest rate, impediments in obtaining operating licenses, inadequate protection to their business activities, low entrepreneurial capability and their limited access to information, markets, raw materials, and the difficulty in utilizing technical and technological assistance. Available funds at market interest rates are still difficult to access for small and micro enterprises, most of which are still fragile and have low quality human resources. Such a situation leaves them no choice but to borrow funds from loan sharks at exorbitant rates. Poor population also faces the difficulty of inadequate protection to their business assets, especially protection to traditional industrial intellectual rights and the loss of assets due to eviction.

Limited access to housing and sanitation services. The main problem faced by poor communities is their limited access to healthy and decent housing, and the low quality of the environment and the weak protection to obtaining and occupying houses that are decent and healthy. In urban areas, most of the poor communities live in slum areas that are situated behind shop and office buildings, in small, close and unhealthy compartments and frequently one house is occupied by more than one family. They do not have the ability to make a down-payment for a simple and low cost house. Housing that has been made available for the low income population is situated remotely from the

city center where they are employed, so that it involves high transport costs that effectively reduce their earnings.

Poor communities living in fishermen areas, peripheries of forests, and dry farming areas, have also complaints about the difficulty of obtaining healthy and decent housing and housing environment. One house is often occupied by more than one family with inadequate sanitation facility. This is experienced by estate communities that are living on high lands, such as tea plantations in Java. They are remotely located and are isolated from the general public. For the local population who are living in the inland areas of forests, the housing and settlement problem is not an independent problem but is part of the problem related to the local ecosystem and culture.

Limited access to clean water. Difficulty in obtaining clean water is mainly attributed to the limited control over water sources and the declining quality of water sources. The limited access to clean water results in the fall of health quality and in the spread of diseases, such as diarrhea. Access to clean water is still a problem for many locations, with the tendency for access of households in Java and Bali being better than in other regions.

Poor communities also face difficulties in accessing water sources that are needed for farming activities and in the decline of water quality due to pollution and industrial wastes. The decline of reservoir water due to deforestation and sedimentation, and the decline in the quality of irrigation channels, have resulted in the reduction coverage of irrigation works. This problem has resulted in lands not being optimally used, which in turn has reduced income of farmers. Many of the poor population in urban areas who live on river banks are still utilizing river water and extracted water that has already been polluted for bathing, cooking, washing, drinking and even for toilet purposes.

Uncertainty in the ownership and control of Land. Poor communities face the problem of the ambivalent structure of land ownership and control, and uncertainty in the control and ownership of agricultural lands. The life of the agricultural households is very much dependent on their access to land and their ability to mobilize their family members to work on such agricultural land. Therefore, the

increased total number of marginalized farmers is a reflection of increasing poverty in rural areas. This problem has been aggravated by the uneven control over land, wherein most of the marginalized farmers do not formally control the land as property right, and even if they own the lands, protection of their right to the lands is not solid because such lands normally do not have land certificates. The income level of an agricultural household is determined by the extent of agricultural land that it can effectively control. The limited access to land is one of the causes of poverty in the context of the limited assets and productive resources that can be accessed by poor communities. The limited access of poor communities to land is indicated by the uneven distribution of land control and ownership by agricultural households, wherein most of the agricultural households only own less than one hectare per household and there is the tendency for the continued decline in the average land control by the agricultural household.

The land problem is also evident from the increasing number of agrarian disputes, including disputes between citizens and the government, such as on the determination of a conservation area that already contains agricultural lands wherein the local communities have already cultivated such land since their forefathers. Many of the agrarian disputes, especially in Java and Sumatra, originated from agrarian conflicts in the colonial era, and that up to now have not yet been resolved on the basis of values and sense of justice of the local communities.

Deteriorating condition of the environment and natural resources and the limited access of the local community to natural resources. Poverty is closely related to natural resources and the natural environment. Poor communities are very vulnerable to changes in the pattern of utilization of natural resources and to changes in the natural environment. Poor communities who are living in rural areas periphery of forest areas, and in mining areas are very dependent on natural resources and a source of living. In contrast, poor communities who are settling in urban areas generally live in a degraded and unhealthy living environment, such as in flood-prone and polluted areas. The main problem faced by poor communities is their limited access to natural resources and declining quality of the natural environment, as a source of living as well as a means to support their daily living.

The poor communities have often been marginalized in the management and utilization of natural resources. This occurs in the management and utilization of natural resources by large enterprises and in the conversion of forests into protected forests. Around 30 percent of the permanent production forests is managed only by a group of companies and have tended to disregard the life of the local communities within and in the vicinity of the forests. The management of protected zones without taking into account the life of the local communities in the forests will distance access of the communities to resources and in fact impedes the attainment of sustainable development. Poor communities who live in mining areas have not maximally shared the benefits. They only become mining laborers and in fact many of them do not share the benefits of the mines managed by the investor, and there are no ownership rights to the mining areas that are controlled by the investors on the basis of license from the state.

The process of becoming poor occurs with the narrowing and loss of sources of earnings of the poor communities due to the decline in the quality of the environment, mainly forests, sea, and mining areas. On the basis of forest statistics, the extent of forest areas of Indonesia has fallen from 130.1 million hectares (67.7 percent of the land areas) in 1993 to 123.4 million hectare (64.2 percent of the land area) in 2001. Such a contraction is attributed to illegal logging, fires, and conversion for other uses, such as mining, road construction and human settlements. Around 35 percent of the permanent production forests of 35 million hectares has also been heavily damaged. The total of forests that can be converted, has remained only 16.65 million hectare. At the current conversion rate, then within a period of 25 years, the conversion forests will be depleted. Currently, the deforestation rate is around 1.6 million hectare per year. The next effect of such destruction is the soil degradation due to erosion. Forest destruction has also adversely affected poor communities in the form of the contraction of lands that constituted their source of living and by erosion and landslides that have aggravated their plight.

Poor communities living in coastal areas as fishermen have felt the effects of the drastic drop in their catch. This is due to the poor fishermen not being able to compete with large investors and with illegal fishing by fishermen of other countries that use more modern boats and

equipment and have swept away all the catch in coastal areas. Most of the poor fishermen do not have the understanding and the skill to carry out fishing methods that have in fact destroyed the fish habitat, resulting in the decline in the fish population and the equipment and technology that they use are inadequate for yielding large catches. The poor fishermen communities are also facing the problem of degraded mangrove forests and corral reefs. Within a period of eleven years, mangrove forests have fallen by one half. Corral reefs are currently in destroyed and critical condition. The degradation of the coastal environment has resulted in the decline of the fish population of 5–10 percent of the fish catch area.

The fragile sense of security. Data collected by UNSFIR shows that within three years (1997–2000) there had been 3,600 conflicts involving 10,700 victims and over one million refugees. Even though the total number of refugees has declined, it is nevertheless estimated that in 2001 there were still over 850,000 refugees in various conflict areas. The fragile sense of security, within the last five years, had also been reflected in other non-violence forms, such as the destruction of the environment, women and child trafficking, economic crisis, spread of contagious diseases, and trafficking of prohibited drugs, that have resulted in the loss of access of the people to social, economic, political and cultural rights. The social conflicts that have occurred in various locations have led to the loss of sense of security.

The conflicts that have occurred in various regions have resulted in the loss or destruction of homes, cessation of employment and business activity, thus leading to a loss of earning of the family, the decline in health status of the individual and the environment, that in turn has lowered productivity, destruction of the economic infrastructure leading to the scarcity of food supply, reduced access to education, and the reduced access to clean water, the destruction of social infrastructure and the lost sense of security, the proliferation of sense of collective anger, despair and trauma.

Weak participation. One of the causes for the failure of development policies and programs for overcoming poverty is their weak participation in the formulation and implementation of such policies. Various cases of city evictions, unilateral discharges and the eviction of

farmers from their cultivated lands, show that there is inadequate dialogue and weak participation in the decision making process.

The low participation of the poor population in policy formulation is also caused by inadequate information on policies that will be formulated as well as by the formulation mechanism that should involve the poor communities. Formally, the socialization process has already been made, but due to the representation system, many of the necessary information have not reached the poor communities.

2. THE POPULATION BURDEN

Burden of the poor population has become more strenuous due to the increasing family dependence and pressure that has induced migration. Data from the Central Agency of Statistics (BPS) shows that the poor household has an average family member that is greater than of the non poor household. The poor household in urban areas has an average family member of 5.1 persons, while the average poor household in rural areas has 4.8 members. With the increasing household burden, the possibility for the children of poor families to continue the education of their children is low and the children often have to work in order to assist the earnings of the family.

3. GENDER INEQUALITY AND INJUSTICE

Men and women have different poverty experiences. The impact of poverty on the life of males is also different from that of females. The source of the poverty problem in women lies in the patriarchal culture that operates through the approach, methodology and paradigm of development. Government practice that is hegemonic and patriarchal, and hierarchical decision making, have systematically marginalized women in various policies, programs and institutions that are not gender responsive. The figures that form the basis of decision making, program formulation and policy making, have failed to reveal the dynamics of the life of women and men. Such data have been collected in a concentrated manner by disregarding the context and has failed to reveal the dynamics of the women-men dynamics of life, so that policies, programs and

institutions that have been designed have become gender-neutral and have created gender discrepancies in various fields of life.

The patriarchal culture has resulted in women being placed in a weak bargaining position, while the aspiration of women to strive for their interests has not been channeled through the formal decision making process. The issue of women representation and the need for women in the decision making process in the formulation of public policies are essential because policy products that are gender-neutral will only tolerate inequality and injustice to women, which result in the impoverishment of women.

B. THE TARGETS

The targets of efforts for overcoming poverty are related to development targets that are contained in other agendas. The targets of poverty alleviation in the next five years are the decline in the total number of poor population, males and females, and the gradual meeting of the basic rights of the poor population. In more detail, the targets encompass the following:

1. The reduced percentage of the population who are below the poverty line, to become 8.2 percent in 2009;
2. The adequacy of food that is of good quality and is affordable;
3. The adequacy of health services that are of good quality and available in an equitable manner;
4. The availability of quality and affordable basic education services;
5. The opened opportunity for being employed and for undertaking business activities;
6. The availability of decent and healthy housing and sanitation;
7. The availability of clean and safe water for poor communities;
8. The access of poor communities to the utilization of natural resources and the maintained quality of the natural environment;
9. The ensured and protected rights of individuals and communities to land;
10. The ensured sense of security from violent acts; and
11. To increased participation of poor communities in the decision-making process.

C. POLICY DIRECTION

To respond to the above main problems and targets, the necessary policy directions are as follows:

1. POLICIES FOR MEETING BASIC RIGHTS

1.1. Meeting the Right for Food

Meeting the right for food of the poor population, males and females, is carried out by:

1. Enhancing the institutional capacity of the regional governments and communities in supporting local food resiliency;
2. Enhancing knowledge of the population regarding the importance of food diversification that is non-gender discriminatory in the family;
3. Enhancing efficiency in the production of food by farmers and in the production of processed products by taking into account the quality of products;
4. Improving the system of procurement, distribution and price of food;
5. Increasing the income of food farmers and also to protect domestic food products from imported food;
6. Enhancing the early warning system in nutrition and food vulnerable areas; and
7. Ensuring the adequacy of food for poor communities and groups that are vulnerable to economic and social uncertainties and to natural disasters.

1.2. Meeting the Right for Health Services

Meeting the basic rights of the poor population for quality health services, is carried out by:

1. Enhancing the participation of communities in developing health services for poor communities;
2. Enhancing the knowledge of the poor population on the importance of preventing contagious diseases, healthy environment, upbringing of the child, family nutrition, healthy way of living;

3. Enhancing the ability for identifying health problems of the poor population;
4. Increasing investment in health in order to ensure the provision of health services for poor communities at various government levels;
5. Increasing the budget allocation for the financing of health services for poor communities;
6. Increasing global cooperation in overcoming health problems for poor communities;
7. Increasing the availability of quality and affordable health services for poor communities, females as well as males;
8. Placing priority to overcoming health problems of poor communities, such as tuberculosis, malaria, low nutritional status, and access to reproduction health; and
9. Promoting involvement of non-government/private health services in providing health services to the poor.

1.3. Meeting the Right to Education Services

The efforts to meet the rights of poor communities in obtaining free of charge and quality education services and without gender discrimination, are carried out by:

1. Increasing the enrollment rate of poor population in the Mandatory Nine-Years Primary Education program through formal and non-formal channels, including the effort to take back those that have dropped out from the SD, including the SDLB, MI, and Package A and the SMP/MTs/Package B and those graduating from the SD, including from the SDLB, MI and Package A, who have failed to continue to the SMP/MTs/Package B education level;
2. Significantly reducing the total number of population who are illiterate by further expanding access and quality of functional literacy education that is supported by efforts to reduce the drop-out rate, particularly in the initial classes of the SD (including SDLB and MI and the equivalent) education levels and by developing the reading habit to avert the illiteracy relapse, and to create a learning community;
3. Providing quality non-formal education in order to provide education services to communities that cannot possibly meet their education needs through formal channels, especially for communities that have never attended school or are illiterate, have

dropped out and other community members who have the desire to improve or to obtain their knowledge, skills and capacity for enhancing their quality of life;

4. Developing the curriculum, teaching materials and teaching models, including the model on life skills that are needed by the poor communities;
5. Increasing the availability of teachers, in quantity and quality, in order to meet the education needs of poor communities; and
6. Providing the opportunity to poor children and families that have shown their scholastic achievements to continue their education to senior high and university education levels.

1.4. Meeting the Right to Employment and Business Opportunity

The efforts for meeting the rights of poor communities to employment and for developing business opportunities are carried out by:

1. Enhancing the effectiveness and capacity of government institutions in enforcing a humane and harmonious industrial relations;
2. Enhancing global partnership in the context of expanding employment opportunities and enhancing work protection;
3. Increasing the knowledge and skill of the poor population and developing their ability to work and carry out business undertakings;
4. Enhancing protection to migrant workers, in the country and abroad;
5. Protecting male and female workers to ensure the continuity, safety and security of work;
6. Promoting micro, small enterprises and cooperatives; and
7. Promoting poor community institutions in order to enhance their bargaining position and to increase the efficiency of their undertakings.

1.5. Meeting the Right to Housing

The efforts to meet the right of poor communities to decent and healthy housing are carried out by:

1. Promoting the participation of communities in the procurement of housing;

2. Revising laws and regulations that can ensure protection of the poor population to housing;
3. Enhancing the knowledge and capacity of communities in the construction of decent and healthy houses;
4. Enhancing the affordability of poor communities to decent and healthy houses; and
5. Increasing the availability of decent and healthy houses for poor communities and for socially vulnerable groups.

1.6. Meeting the Right to Clean Water

The efforts to increase access of poor communities to clean and safe water are carried out by:

1. Enhancing the awareness of the people and regional governments on the importance of supplying clean and safe water and sanitation for poor communities;
2. Increasing international cooperation in the development of the system for supplying clean and safe water, and for developing basic sanitation facilities that benefit the poor people;
3. Increasing protection to access of poor communities to clean and safe water, and sanitation;
4. Increasing the pattern of partnership among the government, private companies and the general public in making investments and in the joint management in supplying clean and safe water and sanitation facilities for the communities, including poor communities;
5. Increasing the knowledge of the poor communities on the importance of the management of water resources and on the importance of clean and safe water and basic sanitation facilities;
6. Increasing the availability of clean and safe water facilities and of basic sanitation facilities for poor communities and at public places; and
7. Providing clean and safe water and basic sanitation facilities for socially vulnerable groups and poor communities who live in water scarce areas.

1.7. Meeting the Right to Land

The efforts of ensuring and protecting the right of individuals and communities to land are carried out by:

1. Increasing the participation of poor communities and traditional institutions in the planning and implementation of spatial allotment;
2. Enhancing the knowledge of poor communities on the legal aspects of land and of custom/traditional land;
3. Enhancing legal certainty of right on land of the poor communities free from gender discrimination;
4. Developing the mechanism for protecting right on land for socially vulnerable groups; and
5. Developing the mechanism for the selective redistribution of land.

1.8. Meeting the Right to Natural Resources and the Natural Environment

The efforts to enhance access of the poor communities in the management and utilization of natural resources and the natural environment are carried out by:

1. Increasing the dissemination of information and knowledge on the various schemes for managing natural resources and the natural environment that are concerned with poor communities;
2. Enhancing the knowledge and capacity of communities in the sustainable utilization of natural resources and the natural environment;
3. Developing a legal system that can avert or resolve the pollution of natural resources and the natural environment;
4. Developing a system for the management of natural resources and the natural environment that can ensure and protect access of poor population to the sustainable utilization of natural resources and the natural environment; and
5. Enhancing the cooperation network and exchange of experiences among nations and international institutions on the management of natural resources and on the conservation of the natural environment, that can be more concerned with the plight of poor communities who live at the location of such natural resources, and in the handling and prevention of trade in natural products that are conducted in an illegal manner and that destroys nature.

1.9. Meeting the Right to a Sense of Security

The efforts to meet the right to a sense of security and to protection from security disturbances and conflicts for poor population are carried out by:

1. Developing a system for early prevention of conflicts;
2. Developing a mechanism for preventing and resolving the universal practice of child and women trafficking;
3. Enforcing laws that protect the diversity of religions and ethnical groups throughout Indonesia;
4. Developing a system for providing social protection to child labor and street children, and victims of conflicts;
5. Preventing the proliferation of child and women trafficking;
6. Expanding guarantee to the sense of security at households and social environment in socially vulnerable groups;
7. Restoring security, order and public services in post-conflict areas;
8. Enhancing the empowerment of social institutions in the creation of a sense of security, preventing and resolving post-conflict issues; and
9. Enhancing social protection to child labor and street children.

1.10. Meeting the Right to Participate

The efforts to enhance the capacity and participation of poor communities in the formulation of public policies are carried out by:

1. Enhancing the capacity and access of poor communities to participate in the entire development process;
2. Enhancing the participation of poor communities in the planning, implementation, evaluation of development projects that have a direct impact to overcoming poverty; and
3. Providing development information to poor population, males as well as females.

2. POLICY IN THE DEVELOPMENT OF AREAS FOR SUPPORTING THE MEETING OF BASIC RIGHTS

2.1. Accelerating Rural Development

The efforts for expanding employment opportunities or the rural poor population, males as well as females, in the context of meeting their basic rights are carried out by:

1. Enhancing the development of the infrastructure on transportation, telecommunications and electricity;
2. Developing rural information center services;
3. Developing rural industrial activities; and
4. Enhancing the capacity of the government and people of rural areas in planning, implementing and in maintenance activities.

2.2. Revitalization of Urban Development

The efforts for expanding employment opportunities for the poor population in urban areas, males as well as females, in meeting their basic rights, are carried out by:

1. Providing the location and space for carrying out the business undertakings of the poor communities;
2. Developing healthy settlement environment by involving the poor communities;
3. Abolishing various regulations that impede the promotion of business undertakings;
4. Establishing a forum for all stakeholders; and
5. Enhancing access of urban communities to health and education services, and enhancing the sense of security from violent acts.

2.3. Developing Coastal Areas

The efforts for expanding employment opportunities for the poor population in coastal areas in meeting their basic rights are carried out by:

1. Improving the welfare of the coastal population, specifically fishermen and small fish cultivators;
2. Strengthening the institutions and organizations of the fishermen community;

3. Enhancing activities for the maintenance of the carrying capacity and quality of the coastal and marine environment; and
4. Enhancing the business security for fishermen and safeguarding marine and coastal resources from illegal fishing and destructive activities.

2.4. Accelerating Development of Left Behind Areas

The efforts for expanding employment opportunities for the poor communities who live in left behind areas in meeting their basic rights cover:

1. Developing the local economy based on the utilization of natural resources, culture, traditions and local creativity in a continual manner;
2. Constructing the infrastructure/facilities for developing the left behind areas; and
3. Enhancing protection to assets of the local communities.

D. DEVELOPMENT PROGRAMS

The efforts to alleviate poverty is a continuing effort due to the complexity of the problems faced by poor communities and the limited resources for meeting their basic rights. The steps for alleviating poverty cannot be handled by one particular sector by itself and must adopt a multi-sector and cross-sector approach by involving all stakeholders or enhancing the effectiveness of the programs to be carried out. Therefore, the steps to be pursued in alleviating poverty are further specified in programs that are contained in various other chapters and are as follows:

1. MEETING THE RIGHT TO FOOD

The efforts to meet the right to food and for enhancing the food resiliency system will be carried out through programs such as the following:

- 1.1. Program for Enhancing Food Resiliency
 - a. To enhance the distribution of food, by strengthening the institutional capacity and enhancing the infrastructure of the

rural areas, that support the distribution system for ensuring the affordability of food to the communities;

- b. To diversify food, by increasing the supply of animal food, fruits and vegetables, social engineering to the consumption pattern of the society towards a consumption patterns with increasing quality, and increasing the interest and ease for consuming alternative/local foods;
- c. To prevent and overcome food problems by providing food assistance to poor/food vulnerable families, in conformity with the local food production, enhancing the quality and safety of food, and developing the early warning system for food;
- d. To revitalize the system of the community food resiliency institution;
- e. To increase the active role of the Regional Food Resiliency Council in the effort to maintain and enhance the local food resiliency;
- f. To educate and socialize on the importance of balanced nutrition and non-gender discriminatory practices in the family, to increase calorie and nutrition intake from local food other than rice, and on the method of food processing with balanced nutrition;
- g. To carry out studies for increasing the variety of superior food plants;
- h. To provide subsidies and facilities to farmers in obtaining agricultural production equipment/means;
- i. To carry out training on the application of appropriate technology for enhancing productivity of local food production in conformity with the wisdom of the local communities;
- j. To develop the local food processing industry by taking into account production quality;
- k. To increase cooperation among regions in the procurement and distribution of food;
- l. To monitor the supply and price of food in the main markets and in the traditional retail markets;
- m. To control policies on import tariff so as to become more effective and more favorable to farmers;
- n. To increase the government purchase price for un-husked rice grains and rice from farmers; and

- o. To eradicate smuggling of food by enhancing supervision and law enforcement.

2. MEETING THE RIGHT TO HEALTH SERVICES

To meet the basic right of poor people to quality health services, programs are carried out such as the following:

2.1. Program for Public Health Services

- a. To provide health services to poor communities at the Public Health Centers and their networks;
- b. To make available, increase and repair public health centers and their networks;
- c. To procure health equipment and supplies, including essential generic medicines;
- d. To increase basic health services, covering at least health promotion, health of mother and child, family planning, nutritional improvement, environmental health, eradication of contagious diseases, and basic medical services.

2.2. Program for Individual Health Services

- a. To provide health services to poor communities at category III hospitals; and
- b. To build hospitals in selected left behind areas.

2.3. Program for the Prevention and Eradication of Diseases

- a. To prevent and overcome risk factors;
- b. To enhance immunization;
- c. To detect and administer sufferers;
- d. To increase epidemiological surveillance and steps to overcome epidemics; and
- e. To increase communications, information and education on the prevention and eradication of diseases.

2.4. Program for Improving Public Nutrition

- a. To enhance nutrition education;

- b. To overcome Protein Energy Deficiency, iron nutrition anemia, disturbance to iodine deficiency, lack of vitamin A, and deficiency of other micro-nutrition;
- c. To enhance nutrition surveillance; and
- d. To empower communities for attaining families that are aware of the importance of nutrition.

2.5. Program for Health Resources

- a. To meet the adequate need for health personnel, especially for public health centers and their networks, and for hospitals at districts/cities.

2.6. Program for Promoting Public Health and Public Empowerment

- a. To promote community based health activities, such as the *posyandu* and the *polindes*;
- b. To increase health education to the general public.

2.7. Program for Health Development Policies and Management

- a. To enhance the public health financing guarantee by capitation and pre-effort, especially for poor people, in a continuous manner.

3. MEETING THE RIGHT TO EDUCATIONAL SERVICES

To meet the rights of the poor population to obtaining free of charge and quality education services, free from gender discrimination, the programs that will be carried out are among others the following:

3.1. Program on Mandatory Nine-Year Primary Education

- a. To provide quality education means and infrastructure, especially or rural areas, isolated areas and remote islands, to be accompanied by the provision of teachers and education personnel, including in conflict and natural disaster affected areas, and the provision of adequate operational costs for education and/or subsidies/grants in the form of block grants, for basic education units in order to enhance the quality of education services, including subsidies or scholarships for

- students coming from poor families, free from gender discrimination;
- b. To provide various alternative basic education services, through formal as well as non-formal channels, in order to meet the needs, condition and potential of children from poor families who live in rural areas, isolated areas and in remote islands, and to provide attention to students with different capability, child labor, street children, students in conflict and disaster affected areas, free from gender discrimination;
 - c. To provide various alternative basic education services through formal and non-formal education, which will meet the needs, condition and potential of children, including meeting the need of poor communities, and to provide attention to students who have difficulty in following the learning process;
 - d. To increase efforts to take back dropped out students and graduates from the SD/MI that have failed to continue in the education system and to optimize efforts for reducing the drop-out rate, without gender discrimination, by among others providing education funding in the form of scholarship or education voucher and by expanding the efforts for improving nutrition of school children;
 - e. To develop the national and local curriculum, including the development of life skill education, in accordance with the needs of the school children, communities and industries, including the bases for vocational skills for children who have failed to continue to the senior high school education level;
 - f. To provide teaching materials, including school books and reading materials for enhancing the understanding of school children of the knowledge that they are learning; and
 - g. To gradually exempt various levies, charges, and contributions in the form of money from poor families.

3.2. Program for Senior High Education

- a. To provide education means and facilities, to be accompanied by teachers and education personnel, in a more equitable manner of good quality and at the right locations, accompanied by the rehabilitation and revitalization of education means and facilities that are damaged including in conflict and natural disaster affected areas, and to provide operational costs and/or

- subsidies/grant in the form of block grants for basic education units, or scholarships for students that come from poor families, without gender discrimination;
- b. To develop the curriculum, including the curriculum for life skill education, in conformity with the needs of the students, communities and industries, which include vocational skills for students who have failed to continue their education to the tertiary education level;
 - c. To reform the senior vocational education by adjusting to the employment needs, to be supported by efforts to increase cooperation with the business communities and industries;
 - d. To provide general as well as vocational education services for students from the SMA/MA/SMK, who have failed to continue to the tertiary education level, by providing extra facilities and bridging programs at existing schools/ *madrasah* and/or through cooperation among the formal as well as among non-formal education units; and
 - e. To provide various alternative high school education services, formal as well as non-formal, for accommodating the needs of the poor population.

3.3. Program for Tertiary Education

- a. To provide education means and infrastructure, including teachers and education personnel;
- b. To provide subsidies or scholarships for students from poor families, free from gender discrimination;
- c. To implement the Three Functions of Universities, covering the fields of education, research, and public services; and
- d. To increase cooperation of tertiary education institutions/ universities with the business communities and regional governments in order to enhance the relevance of tertiary education to the needs of the labor market and to the potentials of local resources, including cooperation in education and research that produce science and technology, and the utilization of such research for enhancing the welfare of the people.

3.4. Program for Non-formal Education

- a. To strengthen and expand the coverage of non-formal education units, encompassing vocational courses institutions, study groups, centers for community learning, and similar education units through the development of standards, accreditation, and certification and by strengthening the managerial capacity of their management;
- b. To expand access and enhance quality of functional literacy education for the illiterate population, without gender discrimination, in urban as well as rural areas;
- c. To develop the curriculums, teaching materials and non-formal teaching models that are based on national standards, in accordance with progress attained in science, technology, culture and the arts, including models for life skills and income earning skills;
- d. To provide adequate education means and facilities and teachers and other quality education personnel and to induce the participation of local communities in the implementation of non-formal education activities;
- e. To provide operational funding for education and/or subsidies/block grants for non-formal education units, including subsidies or scholarships for less fortunate participants in the education; and
- f. To expand the coverage of skill courses for poor families in urban and rural areas, to be integrated into micro-undertakings and in partnership with business enterprises.

3.5. Program for Enhancing the Quality of Teachers and Education Personnel

- a. To increase the ratio of teachers and education personnel through appointments, placements, and the dispersion of teachers in a more just manner in rural areas, isolated areas and to poor communities, on the basis of the right qualifications, quantity, competence and location;
- b. To increase the quality of education services through education and training, so that teachers have the minimum qualifications and certification in accordance with their authority to teach; and

- c. To enhance the welfare and legal protection for teachers and education personnel by developing the system of decent and adequate remuneration and social welfare guarantee, giving appreciation in accordance with their tasks and performances, and providing legal protection in the implementation of their tasks and intellectual property right for teachers that are assigned in isolated areas, rural areas and in pockets of poverty.

4. MEETING OF RIGHT TO EMPLOYMENT AND BUSINESS OPPORTUNITIES

In the efforts to meet the rights of poor communities to employment and business opportunities, programs are carried out such as the following:

4.1. Program for the Protection and Development of Manpower Institutions

- a. To develop the industrial relations based on the rights of workers;
- b. To enhance legal protection that ensures certainty of employment and just treatment for workers;
- c. To prevent exploitation and the worst forms of child labor;
- d. To enhance bilateral and multilateral cooperation for protecting migrant workers;
- e. To protect the freedom of association and the right to collective protection; and
- f. To increase guarantee for work safety, health, and security.

4.2. Program for Enhancing the Quality of Manpower

- a. To increase the capacity of candidate manpower in order to have the competitive capability to enter the labor market abroad as well as in the country.

4.3. Program for Expanding Employment Opportunities Carried out By the Government

- a. To increase access to work for males and females with different capabilities;

- b. To increase access of the poor population to the labor markets abroad.

4.4. Program for Supporting the Labor Market

- a. To enhance the capability of labor unions and micro and small enterprise organizations in fighting for their rights;
- b. To protect the freedom of association and the right to collective bargaining; and
- c. To enhance guarantees for work safety, health and security.

4.5. Program for Creating a Conducive Business Climate for Cooperatives, Small and Medium Enterprises

- a. To protect and enhance legal certainty for micro and small enterprises and cooperatives;
- b. To facilitate licensing and to provide guidance in starting a business, including in obtaining licenses, finding business locations, and to provide business protection from illegal levies to the micro enterprises; and
- c. To provide the infrastructure and supporting network for micro enterprises and for implementing business partnerships.

4.6. Program for the Empowerment of Micro Enterprises

- a. To increase access of the poor communities to funding, production factors, information, technology and markets, free from gender discrimination;
- b. To enhance and disseminate technology that can enhance the working capacity of the poor communities in the production of output in greater quantity and better quality;
- c. To increase the business skills of poor communities with different capabilities, in conformity with the existing potentials;
- d. To provide alternative financing schemes without distorting the market, such as the production sharing system and the rolling funding, the collective responsibility system and the personal guarantee from the prominent people in the local community to replace collateral;
- e. To provide technical support and funding that originate from various government agencies at the central and regional levels, from state owned enterprises that are more coordinated, professional and institutional;

- f. To facilitate the formation of a joint forum among micro-enterprises, including street vendors, in the effort to enhance their bargaining position and business efficiency;
- g. To support the promotion of traditional micro-enterprises and handicraft workers through the production-cluster approach accompanied by adequate infrastructure support; and
- h. To promote productive economic activities for micro/informal enterprises, in the context of supporting the development of the rural economies, especially the left behind areas and pockets of poverty.

5. MEETING THE RIGHT TO HOUSING

The efforts to meet the right of poor communities to have decent and healthy houses are carried out through various programs, such as the following:

5.1. Program for Housing Development

- a. To issue regulations on the authority and responsibility for housing and settlements of poor population, including for those who are vulnerable to natural disasters, adversely affected by the economic crisis and those affected by social conflicts;
- b. To provide basic facilities for housing of the low income population;
- c. To construct rented simple apartments, simple houses, and simple and healthy houses; and
- d. To exchange experience with other nations in the development of the housing system and healthy settlements for poor communities.

5.2. Program for Empowerment of Housing Communities

- a. To develop the system for housing financing for poor communities;
- b. To enhance the quality of the environment of slump areas, traditional villages, fishing villages, and former transmigration villages;

- c. To facilitate and stimulate the construction of self-reliant houses based on the empowerment of communities;
- d. To facilitate and stimulate the construction and rehabilitation of houses affected by natural disasters and social unrest;
- e. To determine the standards on sanitation and improvement of slum environments;
- f. To simplify the procedure of licensing and recognition of right on housing of the poor population;
- g. To revitalize local institutions that are engaged in the construction of houses of the communities, including the revitalization of housing rolling funds;
- h. To establish the forum of stakeholders for resolving problems related to the settlement of poor communities; and
- i. To establish accommodation houses/houses for the aged, street children, neglected children, and invalids/those with different capabilities and poor people in areas after being affected by conflicts and natural disasters.

5.3. Program for Healthy Environment

- a. To maintain and supervise the quality of the environment;
- b. To control the impact of risks of environmental pollution; and
- c. To develop healthy areas.

6. MEETING THE RIGHT TO CLEAN WATER

The efforts to increase access of poor communities to clean water are carried out through programs such as the following:

6.1. Program for the Development, Management and Conservation of Rivers and Other Water Sources

- a. To further specify Government Regulations to implement the Law on Water Resources, so as to be concerned with poor communities;
- b. To protect water sources for poor communities through the institutions like the Water Management Authority;
- c. To share experiences with advanced nations in the system for managing water resources that favor poor communities; and

- d. To provide technical assistance in the management of water sources in water shortage areas to poor communities.

6.2. Program for the Provision and Management of Raw Water

- a. To establish the mechanism for supplying and managing clean and safe water and environmental sanitation that are community based and that favor the poor communities;
- b. To establish the mechanism for cross-subsidization as an alternative to financing the supply of clean water for poor communities;
- c. To apply a joint investment approach in the supply of clean and safe water for poor communities;
- d. To provide technical assistance and training for rural communities in the operation and maintenance of drinking water facilities and infrastructure;
- e. To provide technical assistance in the management of water sources in water shortage areas;
- f. To establish the mechanism for supplying clean and safe water for vulnerable groups and poor communities that are affected by the economic crisis, social upheavals and natural disasters;
- g. To improve the performance of the PDAM (Regional Water Company) so as to become effective and efficient, and to enhance the quantity and quality of its services, especially its social services to poor communities;
- h. To determine the standards for supplying clean and safe water and on the minimum of sanitation;
- i. To establish the mechanism for supplying and managing clean and safe water and environmental sanitation that is community based and favors the poor communities;
- j. To enhance the capacity of stakeholders in the regions in the management and supply of clean and safe water and basic sanitation; and
- k. To provide technical assistance in the development of the partnership pattern of investment, management and supply of clean and safe water and environmental sanitation.

6.3. Program for Healthy Environment

- a. To provide clean water facilities and basic sanitation, especially in rural areas, slum urban areas, and disaster affected areas;

- b. To carry out campaigns to the whole population on the importance of clean and safe water and on sanitation for poor communities; and
- c. To campaign to local governments on the importance of investment in the supply of clean and safe water, and in providing sanitation for the poor communities.

7. MEETING THE RIGHT TO LAND

To ensure and protect individuals and communities for the use, control, and ownership of land, various programs such as the following are carried out:

7.1. Program for the Management of Land Issues

- a. To ensure the just and transparent enforcement of laws on land for enhancing legal certainty of the right on land to the communities through the synchronization of laws and regulations on land, for resolving conflicts and for promoting the law culture;
- b. To reform the control, ownership, use and exploitation of land, so as to become just, continuous, and to support supremacy of the law;
- c. To establish the institutions for resolving agrarian conflicts;
- d. To selectively redistribute absentee lands and plantations in conformity with the basic agrarian law;
- e. To develop the transparent and efficient land registration system, including the making of the basic map of land registration, in the context of speeding up the land registration process;
- f. To carry out mass and inexpensive certification of lands for poor communities and to reform the control, ownership, use and exploitation of land so as to become just, continuous, and supports the supremacy of the law;
- g. To protect traditional land rights of the local communities without gender discrimination;
- h. To establish the forum for stakeholders in resolving land disputes;

- i. To facilitate the involvement of poor communities and traditional institutions in the planning and implementation of spatial allotment;
- j. To communicate, inform and educate on the rights of poor communities to land;
- k. To facilitate and protect rights on land for vulnerable groups; and
- l. To provide guarantees of compensation to vulnerable groups that have been affected by eviction orders.

8. MEETING OF RIGHT TO THE NATURAL ENVIRONMENT AND NATURAL RESOURCES

The efforts to increase access of poor communities to the management and utilization of the natural environment and natural resources, programs are carried out that are among others as follows:

8.1. Program for the Utilization of the Potential of Forest Resources

- a. To develop the system for the utilization of natural resources that favors the local communities and that takes into account the conservation of forests;
- b. To develop forests communities and small-holder forest undertakings.

8.2. Program for the Protection and Conservation of Natural Resources

- a. To restructure regulations on the granting of Concession Rights to Manage Natural Resources;
- b. To strengthen traditional/local organizations in the management of natural resources and the natural environment;
- c. To promote and disseminate knowledge on the sustainable management of natural resources, which include local wisdom;
- d. To develop the incentive system for poor population that safeguards the environment;
- e. To develop partnership cooperation with local community institutions and business communities for the conservation and protection of natural resources;

- f. To cooperate and share experience with other nations in enhancing the capacity for the conservation of natural resources;
- g. To rehabilitate the ecosystem (critical lands, marginal lands, mangrove forests, coral reefs, etc.) through community-based activities; and
- h. To enhance and effectuate cooperation among nations in overcoming and preventing trade in natural products that are carried out illegally and that destroy nature.

8.3. Program for Developing the Capacity for Managing Natural Resources and the Natural Environment

- a. To develop the system for supervising the utilization of natural resources by the local communities;
- b. To develop the system for managing natural resources that directly gives rights to the communities;
- c. To reorient cooperation with multinational companies that utilize natural resources and the natural environment so as to be more favorable to poor communities;
- d. To cooperate and share experiences with other nations in enhancing the capacity to manage natural resources in a sustainable manner; and
- e. To enhance and effectuate cooperation among nations in overcoming and preventing trade in natural products that are illegally exploited and are carried out in a manner that destroy nature.

8.4. Program for Controlling Pollution of The Natural Environment

- a. To enhance the role of the informal sector, specifically individual trash collectors in the efforts to separate trash;
- b. To enforce the law against those destroying natural resources and the natural environment;
- c. To cooperate and share experience with other nations and international institutions in overcoming and preventing environmental pollution and to develop global code of ethics for multinational companies.

9. MEETING THE RIGHT TO A SENSE OF SECURITY

The efforts to meet the rights of poor communities to the sense of security from security disturbances, violence and conflicts are carried out through various programs such as the following:

9.1. Program for Providing Services and Rehabilitating Social Welfare

- a. To enhance the social guidance, services and protection and laws for neglected children, including street children, disabled children, and juvenile delinquents;
- b. To train skills and provide on-the-job training for neglected children, including street children, disabled children and juvenile delinquents.

9.2. Program for the development and Harmony Policies on Social Welfare

- a. To synchronize policies and implementation of efforts for alleviating poverty in conflict-prone areas;
- b. To synchronize the handling of strategic problems pertaining to social welfare, such as the problems of refugees, and victims of natural disasters and conflicts.

9.3. Program for the Empowerment of the Destitute, Isolated Traditional Communities, and Those Inflicted With Other Social Welfare Problems

- a. To socially empower destitute families;
- b. To increase partnership cooperation between business enterprises and destitute business undertakings;
- c. To gradually empower isolated traditional communities, to promote the geographic information system (GIS) for the mapping and empowerment of isolated traditional communities;
- d. To enhance the capacity of officers and those functioning as counterparts in the empowerment of destitute families, isolated traditional communities and groups inflicted by other social welfare problems.

9.4. Program for the Development of the Social Security System

- a. To synchronize laws and regulations and policies on the implementation of social security;
- b. To improve policies related to social assistance to poor population and vulnerable groups;
- c. To develop institutional models on the forms of local wisdom on social security; and
- d. To establish responsive units/institutions in handling cases of violence against vulnerable communities.

9.5. Program for Enhancing the Quality of Life and Protection of Women

- a. To increase protection to children and women against violence in the household;
- b. To enhance efforts for protecting women from various forms of violence, exploitation, and discrimination, including efforts for prevention and overcoming.

9.6. Program for Enhancing Child Welfare and Protection

- a. To develop the protection system for child labor and street children;
- b. To enhance protection of children against violence in the household; and
- c. To enhance efforts for preventing child trafficking.

9.7. Program for Consolidating Domestic Security

- a. To enforce the laws that guarantee the sense of security of poor communities in a consistent manner;
- b. To revitalize the community-based security system in order to realize the security of the environment.

9.8. Program for Resolving Conflict Areas

- a. To develop the social security system for victims of conflicts;
- b. To resolve the root of conflict problems, such as issues on land, unemployment, poverty and other impacts of the conflicts;
- c. To restore security, order and public services in post-conflict areas; and

- d. To enhance the empowerment of communities in realizing security, in preventing and resolving environmental conflicts.

10. MEETING THE RIGHT TO PARTICIPATE

The efforts to expand opportunities for poor communities in the decision-making process are carried out through various programs such as the following:

10.1. Program for Enhancing the Quality of Public Services

- a. To develop the participation of communities in districts and cities in the formulation of public service programs and policies through the dialogue mechanism and open deliberations with the local communities in the respective regions;
- b. To improve the mechanism for development planning deliberations, starting from the village, sub-districts, districts/cities, province and to the national level;
- c. To establish and develop citizen forums and forums of all stakeholders in the process of planning and budgeting in a participatory manner at the sub-district and city level to ensure accountability and transparency in public services and in the use of the Regional Government Budget (APBD);
- d. To annually make the citizen report card/client survey, in order to measure the performance of the government;
- e. To issue and disseminate information on the implementation of public services that are more friendly to and can reach the poor communities.

10.2. Program for Reforming the Role of the State and Society

- a. To revise Law Number 32 on Regional Governments, specifically to ascertain that the Village Representative Body (*Badan Perwakilan Desa*) and the Urban Village Body (*Dewan Kelurahan*) are directly elected, have authority to ratify the budget, and can provide recommendation to the *bupati* (district head) to discharge a village head who has failed to perform the task of providing public services and in implementing general development tasks;

- b. To facilitate and re-empower traditional institutions and traditional social and cultural institutions in the regions in the development process;
- c. To facilitate the forum accommodating all stakeholders as a means of representing poor communities in public policy formulation; and
- d. To disseminate development information and public services in an open manner to poor communities, without gender discrimination.

10.3. Program for Enhancing the Capacity of Regional Government Institutions

- a. To induce the improved performance of regional government institutions on the basis of the principles of modern organization with the orientation to providing public services;
- b. To encourage the increased role of non-government institutions and communities in every decision making of the provincial, district/city government levels;
- c. To institutionalize the participation of poor communities through the participatory planning and budgeting process; and
- d. To facilitate the process of capturing the aspiration of poor communities and socializing through the media and polling to aspirations that have been responded in the development budgeting.

11. REALIZING GENDER JUSTICE AND EQUIVALENCE

The efforts to reduce gender discrepancies that have resulted in poverty and the impoverishment of women and for ensuring the respect, protection and meeting of the basic rights of women so as to become equivalent to those of men, are carried out through various programs, such as the following:

11.1. Program for Enhancing the Quality of Life of and Protection to Women

- a. To increase the quality of life of women through affirmative action, especially in the fields of education, health, manpower, social policies and in the economic field;
- b. To develop and improve the regulatory framework and policies for enhancing the quality of life and protection of women in various development fields, at the national and regional levels;
- c. To protect women from bad working conditions due to the trafficking of women;
- d. To prevent and resolve violence in all forms of its consequences;
- e. To develop the system of data collection that can capture the dynamics of gender issues in poverty; and
- f. To increase budget allocation for the empowerment of women for ascertaining gender equivalence and justice.

11.2. Program for Ensuring Harmony of policies for Enhancing the Quality of Women

- a. To analyze and revise various laws and regulations that are discriminatory against women;
- b. To synchronize various policies that are related to enhancing the quality of life of women; and
- c. To formulate policies and regulations that are aimed at enhancing the quality of life of women and for protecting women and the rights of children.

11.3. Program for Enhancing the Quality of Public Services

- a. To enhance the implementation of the mainstreaming of gender in policies, programs and social institutions of the government;
- b. To develop a quality and gender-sensitive public service system.

PROGRAMS FOR REGIONAL DEVELOPMENT IN ORDER TO SUPPORT THE MEETING OF BASIC RIGHTS

1. ACCELERATION OF RURAL DEVELOPMENT

The efforts to expand opportunities for the rural population, males as well as females, in meeting their basic rights are carried out through various programs, such as the following:

1.1. Program for Increasing the Culture of Rural Communities

- a. To empower institutions and organizations of rural communities in the utilization of local resources;
- b. To develop rural industries that are supported by the promotion of the capacity and regulations that do not impede, and by the facilitation of access to markets;
- c. To develop rural information service centers in relation to providing services to poor communities; and
- d. To revitalize community-based cooperative institutions in rural areas.

1.2. Program for Increasing Empowerment of Agricultural Communities

- a. To develop and strengthen agricultural institutions for increasing the scale of agricultural undertakings;
- b. To develop institutions of the agricultural communities for enhancing their bargaining position in transactions as well as in the decision-making process; and
- c. To create employment opportunities that are based on agro-industrial activities for overcoming the problem of marginalized/labor farmers.

1.3. Program for Increasing Rural Infrastructure and Facilities

- a. To develop and expand the system of transportation, electricity, clean water, telecommunications and irrigation in rural areas so as to support the economic development of the rural communities;
- b. To develop the production and distribution facilities for rural produce.

1.4. Program for Enhancing the Institutional Capacity of Regional Governments

- a. To enhance the local government apparatus's capacity in facilitating and coordinating the role of stakeholders in the management of local resources.

2. REVITALIZATION OF URBAN DEVELOPMENT

The efforts for expanding opportunities of urban poor population, males as well as females, in meeting their basic rights, various programs are carried out such as the following:

2.1. Program for Developing Urban Areas

- a. To develop stakeholders' forum for resolving community conflicts in urban areas;
- b. To enhance protection for urban poor communities;
- c. To develop communication forums in the development of urban poor communities.

2.2. Program for Spatial Allotment

- a. To enhance the participation of urban poor communities in spatial planning;
- b. To reform business spatial layouts for poor communities.

2.3. Program for Developing Settlements

- a. To provide healthy and affordable settlements for poor communities; and
- b. To reform settlement environment of poor communities in a participatory manner.

2.4. Program for Supplying and Managing Raw Water

- a. To ensure the availability of clean and safe water in an equitable manner to urban poor communities.

2.5. Program for Empowerment of Micro-Enterprises

- a. To promote micro-enterprises and partnerships of the urban poor population, males as well as females, with large enterprises; and

- b. To develop regulations that protect business activities of poor communities in urban areas.

2.6. Program for Enhancing the Institutional Capacity of Regional Governments

- a. To enhance the capacity of urban regional governments in providing services and in coordinating stakeholders in the handling of poverty in urban areas;
- b. To provide certainty to the population status of poor population in urban areas; and
- c. To enhance education and health services to poor communities in urban areas.

3. DEVELOPING COASTAL AREAS

The efforts to expand opportunities for poor communities in coastal areas in meeting their basic rights, programs such as the following are carried out:

3.1. Program for Developing Fishery Resources

- a. To develop the capacity of coastal communities in the sustainable management of coastal resources;
- b. To empower fishermen institutions for enhancing their bargaining position in the determination of prices of their catch and in the decision-making process;
- c. To carry out regulations on fish-catching areas and on recognition to the local traditions of coastal communities;
- d. To optimize the effectiveness of the potentials of marine and coastal resources;
- e. To coordinate various funding assistance, and assistance in the form of catching instruments and technology for supporting the development of economies of the coastal communities;
- f. To empower the economies of women in coastal areas; and
- g. To increase the supervision of economic activities in coastal areas by involving coastal communities in security patrols of marine and coastal areas.

4. ACCELERATING THE DEVELOPMENT OF LEFT BEHIND AREAS

The efforts to expand opportunities for poor communities who live in left behind areas, encompassing border areas and isolated areas, in meeting their basic rights are carried out through various programs, such as the following:

4.1. Program for the Development of Left Behind Areas

- a. To regulate the accelerated development of left behind areas and to protect assets of local communities;
- b. To optimize the development of local economies in left behind areas, based on the utilization of natural resources, culture, tradition/customs and on local wisdom, in a sustainable manner;
- c. To develop economic, social and cultural facilities and infrastructure in the context of supporting the development of local economies in left behind areas, in such forms as electricity, transportation system, roads, ports, clean water, centers for research and development, telecommunications and information; and
- d. To enhance the capacity of communities and their institutions.

CHAPTER 17

INCREASING INVESTMENT AND NON-OIL/GAS EXPORTS

One of the main causes of the slow economic recovery since the 1997 crisis is the poor investment performance due to a number of problems that have hindered progress in stimulating investment activities. Such a situation has led to low inducement to carry out investment undertakings, to expand existing undertakings as well as to undertake new investments. This problem will significantly affect economic growth that thus far has been supported by the growth of consumption rather than by investment or exports. The low investment undertakings in the last several years since the economic crisis has also affected the competitiveness of Indonesia's products in domestic as well as in international markets.

The above situation has been aggravated by the still not yet efficient facilitation of national trade that is related to export-import activities. According to UNCTAD 2002, trade facilitation can save around one fourth of the total volume of world trade in 2000. The amount that can be saved has reached around US\$ 100 billion (around 2 percent of the world import value). The trade facilitation costs encompass all of the components of direct and indirect transaction costs affecting export-import activities (including costs for the handling of matters on banking and insurance, business information, customs matters, transportation costs, and costs for the administration of goods procurement in conformity with government regulations). Compared to several neighboring nations, the efficiency of the national trade facilitation is relatively low, thereby worsening the competitive position of national export products.

A. THE PROBLEMS

In the 1999–2003 period, investments in the form of gross fixed capital formation grew at an average rate of only 1.3 percent per year, which is below the growth rate of the 1991–1996 period, when the

average annual investment growth rate was 10.6 percent. With the slow recovery of investment activities, the share of investment in the form of gross fixed capital formation in the GDP fell from 29.6 percent in 1997 to 19.7 percent in 2003. Compared to the situation before the crisis, investment level was only around 69 percent of the level in 1997 (at constant 1993 prices). Up to quarter III of 2004, the growth of gross fixed capital formation started to increase, namely to 11.3 percent. Nevertheless, this increase is still very preliminary and needs to be stimulated by overcoming the fundamental problems that have impeded investment.

The investment prospect is facing serious external challenges. One of these is the tendency of the slowdown of global FDI since the period before 2000. Meanwhile, the investment attraction of various East Asian economies, that constitute Indonesia's competitors, such as the PRC, Vietnam, Thailand and Malaysia, has in fact increased. Therefore, the slow response to the need to create a conducive business climate and to the need to simplify various regulations and the formulation of an incentive system on investment, has medium and long-term implications to the future developments of the economy. In short, the problems faced in increasing investment pertain to the worsening investment climate, which is attributed to the following factors.

Lengthy and costly investment licensing procedure. On the basis of a 2004 study by the World Bank, compared to other ASEAN nations, the licensing for starting a business undertaking that is issued by the central as well as by the regional government in Indonesia requires longer time, involving 12 procedures that takes 151 days (around 5 months) and at a cost amounting to 131 percent of per capita income (around US\$ 1,163). Meanwhile, to start a business in Malaysia requires only 9 procedures taking 30 days to complete and at a cost of only 25 percent of per capita income (around US\$ 945). In the Philippines and Thailand it takes only 50 days and 33 days respectively at a cost of respectively 20 percent (around US\$ 216) and 7 percent (around US\$ 160) of per capita income. The lengthy and complicated procedure not only causes a high cost economy but also is a loss of business opportunity that could have been used by the company as well for the national interest, such as the creation of employment opportunities.

Uncertainty of laws. This is reflected in the procrastinated formulation of the Draft Law on Capital Investment and in the weak law enforcement in terms of the performance of the commercial court. The low law certainty is also reflected in the many overlaps of policies between the central and regional governments and among sectors. The fact that the decentralization program is not yet running well has resulted in the confusion of authority between the central and regional governments on investment policies. In addition, there is also substantial diversity of investment policies among regions. All of these have resulted in the ambivalence of the national investment policy that in turn reduce the attraction to invest. A 2002 study conducted by the Committee for Monitoring the Implementation of Regional Autonomy (KPPOD), in cooperation with the Asia Foundation, shows that in 134 districts/municipalities in Indonesia, regional regulations for imposing levies are more based on the desire to increase the regional original revenues (PAD) in such an excessive manner that it might adversely affect the development of the relevant region. Some say that the issuance of regional regulations on levies (service charges, regional tax, and other levies) does not exactly support business activities (38.1 percent distorts, 47.8 percent is acceptable, and 14.2 percent is supporting). On the basis of the study in 2003 conducted by the LPEM UI (Economic Social Research Institute of the University of Indonesia), company expenses for “extra or illegal levies” has reached 11 percent of production costs.

Weak investment incentives. Compared to other nations, Indonesia is relatively behind in its incentive system, which includes tax incentives for attracting investments to Indonesia. Even with a progressive tax rate, which is deemed to be equal to those in other countries, the tax system of Indonesia does not provide tax leniencies for encouraging investments.

Low quality of human resources and shortage of infrastructure. The low investment climate is also due to the low competitiveness of production and the inadequacy of the capacity and system of the infrastructure network because most is in damaged condition as a result of the crisis. The development of manufacturing activities, which are not yet based on the ability to master technology and the low capability of human resources/labor force has serious implications. Meanwhile, the shortage of the infrastructure has led to the increase in distribution costs

which in turn has worsened the competitiveness of products. In addition to the deficiency in land transportation networks, another key problem is the bottleneck that is occurring at export sea ports due to the inefficiency in the management of ports and customs handling issues. A further discussion on these matters will be elaborated in a separate Chapter.

Absence of clear policies for stimulating transfer of technology from FDI. The trend of globalization and rapid progress of technology and communications have significantly affected the liberalization of investments. According to the World Investment Report of 2002 (WIR 2002), this phenomenon is driven and very much dominated by transnational corporations (TNCs) through the fragmentation (internationalization) in the production of components that take into account global comparative advantages. The WIR 2002 mentions that the rapid growth of TNCs domination can be discerned from the growth of FDIs. In 1990, the total capital invested was US\$ 1.7 trillion (involving 24 million of manpower throughout the world), while in 2001, the total of capital invested quadrupled to US\$ 6.6 trillion (involving 45 million of manpower throughout the world). Through their strength in the value added chain, starting from R&D to the logistics and marketing, the activities of the TNCs have substantially dominated the pattern of global trade, especially the export-import networks (for intermediate as well as final goods) from and to developing countries. Such phenomenon indicates the necessity to formulate an investment strategy and policies, especially in developing economies, which have to observe and adjust to developments of the global constellation.

In terms of the efforts to increase exports, the need to formulate the strategy and policies that take into consideration the presence of TNCs as the FDIs has two advantages. First, the TNCs have strong international logistical networks, thereby able to stimulate increased access to export markets. Secondly, the TNC are potential sources for production technology transfers that can be utilized for the development of the production base and for increasing competitiveness of the domestic manufacturing industry. Nevertheless, such export strategy and policy also need to be kept in balance with the strategic interests of national development. In this relation, the export development strategy and policy need to be integrated into the development of the domestic

trade network system, especially for agricultural products, so as to create a solid resiliency of the economy.

Since the 1997 crisis, the performance of national exports has not yet fully recovered. Up to 2003, exports had been relatively stagnant at the time when world trade had been improving. Export growth reached only 3 percent, much lower than the growth rate before the crisis of 16 percent. Various commodities that used to be the major export commodities, such as palm oil, furniture, and footwear, have in fact experienced the largest drop in growth rates. Even though there has been some changes in composition due to the emergence of export commodities with higher technological content, their contribution to total exports is still very small. Indonesia's total export share in the world market has indeed slightly increased (from 0.81 percent to 0.84 percent), but the export share of the 30 major export commodities (outside oil and gas) has in fact fallen due to the tight competition with other Asian nations, which have similar export structures, such as China, Korea, Malaysia, Thailand and the Philippines.

There are **eight (8) main problems that have resulted in the decline of the national export performance**, namely those related to:

The high cost economy. The high cost economy becomes a burden to the business community that directly reduces the competitiveness of export products. There are many contributing factors, such as the still high incidences of corruption and abuse of power, the not yet ensured business security (law enforcement is not yet fully effective), the low effectiveness of government regulations (inconsistencies between the issued regulations and their implementation in the field).

The appreciation of the real effective exchange rate of the rupiah. Even though the rupiah exchange rate has nominally experienced a depreciation if compared to the period before the crisis (1997), the real effective exchange rate of the rupiah has strengthened by 80 percent if compared to that of the pre-crisis period. Such appreciation occurred in 2002, when the rupiah appreciated by 21 percent. The real effective exchange rate is determined by two components, namely the nominal exchange rate and the ratio of relative prices between domestic

prices and prices of Indonesia's trading partners. The increase in the rupiah real effective exchange rate has made the export products of Indonesia to become more expensive (less competitive) than the same products of competitor nations.

The still large export market dependence on three major destination nations, namely the US, Japan and Singapore. Their dominant share is around 42 percent of Indonesia's total exports and such a condition has virtually not changed in over ten years. This is naturally not too favorable to the efforts for maintaining the sustainable export performance in the coming periods. According to the WTO secretariat, the full removal of the textile and textile product quotas for exports to the US and Europe, it is estimated that the share of Indonesia's garment in the US will decline from 4 percent (US\$ 2,556.7 million in 2003) to become 2 percent. This implies that the value of total exports will have a potential decline of around US\$ 1,280 million (equivalent to Rp 10.8 trillion) per annum.

The export diversity is still low. The BPS (Central Statistics Office) data for 2003 show that the contribution of the 20 largest export products in the total of non-oil/gas exports (SITC 3 digits) is around 60.8 percent. Of this total, the export share of manufactured products is only 24 percent. From this information it can also be concluded that exports are still largely dependent on low value added commodities (non-manufacturing exports), which generally have a low elasticity of demand with their prices tending to be volatile.

The increase in non-tariff barriers. At least in the last decade, there has been an increase in non-tariff barriers, which has been characterized by environmental issues, such as eco-labeling and the protection of certain animal species, and issues on child labor for agricultural and fishery products. In fact, in the context of the Cargo Inspection Security that has been implemented since the terrorist WTC attack in 2001, the US has applied the war risk surcharge for imports from Indonesia, effective since December 2002. A 20 feet cargo is charged US\$ 500, while a 40 feet cargo is subject to a charge of up to US\$ 1,000. Meanwhile, for the same reason, the tariff increase per container of 20-40 feet with a Europe destination can reach a maximum of up to US\$ 600. In addition, there is a tendency in increased export

loss potential due to exports being subject to regulations/standards that could lead to the rejection of various export products, such as the Automatic Detention (HACCP) to cacao (due to being contaminated by insects & fungi infection) and to CPO, and the Holding Order to food and beverages products. The potential loss is estimated to reach at least US\$ 250 million per year.

The fact that the provision of incentives and facilitation, mainly for small and medium scale exporters, is not yet optimal. Their limited human resources capability and their small access to market information and to financing sources remain the basic problems faced by the small and medium scale enterprises that have posed a big constraint in producing outputs that meet the required quantity of orders and in the quality that is consistent with the technical standards of the products.

The limited availability and declining quality of infrastructure. The infrastructure problem is also one of the causes of Indonesia's declining exports. The limited availability and declining quality of the infrastructure, such as roads, sea ports, air ports, electricity and communication networks, are the major causes of the high costs of exports. Even though the port tariffs in Indonesia are relatively low, the shipping of containers from Indonesia has to be made from Singapore and Malaysia. This is due to the still low efficiency of Indonesia's sea ports.

The weak national collection and distribution network that does not adequately support efforts to increase export competitiveness. The current network for the collection and distribution of goods and services of domestic trade is facing many impediments due to the not yet integrated trade system at the three marketing stages (collection, retailing and wholesale) and the proliferation of levies and regulations in the regions as a result of the implementation of regional autonomy. This problem has resulted in the low competitiveness of domestic products, which are used as intermediate goods because the products cannot compete with imports of similar products and the low competitiveness of products that are directly exported. This problem also leads to the reduction or even in the limited marketing alternatives of producers in the domestic market network, which in turn adversely affect the incentive to increase

production volume. Improvements in the collection and distribution system (namely in the domestic trade network) will in addition be useful for increasing the competitiveness of export products and will also enhance the resiliency of the economy as such improvements will increase the integration of related components of domestic production. Furthermore, improvements of the system will enhance the reliability of efforts to realize price stability and can be more accurate for an early warning system to for example the possible influx of certain import commodities.

In a wider context, the decline in foreign exchange earnings has also occurred in the tourism sector. Up to 2002, tourism was the second major contributor of foreign exchange earnings after the exports of oil/gas. In addition, this sector can absorb labor and support economic growth, that thus far has shown a low performance. In 2003, the total number of international tourists reached 4.46 million, with the total foreign exchange earnings of US\$ 4.04 billion, which is a decline of 10.2 percent from 2002. Nevertheless, the tourism sector still constitutes the fourth largest foreign exchange earner after exports of oil/gas, exports of electrical and electronic instruments, and exports of textile and textile products.

The decline in the competitiveness of the tourist industry is attributed to several problems, namely:

1. **The recent domestic security and law-and-order situation**, especially with the proliferation of terrorism, such as bombing incidents, which have given a poor image of Indonesia.
2. **The proliferation of obstructions and the emergence of various regulations** at the central as well as regional levels, as the result of the transitional period of implementing regional autonomy. Such a situation adversely affects the tourist industry as reflected in the decline of business attraction in developing potential tourist objects and the shortage of infrastructure related to tourism.
3. **The management of most of the tourist destination regions and of cultural heritage assets is not yet effective** to the effect that they have become not sufficiently attractive and less capable to compete with tourist objects in other countries, especially in the ASEAN region.

4. **The institutions for the management of the marketing and promotion of tourism is not yet effective**, especially to the international community.

In view of the above problems, the creation of an investment climate that supports the efforts to increase Indonesia's competitiveness (with regard to goods as well as services) becomes a serious challenge for the future. With the well maintained economic and political stability, the endeavor will expand employment opportunities, increase income, increase foreign exchange earnings, and will ultimately increase the welfare of the people. In this respect, the priority is placed on the strengthening the law enforcement efforts in order to ensure certainty of business undertakings and in the development of institutional capacity in the provision of the related public services that can meet the needs of the business community. A strong commitment at all levels of the government will become the most determining factor.

B. THE TARGETS

The targets to be attained in the context of increasing investments and non-oil/gas exports are the following:

1. The realized healthy investment climate that includes reforms of economic institutions at various government levels, which can reduce practices that have resulted in the high cost economy. Such reforms include measures to fully solve the synchronization problems and steps to deregulate regulations among sectors and between the central and regional governments and steps to enhance institutional capacity for implementing the simplification of procedures for obtaining licenses for the start-up of a business, steps to improve the taxation and customs system, steps to enhance law enforcement for improving law and order in doing business activities.
2. Improving efficiency in the handling services of export-import activities at sea ports, customs offices, and of taxation administration (verifications and reimbursements) to the efficiency levels already attained by neighboring nations that have already reached an advanced stage of their economies in the ASEAN region. Around

one-half of these targets is expected to be realized within the first three (3) years.

3. The significant simplification of the licensing procedure for business start-ups and for carrying out business operations to the level of efficiency already reached by neighboring nations that have already advanced economies within ASEAN. Around one-half of these targets is expected to have been attained in the first three (3) years.
4. The gradual increase of investments, so that the share of investment in the Gross National Product will increase from 20.5 percent in 2004 to 27.4 percent in 2009, with a widespread dispersion to areas outside Java, especially in the eastern part of Indonesia.
5. The gradual increase of export growth from around 5.2 percent in 2005 to 9.8 percent in 2009, with the export composition that is more diversified and with rising technological content.
6. The increased efficiency and effectiveness of the national distribution system, orderly trading arrangements and increased certainty in doing business so as to create a domestic trading that is conducive and dynamic.
7. The increased contribution of tourism in total foreign exchange earnings to reach around US\$ 10 billion in 2009 to the effect that the tourist sector will become one of the major foreign exchange earners.
8. The increased contribution of foreign currency remittances from Indonesian workers employed abroad, from the currently estimated amount of around US\$ 1 billion.

C. POLICY DIRECTIONS

In the context of realizing the above targets, the policy directions for the creation of a healthy investment climate and for the increased competitiveness of national exports are the following:

1. Reducing transaction costs of practices in the high-cost economy, for business start-ups as well as for the operation of ongoing business activities. The core of these steps is the significant reduction in bureaucratic red-tape of regulations and licensing procedures and developing the public institutional capacity. These measures will reduce to the minimum the barriers to entry of

especially small and medium scale enterprises. The steps that will be taken are among others:

- a. Reforming regulations so as to become clear, the significant reduction of bureaucratic red-tape in the procedure for obtaining licenses and reforming the management of business operations in conformity with the principles of good governance.
- b. Reforming regulations by significantly reducing bureaucratic red-tape in the handling of export/import activities (customs and port administration), in conformity with the principles of good governance.
- c. Reforming regulations so as to become clear to the effect that the time and administration costs of tax matters are reduced especially in the verification of tax valuation and in the reimbursement of Value Added Tax.

A strong and committed political will significantly affect the success of these measures. The revitalization of the implementation and enforcement of regulations as contained in Presidential Instruction Number 5 of 2003 (the White Paper) could become the starting point of these endeavors.

2. Ensuring certainty in business activities and enhancing law enforcement, especially as related to the need to honor business contract commitments, guaranteeing property rights, especially in relation to land ownership, and the just regulations for resolving conflicts and settlement of disputes, especially pertaining to commercial disputes, strengthening of business competition implementation, strengthening of the implementation of standardization of products sold in the market, and the settlement of conflicts between producers and consumers in the context of consumers protection.
3. Improving investment policies by formulating the blueprint for developing future investment policies, which include steps to revise the Draft Law on Capital Investment, so that it will be in conformity with the best international practices and the application of non-discriminatory treatment between foreign and domestic investors and between large and small/medium investors, formulating the

incentive system in the investment policy so as to become competitive (with other nations) in attracting foreign investors, and formulating reforms of capital investment institutions as competitive institutions that facilitate and promote investment. In view of the cross-sectoral nature of the issues, the strong coordination at the cabinet levels is essential.

4. Improving the harmonization of laws and regulations between the central and regional governments, especially in the development (formalization) and carrying out business operations in the regions, by emphasizing legal certainty, deregulation/simplification and efficiency in the costs and time of handling.
5. In the context of strengthening the competitiveness of export products, the policy direction in foreign trade is increasing access to and expanding export markets and strengthening the performances of exporters and potential exporters. The policy direction encompasses the following:
 - a. Gradually encouraging the expansion of the base of export products by still taking into account export products that are environment friendly.
 - b. Gradually increasing the value added of exports, particularly from initially being dominated by raw materials/primary goods to being dominated by intermediate and finished goods.
 - c. Revitalizing the performance of export-promoting institutions and strengthening the capacity of institutions that train small-scale exporters;
 - d. Increasing the types and quality of export services through the “support at company level” concept to exporters and would be exporters of potential small and medium scale enterprises;
 - e. Increasing improvements in the performance of international trade diplomacy, for developed as well as developing nations;
 - f. Increasing trade facilitation by simplifying export-import procedures by implementing the ‘single document’ concept, reducing the orderly trade arrangement system for non-strategic commodities and that do not need supervision, and strengthening the capacity of quality control institutions for import-export products;

- g. Optimizing international trade-supporting services, such as the trade financing institution for exports;
 - h. Optimizing the implementation of various forms of trade cooperation, such as the counter trade scheme and free trade agreements among nations;
 - i. Strengthening institutions for safeguards and anti-dumping in international trade and tariff-harmonization institutions; and
 - j. Enhancing the acceptance of products in global markets by promoting the SNI (National Standards of Indonesia) and through regional and international standardization cooperation.
6. With regard to domestic trade, policies are directed at increasing the efficiency and effectiveness of the national distribution system, orderly trading arrangements, and certainty for carrying out business activities. These measures need to be integrated with the policy direction for increasing the performance of foreign trade with a view to realizing economic resiliency. The measures encompass the following:
- a. Harmonizing of central and regional policies, simplifying procedures, reforming licensing that impede the smooth flow of goods and services, and promoting trade-services activities;
 - b. Strengthening trade institutions, namely institutions for protecting consumers, metrological matters, commodity futures trading, and institutions for ensuring healthy business competition, and other trade institutions;
 - c. Facilitating the development of distribution infrastructure at the regional level and infrastructure of the distribution sub-systems in certain regions (border regions and remote regions), and trade supporting facilities by promoting the information network on production and markets and expanding the local and regional auction markets; and
 - d. Increasing the effectiveness of enforcing consumers protection, orderly measurement, and strengthening the system for supervising the circulation of goods and services.
7. The policy direction for promoting tourism in the period of five years ahead is increasing the total number of international tourists and domestic tourists, with activities focused on the following:

- a. Increasing the effectiveness of institutions that promote tourism, in Indonesia as well as abroad;
- b. Developing the types and quality of tourist products, especially promoting marine tourism that has a very large potential by still taking into consideration the need for maintaining sustainable development;
- c. Harmonizing and simplifying various related regulations in supporting the promotion of tourism, including marine tourism; and
- d. Optimizing and synchronizing the management of the tourism services provision, especially those involving more than one modes of transportation.

D. DEVELOPMENT PROGRAMS

TAX AND CUSTOMS REFORMS

As described in the programs contained in the Chapter on Consolidation of Macroeconomic Stability, particularly the Program for Increasing Revenues and for Safeguarding the State Finance, which includes the following activities:

1. Amending the Tax Law;
2. Enhancing services to taxpayers by: (a) developing features of the Large Taxpayer Office (LTO) at medium and small tax offices; (b) developing the system for tax payments and forwarding of the Annual Tax Return, in an electronic manner; (c) cooperating with banks in the context of providing facilities in making tax payments;
3. Reforming the tax dispute administration (tax court reform) by: (a) encouraging the participation of tax payers in using their right to seek justice in tax disputes; (b) developing the information system on tax disputes that covers the data warehouse on court rulings, developing the tax court site; and (c) improving the Tax Dispute Information System (SISPA); and
4. Reforming customs by: (a) providing trade facilitation ; (b) increasing steps to eradicate the criminal acts of smuggling and undervaluation; (c) increasing the integrity of personnel by improving the code of conduct, establishing the code of conduct committee/CCC, establishing the special investigation unit, providing means for

forwarding complaints and establishing the customs ombudsman, and by providing incentives.

IMPROVING THE INVESTMENT CLIMATE

1. PROGRAM FOR IMPROVING THE INVESTMENT CLIMATE AND INCREASING REALIZED INVESTMENT

The objective of this program is to create a globally competitive investment climate. To realize this objective, the main activities in the period five years ahead are the following:

1. Improving the law and regulations pertaining to investment;
2. Simplifying the investment procedure;
3. Proving more attractive investment incentives;
4. Consolidating investment planning at the central and regional levels;
5. Monitoring, evaluating and supervising the implementation of foreign as well as domestic investments;
6. Developing the information system on investment at the central as well as regional government levels;
7. Strengthening investment institutions at the central as well as regional levels; and
8. Analyzing policies on domestic as well as foreign investment.

2. PROGRAM FOR INCREASING INVESTMENT PROMOTION AND COOPERATION

The objective of this program is to develop the image of Indonesia as an attractive investment destination country. To reach this objective, the main activities in the next five years are the following:

1. Preparing the investment-related potential of resources, facilities and infrastructure of the regions;
2. Facilitating the realization of strategic cooperation among large, small and medium-sized enterprises and cooperatives;
3. Promoting investment that is well coordinated in Indonesia as well as abroad;

4. Revitalizing the performance of export-promoting institutions abroad; and
5. Encouraging and facilitating the increase of coordination and cooperation in investment between government agencies and the business community in Indonesia as well as abroad.

DEVELOPING THE CAPACITY AND EFFICIENCY OF INFRASTRUCTURE SERVICES

The efforts to be made are to develop the capacity and to strengthen the system of ports services, for exports and imports, domestic trade, as well as facilities on licensing for developing potential marine tourist objects. These steps are needed for increasing the investment climate and competitiveness of exports, to be taken into account in the formulation of strategies and steps in **Chapter 33 regarding Accelerating Infrastructure Development**.

INCREASING THE COMPETITIVENESS OF EXPORTS AND THE EFFICIENCY OF THE TRADE SYSTEM

1. PROGRAM FOR DEVELOPING NATIONAL STANDARDIZATION

The objective of this program is to increase the acceptance of national products in global markets, to smoothen the flow of goods and services, and to increase the protection of the safety, health, and security of consumers and the conservation of the environment.

The main activities to encourage and facilitate trade and various economic activities for increasing the quality, inducing higher productivity and efficiency encompass the following:

1. Developing the infrastructure of the standardization institutions;
2. Developing the National Standards of Indonesia (SNI);
3. Strengthening the standardization institutions;
4. Enhancing the perception of society;
5. Developing the information system of standardization;
6. Strengthening the position of Indonesia at regional and international standardization forums; and

7. Increasing the participation of stakeholders in the standardization process.

2. PROGRAM FOR INCREASING AND PROMOTING EXPORTS

The objectives of this program are to support efforts to increase the global competitiveness of Indonesian products and increasing the role of the exports of goods and services in economic growth. In order to realize these objectives, the main activities that will be undertaken in the next five years are as follows:

1. Developing the strategy for consolidating exports so as to become able increase the performance of national exports, including the utilization of preferences with trading partners;
2. Harmonizing export policies between the related agencies and the business community;
3. Increasing the quality of services provided by the Central Export Promotion institution (ITPC) in accordance with the continued needs of exporters and opening new offices in countries/regions that are trade partners in conformity with the export potential, and strengthening the institutional capacity for promoting exports in the regions;
4. Increasing the quality of services provided to exporters and prospective exporters through the 'support at company level' approach;
5. Facilitating efforts to enhance the quality of agricultural, fishery and industrial products that have export potentials;
6. Continuing the measures to deregulate and de-bureaucratize by simplifying export and import procedures so as to be in line with the 'single document' concept;
7. Strengthening the capacity of laboratories for testing export-import products;
8. Increasing the information network on exports and imports so as to become capable to respond to the needs of the business community, mainly small and medium scale exporters; and
9. Developing and implementing exports and imports facilitation in such forms as the institute for trade financing of exports.

3. PROGRAM FOR INCREASING COOPERATION IN INTERNATIONAL TRADE

The objective of this program is to increase international trade cooperation that is mutually beneficial, just and open. In the context of realizing this objective, the main activities that will be carried out in the next five years are the following:

1. Increasing the quality of active participation in various international forums (encompassing multilateral, regional, bilateral cooperation and cross-border trade), as an effort to safeguard the national economic interest and enhancing trade relations with potential trading partners;
2. Facilitating the settlement of trade disputes (including advocacy and technical assistance) such as: disputes on dumping, subsidies and safeguards;
3. Increasing the effectiveness of coordination in the handling of various international trade issues, encompassing multilateral, regional and bilateral coordination as well as the commodity approach;
4. Monitoring and evaluating the implementation of multilateral, regional and bilateral cooperation agreements;
5. Socializing results of agreements in multilateral negotiations (WTO) and regional cooperation (ASEAN, APEC, ASEM), and intra and inter-regional cooperation; and
6. Strengthening the human resources of Trade Attaches, including the provision of on-the-job training personnel.

4. PROGRAM ON BUSINESS COMPETITION

The objective of this program is to create a conducive climate for business activities that is competitive and that empowers business competition institutions. In order to achieve this objective, the main activities are as follows:

1. Revising several substances of Law Number 5 of 1999 that have the potential of creating disharmony to policies and regulations that are related to business competition;
2. Enhancing the application of policies and regulations on business competition;

3. Developing instruments for the application of Law Number 5 of 1999;
4. Developing work networking among institutions;
5. Increasing quality in the handling of cases and policy recommendations; and
6. Strengthening business competition institutions encompassing among others the development of human resources and supporting facilities and infrastructure.

5. PROGRAM FOR PROTECTING CONSUMERS AND SAFEGUARDING TRADE

The objectives of this program are to empower consumers, strengthen consumers protection institutions, increase the capacity of institutions that handle international trade disputes and the protection of domestic industries, and increasing the capacity of legal metrology institutions and optimizing the supervision of goods in circulation, especially strategic goods, medicines and food products. In the context of achieving these objectives, the main activities that will be carried out in the next five years are the following:

1. Empowering consumers and increasing the capacity of consumers-protecting institutions, including the capacity of institutions for the settlement of consumers disputes;
2. Strengthening the system and implementation of supervision of goods in circulation, especially the supervision of strategic, medical and food products;
3. Increasing information services and advocacy to consumers protection policies in order to increase the awareness of consumers on the importance of goods and services standards, especially pertaining to medicines and foods;
4. Improving the regulatory framework on domestic trade that is related to exports-imports, business regulations, regulations on measurements, protection of consumers and the supervision of marketed goods and services;
5. Socializing and providing technical guidance in the management of standards and legal metrology laboratories and in the implementation of supervision of gauges, weights, and the instruments (UTIP); and

6. Strengthening the capacity of institutions that handle international trade disputes and protecting domestic industries including supporting the operation of protection (anti-dumping and safeguards).

6. PROGRAM FOR INCREASING THE EFFICIENCY OF DOMESTIC TRADE

The objectives of this program are to increase the unhindered distribution of goods and services so as to become more efficient and effective and to promote and to promote an effective and efficient system of business and trade institutions, that have the concern for small and medium enterprises and for cooperatives. In order to reach the above objectives, the main activities are as follows:

1. Formulating alternative solutions, and resolving problems including the harmonization of various laws and regulations pertaining to distribution and trade supporting facilities, at the central as well as at the regional government levels;
2. Deregulating and de-bureaucratizing measures for reducing trade barriers;
3. Promoting the use of domestic products;
4. Facilitating the development of the distribution infrastructure at the regional level and the infrastructure of distribution sub-stems in certain areas (border areas and remote areas), in the context of enhancing trade efficiency;
5. Increasing the effectiveness and availability of distribution information at the central as well as regional levels;
6. Increasing the supervision and guidance of business undertakings, institutions and partnerships in trade;
7. Empowering small and medium trade undertakings by improving their human resources, their access to markets and business partnerships;
8. Strengthening the capacity of commodity bourse (PBK) institutions, including steps to improve various policies, and operational regulations of the commodity bourse (PBK); and
9. Consolidating and developing the Local and Regional Auction Markets and alternative financing means, such as the Warehouse Receipt System (SRG).

INCREASING THE COMPETITIVENESS OF TOURISM

1. PROGRAM FOR PROMOTING THE MARKETING OF TOURISM

The objectives of this program are to promote tourism in an effective manner through a professional approach, partnership between private enterprises, the government and society and to strengthen the institutional network. In order to achieve such objectives, the main activities that will be carried out are the following:

1. Optimizing exhibitions of a national as well as international levels, in Indonesia as well as abroad, in potential tourism partner countries as well as in countries that are close to Indonesia for historical and cultural reasons, such as in East Asia, India and the Middle East;
2. Facilitating the marketing of tourist packages and their distribution networks;
3. Facilitating marketing cooperation among nations, between the central and regional government, and among those engaged in the tourist industry in the form of strategic alliances, such as cooperation among travel agents and among tour operators, between tourists and air, sea and land transportation companies;
4. Enhancing the tourism awareness of the general public, as host as well as prospective tourists;
5. Motivating and providing facilities for the travels of domestic tourists;
6. Developing an efficient and effective information system.

2. PROGRAM FOR PROMOTING TOURIST DESTINATIONS

The objective of this program is to enhance the management of tourist destinations and assets of cultural heritage to become attractive tourist objects, through a professional approach and through partnerships between the private enterprises, government and society, and by strengthening institutional networks and inducing investments. In order to achieve this objective, the main activities that will be carried out in the next five years are as follows:

1. Inducing the growth and expansion of investment in the tourist industry by simplifying the licensing procedure and by providing tax incentives to investors.
2. Promoting the “one province one primary tourism destination” strategy together with the regional governments, private enterprises and society;
3. Developing tourist packages that are competitive for each of the tourist destinations;
4. Increasing the quality of services and preparedness of the tourist destination areas and cultural heritage assets as competitive tourist attracting objects;
5. Revitalizing and developing new tourist areas, including the development of the infrastructure and basic facilities (such as roads, electricity, telecommunications, clean water and health facilities);
6. Providing incentives and facilities for those engaged in the tourism business in developing tourist products (tourist attraction and facilities);
7. Giving special attention to the promotion of eco-tourist and marine tourist areas, especially in locations that have a large potential as marine and natural tourist objects;
8. Developing tourism that is competitive by: (a) galvanizing a national commitment to ensure that sectors in security, laws, banking, communications and other related sectors facilitate the growth of tourism, especially in areas that have special tourist destination sites; (b) harmonizing and simplifying the regulatory framework at the central government, regional governments and between the central and regional governments; (c) formulating, applying, and supervising the required tourist industry standards.

3. PROGRAM FOR PROMOTING PARTNERSHIPS

The objectives of this program are to develop and strengthen the cooperation network between the government (central-districts/municipalities), the private sector and the people at large and those engaged in the cultural and tourist industry in Indonesia as well as abroad in the field of research, human resources, and institutions and at the same time to promote a culture-based tourism. In the context of attaining

these objectives, the main activities that will be carried out are the following:

1. Developing and strengthening a database and information network on culture and tourism, in the country (among the central, provincial and district/municipal governments) and abroad, that include efforts for developing the required human resources;
2. Developing R&D and human resources development in the form of joint research, dual training and strategic alliances, especially with similar institutions abroad;
3. Facilitating the establishment of a communication forum between those engaged in the cultural and tourist industries and those engaged in other social-economic activities.

CHAPTER 18

ENHANCING COMPETITIVENESS OF THE MANUFACTURING INDUSTRY

A not too conducive business climate has substantially contributed to the decline of the economy's competitiveness, especially in the industrial sector, as the major creator of employment opportunities and in the manufacturing sector as one of the engines of economic growth. According to the World Economic Forum (WEF) of 2004, Indonesia's competitiveness ranks only as the 69th among 104 nations being studied. This position actually already represents an improvement from the 72nd position of the preceding year. Nevertheless, compared to several competitors among the ASEAN nations, this position is relatively worse. As an example, Malaysia in 2004 is in the 31st ranking, while Thailand is in the 34th. ASEAN economies with positions lower than Indonesia are the Philippines (76th) and Vietnam (77th). According to the International Institute for Management Development (IMD), which also issues the World Competitiveness Report of 2004, Indonesia holds the 58th ranking among 60 countries being studied. Since 2000, the ranking of Indonesia's competitiveness has fallen from the 43rd in 2000 to the 46th in 2001, the 47th in 2002 and to the 57th in 2003. Indonesia only ranks above Argentina (59th) and Venezuela (60th). According to the IMD, the position of the Philippines is better (the 52nd), even though its ranking has also continued to slide from its 35th position in 2000.

A. THE PROBLEMS

The significant decline in competitiveness is the result of several factors. The WEF has identified five (5) major contributing factors. At the macro level, there are three (3) factors, namely: (a) the not conducive macro economic situation; (b) the poor quality of public institutions in carrying out their functions as facilitators and as the centers of public services; and (c) the weak policies aimed at developing technology and at facilitating efforts for increasing productivity. At the micro level, there are two (2) protruding factors, namely: (a) the low efficiency in carrying out business operations; and (b) the low business competition climate.

According to the IMD, the low competitiveness of Indonesia is attributed to the poor performance of the national economy in terms of four (4) basic aspects, namely: (a) the poor national economic performance as reflected in the performance in international trade, investment, manpower, and price stability, (b) the low efficiency of government institutions in developing policies on the management of the state finance and fiscal policies, the development of various regulations and laws for creating a conducive business climate, the weak coordination on account of the public institutions that are still overlapping and the complexity of their social structure, (c) the low business efficiency in encouraging the increase of production and innovation in a responsible manner as reflected in their still low productivity, the still not yet optimal labor market, the low access to financial resources, and the relatively not yet professional managerial practices and values, and (d) shortage of infrastructure in terms of physical infrastructure, technology and basic infrastructure related to the needs of the people for education and health facilities.

Covering a longer span of period, the United Nations Industrial Development Organization (UNIDO) has developed the CIP (Competitiveness of Industrial Performance) indicator that has subsequently been applied for measuring the competitiveness ranking of the manufacturing industrial sector in 93 countries for a period from 1980 to 2000. In the Industrial Development Report of 2004, the CIP indicator, comprises four (4) basic variables, namely: (a) the per capita value added of the manufacturing industry, (b) the per capita manufacturing industry exports, (c) the intensity of industrialization as measured by the contribution of the manufacturing industry to the GDP and the contribution of the medium and high technology manufacturing industry to the manufacturing industry, and (d) the quality of exports as measured by the contribution of manufacturing exports to total exports and the contribution of medium and high technology manufacturing to the value of exports of the manufacturing industry.

In the 1980–2000 period, the performance of the Indonesian manufacturing industry had been classified in the category of “main winners”, together with several other developing nations, that mostly are in the East Asian region. In the two decades, the East Asian region had indeed been the engine of growth for enhancing the role of developing

economies in the development of the manufacturing industry. Among these developing nations, China had been the top winner. Meanwhile, the ranking of the Indonesian manufacturing industry had increased from the 75th in 1980 to the 54th in 1990, and to the 38th in 2000. Nevertheless, compared to several of the major competitors in East Asia (including ASEAN), Indonesia's position was relatively poor.

The UNIDO report covered a period of only up to 2000. In view of economic developments and the decline of the production sector, it is most probable that the ranking of the manufacturing industry of Indonesia again deteriorated after 2000. Even though the macroeconomic condition has been improving in the last two years, the above performance is not sufficient to lead to the recovery of production activities, especially in the manufacturing industry, to the state prior to the crisis, the more so to significantly enhance its competitiveness.

In addition to the problems related to the economic condition, important non-economic factors have also not yet shown significant improvements. As an example, the development and application of science and technology, especially for production, is still very limited. Indonesia's 60th position among 72 nations in the Technology Achievement Index indicates that efforts to enhance science and technology for production will still encounter many impediments. Another problem is the quality of the infrastructure that has continued to decrease and the quality of human resources that generally is still low.

The various macro economic problems referred to above have adversely affected the condition at the business and industrial levels. The development of institutions and the ability to enhance the capacity of human resources at the company level has not progressed as expected. To illustrate, the productivity of workers has not increased. The simple indicators such as the growth of real wages compared to the growth of value added per worker for the manufacturing industry shows a decline for all business scales. Another illustration is the industrial relations mechanism that cannot yet proportionally accommodate the interests of the management and workers. Meanwhile, national standards for industrial products, the development of the infrastructure that is efficient and is in accordance with the needs of the industrial sector, and for

increasing the competence of workers, have not yet been fully operational due to resources constraints.

Even though the decline in competitiveness had started in the period before the crisis in 1997, industrial development has significantly worsened after the 1997 crisis. Many observers have indicated that a “de-industrialization” process is occurring in Indonesia. This phenomenon is indicated by the relatively low realized capacity utilization, total number of enterprises, and the production index, as shown in the table below. The utilization of installed capacity of the manufacturing industry reached only 60 percent in 2002, a significant drop if compared to the situation before the crisis of 80 percent. In the period from 1996 to 2002, the total number of medium and large scale enterprises fell by almost 1,800 business units, namely around 8 percent of the 22,997 business units operating in 1996. Meanwhile, the production index of the large and medium scale processing industry also dropped significantly, namely by around 15 percent, from 126.54 in 1997 to 100.29 in 2002.

INDICATOR	1996	1997	1998	1999	2000	2001	2002
Capacity Utilization *)	82.10%	81.19%	54.99%	56.14%	61.68%	62.32%	63.33%
Total Number of Enterprises	22,997	22,386	21,423	22,070	22,174	21,396	21,146
Production Index **)	120.04	126.54	103.46	105.44	109.22	108.04	100.29

*) The 1996 and 1997 data are from BPS (Central Agency of Statistics), while the data for 1998-2002 are from the Ministry of Industry and Trade

**) 1993 = 100

The main cause of this phenomenon is the continuing fall of the competitiveness of manufacturing products. In the domestic market, manufacturing products such as household electronics cannot compete with imported products, especially exacerbated by the flood of illegal imports. In international markets, textile products and timber products, which actually still constitute the leading export commodities, cannot compete with products from China and other ASEAN economies. The drop of our competitiveness is also caused by the significant rise in overhead costs of production. A Japanese company has discerned that if the production costs of our manufacturing is given an index of 100, then China has an index of only 62, the Philippines 77, Malaysia 79, and Thailand 89. The cost structure of our manufacturing industry is also very vulnerable, wherein the overhead comprises 33.4 percent and the

material costs comprise 58.3 percent. For comparison, the overhead costs in China comprise only 17.1 percent and material costs only 39.9 percent of total production costs.

An assessment of the high level of the two types of costs has concluded that there are several **specific problems in the manufacturing industry**, which are as follows:

The KKN (Corruption, Collusion and Nepotism) practice and poor public service, have resulted in the high overhead costs. According to a study conducted by the KPPOD (Committee for Monitoring the Implementation of Regional Autonomy), expenses for various levies and poor public services have added around 8.7 to 11.2 percent to overhead costs.

The relatively high cost of money, as reflected in the currently high level of interest rates. Domestic businessmen who depend on domestic banking sources cannot compete with companies that obtain their working capital needs from sources abroad at interest rates ranging from 4 to 6 percent.

The tax administration is not yet optimal. Businessmen perceive the tax administration, especially in relation to the reimbursement of exported industrial products, as highly inefficient. This has resulted in the reduced competitiveness of the exported products because such inefficiency is being passed on to the sales price. In addition, it is also not conducive for the integration among related industries for the procurement of their intermediate materials. Generally, they prefer to import the raw or intermediate materials, because from the beginning these are not subject to the Value Added Tax.

The very high import content. The value of imported raw materials, intermediate materials and components for the entire industry has increased from 28 percent in 1993 to 30 percent in 2002. Specifically for the textile, chemical and basic metal industries, the value has even reached 30–40 percent, while for the machinery, electronic and metal industries, the value has reached over 60 percent. Such high import content has resulted in the vulnerability of production costs to

fluctuations in the rupiah exchange rate and the small value added that is generated to the domestic economy.

The low mastery and application of technology. The value added of the national industry is relatively low. This is indicated by the trait of the manufacturing industry that is commonly characterized as merely being the “assembly” type. This is in spite of the fact that in the proportion of exports some medium and high technology export products have started to emerge. Foreign Direct Investment, which has the potential to carry out the transfer of technology, is not yet forthcoming.

The relatively low quality of human resources. Out of the 4.2 million industrial workers in 22,894 enterprises in 1996, only 2 percent had university degrees, around 0.1 percent have masters degrees, and 0.005 percent (only 225 persons) have doctorate degrees. Meanwhile, the training intensity conducted by industries was not yet encouraging. The result of a survey in the 1990s shows that only 18.9 percent of enterprises in Indonesia carry out on-the-job training. In Malaysia, the training activities are carried out by almost 84 percent of the enterprises. Such low quality human resources cannot attain significant increases in productivity especially not in high quality innovations for advancing their production technology.

The unhealthy competition climate. There are many sub-sector industries that are operating as near “monopolies”. This is indicated by the high concentration index for two companies (CR2). In 2002, over 50 percent of industrial enterprises had an index figure of above 0.50 and the concentration index increases in many groups of industries. Some examples are the industries engaged in the production of wheat flour, white cigarettes, and two-wheeled vehicles. This resulted in the low incentive for reducing production costs.

The industrial structure is still weak. To illustrate, the total number of component-producing enterprises in the motor vehicle industry reached 155 companies in 1997. But almost all of these component producers comprise first-layer suppliers. This indicates the lack of depth of the national automotive manufacturing industry. For comparison, in the same year, Japan had 350 first-layer suppliers, 2,000

second-layer suppliers, and 10,000 third-layer suppliers. This implies that its national industry is vertically highly integrated.

The share of small and medium (including household) industries is still very small. Medium scale (employing 20–99 persons), small scale (employing 5–19 persons) and household (employing 1–4 persons) industries employ two-thirds of the manufacturing workers in Indonesia. Nevertheless, this industry segment contributes only 5–6 percent of the total value added of the manufacturing industry. Small and medium-scale industries are concentrated in the sub-sectors of food and timber production. The industries in this segment generally serve final consumers or produce components for the ‘after-sales market’, with the lowest class segment. Very few produce intermediate products/materials and to supply them to downstream industries. Under such situation, the small and medium industries in Indonesia have not yet become a chain-linked value added parts with the large scale industries.

The Distribution of Industries is Concentrated in Java. An industrial business enterprise is the most important income creator through the creation of value added of products that it can at the same time distribute to the general public through its workers. Therefore, the distribution of this industrial segment will also reflect the distribution of income. According to the 2002 data, out of the 21,146 medium and large-scale industrial enterprises, 17,118, namely 80 percent, are located in Java.

B. TARGETS

The targets for enhancing the competitiveness of the manufacturing industry, are as follows:

1. The (non-oil/gas) manufacturing industry is targeted to grow at an average rate of 8.58 percent per year. With the operating rate of only around 60 percent in 2003, the target is to increase the capacity utilization rate, specifically for the sub-sectors that are still competitive, to the optimum level of around 80 percent in the first two to three years, particularly for industries that still have a comparative advantage and are still competitive.

2. The workers absorption target in the coming five years is around 500 thousand per year (including the oil/gas processing industry). With the declining trend of absorption in the last several years, it is necessary that the greater absorption of manpower places greater reliance on a new industrial base the growth of which needs to be further induced. In line with the measures to revitalize agriculture and rural areas, the steps to industrialize rural areas become essential. With regard to the medium and large scale industries, the absorption of manpower will rely on new investments. The investment required to keep up with the manpower absorption target is from forty to fifty trillion rupiahs per year.
3. The creation of a more conducive business climate for existing industries as well as for new investment, is in the forms of ensuring the availability of satisfactory public services that are free from KKN (corruption, collusion and nepotism), ensuring access to funding sources, and ensuring supportive fiscal policies.
4. The increased domestic market share of the manufacturing industry, for producers of raw materials as well as for producers of final goods, as a reflection of the competitiveness of this sector in facing imported products.
5. The increased export volume of manufactured products in the total of national exports, specifically exports of the manufacturing industry that still have the potential for having their competitiveness increased.
6. The increased transfer of technology from foreign direct investment (FDI) as reflected in the increased procurement of intermediate materials from local products.
7. The increased application of the standardization of manufactured industrial products as a supporting factor to the competitiveness of national products.
8. The enhanced dispersion of the manufacturing industry to regions outside Java, especially industries that process natural resources.

C. POLICY DIRECTION

In order to attain the above targets, the policy directions for creating a healthy investment climate and for increasing the competitiveness of national exports, are as follows:

1. At the macro level, establishing a solid economic base is a necessary condition in the efforts towards attaining sustainable improvements in the competitiveness of the manufacturing industry. This is to be reflected in measures to maintain macro economic stability, in measures to achieve a healthy and competitive business and investment climate and efforts for managing healthy business competition. Therefore, improvements of the business climate in all chain-links of the production and distribution activities will constantly be monitored and improved. Coordination among related government agencies and partnerships with the private sector need to be continually enhanced for the resolution of the problems being encountered.
2. In order to attain the growth target of 8.56 percent per year, it is thus necessary that in the coming five years the development of the manufacturing industry be focused to the development of a selected number of sub-sectors that have the comparative and competitive advantages. In other words, their development places greater emphasis on the deepening rather than on the widening of industrial activities. Thereby, all forms of government facilitation will be directed at strengthening the industrial structure, increasing and expanding the use of technology, and enhancing the multiplier effect of the respective designated sub-sectors. In that respect, the capacity of the markets (especially the domestic market) to absorb the production increase needs to be increased through among others the safeguarding of the domestic market from illegally imported products, by encouraging the use of domestic produced raw materials/intermediate products, and various steps to increase the competitiveness of exports. With respect to steps to increase exports, it is important to continually monitor and assess non tariff barriers in advanced economies, especially for Indonesia's major export commodities, and by socializing such practices to related industries and for formulating steps to resolve the issues.
3. In accordance with the urgency of problems being faced and the limited capacity of government resources, the main focus of developing the manufacturing industry will be on several sub-sectors that meet one or more of the following criteria: (i) ability to absorb significant numbers of workers; (ii) ability to meet the basic domestic needs (such as food-beverages and pharmaceuticals); (iii) ability to process agricultural products in the broad sense (that include

fisheries) and other domestic natural resources; and (iv) have the potential to expand exports. Given these four criteria, and on the basis of the analysis of comparative and competitive advantages, the priority in the period five years ahead is on the strengthening of the following clusters: (1) the food and beverages industry; (1) the marine output processing industry; (3) the textile and textile products industry; (4) the footwear industry; (5) the palm coconut industry; (6) the timber products industry (including rattan and bamboo); (7) the rubber and rubber products industry; (8) the pulp and paper industry; (9) the electric machines and tools industry; and (10) the petrochemical industry.

4. With the priority on the above ten (10) clusters, specific efforts are needed to formulate the clear strategies and steps for the respective clusters. Such strategies and steps need to be subsequently accommodated in detail into the national strategy for industrial development, which in a comprehensive manner also contains the strategy for developing related industries and supporting industries of the aforementioned ten (10) clusters, with a medium and long-term time dimension and its formulation should engage the participation of related parties from the government as well as from the business community.
5. Direct government intervention in the form investments and provision of public services in areas where the market mechanism fails to operate. As such, the aspects encompass the following: (1) research and development (R&D) for the innovation of production technology, including the development of production management that takes into account the environment sustainability and production technology that is environment friendly (clean production); (2) enhancing the competence and skills of workers; (3) the provision of information on the markets of products and factors of production in the country as well as abroad; (4) developing the facilitation for utilizing FDI as a potential for technology transfer and for export expansion; (5) public facilities and infrastructure for quality control and for product development; and (6) the provision of other cluster infrastructure, especially for encouraging the dispersion of industries to regions outside Java. In line with the focus of the development of the manufacturing industry over the next five years, the formulation of the facilities and obligations of the government must be elaborated in greater details in the

aforementioned prioritized ten (10) clusters. It is also imperative to take into account that the implementation of policies with regard to the above six aspects be an integral and inseparable part of various policies and programs that have been formulated in other related Chapters.

D. DEVELOPMENT PROGRAMS

INCREASING THE SKILLS OF HUMAN RESOURCES IN INDUSTRY

In the context of enhancing human resources in industry, it is imperative that the various steps in this area are in line with the policies and programs in Chapter 23 on Improving the Manpower Climate. The related program is the Program for Increasing the Quality and Productivity of Manpower. The objective of this program is to increase the skills, expertise, and competence of industrial workers, so as to become capable to increase the national industrial productivity and compete in global labor markets.

The main steps for this purpose are:

1. Developing work competence standards and the system for the certification of workers;
2. Implementing on-the-job training programs for enhancing competence;
3. Strengthening the National Agency for the Certification of Professions (BNSP);
4. Increasing the professionalism of teachers and instructors of on-the-job training activities; and
5. Enhancing the facilities and infrastructure for on-the-job training institutions.

In that respect, the education development to be implemented in the 2004–2009 period, in conformity with the formulation in **Chapter 27 on Enhancing Access of the General Public to High Quality Education**, will aim directly at increasing the medium and long term availability of industrial human resources. The Program on Middle Education explicitly states that the development of vocational education is to be based on the national, international and industrial work

competence standards. In addition, efforts will also be made to revamp skills of middle vocational education to be adjusted to the employment needs and to be supported by the increased cooperation with business enterprises and industries. Through the Program on Tertiary Education, cooperation schemes will be made with the business enterprises and industries, so that the relevance of tertiary education to the needs of workers can also be enhanced.

ENHANCING THE STANDARDIZATION OF INDUSTRIAL PRODUCTS

In the context of supporting the efforts towards strengthening competitiveness, the expanded standardization for manufactured products is essential. In addition to encouraging the quality of such products so as to be in accordance with demand of the domestic and international markets, the application of the standardization of products will be beneficial for supporting the protection of consumers. In this respect, the steps are to be adjusted to the scope of the main activities contained in the Program for Promotion of National Standards, as described in **Chapter 17 on Increasing Investment and Non-Oil/Gas Exports**.

The basic steps in the above program that are related to increasing the standardization of the manufacturing industrial products encompass the following:

1. Developing the standardization institutions that are related to products of the manufacturing industry;
2. Developing the SNI (Indonesian National Standards) for products of the manufacturing industry; and
3. Enhancing the perception of the general public, especially on standards of products of the manufacturing industry.

STRENGTHENING THE STRUCTURE AND COMPETITIVENESS OF THE MANUFACTURING INDUSTRY

1. PROGRAM FOR PROMOTING SMALL AND MEDIUM-SCALE INDUSTRIES

The steps in this program are in line with the policies and programs described in **Chapter 20 on the Empowerment of Cooperatives and Micro, Small and Medium Enterprises**. The related program is mainly the Program for Promoting Entrepreneurship and Competitive Advantage of the SMEs. The objective of this program is to make the Small and Medium Industrial Enterprises to become the national industrial base. In order to become the national industrial base, the Small and Medium Industrial Enterprises must be able to produce high quality products at competitive prices and be capable to meet the scheduled delivery time in a disciplined manner in meeting demand of final consumers and in supplying products for more downstream industries.

The small and medium industrial enterprises have natural weaknesses in facing market uncertainties, economies of scale, and in obtaining the resources needed. Therefore, to attain the objective of this program, the government will have to assist the small and medium industrial enterprises in overcoming such naturally born problems, through basic activities such as the following:

1. Promoting potential centers that are focused in ten (10) prioritized sub-sectors;
2. Promoting related industries and supporting industries to the small and medium-scale industrial enterprises;
3. Strengthening the technological transfer process, products, and designs for the small and medium industrial enterprises by focusing on the ten (10) prioritized sub-sectors; and
4. Promoting and applying information services that include information on business opportunities, needed raw materials, funding access, business climate, and access to increased quality of human resources.

2. PROGRAM FOR ENHANCING THE TECHNOLOGICAL CAPABILITY OF INDUSTRIES

The steps in this program are in line with the various policies and programs contained in Chapter 22 on Increasing the Science and Technology Capacity in one of its programs, namely the Program for Increasing the Science and Technology Capacity of the Production System. The objective of this program is to increase the capacity of industries in the creation, development and application of science in the commercial testing of research and development outputs, new product designs, as well as in production processes.

Generally, the national industrial producers have not yet perceived technological research and development activities as feasible to be carried out, because such activities are deemed to have large and long-term externalities and involving high risks. This is evident from the poor performance of national industries in the mastery of technological resources. In the context of encouraging industries to increase activities on the development and application of the technology process, product and design, the main activities of the government in the next five years will cover the following:

1. Increasing supporting steps for the discovery and development of industrial technology, in the form of tax incentives, technology insurance, especially for the small, medium enterprises and cooperatives;
2. Encouraging the development and utilization of production management that takes into account the balance and supporting capacity of the environment, and production technology that is environment friendly (clean production);
3. Expanding the application of product standards in the manufacturing industry that comply with international standards;
4. Strengthening the institutional networking capacity for measurement, standardization, testing and quality (MTSQ).
5. promoting industrial clusters that are technology-based; and
6. Revitalizing R&D policies and institutions in the production sector so as to become capable to accelerate the effectiveness of partnerships among industrial research and development institutions and government research and development institutions; and optimizing the utilization of the national technological resources that

are widely dispersed in various research and development institutions of the government, universities, private institutions, and individual experts.

Foreign direct investment (FDI) has an important role as a potential source for the application and transfer of technology, in addition to facilitating access to export markets. Therefore, the success to attract FDI as a result of the various activities in the Program for Increasing the Investment Climate and for Realizing Investments and the Program for Increasing Investment Promotion and Cooperation as described in Chapter 17 on Increasing Investment and Non-Oil/Gas Exports need to be optimally utilized for supporting the steps in increasing industrial technology.

3. PROGRAM FOR INDUSTRIAL RESTRUCTURING

The objective of this program is to rectify the structure of the national industries with regard to the concentration of market control as well as in the depth of the networks for the procurement of raw materials and supporting materials, components and semi-finished products for the downstream industries. In the beginning of the national industrial development, industrial resources and industrial entrepreneurs were still very scarce so that national policies were permissive to monopolistic practices. This is the reason why up to now the concentration figure of the national industry is considered as being very high. Another condition faced by the national industry is the high uncertainty of relations among business units. Such a condition has encouraged industries to grow through a very high vertically integrated pattern

In order to realize the objective of this program of rectifying the industrial concentration, the government will take steps to enforce the principles of good corporate governance in a systematic and consistent manner, and to reduce the entry barriers to new business units into monopolistic markets. It is also necessary to increase the healthy competition climate for encouraging enterprises to compete in view of the increased global competition. In this context, the relevant steps must be in line with the objectives contained in the Program for Improving

Business Competition as described in Chapter 17 on Increasing Investments and Non-Oil/Gas Exports.

In order to strengthen the industrial structure, particularly in facilitating the procurement networks for downstream industries, the government will carry out basic steps that include the following:

1. Promoting the information system on production potentials of supporting industries and related industries;
2. Encouraging partnerships between supporting industries and related industries;
3. Promoting supporting industries and related industries, especially in the ten (10) priority sub-sectors;
4. Strengthening the capacity of institutions that provide skilled industrial workers, especially in line with the needs of the ten (10) priority sub-sectors;
5. Facilitating the infrastructure development of industrial clusters, especially with regard to their technological infrastructure; and
6. Facilitating and coordinating the promotion of industrial clusters growth centers outside Java, particularly in the eastern part of Indonesia.

INCREASING INFRASTRUCTURE CAPACITY

In the context of anticipating the increased capacity utilization, the growth of new investments, the dispersion of industrial activities to regions outside Java, and the expanded production base of this sector in rural areas, it becomes essential to accelerate the development of infrastructure. The various steps pursued in this area will be in line with the policies and programs that are described in Chapter 33 on the Acceleration of Infrastructure Development.

OPTIMIZING TAX ADMINISTRATION AND INCENTIVES

The steps to encourage the expansion of the production base, productivity, and investment in the manufacturing industry very much depend on the government commitment to facilitating the process of enhancing business efficiency. In this respect, the role of the government

in facilitating and providing public services with regard to an efficient tax system is essential. Nevertheless, such efforts must still be carried out in the context of the discipline required to maintain macroeconomic stability that has thus far been realized. Therefore, the various steps and programs in this area are in line with the contents of **Chapter 24 on the Consolidation of Macroeconomic Stability**. Development programs that are closely related are the Programs for Increasing Government Revenues and for Safeguarding Public Finances, which contain activities such as the implementation of tax reforms and customs reforms, and the Program for Promoting Financial Institutions, which contain steps such as supporting the increased channeling of credits to SMEs and to the agricultural sector.

INCREASING VALUE ADDED OF NATURAL RESOURCE-BASED INDUSTRIES

In relation to efforts for expanding the production base, it is necessary to take measures to increase the value added of industrial sub-sectors that are natural resources-based. These steps are in line with the programs contained in **Chapter 19 on Agricultural Revitalization**, which also covers the development of various fisheries and forestry production activities. Meanwhile, in the context of expanding the production base, it is imperative that the steps to promote modern non-agricultural activities (industrialization activities) in rural areas be made in line with the directions contained in **Chapter 25 on Rural Development**.

CHAPTER 19

AGRICULTURE REVITALIZATION

Agriculture revitalization is aimed at supporting the efforts to attain the target of creating employment opportunities, especially in the rural areas, and at supporting economic growth.

The agricultural sector, which includes food crops, livestock, horticulture, estate crops, fisheries, and forestry, absorbed 46.3 percent of the total work force, contributed 6.9 percent of the total of non-oil/gas exports value, and comprised 15 percent of the national GDP in 2003. The agricultural sector also has a significant role in ensuring national food security and fulfilling the people's right to food.

A. THE PROBLEMS

Efforts to maintain and increase the agricultural sector's role faces various challenges as a result of globalization. The challenges include how to : (i) increase open markets and increase competition; (ii) increase demand for market-oriented agricultural policies, and (iii) enhance the role of consumers taste (demand driven) in determining activities in the agricultural sector.

The agricultural sector still has the potential to be increased if policies are successful in overcoming the constraints related to: productivity, business efficiency, conversion of agricultural lands, limited agricultural facilities and infrastructure, and the limited credits and agricultural infrastructure. For fisheries, facilities and infrastructure in the eastern part of Indonesia are still very limited so that the capacity of fisheries in this region that has a relatively big potential cannot be optimally used. Moreover, the development of the agricultural sector is also vulnerable to environmental changes and its impacts, such as acid deposition due to air pollution and the decline in soil quality attributed to the excess use of chemical fertilizers. Several other constraints and problems faced are: (i) the low welfare and relatively high poverty of farmers and fishermen; (ii) the reduction of agricultural lands; (iii) the

limited access to productive resources, particularly access to financial sources accompanied by the low quality of human resources; (iv) the low mastery of technology; (v) the still not yet optimal management of fishery resources; (vi) the reduction in natural crops of forests while forest crops from plants and non-timber crops have not yet been optimally utilized; and (vii) the still weak infrastructure (physical and non-physical), particularly in the agricultural sector and generally in the rural areas, as elaborated in the following points.

The welfare of farmers and fishermen is still low and poverty is relatively high. The level of welfare as reflected among others in the terms-of-trade of farmers/fishermen, including communities that are living in the vicinity of forests, show that in 2003, most of the regions still has a terms of trade below that in 1983. This implies that even though the contribution of the agricultural sector as a whole to the national economy is very significant, the welfare of farmers and fishermen has not changed. Furthermore, around 70 to 80 percent of farmers and fishermen are categorized as poor, while the agricultural, fisheries, and forestry activities still being traditional and subsistent. The minimal access to information and funding has resulted in the farmer/fishermen communities, and coastal communities still not able to develop their business activities so as to become economically viable.

Weaknesses in farmers institutions and bargaining position have led to the lengthy marketing channels and the not yet just marketing system. The low quality of human resources among farmers and fishermen, the non-existence or non-functioning of farmers' institutions and agriculture-supporting institutions in rural areas have weakened the bargaining position of farmers and have made it difficult for the government to provide support to farmers. Many of the farmers institutions that could become the means for increasing the economies of scale that can increase the bargaining position of farmers, are no longer functioning. The lack of supporting institutions for farmers, especially agricultural extension centers, has reduced the effectiveness of services in providing agricultural information, thereby has reduced activities in providing technological guidance, support and dissemination, which are meant to enhance the application of technology and efficiency of farmers. In addition, the increased regional autonomy has led to the increased number of regulations that impede the marketing of input as

well as output commodities. Such a condition will adversely affect the marketing system of farmers because they are in the weakest position.

The extent of farmers' land has continued to shrink, so that the income generated has become no longer adequate to make ends meet and does not encourage efforts to increase production. Results of the Agricultural Census show that the total number of farmers in the 1983–2003 period increased but that the total extent of agricultural lands declined, so that the average land-holding per farmer narrowed from 1.30 hectare to 0.70 hectare per farmer. Such an area extent of farming lands, even with a high productivity per land area, will not provide adequate income to support the source of living of farmers and to induce them to expand production. This is a big challenge in the efforts to safeguard domestic rice production in order to support national food resiliency and to increase agricultural competitiveness.

Access of farmers and fishermen to productive resources, including funding and business services, is still very much limited. Credit support for farmers and fishermen is still limited. Available credits thus far have only been assuring food security (KKP), in paddy and sugar cane production. Meanwhile, the total of bank credits that has been allocated to fishery activities have only reached around 0.02 percent of the total of allocated credits. The limited funding has not adequately encouraged farmers and fishermen to apply new technology for increasing productivity, and has limited efforts to increase value added, and has resulted in the dependence on informal funding sources (the *pengijon*). The limited access of farmers and fishermen to transportation infrastructure and facilities has also impeded the marketing of agricultural and fishery produce, thereby having a downward pressure on their product prices. This is attributed among others to macroeconomic policies that are not yet oriented to the interest of farmers and also due to weak coordination among government agencies.

The still low transfer and dissemination of technology for the processing of agricultural and fishery products has resulted in the low productivity and value added of agricultural and fishery products. In the last ten years, the growth rates of the estate crops, livestock and fishery sub-sectors have respectively reached around 4.9 per, 3.6 percent and 5.8 percent per year, while the food sub-sector has

grown by only 1.2 percent per year. Nevertheless, the value added of these commodities is generally still low because exports have generally been in the form of primary commodities and in the form of commodities that have undergone simple processing. The growth of industries that process agricultural and fishery products has not yet been optimal, as reflected in the low capacity utilization of these industries. Increasing the value added of agricultural and fishery products through industrial processing requires greater investment and more modern processing technology. Such a condition has been exacerbated by increasing competition from legal as well as illegal imports. In the last three years, Indonesia has already become a net importer of food crops (rice, corn and sugar), livestock and animal feed.

The fact that aquaculture activities are not yet optimal has resulted in low productivity. The fishery cultivation activities generally have not yet applied the appropriate and environment friendly (integrated) aquacultural technology, resulting in inefficient production processes. Aquaculture (fishery cultivation) activities have generally only focused on selected commodities neglecting the development of other commodities that would utilize their wastes and could even maintain water quality. Thereby, the production as well as the productivity of fishery cultivation activities are still low. In addition, the frequent problems encountered in the fishery cultivation activities relate to the supply of seedlings, feed material, irrigation (pond) facilities, ambivalent regulations on spatial allotment for cultivation activities, inadequate guidance and information dissemination, and other problems related to access to funding and marketing channels.

The imbalance in the utilization of fish stocks among sea waters, and environmental damages of the marine and coastal ecosystem, which have resulted in the low productivity of fishermen. The imbalance in the utilization of fish stocks among sea waters is attributed to over-fishing in certain waters, such as in the Malaka Strait, the Northern Coastal Waters of Java, the Bali Strait and the Sulawesi Strait, while fishery resources in many other sea waters have been underutilized and even not yet utilized at all. Such imbalance has resulted in the concentration of fishermen in the over-fished waters. This has led to the decline in total catch, both in terms of fish size and fish species, which in turn has lowered the income of fishermen. Damages

have also occurred to the sea and coastal ecosystem, such as the damage to mangrove forests, coral reefs and *lamun* fields, which are important habitats for fish and other sea organisms as their nursery grounds. Degradation of such sea and coastal environment is also caused by pollution, from man's activities on land as well as at sea. Such a condition has been aggravated by the still weak control and supervision of sea waters, including the poor handling of foreign ships that have undertaken illegal fishing activities on Indonesian waters, pushing traditional fishermen out of business.

The low value of non-timber forest products in spite of their potential for increasing the income of farmers and communities in the forest vicinities. Forests are generally seen only in its role as timber producer, even though several studies have shown that the share of timber products is only seven percent of total forest products, with the remaining major share coming from non-timber products. Nevertheless, the potential that up to now has been utilized has been concentrated on timber. This is reflected in the value of non-timber exports that in the 1996–2001 period comprised only around one percent of the total of forest product exports. Some of the potential non-timber products are rattan, medicinal plants and honey. FAO data (2001) show that Indonesia has dominated the world rattan trade and has provided 80 to 90 percent of the world's rattan supply. Meanwhile, medicinal plants and other non-timber forest products have not yet been adequately valued and not yet well documented because such crops do not come up in official market transactions. Data from the Ministry of Forestry (2000) indicate that the livelihood of around 30 million people is dependent on forestry. Most of these people earn their living from slash-and-burn planting, fishing, hunting, tree cutting and in the selling of timber, and from collecting non-timber forest produce. With such still traditional activities, the potential of non-timber forest products cannot be utilized optimally, resulting in the low welfare of the people who are living in the vicinity of the forests and are dependent on the forests.

Exploitation of forests in excess of their carrying capacity, has endangered water supply that supports the sustainability of agricultural production. The reduction of forest areas, especially in upstream areas, has disturbed the hydrological cycle and led to the shortage of ground water, escalation of runoff, reduced water levels of

rivers, dams, and coastal areas and to flooding. The increase of floods during the rainy seasons and extended dry seasons, has ultimately adversely affected agricultural production. To illustrate, the ratio of the annual maximum and minimum water level of the Ciliwung river in the rainy season and the dry season has increased from only 3.5 in 1950 to 18.6 in 1998. Management of the river basins is described in Chapter 32 on Improving the Management of Natural Resources and Functions of the Environment.

With regard to food, the problems are the still high dependency on rice and food insecurity at the household level. The high dependence of consumption on rice has also increased the pressure for increasing rice production. Domestic rice production has already been able to meet around 90-95 percent of the domestic demand for rice. Other main carbohydrates food products are such crops as cash-crops (*palamija*) and protein sources such as meat, egg and milk, even though their consumption levels are still low. The energy consumption level that has already reached 3,211 kcal already exceeds the score of the PPH (desired food pattern) of 2,200 kcal. But at such energy consumption level, the score reached is only 66.7 from the ideal score of 100. This is due to the high dependence on carbohydrate consumption, mainly rice, and still very inadequate consumption of meats, vegetables and fruits. The required energy from rice consumption is only 1,100 kcal, but the actual consumption is 2,104 kcal. The required consumption of animal food is 264 kcal, while in actuality it is only 76 kcal. Such consumption pattern is not too supportive for enhancing the quality of human resources.

Food security at the household level is still vulnerable. The problem faced for ensuring food resiliency at the household level is the inefficient spatial and seasonal distribution system to ensure food access. Another need is to increase the income of farmers so that they will be able to attain their consumption level in accordance with the Desired Food Consumption Pattern (PPH). To support the increase in the income of farmers, the promotion of agribusiness activities, especially on non-food commodities, is essential.

B. THE TARGETS

The final targets of Agriculture Revitalization are the growth of the agricultural sector at an average rate of 3.52 percent per year in the 2004–2009 period and the increased income and welfare of farmers.

The intermediate targets are:

1. The increased capability of farmers in producing highly competitive commodities.
2. The maintained level of domestic rice production at the minimum level of 90 percent of domestic demand, in order to safeguard food self-reliance.
3. Diversified production, supply and consumption of food in order to reduce high dependence on rice.
4. Increased availability of food from livestock and fish from domestic production.
5. Increased domestic consumption of animal protein that originates from livestock and fish.
6. The increased competitiveness and value added of agricultural and fishery products.
7. The increased production and exports of agricultural and fishery products.
8. The increased capability of farmers and fishermen in managing natural resources in a sustainable and responsible manner.
9. The optimal value added and benefit of timber forest products.
10. The increased non-timber forest products by 30 percent from the production of 2004.
11. The increased planted forests by at least 5 million hectares and the resolved determination of the *Kesatuan Pemangkuan Hutan* (Forest Authority Unit), as the reference for managing production forests.

C. POLICY DIRECTION

Agriculture revitalization is pursued through four main measures, namely increasing the capability of farmers and strengthening the supporting institutions, strengthening food security, increasing productivity, production, competitiveness and value added of agricultural and fishery produce, and utilizing forests for the diversification of

economic activities and supporting food production by taking into account gender equality and sustainable development.

Policies to increase the capability of farmers and fishermen and other parties involved in agriculture and fisheries and to strengthen the supporting institutions are directed at the following activities:

1. Revitalizing extension and advisory services to farmers, including livestock breeders, fishermen, and those involved in fish cultivation.
2. Revitalizing and strengthening agricultural and rural institutions in order to increase access of farmers and fishermen to productive facilities, developing the government supported delivery system in the agricultural sector, and increasing the scale of activities for increasing the bargaining position of farmers and fishermen.
3. Enhancing the capability and quality of human resources in the agricultural sector.

The policies for strengthening food security are directed at:

1. Maintaining the level of domestic rice production with the availability of at least 90 percent of domestic needs, in order to secure national food self-reliance.
2. Increasing the availability of food from livestock and fish products from domestic sources. Policies for promoting livestock production are directed at increased domestic animal population and production of food from domestic livestock and to ensure domestic availability and safety of livestock products to support improvement in the quality of human resources.
3. Diversifying food consumption to reduce dependence on rice by gradually changing the consumption pattern of the population through cooperation with the food industry to encourage and increase the availability of diversified food products as rice alternatives.

Policies for increasing productivity, production, competitiveness and value added of agricultural and fishery produce are directed at:

1. Increasing the utilization of fishery resources in supporting the economy while still maintaining resource sustainability through: (1) rearranging and improving the environment of fish cultivation (aqua-culture) activities; (2) rearranging the fishery industry and economic activities of communities in coastal areas; (3) improving

and enhancing the management of catch fishery resources, especially in the ZEEI; (4) developing oceanic fisheries and fishery biotechnology; (5) increasing the active participation of the people and the private sector in the management of fishery resources; (6) enhancing the quality of processing and value added of fishery products by improving post-harvest technology; (7) accelerating the increase of cultivated fishery (aqua-culture) products; (8) increasing the capability of human resources in fishery, including that of extension workers, and advisory services in fishery; and (9) strengthening the institutional system, coordination and development of law regulations as important instruments to affirm fishery resources management.

2. Developing agribusiness activities through an integrated area approach with the concept of promoting agribusiness. This approach will increase the feasibility of such activities in terms of their economies of scale, so that the efficiency and value added can be increased and that support for the development of rural areas and regional economies can be effected.
3. Formulating measures for increasing the competitiveness of agriculture and fisheries, such as by providing encouragement and incentives for enhancing post-harvest and processing activities of agricultural and fishery produces, increasing the quality standards of agricultural commodities and food security, protecting farmers and fishermen from unfair competition.
4. Strengthening the marketing system and business management for handling agricultural business risks and to support promotion of the agro industry.

The utilization of forests for the diversification of economic activities and for supporting food production is carried out by optimizing the utilization of natural forests and by developing forest plantation and non-timber forest produce in a sustainable manner through policies that are directed at the following:

1. Increasing the value added and benefits of timber forest products;
2. Providing incentives for the promotion of industrial forest plantations (HTI);
3. Increasing the participation of the people at large in the development of forest plantations;

4. Increasing the production of non-timber forest products for the welfare of the communities in the vicinity of forests.

D. DEVELOPMENT PROGRAMS

Such policy directions are further specified into the following development programs:

1. PROGRAM FOR INCREASING FOOD RESILIENCY

The objective of this program is to facilitate the increase and to maintain the sustainability of food security at the household level as part of national resiliency.

The main activities to be carried out in this program are as follows:

1. Maintaining the availability of food from domestic production, by among others safeguarding rice fields in irrigated areas, increasing the quality of intensification, and optimizing and expanding agricultural areas;
2. Enhancing food distribution, by strengthening the capacity of food institutions and increasing the rural infrastructure that supports the food distribution system, so as to ensure access to food of the people;
3. Increasing post-harvest and output processing activities, by optimizing the utilization of agricultural equipment and machinery, and by developing and applying agricultural technology to reduce losses;
4. Diversifying food, by increasing food supply from animal products, fruits and vegetables, adjusting the consumption pattern of the population towards a better quality and more balanced patterns, and increasing the interest and ease for consuming local food products as alternatives to rice;
5. Preventing and overcoming food problems, by increasing food assistance to poor/food-vulnerable families, strengthening food quality control and food safety, and by developing an early warning system to food vulnerabilities.

2. PROGRAM FOR DEVELOPING AGRIBUSINESS

The objective of this program is to facilitate the development of the agribusiness that covers upstream, on-farm, and downstream activities, and the supporting services.

The main activities that will be carried out in this program include the following:

1. Developing the agribusiness diversification, by encouraging the production of high value commodities and increasing off-farm activities so as to generate higher income and value added;
2. Increasing the value added of agricultural and fishery products by enhancing post-harvest handling activities, quality, processing of output and marketing and development of the agro industry in rural areas;
3. Developing and rehabilitating agricultural and rural infrastructure, by improving irrigation and farm roads, and other rural infrastructure;
4. Increasing access to production resources, especially capital;
5. Reducing trade barriers among local regions and providing protection from unfair world trade aspects;
6. Increasing the application of science and technology in agriculture and developing agricultural research by developing and applying appropriate, location-specific and environmentally friendly technologies; and
7. Developing rural financial institutions and the proper financing system for agricultural activities, among others by developing and strengthening micro-rural financial institutions, funding incentives and developing financing schemes that are proper and appropriate to agricultural undertakings.

3. PROGRAM FOR INCREASING THE WELFARE OF FARMERS

The objective of this program is to increase the capacity and competitiveness of agricultural communities, mainly farmers who do not have access to production resources of agricultural activities.

The main activities that will be carried out in this program are:

1. Revitalizing the extension system for agriculture, fishery, and forestry that must be highly coordinated with the provincial and district governments.
2. Promoting and strengthening agricultural and rural institutions to enhance the bargaining position of farmers and fishermen;
3. Simplifying the mechanism to support farmers and to reduce impediments to agricultural and agribusiness activities;
4. Educating and training human resources in agriculture (among others, farmers, fishermen, extension workers and advisory personnel);
5. Protecting farmers from unfair competition and from unjust trading practices; and
6. Developing efforts to alleviate poverty.

4. PROGRAM FOR DEVELOPING FISHERY RESOURCES

The objective of this program is to manage, promote, and utilize fishery resources in an optimal, just, and sustainable manner, in the context of increasing foreign exchange earnings, value added in fishery output, and income of fishermen, that of fish farmers and other coastal communities.

The main activities to be carried out in this program include the following:

1. Empowering the economy of coastal communities;
2. Developing areas for aqua-culture in brackish water and fresh water;
3. Accelerating and restructuring the aqua-culture activities in ponds and fresh water;
4. Improving science and technology and the seed breeding system;
5. Developing the system for breeding centers certification and for the cultivation areas;
6. Developing fishery ports for supporting oceanic fishery activities;
7. Developing and rehabilitating fishery facilities and infrastructures;
8. Increasing small-scale fishery activities, including in potential small islands;
9. Controlling and enhancing business permit services;
10. Formulating fishery policies and management plans in each area;

11. Increasing the marketing, quality standards, and value added of fishery products;
12. Strengthening institutions and institutional management;
13. Developing science and technology and increasing fisheries research, including artificial breeding and genetic engineering of selected commodities that have high economic value;
14. Developing the data, statistics and information system pertaining to fisheries;
15. Increasing the quality of human resources, extension workers and facilitators/advisors in fisheries; and
16. Increasing the professionalism in planning and supervision of fisheries development.

5. PROGRAM FOR INCREASING THE UTILIZATION OF FOREST RESOURCES POTENTIALS

The objective of this program is to attain the greater utilization of the potentials of forest resources in an efficient, optimal, just and sustainable manner.

The main activities to be carried out in this program include the following:

1. Developing high value timber products and promoting area-based forestry industrial clusters;
2. Reducing the capacity of the timber processing industry and diversifying the sources of raw materials for the timber industry by seeking out the possibility of imports from neighboring countries;
3. Marketing and controlling the circulation of forest products;
4. Providing guidance to the primary forestry industry;
5. Developing industrial tree-crop estates, especially in non-productive forest areas, including the facilitation for obtaining business licenses and for having access to capital/loans;
6. Developing non-timber forest produce and environmental services, including the granting of management rights to the local communities for a certain period to utilize tree-crop estates and non-timber forest products;
7. Increasing the awareness and participation of the people, specifically communities that are living in the vicinity of forests (slash-and-burn

farmers, forest pioneers or trans-migrants, and so forth), in sustainable forest management; and

8. Developing science and technology for supporting efforts to increase productivity of the forestry sector.

In order to support the revitalization of agriculture, it is also necessary to have the following programs and activities:

1. **Program for Consolidating Domestic Security** (Chapter 4: Increasing Security, Order, and Overcoming the Crime Rate) encompassing the following main activities:
 1. The arresting and legal processing of those involved in illegal fishing, illegal mining, and in law violations in Indonesian waters.
2. **Program for Increasing International Trade Cooperation** (Chapter 17: Increasing Investment and Non-Oil/Gas Exports), encompassing the following main activities:
 1. Increasing the quality of active participation in various international forums as an effort to safeguard the national economic interests and to increase trade relations with potential trade partner countries;
 2. Facilitating the settlement of trade disputes, such as on the issues of dumping, subsidies and safeguards; and
 3. Increasing the effectiveness of coordination in the handling of various international and bilateral trade issues, and the commodity approach.
3. **Program for Promoting Exports** (Chapter 17: Increasing Investment and Non-Oil/Gas Exports), the activity being as follows:
 1. Facilitating efforts to increase product quality of agricultural, fishery commodities and of industries that have the potential for being exported.
4. **Program for Developing the System for Supporting Business Undertakings of SMEs** (Chapter 20: Empowering Cooperatives and Micro, Small and Medium Enterprises), the activities of which being as follows:

1. Increasing the institutional capacity and quality of services of the LKM (Micro-Finance Institutions) and of the KSP/USP by among others protecting their legal entity status, facilitating licensing procedures and establishing the network system between the LKM and Banks, and increasing the quality and accreditation of the secondary KSP/USP/LKM;
 2. Expanding financing sources for cooperatives and SMEs, specifically investment credit schemes for cooperatives and SMEs, and increasing the role of non-bank financial institutions, such as venture capital, and the role of credit guaranteeing institutions for the SME at the national as well as at regional levels, accompanied by the development of the information networking.
5. **Program for Developing Financial Institutions** (Chapter 24: Consolidating Macroeconomic Stability), with the following main activities:
1. Strengthening financial institutions in order to increase the intermediation function for SMEs.
6. **Program for Developing Local Economies** (Chapter 25: Rural Development), with the following main activities:
1. Consolidating and developing strategic and potential agropolitan areas, especially areas outside Java-Bali; and
 2. Increasing the development of agribusiness activities, encompassing the chain-link from upstream activities (supply of inputs), on-farm activities (cultivation), downstream (processing), and supporting services.
7. **Program on Spatial Layout** (Chapter 26: Reducing Regional Development Discrepancies), with the following main activities:
1. Formulating, reviewing and effectuating the plan on spatial layout, especially in priority areas of national development in order to ensure the integration of development among regions and among sectors.
8. **Program for Developing Strategic and Fast-Growing Areas** (Chapter 26: Reducing Regional Development Discrepancies), with the following main activities:

1. Facilitating regions to develop strategic and fast growing areas, specifically selected areas, by providing technical assistance and expert counterparts to regional governments, business enterprises, handicraft units, farmers and fishermen;
 2. Encouraging the growth of industrial clusters, competitive agro-industries at strategic location outside Java, by providing attractive incentives for domestic as well as foreign investors, such as tax facilities, licensing and land use that can compete with economic growth centers in other countries;
 3. Developing markets for fresh and processed products, by increasing access to market information and to marketing networks; and
 4. Increasing the access of farmers and small and medium businessmen to funding sources.
9. **Program for Protecting and Conserving Natural Resources** (Chapter 32: Improving the Management of Natural Resources and Conserving Functions of the Environment), with the following main activities:
1. Developing the system for the protection of plants and animal through the application and expansion of the integrated pest, disease and weed management;
 2. Protecting natural resources from excessive and uncontrolled exploitation, especially in conservation areas, such as river basins and other areas that are vulnerable to degradation.
10. **Program for Rehabilitating and Recovering Reserves of Natural Resources** (Chapter 32: Improving the Management of Natural Resources and Conserving Functions of the Environment), with the directly related main activity of increasing the rehabilitation of upstream watershed areas for ensuring the availability of irrigation water supply.
11. **Program for Developing and Managing Irrigation Systems, Swamps and Water Networks** (Chapter 33: Accelerating Infrastructure Development), with the following main activities:
1. Empowering water-using farmers, especially with regard to the management of irrigation networks;

2. Strengthening institutions at the operational level of irrigation management, including government and farmers' institutions;
3. Optimizing irrigation and swamp lands that have already been developed; and
4. Increasing the participation of the people in the development and management of irrigation networks, marshes, and other irrigation networks.

12. **Program for Flood Control and Safeguarding of Coastal Areas** (Chapter 33: Accelerating Infrastructure Development), with the following main activities:

1. The rehabilitation, operation and maintenance of the infrastructure for flood control and for safeguarding coastal areas, including dikes and the normalization of rivers; and
2. The construction of the infrastructure for controlling floods and for safeguarding coastal areas, especially in areas that are vulnerable to floods and sea water abrasion.

CHAPTER 20

EMPOWERMENT OF COOPERATIVES, AND MICRO, SMALL AND MEDIUM ENTERPRISES

The endeavors to increase micro, small and medium enterprises (UMKM) and cooperatives, have a big potential for enhancing the standard of living of the people. This is indicated by the role of the UMKM and cooperatives that comprised the major portion of social and economic activities of the Indonesian people. The significant role of the UMKM is shown by its substantial contribution to the national product, by the total number of enterprises and businessmen, and by its absorption of manpower. The UMKM contribution to the GDP in 2003 was 56.7 percent, consisting of 41.1 percent contributed by micro and small enterprises and 15.6 percent by medium-scale enterprises. At constant 1993 prices, the growth rate of the UMKM was 4.6 percent, namely higher than the GDP growth rate of 4.1 percent. In the same year, the total number of the UMKM was 42.4 million business units, namely 99.9 percent of the total number of all enterprises, and most of which comprised micro-scale enterprises. The UMKM had also absorbed over 79.0 million of manpower, namely 99.5 percent of the total labor force, consisting of 70.3 million manpower absorbed by micro and small enterprises and 8.7 million absorbed by medium scale enterprises. Thus the UMKM has a big role in the creation of employment opportunities.

A. THE PROBLEMS

Low productivity. The high growth in quantity of the UMKM has not yet been kept up by the growth in their quality, specifically with regard to the micro-enterprises. The problem faced is the low productivity, which has given rise to wide gaps between the small, medium and large enterprises. At constant 1993 prices, the productivity per unit of enterprise in the 2000–2003 period, did not increase significantly. The productivity of micro and small enterprises was still Rp 4.3 million, while the productivity of medium-scale enterprises was Rp 1.2 billion, and the productivity of large enterprises reached Rp 82.6 billion per unit of enterprise per year. . Likewise, no significant progress

was shown in the productivity per manpower of micro and small enterprises of Rp 2.6 million and of medium scale enterprises of Rp 8.7 million, whereas the productivity per manpower of the large enterprises reached Rp 423.0 million. Such performance is related to: (a) the low quality of human resources, specifically pertaining to the management, organization, technology mastery, and marketing of the UMKM; (b) the low entrepreneurial competence of the UMKM. The increase in productivity of the UMKM is essential for overcoming discrepancy among the business groups, among various income groups and among regions, including in the efforts for reducing poverty and for encouraging increased competitiveness of the nation.

Limited access to productive resources, particularly capital, technology, information and markets. With regard to funding, most of the financing allocated by financial institutions is still in the form of working capital loans and only a limited proportion is in the form of investment loans. For the UMKM, this has made them face difficulty in increasing their production capacity and even in expanding products that are more competitive. Moreover, the loan conditions, among others pertaining to total amount of collateral, in spite of their business being viable, imply that banks, which are the largest funding source, still deem the UMKM as high risk business enterprises. In 2003, of the total of bank loans for the category of up to Rp 50 million, only 24 percent were allocated to productive sectors, with the remaining being allocated to consumptive activities. At the same time, the mastery of technology, management, information and markets is still much below standards and still requires high costs to be handled by the UMKMs themselves. Moreover, institutions that provide such services are also still very limited and not evenly dispersed in all regions. The role of the general public and business community in providing services to the UMKM also has not yet grown due to the perception that providing services to the UMKM is not too profitable.

The still low quality of institutions and organization of cooperatives. Until the end of 2003, the total number of cooperatives has reached 123 thousand units, the total number of members reaching 27.3 million persons. Even though the total is quite large and has continued to grow, the performance of cooperatives is still much below expectations. To illustrate, the total number of active cooperatives in

2003 was 93.8 thousand units, namely only around 78 percent of the total of existing cooperatives. Among the active cooperatives, only 44.7 thousand units, namely less than 48 percent, have convened annual meetings of members, one of the organizational means that makes the highest decisions in the cooperative. Moreover, an average of only 27 percent of the active cooperatives had cooperative managers.

The performance of cooperatives has lagged behind and the image of cooperatives has been not too good. The inadequate understanding of a cooperative as a business entity that has an organizational structure, authority structure and incentive system that are unique from other business entities, and the lack of information among the general public on the best practices in running cooperatives, has given rise to various fundamental problems that have become constraints for the advancement of cooperatives in Indonesia. First, many of the cooperatives have been established without being based on a collective economic need/interest and on the principle of voluntary will of members, so that cooperatives have lost their identity as true cooperatives that are autonomous and self-reliant. Second, many cooperatives have not been managed professionally, namely on the basis of technology and modern economic principles as normally business entities should. Third, there are still policies and regulations that do not exactly support the advancement of cooperatives. Fourth, cooperatives have often still been used by a small group of people, within as well as outside the cooperative movement itself, as a tool to realize their own personal or group interests not in line with and even are in contradiction to the interests of members of the relevant cooperatives and are against the noble values and principles of cooperatives. As a result: (a) the performance and contribution of cooperatives in the economy has been relatively behind compared to that of other business entities; and (b) the image of cooperatives in the general public is not too good. Furthermore, such a condition has eroded the trust, concern and support of the general public to cooperatives.

The business climate is not too conducive. Cooperatives and the UMKM generally are still facing problems related to the not too conducive business climate, such as: (a) uncertainty and ambivalence in the licensing procedure, resulting in high transaction costs, lengthy licensing process and the collection of illegal levies; (b) unhealthy

business practices and competition; and (c) weak coordination among agencies in the empowerment of cooperatives and the UMKM. Moreover, regional autonomy/devolution, has been expected to become able to hasten the creation of a conducive business climate for cooperatives and the UMKM has not progressed at the same pace in all regions. A number of regions have succeeded in identifying impeding regulations and have also attempted to reduce the various negative impacts and have in fact succeeded in enhancing services to cooperatives and the UMKM by promoting the one-roof (one stop) service procedure. Nevertheless, there are also other regions that have perceived cooperatives and the UMKM as sources of revenue of the regions by imposing new and unnecessary levies, resulting in the increased costs of doing business for cooperatives and the UMKM. In addition, awareness on intellectual property rights and on the importance of environmental management is still low. Therefore, institutional improvements are essential for having an outreach impact, in view of the large total number and diversity as well as geographical dispersion of the business operations of the UMKMs.

B. TARGETS

Cooperatives and the UMKM have a strategic role in accelerating structural reforms in the context of enhancing the standard of living of the people at large. As the mean for carrying out collective undertakings for the producer and consumer, it is expected that the cooperative can enhance the bargaining position and economic efficiency of the people, at the same time improving business competition through the positive externalities that it creates. Meanwhile, the UMKM has a role in expanding employment opportunities and make significant contribution to economic growth while also contributing to the more equitable distribution of income. Another effect is the enhanced competitiveness and economic resilience of the nation. With such roles, the general targets of endeavors towards empowering cooperatives and the UMKM in the next five years are the following:

1. The increased productivity of the UMKM, at a higher growth rate than the growth rate of national productivity;
2. The increased proportion of formal small enterprises;

3. The increased export value of products of small and medium enterprises, at a growth rate higher than the growth of their value added;
4. The functioning of the system for encouraging knowledge and technology-based new business undertakings;
5. The increased quality of institutions and organization of cooperatives, in conformity with the identity of cooperatives.

C. POLICY DIRECTION

In the context of attaining the above targets, the empowerment of cooperatives and the UMKM will be implemented in conformity with the following policy directions:

1. Developing small and medium enterprises that are directed at making significant contribution to economic growth, the creation of employment opportunities, and to increasing competitiveness; while developing micro-enterprises will be directed at making a significant contribution to the increased income level of the low income bracket of society.
2. Strengthening institutions by applying the principles of good corporate governance and by being based on gender equity, mainly for:
 - increasing access to bank funding sources;
 - improving the business environment and simplifying licensing procedures;
 - enhancing the quality of supporting institutions, that carry out the intermediation function as providers of services for the expansion of business, technology, management, markets and information.
3. Expanding the basis and business opportunities and encouraging new competitive enterprises for stimulating growth, enhancing exports and creating employment opportunities, especially by:
 - enhancing the integration of educated and skilled manpower and the application of technology;
 - developing the UMKM through the cluster approach in the agribusiness and agro-industry activities, by providing facilitation in business management, including ways for

enhancing the quality of institutions of cooperatives, as a collective business interest, in order to attain collective efficiency;

- promoting the UMKM so as to be better able to have a greater share in the process of industrialization, strengthening of industrial linkages, accelerating technology transfer, and in enhancing the quality of human resources;
 - integrating the growth of business enterprises and regional growth, in line with the characteristics and potentials of the outstanding economic activities in the respective regions.
4. Promoting the UMKM so as to become more effective as providers of goods and services to the domestic market, and able to increase its ability to compete with imports in supplying the needs of the public at large.
 5. Developing cooperatives directed at and focused on efforts for: (a) reforming and strengthening the institutions and organization of cooperatives at the macro and micro levels, in order to create a conducive business climate for the advancement of cooperatives and for realizing legal certainty that can protect cooperatives and/or their members from unhealthy competition practices; (b) enhancing stakeholders' understanding of , concern for and support to cooperatives; and (c) enhancing the self-reliance of the cooperative movement.

D. DEVELOPMENT PROGRAMS

The above targets and policy directions for the empowerment of cooperatives and the UMKM are further specified into the following development programs:

1. PROGRAM FOR CREATING A CONDUCTIVE BUSINESS CLIMATE FOR THE UMKM

This program is aimed at realizing a business climate that is efficient, competitive, and non-discriminatory for the continuity and growth of UMKM activities and that can reduce administrative costs, business obstacles, and business costs and can also increase the average scale of enterprises, improve the quality services in the issuance of business

licenses, and increase the participation of stakeholders in the development of UMKM policies.

This program involves the following main activities:

1. To improve the regulatory framework, such as the Law on Small and Medium Enterprises and the Law on Mandatory Registration of Enterprises, and their implementing regulations, in the context of developing a solid legislation for business activities and for continuing the simplification of the bureaucracy, licensing, location determination, and for reviewing other laws and regulations that are less conducive for the UMKM, including the review of the imposition of levies to business undertakings, comprising sectoral as well as local specific levies.
2. To facilitate the formalization of business entities;
3. To enhance the smooth flow of goods, comprising intermediate goods as well as finished goods and services, by among others facilitating interregional trade and transportation;
4. Enhancing the capacity of the apparatus in planning and assessing of regulations, policies and programs;
5. Developing licensing services that are simple, inexpensive and speedy, including the application of a one-roof/stop licensing for the UMKM, developing a unit for submitting complaints and providing continual services on advocacy/mediation for the UMKM;
6. To evaluate the impact of national and regional regulations/ policies on the growth and performance of the UMKM, and to monitor the implementation of policies/regulations;
7. To enhance the quality of coordination in the planning of policies and programs on the UMKM, through the active participation of stakeholders and related agencies; and
8. To increase the dissemination and quality of information on the UMKM, including efforts to develop the information services network.

2. PROGRAM FOR THE DEVELOPMENT OF THE SYSTEM FOR SUPPORTING UMKM BUSINESS UNDERTAKINGS

This program is aimed at facilitating, expediting and expanding access of the UMKM to productive resources so as to become able to

take advantage of available opportunities and potentials of local resources and to adjust their business scale to the demands of efficiency. The supporting system is developed through the promotion of institutions that support/supply affordable, widely available and good quality services for the enhancement of UMKM's access to markets and productive resources, such as human resources, capital/funds, markets, technology, and information, including the encouragement of the intermediation function of financial institutions for the UMKM.

The main activities of this program include the following:

1. To facilitate the reduction of obstacles to UMKM's access to productive resources, including natural resources;
2. To increase the active participation of the business community/general public in the provision of technology, management, marketing, information, and consultancy services through the provision of the incentive system, business facilitation and enhancement of their service provision capacity;
3. To increase the institutional capacity and quality of services from the Micro Financial Institutions (LKM) and of the savings and loans cooperatives and undertakings (KSP/USP), among others by providing certainty on their status as legal entities, facilitating the licensing procedure, providing incentives to the establishment of the network system among the Micro Financial Institutions and between the Micro Financial Institutions and Banks, and to support efforts for the enhancement of the quality and accreditation of secondary KSP/USP/LKM;
4. To expand sources of financing, specifically for investment credit to cooperatives and the UMKM, and increasing the role of non bank financial institutions, such as venture capital companies, and enhancing the role of institutions for guaranteeing credits to cooperatives and the UMKM at the national and regional levels, together with the promotion of their information networks;
5. To enhance the effectiveness and efficiency of undertakings of UMKM promotion funding that originate from agencies of the central government, regional governments and state-owned enterprises (BUMNs);
6. To support efforts for overcoming the problem of credit gaps (gaps due to business size, formalization, and information) in the funding of the UMKM;

7. To develop the system of incentives, accreditation, certification and strengthening training institutions and cooperation networks among training institutions;
8. To develop and revitalize training units and technical R&D and information units of agencies of the central and regional governments so as to contribute to the development of undertakings of the UMKM; and
9. To support efforts for strengthening of marketing networks for products of the UMKM and members of cooperatives, also for the export markets, through the promotion of marketing institutions, business networks including business partnerships, and the promotion of on-line business transaction system, mainly for highly competitive commodities.

3. PROGRAM FOR PROMOTING ENTREPRENEURSHIP AND COMPETITIVE ADVANTAGES OF THE UMKM

The aim of this program is to promote the entrepreneurial spirit and competitiveness of the UKM (SMEs) so as to broaden their knowledge and entrepreneurial spirit, increase their productivity, create and increase knowledge and technology-based new entrepreneurs, and to increase the variety of competitive products of the UKM (SMEs).

The main activities of this program include the following:

1. To socialize entrepreneurial capabilities, including the dissemination of entrepreneurial concepts and spirit, in a national education curriculum and to promote the incentive system for new entrepreneurs, especially pertaining to aspects on registration/licensing of undertaking, location of the undertaking, access to funds, taxation and market information;
2. To provide the incentive system, guidance and facilitate in the context of inducing the development of the technology-based UKM, including new technology-based entrepreneurs, especially UKMs that are export oriented, sub-contractors/supporting enterprises, enterprises engaged in agribusiness/agro-industry and those that utilize local resources;
3. To provide an incentive system and guidance for enhancing awareness of UKMs on Intellectual Property Right and environment

management, to be followed by efforts for enhancing protection to Intellectual Property Rights of the UKMs.

4. To facilitate and provide support for the development of the network of institutions aimed at promoting entrepreneurial capabilities;
5. To facilitate and provide support for the development of technology and business incubators, including steps to utilize R&D facilities of the central/regional governments and by inducing partnerships of the public sector, private sector and general public.
6. To facilitate and support the development of investment partnerships among the UKMs, including through strategic alliances and joint investments with foreign companies, in the context of accelerating the mastery of technology and markets;
7. To facilitate and support the development of production and distribution networks by utilizing information technology, the development of group and network undertakings among the UMKM, in one cooperative mean and the network between the UMKM and large enterprises through business partnerships; and
8. To support and facilitate efforts for enhancing the quality of small and medium enterprises, including women entrepreneurs, so as to become strong entrepreneurs imbued with a cooperative spirit.

4. PROGRAM FOR EMPOWERING MICRO ENTERPRISES

The aim of this program is to increase the income level of communities that are engaged in economic activities in the informal sector of a micro-scale, especially communities that are still classified as poor, so that they can earn regular earnings through efforts for enhancing their business capacity and can become enterprises that are more self-reliant, continual and ready to grow and compete. This program will facilitate efforts for increasing the business capacity of micro-enterprises and their skills for managing their business and also stimulate certainty, protection and guidance to business operations.

The activities of this program include the following:

1. To facilitate and guide activities for starting a business, including ways for obtaining licenses, determining the location of the business, and for protecting the business from illegal levies;

2. To provide alternative financing schemes without creating market distortions, through among others the production sharing from the rolled on funds, and the joint responsibility system or the personal guarantee from the community leader as substitute for the collateral scheme;
3. To provide technical support and support of funding that originates from various central and regional government agencies and from the BUMNs (State-Owned Enterprises), in a more coordinated, professional and institutional manner;
4. To provide support to efforts for increasing institutional capacity and quality of services of micro financial institutions (LKMs);
5. To provide training on the entrepreneurial culture, and to provide technical guidance on business management;
6. To provide infrastructure and supporting network for micro-enterprises and business partnerships;
7. To facilitate and provide support for the establishment of joint organizations among micro-enterprises, including street vendors, in the form of cooperatives as well as other business associations, in the context of enhancing their bargaining position and business efficiency;
8. To support the development of traditional micro-enterprises and handicraft businesses through the provision of guidance of production centers/clusters, accompanied by the provision of better infrastructure; and
9. To support and facilitate the development of productive economic undertakings for micro-enterprises/informal sector, in the context of supporting economic development of rural areas, especially left behind areas and pockets of poverty.

5. PROGRAM FOR ENHANCING THE INSTITUTIONAL QUALITY OF COOPERATIVES

The aim of this program is to enhance the quality of institutions and organization of cooperatives so as to be better able to grow and develop in a healthy manner, in conformity with the identity of cooperatives as a means for attaining the collective interests of members in attaining collective efficiency, so that the image of cooperatives will continue to improve. It is thereby expected that the institutions and organization of

primary and secondary cooperatives will be improved and can function satisfactorily, and that the infrastructure for supporting the development of cooperatives will increase and have a higher quality; the institutions of the cooperative movement will function ever more effective and self-reliant; and the best practices of cooperatives will continue to be developed among the general public.

The main activities that will be carried in this program include the following:

1. To revise the law on cooperatives and its implementing regulations;
2. To review and revise various other regulations that are not conducive to cooperatives;
3. To coordinate and support the reform of curriculums for education on cooperatives at schools;
4. To disseminate information on cooperatives to the general public, accompanied by the socialization of illustrations of successful cooperatives that have been managed in accordance with the values and principles of cooperatives;
5. To enhance the quality of the administration and supervision of cooperative legal entities;
6. To support and assist the strengthened and self-reliant cooperative institutions;
7. To support and facilitate the cooperative movement in conducting reforms for the strengthened organization and modernized management of primary and secondary cooperatives in the enhancement of services to their members;
8. To support and facilitate development of the infrastructure for the development of cooperatives in the fields of education and training, information dissemination, research and development, finance and funding, technology, information, promotion and marketing.
9. To develop the system of education, training and information dissemination on cooperative matters to members and to managers of cooperatives, candidate members and cadres of cooperatives, especially for implanting basic values and principles of cooperatives in cooperative practices, clearly show the division of tasks and responsibilities between the government and the cooperative movement;
10. To provide incentives and facilities for the development of the network of cooperation among cooperative undertakings;

11. To increase the capacity of the apparatus at the central and at the regional governments, in assessing the impacts of regulations, policies and development programs on cooperatives; and
12. To enhance the quality of coordination in the planning, controlling, monitoring, and evaluating the implementation of policies and development programs for cooperatives, with the active participation of stakeholders and related agencies.

CHAPTER 21

ENHANCING THE MANAGEMENT OF STATE-OWNED ENTERPRISES

The existence of the State-Owned Enterprises (BUMNs), as one of the manifestations of article 33 of the 1945 Constitution, has a strategic role for enhancing the welfare of the people. Measures to increase the efficiency of the BUMNs are essential for improving the performance of the BUMNs, so that they can function as a state apparatus for increasing the welfare of the people by providing better services to the general public without burdening the state budget.

A. THE PROBLEM

The performance of the BUMN is not yet optimal. Even though currently the performance of the BUMNs has generally improved, such achievement is still much below the expected results. With such a performance, the BUMNs still have the potential to burden the state budget and thereby can affect the efforts to maintain fiscal sustainability. The performance of the BUMNs affect the budget from the revenue side as well as from the expenditure side. The BUMNs contribute to government revenues in the form of taxes as well as non-tax revenues. If the BUMNs have a low performance, however, then it eventually will place a burden to government expenditures.

The measures to consolidate and revitalize the BUMNs business operations (2002–2004) have indeed increased the performance of the BUMNs. This is evident from their realized sales in 2000–2003, which have increased at an average growth rate of 17.8 percent per year. The net profit of the BUMNs, in the 2000–2003 period, also reached a relatively high average growth rate, namely 23.6 percent per year. In 2000, their sales still totaled Rp 14 trillion. In 2001 sales rose by 35.7 percent and in 2002 rose again by 36.8 percent. In 2003, the net profit of the BUMNs fell slightly, namely by 0.4 percent from 2002. This was due to the decline in profits of several BUMNs in addition to the losses still experienced by 47 BUMNs. Nevertheless, with the measures thus far

taken to improve the performance of the BUMNs, the net profit of the BUMNs in 2004 is estimated to increase by 16.0 percent from the preceding year, namely reaching Rp 29.7 trillion. In contrast, even though the total number of healthy BUMNs in 2003 fell to 97 companies from 102 companies in the preceding year, their tax contribution (Income Tax and Value Added Tax) continued to rise. In 2001, the tax revenues contributed totaled Rp 8.7 trillion, in 2002 it reached Rp 16.4 trillion, namely an increase of 88.5 percent, and in 2003 it again rose to Rp 22.1 trillion, representing an increase of 34.8 percent over the year before. In 2004, the BUMNs were expected to be able to contribute Rp 27.0 trillion to government revenues, originating from dividends of Rp 6.0 trillion, taxes of Rp 16.0 trillion and privatization of Rp 5.0 trillion.

The fact that the management of the BUMNs was not yet optimal due among others to the still weak coordination of policies between the internal steps to improve the companies and industrial and market policies where the BUMNs are operating, the still not yet separated commercial functions from the public service functions of most of the BUMNs, and the not yet implemented principles of good corporate governance as a whole in all BUMNs. In addition, the not yet optimal common perception among stakeholders on privatization policy, has a potential negative impact to its implementation and to the attainment of the goals of this policy.

Looking ahead, measures to increase the performance of the BUMNs so that they become more healthy, efficient and competitive are essential for their greater contribution to the state finances as well as to providing better public services to society.

B. THE TARGET

The target to be attained in the management of the BUMNs over the next five years is the increased performance and competitiveness of the BUMNs, in terms of improving their services to society and in contributing to the state budget.

C. POLICY DIRECTION

The policy for managing the BUMNs is directed at the following:

1. Coordinating with the related ministries/agencies for the mapping of industrial and market policies of the related BUMNs. This is necessary for reforming the BUMNs in a comprehensive manner. Internal improvements of the BUMNs alone are not sufficient, the successful management of the BUMN must be accompanied by sectoral policies.
2. Mapping of existing BUMNs into the category of the public service obligation (PSO) BUMNs and the category of the commercial/business-oriented BUMNs, so that the performance of the BUMNs can increase, the budget allocation can become more efficient and more effective, and the contribution of the BUMNs can increase.
3. Continuing restructuring measures so as to become more effective to the orientation and function of the BUMNs. Such restructuring measures can encompass the restructuring of the management, organization, operation, procedural system and so forth.
4. Consolidating the application of the good corporate governance principles, namely transparency, accountability, justice and responsibility in the management of the PSO BUMNs and the business-oriented BUMNs.
5. Ensuring synergy among the BUMNs so as to increase their competitiveness and to have a multiplier effect on the Indonesian economy. Resource-based economic activities that provide value added will be promoted.

D. DEVELOPMENT PROGRAMS

The said policy directions are further specified into the following development program:

1. **PROGRAM FOR THE PROMOTION AND DEVELOPMENT OF STATE-OWNED ENTERPRISES (BUMNs)**

The main activities in this program are:

1. The completion of the mapping of functions of the respective BUMNs, so that the functions of the BUMNs are clearly divided into the PSO BUMNs and the business-oriented BUMNs.
2. The consolidation of efforts to revitalize the BUMNs, among others by applying the principles of good corporate governance and the Statement of Corporate Intent, and with measurable performance supervision, and
3. The consolidation of steps in the restructuring of the BUMNs.

CHAPTER 22

INCREASING THE CAPABILITY IN SCIENCE AND TECHNOLOGY

The development of science and technology is basically aimed at enhancing the welfare of the people in the context of building the civilization of the nation.. In line with the new paradigm in the globalization era, specifically the “techno-economy-paradigm”, technology has become a significant contributing factor for enhancing the quality of life of a nation. The implication of this paradigm is the process of transition of the world economy from being initially “resource based” into a “knowledge-based economy” (KBE). In the KBE, the strength of a nation is measured by the capability in science and technology as the primary economic factor to replace capital, land and energy, for increasing competitiveness.

The development of science and technology is the source of an innovative climate as the basis for the growth of creative resources, which in turn can become a source of economic growth and for increasing competitiveness. Moreover, science and technology determine the level of effectiveness and efficiency in the process of transforming resources into new and higher value resources. Thereby, increasing the capability in science and technology is essential for enhancing the standard of living of the people and the nation, and for the self-reliance and competitiveness of Indonesia in global terms.

A. THE PROBLEMS

The weak competitiveness and capability in science and technology of the country is indicated by among others the following:

The low scientific and technological capability of the nation in facing global developments towards the KBE. The Technology Achievement Index of the 2001 UNDP report shows that Indonesia ranks the 60th among 72 nations. While the 2004 World Economic Forum shows that the growth competitive index of Indonesia ranks only

the 69th among 104 countries. In the growth competitiveness index, technology is one of the parameters in addition to parameters on the macro-economy and public institutions. The low technology capability of the nation is also shown by the total number of new discovery patents that are registered in Indonesia, reaching only 246 patents in 2002, much lower than the total number of patents from abroad that are registered in Indonesia, that has reached 3,497 patents.

The low contribution of science and technology to production.

This is shown by among others the low efficiency and productivity and by the minimum technological content of export products. The 2003 science and technology indicator of Indonesia shows that in 2002, 60 percent of manufactured export products had low technology content with only 21 percent comprising products of high technology content. By comparison, the exports of electronic products that are currently increasing generally comprise the output of assembled components of which 90 percent were imported.

The fact that the mechanism for science and technology intermediation is not yet optimal in bridging the interaction between suppliers and users of science and technology. This problem is evident from the not yet well established science and technology infrastructure, such as institutions that process and translate results from the development of science and technology to become technological prescriptions that are ready for use in the production system. The problem is also evident from the not yet effective system of communication between R&D institutions and industries, that result in among others the very small number of small technology-based industries.

The weak synergy in science and technology policies, so that science and technology activities have not yet been able to yield significant results. Policies on education, industry, and science and technology, have not yet been integrated, resulting in unutilized capacity of suppliers, the ineffectiveness of the transaction system, and demand that has not yet arisen among users, namely industries. In addition, fiscal policy is also believed to be not yet conducive for the development of science and technology growth.

The still limited science and technology resources, as reflected in the low quality of human resources and in the inadequacy of science and technology education.. The ratio of researchers to the total number of population in Indonesia is 4.7 researchers per 10,000 population, much lower than that in Japan, which is 70.7. In addition, the ratio of science and technology budget allocation to the GDP fell since 2000, from 0.052 percent to 0.039 percent in 2002. This ratio is much lower than that in ASEAN nations such as Malaysia, namely 0.5 percent (2001), and Singapore, 1.89 percent (2000). According to the UNESCO recommendation, the adequate science and technology budget allocation is 2 percent of GDP. The low budget allocation to science and technology results in the shortage of research facilities, financing of operation and maintenance, and the low incentives for research workers. The weak science and technology resources are exacerbated by the absence of financial institutions that provide venture capital and start-up capital that are needed to finance innovations.

The science and technology culture has not yet grown among the people. The culture of the people has generally not yet reflected science and technology values that have objective, rational, advanced, and self-reliant ways of reasoning. The way of thinking of the people has not yet grown into one that prefers creating to merely using, that prefers producing to merely purchasing, and prefers learning and being creative to merely using the existing technology.

The fact that the role of science and technology in overcoming the degradation of functions of the environment is not yet optimal.. Technological advance has also resulted in the emergence of environmental problems. These are attributed to among others the not yet developed management and technology for the conservation of functions of the environment. Such a system will encourage the development and utilization of science and technology that has economic justification, that is environment friendly and that takes into consideration the social and cultural values of the local communities.

The still weak role of science and technology in anticipating and overcoming natural disasters. In the context of the global geographical science, Indonesia is situated in a region that is vulnerable to natural disasters. The large number of victims due to natural disasters

is an indicator that Indonesia's development has not yet adequately taken into account potential natural disasters. The science and technology capacity of the nation is not yet optimal in being able to strategically anticipate and overcome various problems related to natural disasters, such as global warming, climate anomalies, forest fires, landslides, earthquakes and tsunamis.

B. THE TARGETS

The targets for increasing the capacity in science and technology are:

1. The growth of new science and technology discoveries as a result of R&D at the national level, which can be utilized for increasing value added in the production system and in the management of natural resources and the environment in a sustainable and responsible manner.
2. The increased availability, effectiveness and efficiency of resources (human resources, facilities, infrastructure and institutions) in science and technology.
3. The well-established intermediation mechanism for enhancing the utilization of R&D outputs by business enterprises and industries, the increased technological content in national industries, and the growth of partnership schemes in the context of promoting the national innovative system.
4. The realized conducive climate for the growth of creativity, system for promoting and managing intellectual property rights, local knowledge, and the national standardization system.

C. POLICY DIRECTIONS

The policy directions for increasing the science and technology capacity are the following:

1. To sharpen the priorities on research, development and scientific and technological engineering so as to be oriented to the demand and needs of the general public and business community, on the basis of a clear roadmap.

2. To increase the science and technological capacity and capability by strengthening the institutions, resources and networks of science and technology at the central as well as at the regional levels.
3. To create the innovative climate in the form of the appropriate incentive scheme for encouraging the strengthening of the industrial structure.
4. To implant and promote the scientific and technological culture for the enhancement of the nation's civilization.

D. DEVELOPMENT PROGRAMS

The policy directions for increasing the capacity in science and technology are focused on six priorities, namely: (i) developing food resiliency, (ii) creating and utilizing new and renewable energy resources, (iii) developing the transportation technology and management, (iv) developing the information and communication technology, (v) developing the defense technology, and (vi) developing the technology on health and medicines; all of which are elaborated into the following development programs:

1. PROGRAM FOR RESEARCH AND DEVELOPMENT IN SCIENCE AND TECHNOLOGY

The objective of this program is to enhance the focus on and quality of research and development activities in basic science, applied science and technology in accordance with the core competence and needs of users.

The main activities that will be carried out include the following:

1. Carrying out basic research and development in the context of mastering science;
2. Carrying out biotechnological research and development in agriculture, livestock breeding, health; in marine technology, in new and renewable energy, including nuclear technology, information technology, aviation and space technology, transportation technology, defense technology, clean water technology, electronic technology, spatial information technology, technology for

mitigating natural disasters and R&D in other fields of information technologies;

3. Carrying out research and development in the fields of measurement, standards and quality control;
4. Developing appropriate technology for the sustainable utilization of natural and environment resources;
5. Carrying out research and development for enhancing understanding on natural phenomena, characteristics of land and water ecosystems and the diversity of natural resources covering bio as well as non-bio resources, on land as well as at sea;
6. Carrying out research and development in the political, economic, social and cultural, law and other fields, as scientific inputs for the formulation of government policies (policy-linked science).

2. PROGRAM FOR THE DIFFUSION AND UTILIZATION OF SCIENCE AND TECHNOLOGY

The objective of this program is to encourage the process of disseminating R&D results and the utilization of such results by business enterprises, industries and the general public.

The main activities that will be carried out include the following:

1. Disseminating R&D results to business enterprises, industries and the general public through the provision of information on science and technology and the commercialization of technology;
2. Providing consultations and technical assistance, among others by training liaison officers for facilitating the seeking out of technological solutions for industries and regional governments;
3. Developing the system of communications, coordination and partnership schemes among science and technology institutions (R&D institutions, universities, business communities and supporting institutions) in the country as well as abroad;
4. Increasing the participation of regional governments and developing the science and technology partnership schemes between the central and regional governments, and among regional governments;
5. Developing the infrastructure for supporting the application of standards and evaluating the consistency of product quality of business enterprises;

6. Enhancing the appreciation and role of the general public in the acculturation of science and technology, among others by developing techno-education, techno-exhibitions, techno-entertainment, and techno-preneurship and developing innovations and creativity of science and technology among the people.
7. Developing and utilizing science and technology based on traditional knowledge and local resources;
8. Utilizing spatial maps and information for determining borders between and among nations and between and among regions.

3. PROGRAM FOR THE STRENGTHENING OF SCIENTIFIC AND TECHNOLOGICAL INSTITUTIONS

The objective of this program is to increase the capacity and capability of science and technology institutions in the economic growth of the nation.

The main activities are among others the following:

1. Revitalizing and optimizing scientific and technological institutions, including the accreditation of R&D institutions;
2. Developing science centers at the central and in the regions, and actualizing the role of incubator units and technical assistance units in the intermediation function;
3. Optimizing the performance of the DRD (*Dewan Riset Daerah* = Regional Research Council) in the determination of the selected products in the regions and for formulating policies on science and technology development in the regions;
4. Developing and applying the function of supervising activities in research, development and application of high-risk technology, including nuclear power by overseeing users, providing public services, law enforcement, preventing nuclear accidents, and alertness;
5. Increasing the integrated science and technology management system, including improving regulations that support the commercialization of R&D results, management of intellectual property right, quality standards, safety of production and the environment;

6. Improving the system of incentives and financing schemes of scientific and technological activities;
7. Increasing the involvement of professional organizations in science, universities and the general public in strengthening ethical codes in the formulation of science and technology policies;
8. Formulating national indicators and statistics on science and technology;
9. Increasing the quantity and quality, and optimizing and mobilizing potential human resources in science and technology through national and international cooperation.

4. PROGRAM FOR ENHANCING THE CAPACITY OF THE SCIENCE AND TECHNOLOGY IN THE PRODUCTION SYSTEM

The objective of this program is to encourage the increase of technological capacity in the production system of business enterprises and industries and enhancing synergy among the various components of the innovation system.

The main activities that will be carried out are:

1. Accelerating the process of industrial transformation to industries that are local resources-based and are technology intensive;
2. Developing the support from a conducive regulatory framework and policies in the form of tax incentives, technology insurance for small and medium-scale enterprises and cooperatives;
3. Promoting financial institutions that can provide such financing as venture capital and start-up capital and to formulate the compatible research contract stipulations;
4. Promoting techno-preneurs, by among others new undertakings based on R&D results under the technology-incubator means;
5. Overseeing and implementing the audit/assessment of technology;
6. Increasing the role of institutions on metrology and testing for the formulation and application of the SNI (*Standar Nasional Indonesia* = National Standards of Indonesia);
7. Increasing the capability of technology-based small, medium industries and cooperatives, by utilizing the technology information system and technical assistance, work training, and by encouraging their partnerships with large industries and by developing various incentive systems.

CHAPTER 23

IMPROVING MANPOWER

The increased rate of open unemployment reaching 9.5 percent has the potential of creating various social problems. Employment is the basic right of man. Individual expression is manifested in employment. A closer look at the conflicts and disturbances that have occurred in various regions and localities reveals that such incidents originate from the difficulty of finding employment to sustain a normal life. Therefore, the government has placed the creation of employment opportunities as one of the main targets in the Agenda for Increasing the Welfare of the People, which has been specified into various development priorities. Reducing the open unemployment rate by creating productive employment opportunities is one of the imperative tasks of the government.

A. THE PROBLEMS

The increasing total number of open unemployment in the last five years. A person is openly unemployed if the person is not working and is seeking employment. The rate of open unemployment refers to the percentage of the openly unemployed to the total number of the workforce. In 1997, the open unemployment rate was only 4.7 percent, namely around 5.0 million persons, which increased to 6.4 percent, namely 6 million persons in 1999 and continued to increase to 9.5 percent, namely around 9.5 million persons, in 2003. In terms of urban versus rural unemployment, the open unemployment rate in 2003 was 12.5 percent in urban areas, and 7.4 percent in rural areas. On the basis of gender classification, unemployed females comprise 13.0 percent and males 7.6 percent. In terms of education level, the highest open unemployment rate is found among graduates of general high schools, namely 16.9 percent and graduates of tertiary education, namely 9.1 percent. In terms of age brackets, the highest open unemployment rate is found among the young age bracket (15–19 years), namely 36.7 percent in 2003.

The reduced formal employment in urban and rural areas in the 2001–2003 period. In 2001, formal workers in rural areas contracted by 3.3 million persons. In 2002, formal workers again declined by around 1.5 million persons, of which 0.5 million were working in formal economic activities in urban areas. In 2003 the same reduction again occurred involving the loss of 1.2 million jobs, of which 0.7 million workers were employed in formal economic activities in urban areas. The reduction of formal workers is estimated to have occurred in labor intensive industries. In 2001, the food and beverage industry lost 15.6 thousand workers, the textile industry lost 66.4 thousand workers, the radio, television and communication equipment industry lost 79 thousand workers and the garment industry lost 4.0 thousand workers.

Workers employed in less productive employment. The substantial number of workers employed in less productive employment has resulted in the low income levels and has led to workers likely to fall into the near poor population group. The workers employed in less productive employment is indicated by the total number of workers that are underemployed, namely those working for less than 35 hours a week. In 1997, the underemployment rate was 33.9 percent of employed workers, increasing to 35.3 percent in 1999, and slightly falling to 31.4 percent in 2003. Employment with low productivity is generally found in the agricultural sector in rural areas.

The widening wage discrepancy between formal and informal workers. Before the economic crisis of 1998, the wages of informal workers trailed the wages of formal workers. If the wage level of formal workers increased then the wage level of informal workers will also increase. The wages of workers in large industries have tended to rise and are currently already in real terms 20 percent above the wage level prior to the crisis. Meanwhile the wage level of informal workers has tended not to increase and is only 80 percent of the real wage level before the crisis. The increase of wages in large industries that does not take into consideration productivity will result in higher unemployment and will exert downward pressure to wages of informal workers.

There are indications that productivity in the processing industry is declining. The growth of the real wage level has been

higher than the growth of value-added per worker for large and medium-scale industries since the first quarter of 2001. If this continued, it could result in the decline of productivity that in turn means lower competitiveness.

The increase of open unemployment among the young age bracket (aged 15–19 years). The young aged open unemployment continued to rise from 20.6 percent in 1999 to 23.5 percent in 2000, 28.7 percent in 2001, to 34.6 percent in 2002 and increased again to 36.7 percent in 2003. The increase in unemployment in the young age bracket requires special attention because they still ought to be enrolled in schools.

B. THE TARGET

The target to be attained in the next five years is the reduced open unemployment rate to 5.1 percent at the end of 2009.

C. THE POLICY DIRECTION

Given the dualistic nature of the employment market in Indonesia, namely that most (70 percent) of the work force are employed in informal employment and that most have low education and low skills, namely around 55 percent are elementary school leavers and lower; and that most are of young age, the manpower policies are directed at the following:

First, creating the greatest possible number of formal employment opportunities. The work force that largely comprises those with elementary school and lower education and that comprises the young age bracket, is estimated not to significantly change over the next twenty years. Thereby it is necessary that the employment opportunities created take into account the existing skills of workers. With the available qualification of the work force, the formal employment opportunities to be created will be oriented towards industries that are labor-intensive, small and medium-scale industries, and export-oriented industries.

Second, providing the needed support for ensuring that workers can move from low-productivity employment to employment with higher productivity. Such support is essential to ensure that informal workers can gradually shift to formal employment opportunities. The training of workers must be continued and improved so as to facilitate such movements.

The policies to be pursued for creating formal employment opportunities and for increasing workers productivity are as follows:

1. Creating flexibility for the labor market by improving manpower regulations that pertain to such aspects as recruitment, outsourcing, wage determination, layoffs, and by improving regulations that will result in excessive protection.
2. Creating employment through investment. In this respect, the government will create a conducive climate for increasing investments. A conducive business climate requires economic and political stability and ensured security, low production costs, law certainty and increased availability of the infrastructure.
3. Increasing the quality of human resources, to be implemented by among others improving educational services, trainings and improving health services.
4. Improving government programs for the expansion of employment opportunities, such as the programs on public works, micro-credit, promotion of SMEs, and programs for reducing poverty.
5. Improving various policies that are related to workers migration, in terms of internal as well as external migration.
6. Improving policies that support the labor market mechanism by encouraging the establishment of the labor market information institution and by establishing the employment bourse.

D. DEVELOPMENT PROGRAMS

The above policies are elaborated into the following manpower programs:

1. PROGRAM FOR THE EXPANSION AND PROMOTION OF EMPLOYMENT OPPORTUNITIES

The objectives of this program are to increase productive employment opportunities and to stimulate the mobility of workers in the context of reducing the unemployed and the underemployed in rural as well as in urban areas.

With the 9.5 million being unemployed, the main strategy in this program is the opening of investment opportunities that will create employment opportunities. Thereby, reforms will be made to various programs for expanding employment opportunities that have thus far been implemented by the government. Such reforms are essential so that the programs can be targeted to a portion of the unemployed that does not have access to economic activities, especially in areas where economic activities are still underdeveloped.

In addition, programs that are related to policies on the migration of workers will be reviewed. The many constraints to internal migration will be mitigated by sound population administration. With regard to external migration, the placement and protection of Indonesian migrant workers abroad will be reviewed. The mechanism for the recruitment, training, departure, placement, protection and return of Indonesian migrant workers abroad will be reviewed. Employment opportunities abroad are still needed considering the large number of the unemployed in the country.

In addition, improvement will be made to the implementation of the program for supporting the employment market. This step will substantially facilitate the operation of the work market by encouraging the meeting of work seekers and employers through the provision of reliable, timely and accurate information on the employment market. Work market information is very much needed by work seekers and employers. Such information encompasses information on available work vacancies, the types and quality of training, the qualifications of work seekers, including information on career guidance. Such activities are expected to be able to reduce rigidities in the employment market. With regard to training institutions, information is needed on the types of skills needed by employers. The types of training can be better planned if the work market information system can be developed. It can

also reduce various training activities that are not relevant to market demand. The formation of a work market information system will also be very beneficial for policy makers in formulating training needs in the context of increasing competitiveness.

The main activities in this program will be focused among others on the following:

1. Reviewing manpower regulations and policies so as to create a flexible work market. Some of the important aspects that need to be revised so as not to reduce flexibility of the work market are the following:
 - a) Regulations that are related to the restrictions of contract workers. Given the large number of open unemployment, one of the steps to reduce it is by facilitating companies to recruit workers without restricting the types of work for contract workers.
 - b) Regulations that are related to wages and that encourage the bipartite determination of wages.
 - c) Regulations that are related to the layoff of workers. Discharge allowances, allowance for rewarding work tenure and allowance for reimbursing rights that must be provided by employers if a layoff occurs are deemed to be burdensome. In addition, there are still stipulations on allowance for reimbursement of rights and severance allowances for those who have committed serious mistakes or those who are resigning. The reduction of the allowances so as to become the same as the allowances that apply in ASEAN economies must immediately be enforced.
 - d) Regulations that are related to the protection of workers. Excessive protection of workers, such as a long leave after six years of employment and the payment of wages for workers who are sick for up to one year will be reviewed. Excessive protection of female workers, such as the prohibition to nighttime work for women aged below 18 years, and regulations that are related to menstruation leave, that are enforced in a rigid manner can reduce the flexibility of the work market. The government will encourage various protection through negotiations between workers and employers, to be mutually agreed in a work agreement.

2. Formulation of various implementing regulations of Law Number 39 of 2004 regarding the Placement and Protection of Indonesian Workers Abroad.
3. Monitoring the dynamics of the work market and various measures to ensure that the creation of formal employment opportunities can be attained.
4. Revising various government programs for expanding employment opportunities.
5. Coordinating the formulation of the plan for manpower and work market information.
6. Development of the infrastructure for providing public services in the context of supporting the work market operation.
7. Enhancing cooperation between the work bourse and industries/companies.

2. PROGRAM FOR INCREASING THE QUALITY AND PRODUCTIVITY OF WORKERS

The objective of this program is to enhance skills, expertise and competence and productivity of workers. Increasing the quality of workers is to be carried out through formal education, on-the-job training, and developments at the work site as one comprehensive and integrated system for the development of human resources. On-the-job training will become increasingly important for enhancing the quality of workers that requires the ability to anticipate changes in technology and work specifications.

Training on the job that thus far has been supply-driven will be directed so as to become demand-driven. In this context, it is imperative that the training involve the private sector. The issuance of Government Regulation Number 23 of 2004 regarding the National Agency for Certification of Professions is the initial step for creating the workers competence standard. The position of the agency, should be independent and separate from bureaucracy intervention, will expedite the implementation of the tasks and functions of this agency. With adequate certification of competence, it is expected that investors will become able to estimate the required time and costs of the training of workers.

The main activities in this program are focused among others on the following:

1. Promotion of work competence standards and the certification system on competence of workers.
2. Implementation of competence-based work training programs.
3. Facilitation for the implementation competence testing that is opened for all workers.
4. Strengthening of the National Agency for Certification of Professions (BNSP).
5. Increasing the relevance and quality of workers training institutions.
6. Increasing the professionalism of trainers and instructors in work trainings.
7. Enhancing the facilities and infrastructure of work training institutions.

3. PROGRAM FOR THE PROTECTION AND PROMOTION OF MANPOWER INSTITUTIONS

The objective of this program is to create a harmonious work relationship among those involved in production by enhancing the implementation of industrial relations that are the means for reconciling the aspirations of workers and employers. With the effectuation of Law Number 2 of 2004 regarding the Settlement of Industrial Relation Disputes, it is expected that it can be made in a just and mutually beneficial manner. Workers must be able to sit on equal footing with employers in striving for their rights. The follow-up steps of the Law for the Settlement of Industrial Relation Disputes will be fully resolved. Without a mechanism for dispute settlement that is efficient and has legal consistency, it will be difficult to expect the coming of new investors.

The main activities in this program will be focused on the following:

1. Completion of various implementing regulations of Law Number 2 of 2004 regarding Settlement of Industrial Relation Disputes.
2. Providing understanding and common perception on the contents and objectives of manpower regulations/policies.
3. Enhancing supervision, protection, and law enforcement of exiting regulations.

4. Enhancing the functions of manpower institutions.
5. Creating a balanced atmosphere in negotiations between workers and employers.
6. Settlement of industrial problems in a just, consistent, and transparent manner.
7. Follow-up actions to the National Action Plan for the Eradication of the Worst Forms of Works for Children (RI Presidential Decree Number 59 of 2002).

CHAPTER 24

CONSOLIDATION OF MACRO-ECONOMIC STABILITY

Economic stability is a basic prerequisite for attaining increased welfare of the people through high economic growth and by enhancing the quality of economic growth. Economic stability is essential for providing a degree of certainty in the business climate. Macroeconomic stability is attained when the major macroeconomic variables are in balance, such as between domestic demand and national output, in the balance of payments, between fiscal revenues and expenditures, and between savings and investment. Such relations need not always to be in exact balance. Fiscal and balance of payment imbalances, for example, are still consistent with economic stability provided that they are financed in a sustainable manner.

An unstable economy will create high costs for the economy and the people. Instability will make it difficult for the general public, private enterprises as well as households to make plans, particularly for long-term investment. Low investment will reduce the long term potential for the economy to grow. High volatility in production growth will reduce the skills of those unemployed for extended periods. High and very volatile inflation will create very high costs for society. The biggest burden due to high inflation is felt by the poor population who experience a reduced purchasing power. A very volatile inflation will make it difficult to differentiate price changes caused by changes in the demand and supply of goods and services from the general change in prices attributed to excessive demand. This will lead to the inefficient allocation of resources.

Because of the importance of maintaining macroeconomic stability for attaining the national development targets, the government is determined to continue the creation and consolidation of macroeconomic stability. One of the directions of the medium-term macroeconomic framework is the maintenance of macroeconomic stability and the prevention of excessive fluctuations in the economy.

Macroeconomic stability does not only depend on the sound management of macroeconomic magnitudes, but also depends on the structure of markets and sectors. In order to consolidate macroeconomic stability, macroeconomic policies, through well coordinated fiscal and monetary policies, must support structural reform policies, which are aimed at strengthening and improving market functions, such as the capital and money markets, labor market and the markets of goods and services, and sectors, encompassing the sectors of agriculture, industry, trade, finance and banking.

A. THE PROBLEMS

The sound macroeconomic management and progress attained in the endeavors towards structural reforms have produced convincing improvements in economic performance, specifically macroeconomic stability. In the last several years, the exchange rate has been relatively stable, the inflation rate has been maintained at a relatively low level, and external activities have started to recover. Market confidence has been maintained since the termination of the IMF support program at the end of 2000. In addition, the return of Indonesia to the international capital markets has been marked by the successful issuance of government bonds abroad, which basically reflects international confidence to the implementation of national economic policies. Nevertheless, the solid macroeconomic stability has not yet been accompanied by adequate improvements in the real sector, especially in reducing unemployment and poverty.

Macroeconomic stability is still vulnerable to shocks. Fiscal sustainability still faces threats. The ratio of government debt stock to GDP is still relatively high, namely estimated to be around 53.9 percent of GDP at the end of 2003. In the next few years, the total amount of government bonds that will mature will reach its peak. On the other hand, government revenues, especially taxes, are still below the optimal if compared to the potential revenues, while the effectiveness and efficiency in government expenditures are still not yet optimal. Thereby, the challenges in the next five years are the implementation of an improved management of foreign as well as domestic debts, the increase of government revenues, and the challenge of making government

expenditures more effective, in the context of maintaining fiscal sustainability.

The inflation rate and interest rates are relatively higher than those in other nations in the same region. Economic developments up to 2004 were characterized by the exchange rate reaching Rp 8,928/USD (daily average) and the inflation rate reaching 6.4 percent. The interest rate of 3 months SBI at the end of 2004 reached 7.3 percent from 8.3 percent in the preceding year. Such decline in the interest rate led to the decline of investment credit interest rate to 14.2 percent in November 2004, from 15.7 percent in 2003. Nevertheless, if compared to neighboring economies (2003–2004) that have inflation rates ranging from 0.5 to 1.8 percent and interest rates ranging from 1.0 percent to 2.8 percent, such a condition is still less competitive. In this respect, it is necessary to continue the cautious monetary policy, in the context of endeavors towards reducing the inflation rate and for maintaining stability of the rupiah exchange rate.

The balance of payments need to be continually watched in view of the slowing growth of non-oil/gas exports. The value of non-oil/gas exports grew at the average rate of 4.7 percent per year in the 2000–2003 period. This is much below the average growth before the crisis (1991–1997), namely around 22.6 percent per year. Compared to other competing nations in the region, the performance of Indonesia's non-oil/gas exports is relatively low. This indicates that there was a reduction in the competitiveness of Indonesia's non-oil/gas exports. The surplus of oil/gas exports, excluding the effects of price increases, also tended to decline. The reduction in domestic crude production and the continuing rise in BBM (oil fuels) consumption increased the imports of crude oil as well as the imports of BBM, while exports of crude oil decreased. Exports of LNG are facing tighter competition due to the increase of LNG supplies from new exporting nations. As a result, Indonesia is facing pressures to reduce its price from the old LNG contract that is to be extended.

The too fast growth of imports has not been balanced by the growth of non-oil/gas exports that will put pressure on the current account position. In 2004, oil/gas and non-oil/gas imports rose very rapidly in line with the improving economic condition. In order to

safeguard the balance of payments position, such a development needs to be watched, especially as the deficit in the services account has tended to increase.

The total of capital inflows, mainly of foreign direct investment, is still relatively low compared to that before the crisis and to those in other ASEAN economies. In line with the measures to reduce the foreign debt burden, the government capital flows have tended to experience deficits. Private capital flows have experienced deficits in the last several years, even though the amounts have been declining, in line with the decline in the private foreign loan repayment flows and with the improvement in capital inflows to Indonesia.

By taking into account developments of exports, imports and capital flows, it is necessary that for the safeguarding of the balance of payments for the next five years, measures are taken to increase exports, particularly non-oil/gas exports and the exports of services, such as tourism and shipping services, and to take measures for increasing the flow of investments.

The real sector has not yet recovered. This is reflected in the weak structural condition, such as the vulnerability of food resiliency, the weak structure of industrial production, the still inadequate distribution and transportation facilities and the still not yet fully recovered condition of banks and other financial institutions. Specifically on the banking system, even though improvements have been attained, the intermediation function of banks has not yet been optimal. The growth of credits is still relatively low, wherein the loan to deposit ratio (LDR) of banks is still relatively low, namely around 49 percent (October 2004) compared to the condition prior to the crisis when it reached around 70 to 80 percent. The channeling of credits to micro, small and medium-scale enterprises (UMKM/SMEs) is still facing constraints, as indicated by the growth of credits channeled to the UMKM/SMEs, which declined from 40.1 percent (2002) to 25.8 percent (2003). This was caused by the low access of the SMEs to financing sources, from banks as well as from non-bank financial institutions, which was due to among others: the still high transaction costs and risks of financing, the limited centers of bank services to SMEs (SME Centers) that should reach all corners of the country, and the limited availability of the required credit

guarantees and collateral. Therefore, the guaranteeing of credit is important for the continuity of financing to the SMEs. In addition, the still high risk for channeling credit has made the NPLs of banks to reach over 5 percent. Such a condition is mainly attributed to the still high risk in the real sector in relation to the various structural problems. Moreover, bank crimes are still prevalent, adversely affecting trust of the general public in the banking system that has not yet fully recovered from the banking crisis.

Banks and other financial institutions have not yet fully recovered. The weak regulatory framework and supervision over bank and financial products that have become increasingly varied and complex, and in anticipating the globalization of trade in services and innovations in the information technology, have increased the financial transactions involving inflows to and outflows from Indonesia. In addition, there is the tendency for the concentration of assets of financial institutions in the banking sector (above 80 percent in 2003). This implies the strong potential threat of crises of the financial institutions, especially of banks.

There is a potential mismatch between long-term funding (such as for development of infrastructure and for the purchase of SUN/government securities by the banking system) and short-term sources of funding. From 2003 to the middle of 2004, around 80 to 90 percent of time deposits comprised deposits with maturities of less than three months. The *syariah*-based banks, which were expected to become an alternative source of financing, even though its growth was quite encouraging, such as indicated by its loan to deposit ratio that per November 2004 reached 104.8 percent, still comprised a relatively small share of financing (only around one percent of financing of all banks). Meanwhile, the role of non-bank financial institutions, which actually could become a long-term source for development funding, is still relatively small. Total assets mobilized by insurance companies, pension funds, financing companies, venture capital companies, and mortgage companies, still comprised around 10 percent of GDP compared to 51 percent of GDP reached by banks (2003). This is attributed to the weak law enforcement and the not yet fully applied international standards in the regulation and supervision of non-bank financial institutions, hat has

resulted in the low trust of the general public in these financial institutions.

The capital market that has been expected to become the source for long-term funding for the private sector still needs to be enhanced. In 2003, the contribution of the capital market in the economy, as reflected in the market capitalization value of stocks and bonds of corporations to the GDP, even though still reaching 24 percent, was still far below the funds mobilized by the banking sector that has already reached 43 percent of GDP. The rapid growth of various financial products (such as mutual-funds) had the potential for creating risks if not followed-up by adequate regulations and supervision. The net assets value of mutual funds in 2004 has reached around 13 times the net assets value in 2001. The big increase in the accumulated funds in the mutual-funds industry invariably requires regulations that attaché high importance to the maintenance of prudential principles.

The preparation for establishing a mechanism for preventing and managing crises through the Indonesian Financial Sector Safety Net concept has up to now not yet been as expected. This is because there has been as yet no agreement between the related institutions on the implementation of the integrated regulatory function and the supervisory function of financial services (through the establishment of the Financial Services Authority). The function of insurance for deposits of bank customers (through the establishment of the Deposit Insurance Institution) will only start operating in 2005. Therefore its optimal operation will only be established several years thereafter.

In short, the challenges for continually creating and consolidating economic stability are the potentials of economic shocks that originate from external sources, such as the possible policy reversal of industrialized nations from an easy monetary policy to a more tight monetary policy and the increase in crude oil prices, as well as from domestic sources in the form of threats to fiscal sustainability, the condition of banks and non-bank financial institutions which has not yet fully recovered, the structural condition that is still weak, which in turn can lead to external imbalances, and can threaten fiscal sustainability and monetary stability.

B. THE TARGET

The targets are the maintained macroeconomic stability that can support the realization of a relatively high and quality economic growth rate and the increased capacity to fund development, originating from government sources as well as from private sectors while still maintaining economic stability.

C. POLICY DIRECTIONS

Economic stability is maintained by ensuring synergy between the implementation of a cautious monetary policy and the implementation of fiscal policy that is directed at maintaining fiscal sustainability, while still providing room of maneuver for increasing economic activities. Economic stability will be supported by structural reforms in various areas and the increased resiliency of the financial sector by strengthening and regulating financial services, protecting funds of the general public, and by gradually increasing coordination of various monetary authorities through the financial system protection net.

FISCAL POLICY

Fiscal policies are directed at:

1. Ensuring a balance between the increased budget allocation and the efforts to consolidate fiscal sustainability, through:
 - (a) Increasing government revenues and efficiency in government expenditures, simultaneously endeavoring to gradually reduce the budget deficit.
 - (b) Formulating the budget deficit financing so as not to create a crowding out to private sector financing.
2. Increasing government revenues, especially by pursuing reforms in policies and in the administration of taxes and customs, and by optimizing non-tax government revenues, in terms of the types and in terms of their administrative improvements.
3. Increasing the effectiveness and efficiency of government expenditures, especially by pursuing the:

- (a) Clear separation in the authority between the central and regional governments, to be followed by its funding in the form of regional spending, and its relation with the deconcentration funding and assistance tasks funding, in accordance with the laws and regulations that are in force.
 - (b) Sharpening of budget allocations, among others by the reallocation of government spending so as to become more effective and well targeted.
4. Enhancing government foreign loans management directed towards reducing the foreign debt stock, not only relatively to the GDP but also in absolute terms. With regard to domestic debt, efforts will be made to still have adequate room of maneuver for the private sector through the drawing of net loans of less than 1 percent of GDP and to endeavor for its gradual decline. Thereby, it is estimated that the ratio of debt stock to GDP will gradually fall to less than 40 percent of GDP.

FINANCIAL SECTOR POLICY

The acceleration of the optimal intermediation function and the function of channeling funds is directed at: (a) the optimizing of bank credit channeling, including increasing access to funds for micro, small and medium-scale enterprises, and (c) increasing the diversification of the sources of funds of non-bank financial institutions, through a regulatory framework and by effective law enforcement in the supervision of non-bank financial services activities.

Enhancing the resiliency of the financial sector, by establishing a sound, solid and efficient financial system in order to support macroeconomic stability that is focused on: (a) the consolidation of coordination of fiscal and monetary policies between the government and Bank Indonesia; (b) enhancing the performance and stability of financial institutions; and (c) enhancing the application of Good corporate governance principles.

POLICIES RELATED TO THE BALANCE OF PAYMENTS

Policies to increase exports in the medium-term include measures to increase competitiveness, the diversification of products as well as of export destination countries, the increase of value added, and the increase of international trade cooperation. The policies to increase competitiveness include deregulation measures for removing barriers faced by the business community to enable it to compete abroad, measures to increase efficiency of production and marketing, measures to promote quality and to support trade facilities and infrastructure, transportation services, and banking services.

Import policies, specifically on imports of raw/intermediate materials and capital goods, encompass measures to increase efficiency of the national economy by exempting and loosening trading arrangements on various types of imports, tariff restructuring, and by gradually and transparently reducing tariffs.

Measures will be taken to improve government capital flows, by improving the management of foreign loans in order to increase aid effectiveness. The improvements also involve the diversification of loan sources, the close monitoring and evaluation of the total amount and composition of foreign currency denominations, the interest rate, and the maturity of loans. Steps will be taken to encourage greater private capital flows, especially direct foreign investment, by providing greater assurance on business certainty and on the security of investment. For this, efforts will be made to enhance an attractive investment climate, simplify procedures, provide more effective investment services and supporting facilities and infrastructure, and through consistent regulations.

Policies that are related to the balance of payments, particularly in relation to exports and imports, are elaborated in **Chapter 17 on Increasing Investment and Non-Oil/Gas Exports**.

D. DEVELOPMENT PROGRAMS

MANAGEMENT OF THE FINANCIAL SECTOR

1. PROGRAM FOR ECONOMIC STABILITY AND FINANCIAL SECTOR

The objectives of this program are the: (a) controlled inflation rate, exchange rate, and interest rates; (b) developed mechanism of the Financial Sector Safety Net of Indonesia; and (c) enhanced performance and health of financial institutions.

The main activities comprise the following:

1. Optimizing the periodic forum for coordinating fiscal and monetary policies, for the purpose of evaluating the inflation target and the exchange rate.
2. Establishing the framework for developing the financial sector as a whole.
3. Strengthening the structure of banks and of other financial institutions by enhancing supervision to the application of the minimum capital requirement, namely by:
 - (a) Increasing the minimum capital requirement for commercial/deposit-taking banks (including the BPD/Regional Development Banks) to Rp 100 billion;
 - (b) Maintaining the capital requirement of Rp 3 trillion for establishing new banks;
 - (c) Maintaining the minimum capital requirement for insurance companies of Rp 100 billion and increasing the minimum capital requirement for existing companies; and
 - (d) Maintaining the minimum net working capital requirement for securities companies.
4. Increasing the supervision function over banks and other financial institutions, through the:
 - (a) Issuance of the Law on Financial Services Authority (OJK). Under the condition where the OJK has not yet been established, the following steps will be carried out:
 - (i) Coordination among institutions that supervise banks, insurance services, capital market, and other financial services;

- (ii) Facilitation on the consolidation of banking supervision in the organizational structure of Bank Indonesia;
 - (iii) Enhancing the competence of the supervisors of banks and of other non-bank financial services;
 - (iv) Increasing the effectiveness of the enforcement of financial crime investigations, transparency of supervision, and the establishment of an internal ombudsman for supervision problems; and
 - (v) Development of a risk-based system for supervising financial services.
 - (b) Synchronizing the Insurance Law, Pension Fund Law, Capital Market Law, Banking Law, for accommodating regulations and supervisions that are in accordance with international standards, and adjusting them to the OJK Law;
 - (c) Formulation of the early warning system and financial stability assessment program, especially for the banking industry and the capital market;
 - (d) Formulation of the crisis settlement mechanism for capital market instruments if a crisis should occur; and
 - (e) Gradually implementing the International Organization of Securities Commission (IOSCO) principles.
5. Increasing the quality of regulations of banks and insurance services, through the:
- (a) Facilitation in the establishment of banking research institutions in the regions and at the central level for supporting the process of making banking policies;
 - (b) Gradually implementing the 25 Basel Core Principles for Effective Banking Supervision; and
 - (c) Gradually implementing standards on transparency and efficiency of the International Association on Insurance Supervision Core Principles.
6. Increasing the quality of the management and operations of banks and other financial institutions:
- (a) Determination of minimum standards for Good Corporate Governance in banks, insurance companies, and capital market companies, and encouraging banks to sell their shares in the capital market;

- (b) Application of the risk manager certification for each managerial hierarchy in banks and certification for expertise at insurance companies;
- (c) Increasing the operational capability of banks, by encouraging banks to have a joint use of operational facilities in order to reduce costs and to facilitate education needs; and
- (d) Formulating guidelines and ethical codes for the management of capital market products, such as mutual-funds.

2. PROGRAM FOR DEVELOPING FINANCIAL INSTITUTIONS

The objectives of this program are: (a) the developed non-bank financial institutions; (b) the strengthened structure of financial institutions in order to enhance the intermediation function to SMEs; (c) the greater availability of supporting infrastructure for financial services; (d) the enhanced protection to bank customers, holders of insurance policy and investors in the capital market.

The main activities comprise the following:

1. Improving the law regulations for providing the opportunity for the growth of new innovations in capital market products, such as the *syariah*-based bond instrument;
2. Improving the law regulations for the development of *syariah*-based financial institutions;
3. Providing support for increasing the channeling of credits to the SMEs, in the forms of:
 - (a) Establishment of the joint facility of the BPR/*Bank Perkreditan Rakyat* (Smallholders Credit Banks) for increasing their competitiveness;
 - (b) Increasing the information transparency of the BPR regarding their performance and reputation;
 - (c) Provision of technical assistance to the BPR and the Bank Partner Financial Consultant (KKMB);
 - (d) Facilitating the increase of credit guarantee through the SMEs; and
 - (e) Development of the Micro-Finance Institution (LKM).
4. Endeavoring for the acceleration of developing the infrastructure of banks and other financial institutions, through the:

- (a) Development of the credit bureau for banks;
 - (b) Optimizing the use of credit rating agencies; and
 - (c) Facilitating the efforts to increase the functions of supporting institutions of the syariah banks through the establishment of the *syariah* auditor, *syariah* financing guarantee institution, and the *syariah* financial information center.
5. Increasing the protection to customers, insurance policy holders, and capital market investors, by:
- (a) Facilitating the accelerated establishment of the institution to carry out the function of accommodating complaints of customers, in the form of among others the formulation of the minimum standards for on the mechanism for accommodating complaints of bank customers, insurance policy holders, and capital market investors;
 - (b) Formulating the minimum standards on information transparency of products;
 - (c) Guiding banks, insurance companies, and securities companies for educating their customers/clients regarding the products/services that they provide; and
 - (d) Accelerating the development of the infrastructure for banks and insurance services in order to ensure the safety of bank customers/insurance policy holders, among others through the operation of the LPS (Deposit Insurance Institution) with the amounts guaranteed to be applied in stages and through efforts to establish the insurance policy guarantee scheme.

FISCAL MANAGEMENT

1. PROGRAM FOR INCREASING REVENUES AND SAFEGUARDING OF PUBLIC FINANCE

The objective of this program is to increase government revenues, especially revenues from taxes, by taking into account the growth of business activities and the sense of justice of society.

The main activities are the following:

1. Implementing reforms on tax policies and tax administration, encompassing the following:

- (a) Amending the Tax Law and revising the taxation regulations under this Law;
 - (b) Continuing the tax extensification measures, among others by: (i) forming and improving the data bank and the Single Identity Number (SIN); (ii) improving the e-mapping and smart mapping program, and (iii) collecting and updating data for capturing new tax payers;
 - (c) Continuing the tax intensification efforts, among others by: (i) auditing certain industries that have a low compliance; (ii) increasing the criminal investigation measures on taxation in order to give a positive deterrent effect; and (iii) carrying out tax collection activities through the confiscation of bank accounts of tax payers/tax obligors, prevention and hostage keeping;
 - (d) Improving the provision of information and services to tax payers, through the: (i) continuation of improvements in the Tax Information System (Simplification, System and Procedure); (ii) improving the program on reimbursement services; (iii) continuing the development through the implementation of e-filing, e-registration, e-payment, e-counseling; and (iv) increasing the performance of providing information as an information service and public relation service.
 - (e) Improving the institutions and developing features of the large taxpayer office (LTO) at medium and small tax offices;
 - (f) Implementing good governance within the Directorate General of Taxes, such as: monitoring codes of conduct, going over files on disciplinary violations cases at each Regional Offices of the Directorate General of Taxes, socializing personnel regulations, and minimizing contacts with tax payers;
 - (g) Improving the Human Resources Management System, among others by applying the system for measuring performance of the tax administration, forming a work performance unit, and forming a new compensation scheme/main traits;
 - (h) Measuring the level of satisfaction of tax payers;
 - (i) Increasing cooperation with the banking system in the context of providing facilities for paying taxes; and
 - (j) Improving the management of tax inspections.
2. Reforming policies and tax dispute administration, encompassing the following:

- (a) Encouraging the participation of tax payers in using their right to seek/obtain tax justice;
 - (b) Developing a tax dispute information system that encompasses the development of a data warehouse on court rulings, the development of a tax court site; and
 - (c) Improving the tax dispute information system (SISPA).
3. Carrying out reforms of policies and customs and excises administration, encompassing the following:
- (a) Reforming policies on customs and excises, among others: (i) Amending Law Number 10 of 1995 regarding Customs, especially pertaining to stipulations on the criminal act of smuggling; (ii) Amending Law Number 11 of 1995 regarding Excises; (iii) Assessing implementing regulations of Law Number 10 of 1995 regarding Customs and Law Number 11 of 1995 regarding Excises, for the purpose of enhancing public service and supervision; and
 - (b) Reforming the administration of customs and excises, encompassing the following activities: (i) Facilitating trade; (ii) Enhancing services on excises; (iii) Increasing actions to eradicate smuggling and under-valuation practices; (iv) Increasing the supervision system in the context of enforcing the laws on customs and excises and for protecting society; (v) Increasing coordination with stakeholders; (vi) Computerization of the system, procedure, and supervision of customs and excises; (vii) Increasing the professionalism and integrity of personnel through the code of ethics (Code of Conduct Committee – CCC), forming the special investigation unit, providing channels for accommodating complaints and establishing an ombudsman on customs and excises; (viii) Auditing customs and excises in an effective and efficient manner; (ix) Managing the physical facilities and infrastructure; and (x) Increasing the quality of formulating budget allocation and financial administration;
4. Carrying out reforms of policies and administration on non-tax revenues, encompassing the following:
- (a) Reforming policies on the PNBP (Non-Tax Government Revenues), among others: (i) Formulating law regulations on the PNBP of Natural Resources, profits of the BUMN/State-Owned Enterprises, other non-tax revenues, export taxes/levies

and levies of the BLU (the agency that carries out the Public Service Obligation function), which include the procedure for determining the amount, levies, payments, deposit and collection of the PNBP and the submitting and settlement of objections to PNBP; (ii) Evaluating and improving law stipulations on oil and gas, geothermal energy, other PNBP sources and on export tax/levies and the BLU; (iii) Evaluating and improving tariffs on the PNBP and export taxes/levies; (iv) Formulating drafts on the government regulation regarding the management of the BLU, export tax/levies; (v) Socializing policies and regulations on the PNBP, export taxes/levies and the BLU; (vi) Taking steps to consolidate and reconcile data relating to Natural Resources, Profits of State Owned Enterprises, other PNBPs, export tax/levies and the BLU; (vii) Carrying out research and development in the context of innovating and diversifying PNBP levies; and (viii) Monitoring law enforcement in PNBP;

- (b) Continuing reforms in PNBP administration, encompassing: (i) Development of the information system and data base on PNBP and BLU; (ii) Increasing steps for the reconciliation, monitoring and evaluation of PNBPs; (iii) Improving the administration of monitoring BBM (oil fuels) consumption and the domestic retail price developments. and monitoring the consumption and retail price of fuel oils to the aviation industry and of other uses; (iv) Verification of magnitudes on PNBP and export tax and levies; and (v) Improving the administration system of export tax/levies proceeds by using the on-line computer information system.
- 5. Consolidating the management of RDI, RPD and SLA loans, among others by: (i) providing facilities and enhancing the speed and accuracy in loan administration; (ii) projecting government revenues from loan repayments; (iii) developing the computerization of loan administration; and (iv) assessing existing regulations on loan management.
- 6. Increasing government revenues originating from the administration costs for the handling of government receivables and from Auction Fees, through:
 - (a) Increasing services in the handling of state receivables and auctions;

- (b) Formulating guidelines for the administration of Files on State Receivables cases and minutes of auctions;
- (c) Improving the Administration and Information System on the Handling of State Receivables and Auctions;
- (d) Formulating guidelines on the methods for the valuation of land, buildings and machines;
- (e) Revising the Draft Law on the Handling of State Receivables, and the Draft Law on State Auctions, and their implementing regulations;
- (f) Revising implementing directives/technical directives on the handling of state receivables and auctions; and
- (g) Formulating Draft of Government Regulations and Regulations of the Minister of Finance on the Procedure for Submitting Proposals and Determination of the Write-Off of State/Regional Receivables.

2. PROGRAM FOR INCREASING THE EFFECTIVENESS OF GOVERNMENT EXPENDITURES

The objective of this program is to support fiscal consolidation steps in the context of maintaining fiscal sustainability.

In order to realize this objective the main activities that will be pursued are among others the following:

1. Improving the income and welfare of the state apparatus and the retirees by taking into account the capability of the state finances;
2. Increasing the efficiency and effectiveness of the procurement of goods and services that are used for the provision of public services of each government agencies and for the maintenance of state assets through the reform in the procurement of goods and services and the establishment of the e-procurement system for the procurement of goods and services of government agencies;
3. Providing adequate development facilities and infrastructure for supporting a high economic growth rate, increasing the welfare of the people, alleviating poverty and reduce unemployment;
4. Reducing the burden of government debt interest payments;
5. Better targeting of subsidies;

6. Directing social assistance spending that can directly assist in reducing the burden of poor population and communities that are affected by national disasters;
7. Increasing coordination and synchronization of fiscal decentralization policies in the context of improving public finance relations between the central government and regional governments by formulating policies in determining the General Allocation Fund (DAU), the Special Allocation Fund (DAK), the Tax and Non-Tax Sharing Fund, including the Reforestation Fund.
8. Increasing coordination with related central government agencies in monitoring and evaluating equalization funds;
9. Continuing steps to update data on the formulation of equalization fund policies;
10. Compiling and formulating policies on regional revenues that originate from the APBN and harmonizing regional regulations, that are among others related to the expansion and increases of regional revenue sources.
11. Increasing coordination with Regional Governments and supervising Regional Regulations on regional taxes and service charges that are not consistent with higher law regulations and/or are in contravention with national policies;
12. Compiling and formulating policies for the management of regional finances, that among others are related to stipulations on transparency and accountability in the management of regional finances, improving the management of regional finances, controlling the deficits and surpluses of regional budgets, and the reporting and management of information on regional finances; and
13. Compiling and formulating policies for the implementation of de-concentration and assistance tasks that encompasses the management and accountability, monitoring and evaluating, and the gradual transfer/switching of part of the budget of Ministries/Agencies that have been used for the financing of regional affairs, to become the Special Allocation Fund (DAK).

3. PROGRAM FOR THE CONSOLIDATION OF THE BUDGET ALLOCATION SYSTEM

The objective of this program is to enhance transparency and accountability in the budget allocation system in conformity with Law Number 17 of 2003 regarding State Finance.

To attain that objective, the main activities that will be pursued include the following:

1. Implementing the unified budgeting method by applying the format of the central government budget spending in the APBN by types of spending, organization, and functions;
2. Implementing the state budget expenditure in the context of the Medium Term Expenditure Framework/MTEF;
3. Implementing the performance-based budgeting;
4. Implementing the accrual based budgeting;
5. Applying the Treasury Single Account system in the management of state finances;
6. Enhancing the management of state finances by applying the principles of good governance;
7. Improving the format of the APBN on the basis of the government finance statistics that are in accordance with international standards (Government Finance Statistics/GFS Manual 2001).
8. Developing an APBN planning model that is integrated with other economic sectors;
9. Improving the information system and data base that are reliable for analytical purposes in fiscal policy making;
10. Increasing the synergy and synchronization in the formulation of policies, budgeting, and state treasury matters, through the formal affirmation of the tasks and functions of the units that are authorized to carry out the functions of ordinance, authorization, and formulation of policies;
11. Increasing the monitoring and evaluation of APBN implementation; and
12. Increasing the capacity building of resources in the context of the formulation, implementation and reporting of the APBN.

4. PROGRAM FOR MANAGING AND FINANCING OF GOVERNMENT DEBT

The objective of this program is to optimize the management of debt that originates from government securities as well as from official loans, as alternatives for financing the APBN (National Budget) deficit, so as to obtain sources of financing at a low cost and at a tolerable risk.

In order to attain the objective, the main activities that will be pursued are among others as follows:

1. Continuing the completion of the Draft Law on the Management of Foreign Loans and Grants.
2. Safeguarding the planned absorption of foreign loans, covering program loans as well as project loans. With regard to program loans, efforts must mainly be made to ensure that the policy matrix that has been agreed is already in accordance with the capability and authority of the government so that it can be implemented. With regard to project loans, priority needs to be given to strategic projects and ought to be better prepared at the central government as well as regional government levels;
3. Improving the mechanism for channeling loans and/or grants that are forwarded from the central government to regional governments, in accordance with Law Number 17 of 2003 and Law Number 33 of 2004;
4. Safeguarding the pipeline of foreign loans for the safeguarding of state budget financing in the following years by improving the government loan strategy;
5. Improving the formulation of regional loans and grants policies that are to be adjusted to the capability of the respective regions;
6. Managing the portfolio of government securities (SUN) through the following:
 - (a) The on-time payments of interest and principal of government bonds;
 - (b) The issuance of the government securities (SUN) in rupiah currency and in foreign currency;
 - (c) The buyback of government bonds;
 - (d) Debt switching;
 - (e) Developing government securities instruments; and

- (f) Increasing coordination between the fiscal and monetary authorities.
- 7. Developing the market and infrastructure of government securities (SUN), through the following:
 - (a) Encouraging the availability of a benchmark price through the promotion of the inter-dealer market of government securities (SUN);
 - (b) Encouraging development of the repurchase market;
 - (c) Issuing government securities (SUN) that will become the benchmarks (the periodic issuance of T-bills and T-bonds);
 - (d) Expanding the investors base through cooperation with institutional investors;
 - (e) Increasing the efficiency and reliability of the clearing, settlement and registration systems;
 - (f) Developing human resources in debt management;
 - (g) Developing access to financial market information;
 - (h) Making periodic publications; and
 - (i) Socializing the government securities.
- 8. Developing and enhancing the information system and reporting of the SUN management, through:
 - (a) Developing an integrated information system; and
 - (b) Increasing the DPSUN server capacity until each transaction becomes online;
- 9. Evaluating the possibility for applying the Treasury Management Information System.

5. PROGRAM FOR PROMOTING STATE FINANCE ACCOUNTING

To objective of this program is to increase the accountability of state finance management.

To attain this target, the main activities that will be pursued are the following:

1. Compiling government accounting standards and improving the accounting system;
2. Accelerating the completion and enhancing the quality of financial reports of the central government;

3. Integrating the financial information of state owned enterprises into the financial reports of the government;
4. Increasing the hierarchical coverage of information for supporting the integrated compilation of financial reports;
5. Compiling the guideline and presentation of government finance statistics;
6. Guiding the development of regional governments accounting system;
7. Presenting state treasury information on a periodic and non-periodic basis;
8. Supporting the development and improvement of the treasury system; and
9. Developing the treasurer functional positions.

CHAPTER 25

RURAL DEVELOPMENT

Most (around 60 percent, according to the data of the 2000 Population Census) of the Indonesian population is currently living in rural areas. Thus far, the rural areas are characterized by among others the low productivity of the labor force, the still high proportion of poor people, and the low quality of the rural living vicinity. The low productivity of manpower in rural areas can be discerned in the large proportion of the population that are employed in the agricultural sector (46.26 percent of the 90.8 million employed population), even though the share of the agricultural sector in the national economy has declined to 15.9 percent (2003 National Social and Economic Survey). Meanwhile, the high proportion of poor people in rural areas is indicated by the total number and percentage of poor population (head count) as well as from the depth and severity of poverty. In 2003, the total number of poor population was 37.3 million (17.4 percent of the total population), wherein the percentage of poor population in rural areas was 20.2 percent, higher than that in urban areas, namely 13.6 percent.

The continuing growth of the population as well as labor force of the rural areas in comparison to the relatively stagnant growth of agricultural land, has resulted in the absorption of the labor force into non-productive activities. Therefore, it is essential to develop non-agricultural employment opportunities (non-farm activities) in order to reduce the poverty rate and to lower the continuing increase of the urbanization rate. The development of the local economy that is based on and linked to activities in urban areas has the potential to create quality employment opportunities for the rural population.

The more modern development of agricultural economic undertakings and the continued growth of the UMKM (Micro, Small and Medium Enterprises) and Cooperatives in the rural areas will establish an increasingly solid foundation for the long-term transformation of the agricultural community towards an industrial community. Accordingly, it is also necessary to increase the availability of infrastructure in rural areas

that can support economic activities and enhance the quality of the living environment in rural areas. Rural areas that can provide productive employment and provide a healthy and comfortable living environment will become a deterrent to the migration of population from rural to urban areas.

A. THE PROBLEMS

Rural areas are facing internal as well as external problems that have obstructed the realization of productive, competitive and comfortable rural living areas, as will be described in the following points:

The limited alternatives of good quality employment opportunities. Economic activities outside the agricultural sector, in the form of small scale industries that process agricultural products as well as handicraft activities and the supporting services, are very limited. Most of the economic activities in the rural areas still rely on the production of primary commodities, thereby yielding low value added. On the other hand, in the 2001–2003 period, the total number of formal employment in urban as well as rural areas contracted.

The weak linkages of economic activities among sectors as well as among geographical areas. Such a condition is reflected in the lack of linkages among the agricultural sector (primary sector), industrial sector and the supporting services sector, and in the linkages of development between rural and urban areas. Small and medium urban areas that serve the surrounding rural areas have not yet developed as market centers for agricultural commodities; as centers for the production, collection and distribution of goods and services; as centers for the development of micro, small and medium non-agricultural enterprises; and as the providers of alternative (non-agricultural) employment opportunities.

The emergence of barriers in the distribution and trade among regions. In the era of regional autonomy (devolution), a tendency has emerged for increasing local government revenues (PAD) in the form of taxes and service charges (levies), resulting in the high cost economy. Such levies are in the form of among others levies imposed on

interregional trade in agricultural commodities, which will reduce the competitiveness of agricultural commodities.

The high susceptibility to risk faced by farmers and economic activities in rural areas. The majority of farmers and those engaged in business activities in rural areas substantially depend on nature. An unfriendly disposition of nature will increase the risk of losses in such forms as harvest failures due to floods, drought, as well as insects plagues. Under such condition, those engaged in small industrial activities that process agricultural commodities will automatically be affected by the difficulties of finding raw materials for their production process. Such risks are compounded by the risk of fluctuating prices and unfavorable market structures.

The small amount of assets owned by the rural population. This is evident from the total number of have-not farmer households (namely farmers who own land of less than 0.5 Ha), which reached 13.7 million households, comprising 56.2 percent of agricultural households that use land in 2003. This is aggravated by the still low access of the rural population to economic resources, such as land, capital/funding, production inputs, skill and technology, information, and to cooperation networks. Specifically on capital/funding, one of the reasons for the low access of the rural population to the credit market is their minimal collateral potential as reflected in the low percentage of rural households who have land certificates that have been issued by the BPN (National Land Office), namely only 21.63 percent (2001). The access of the rural population to the utilization of natural resources is also still minimal. The welfare level of the population living in the vicinity of forests, mining, and coastal areas is still low; in fact most are classified as being poor.

The low level of infrastructure and public facilities services. This is reflected in the total of irrigation networks being damaged, which reached around 30 percent, in the electrification ratio of rural areas that still is 78 percent (2003), the total number of villages that are connected to telecommunications and information, still reaching 36 percent (2003), in the percentage of rural households that have access to drinking water supplied by pipelines, still reaching 6.2 percent (2002), the percentage of rural households that have access to waste water infrastructure, still reaching 52.1 percent (2002), the increased education facilities that have

become damaged, the shortage of health facilities, and market facilities that are still limited in rural areas, especially in the Eastern Part of Indonesia.

The low quality of human resources in rural areas, most of whom are low-skilled. This is indicated by the duration of schooling of the population aged 15 years and older, namely reaching only 5.84 years or having not yet passed elementary school (SD/MI); while the average school years for the urban population has already reached 8.73 years. The proportion of the population aged 10 years and older that have completed their junior high (SMP/MT) education in rural areas is only 23.8 percent, which is much lower than that of the urban population, namely 52.9 percent. The literacy rate of the rural population is also still low, as indicated by the high illiteracy rate of 13.8 percent, namely over twice of that of the urban population of 5.49 percent (*Susenas*/National Social Economic Survey of 2003).

The increased conversion of fertile and technically irrigated agricultural lands for other uses. In addition to the increased extent of critical lands due to erosion and pollution of soil and water, the most serious issue that is related to the productivity of the agricultural sector is the contraction of rice field areas. In the 1992–2000 period, the extent of rice field area declined from 8.2 million hectares to 7.8 million hectares. In addition to being induced by the gap in the land rent value of agriculture compared to housing and industrial uses, such a condition has also been attributed to the weak enforcement of regulation related to the RTRW (Spatial Planning) at the local level.

The increased degradation of natural resources and the environment. Natural resources and the environment are actually very valuable assets for enhancing the welfare of the people, if managed and utilized in an optimal manner, especially by the population living in the relevant vicinities. Nevertheless, such a potential will be reduced if actual practices in the management does not adequately take into account the principles of sustainable development. An example of this is shown by the Forestry Statistics of 2002, wherein the estimated critical lands up to December 2000 was 23.24 million hectares, with 35 percent found in forest areas and 65 percent in areas outside forest areas. Forests have experienced an increase in the rate of degradation from 1.6 million

hectares/year in the 1985–1997 period to 2.1 million hectares/year in the 1997-2001 period.

The weak community-based institutions and organizations.

This is reflected in the level of the capability of institutions and organizations in the channeling of aspirations of the people for the planning of development activities, and in the strengthening of the bargaining position of the people in economic activities. In addition, there is also the problem of the still limited access, control and participation of women in development activities in rural areas, which is attributed among others to the still strong influence of patriarchal social and cultural values that place women and men in positions and roles that are different, unjust and not of equal footing.

Weak coordination across development fields in the development of rural areas. The integrated development of rural areas will involve many stakeholders, encompassing elements from the government (central and regional), the people, and the private sector. With regard to the government itself, coordination is even more needed in ensuring the synergy among sectors and also because of the already implemented decentralization of most of the authority to regional governments. Weak coordination results in the inefficient utilization of scarce development resources, due to the overlapping activities and also due to the lack of synergy among activities.

B. THE TARGETS

In the next five years, the targets to be attained in rural development are as follows:

1. The increased role and contribution of rural areas as the basis of national economic growth, to be measured by the increased role of the agricultural sector and the related non-agricultural sectors in the processing chain-link of rural based products;
2. The creation of quality employment opportunities in rural areas, especially non-agricultural employment, which is characterized by the decline in the rates of open unemployment and underemployment.

3. The increased welfare of the rural population as indicated by the decline in the total number of poor population and the increased level of education and health, especially among women and children.
4. The increased quantity and quality of infrastructure in rural settlement areas, as indicated by among others: (i) the completed construction of rural telecommunication facilities of at least 43 thousand new lines in 43 thousand villages and of community access points in 45 thousand villages; (ii) the increased percentage of villages that have electricity, from 94 percent in 2004 to 97 percent in 2009; (iii) the increased percentage of rural households that have access to drinking water of up to 30 percent; and (iv) all households have toilets, so that there will no longer be open defecation;
5. The increased access, control, and participation of all elements in society in rural development activities, which is indicated by the representation of aspirations of all groups in society and the increased equality between women and men in the planning, implementation, monitoring and evaluation of development activities.

C. POLICY DIRECTIONS

Rural development policies in 2004–2009 are directed towards increasing the quality of life of the rural population by taking into account aspects on gender equality, through the following policy measures:

1. Inducing the creation of quality employment opportunities by stimulating the growth of non-agricultural economic activities (rural industries and supporting services), diversifying agricultural undertakings towards high economic value agricultural commodities, and strengthening the linkage between rural and urban areas;
2. Increasing the promotion and marketing of agricultural and other rural products in order to increase the continuity of supply, particularly to the closest urban areas and to processing industries that are local resource-based;
3. Increasing access of the population, in particular women, to productive resources for the development of business activities, such as land, social and economic infrastructure, funding, information,

technology and innovation; and access of the population to public services and to markets;

4. Enhancing empowerment of the rural population by increasing their quality, as individuals as well as development resources, and by strengthening the institutions and social capital of the rural population, in the form of cooperation networks for the strengthening of their bargaining positions;
5. Increasing welfare of the rural population by meeting their basic rights to education and health services and minimizing their susceptibility to risks by developing institutions for protecting farmers as well as by correcting unhealthy market structures (monopsonistic and oligopsonistic market structures);
6. Promoting agricultural cultivation and non-agricultural undertakings that are environment-friendly and that are in conformity with the principles of sustainable development as part of the efforts to conserve the supporting capacity of the environment.

D. DEVELOPMENT PROGRAMS

The above policy directions will be implemented mainly through programs and main activities to be carried out in rural areas, and are as follows:

1. PROGRAM FOR THE ENHANCED EMPOWERMENT OF RURAL POPULATION

The objectives of this program are: (1) to develop rural areas by enhancing the empowerment of the people in rural areas; and (2) to enhance the capacity of the government at the local level in the management of rural development in accordance with the principles of good governance.

The main activities for developing rural areas are the following:

1. Increasing information dissemination and training in business skills for the rural people;
2. Agrarian reforms for increasing the access of the people to lands and in the management of natural resources;
3. Simplifying the land certification procedure in rural areas;

4. Increasing access of the rural population to information;
5. Developing institutions for protecting farmers and those involved in business activities in rural areas;
6. Strengthening community-based institutions and organizations, such as the farmers affiliations, cooperatives, custom institutions to express the aspirations of the people;
7. Consolidating rural government institutions in the management of rural development in conformity with the principles of good governance;
8. Increasing the participation of rural population, especially females and poor people, in the planning, implementation, monitoring and evaluation of rural development;
9. Developing institutions for the diffusion of technology in rural areas, especially appropriate and environment-friendly technology;
10. Increasing the capacity of the regional government apparatus in facilitating and coordinating the role of stakeholders in the development of rural areas;
11. Improving the management and financing system of regions for supporting the development of rural areas; and
12. Consolidating cooperation and coordination among regional governments across administrative areas.

2. PROGRAM FOR PROMOTING LOCAL ECONOMIES

The objectives of this program are: (1) to increase the productivity and value added of business activities in rural areas; (2) to stimulate the creation of quality employment opportunities in rural areas, especially in the non-agricultural sector; and (3) to increase linkages between the agricultural sector and the industrial sector and services on the basis of local resources. These three objectives are in the context of enhancing synergy and linkages between rural and urban areas.

The main activities that will be carried out encompass the following:

1. Consolidating and developing agropolitan areas that are strategic and potential, especially in areas outside Java and Bali;
2. Increasing the development of agribusiness activities, encompassing the chain-links of the upstream sub-sectors (input supply) on-farm (cultivation), downstream (processing), and supporting services;

3. Strengthening the supply chain-link for rural industries and strengthening local resources-based production;
4. Developing the business and entrepreneurial culture especially to the young work force in rural areas;
5. Developing and applying appropriate science and technology in the business activities of the rural population;
6. Developing business cooperation networking;
7. Developing partnerships between large enterprises and micro/household enterprises;
8. Developing a system of outsourcing and sub-contracting of large companies to micro/small and medium enterprises and cooperatives in rural areas;
9. Increasing the role of women in productive economic activities in rural areas;
10. Expanding markets and increasing the promotion of rural products;
11. Increasing the services of financial institutions, including micro financial institutions, to those engaged in business activities in rural areas;
12. Increasing the reach of services of business development providers in order to strengthen the development of local economies; and
13. Developing the capacity of services of the commodity bourse trading institutions, auction markets, and the warehouse receipt system with the aim of increasing profit potentials and minimizing the risk of losses due to price fluctuations faced by farmers and rural business undertakings.

3. PROGRAMS THAT ARE LINKED TO INCREASING THE RURAL INFRASTRUCTURE (Chapter 33: Accelerating Infrastructure Development)

The objectives of this program are: (1) to increase the quantity and quality of the infrastructure that support productive economic activities in rural areas; and (2) to increase the quantity and quality of settlement infrastructure in order to realize rural areas that are properly habitable for humans.

The main activities for supporting rural development are:

1. Increasing the road infrastructure of rural areas, which connects rural and urban areas;
 2. Increasing the energy services facilities and infrastructure, including electricity in rural areas;
 3. Increasing the post and telecommunications and information facilities and infrastructure in rural areas;
 4. Optimizing irrigation networks and other waterway networks; and
 5. Increasing settlement infrastructure services, such as drinking water services, waste water disposal, and waste and drainage services.
- 4. PROGRAMS THAT ARE LINKED TO INCREASING THE QUALITY OF HUMAN RESOURCES IN RURAL AREAS** (Chapter 27: Increasing Access of the People to Good Quality Education, and Chapter 28: Increasing Access of the People to Good Quality Health)

The objectives of this program are: (1) to increase the quality of human resources in rural areas by increasing access to and equity of basic and middle education that is of good quality and can be reached by the rural population; (2) to enhance the relevance of education and the labor market by education in skills that are required in employment, including vocational skills that are in conformity with the local potential and traits; (3) to improve the health condition of the population.

The main activities for supporting rural development are:

1. Providing facilities and infrastructure for basic and middle education including middle vocational education that are of good quality and can be reached in rural areas, accompanied by the rehabilitation and revitalization of facilities and infrastructure that have been damaged;
2. Expanding access to and increasing the quality of education in functional literacy for illiterate people in rural areas;
3. Increasing skills required for employment education including vocational skills that are in conformity with the local potentials and traits;
4. Increasing non-formal education for increasing worker's skill;
5. Increasing health services that are of good quality and can be reached by the rural population;

6. Promoting a healthy way of life and improving the nutrient adequacy of the people; and
7. Increasing services in family planning and reproducing health in rural areas.

5. PROGRAM FOR PROTECTING AND CONSERVING NATURAL RESOURCES (Chapter 32: Improving the Management of Natural Resources and Conserving the Functions of the Environment)

The objective of this program is to protect natural resources from degradation and to manage existing conservation areas in order to ensure the diversity of the ecosystem so that its functions as a buffer to the life system can be well maintained.

The main activities for supporting Rural Development encompass the following:

1. Protecting natural resources from excessive and uncontrolled exploitation, especially in conservation areas and in other areas that are vulnerable to degradation;
2. Managing and protecting biodiversity from extinction;
3. Developing a system of incentives and disincentives in the protection and conservation of natural resources;
4. Increasing the participation of the people and the business community in the protection of natural resources; and
5. Developing and socializing appropriate and environment-friendly technology.

CHAPTER 26

REDUCING THE IMBALANCED DEVELOPMENT AMONG REGIONS

National development has generally been able to enhance the quality of life and welfare of the people. Nevertheless, such development has evidently also created discrepancies in the growth among areas/regions. The discrepancies in development have occurred between Java and outside Java, between the western part of Indonesia and the eastern part of Indonesia, among cities and between urban and rural areas.

In several areas, the tendency of imbalanced development has led to the spirit of narrow regionalism, which in the extreme has manifested itself in separatist movements. Meanwhile, efforts to accelerate development in areas that are relatively left behind, even though already in progress for over ten years, have not yet shown results that can fully benefit the communities in those areas.

A. THE PROBLEMS

Many areas are still left behind in the development process. Communities living in left behind areas are generally still not yet touched by development programs, so that their access to social services, economic and political activities has still been very limited and they have been isolated from the surrounding areas. Therefore, the welfare of communities in the left behind areas need to be taken care of and greater government's concern must be given for their development. The problems faced in the development of the left behind areas, including areas that are inhabited by isolated traditional communities, are among others the following: (1) the limited access to transportation that can connect left behind areas with the relatively more advanced areas; (2) the low population density and widely dispersed population; (3) most of these areas lack resources, particularly natural and human resources; (4) development in the left behind areas has not yet been given a priority by the regional government because they are not deemed to be able to directly generate regional government revenues (PAD); (5) support from

related sectors for the development of such areas has not yet been optimal.

Strategic and potentially rapid growth areas have not yet grown. Many areas that have competitive products and strategic locations have not yet been optimally developed. This is due to among others: (1) limited market information and technology for developing the competitive products; (2) the lack of professionalism and entrepreneurial spirit for developing the areas in the regions; (3) the not yet optimal support from national and regional policies that favor farmers and private businesses; (4) lack of institutional infrastructure oriented to the management of sustainable economic development of the regions; (5) weak coordination, synergy, and cooperation among those involved in the development of the areas, encompassing the government agencies, private entities, non-government organizations, and the general public, and among the central government, provincial government and district/city governments, in the effort for increasing competitiveness and the competitive products of the regions; (6) the still low access of farmers and small enterprises to funds, production inputs, technology, and marketing network, in their pursuit in utilizing business opportunities and to engage in investment cooperation activities; (7) the limited physical infrastructure for supporting development of the areas and development of competitive products of the regions; and (8) the not yet optimal utilization of cooperation frameworks among regions as well as among nations for enhancing the competitiveness of the areas and their selected competitive products. Actually, these strategic and potentially fast growing areas can be developed in a faster manner, because they have their specific competitive products. Once developed, these areas are expected to be able to become the engine of growth for their surrounding areas, which lack natural resources and are still backward.

The border and isolated areas are still left behind in their development. The border areas, including the most outer small islands, have a large natural resources potential and are very strategic in terms of the defense and security of the nation. Nevertheless, development in various border areas is still very much left behind compared to development in areas of the neighboring countries. The social and economic conditions of the communities in these areas are still lower

than the social and economic conditions of the people in the neighboring nations. This has led to various illegal activities in the border areas that in the long term is feared to have the potential of creating various social problems.

The main reason for the lagging development in border areas is the orientation of regional development policy thus far, which has tended to be inward looking, thereby treating the border areas as if they were merely the backyards of national development. As a result, the border areas have not been looked upon as development priority areas by the central as well as regional governments. Meanwhile, the small islands in Indonesia encounter difficulties for being developed because their locations are isolated and are inaccessible. Many of such islands are uninhabited or are very sparsely populated and have not yet been touched by basic public services.

The inadequate functioning of the National Towns System in the growth of regions. The development of national areas basically occurs in urban and rural areas throughout the nation. Such development of urban and rural areas is inter-linked, forming a synergic development system of national areas. However, this has not yet fully taken place in Indonesia because the role of cities as the engine of development has not yet proceeded effectively, mainly in cities in Kalimantan, Sulawesi, and Nusa Tenggara. In addition, the hierarchic development of cities has not yet been fully realized, thereby cannot yet provide effective and optimal services to the surrounding areas. The links among cities and between urban and rural areas, which is currently occurring, have not yet all been mutually supporting and synergic. Many of the cities have been developing separately and even had adverse effects on each other. The result of all these is the emergence of imbalanced development among the areas/regions.

Disproportionate growth rates among large, metropolitan, medium and small cities. The high growth of large and metropolitan cities has currently been concentrated in Java and Bali, whereas the growth of medium and small cities, especially outside Java, has been slow. Such disproportionate growth of cities plus the imbalance in development among regions, have contributed to uncontrolled urbanization. This is physically indicated by: (1) the continued expansion

of urban areas due to their rapid growth and the expansion of fringe areas, especially in large and metropolitan towns; (2) the physical expansion of cities in suburban areas, which have integrated smaller cities in the vicinity of the core city and have formed an uncontrolled conurbation; (3) the increasing number of rural cities; (4) the reclassification process (the transformation of rural into urban areas, mainly in Java); (5) the growing trend of areas in trans-border provinces (East Kalimantan, Riau, North Sumatra), which have a large percentage of urban population; (6) the declining trend in population growth of core cities in metropolitan areas, while in the surrounding areas the population growth has tended to increase (the process of rural areas becoming urban areas).

Such a trend has adverse effects (created negative externalities) on the growth of large and metropolitan cities, as well as to medium and small cities in other areas. The adverse effects (negative externalities) created in large and metropolitan towns are among others in the following forms: (1) the excessive exploitation of natural resources in the vicinity of large and metropolitan cities for the purpose of supporting and increasing economic growth; (2) the continual conversion of productive agricultural lands to human settlement, trade and industrial areas; (3) the decline in the quality of the physical environment in the urban areas due to the degradation of the environment and pollution; (4) the decline in the quality of life of the urban communities due to social-economic problems and due to the decline in the quality of basic public services in the urban areas; (5) the development of new towns has not been self-reliant and well planned, thereby creating an extra burden to the core city. This problem is a reflection of a diseconomies of scale occurring on account of the too large number of urban population and the too large extent of the areas that has to be managed in an integrated manner.

Other adverse effects to cities in other areas are: (1) the uneven distribution of the urban population and the over concentration of urban population in Java, particularly in the Jakarta-Bogor-Tangerang-Bekasi/Jabotabek area (20 percent of the total of urban population in Indonesia); (2) the not yet optimal economic function of cities (mainly medium and small cities) in attracting investments and creating employment opportunities, (3) cities have not been optimal in facilitating

area development; (4) the role and functions of cities in supporting the realization of the system of national cities have not been synergic.

Discrepancy of development between rural and urban areas.

The social economic condition of communities living in rural areas is generally much below that of those living in urban areas. This is the result of the change in economic structure and the industrialization process, wherein private and public investments (infrastructure and institutional) have tended to be concentrated in urban areas. In addition, many of the economic activities in urban areas have not been in synergy with economic activities that have grown in rural areas. Consequently, urban areas that were expected to be able to induce the growth of rural areas (trickle down effect) have in fact adversely affected the growth of rural areas (backwash effect).

The Spatial Plan (*Rencana Tata Ruang*), which is the reference for coordinating development across sectors and regions, has not been effectively used. The development carried out in a certain region has often disregarded its sustainability. The desire to reap short-term economic benefits has often created the desire to excessively exploit natural resources, resulting in the degradation of the natural environment and the depletion of natural resources.. In addition, conflicts have frequently occurred in the utilization of inter-sector space, as exemplified by the conflict between forestry and mining. One of the causes of such problems is that development activities in such areas have not used the Spatial Plan (*Rencana Tata Ruang*) as reference for coordinating and synchronizing development among sectors and regions.

The system for managing land is still not yet optimal. A transparent management of land is an essential part of the spatial planning system. There are various problems that are currently faced in the management of land, among others: (1) the land management system is not yet effective and efficient; (2) the efficient land institution for providing land services to the general public is not yet realized; (3) the competence of those in charge of land management is still low; (4) the enforcement of the law on land rights based on the principles of justice, transparency and democracy is still weak..

B. THE TARGETS

The development of areas that still are relatively not yet developed and left behind requires development policy intervention by the government, so that the development in such areas can be stepped up, which will ultimately enhance the quality of life and welfare of the people as a whole. The targets for reducing development discrepancy among areas/regions are as follows:

1. The stepped up development of potentially fast growth and strategic areas, left behind areas, including border areas, in an integrated and synergic system of economic growth area;
2. The balanced growth among metropolitan, large, medium, and small cities, in an hierarchical manner, in a “national urban development system”;
3. The stepped up growth of small and medium cities, especially outside Java, so that these cities can become the engines of growth of their surrounding areas within an “economic development area system”, including the realized provision of public services for the urban population;
4. The managed growth of large and metropolitan cities in a “metropolitan area development system”, which is compact, comfortable, efficient in its management and which takes into account the need for having sustainable development;
5. The realized inter-linkages of economic activities between urban and rural areas, within “one area economic growth system”, which ensures mutually beneficial relations;
6. The realized harmony of the utilization and control of space/ locations within “one area system for sustainable development”;
7. The realized system for efficiently and effectively managing land and the law enforcement on land rights of the general public, by applying the principles of justice, transparency, and democracy.

C. POLICY DIRECTIONS

In the context of attaining the aforementioned targets for reducing discrepancies in development among areas, the following policy directions are needed:

1. Encouraging the stepping up of development and growth of strategic and potentially fast growing areas, so that they can induce the growth of left behind areas in the vicinity in one synergic "system of economic development area", by disregarding administrative borders and places the emphasis on industrial and distribution linkages. This can be attained by promoting selected competitive products of the region and by creating coordination, synchronization, integration and cooperation among sectors, among government agencies, the business community and the general public, in supporting the utilization of business and investment opportunities in the relevant regions;
2. Increasing the concern of the government for developing left behind and isolated areas, so that such areas can grow and develop in a faster way and can catch up in their development with other regions. The development approach, in addition to the direct efforts to empower communities, through the special allocation funds, PSO/Public Service Obligation entities, USO/Universal Service Obligation entities and through pioneering activities will also apply efforts for strengthening economic linkages with potentially fast growing and strategic areas, within the 'one economic development area system';
3. To develop border areas by changing the thus far adopted development policy that was 'inward looking' to an 'outward looking' orientation, so that such areas can be used as the gateways of economic and trading activities with neighboring nations. In addition to the security approach of development. the efforts will also apply the prosperity approach;
4. Ensuring more balanced development among metropolitan, large, medium, and small cities, in an hierarchical manner in a "system for national urban development". Therefore, it is necessary to increase forward and backward linkages of economic activities, from the start of the industrial process to the phase of intermediate materials production, final output production, until the final demand phase, in the respective cities, in accordance with their respective hierarchy. This will need to be supported by among others increasing accessibility and mobility of people, goods and services among such cities, among others by completing and enhancing the development of the trans-Kalimantan and trans-Sulawesi roads;

5. Increasing the stepped up development of small and medium cities, especially outside Java, so that such cities can function as the engines of growth, among others by ensuring the provision of urban basic public services, in conformity with the typology of the respective cities;
6. Encouraging the increased synergic inter-linkages of economic activities between urban and rural areas (production of rural areas are the backward linkage of economic activities in urban areas), in one “economic development system”;
7. Controlling the growth of large and metropolitan cities in one “metropolitan development area system” that is compact, comfortable, efficient in its management, and that takes into account the need for having a sustainable development;
8. Effectively enforcing the Spatial Plan (*Rencana Tata Ruang*), in conformity with the planning hierarchy (National Spatial Plan, Island Spatial Plan, Provincial Spatial Plan, District/City Spatial Plan), as the basis for the coordination and synchronization of development among sectors and among regions;
9. Formulating the land management system that is efficient and effective, and enforcing the laws on land rights, by applying the principles of justice, transparency, and democracy.

D. DEVELOPMENT PROGRAMS

The programs for applying the policy directions for reducing development discrepancies are as follows:

1. PROGRAM FOR THE DEVELOPMENT OF STRATEGIC AND POTENTIALLY FAST GROWING AREAS

This program is aimed at speeding up the development of potentially leading growth areas outside Java, so that they can optimize the utilization of their natural resources in supporting efforts for enhancing the competitiveness of the areas and their selected competitive products in domestic as well as international markets, thereby enabling them to accelerate the economic development of the areas, which will ultimately also encourage economic activities in left behind areas, in an “economic growth area system”.

In the context of supporting efforts for enhancing the competitiveness of the areas and selected competitive products in regional, national and global markets, the main activities that will be carried out for facilitating regional governments are the following:

1. To increase the development of strategic and potentially fast growing areas, particularly those areas that have selected competitive products, through the provision of technical assistance and counterparts to regional governments, business entities, handicraft activities, farmers and fishermen;
2. To increase the provision of infrastructure and facilities, among others by constructing efficient communication network system, including marketing outlets, in the context of connecting strategic and potentially fast growing areas with national and international trade centers, including efforts to increase accessibility for communication with left behind areas;
3. To enhance the capacity building of regional governments in developing competitive industrial clusters and agro-industrial activities, at strategic locations outside Java, by providing competitive incentives, so as to be able to attract domestic as well as foreign investors. Such incentives can be in the form of tax incentives, licensing facilities, and the provision of land management rights that can compete with land management rights provided for economic growth centers of other nations;
4. To consider the giving the strategic areas the status as free port and trade areas, other than those already given to Batam island and the island of Sabang. In addition, to avert the FTZ to become enclaves, it is necessary to create backward linkages between the Batam FTZ and other areas in Riau, as well as with other areas in Sumatra, especially those that produce raw materials and intermediate inputs, that thus far still have to be imported;
5. To further enable regional governments to enhance, effectuate and expand mutually beneficial regional economic cooperation with neighboring countries, including sub-regional economic cooperation, that thus far is still being initiated, such as the IMT-GT, the IMS-GT, the BIMP-EAGA and the AIDA;
6. To increase mutually beneficial cooperation among regional governments through the networking system. Such cooperation is very beneficial for the sharing of experience, sharing of burden in the financing of development, especially for the development and

maintenance of economic facilities and infrastructure that require a certain scale of economies that will make it inefficient if constructed by each of the regions;

7. To empower regional governments in: (a) identifying selected competitive products; (b) developing market information for their selected competitive products; (c) enhancing the entrepreneurial knowledge and capability of businessmen; (d) enhancing the access of farmers and small/medium enterprises to funding resources; (e) expanding the network of technology information and the utilization of research and technology that are focused to supporting selected competitive products; (f) developing institutions for the management of business promotion.

2. PROGRAM FOR THE DEVELOPMENT OF LEFT BEHIND AREAS

This program is aimed at increasing the quality of life and welfare of communities in left behind areas throughout the country, including areas that are inhabited by isolated traditional communities (Please refer to Table 26.1 on Location Priorities for Handling of Left Behind Areas in 2004–2009).

The main activities that will be carried out for facilitating regional governments are the following:

1. To enhance government concern for financing development, specifically the development of economic facilities and infrastructure in left behind areas, by among others the application of such development financing schemes as: the special allocation fund (DAK), the public service obligation/ PSO scheme and pioneer funding for transportation, the application of the universal service obligation/USO scheme for telecommunications, and through the rural electrification program;
2. To enhance capacity building of the local communities, government apparatus, institutions, and finances of the regional governments. In addition, it is essential to speed up the development of human resources, through the development of social facilities and infrastructure, particularly in the field of education and health;

3. To empower isolated traditional communities for increasing their welfare and capability to adapt with the life of communities that are more competitive;
4. To establish settlement groups for enhancing efficiency and effectiveness in the provision of public services, especially for areas that have sparse and widely dispersed population. This can be carried out by among others local transmigration as well as by inter-regional transmigration;
5. To enhance access of farmers, fishermen, trans-migrants and small and medium enterprises to funding resources, specifically through the rolling funds and micro credit schemes, and by providing guarantees for micro credits by the government to banks;
6. To enhance the linkages of economic activities in left behind areas with potentially fast growing and strategic areas, mainly by constructing the transportation system that can connect various areas, islands and various modes of transportation, specifically for areas in Papua, Kalimantan, Sulawesi and Nusa Tenggara.

3. PROGRAM FOR THE DEVELOPMENT OF BORDER AREAS

This program is aimed at: (1) maintaining the territorial integrity of the Republic of Indonesia, through the affirmation of the sovereignty of the NKRI (Unitary State of the Republic of Indonesia), which has been confirmed by international law; (2) enhancing the welfare of local communities by utilizing the economic, social, and cultural potentials and the geographical advantages that are strategic for making transactions with the neighboring country. (Please refer to Table 26.2 on the Location Priorities for the Handling of Border Areas in 2004–2009).

The main activities that will be carried out for facilitating regional governments are the following:

1. To strengthen regional governments in accelerating the enhancement of the quality of life and welfare of the local communities, by: (a) increasing the development of the social and economic facilities and infrastructure; (b) enhancing the capacity of human resources; (c) capacity building of the apparatus of regional governments and institutions; (d) enhancing the mobilization of development funds;

2. To increase the government's role in the financing of development, especially for the development of the economic facilities and infrastructure in border areas and small islands, by among others applying the various development financing schemes, such as the giving priority in the special allocation fund (DAK), the PSO (public service obligation) scheme, the pioneering scheme for transportation, the USO (universal service obligation) scheme for telecommunications, and the rural electrification program funding;
3. To speed up the declaration and determination of border lines with other nations by providing clear border marks and that are protected by international law;
4. To enhance participation of the local communities in protecting the environment (forests) and to prevent smuggling of goods, including illegal logging and human trafficking. Nevertheless, it is also necessary to facilitate the legal movements of goods and people, by enhancing the provision of facilities for the customs, immigration offices, quarantine facilities and enhancing security and defense;
5. To enhance capability in carrying out economic cooperation between border areas and areas of the neighboring nation, in the context of realizing border areas that function as the cross country gateways. In addition, it is also necessary to develop border areas as local natural resources based centers of economic growth through the promotion of competitive sectors;
6. To enhance nationalism of the communities; and to ensure the supremacy of law and legal regulations with regard to violations that are occurring in border areas.

4. PROGRAM FOR THE DEVELOPMENT OF INTER-CITY LINKAGES

The aims of this program are: (1) to realize the hierarchical development of cities which has synergic economic inter-linkages among the cities, in the context of realizing the national urban system; (2) to deter and prevent the urban sprawl and conurbation phenomena, such as those that have occurred on the northern coastline of Java; (3) to reduce migration from rural areas directly into large and metropolitan cities, by creating employment opportunities, including business opportunities, in medium and small cities, especially outside Java.

The main activities that will be carried out for facilitating regional governments are the following:

1. To reaffirm the roles and functions of cities, in a hierarchical manner, in the context of the 'economic growth area system' and the 'national urban development system';
2. To increase the provision of regional transportation network that connect cities in a hierarchic manner, for attaining the smooth collection and distribution of goods and services, by among others completing and enhancing the construction of the trans Kalimantan and the trans Sulawesi roads;
3. To establish forums of cooperation among city governments for formulating cooperation in development activities, specifically: (a) development mutually supporting processing industries, in industrial linkages in each of the cities in a hierarchic manner, in conformity with the city typology; (b) development of the infrastructure that requires a certain economies of scale; (c) conservation of water resources and the control of floods, requiring an integrated management, such as the Jabodetabek-Bopunjur cooperation scheme.

5. PROGRAM FOR THE DEVELOPMENT OF SMALL AND MEDIUM CITIES

This program is aimed at: (1) increasing the capacity to develop and the productivity of small and medium cities; (2) increasing the external functions of small and medium cities in a 'system of economic growth area' and consolidating the internal services of such cities; (3) enabling small and medium cities to become intermediate cities in the production process of rural areas and in the production process of large and metropolitan cities, by carrying out the intermediary process at a lower cost and in a more efficient manner.

The main activities that will be carried out for facilitating regional governments are the following:

1. To strengthen the development of industrial and trading activities in medium size cities, especially industrial activities that further process intermediate inputs that have been produced by small cities in their hinterlands, by: (a) enhancing the functions of regional markets; (b)

developing regional processing industries; (c) enhancing the functions of regional ports and terminals as marketing outlets for the products of the areas; (d) expanding the transportation network of the area, that connects medium and small cities;

2. To increase the growth of small-scale industries in small cities, specifically industries that process agricultural products (agro-industry) from the rural areas, by: (a) developing small industrial centers by applying appropriate technology; (b) enhancing the functions of local markets; (c) expanding transportation facilities and infrastructure, that connect small cities and rural areas;
3. To prepare and consolidate the basic social infrastructure of small and medium cities so as to be able to carry out their internal and external city functions, mainly areas that form part of one economic growth areas;
4. To enhance the capacity with regard to the: (a) professionalism of the apparatus in the management of cities and in increasing their productivity; (b) entrepreneurial and management capabilities of small and medium scale enterprises in enhancing economic activities, including the application of good corporate governance; (c) enhancing the participation of the general public in the decision making process of public policies in the small and medium cities;
5. To improve institutions by reforming and restructuring institutions, by applying the principles of good urban governance in the management of small and medium cities, in the context of enhancing the function of providing public services;
6. To empower city governments in the mobilization of development funds through: (a) enhancing partnerships with private companies and the general public; (b) direct loans from commercial banks and from the central government; (c) issuance of municipal bonds; (d) extensification and intensification of tax collections and in the collection of service charges;
7. To enhance the capability of small and medium enterprises, through: (a) providing funding access; (b) developing market information for local products; (c) providing assistance on appropriate technology.

6. PROGRAM FOR CONTROLLING THE DEVELOPMENT OF LARGE AND METROPOLITAN CITIES

The aim of this program is to managed and control the growth of large and metropolitan cities, so that their growth and development are in line with the principles of sustainable development. The metropolitan cities are the Jabodetabek (Jakarta-Bogor-Depok-Tangerang-Bekasi), the Bandung Raya, the Mebidang (Medan-Binjai-Deli-Serdang), the Gerbangkertosusila (Gresik-Bangkalan-Mojokerto-Surabaya-Sidoarjo-Lamongan), the Kedungsepur (Kendal-Unggaran-Semarang-Purwodadi), Sarbagita (Denpasar-Badung-Gianyar-Tabanan), and the Maminasata (Makasar-Maros-Sungguminasa-Takalar) metropolitan cities. Meanwhile, the large and fast growing cities are Padang, Palembang, Bandar Lampung, Serang, Surakarta, Cilacap, Balikpapan, Samarinda, Gorontalo, Batam, Lhokseumawe, Pontianak, Tarakan, Manado-Bitung, Pakanbaru, Cirebon, Yogyakarta, Bontang, and Dumai.

The main activities that will be carried out in order to facilitate regional governments, are:

1. To apply the land use and growth management that emphasizes the in-fill development, with a high vertical development intensity, and by restricting the suburban sprawl, including the prevention of productive agricultural lands through the firm, just and democratic application of the zoning regulation in metropolitan cities;
2. To enhance the role and function of satellite cities, including new cities, so as to become self-sustained cities, and for reducing dependence on the use of the facilities, infrastructure and utilities of the core cities;
3. To restore the functions of the old city areas (down-town areas), that currently have tended to become slump areas, chaotic, and becoming ghost towns during nighttime, through their redevelopment and revitalization, including efforts for the preservation of historic buildings;
4. To utilize idle state owned assets in city centers by utilizing such assets for government, general public and private buildings, through the BOO and BOT scheme; and by applying the progressive tax to idle lands owned by individuals and companies in productive areas;
5. To increase development cooperation among core cities and satellite cities in metropolitan cities, in the stages of planning, financing,

construction, as well as in the maintenance phase, especially in the construction of city facilities, infrastructure and public utilities, particularly those that require a certain economies of scale, making them inefficient if constructed by each of the cities, such as: (a) the construction of inter-mode and inter-regional transportation, including the construction of mass transportation; (b) the construction of waste disposal sites; (c) the provision of drinking water; (d) the construction of flood controlling infrastructure;

6. To enhance city development in the context of the development of good urban governance; and enhancing partnerships with private enterprises and with the general public, mainly for commercially viable public service activities, through contracts, granting of concessions, etc.;
7. To establish the 'Council for the Management of Metropolitan Spatial Allotment', the members of which consist of elements from the business community, general public, related regional governments, academicians, and non governmental organizations. The main tasks and functions of this council are: (a) to maintain consistency of utilization of the Spatial Plan of Districts/Cities and the RTRW of Provinces, including the RTRW National; (b) to evaluate and to provide recommendations to the related regional governments, especially for analyzing the adverse effects of proposed construction of large projects in city areas, such as the proposed construction of malls, hyper-markets, mass rapid transit system, and to provide recommendation on certain technical requirements, if the project is permitted for being constructed; (c) to provide recommendations on efforts for enhancing urban public services.

7. PROGRAM FOR REFORMING THE NATIONAL SPATIAL PLAN

The spatial plan is the basis or reference of spatial policies for cross-sector and cross-region development, so as to ensure the synergic and sustainable utilization of space. The RTRWN (National Spatial Plan) has stipulated norms for the utilization of national space. The RTRWN has been further specified into the RTRW-Island (Island Spatial Plan) for each of the large islands/group of islands in Indonesia. The RTRW Island, contains: (a) the pattern for the utilization of space in protected

and cultivated areas; (b) the structure for the development of the regional infrastructure networks, including centers of settlements (urban areas). Therefore, it is essential to utilize the RTRWN and RTRW Island, as the basis/reference for planning regional space, which is further elaborated in the RTRW Province and RTRW District/City.

In the context of space utilization and control, this program is aimed at: (1) synchronizing regulations on space allotment and other related regulations; (2) harmonizing the development of inter-regional and inter-country space allotment and for determining priority areas in national development; (3) managing space utilization in an effective manner, by applying the principles of sustainable development and balanced development among functions; (4) enhancing participation of the general public in controlling the utilization of space; and (5) realizing the system of space allotment institutions, that can coordinate and become a forum for consultation among various parties.

The main activities that will be carried out include the following:

1. To socialize the RTRWN and RTRW-Island to the City/District governments and to the related stakeholders, and to build up agreements for the implementation of the RTRWN and RTRW-Island;
2. To revise Law Number 24 of 1992 on Spatial Planning (including air space) and to formulate the implementing regulations and various technical guidelines;
3. To review and effectuate the spatial plan, especially in national development priority areas, in order to ensure the coordination of development among regions and among sectors;
4. To control the utilization of space for ensuring consistency between plan and implementation, the application of the sustainable development principle, and for enhancing the balance of development among functions;
5. To consolidate coordination and consultation between the central government and regional governments, among regions, between the executive and legislative institutions, and with non governmental institutions and organizations that are involved in spatial planning, at the national and regional levels.

8. PROGRAM FOR LAND MANAGEMENT

Program on spatial planning cannot be effectively implemented if not accompanied by the program for land management. The program for land management is aimed at: (1) enhancing legal certainty of land rights for the general public through the just, transparent and consistent enforcement of the law; (2) strengthening land institutions at the central and regional governments, in the context of enhancing public services; (3) developing the system for the management and administration of land that is transparent, integrated, effective, and efficient in the context of increasing justice of land ownership by the general public; (4) continuing measures to reform the control, ownership, use, and exploitation of land in a sustainable manner, in conformity with the RTRW and by taking into account the interest of the public at large.

The main activities that will be carried out are:

1. To develop the land registration system that is efficient and transparent, including the making of a master map, in the context of speeding up the land registration process;
2. To reform the control, ownership, use and exploitation of land that is just, sustainable, and adhere to the principle of supremacy of the law, and that take into account spatial planning and the interest of the general public;
3. To enhance the quality and capacity of institutions and human resources pertaining to land matters, at the central and regional governments, in the context of implementing the reform of land services, in conformity with the principles of agrarian reform and regional spatial planning;
4. To justly and transparently enforce the law on land matters, in the context of enhancing legal certainty of land rights of the general public, through the synchronization of laws and regulations on land matters;
5. To develop the national land information system, that is reliable and support the implementation of the principles of good governance, in the context of enhancing coordination, public services and management of land.

TABLE 26 - 1
PRIORITY OF LOCATIONS FOR HANDLING OF LEFT BEHIND AREAS 2004-2009

No	DISTRICT	PROVINCE	No	DISTRICT	PROVINCE	No	DISTRICT	PROVINCE
1	Gayo Lues	Nangroe Aceh Darussalam	39	North Bengkulu	Bengkulu	77	West Lombok	West Nusa Tenggara
2	Aceh Singkil	Nangroe Aceh Darussalam	40	Rokan Hulu	Riau	78	Bima	West Nusa Tenggara
3	Aceh Jaya	Nangroe Aceh Darussalam	41	Kuantan Singingi	Riau	79	Central Lombok	West Nusa Tenggara
4	South West Aceh	Nangroe Aceh Darussalam	42	Lingga	Riau Islands	80	Dompu	West Nusa Tenggara
5	Simelue	Nangroe Aceh Darussalam	43	East Tanjung Jabung	Jambi	81	East Lombok	West Nusa Tenggara
6	Bener Meriah	Nangroe Aceh Darussalam	44	Sarolangun	Jambi	82	Sumbawa	West Nusa Tenggara
7	South Aceh	Nangroe Aceh Darussalam	45	Musi Rawas	South Sumatra	83	Alor	East Nusa Tenggara
8	West Aceh	Nangroe Aceh Darussalam	46	Banyuasin	South Sumatra	84	West Sumba	East Nusa Tenggara
9	Nagan Raya	Nangroe Aceh Darussalam	47	South Oku	South Sumatra	85	South Timor Tengah	East Nusa Tenggara
10	East Aceh	Nangroe Aceh Darussalam	48	Ogan Ilir	South Sumatra	86	Lembata	East Nusa Tenggara
11	Aceh Tamiang	Nangroe Aceh Darussalam	49	Ogan Komering Ilir	South Sumatra	87	Sumba Timur	East Nusa Tenggara
12	Aceh Tengah	Nangroe Aceh Darussalam	50	Way Kanan	Lampung	88	Rote Ndao	East Nusa Tenggara
13	North Aceh	Nangroe Aceh Darussalam	51	West Lampung	Lampung	89	Sikka	East Nusa Tenggara
14	Aceh Besar	Nangroe Aceh Darussalam	52	North Lampung	Lampung	90	Manggarai	East Nusa Tenggara
15	Pidie	Nangroe Aceh Darussalam	53	East Lampung	Lampung	91	West Manggarai	East Nusa Tenggara
16	Bireun	Nangroe Aceh Darussalam	54	South Lampung	Lampung	92	East Flores	East Nusa Tenggara
17	South Nias	North Sumatra	55	East Belitung	Bangka Belitung	93	Ende	East Nusa Tenggara
18	Central Tapanuli	North Sumatra	56	Belitung	Bangka Belitung	94	Ngada	East Nusa Tenggara
19	West Pakpak	North Sumatra	57	South Bangka	Bangka Belitung	95	Landak	West Kalimantan
20	Nias	North Sumatra	58	Garut	West Java	96	Sekadua	West Kalimantan
21	Dairi	North Sumatra	59	Sukabumi	West Java	97	Melawi	West Kalimantan
22	Samosir	North Sumatra	60	Rembang	Central Java	98	Ketapang	West Kalimantan
23	South Pesisir	West Sumatra	61	Banjarnegara	Central Java	99	Sukamara	Central Kalimantan
24	West Pasaman	West Sumatra	62	Wonogiri	Central Java	100	South Barito	Central Kalimantan
25	Mentawai Islands	West Sumatra	63	Kulon Progo	D I Yogyakarta	101	Gunung Mas	Central Kalimantan
26	Sawahlunto/Sijunjung	West Sumatra	64	Gunung Kidul	D I Yogyakarta	102	Lamandau	Central Kalimantan
27	Solok	West Sumatra	65	Sampang	East Java	103	Pulang Pisau	Central Kalimantan
28	South Solok	West Sumatra	66	Pacitan	East Java	104	Seruyan	Central Kalimantan
29	Padang, Paraman	West Sumatra	67	Bangkalan	East Java	105	Katingan	Central Kalimantan
30	Dharmasraya	West Sumatra	68	Pamekasan	East Java	106	North Hulu Sungai	South Kalimantan
31	Pasaman	West Sumatra	69	Trenggalek	East Java	107	Barito Kuala	South Kalimantan
32	Seluma	Bengkulu	70	Bondowoso	East Java	108	Sangihe Islands	North Sulawesi
33	Kaur	Bengkulu	71	Madiun	East Java	109	Poso	Central Sulawesi
34	South Bengkulu	Bengkulu	72	Situbondo	East Java	110	Tojo Una-Una	Central Sulawesi
35	Lebong	Bengkulu	73	Pandeglang	Banten	111	Parigi Moutong	Central Sulawesi
36	Mukomuko	Bengkulu	74	Lebak	Banten	112	Banggai Islands	Central Sulawesi
37	Kepahiang	Bengkulu	75	Karangasem	Bali	113	Donggala	Central Sulawesi
38	Rejang Lebong	Bengkulu	76	West Sumbawa	West Nusa Tenggara	114	Morowali	Central Sulawesi

No	DISTRICT	PROVINCE
115	Buol	Central Sulawesi
116	Toli-Toli	Central Sulawesi
117	Banggai	Central Sulawesi
118	Mamasa	West Sulawesi
119	North Mamuju	West Sulawesi
120	Mamuju	West Sulawesi
115	Buol	Central Sulawesi
116	Toli-Toli	Central Sulawesi
117	Banggai	Central Sulawesi
118	Mamasa	West Sulawesi
119	North Mamuju	West Sulawesi
120	Mamuju	West Sulawesi
121	Polcwali Mamasa	West Sulawesi
122	Majene	West Sulawesi
123	Jeneponto	South Sulawesi
124	Luwu	South Sulawesi
125	Selayar	South Sulawesi
126	Enrekang	South Sulawesi
127	Pangkajene Islands	South Sulawesi
128	East Luwu	South Sulawesi
129	North Luwu	South Sulawesi
130	Sinjai	South Sulawesi
131	Takalar	South Sulawesi
132	Tana Toraja	South Sulawesi
133	Bulukumba	South Sulawesi
134	Bantaeng	South Sulawesi
135	Baru	South Sulawesi

No	DISTRICT	PROVINCE
136	Pinrang	South Sulawesi
137	Wakatobi	South East Sulawesi
138	Bombana	South East Sulawesi
139	Konawe	South East Sulawesi
140	North Kolaka	South East Sulawesi
141	Buton	South East Sulawesi
142	South Konawe	South East Sulawesi
143	Kolaka	South East Sulawesi
144	Muna	South East Sulawesi
145	Gorontalo	Gorontalo
146	Boalemo	Gorontalo
147	Pohuwato	Gorontalo
148	Bone Bolango	Gorontalo
149	West Maluku Tenggara	Maluku
150	Seram Eastern Part	Maluku
141	Buton	South East Sulawesi
142	South Konawe	South East Sulawesi
143	Kolaka	South East Sulawesi
144	Muna	South East Sulawesi
145	Gorontalo	Gorontalo
146	Boalemo	Gorontalo
147	Pohuwato	Gorontalo
148	Bone Bolango	Gorontalo
149	West Maluku Tenggara	Maluku
150	Seram Eastern Part	Maluku
151	Aru Islands	Maluku
152	Seram Western Part	Maluku

No	DISTRICT	PROVINCE
153	Central Maluku	Maluku
154	Baru	Maluku
155	South East Maluku	Maluku
156	Central Halmahera	North Maluku
157	East Halmahera	North Maluku
158	Sula Islands	North Maluku
159	South Halmahera	North Maluku
160	West Halmahera	North Maluku
161	Gulf of Bintuni	West Irian Jaya
162	Gulf of Wondama	West Irian Jaya
163	Sorong	West Irian Jaya
164	Raja Ampat	West Irian Jaya
165	Kaimana	West Irian Jaya
166	Fak-Fak	West Irian Jaya
167	South Sorong	West Irian Jaya
168	Puncak Jaya	Papua
169	Yahukimo	Papua
170	Asmat	Papua
171	Paniai	Papua
172	Nabire	Papua
173	Tolikara	Papua
174	Mappi	Papua
175	Waropen	Papua
176	Biak Numfor	Papua
177	Yapen Waropen	Papua
178	Sarmi	Papua
179	Supiori	Papua

Source : Ministry for the Development of Left Behind Areas, 2005

TABLE 26 - 2
PRIORITY LOCATIONS FOR THE HANDLING OF
BORDER AREAS 2004-2009

NO	DISTRICT	PROVINCE
1	Natuna	Riau Islands
2	Kupang	East Nusa Tenggara
3	Belu	East Nusa Tenggara
4	North Timor Tengah	East Nusa Tenggara
5	Bengkayang	West Kalimantan
6	Sintang	West Kalimantan
7	Sanggau	West Kalimantan
8	Upstream Kapuas	West Kalimantan
9	Sambas	West Kalimantan
10	Malinau	East Kalimantan
11	West Kutai	East Kalimantan
12	Nunukan	East Kalimantan
13	Talaud Islands	North Sulawesi
14	North Halmahera	North Maluku
15	Bintang Mountains	Papua
16	Jayawijaya	Papua
17	Boven Digoel	Papua
18	Keerom	Papua
19	Jayapura	Papua
20	Merauke	Papua

Source : Ministry for the Development of Left Behind Areas, 2005

CHAPTER 27

INCREASING ACCESS OF THE PEOPLE TO QUALITY EDUCATION

Increasing the access of the general public to higher quality education is a requirement that must be met by the Indonesian nation, pursuant to the aim of the Indonesian nation as contained in the Preamble of the 1945 Constitution, namely to protect the whole Indonesian people and country, to enhance the education level of the people, to advance the general well-being, and to participate in ensuring world order on the basis of freedom, eternal peace and social justice. Furthermore, the articles of the 1945 Constitution stipulate the importance of education for all citizens, pursuant to Article 28B, Paragraph (1), namely that each person shall have the right to develop himself by meeting his basic needs, have the right to obtain education and to benefit from science and technology, arts and culture, in the interest of enhancing the quality of his life for the sake of the well-being of man, and Article 31 Paragraph (1), that stipulates that each citizen shall have the right to obtain an education.

Education is one of the main pillars in the endeavor to enhance the quality of man. In fact, education performance, namely the composite of the crude enrollment rate of primary education through tertiary education and the literacy rate, has been used as a variable in computing the Human Development Index, together with the variables on health and economic well-being. Thereby, it is necessary that the national education development be able to ensure that there is an equitable access to education, enhanced quality and relevance and efficiency in education management, in the context of facing challenges, in conformity with the demand for local, national and global changes. Development of national education that will be carried out in the 2004–2009 period has already taken into account international agreements, such as the Education for All, Convention on the Right of the Child, and the Millennium Development Goals (MDGs) and the World Summit on Sustainable Development, all of which have explicitly emphasized the importance of education as one of the means of reducing poverty, enhancing justice

and attaining gender equality, of understanding cultural values and multiculturalism, and of enhancing social justice.

A. THE PROBLEMS

The education level of the population is still relatively low. Various efforts to develop education, such as the Mandatory Nine-Year Primary Education, which was started in 1994, has been implemented for enhancing the education level of the Indonesian population. Nevertheless, up to now, the education level of the population is still relatively low. Up to 2003, the average school years of the population aged 15 years and older, was still 7.1 years and the proportion of the population aged 10 years and older that have an education of junior high school upwards was still around 36.2 percent. Meanwhile, the illiteracy rate of the population in the 15 years and older group is still 10.12 percent (2003 Susenas/Social Economic Survey). Such a state is unsatisfactory for facing global competition and also insufficient for attaining a knowledge-based economy. The 2003 Susenas shows that the school enrollment rate, namely the ratio of the population in school by school age groups) for the population in the 7–12 years group is 96.4 percent, while the school enrollment rate for the population in the 13–15 years age group is still 81.0 percent, and the enrollment rate for the population in the 16–18 years age group is still 51.0 percent. The data indicates that there are still around 19.0 percent of children in the 13–15 years age group and around 49.0 percent of children in the 16–18 years age group are not in school, due to never being in school or being dropped out of school, or not continuing to a higher education level.

Changes in the age structure cannot yet fully be accommodated by the development of education. The decline in the young aged population, specifically those in the 7–12 years age group, as a positive result of the family planning program, has led to the reduction in the total number of school children in the SD/MI (elementary school) education level. At the same time, the decline in school children aged 12 years and older and the increase in school children aged lower than 7 years, have led to changes in the age structure of the SD/MI school children. Such development must be taken into consideration in the endeavor to make available education facilities, so as to continually enhance efficiency. At the same time, an increase has occurred in the

proportion of the population in the grown-up age, leading to the need to provide the life-long education facilities through non-formal education.

There are still divergent gaps in education levels among the groups in society, such as between the rich and poor population, between the male and female population, between the urban and rural population, and among regions. The Susenas (National Social Economic Survey) of 2003 shows that economic reasons as the main factor (75.7 percent) for children dropping out or failing to continue their school education, due to not being able to pay their school tuition (67.0 percent) and due to having to find a job (8.7 percent). This is reflected in the big difference in the education enrollment rate between the poor and the rich population groups. In 2003, the enrollment rate of the 13–15 years age group among the 20 percent richest population was 93.98 percent, while among the 20 percent poorest population is still 67.23 percent. The gap was even wider in the 16–18 years age group: the enrollment rate among the poorest was 28.52 percent and among the richest was 75.82 percent. At the same time, the enrollment rate among the rural population was lower than among the urban population. The average enrollment rate for the rural population in the 13–15 years age bracket in 2003 was 75.6 percent and for the urban population (in the same age bracket), it already reached 89.3 percent. The more divergent gap is discerned among the 16–18 years age bracket, namely enrollment rate among the urban population is 66.7 percent and among the rural population is 38.9 percent, namely only one half of the enrollment rate of the urban population.

The poor population still believes that education is still too costly and as not yet yielding significant benefit or not yet in proportion to the costs incurred. Thereby, education is not yet perceived as an investment choice. Even though, the SPP (Education Development Contribution), has already been officially abrogated by the Government, the fact is that the general public still has to pay for it. Costs, other than school tuition, such as costs for the purchase of books, writing materials, uniforms, transportation, and the daily pocket expenses for the children, also constitute impediments for poor communities in enrolling their children. The burden for the poor communities become more serious if their children also have to go to work to supplement the earnings of their parents.

The education facilities for the junior high and senior high education levels are not yet equitably available. The still limited education facilities in rural, isolated, and remote island areas have resulted in children, mainly female children, facing difficulties to have access to education facilities and services, especially for children that have physical, emotional, mental, and social differences, and/or have extraordinary intelligence and talents.

The quality of education is still low and not yet able to provide competent teachers. This is due to (1) the inadequate availability of teachers in terms of quantity and quality; (2) the well-being of teachers is still low; (3) the teaching facilities are not yet adequately available; and (4) the allocated operational costs of education are not yet adequate.

The education survey conducted by the Ministry of National Education in 2004 shows that not all teachers have yet met the requisite education qualifications. The proportion of teachers of elementary schools (SD), including the special elementary schools (SDLB) and the *madrasah ibtidaiyah* (MI), who have Diploma-2 or higher, is 61.4 percent, and the proportion of teachers in junior high schools (SMP) and the *madrasah tsanawiyah* (MTs), who have Diploma-3 or higher education, was 75.1 percent. Such a condition is naturally insufficient for providing quality education services. There are also incongruities between the substance being taught with the background of teachers at the SMP/MTs and senior high schools (SMA), senior high vocational schools (SMK) and the *madrasah aliyah* (MA) education levels, where teachers are hired according to the teaching subjects. In addition, the welfare of teachers, in financial as well as non-financial terms, is also still low. This has contributed to the limited availability of the best human resources who have chosen teaching as their career.

In 2004, around 57.2 percent of SD/MI buildings and around 27.3 percent of SMP/MTs buildings, were lightly and heavily damaged. This in addition to causing improper and inconvenient teaching processes, also resulted in the reluctance of parents to have their children enrolled in such schools. At the same time, there were still many school children that do not have school books. The tendency for schools to change books each school year has increased the costs borne by parents and has

also resulted in inefficiencies because the books of the schools can no longer be used by the school children.

Since the implementation of decentralization in 2001, the operational costs of schools, especially government schools, which have initially been allocated through the recurrent expenditure of the central government, have been allocated directly to the regions as part of the General Allocation Funding (DAU). Nevertheless, up to 2004/2005 school year, there were still districts/cities that have failed to make budget allocations for the operational costs of schools and most still made the allocations in inadequate sums.

The education having been developed cannot yet fully increase the entrepreneurial capacity of school leavers and graduates. Senior high and tertiary education graduates still preferred being employed by other parties rather than creating their own employment.

Tertiary education still faces constraints in developing and creating science and technology. Research and development activities and the dissemination of the results are still very much limited. In addition, the process of science and technology transfer also is facing constraints due to the limited availability of international text books and journals. Given the still inadequate quality and quantity of research and development achievements, there are still not many research and development achievements that can be applied by the general public and, likewise, there is a very insignificant number that can be patented and/or for which an intellectual property right can be obtained..

The public at large cannot yet have wide access to non-formal education, which functions as a transition from school to work and as a life-time education and is directed mainly at enhancing earning skills and for promoting professionalism and vocational competence.

The management of education is not yet effective and efficient. With the implementation of decentralization in education, the district/city governments have broader authority in the education development of their respective regions, starting from the planning formulation, determination of program priorities and in the mobilization of resources for attaining their formulated plan. Accordingly, autonomy

in education has also been implemented through the application of the school-based education management and autonomy in tertiary schools/universities has given broader authority to education units in the management of their resources, including the allocation of such resources, in accordance with their needed priorities. With the implementation of education decentralization and autonomy, it is expected that regions and education units will become more responsive to local needs. On the other hand, the implementation of decentralization and autonomy in education cannot yet be fully realized due to the fact that the division of roles and responsibilities of each of the government levels, including their budget shares for education has not yet been resolved. By the same token the implementation of general standards that have been determined by the central government is not yet effective. In addition, the effectiveness of the participation of the general public in education development, including the role and functions of the education councils and school committees/committees of the *madrasah*, is also still not yet optimal.

The allocated development budget for education is still inadequate. If compared with the education budget of other nations, the budget allocation for education in Indonesia is very low. The 2004 Human Development Report reveals that in the 1999–2001 period, Indonesia's public expenditure was only 1.3 percent of the GDP, whereas for the same period of time, public expenditure to GDP of Malaysia was 7.9 percent, Thailand was 5.0 percent and the Philippines was 3.2 percent.

The development of education was given the highest priority in the national development of the last five years (2000–2004), as indicated by the largest budget allocation to this sector compared to other development sectors. With the amendment of the 1945 Constitution and with the enactment of Law Number 20 of 2003 on the National Education System, the budget allocation for education, outside of salaries for educators and other official education service expenses, is to be at least 20 percent of the APBN (National Budget) and at least 20 percent of the APBD (Regional Budget), and the national government and the regional governments are obligated to provide primary education free of charge. This has made the 2004 education budget to become even larger. Nevertheless, such budget allocation is still only 21.5 percent of

the total development budget allocation and only 6.6 percent of the total APBN spending of the central government. Such budget allocation also does not yet take into account the APBD budget allocation by the regional governments. The national and regional governments also is not yet able to provide primary education services free of charge.

B. THE TARGETS

The targets of education development through 2009 is the increased access of the people in general to education, and the improved quality of education. Such targets have been determined by taking into account the projected increase in total number of population and the age structure changes of the population until 2009 (Table 1).

Table 1
Projection of Total Population by School Age Groups
and Targets on Total Enrollments by Education Levels

Component	School Year (thousand persons)					
	2004 / 2005	2005 / 2006	2006 / 2007	2007 / 2008	2008 / 2009	2009 / 2010
Total Population						
- Aged 0-3 years	16.256,6	16.374,3	16.370,2	16.363,0	16.350,9	16.335,2
- Aged 4-6 years	11.859,4	11.561,4	11.697,9	11.828,4	11.955,0	12.076,3
- Aged 7-12 years	25.308,6	25.144,0	24.835,7	24.528,3	24.218,6	23.910,0
- Aged 13-15 years	13.033,7	13.100,7	12.934,1	12.769,1	12.603,9	12.440,2
- Aged 16-18 years	12.651,6	12.601,6	12.725,1	12.845,0	12.961,3	13.073,7
- Aged 19-24 years	25.112,5	25.306,6	25.318,1	25.324,5	25.322,5	25.311,9
- Aged 15 years and older	149.956,8	152.961,4	155.816,6	158.707,2	161.638,2	164.605,0
- Total Population	216.415,1	219.141,8	221.654,5	224.766,0	226.766,6	229.366,7
Total of School Students						
- SD/MI & equivalent	29.075,1	28.813,8	28.533,0	28.121,2	27.827,6	27.678,8
- SMP/MTs & equivalent	10.476,3	10.858,6	11.238,1	11.717,3	12.064,6	12.202,7
- SMA/SMK/MA and equivalent	6.508,9	6.845,1	7.279,3	7.800,3	8.413,8	9.065,9
- PT/PTA/PTIK	3.671,8	3.796,4	3.940,0	4.088,0	4.240,4	4.556,5

Source: Ministry of National Education (Jointly processed by the Central Agency for Statistics/BPS, Ministry of Religious Affairs, and the National Development Planning Agency/Bappenas)

An elaboration of the targets in education development is as follows:

1. The increased education level of the Indonesian population, through:
 - a. The actual increase in the percentage of population that can complete the Nine-Year Mandatory Primary Education Program, as indicated by among others the following:
 - i. the increased gross enrollment rate at the elementary education level (SD), which includes the SDLB and MI, and Package A to 115.76 percent, with the total of school students reaching around 27.68 million, and the gross enrollment rate at the junior high level (SMP/MTs/Package B to 98.09 percent, with the total number of school students reaching 12.20 million;
 - ii. the increased continuing rate from the SD, which includes the SDLB, MI and Package A, to the SMP/MTs/Package B, to become 94.00 percent, so that the total number of new school students of grade I, can be increased from 3.67 million in the 2004/2005 school year to become 4.04 million in the 2009/2010 school year;
 - iii. the increased education completion rate, by reducing the drop-out rate at the SD (including SDLB, MI and Package A) education level to become 2.06 percent and at the SMP/MTs/Package B education level to become 1.95 percent;
 - iv. the reduced average education completion duration at all levels, by reducing the grade repetition rate at the SD/MI/SDLB/Package A to become 1.63 percent and at the SMP/MTs/Package B level to become 0.32 percent;
 - v. the increased school enrollment rate of the 7–12 years age group of the population to become 99.57 percent and of the 13–15 years age group of the population to become 96.64 percent, so that children in the 7–12 years age group who are enrolled will reach 23.81 million and children in the 13–15 years age group who are enrolled will reach 12.02 million.
 - b. The significant increase in the participation of the population in high school education, as indicated by among others the following:

- i. the increased gross enrollment rate of the high school education (SMA/SMK/MA/Package C) to become 69.34 percent, with the total number of school students reaching around 9.07 million;
 - ii. the increased continuation rate from the SMP/MTs/Package B to high school education to become 90.00 percent, so that the total number of new school students in grade I can be increased from around 2.36 million in the 2004/05 school year to become 3.30 million in the 2009/10 school year;
 - iii. the reduced average duration for completing education, by reducing the class repeat rate in the high school education to 0.19 percent.
 - c. the significant increase in participation of the population in tertiary education, which is indicated among others by the increased crude enrollment rate in tertiary education to 18 percent, with the total number of university students reaching around 4.56 million;
 - d. the increased proportion of children enrolled in early age education;
 - e. the reduced illiteracy rate of the population aged 15 years and older to 5 percent by 2009;
 - f. the increased access of grown-ups to life skill education;
 - g. the enhanced education justice and equity among groups in society, including between advanced and left-behind areas, between urban and rural areas, between advanced and left-behind regions, between the rich and poor population, and between the male and female population.
2. The increased education quality as indicated by the following:
- a. availability of national education standards and minimal service standards for districts/cities;
 - b. the increased proportion of educators in the formal and informal education fields that have the minimum qualifications and certifications, in conformity with the level of teaching authority;
 - c. the increased proportion of public as well as private education units, with satisfactory accreditation;

- d. the increased percentage of school students that have passed final examination at each education level;
 - e. the increased interest to read among the population of Indonesia.
3. the increased relevance of education to development needs, as indicated by among others the following:
 - a. the increased effectiveness of skill for lifetime skill education at all fields and levels of education;
 - b. The increased results in research and development, and in the development of science and technology by tertiary education institutions/universities and their dissemination and application to society.
 4. The increased management effectiveness and efficiency in the provision of education services, as indicated by among others the following:
 - a. The effective implementation of school-based management;
 - b. The increased budget allocation for education, from the APBN as well as from the APBD, as the high national priority, which is supported by the realization of a just, efficient, effective, transparent and accountable financing system;
 - c. The increased role of the general public/private sector in education development;
 - d. The increased effectiveness in the implementation of regional autonomy and decentralization pertaining to education, including the greater autonomy in science development.

C. POLICY DIRECTIONS

In the context of attaining the above targets, the Increased Access of the People to Quality Education will be implemented in accordance with the following policy directions:

1. Implementing the Nine-Year Mandatory Primary Education with the objective of attaining a quality primary education in an equitable manner throughout the whole nation of the Republic of Indonesia, in the context of meeting the basic rights of every citizen. In that respect, to retrieve school children who have dropped out and

leavers of the SD (elementary schools), including the SDLB, MI and Package A education, who have discontinued their education to the SMP/MTs/Package B education level, and by optimizing the reduction of the drop-out rate;

2. Significantly reducing the total number of population that are illiterate by enhancing the intensification of efforts to expand access to and quality of functional literacy education, to be supported by efforts to reduce the school drop out rate, particularly in the initial classes at the SD/MI education level or the equivalent, and by promoting reading habits in order to avert the illiteracy relapse, and by creating the learning society;
3. Increasing the expansion and more equitable access to senior high school education, at the formal and non-formal and in the general as well as vocational fields, in order to anticipate the increase in the total number of graduates from the junior high school education, as a result of the successful implementation of the Nine-Year Mandatory Primary Education Program, and for supplying quality senior high school graduates to the labor market, by enhancing the relevance of senior high school education to the demand for manpower;
4. Increasing the expansion and quality of tertiary education, including efforts towards having a more balanced and harmonious relation between the total number and types of study programs and the needs of development and for yielding graduates who meet the needs of the labor market and for increasing and consolidating the role of universities as the spearhead for enhancing the competitiveness of the nation by developing and promoting science, technology, culture and the arts;
5. Further expanding the early age education in the context of optimally promoting and developing all of the potentials of the early age children, so that they become more prepared to enter the subsequent education level;
6. Implementing quality non-formal education in order to provide education services to citizens who cannot possibly meet their education needs through the formal education, especially the population who have never gone to school or are illiterate, school drop-outs and other citizens who have the intention to increase and to obtain knowledge, or skill to earn a living and the capability of increasing their life quality;

7. Reducing the gaps among groups in society in education participation, by providing greater access to social groups that thus far have not yet been reached by education services, such as poor communities, communities that are left behind in rural, isolated and island areas, communities in conflict areas, and disabled people;
8. Providing alternative education in conflict and natural disaster affected areas, to be followed up by the rehabilitating and reconstructing facilities and infrastructure that have been destroyed, including efforts for providing teachers and education personnel, and by preparing those being educated so that can follow the education process;
9. Implementing special education for those who have difficulty in following the teaching process due to physical, emotional, mental, social differences and/or for those who have extraordinary intelligence and talents.
10. Intensifying the socialization of the importance of education to all social groups and the advocacy to decision makers in placing more attention to the development of education;
11. Developing national as well as local curriculums that are adjusted to progress in science, technology, culture and the arts and to global, regional, national and local developments, and also developing the kin-esthetics and integration of life skill education for enhancing the work ethics and entrepreneurial capability of those being educated;
12. Developing civic education and multicultural education in order to develop national awareness and nurturing democratic values by consolidating the understanding of values of pluralism, tolerance and inclusivism in the context of enhancing social cohesion in the pluralistic Indonesian society, and consolidating the unity of the nation;
13. Consolidating the education on moral values since the early age among those being educated and for enhancing conception for the arts, culture and the environment;
14. Providing the most recent teaching and learning materials in the form of printing materials, such as text books as well as books on information, communication technology and on the natural environment;
15. Increasing the quantity and quality of teachers and other education personnel, by taking into account the need to have the right quantity of teachers and the accuracy of locations, and by increasing the well-

being and legal protection of teachers to enable them to develop their competence and increase their commitment in carrying out their teaching tasks;

16. Developing the technology on information and communication in the field of education, in the form of knowledge, teaching aids, education facilities, competence standards, and education infrastructure;
17. Developing the system for evaluation, accreditation, and certification, including the system for examination and evaluation of education, in the context of overseeing the quality of national education at education units, as a form of the accountability of educators, and for the evaluation of the education process at the district/city, provincial and national levels;
18. Improving education management by enhancing the independence and autonomy of education management to the education units, so as to become more effective, efficient, transparent, responsible, accountable and participatory, to be founded on the minimal service standards, and by enhancing the relevance of education to the local situation;
19. Increasing the participation of the people at large/the private sector in the development of education, including the financing of education, the implementation of community-based education and in enhancing the quality of education services, encompassing the planning, supervision, and evaluation of education programs;
20. Reforming the education financing system so as to be based on the principles of justice, efficiency, effectiveness, transparency and accountability including the application of the student-based financing approach and increasing the budget allocation to reach 20 percent of the APBN and APBD, in order to be able to continue efforts for greater equity and supply of quality education services;
21. Increasing research and development in education for the formulation of policies, programs, and activities for the development of education, in the context of enhancing the quality, coverage and equity in education services, and in the effectiveness and efficiency of management of education services, that include efforts for supporting the successful implementation of a quality Nine Years Mandatory Primary Education.

D. DEVELOPMENT PROGRAMS

On the basis of the above targets and policy directions, the steps that will be pursued are specified into development programs and main activities, that are as follows:

1. PROGRAM FOR THE EDUCATION OF CHILDREN IN THE EARLY AGE

This program is aimed at ensuring that all children in the early age, be they boys or girls, have the opportunity to grow optimally in accordance with their respective potentials and the phases of development or their age levels, as a preparation for entering the elementary school education. More specifically, the Early Age Children Education is aimed at increasing access to and quality of education services through formal education, such as the Kindergarten, *Raudhatul Athfal* (RA) and other equivalent forms, through non-formal education, in the form of Play Groups, Child Care Places or other equivalent forms, and through informal channels, in the form of family education or education that is carried out by the neighborhood, in the context of optimally promoting and developing all of the potentials of children to be better prepared to enter the subsequent education level.

The main activities that will be carried out encompass the following:

1. To make available education facilities and infrastructure, including efforts to optimize the utilization of existing facilities, such as SD/MI classrooms for conducting the early age children education, to be adjusted to the condition of the relevant regions/areas, to provide support for the implementation of education activities, to support teachers and education personnel, to increase the quality of teachers and education personnel, to provide operational funding for education and/or to provide operational/subsidy/grant support, in the form of block grants, and to encourage the participation and empowerment of communities, including religious institutions and social organizations in the implementation and development of early age children education;
2. To develop quality curriculums and teaching materials and to pioneer teaching models for early age children education, based on

the phases of child development, on the development of science and technology, culture and the arts;

3. To increase understanding on the importance of early age child education to parents, general public, and to regional governments, in an effort to facilitate the physical and mental growth and development of children so that they are well prepared to enter subsequent education levels;
4. To develop policies, to plan, monitor, evaluate and supervise the implementation of development of the early age children education, in line with the principles of transparency, accountability, participation, and democratization.

2. PROGRAM ON THE NINE-YEAR MANDATORY PRIMARY EDUCATION

This program is aimed at increasing access and equity in the provision of quality and affordable primary education services, through formal as well as non-formal channels, encompassing the SD, including the SDLB, MI and Package A education, and the SMP, MTs and Package B, so that all children in the 7–15 years age group, boys or girls, can have access to education, at least until junior high school or its equivalent.

The Nine Years Mandatory Primary Education program places the emphasis on (1) increasing the participation of children who do not yet have access to primary education, mainly by pinpointing children who have never as yet attended school at the SD, including SDLB/MI/Package A level, and increasing the continuation rate from the SD (including SDLB/MI/Package A) level to the level of the SMP/MTs/Package B or other equivalent forms; (2) maintaining the already attained education performance, mainly by reducing the school drop-out rate and the class repletion rate, and by enhancing the quality of education; and (3) providing additional education services for children who cannot continue to the senior high school education level.

The main activities that will be carried out include the following:

1. To provide quality education facilities and infrastructure, including the construction of new school units, new class rooms, laboratories,

libraries, books and education display instruments, that are accompanied by the provision of teachers and education personnel, in a more equitable manner with better quality, at the right locations, especially for rural, isolated and island areas, accompanied by the rehabilitation and revitalization of facilities and infrastructure that have been devastated in conflict and natural disaster affected regions, and the provision of adequate education operation funding, and/or subsidies/grants in the form of block grants for primary education units, in order to enhance the quality of education services;

2. To provide alternative primary education services, through formal as well as non-formal channels, for meeting the needs, conditions, and potentials of children, including the children of poor families that are living in rural and isolated areas and on remote islands, and to give attention to school children that have difficulty in following the regular learning process and for those who have extraordinary intelligence and talents;
3. To intensify efforts to retrieve school children that have dropped out from the SD/MI/Package A and from the SMP/MTs/Package B levels and school children who have not continued to the higher level of education system and optimizing efforts for reducing the school drop-out rate, without gender discrimination by among others applying the community-based education information system, to provide education financial assistance, in the form of scholarships or education vouchers, and to expand the nutritional condition of school children, specifically for the SD/MI/Package A education level;
4. To develop the national and local curriculums, that are adjusted to developments in science, technology, culture and in the arts, including steps to develop life-skill education, in accordance with the needs of the school children, communities and industries, and skills that are needed for living in a pluralistic society and vocational skills, in conformity with the demands of society and of industry for school children who will not continue to the senior high school education level;
5. To provide teaching materials, teaching media and education technology, including instruments on display education, text books, reading books and books on science and technology, and teaching materials that are based on the information and communication

technology, including the internet and on the natural environment, in order to enhance the understanding of the school children of the knowledge that are being taught;

6. To promote the interest, talents, and creativity of school children by giving attention to children who have special intelligence and talent potentials;
7. To apply the school-based management, which gives authority and responsibility to education units in the management of their resources in the context of developing their institutions and in enhancing the relevance of teaching to the local conditions;
8. To provide adequate education information to enable the communities to choose the education that is in line with the desired quality;
9. To increase the participation of communities in the implementation, financing as well as in the management of primary education development, and to enhance the understanding of communities on the importance of primary education for male as well as female children; and
10. To develop policies, to plan, monitor, evaluate and supervise the implementation of development of the early age children education, in line with the principles of transparency, accountability, participation, and democratization.

3. PROGRAM FOR SENIOR HIGH SCHOOL EDUCATION

This program is aimed at increasing access to and equity of quality and affordable senior high education services, for the male as well as female population, through formal as well as non-formal education, encompassing the SMA (Senior High School), SMK (Senior Vocational High School) and the MA (*Madrasah Aliyah*) and Package C. The senior high school program is meant for anticipating the significant increase in junior high school graduates on account of the successful implementation of the Nine Years Mandatory Primary Education program, and the strengthening of vocational education through general schools/*madrasah* as well as through vocational schools and non-formal education, in order to prepare graduates, who do not continue to the higher education level, to enter the work force.

The main activities that will be carried out include the following:

1. To provide education facilities and infrastructure, including the construction of new school units and new class rooms, laboratories, libraries, text books and education display tools, accompanied by the rehabilitation and revitalization of facilities and infrastructure that have been destroyed, including those in conflict and natural disaster affected regions, accompanied by the more equitable, higher quality, and right location provision of teachers and education personnel, and the provision of education operational funding and/or subsidies/grants in the form of block grants for senior high school education units, in order to enhance the quality of education services, including the provision of subsidies or scholarships for schoolchildren who come from poor families and for schoolchildren who have shown outstanding achievements;
2. To develop national and local curriculums, teaching materials, and teaching models, which are based on national standards and which take into account international standards, in line with developments in science, technology, culture and the arts, including the curriculum for life-skill education, in conjunction with the needs of the schoolchildren, communities and industries, including for enhancing the proficiency of schoolchildren to live in a pluralistic society and enhancing vocational skills in line with the needs of the community and industry for schoolchildren who will not continue to higher education levels. Specifically on vocational education, the curriculum to be developed will also be based on the national, international and industry work competence standards;
3. To reform skill matters in the vocational senior high school education, that is to be adjusted to employment needs, that is supported by efforts for enhancing cooperation with the domestic as well as international business community and industries;
4. To provide teaching materials, teaching media and education technology, including instruments on display education, text books, reading books and books on science and technology and teaching materials that are based on the information and communication technology, including the internet and on the natural environment, in order to enhance the understanding of the school children of the knowledge being taught;
5. To provide general as well as vocational education services for schoolchildren in the SMA/SMK/MA schools, in accordance with

the needs of the schoolchildren to continue to the tertiary education level or to find employment, by providing additional facilities and the bridging program at the existing schools/madrasah, and/or through cooperation among the formal as well as non-formal education units, and by promoting schools/madrasah to gradually reach national and international standards;

6. To provide various alternative formal as well as non-formal senior high education services, for accommodating the needs of the poor population and the population living in rural, isolated areas and on remote islands;
7. To promote the interests, talents, and creativity of schoolchildren, by giving attention to children who have extraordinary intelligence and talents;
8. To apply the school base management, which gives authority and responsibility to education units in the management of their resources in the context of developing their institutions and in enhancing the relevance of teaching to local conditions;
9. To provide adequate education information to enable the communities to choose the education that is in line with the desired quality;
10. To increase the participation of communities in the implementation, financing as well as in the management of senior high education development, and to enhance the understanding of communities on the importance of general as well as vocational senior high education for male as well as female children;
11. To prepare for the implementation of the Twelve Years Education Program, especially for regions for which the crude enrollment rate for the SMP/MTs/Package B has already reached 95 percent or higher ; and
12. To develop policies, to plan, monitor, evaluate and supervise the implementation of development of the senior high school education, in line with the principles of transparency, accountability, participation, and democratization.

4. PROGRAM FOR TERTIARY EDUCATION

The aim of this program is the enhanced access to and equity of tertiary education services, for the male as well as female population,

encompassing the diploma, master's degree. Master's degree, specialist and doctoral degree education programs, which are implemented by tertiary education institutions, in the form of academies, politecnics - techniques, tertiary schools, institutes or universities, which are of high quality and relevant to the needs of the labor market, and the developed science, technology, culture, and the arts, so as to be able to optimally contribute to the enhancement of the people's welfare and to the competitiveness of the nation.

The main activities that will be carried out include the following:

1. To accelerate the transformation of state owned universities into autonomous and accountable universities, by providing and developing the legal infrastructure, in order to enhance effectiveness, transparency, accountability and transformation, so as to create an innovative and creative climate;
2. To provide and develop the legal framework, in the form of laws and regulations on tertiary education institutions as education legal entities that are non-profit oriented and that have the authority to independently manage their resources in the implementation of education;
3. To prepare candidate teachers and education personnel, in the appropriate quantity and quality, for supporting the successful implementation of the Nine-Year Mandatory Primary Education program;
4. To provide education facilities and infrastructure in accordance with the teaching needs, including the provision of teachers and education personnel with qualifications that are in line with the required subjects/courses, so as to attain a situation that makes it possible the continued enhanced quality in the teaching process and in the quality of graduates of the tertiary education institutions;
5. To develop curriculums that are based on national and international standards, and to develop teaching materials that are adjusted to the developments of the time and progress in science and technology and to developments in culture and the arts;
6. To provide teaching materials and teaching media, including text books and scientific journals that are published in Indonesia as well as abroad, and teaching materials that are based on the information and communication technology;

7. To provide funding for the operation of educational activities, in the form of block grants for tertiary education units, including the provision of subsidies to students that are less fortunate but have outstanding academic achievements;
8. To implement the Three Tasks of Tertiary Education Institutions, comprising education, research and public service provision, with the aim of among others enhancing the congruence of tertiary education and the needs of communities in the rural as well as urban areas, applying the independence of scientific knowledge that will stimulate tertiary education institutions to carry out their task to develop science and technology, and to enhance the quality and quantity and diversity of research activities at the tertiary education institutions;
9. To increase cooperation between the tertiary education institutions and the business community, industries and the regional governments, in order to enhance the relevance of tertiary education to employment needs and to the needs of regional development that include cooperation in education and research that can promote science, technology, culture and the arts, and enhance the utilization of research results for improving the welfare of the nation;
10. To provide adequate education information so as to enable the general public to choose education institutions in accordance with their expectations; and
11. To develop policies and to plan, monitor, evaluate and supervise the implementation of development of tertiary education, in conformity with the principles of transparency, accountability, participation, and democratization.

5. PROGRAM FOR NON-FORMAL EDUCATION

This program is aimed at providing education services to the male as well as female population, as a substitute, addition and/or complement to formal education, in order to promote the potentials of those being educated, with the emphasis on the mastery of functional knowledge and skills, in the context of supporting life-time education. Non formal education encompasses literacy education, equivalence education for grown-ups, family education, skill education and on-the-job training, and

other forms of education that are aimed at the broader and variegated development of the capability of those being educated.

The main activities that will be carried out include the following

1. To strengthened non-formal education units, encompassing short-course institutes, study groups, centers for community learning activities, and similar education units, through the development of standardization, accreditation, and certification and strengthening the managerial capability of the management and to develop the format and quality of non-formal education programs, so as to be able to become accepted as substitutes to the relevant education courses at formal education units;
2. To intensify efforts for the greater access to and quality of functional literacy education for the illiterate population, without discrimination in gender nor between urban and rural areas;
3. To provide education facilities and infrastructure, including the provision of qualified and adequate teachers and other education personnel and to encourage the participation of the general public in the implementation of non-formal education activities;
4. To develop non-formal education curriculums, teaching materials and teaching models, that are based on national standards, in accordance with the progress in science/ knowledge, technology, culture and the arts, that include teaching models for life competence and skills for earning a living;
5. To provide teaching materials, teaching media and education technology, that include education display tools, text books, and reading books, and teaching materials that utilize information and communication technology;
6. To provide operational funding for education activities and/or subsidies/grants in the form of block grants to non-formal education units, that include scholarships for less fortunate students;
7. To provide opportunities for implementing informal education by families and the community, in the form of self-reliant and group teaching activities;
8. To provide adequate education information, so as to enable the communities to choose the non-formal education that is in conformity with their interest, potential and need;
9. To increase control on equivalence education, so as to ensure the relevance and equivalence of its quality with formal education; and

10. To develop policies, to plan, monitor, evaluate and supervise the implementation of non-formal education development, in conformity with the principles of transparency, accountability, participation, and democratization.

6. PROGRAM FOR ENHANCING THE QUALITY OF EDUCATORS AND THE EDUCATION PERSONNEL

This program is aimed at: (1) the increased quantity, quality, competence and professionalism of educators, males as well as females, in formal as well as non formal , public as well as private education units, so as to be able to plan and implement the teaching-learning process, by creating an education climate that is meaningful, comfortable, creative, dynamic and dialogical, to evaluate the teaching-learning results, and to guide and train, to carry out research for and provide services to the general public, and having a professional commitment in enhancing the quality of education; (2) the increased quantity, quality, competence and professionalism of the education personnel, in the capability in the administration, management, promotion, supervision, and in providing technical services, in supporting the education process at the education units.

The main activities that will be carried out include the following:

1. To increase the ratio of education services and education personnel, through recruitment, placement and dispersion of educators and education personnel, that include post-service non-formal education tutors, in a more equitable manner, on the basis of qualification, quantity, competence and location;
2. To increase the quality of education services, through education and training, so as to have the minimum qualifications and certification, in conformity with the level of authority to teach, through the development of the system of standardization and certification of the education profession, and through the application of the professionalism standards and the system for monitoring the performance of educators and of the education personnel, on the basis of class performance, school performance and the performance of other education units;

3. To enhance the welfare and legal protection of educators and the education personnel, by promoting the system of remuneration and the appropriate and adequate social security, by providing awards in conformity with the tasks and work achievement, and by providing legal protection in the implementation of tasks and to intellectual property rights; and
4. To issue the law and regulations pertaining to teachers, that cover the development of teaching as a profession, the welfare of teachers and their legal protection.

7. PROGRAM FOR IN-SERVICE EDUCATION

This program is aimed at enhancing the capability, skills and professionalism of civil servants and civil servant candidates of departments/ministries and non-departmental government agencies, in the implementation of service tasks to be implemented through professional education channels.

The main activities that will be carried out include the following:

1. To evaluate the in-service education in terms of the service personnel, in the context of increasing efficiency and effectiveness of in-service education activities; and
2. To develop standards on in-service education, in conformity with the standards of the profession.

8. PROGRAM FOR PROMOTING THE READING CULTURE AND FOR ENHANCING LIBRARIES

The aim of this program is to promote the reading culture, language and literature of the Indonesian society and of communities in the regions, including those being educated and the general public, in order to develop a society that are rich in knowledge and culture and is advanced and self-reliant.

The main activities that will be carried out include the following:

1. To expand and enhance the quality of library services, by: (a) adding and maintaining library collections and the collection of public

reading sites; (b) procuring the facilities and revitalizing mobile libraries and public libraries; (c) encouraging the growth of public libraries by utilizing existing facilities in the communities; (d) increasing the participation of the general public, including non-government organizations and the business community in the making available of reading facilities, including books as the means for life-time education; (e) enhancing the capability of librarians including the managers of libraries that are found at education units, through their education and training; (f) increasing the diversification of library functions in order to realize the library as an attractive site, especially for children and adolescents for learning and for developing their creativity; and (g) empowering librarians by developing the functional civil servant positions for librarians;

2. To consolidate laws and regulations on the National Library System;
3. To consolidate synergy among the national, provincial, district/city libraries and other similar types of libraries with libraries that are found at education units and public reading sites, by : (a) developing the national and regional libraries in line with the progress in library science and technology; (b) expanding the library network, from the central to regional levels, education units, and public libraries; and (c) increasing the capability of national and regional libraries in providing services to the general public in accordance with the appropriate standards;
4. To oversee and promote language for supporting the growth of the scientific culture, literary creation and the arts;
5. To increase the use of information and communication technology in order to expand public access to quality reading materials in a timely manner;
6. To increase facilities for writings, publications and dissemination of reading books; and
7. To intensify campaigns and promotion of the reading culture through the mass media and other methods.

9. PROGRAM FOR RESEARCH AND DEVELOPMENT IN EDUCATION

This program is aimed at increasing the frequency and quality of education research and development activities in order to support the

formulation of policies for solving the national education development problems/constraints.

The activities that will be carried out include the following:

1. To make available education data and information, by taking into account regional aspects, social and economic aspects and gender dimensions, as the basis for formulating national education development policies;
2. To develop the education data and information network, across sectors and across central, provincial, and district/city government levels;
3. To continually carry out studies and analyses on national education policies and to disseminate the results of such studies, in order to support the process of formulating education development policies;
4. To expand research networks across areas and regions, including with universities/tertiary education institutions and all government levels from the central to the district/city levels;
5. To develop education curriculums that are diversified, in conformity with the goals of national development, in the context of building the national identity, that is oriented to nationalism, national honor and competitiveness, and to develop curriculum networks for supporting the dissemination and monitoring of the 2004 curriculum implementation;
6. To promote innovation in education that is not only confined to innovation in the teaching-learning process but also innovation in the management of education, so as to become more efficient and effective;
7. To develop and apply a reliable system for education evaluation, in the context of enhancing and controlling education quality, including the development of the network of the examination system, in the formal as well as non-formal channels, the national problems bank, classroom assessment, and the promotion of the accreditation and certification system;
8. To develop reforms in the national education system and to socialize innovative education programs and technologies;
9. To promote international cooperation in education research and development;
10. To enhance the quality of education research and development institutions, including enhancing the quality of their human

resources, through various education and training activities, for degree as well as non degree levels.

10. PROGRAM ON THE MANAGEMENT OF EDUCATION SERVICES

This program is aimed at enhancing the capacity at the central as well as regional levels, promoting good governance, enhancing coordination among government agencies; developing policies, providing advocacy and socialization of policies on education development, and enhancing the participation of the general public in the development of education.

The main activities that will be carried out include the following:

1. To issue Government Regulations that are needed for enforcing Law Number 20 of 2003 on the National Library System;
2. To increase the capacity of institutions that are responsible for national education development at all government levels;
3. To develop an integrated and holistic education management and to apply good governance at education units, including at private education institutions, encompassing general education units as well as religious education units;
4. To develop a financing system that is based on the principles of justice, efficiency, effectiveness, transparency, and accountability, by providing greater allocation to the more needy and to clearly delineate financing responsibilities at each of the governmental levels;
5. To increase the productivity and effectiveness in the utilization of resources that are allocated for education development at the central, provincial, district/city levels and at the education units level;
6. To increase the effectiveness of the Education Council and School/Madrasah Committees, and to establish the National Agency for Certification and Profession (BNSP), in the context of enhancing the competence of graduates;
7. To develop the system for the management of education development, the system for quality control, that can respond to the globalization era pertaining to education;

8. To develop the education information and communication technology, including the development of the national education television;
9. To promote regional and international cooperation in the development of education;
10. To develop and apply the system for supervising development of education, including the system for follow-up measures to supervision findings of each education development activities, including the implementation of decentralization and autonomy/devolution of education.

CHAPTER 28

IMPROVING ACCESS OF THE PEOPLE TO QUALITY HEALTH SERVICES

The development of health services concerns endeavors to meet one of the basic rights of the people, namely the right to have access to health services, in conformity with the 1945 Constitution, Article 28 H, paragraph (1) and Law Number 23 of 1992 on Health. The development of health must be viewed as an investment for enhancing the quality of human resources, as measured by among others the Human Development Index (HDI). In the HDI, health is one of the major components in addition to education and income. Health development is also an investment for supporting economic development and assumes an important role in the efforts to alleviate poverty. The implementation of health development requires a change in the mindset from the illness paradigm to the health paradigm, in conformity with the vision of Indonesia Healthy 2010.

Indonesia has attained significant progress in enhancing the quality of the health of the population. The data from the IDHS (Indonesia Demographic and Health Survey) shows that the infant mortality rate fell from 46 per 1,000 live births (IDHS 1997) to 35 per 1,000 live births (IDHS 2002-2003). The maternal mortality ratio declined from 334 per 100,000 live births (IDHS 1997) to 307 per 100,000 live births (IDHS 2002-2003). According to the Iodized Salt Consumption Survey, that also contains the survey on nutritional status, the prevalence of underweight among children under five decreased from 34.4 percent in 1999, to 25.8 percent in 2002. Nevertheless, in the efforts to improve quality health services, various new problems and challenges have emerged as a result of social and economic changes and from changes in the global and national strategic environment. The global challenges are among others the attainment of the Millennium Development Goals (MDGs), while the national challenges are problems pertaining to decentralization in health endeavors.

A. THE PROBLEMS

Disparity in health status. Even though at the national level the quality of public health has improved, the disparities in health among social and economic levels, among regions, and among the urban and rural areas are still relatively high. The mortality rate among infants and children under five is almost four times higher among the poorest communities compared to that of the richest group of the population. Moreover, the prevalence is higher in rural areas, in the eastern part of Indonesia, and among the population with low level of education. The percentage of moderate and severe malnutrition among children is higher in rural areas than it is in urban areas. Birth attended by trained health personnel and the coverage of immunization among the poor are lower than that among the rich.

Double burden of diseases. Most of the diseases contracted by the community comprises communicable diseases, such as tuberculosis, acute respiratory infections, malaria, diarrhea, and skin diseases. Nevertheless, at the same time, there has been an increase in non-communicable diseases, such as cardiovascular and hypertension, as well as diabetes and cancer. . In addition, Indonesia is also facing emerging diseases, such as dengue hemorrhagic fever (DHF), HIV/AIDS, chikungunya, and severe acute respiratory syndrome (SARS). All of these show that an epidemiological transition has occurred, so that it can be said that Indonesia is facing a double burden of diseases at the same time. The double burden, along with population growth and changed age structure of the population, as signified by the increase in the proportion of productive and old age population, will affect the quantity and types of health services that are needed by the community in the future.

The low performance of health services. The high infant mortality rate in Indonesia could actually be averted through simple and affordable intervention measures. Therefore, the performance of health services is one of the important factors for enhancing the quality of public health. The still low public health performance is indicated by among others the births attended by health personnel, low coverage of children immunized against measles, and low tuberculosis cases detection rate. In 2002, the percentage of births attended by health personnel reached only 66.7 percent, ranging from 34.0 percent in the

province of Southeast Sulawesi to 97.1 percent in Jakarta. In 2002, the coverage of children of 12–23 months immunized against measles was still only 71.6 percent, ranging from 44.1 percent in Banten province to 91.1 percent in Yogyakarta. The tuberculosis case detection rate was only 29 percent.

The behavioral pattern of the general public that does not adequately support the pattern of clean and healthy living. The clean and healthy behavior of the general public is one of the important factors for enhancing the population health condition. The unhealthy behavior of the public is evident from their smoking habits, the low rate of exclusive breast feeding, the high prevalence of malnutrition and over-nutrition cases among children under five, the rising trend of HIV/AIDS cases, that of victims of narcotics, psychotropics, addictive substances, and deaths due to accidents. The proportion of adult smokers has reached 31.8 percent. Meanwhile, the proportion of smokers who have started smoking at the age of under 20 years has increased from 60 percent in 1995 to 68 percent in 2001. In 2002, the percentage of infants aged 4–5 months that have obtained exclusive breast feeding was still only 13.9 percent. The percentage of malnutrition cases in infants was 25.8 percent in 2002, while over-nutrition reached 2.8 percent in 2003. A reported 2,363 persons were living with AIDS in 2004 and another 3,338 were living with HIV, while hospital patients suffering from drug abuse increased from 44.5 thousand in 2002 to 52.5 thousand in 2003. Accident is one of the ten largest causes of general death, namely the 8th in 1995, rising to the 6th in 2001.

Low quality of environmental health. One of the other important factors that affect public health is the environmental condition, as reflected among others in the access of the communities to clean water and basic sanitation. In 2002, the percentage of households that had access to clean water was only 50 percent, and the access of households to basic sanitation was only 63.5 percent. Environmental health, which pertains to cross-sectoral activities, has not yet been managed in an area health system.

Low quality, equity, and reach of health services. In 2002, an average of 100,000 people could only be served by 3.5 public health centers (*puskesmas*). In addition to the low quantity, the quality, equity

and reach of health services at the public health centers still posed constraints. In 2003, there were 1,179 hospitals, consisting of 598 government owned hospitals and 581 private owned hospitals. The total number of beds in hospitals was 127,217 beds, so that there were an average of 61 beds for 100,000 population. Even though hospitals are found in almost all districts/cities, the quality of most of the hospitals is still below standards. Referral health services are not yet optimal and have not yet met the expectations of the general public. The general public are still unsatisfied with the quality of hospital and public health center services, due to the tardy services, administration impediments and the long waiting time. Protection of the general public with regard to medicines and foods is still low. In the free trade era, the condition of public health has continued to be vulnerable due to the possibilities of consuming medicines and foods that do not meet quality and safety standards.

The limited number and unequal distribution of health personnel. Indonesia has a deficiency of almost all types of health personnel. In 2001, each 100,000 population was served by only 7.7 medical doctors, 2.7 dentists, 3.0 specialist doctors, and 8.0 midwives. With regard to public health personnel, each 100,000 population was served by only 0.5 public health personnel, 1.7 apothecary graduates, 6.6 nutritionists, 0.1 epidemiologists, and 4.7 sanitarians. Many of the public health centers did not yet have medical doctors and public health personnel. Such limitations were aggravated by the uneven distribution of the health personnel. For example, over two thirds of specialist doctors were found in Java and Bali. The disparity in the ratio of medical doctors per 100,000 population among the regions was also still high, ranging from 2.3 in Lampung to 28.0 in Yogyakarta.

The low health status of the poor population. The infant mortality rate among the poor is 61 per 1,000 live births compared to 17 per 1,000 life births among the richest group of the population. Infectious diseases, leading to deaths among infants and children under five, such as acute respiratory infections, diarrhea, neonatal tetanus and obstructed labor delivery, are more prevalent among the poor. Other diseases that are more prevalent among the poor are lung tuberculosis, malaria, and HIV/AIDS. The low health status of the poor is mainly due to their limited access to health services on account of geographical and

cost constraints. The 2002–2003 IDHS shows that most (48.7 percent) of health access problems were attributed to constraints related to costs, distance and transportation. Hospital utilization is still dominated by the haves, while poor population have tended to use public health centers. Likewise, birth attended by health personnel is only 39.1 percent among the poor compared to 82.3 percent among the rich population. The poor population does not yet have access to the health insurance system. As a form of the social security system, health insurance was able to cover only 18.74 percent of the population in 2001, most of whom were civil servants and the haves. Even though the Law on the National Social Security System has already been enacted, experience of managed care in various areas has shown the access of the poor population to health services was not yet adequately assured.

B. THE TARGETS

The target of health development at the end of 2009 is the improved public health level by increasing access of the general public to health services, as reflected among others in the following impact indicators:

1. The increased life expectancy from 66.2 years to 70.6 years;
2. The reduced infant mortality rate from 35 per 1,000 live births to 26 per 1,000 live births;
3. The reduced maternal mortality ratio from 307 per 100,000 live births to 226 per 100,000 live births;
4. The reduced prevalence of malnutrition among children under five from 25.8 percent to 20.0 percent.

C. POLICY DIRECTIONS

In order to attain the above target, the policies on health development are directed mainly at; (1) increasing the quantity, networks and quality of public health centers; (2) increasing the quality and quantity of health personnel; (3) developing the health insurance system for the poor population; (4) increasing the socialization of environmental health and the pattern of healthy living; (5) increasing health education to the population since the early age; and (6) enhancing the equity and quality of primary health facilities.

Health development will prioritize efforts on promotion and prevention in an integrated and balanced manner with curative and rehabilitative efforts. Special attention will be given to health services to the poor population, the left behind areas and disaster-affected regions, by taking into account gender-equity aspects.

D. DEVELOPMENT PROGRAMS

The policy directions for enhancing public health are further specified into the following development programs:

1. PROGRAM FOR PROMOTING HEALTH AND FOR EMPOWERING COMMUNITIES

This program is aimed at empowering individuals, families, and communities, to enable them to promote a healthy behavior pattern and to promote community-based health improvement activities.

The main activities that will be carried out in this program include the following:

1. To develop the health promoting media and developing the information, education, and communication technology;
2. To develop community-based health improvement activities (such as integrated health posts, village obstetric posts, and school health endeavors) and based on initiatives of the young generation; and
3. To enhance health education for the general public.

2. PROGRAM FOR HEALTHY ENVIRONMENT

This program is aimed at realizing a higher healthy quality of the environment through the development of the area health system in order to mobilize a cross-sector health-oriented development.

The main activities that will be carried out include the following:

1. To provide facilities for clean water and basic sanitation;
2. To maintain and supervise environmental quality;
3. To control impacts of environmental pollution risks; and

4. To promote healthy areas.

3. PROGRAM FOR THE PROVISION OF COMMUNITY HEALTH

This program is aimed at increasing the quantity, equity, and quality of health services through public health centers and their networks, encompassing supplementary public health centers, mobile public health centers and village midwives.

The main activities that will be carried out in this program include the following:

1. To provide health services to poor population at the public health centers and their networks;
2. To build, improve, and rehabilitate the facilities of the public health centers and their networks;
3. To provide medical instruments and supplies, including essential generic medicines;
4. To improve primary health services, encompassing at least efforts for promoting health, the health of mother and child, family planning, nutritional improvement, environmental health, primary medical care, and the eradication of communicable diseases; and
5. To provide operation and maintenance funding.

4. PROGRAM FOR PROVIDING PERSONAL HEALTH SERVICES

This program is aimed at increasing access, affordability and quality of personal health services.

The main activities that will be carried out in the program include the following:

1. To provide health services to the poor population at class three hospitals;
2. To construct facilities and infrastructure of hospitals in selected left behind areas;
3. To repair hospital facilities and infrastructure;
4. To provide hospital medicines and supplies;
5. To improve referral health services;

6. To promote family doctor services;
7. To provide operation and maintenance funding; and
8. To increase the participation of private entities in the efforts to improve personal health;

5. PROGRAM FOR PREVENTING AND CONTROLLING DISEASES

This program is aimed at reducing the morbidity, mortality and disabilities attributed to communicable as well as non-communicable diseases. The contagious diseases that will have priority to be overcome are malaria, dengue hemorrhagic fever, diarrhea, polio, filaria, leprosy, lung tuberculosis, HIV/AIDS, pneumonia, and diseases that can be averted through immunization. The non-communicable diseases that will be given priority to be overcome are cardiovascular diseases, hypertension, diabetes, and cancer.

The main activities that will be carried out in this program include the following:

1. To prevent and control risk factors;
2. To increase immunization activities;
3. To detect and administer victims;
4. To enhance epidemiological surveillance and epidemic control; and
5. To increase information, education and communications on the prevention and control of diseases.

6. PROGRAM FOR IMPROVING COMMUNITY NUTRITION

This program is aimed at enhancing family awareness of the importance of nutrition in the context of enhancing the nutrition status of the community, especially pregnant mothers, infants and children under five..

The main activities that will be carried out include the following:

1. To increase nutrition education;
2. To overcome problems of protein energy malnutrition, iron deficiency anemia, iodine deficiency disorder, vitamin A deficiency, and other micro-nutrient deficiency.
3. To overcome over-nutrition;

4. To enhance nutritional surveillance; and
5. To empower communities to achieve family awareness on nutrition.

7. PROGRAM FOR HEALTH RESOURCES

This program is aimed at increasing the quantity, quality, and dispersion of health/medical personnel, in accordance with the needs in health development.

The main activities that will be carried out in this program encompass efforts:

1. To plan the needs for health personnel requirements;
2. To increase the skill and professionalism of health/medical personnel, through their education and training;
3. To meet the need for health/medical personnel, especially for health services at the public health centers and their networks, and at district/city hospitals;
4. To enhance the capacity of health personnel, including personal career development; and
5. To formulate competence standards and regulations on the health profession.

8. PROGRAM FOR PROVIDING MEDICINES AND HEALTH SUPPLIES

This program is aimed at ensuring the availability, equity, quality, and reach of medicines and medical supplies, including traditional medicines, household medical supplies, and cosmetics.

The main activities that will be carried out in this program encompass the endeavors:

1. To increase the availability of medicines and health supplies;
2. To enhance the equitable availability of medicines and health supplies;
3. To increase the usage quality of medicines and health supplies;
4. To enhance the affordability of prices of medicines and health supplies, especially for the poor population; and

5. To increase the quality of pharmaceutical and hospital services.

9. PROGRAM FOR FOOD AND DRUG CONTROL

The aim of this program is to ensure the fulfillment of requirements on quality, safety and therapeutic benefits of medicines, household medical supplies, traditional medicines, cosmetics, food supplement products and food products, in the context of protecting consumers/the general public.

The main activities that will be carried out in this program include the following activities:

1. To increase control on food safety and for hazardous substances;
2. To increase control on abuse of narcotics, psychotropic substances and addictive substances;
3. To increase supervision of quality, benefit and safety of therapeutic/medical products, household medical supplies, traditional medicines, food supplements and cosmetics; and
4. To strengthen the capacity of laboratories in supervising medicines and food products.

10. PROGRAM FOR PROMOTING ORIGINAL INDONESIAN MEDICINES

This program is aimed at increasing the utilization of Indonesian herbal medicines.

The main activities that will be carried out include the following:

1. To carry out research and development on herbal medicines;
2. To increase the promotion of using natural medicines of Indonesia; and
3. To develop the standardization of Indonesian natural medicines.

11. PROGRAM FOR IMPROVING POLICIES AND MANAGEMENT OF HEALTH DEVELOPMENT

This program is aimed at developing health development policies and management in order to support implementation of the national health system.

The main activities that will be carried out include the following:

1. To assess and formulate policies;
2. To develop the system for planning and budgeting, implementation and control, supervision and improvements of financial administration, and health regulatory framework;
3. To develop the health information system;
4. To develop the regional health system; and
5. To enhance the sustainable community health financing by capitation and pre-payment, especially for the poor people.

12. PROGRAM FOR HEALTH RESEARCH AND DEVELOPMENT

This program is aimed at enhancing research and development in health science and technology, as inputs for the formulation of policies and programs in the development of health.

The main activities that will be carried out include the following:

1. To carry out research and development activities;
2. To develop researchers, and research facilities and infrastructure; and
3. To disseminate and utilize results of research and development activities.

CHAPTER 29

ENHANCING SOCIAL SECURITY AND WELFARE

Social security and welfare are issues that are related to the neglect of children and the old aged, the disabled, those involved in a-social aspects, and to natural disasters and social disasters. This is in conformity with the stipulation of Article 28H, paragraphs (1), (2) and (3) of the second amendment to the 1945 Constitution, and Article 34, paragraphs (1) and (2) of the fourth amendment to the 1945 Constitution. According to the Ministry of Social Affairs, the total number of neglected children in 2003, was 4.12 million, consisting of 1.14 million neglected infants and 2.98 million children in the 6-18 years age bracket. The neglected old aged was around 2.43 million persons, the total number of disabled people was 1.66 million persons, and the total number of the destitute being cared for was around 14.53 million persons. Those affected by social welfare problems (the PMKS), particularly the destitute, if not speedily handled will lead to increasing social disparity, and will result in the weakening of social resiliency, and could lead to social conflicts, especially for the population living in remote and border areas.

A. THE PROBLEMS

The low quality of handling those having social problems (PMKS). The disabled are still facing constraints, especially with regard to their self-reliance, productivity and right to have a normal life, encompassing such aspects as their access to basic social services, the limited quantity and quality of social service personnel for handling various types of disabilities, and their access to public services that can facilitate their life. Those having a-social problems, namely tramps and beggars and those involved in a-moral activities are the result of poverty conditions and by individual incapacity to live and work in accordance with human values. Another problem is the low quality of management and professionalism in the provision of social welfare services and the

still not yet harmonious policies on social welfare at the national and regional levels.

The still weak handling of victims of natural disasters and social calamities. A natural disaster is an occurrence that is hard to accurately predict. The main problem in this regard is the still limited capability of human resources and technology for predicting natural disaster occurrences. Moreover, there is still the attitude prevailing among a portion of citizens who are living in the vicinity of the natural disaster-prone areas that has obstructed the smooth handling of such disasters. The handling of victims of social commotion (including refugees) occurring in dispersed areas involves a very large number of people, must continually be endeavored so that they can maintain their survival. This can lead to other types of problems, such as the relocation of such social disruption victims to their original locations, social-psychological problems and social envy between newcomers and the original population, and the problem of neglected children at the refugee sites. In 2003, the total number of natural disaster affected people who had to be cared for reached around 1.13 million persons, while the total number of social disruption-affected people reached around 654.9 thousand persons (Data from the Ministry of Social Affairs).

B. THE TARGETS

The targets of social security and welfare activities in the 2004–2009 period are as follows:

1. The increased accessibility of those having social welfare problems to basic social services;
2. The enhanced quality of life of those having social welfare problems, in accordance with human dignity and standing;
3. The enhanced capability and concern of the general public in the provision of social welfare services in an institutional and continual manner;
4. The enhanced social resiliency of individuals, families and communities in preventing and in handling social welfare problems;
5. The formulated national social security system;
6. The enhanced consistency among social welfare policies;

7. The ensured social assistance and the enhanced handling of natural disaster and social disruption victims; and
8. The enhanced quality of the management of social welfare services.

C. POLICY DIRECTIONS

In order to attain the above targets, the policy directions in social security and welfare development, for which consistency of national and regional policies and gender equity aspects are taken into account are the following:

1. Enhancing the quality of social welfare services and basic assistance for those affected by social welfare problems;
2. The enhanced empowerment of the destitute, disabled, and other social vulnerable groups;
3. Improving the quality of life of the PMKS to basic social services, public service facilities, and to social welfare security;
4. Developing and harmonizing policies for addressing strategic problems pertaining to social welfare problems;
5. Strengthening social resiliency of the people on the basis of the principles of partnership and social and cultural values of the nation;
6. Developing the national social security system;
7. Improving the quality of managing social welfare services in the utilization of social welfare resources;
8. Enhancing services to victims of natural disasters and social upheavals; and
9. Enhancing the initiatives and participation of the general public, including the haves, business community, universities, and NGOs, in the integrated and sustainable implementation of social welfare development.

D. DEVELOPMENT PROGRAMS

1. PROGRAM FOR SOCIAL WELFARE SERVICES DEVELOPMENT AND REHABILITATION

The aim of this program is to restore the social functions, to provide services and social rehabilitation to the PMKS, including the neglected

old aged, the disabled, and neglected children, to survive and improve their life.

The main activities that will be carried out are the following:

1. To formulate policies for social services and rehabilitation for the PMKS;
2. To enhance the quality of services, facilities and infrastructure of social welfare rehabilitation for the PMKS;
3. To enhance the oversight, service provision on social security and legal protection for neglected children, the old aged, the disabled, and to those having social problems;
4. To conduct training for enhancing skills and work practices for the PMKS;
5. To enhance psychological and social services provision and development of trauma centers for the PMKS, including victims of natural disasters and social upheavals; and
6. To provide communication, information and educational services on anti exploitation, violence, trading of women and children, the reintegration of former PMKS, and prevention of HIV-AIDS, and on the abuse of addictive drugs and narcotic substances.

2. PROGRAM FOR THE EMPOWERMENT OF THE DESTITUTE, ISOLATED TRADITIONAL COMMUNITIES, AND THOSE AFFECTED BY OTHER SOCIAL WELFARE PROBLEMS

The aim of this program is to increase the social capability and empowerment and quality of life of families, the destitute, isolated traditional communities, and others affected by social welfare problems.

The activities that will be carried out include the following:

1. To socially empower families, the destitute, isolated traditional communities and other PMKS, by enhancing the UEP (*Usaha Ekonomi Produktif* = Productive Economic Enterprises and the UKS (*Usaha Kesejahteraan Sosial* = Social Welfare Enterprises) and the KUBE (*Kelompok Usaha Bersama* = Collective Enterprise Groups);
2. To enhance partnership cooperation between businessmen and the KUBE and LKM;

3. To develop the GIS (Geographic Information System) for the mapping and empowering of the isolated traditional communities and the PMKS; and
4. To enhance the capability of officers and counterpart personnel for the social empowerment of families, the destitute, the isolated traditional communities, and other PMKS groups.

3. PROGRAM FOR DEVELOPING THE SOCIAL SECURITY SYSTEM

The aim of this program is to reform the system and institutional mechanism, and to develop policies on social security, at the national and regional levels, including efforts to assess strategies on social security funding, especially for the destitute and socially vulnerable groups.

The activities that will be carried out include the following:

1. To harmonize and formulate the regulatory framework and policies pertaining to the social security system;
2. To develop policies and strategy for social security services, including the funding system;
3. To improve policies pertaining to the social security of the poor population and the socially vulnerable groups;
4. To develop institutional models on local wisdom forms of social security.

4. PROGRAM ON SOCIAL WELFARE RESEARCH AND DEVELOPMENT

The aim of this program is to enhance the quality of the management and professionalism of social welfare services.

The main activities that will be carried out include the following:

1. To carry out the assessment, studies, training and education of the management in the provision of social welfare services;
2. To carry out assessments and studies in the context of enhancing the quality of social welfare services, including the management, facilities and infrastructure;

3. To formulate and issue stipulations on the standardization and accreditation of social welfare services, and to reform the system and institutional mechanism;
4. To develop the information system, data and publication on social welfare services; and
5. To enhance the regulatory framework that supports social welfare services.

5. PROGRAM FOR THE EMPOWERMENT OF SOCIAL WELFARE INSTITUTIONS

The aim of this program is to enhance the capability, concern, conservation and utilization of basic values on social welfare, and social resiliency, specifically social welfare workers/social volunteers, and the business community.

The main activities that will be carried out cover the following:

1. To enhance the quality of human resources involved in social welfare works (social volunteers, the Karang Taruna, social organizations, including social organizations at the local level);
2. To enhance the active participation of the general public and business community in supporting efforts on social welfare services for the PMKS;
3. To establish the cooperation network among the UKS (Usaha Kesejahteraan Sosial = Social Welfare Undertakings), the general public and the business community, including social organizations at the local level; and
4. To enhance the preservation of heroic, pioneer and struggle values.

6. PROGRAM FOR ENHANCING THE QUALITY OF SOCIAL WELFARE INFORMATION DISSEMINATION

The aim of this program is to enhance the quality and professionalism of social welfare services.

The main activities of this program include the following:

1. To increase information dissemination on social welfare, especially in slump, border, isolated, conflict, and natural disaster prone areas, and in remote islands;
2. To enhance the quality and quantity of social information dissemination through the printing and electronic mass media; and
3. To enhance the quality of information dissemination on social welfare through training on communication technology.

7. PROGRAM FOR THE DEVELOPMENT AND CONSISTENCY OF SOCIAL WELFARE POLICIES

The aim of this program is to develop and synchronize policies on social welfare in the context of enhancing the quality of human resources, the alleviation of poverty, and normalizing the social and economic life of communities.

The main activities that will be carried out cover the following:

1. To synchronize policies and to implement endeavors for alleviating poverty;
2. To harmonize efforts to handle strategic problems that are related to social welfare, such as problems of refugees and victims of natural disasters and social conflicts; and
3. To synchronize policies on health, including the efforts to overcome HIV/AIDS, on the natural environment, the empowerment of women, education, culture, youth, sports, the state apparatus, tourism and religion.

8. PROGRAM FOR SOCIAL WELFARE ASSISTANCE AND SECURITY

This program is aimed at providing basic assistance on social welfare for victims of natural disasters and social upheavals, and providing social welfare security to PMKS groups.

The main activities that will be carried out include the following:

1. To formulate various law regulations that are related to social welfare assistance and security;

2. To provide basic assistance on food, clothing, housing and emergency response assistance and assistance for the bringing back to original places, and incentives for housing construction for victims of natural disasters, social upheavals and other PMKS groups;
3. To provide assistance to regions that have provide accommodation to former victims of social upheavals and problematical migrant workers;
4. To provide assistance to victims of violence, by providing social security and advocacy; and
5. To undertake assistance and social security for the destitute, for population living in slump areas, and for other PMKS groups.

CHAPTER 30

DEVELOPMENT OF POPULATION, QUALITY SMALL FAMILIES, YOUTH AND SPORTS

The development of the population and quality small families is essential for attaining a sustainable development. This is to be realized by controlling the quantity of the population and by enhancing the quality of the people and human resources. Such development involves among others the efforts to control population growth, family planning and promoting the quality of the population, through the realization of the quality small family and by enhancing the mobility of the population (see Chapter 23 on Improving the Manpower Situation, and Chapter 26 on Reducing Imbalances in Regional Development). In that respect, reforming the population administration is imperative for supporting population planning, at the national as well as at the regional levels. The youth as part of the population is an asset to national development, especially in the economic field. In the above context, it is important to broaden the participation of all layers of society in the culture of sports activities, so as to enhance the quality of the population of Indonesia.

A. THE PROBLEMS

The still high growth and total number of population. Even though the population growth rate has been controlled so that it can be reduced, the total number of population has continued to rise through the years. The Population Censuses of 1990 and 2000 show that the total number of population of Indonesia reached 179.4 million in 1990 and 206.3 million persons in 2000, with the population growth rate reaching 1.49 percent per year over the 1990–2000 period, lower than the population growth rate of 1.97 percent per year reached in the 1980–1990 period. Even though the population growth rate has declined due to the falling birth rate, in absolute terms the population increase of 3 to 4 million persons per year is still high. This is due to the still not yet controlled birth rate in the 1970's, so that the increase in the total number of fertile aged couples higher than the preceding age group,

namely in the occurrence of the hidden momentum phenomenon in population growth.

The still high fertility rate. Population growth is primarily affected by the fertility rate. The Population Census of 1971 shows that the TFR (Total Fertility Rate) was 5.6 children per woman in the reproductive age. It has now been reduced by 50 percent, to 2.6 children per woman (the 2002–2003 SDKI/Demographic and Health Survey of Indonesia). The TFR decline is attributed among others to the increased use of contraceptive devices and medicines (prevalence) by fertile aged couples in the 1980s. In 1971 the prevalence of contraceptive use was less than 5 percent. It rose to 26 percent in 1980, to 48 percent in 1987, to 57 percent in 1997, and became 60 percent in 2002 (2002–2003 SDKI/Demographic and Health Survey of Indonesia). The tendency for the increasing prevalence rate was the result of the increased access to and service quality of the KB (Family Planning Program) and the increased availability of contraceptive devices. Thus, it is necessary to continue increasing the prevalence rate so as to reduce the fertility rate in order to yield a more balanced population growth rate. Therefore, the efforts to increase access to and to improve family planning services and increasing the availability of contraceptive devices are essential for reducing the total fertility rate.

The inadequate knowledge and awareness of fertile aged couples and adolescents on reproductive rights and health. According to the results of the 2002–2003 SDKI, only 60.3 percent of fertile aged couples used contraceptive devices, while 8.6 percent of this group that actually did not want to have children or preferred postponing their pregnancy, did not use contraceptive devices. Most of the general public, parents, as well as adolescents did not yet understand the reproductive rights and health of adolescents. The understanding and awareness of reproductive rights and health among adolescents are still low and inaccurate. Society and the family are still reluctant to openly discuss reproduction issues. Children and adolescents feel more comfortable discussing these matters among friends. The understanding of customs, cultural and religious values that consider the discussion of reproductive health as taboos are in fact more popular. Meanwhile, the coverage of existing advocacy and counseling institutions on reproductive rights and health for adolescents is still limited and their

quality is not yet adequate. The education in reproductive health for adolescents in schools has not yet been fully effective. All of these has resulted in many adolescents not having adequate understanding or having views that are accurate on reproductive health. The inaccurate understanding about reproductive rights and health has resulted in many of the adolescents exhibiting a deviating behavior without realizing the consequences on their reproductive health.

The still low first-marriage age of the population. Results of the 2002–2003 SDKI show that the median of the female first marriage age in Indonesia was 19.2 years. The median of the female first marriage age in rural areas is lower, namely 18.3 years, while that in urban areas was 20.3 years. The low first marriage age was also related to the social and economic condition of the population, particularly pertaining to their education. In addition, a portion of the society and families was not yet aware and did not yet comprehend the norms of the small family concept as the basis for forming the quality family.

The low participation rate of males in the family planning program. Indonesia has already initiated the implementation of development that is oriented to the equivalence and gender justice in the family planning program. Nevertheless, the participation of males in the family planning program is still very low, namely around 1.3 percent (2002–2003 SDKI). This is attributed to the limited types of contraceptive devices for men and to their limited knowledge on reproductive rights and health and in gender equivalence and justice. Likewise, the implementation of the family planning program and reproductive health is still not yet fully effective in taking into account gender equivalence and justice.

The fact that access to and quality of family planning services are not yet maximal. Currently, not all primary health facilities can provide family planning and reproductive health services. In accordance with the international agreement of the ICPD (International Conference on Population and Development) of 1994, all primary health services must be able to provide family planning services by 2015. In addition, there are still a large number of fertile aged couples that still do not use contraceptive devices in an effective and efficient manner with a long-term perspective.

The fact that the economic condition and resilience of the family are still weak.. A weak economic condition of a family affects its purchasing power, including its ability to purchase contraceptive devices and medicines. Poor families generally have a large number of family members. On the basis of the criteria of the Pre-Well Off Families and Well Off I Families (data of the BKKBN/National Family Planning Coordinating Agency), there were 15.8 million of poor families in 2003. Poverty made them have less access and made them passive in participating in enhancing the quality of themselves and their families. In turn, poverty will further deteriorate the social and economic condition of their families. Likewise, the participation of the general public in activities to promote family resiliency, especially for the better upbringing of children, is still low. These matters will impede efforts to form small and quality families.

The fact that regional institutions in implementing the family planning program are still weak. One of the important issues for the continuity of the family planning program is decentralization. In conformity with Presidential Decree Number 103 of 2001, which was subsequently revised by Presidential Decree Number 9 of 2004, most of the authority pertaining to family planning is being devolved to the district/city governments. This is in line with the essence of Law Number 22 of 1999 (which has been amended by Law Number 32 of 2004), which has devolved to the district/regional governments the authority to determine development programs needed by the regions in accordance with their respective needs, aspirations, capability and in line with the resources at their disposal. With regard to the implementation of the family planning program, the problem faced is that not all of the district/city governments have as yet determined family planning as a strategic issue in the efforts to control population growth and to meet the reproductive rights of the population. The understanding that family planning constitutes one of the basic human rights, namely the right to determine their reproductive process, is still low. Development of family planning is also not yet deemed as an investment for buttressing efforts to enhance the quality of human resources and for supporting economic development.

The fact that population policies in supporting a sustainable development are not yet consistent. The total number of population

of Indonesia estimated to have reach 216.3 million in 2004, will become a burden of development if not handled in an integrated manner. Up to now there is as yet no policy and strategy for controlling the quantity, for increasing the quality, and for directing the mobility of the population in conformity with economic growth of the respective regions.

The population administration has not yet been well-organized in the context of developing a system of government and of a sustainable development. Efforts to reform the population administration have been started since the 1960s, but has up to now not yet been realized. Meanwhile, the regulations on population administration that will supplement Presidential Decree Number 88 of 2004 regarding the Management of Information on Population Administration have not yet been issued. Moreover, the awareness of the general public on the importance of population documents and having an orderly administration is still low. Likewise, the population data bank is not yet available.

The low quality of the youth. The youth refers to the population in the 15–35 years age bracket. On the basis of the 2003 Susenas (National Social and Economic Survey), around 2 percent of the youth never went to school, 16 percent were still in school, and 82 percent were no longer in school. Of the total number of the youth, around 2.36 percent were illiterates. In terms of the education level attained, 34.7 percent finished elementary education, 26.9 percent finished junior high education, 24.4 percent finished senior high education, and 3.73 percent of the youth finished tertiary/university education. Meanwhile, the proportion of the youth that have no education (have never been in school or have not finished elementary education) is around 10.36 percent. Another problem is the low reading interest among the youth, namely around 37.5 percent; the low labor force participation of the youth, namely around 65.9 percent; the not yet consistent youth policies at the national and regional levels; the high rate of open unemployment among the youth, namely around 19.5 percent; and the proliferation of social problems among the youth, such as criminal activities, hooliganism, involvement in narcotics, psycho-tropical substances, addictive substances and affected by HIV-AIDS. The above facts indicate that the role and participation of the youth in development,

especially pertaining to entrepreneurial and work force activities, are still low.

The low sports culture. This is reflected in the level of progress of sports development in Indonesia, which has only reached 34 percent (Sports Development Index/SDI of 2004). This index is computed on the basis of the indices on participation, open spaces, human resources and fitness. In the context of promoting the sports culture in order to enhance progress of sports development, several of the problems that must be overcome are: the still non-existent regulatory framework on sports, the low opportunity to engage in sports activities due to the decreasing availability of open fields and facilities for sports activities, and the low interagency coordination in the provision of public places for sport fields and facilities that can be used by the general public and for settlement areas.

The sports achievements of Indonesia have continued to lag behind. This is reflected in the declining sports achievements in international events. In the Fourteenth SEA GAMES in 1987 and in the Fifteenth SEA GAMES of 1989, Indonesia always attained the overall championship. But in the Twenty-Second SEA GAMES in 2003, Indonesia's sports achievements were surpassed by Thailand, Malaysia, and Vietnam. The problem was that the government was able to promote only 17 sports branches, specifically by providing sport potentials among school children, and promoted only 1 sports branch at the university student level. Another problem was the still low quantity and quality of human resources in sports as indicated by the human resource dimension of the Sports Development Index of only 0.115; the shortage of physical fitness teachers of over 70,000 teachers; the sports facilities and infrastructure that were already below the training standards, the low coordination among the stakeholders in sports, at the national as well as regional levels; and in the still inconsistent sports policies at the national and regional levels.

B. THE TARGETS

In order to develop the population and the quality small family and youth and sports in the coming five years, the following are the three groups of main targets.

The first group of targets is the controlled growth of the population and the increased total number of quality small families as signified by: (a) the declining average growth rate of the population to around 1.14 percent per year; the total fertility rate to become around 2.2 per woman; the percentage of fertile aged couples that are not served (unmet needs) to become 6 percent; (b) the increased male family planning participants to become 4.5 percent; (c) the increased efficient and effective use of contraceptives; (d) the increased female first marriage age to become 21 years; (e) the increased participation of families in the upbringing of children; (f) the increased total number of Pre-Well-off Families and Well-off I Families that are active in productive economic activities; and (g) the increased total number of social institutions that are involved in the provision of services on family planning and reproductive health.

The second group of targets comprises the following: (a) the increased consistency of population policies in the context of increasing the quality, the controlled growth and quantity, improved direction of mobility and dispersion of the population, in line with the carrying capacity of nature and the accommodating capacity of the environment, at the national as well as regional levels; and (b) the increased coverage of districts and cities in the implementation of the Population Administration Information System.

The third group of targets comprises the following: (a) the increased consistency of youth policies at the national and regional levels; (b) the increased quality and participation of the youth in various fields of development; (c) the increased consistency of various sports policies at the national and regional levels; (d) the enhanced health and physical fitness of the people and the increased sports achievements; and (e) the expanded support of sports facilities and infrastructure for the people at large in accordance with the sports achievements of the respective regions.

C. POLICY DIRECTIONS

By considering that in the coming period Indonesia will attain a balanced population growth and will experience a demographic bonus (a situation in which the dependency ratio is low, namely the total number of productive age population is greater than the total number of non-productive age population, due to the change in the age structure), then the policy directions for attaining the three targets referred to above, are as follows:

First, the development policy for family planning is directed at controlling population growth and at increasing the total number of quality small families, by:

1. Controlling the total fertility rate through efforts to maximize access to and the quality of family planning services, especially for poor and vulnerable families and for isolated areas; to increase communication, information and education for fertile-aged couples, on reproduction health; to protect family planning participants from the negative effects of using contraceptive devices and medicines; to increase the quality of the provision and utilization of contraceptive devices and medicines and to increase the more effective and efficient use of contraceptives for the long term.
2. Increasing the quality of adolescent reproduction health in the context of preparing a better family life, and attaining the more mature marriage age by enhancing the understanding on adolescent reproduction health; attaining the social and government institutions that provide services on reproduction health to adolescents; and providing counseling on adolescent problems;
3. Increasing family empowerment and resiliency in the upbringing of children, increasing the income level of families, specifically families in the Pre-Well Off and Well Off I categories, increasing the quality of the family environment; and
4. Strengthening the institutions and networks on family planning services in cooperating with the public at large, in the context of controlling the population growth and acculturation of the small and quality family.

Second, policies on population development are directed at reforming the population development efforts, by:

1. Reforming the policies for the more balanced geographical dispersion and mobility of the population so as to become in line with the carrying capacity of the environment, by increasing the economic growth of the regions;
2. Reforming population administration policies for encouraging the accommodation of population rights and for enhancing the quality of documents, data and information on population, in the context of supporting the planning and implementation of sustainable development and improving public services, by among others implementing the registration of population.

Third, development policies on the youth and sports are directed at enhancing the participation of the youth in development activities and at promoting the sports culture and enhancing sports achievements, in order to enhance the quality of human resources, by:

1. Realizing consistency in policies on the youth in various development fields;
2. Expanding opportunities for obtaining education and skills;
3. Increasing the participation of the youth in social, political, economic, cultural and religious development activities;
4. Increasing the potentials of the youth in entrepreneurial activities, in the pioneering and becoming leaders of development;
5. Protecting the entire young generation from the dangers of drug abuse, alcoholic beverages, the proliferation of HIV/AIDS and contagious sexual diseases among the youth;
6. Developing sports policies and management in the context of realizing a more integrated and continuous system for guiding and promoting sports activities;
7. Increasing access and participation of the general public to have better health, physical fitness and for national character forming;
8. To increase sports facilities and infrastructure in the context of promoting sports activities;
9. Increasing efforts for the more systematic, hierarchical and continuous promotion of sport talents and for enhancing sports achievements;
10. Enhancing the pattern of partnerships and business initiatives in the efforts to seek out economic potentials of sports activities through the development of the sports industry; and

11. Developing the reward system and enhancing the welfare of athletes, trainers and sports personnel.

D. DEVELOPMENT PROGRAMS

1. PROGRAM ON FAMILY PLANNING

The aim of this program is to meet the need of the general public for family planning services and quality reproduction health services, including efforts to reduce the maternal mortality rate, infant mortality rate, and the child mortality rate and efforts to overcome reproduction health problems in the context of developing the quality small family.

The main activities that will be carried out include the following:

1. To develop policies on family planning, and to develop communication, information and education (CIE) that can promote the greater participation of the general public in family planning and in reproduction health services;
2. To increase access to and quality of family planning services and reproduction health services;
3. To enhance the effective and efficient use of contraceptive devices and medicines through the improved and long-term provision of contraception services that is more affordable and equitable throughout Indonesia;
4. To provide contraception devices, medicines and methods by giving priority to poor families and other vulnerable groups; and
5. To promote and meet the reproduction health rights, that include the provision of advocacy, communications, information, education and counseling services.

2. PROGRAM ON ADOLESCENT REPRODUCTION HEALTH

The aim of this program is to enhance the understanding, knowledge, and positive attitude and behavior of adolescents on reproduction health and rights, in order to increase their level of reproduction health and to prepare their family life in the context of enhancing the quality of future generations.

The main activities that will be carried out include the following:

1. To develop policies on reproduction health for adolescents;
2. To promote adolescent reproduction health, the understanding and prevention of HIV/AIDS and the dangers of addictive drugs, including advocacy, communication, information, education, and counseling to the general public, families and adolescents; and
3. To strengthen the support and participation of the general public to the self-reliant implementation of the reproduction health services for adolescents.

3. PROGRAM FOR FAMILY RESILIENCY AND EMPOWERMENT

The aim of this program is to enhance the well-being and enhance the resiliency of families by taking into account population age groups based on the life cycle, namely starting from the nascent in the mother's womb until old age, in the context of developing the quality small family.

The main activities that will be carried out are among others

1. To develop and consolidate the resiliency and empowerment of the family;
2. To provide advocacy, communication, information and education, and counseling services to families on the upbringing of children, basic family needs, to provide greater access to economic resources, and to increase the quality of the family environment;
3. To develop entrepreneurial knowledge and skills through technical and managerial training on business undertaking, especially for poor families in the group for increasing the income of well off families (UPPKS/*Usaha Peningkatan Pendapatan Keluarga Sejahtera*);
4. To develop the coverage and quality of the UPPKS through the counterpart/apprenticeship activities for cadres/members of the UPPKS group; and
5. To expand the coverage and quality of the Family Promotion (*Bina Keluarga*) group for families with children comprising infants, adolescents and that have old aged members in the family.

4. PROGRAM FOR THE INSTITUTIONAL BUILDING OF THE QUALITY SMALL FAMILY

The aim of this program is to promote self-reliance and at the same time to increase the coverage and quality of family planning and reproduction health services and to increase family resilience and empowerment, especially activities that are initiated by social institutions in urban and rural areas, in the context of institutionalizing the quality small family.

The activities that will be carried out include the following:

1. To develop the management and information systems, including the personnel, facilities and infrastructure, in the decentralization era, in the context of supporting program coordination;
2. To enhance the capability of field personnel and the self-reliance of family planning institutions that are community based, including the promotion of self-reliance in becoming family planning participants;
3. To manage data and information on the family on the basis of micro data; and
4. To evaluate, develop and oversee program implementation.

5. PROGRAM FOR ENSURING CONSISTENCY OF POPULATION POLICIES

The aim of this program is to harmonize sustainable population policies in various development fields, at the national as well as regional levels.

The main activities consist of among others the following:

1. To develop development policies and programs pertaining to the population, encompassing quantity, quality and mobility aspects;
2. To assess and reform laws and regulations pertaining to the growth and dynamics of the population (quantity, quality and mobility of the population), at all administrative levels of the government; and
3. To integrate population factors into sectoral and regional development activities.

6. PROGRAM FOR REFORMING THE POPULATION ADMINISTRATION

The aims of this program are the reformed population administration in the context of the greater accommodation of population rights (to obtain basic rights on legal protection and sense of security), orderly population administration, availability of accurate and integrated population data and information on the basis of the Related Data Base Management System (RDBMS), the realization of the national population data bank and the reformed population registration services and the participation of the general public, by taking into account the continuous development planning and implementation, and the greater orderly provision of public services.

The main activities that will be carried out include the following:

1. To reform the regulatory framework that support the population administration, such as the Law on Population Administration and its implementing regulations on population registration and civil recordings;
2. To reform the system for population registration, civil recording, and the management of population information through the Population Administration System;
3. To reform sustainable institutions on population administration in the regions, including efforts to increase the quality of human resources; and
4. To increase the participation of the general public in the field of population information administration.

7. PROGRAM FOR THE DEVELOPMENT AND ENSURING CONSISTENCY OF YOUTH POLICIES

The aim of this program is to realize the consistency of policies on the development of youth, at the national and regional levels.

The main activities that will be carried out include the following:

1. To analyze development policies on youth;
2. To promote the partnership between the government and private entities in the development of youth;

3. To increase the involvement of the youth in development activities, across all development fields and sectors;
4. To monitor and evaluate the implementation of youth development.

8. PROGRAM FOR THE GUIDANCE AND ENHANCEMENT OF YOUTH PARTICIPATION

The aim of this program to increase the quality of the youth as pioneers of development and as human resources that are capable to face various challenges and to take advantage of opportunities in development activities.

The main activities that will be carried out include the following:

1. To expand the horizon and enhance the attitude of the youth in development;
2. To increase the knowledge, skill and entrepreneurial capability of the youth;
3. To increase the creativity and innovative ability of the youth so as to facilitate the channeling of interest and talents;
4. To increase advocacy and rescuing of the youth from the dangers of addictive drugs and HIV/AIDS; and
5. To increase support for the development of facilities and infrastructure of youth activities.

9. PROGRAM FOR THE DEVELOPMENT OF SPORTS POLICIES AND MANAGEMENT

The aim of this program is to promote and synchronize various sport development policies and to strengthen sport institutions at the national and regional levels; to increase the total number and quality of sport trainers, researchers, those practicing sports, and sport technicians; and to increase the amount, effectiveness and efficiency of sport funding.

The main activities that will be carried out are among others as follows:

1. To conduct research and/or analyses on policies for the development of sports activities;
2. To monitor and evaluate the implementation of sports development;
3. To promote the management of sports activities;
4. To promote the partnership and entrepreneurial activities for the development of the sports industry; and
5. To formulate the regulatory framework on sports.

10. PROGRAM FOR THE PROMOTION OF GREATER SOCIALIZATION OF SPORTS

The aims of this program are the enhanced sports culture, the enhanced physical, mental and spiritual health of the people and school children starting from elementary schools, junior and senior high schools; the greater understanding and awareness of the general public on the essence and benefits of sports as a an essential need; the increased sports activities including public and traditional sport activities; the increased talent scouting and nurturing of potential sport beginners since the early age; the highest possible sports achievements in relation to social and economic development, in the context of enhancing the image of the nation and national pride.

The main activities that will be carried out include the following:

1. To promote sports for school pupils, university students and the general public;
2. To increase talent scouting and to nurture such talents;
3. To enhance sports achievements;
4. To promote sports that are developing among the general public;
5. To promote sports for special groups;
6. To conduct short-term and long-term training and education, including apprenticeship;
7. To increase the professionalism of trainers, managers and other personnel in sports;
8. To develop the science and technology of sports and to enhance the strategic skills for sports trainers, researchers, those practicing sports, and sport technicians; and
9. To develop the system of rewards and prosperity enhancement of athletes, trainers and personnel involved in sports.

11. PROGRAM FOR INCREASING SPORTS FACILITIES AND INFRASTRUCTURE

The aim of this program is to provide, arrange and construct sports facilities and infrastructure in the context of supporting activities in the promotion and development of sport activities, and for enhancing sport achievements.

The main activities that will be carried out include the following:

1. To increase the participation of the business community and the general public for supporting the funding and guidance of sports activities; and
2. To support the construction of sports facilities and infrastructure in provinces, and districts/cities, in accordance with the prioritized sports activities in the regions.

CHAPTER 31

ENHANCING THE QUALITY OF RELIGIOUS LIFE

The development of religion comprises efforts to meet one of the basic rights of the people, namely the right to adhere to a religion and to worship in accordance with the faiths of each, as stipulated in the 1945 Constitution, Chapter XI, Article 29, Paragraphs (1) and (2), stating that “The State is based on Believe in Almighty God” and that “The State ensures the freedom of all citizens to adhere to their respective religions and to worship in accordance with those religions and faiths”.

The development of religion comprises efforts to realize the agenda for enhancing the welfare of the people by enhancing the quality of religious services and understanding and the quality of religious life. In addition, the development of religion also encompasses the dimension of enhancing harmony among each of the religious adherents, that is buttressed by enhancing mutual trust and harmonization among various social groups. Such dimension on harmony is essential in the development of society that is aware of the reality of multiculturalism and that understands the meaning of social pluralism, so as to create an atmosphere of social life that is full of tolerance, mutual understanding and harmony. Through the nurturing of harmony among religious adherents, the agenda for creating an Indonesia that is safe and peaceful can be realized.

A. THE PROBLEMS

Understanding, cognition and practice of religious teachings in society are still inadequate. Religious life among some of society has still reached the level of religious symbols and has not yet become fully substantive. This is reflected among others in such negative aspects as amoral behavior, practices of corruption, collusion and nepotism, abuse of narcotics, pornography, porno-action, and gambling. In addition, the divorce rate is still high and lack of harmony in family life indicates the still weak role of the family as the basis for developing society and the nation. Various behavioral patterns that contradict

religious morals and ethics, have clearly described the gap between religious teachings and the understanding and practice of religion.

Understanding, cognition and practice of religious teachings among students are also not yet satisfactory. This is a challenge for the education of religion and for religious education, that cannot yet be fully overcome by the government. The main constraint is the inadequate quantity and quality of teachers and other educational personnel, the limited facilities and infrastructure, and the minimum of other supporting facilities. On the other hand, the continuing effects of globalization, especially through the printing and electronic media, that have increasingly influenced the behavior of students, have tended to have adverse impacts, that should have been averted or mitigated through the understanding and cognition of religion.

Religious services are also deemed to be not yet adequate. This is indicated by among others the inadequate facilities and infrastructure for worship, the not yet optimal utilization of places of worship, and the not yet optimal management of religious social funds. Services for the implementation of the hajj pilgrimage contain various weaknesses, starting from the phase of registration until the implementation of the pilgrimage to Saudi Arabia. The often occurring problems are among others, the uncertainty for departure of candidates to the hajj pilgrimage, the inadequate accommodation conditions, the insufficient service facilities of the Indonesian government in Saudi Arabia, the insufficient understanding of the hajj pilgrimage implementation, and the low professionalism of hajj officers.

Religious life among certain groups in society seems to be exclusive in the internal life of each religious adherents as well as in the relation among different religious adherents. This requires the attention of all parties, including religious social institutions and religious educational institutions. Religious social institutions and religious educational institutions need to have a greater role as agents for social change. Such function is mainly for enhancing the intellectual awareness of the people/nation and to give the opportunity to obtain education for citizens that are less fortunate, especially in rural areas.

Harmonious life in society cannot yet be fully realized due to among others the occurrences of social tensions, that have frequently led to internal conflicts and conflicts among different religious adherents. Such conflicts initially had been caused by social discrepancies and economic injustices, that have often exploited religious sentiments. In addition, such conflicts have also been caused by the low education level of the people and to the weak enforcement of the law. Beforehand, such conflicts had never surfaced to become big and large scale problems, such as is witnessed today, because in the social life of the people there had already been local wisdom and traditional values that could become the forums for communication and consultations. Such forums had been effected across regions, across religions and across ethnic groups.

B. THE TARGETS

On the basis of the above challenges and problems, the targets for enhancing the quality of religious life, until 2009, are as follows:

1. ENHANCING THE QUALITY OF SERVICES AND UNDERSTANDING OF RELIGION AND OF RELIGIOUS LIFE

- a. The increased quality of understanding, cognition and practice of religious teachings in the life of society, the nation and the country, so that in terms of spiritual values, the quality of society will continue to improve. These efforts are also aimed at school children in all education channels, types and levels of education, so that the understanding and cognition of religious teachings can be implanted since the early age of children;
- b. The enhanced concern and awareness of the people in meeting their obligations to pay the *zakat*, *wakaf*, *infak*, *shodaqoh*, collection, *punia* fund, and *paramita* fund, in the context of alleviating social gaps in society;
- c. The enhanced quality of religious services for all layers in society, so that everyone can have their basic rights in adhering to their respective religions and to worship in conformity with their respective religions and faiths;

- d. The enhanced quality of management in the implementation of the hajj pilgrimage, with the aim of attaining savings, preventing corruption, and enhancing the quality of services to participants in the haj pilgrimage; and
- e. The enhanced role of religious social institutions and religious educational institutions as agents in increasing the resilience of society in facing various crises.

2. ENHANCING INTERNAL HARMONY AND HARMONY AMONG VARIOUS RELIGIOUS ADHERENTS

The realized social harmony in the internal life and life among different religious adherents, that is tolerant and mutually respecting, in the context of creating an atmosphere that is safe and peaceful, so that conflicts that have occurred in various regions, can be resolved and will not be repeated in other regions.

C. POLICY DIRECTIONS

In accordance with the agenda of national development, the policy directions for enhancing the quality of religious life, are as follows:

1. ENHANCING THE QUALITY OF RELIGIOUS SERVICES, RELIGIOUS UNDERSTANDING, AND RELIGIOUS LIFE

- a. Enhancing the quality of understanding, cognition and practice of religious teachings;
- b. Enhancing the quality of education of religions and religious education in all channels, types and levels of education;
- c. Enhancing the quality of teachers in religion and religious aspects;
- d. Enhancing awareness of the people in the payments of the *zakat*, *wakaf*, *infak*, *shodaqoh*, contributions, *punia fund* and the *paramita* fund; and enhancing professionalism of the management of such funds;

- e. Enhancing the quality of religious information personnel and of other religious services, especially personnel that are assigned in conflict prone areas and in isolated areas;
- f. Enhancing the quality of organization and management and development of facilities in the implementation of religious worship, by taking into account the interests of all layers of religious adherents, with equal access for every religious adherents;
- g. Providing guidance to harmonious family life, so as to place the family as the main pillar for the forming of moral and ethical values;
- h. Enhancing savings in the costs of going on the hajj pilgrimage, preventing corruption, and enhancing the quality of services to those going on the hajj pilgrimage;
- i. Enhancing the quality and capacity of religious social institutions and religious educational institutions; and
- j. Enhancing the quality of research and development on religion in order to buttress the formulation of development policies on religion.

2. ENHANCING HARMONY WITHIN RELIGIOUS ADHERENTS AND AMONG DIFFERENT RELIGIOUS ADHERENTS

- a. Enhancing efforts for maintaining social harmony in religious groups by utilizing local wisdom in the strengthening of social relations in society;
- b. Preventing the possible emergence of conflicts in society that involve religious sentiments by the ability to anticipate the emergence of conflicts in the early phase;
- c. Resolving social conflicts that have religious overtones, through a conflict resolution mechanism, by placing the emphasis on justice and equality of rights, for attaining lasting peace;
- d. Restoring the social and psychological condition of communities in post-conflict areas, by providing information and religious guidance; and
- e. Increasing cooperation within and among religious adherents in the social and economic fields.

D. DEVELOPMENT PROGRAMS

The policy directions for enhancing the quality of religious life, are further specified into the following development programs:

1. PROGRAM FOR ENHANCING UNDERSTANDING, COGNITION AND PRACTICE, AND DEVELOPMENT OF RELIGIOUS VALUES

This program is aimed at enhancing the understanding, cognition, practice and development of values of religious teachings for each individual, family, community, and the state apparatus.

The main activities that will be carried out encompass the following:

1. To provide religious information and guidance for communities and the state apparatus through operational assistance for religious information providers; to provide facilities and infrastructure for providing religious information and guidance; to train information providers, those providing guidance, religious teachers and to provide orientation to prominent religious leaders; and to develop the teaching materials, methodology, and management for providing information and guidance on religious matters; and to provide package assistance for religious sermons in left behind areas, isolated areas, post-conflict areas and areas affected by natural disasters;
2. To provide assistance for the implementation of the MTQs, *Pesparani*, *Utsawa Dharma Gita*, Festival on the Art of Reading Buddhist Religious Holy Books, and for similar activities;
3. To establish the network and cooperation among sectors and communities for eradicating pornography, porno-action, practices of corruption, collusion and nepotism, abuse of narcotics, gambling, prostitution, and various a-moral practices; and
4. To consolidate the regulatory framework for overcoming pornography and porno-action.

2. PROGRAM FOR ENHANCING THE EDUCATION OF RELIGIONS AND RELIGIOUS EDUCATION

This program is aimed at: (1) making teachers to have high faith in Almighty God and for them to have noble moral values; and (2)

preparing schoolchildren to become members of society that understand or become experts on religion and to practice the values of religious teachings.

The main activities that will be carried out encompass the following:

1. To improve the curriculum and teaching materials on religion, with a multicultural orientation, to improve concepts on social ethics, based on religious values, to develop the methodology of teaching and evaluation system;
2. To develop the orientation and deepening of teaching materials through various workshops, seminars, comparative studies and orientation studies; upgrading and to make equivalent to the D-II and D-III degrees for basic education religious teachers, S-I degree for senior high education religious teachers and the S-2 and S-3 degrees for university teachers; and to meet the need for teachers and education personnel on religion;
3. To carry out camping activities for schoolchildren/students, contests on scientific religious papers, and to carryout art performances on religion; to carry out *pesantren* (religious schools) short courses, *pabbajja/samanera/samaneri*; and to guide and develop talents on religious leadership for schoolchildren, *santri* (students of the *pesantren*), *brahmacari*, university students, and religious university teachers;
4. To provide assistance on facilities, stationary, religious teaching books, other books of reading on religion at general schools, general universities and institutions for religious education; and
5. To carry out international cooperation in the program for the education of religions and religious education.

3. PROGRAM FOR ENHANCING THE PROVISION OF SERVICES TO RELIGIOUS LIFE

This program is aimed at enhancing the services and facilities for religious adherents to implement religious teachings, encouraging and enhancing the participation of communities in activities of providing services to religious life:

The main activities that will be carried out are among others:

1. To provide assistance for: the rehabilitation of places of worship and the development of libraries of places of worship; certification of *wakaf* lands, church lands, *pelaba pura* and *wihara* and grants; and to provide assistance of holy books and religious lectures;
2. To enhance services for the guidance of harmonious families; to increase marriage services by enhancing the capacity and coverage of marriage registration officers and to construct and rehabilitate marriage halls, as the centers for learning and empowerment of local communities by providing assistance for developing libraries;
3. To enhance the quality of guidance, services, protection of worshippers, to enhance efficiency, transparency and participation of communities and the business community in the implementation of the hajj pilgrimage; to increase guidance for guaranteeing the *halal* (religiously palatable) of products and to train businessmen, auditors, to enhance cooperation among government agencies and the local communities in guaranteeing that the products are *halal*; and to consolidate the regulatory framework in the provision of services for religious life;
4. To enhance services and management of the *zakat*, *wakaf*, *infak*, *shodaqoh*, contributions, *punia* fund and *paramita* fund, and other social religious contributions; and
5. To develop the information system on religion matters and to enhance the facilities and quality of technical officers on the *hisab* and *rukayat*.

4. PROGRAM FOR DEVELOPING RELIGIOUS SOCIAL INSTITUTIONS AND RELIGIOUS EDUCATIONAL INSTITUTIONS

This program is aimed at empowering and enhancing the capacity, quality and participation of religious social institutions and religious educational institutions in supporting social change, reducing the negative impacts of extremism in society, and providing educational services and developing human resources, especially for communities in rural areas and for the economically weak communities.

The main activities that will be carried out are among others:

1. To empower religious social institutions, such as religious worship groups, religious organizations, management of religious social

funds, by increasing the quality of the management personnel of the religious social institutions and of the religious educational institutions;

2. To provide assistance for the implementation of various activities of the religious social institutions and of religious educational institutions; to provide subsidies and block grants for the construction and rehabilitation of facilities and infrastructure of religious social institutions and of religious educational institutions; and to provide block grants for the development of the management of religious social institutions and of religious educational institutions;
3. To develop networks for cooperation and information system of religious social institutions and of religious educational institutions; and to make study tours of the religious social institutions and of the religious educational institutions; and
4. To assess, study and develop the quality of guidance given to religious social institutions and to religious educational institutions.

5. PROGRAM FOR RESEARCH AND DEVELOPMENT ON RELIGION

This program is aimed at providing data and information for the development of policies for the development of religion, to provide data and information for the academic community and for the general public, in the context of supporting the realization of programs for the development of religion.

The main activities that will be carried out encompass the following:

1. To assess and develop for enhancing the quality of guidance and participation of communities, in supporting the enhancement of the quality of religious life; to empower and utilize religious lectures; and to make studies for anticipating the negative impacts of modernization, globalization, and social changes that have become ever more rapid and complex;
2. To identify and formulate performance indicators on the development of religion;
3. To increase the creativity of communities in yielding scientific works and papers on religion;

4. To assess regulations on the life of religious adherents and the draft law on harmony in the life of religious adherents;
5. To develop research products in the context of enhancing the quality of services in religious life.

6. PROGRAM FOR ENHANCING HARMONY AMONG RELIGIOUS ADHERENTS

This program is aimed at consolidating the principles for harmonious relations within and among religious adherents, based on the noble values of religion, in order to attain social harmony, towards national unity and cohesion.

The main activities that will be carried out encompass the following:

1. To internalize religious teachings and to socialize the multicultural orientation among religious adherents;
2. To develop relations among religious adherents, religious leaders and the government, through dialogue forums and scientific meetings;
3. To establish a joint secretariat among religious adherents in all provinces and to provide data on the harmonious life of religious adherents; to enhance the potential for harmonious life among religious adherents by utilizing the local culture and through the participation of local communities; and to encourage the growth of forums for promoting harmony as the engines of development;
4. To carry out mutual visits among religious adherents, at the national as well as regional levels; to form the Forum on Communication For Harmony Among Religious Adherents at the provincial level, district/city level and at the sub-district level; to continue the formation of the network on communication for the harmony among religious adherents and to enhance the role of the cooperation network among religious adherents; and to carry out mutual visits among religious leaders, religious intellectuals and prominent religious people;
5. To reconcile religious leaders and to guide religious adherents in post-conflict areas; and to carry out contests of religious activities with the orientation of attaining harmony in conflict prone areas; and

6. To develop the multicultural forums for religious teachers and to enhance the quality of those involved in disseminating the importance of harmony among religious adherents.

CHAPTER 32

IMPROVING MANAGEMENT OF NATURAL RESOURCES AND CONSERVATION OF FUNCTIONS OF THE NATURAL ENVIRONMENT

Natural resources ought to be utilized for maximally enhancing the welfare of the people by taking into account the preservation of functions of the natural environment. Thereby, natural resources have two roles, namely as assets for economic growth (resource-based economy) and as the life support system. Up to now, natural resources have been the backbone to the growth of the national economy, and these resources will still be relied upon in the medium-term ahead. Forest, marine, fishery, mining and agricultural products have contributed 24.8 percent to the gross domestic product (GDP) in 2002, and have absorbed 45 percent of the total labor force. On the other hand, economic policies that have tended to place greater importance to short-term growth, have induced a pattern of production and consumption, that is aggressive, exploitative, and expansive, resulting in the decline in the carrying capacity and functions of the natural environment to decline and have in fact tended to deteriorate further with the situation already reaching an apprehensive phase.

Considering such dual role, it is necessary that natural resources are always managed in a balanced manner so as to ensure the sustainability of national development. The application of principles of sustainable development in all sectors and regions is the main prerequisite for internalizing them into policies, laws and regulations, mainly in efforts for inducing investment in the medium term (2004–2009). Such principles are synergic with the efforts to develop the system of good governance, based on the principles of participation, transparency, and accountability, will stimulate efforts to improve the management of natural resources and conservation of natural environment functions.

A. THE PROBLEMS

Various problems have led to the degradation of natural resources and the natural environment that will adversely affect life on earth, especially for humans, the continuously growing population. The following are some of such problems.

The continued deterioration of forests in Indonesia. The forest is one of the important resources, not only for supporting the national economy but also for maintaining the carrying capacity of the environment consistent with the balance of the world ecosystem. Compared to other ASEAN nations, Indonesia has the largest extent of forest area. However, together with the Philippines, Indonesia has the highest deforestation rate. In the 1985–1997 period, the deforestation rate was 1.6 million hectares per year and rose to 2.1 million hectare per year in the 1997–2001 period. One of the consequences is that Indonesia is facing the highest rate of species extinction compared to other ASEAN nations.

Degradation of river basin areas. The practice of illegal logging and the conversion of lands have widespread effects, namely in the degradation of the ecosystem in the river basic areas. As a result, river basin areas that are in critical condition increased from 22 in 1984 to 39 in 1992 and to 62 river basin areas in 1998. There are currently around 282 river basin areas that are in a critical condition. Such river basin degradation has also been stimulated by the lack of coordination in river basin management, between the upstream and downstream areas and by the ineffective institutional framework. This will lead to widespread imbalance of ecosystems, specifically of the reserves and supply of water, which is badly needed for irrigation, agriculture, industries and household uses.

Habitats in the coastal and marine ecosystem has continued to deteriorate. Degradation of the ecosystem habitat in coastal and marine areas has intensified, particularly in areas where there are intensive activities, such as the northern coast line of Java and the eastern coast of Sumatra. Degradation of the ecosystem habitat in coastal areas, such as the deforestation of mangrove forests and the degradation of most of the coral reefs and sea-weeds, has resulted in erosion of coastlines and in

the decline of the bio-diversity. Such erosion has been aggravated by faulty spatial planning and area development schemes. Some of the activities that are believed to have contributed to coastal erosion are among others the excavation of sea sand for coastal reclamation, hotel construction and other activities that are aimed at utilizing coastal areas and their waters. Meanwhile, the sedimentation process that has damaged coastal waters has also continued to increase. Some of the estuaries in Sumatra, Kalimantan, and Java have been experiencing rapid shallowing, due to the high growth of sedimentation from improper activities above the ground that have in fact disregarded the principle of soil conservation. In addition, pollution in various coastal and marine areas has also reached an apprehensive condition. The main source of the coastal and marine pollution is on land, namely the activities of industries, households and agriculture. The pollution also originates from activities at sea, mainly activities of sea communications and oil transporting ships and mining activities. At the same time, practices of illegal fishing and mining of coral reefs, are still prevalent, which have worsened the condition of the coastal and marine ecosystem habitat.

The image of mining activities that destroy the environment.

The nature of mining activities, specifically open pit mining, has invariably affected nature and changed the ecosystem. On a large scale, it will disturb the balance of environmental functions that will adversely affect human life. With such an image, the general public has tended to reject mining undertakings. Such an image has been worsened by the many non-licensed mining practices (PETI) that have a substantial adverse effect to the environment.

The imminent threat to bio-diversity. Currently there are 90 flora and 176 fauna species in Sumatra that are at the edge of extinction. The population of orangutans in Kalimantan dropped sharply, from 315,000 in 1900 to 20,000 animals in 1992. The mangrove forests in Java and Kalimantan have sharply declined, accompanied by the degradation of the ecosystem. Such a situation has placed Indonesia in a critical position, as shown in the Red Data Book of the IUCN (International Union for the Conservation of Nature). On the other hand, efforts to conserve original peat in Indonesia has not yet been effective. Destruction of the ecosystem and wild hunting, which are related to the

lack of awareness of the general public, have become the main threats to bio-diversity in Indonesia.

Increasing pollution of water. Studies made to 20 rivers in West Java in 2000, indicated that the BOD (Biochemical Oxygen Demand) and the COD (Chemical Oxygen Demand) figures increased above the tolerance limits. The same indication was also found in the Brantas river basin, plus the high ammonium content. Industrial, agricultural and household wastes are the largest contributor to such water pollution. The quality of surface water of lakes, water sources, and other public waters has also shown an apprehensive state. It is generally attributed to the blooming of phitoplanctons, resulting in the excessive accumulation of phosphate compounds. The dying fish at Lake Singkarak (1999), Lake Maninjau (2003) and the disappearance of several water sources in the Jabodetabek area are indications of high sedimentation and pollution of surface water. The condition of ground water, particularly in urban areas, is also worrying because of evidence of sea water intrusion and many findings of the *Escherichia Coli* bacteria and heavy metals in excess of the tolerance limits.

Quality of the air, particularly in large cities, has continued to decline. Quality of the air in ten large cities in Indonesia has reached an apprehensive state, and six of these, namely Jakarta, Surabaya, Bandung, Medan, Jambi, and Pekanbaru, can have a clean air only for 22 to 62 days in a year. Compounds that must be watched for are particulate (PM10), carbon monoxide (CO), and nitrogen oxide (Nox). Pollution of the air generally is attributed to gas emissions by vehicles and industries, forest fires, and inadequate green belts in the cities. This has also been worsened by the worsening quality of the global atmosphere, due to the destruction of the ozone layer in the stratosphere, on account of the accumulation of chemical compounds such as chlorofluorocarbons (CFCs), halon, carbon tetrachloride, methyl bromide, all of which are normally used as refrigerants of air conditioners, refrigerators, sprays, and foams. Such compounds are ozone-depleting substances. Indonesia is bound by the Montreal Protocol and the Kyoto Protocol, which have been ratified, with the aim of reducing the use of such ozone-depleting substances, even though hard to be implemented because of the scarce and very costly substitute substances.

In addition to the above problems, there are also problems that recently have protruded, including problems related to natural disasters and other environmental problems that have occurred as seasonal natural phenomena.

The sustainable forest management system is not yet effective. Since the 1970s, forests have been utilized as the economic engine through the exports of logs as well as through forest based industrial activities. The forest management system has been dominated by the issuance of forest concession rights (HPH) to certain parties, in a not transparent manner and without involving the local and traditional communities, or the regional governments. Currently there are around 28 million hectares of productive forests that are managed by 267 HPH companies, an average of 105,000 hectares per HPH. There is no social control, practices of corruption-collusion-nepotism have been rampant, and the actors have tended to seek the largest possible profit within the shortest possible period. In the future, forest management must be based on the sustainable forest management system, which takes into account economic, social, and environmental aspects.

The division of authority and responsibility in forest management is ambivalent. Regional autonomy has changed the nature of relations between the central government and regional governments. The emphasis of regional autonomy in the districts/ cities has changed the pattern of central government-provincial governments-district governments relations, and as the laws and regulations have not yet adequately stipulated the matter, divergent interpretations have emerged. As a result, the condition of forests have continued to worsen as there is as yet no agreement between the central government and regional governments on the management of natural resources. For example, Law Number 41 of 1999 on Forests, places greater emphasis on the ideal aspects of forest management, whereas aspects on the authority for managing forests have not been explicitly accommodated. Law Number 32 of 2004 on Regional Governments, which has revised Law Number 22 of 1999, even though already explicitly stipulating the relations between the central government and regional governments pertaining to authority, responsibility, utilization, maintenance, control, income sharing, synchronizing the environment and spatial allotment, still needs more specified implementing regulations.

Weak law enforcement to illegal logging and to log smuggling.

The high costs for managing forests, the weak supervision and law enforcement, have resulted in the planning of forestry to become ineffective and even not operational at all. Cases of over logging, illegal logging, log smuggling to other nations, and other illegal actions have been prevalent. It is estimated that such illegal activities alone have resulted in the forest loss of 1.2 million hectare per year, exceeding the forest extent that is cut on the basis of licenses issued by the Ministry of Forestry. In addition to the weak law enforcement, it is also attributed to land tenure aspects that involve many problems, the practice of non conservatory forest management, and the impeded access of the general public to forest resources.

The low forestry management capacity. Human resources, funding, facilities-infrastructure, institutions, and incentives for the management of forests are very limited compared to the extent of total area that must be managed, This had impeded efforts to solve forestry problems, such as illegal logging, forest fires, consolidation of forest areas, and so forth. To illustrate, the total number of the national forest police is 8,108 persons. This implies that one policeman must oversee around 14,000 hectares of forests. With the limited funding, facilities and infrastructure, such ratio is obviously insufficient, because the ideal condition is that one forest policeman oversees 100 hectare of forest areas, for the conservation area in Java, while for the conservation area outside Java, one forest policeman should oversee around 5,000 hectares. In addition, participation of the general public in safeguarding forests is also very low.

The fact that the utilization of non-timber forest products and environmental services has not yet been developed. Non timber forest products and environmental services of the forest ecosystem, such as the value of forests as a source of water, bio-diversity, clean air, climate balance, natural beauty, and the capacity to assimilate of the environment, that have large benefits as a buffer of the life system, and have economic potentials, have not yet been developed as expected. On the basis of studies, the value of the forest ecosystem services value is much greater than the value of timber products. It is estimated that the value of timber forest products is only around 7 percent of the total economic value of forests, with the remaining comprising non-timber

forest products and environmental services. Currently the demand for environmental services is beginning to rise, specifically for packaged drinking water, research objects, natural tourism, and so forth. The problem is that up to now, the system for their utilization has not yet been maximally developed.

The fact that border problems with neighboring countries have not yet been fully resolved. The extent of the exclusive economic zone of Indonesia has not yet been resolved, specifically the zones bordering Malaysia, Philippines, Palau, Papua New Guinea, Timor Leste, India, Singapore, and Thailand, whereas the territorial sea borders that have not yet been agreed upon are the borders with Singapore (to the west and to the east), Malaysia and Timor Leste. This is because Indonesia does not yet have the law on the management of marine resources, including the institution that has the authority to stipulate border lines with neighboring nations. In addition, Indonesia's diplomacy capability in international circles is still weak, thereby is a constraint that needs to be given attention to.

The marine potential has not yet been utilized optimally. In 2002 the marine sector contributed around 20 percent to the GDP. The largest contribution came from oil/gas, followed by the maritime industry, fishery, sea transportation services, sea tourism, sea construction and other services. Nevertheless, if compared to the potential, marine resources have not yet been optimally utilized. National development policies have thus far been too oriented to the inland area, so that the allocation of resources has not been made in a balanced manner between the inland area and the seas.

The proliferation of illegal fishing and destructive fishing method. Illegal fishing, by domestic ships with or without permits as well as by foreign ships in territorial seas as well as in the Exclusive Economic Zone of Indonesia, have resulted in the loss of around 1–1.5 million tons per year at a state loss of US\$ 2 billion. This has been exacerbated by the not yet optimal supervision due to inadequate facilities and law enforcement equipment. In addition, the total number and capacity of supervision officers, system of supervision, general public participation, and coordination among related government agencies, are also still weak. Meanwhile, destructive fishing practices,

such as the use of explosives and potassium, are still widespread, that is induced by high demand for corral fish from abroad at a high price. Such activities have resulted in the destruction of the ecosystem of corral reefs that are the important habitat for fish.

Management of small islands has not yet been optimal. Indonesia has a very large number of small islands. Nevertheless, in the last three decades there has not been given adequate attention nor have they been touched by development activities. A small island is defined as an island with an extent of less than ten thousand square kilometer, with a total population of generally less than 200,000 persons. These small islands are vulnerable to natural changes because the carrying capacity of the environment is very limited and tend to have a high number of endemic species. Another trait is that the types of development activities have tended to adversely affect the environment of the islands, thereby marginalizing the local population. Another aspect that needs to be considered with regard to these small islands is that several of them, particularly those situated in border areas, have the potential to become a source of conflict with other nations. Currently, there are 92 small islands that are the base points for determining the borders of the Republic of Indonesia with ten neighboring nations. Up to now, only with one country, namely Australia, has an agreement been made on small islands as base points. Therefore, it is necessary to have special attention for the development of the small islands, for which the approach needs to be different from other big islands. Currently, the draft has been formulated on the integrative National Policy and Strategy for the Management of Small Islands, as a basis for the development of the small islands.

A system for mitigating natural disasters has not yet been developed. There are many Indonesian areas that are vulnerable to natural disasters. Geographically, Indonesia is situated on three of the largest active plates, namely the Indo-Australia plate, the Eurasia plate, and the Pacific plate. In addition, Indonesia is the meeting area of the hot and cold flows that are found in the vicinity of the Banda Sea and Arafura sea. Such a condition indicates how vulnerable Indonesia is to natural disasters, such as earthquakes, tsunamis and typhoons. If not responded by the development of an early warning system, such natural disasters will threaten the lives of the population, flora and fauna and to

the infrastructure already constructed, such as those occurring in Aceh, North Sumatra, Papua and East Nusa Tenggara. In this medium term, development of policies on natural disaster mitigation system is essential, to be made among others by the development of science and technology that can facilitate the reduction of adverse effects of such disasters. In addition it is necessary to have a geological hazards mapping and the spatial plan must be made by taking into account the geological disaster-prone areas and locations of economic activities, and the pattern of city development that is adjusted to the carrying capacity of the local environment. Other efforts that need to be made are the construction of natural belts (mangrove forests and coral reefs) in coastal areas.

The contribution of oil and gas and mining products to government revenue has declined. Revenue from oil and gas at one time reached 43 percent of the National Budget while in 2003 it fell to 22.9 percent. It seems that such decline will continue. Indonesia's oil reserve is currently 5.8 billion barrels, with production reaching 500 million barrels per year. If no new reserves are discovered and the recovery rate is not increased, then within eleven years our oil reserves will be fully depleted. The proven natural gas reserves in 2002 was 90 TCF (trillion cubic feet), of which only 2.9 TCF has been used each year. The low utilization is due to Indonesia being less competitive with regard to gas supply. In contrast to Malaysia and Australia, which are always ready with their production, the gas fields in Indonesia have only been developed after there is certainty of contract with buyers, so that the supply readiness of Indonesia is less competitive. The mining of minerals, such as tin, nickel, bauxite, copper, silver, gold and coal has continued to contribute to government revenues, even though tending to decline. Government revenue from mining in 2001 was Rp 2.3 trillion, in 2002 was Rp 1.4 trillion and reached Rp 1.5 trillion in 2003.

Legal uncertainty for mining activities. This is due to the not yet completed discussions of the Draft Law on Mining to replace Law Number 11 of 1967 regarding Basic Provisions on Mining. In addition, regional autonomy has also added to the uncertainty for carrying out mining undertakings because of the many regional regulations that tend to impede investment, such as regulations on service charges, distribution of shares, and other regulations, which have extended the procedure for obtaining licenses on mining undertakings.

The high pollution from wastes and the not yet implemented processing of waste in an integrated and systematic manner. The increased income level and enhanced way of life of the urban population have significantly increased pollution from solid, liquid and gaseous wastes. Solid waste has created costs for waste processing, particularly in the creation and maintenance of final waste disposal sites (TPAs). To illustrate, the average operational life of the TPAs in the Jakarta-Bogor-Depok-Tangerang-Bekasi (Jabodetabek) area, has remained for only 3-5 years, while land that can be used for TPAs is very scarce. In addition, wastes have also not yet been processed and managed in a systematic manner, and are only piled up, thereby have polluted the soil and water, creating leachate inundation, thus threatening the health of the general public. The decline of water quality in water bodies due to activities of households, agriculture, and industry, also has required the integrated and cross-sectors management of liquid wastes. The high intensity of industrial activities and population mobility have been the causes to the worsening of air quality, especially in urban areas. Regulations are needed for the management and control of emission gas, from industries as well as from transportation, in the context of improving the quality of the air. In addition, the hazardous and toxic wastes that originate from hospitals, industries, mining and settlements, have also not yet been processed in a more intense manner. Even though Indonesia has ratified the Basle Convention, currently there is only one facility for the processing of hazardous and toxic substances, which is managed by a private company in Cibinong. The high cost, the complicated processing of hazardous wastes, and the low understanding the general public are also constraints in the efforts to reduce the negative impacts of wastes, especially hazardous and toxic substances, to the environment.

Policy adaptation to climate change and global warming has not yet been made. The phenomena of drought (El Nino) and floods (La Nina) that have occurred on a large scale since the 1990's, have substantiated the fact that there is a change in the global climate. Compared to 150 years ago, the average temperature of the earth's surface has now increased by 0.6° C, due to green house gasses, such as Co₂, CH₄ and Nox from industrialized nations. Up to 2100, the average temperature of the earth's surface is estimated to further increase by 1.4–5.8° C. The disturbed balance of the global environment, glaciers and icebergs in the poles melting, the rising sea water surface, and the

changing global climate will definitely affect Indonesia as an archipelago. Therefore, adaptation to such climate change is absolutely necessary, specifically in relation to the development strategy in the sectors of health, agriculture, settlement, and spatial planning. On the other hand, the climate change issue has opened up the opportunity for Indonesia, that has ratified the Kyoto Protocol, in which industrialized nations can reduce their gas emissions through compensation in the form of CDM (Clean Development Mechanism) investment projects in developing nations such as Indonesia.

Alternative environment funding has not yet been developed. Government fund allocation for the environment is very inadequate. Out of the total of development fund allocation, the environment sector receives only one percent each year. With the limited government finance, it is necessary to seek out alternative funding, in conformity with the stipulation of Law Number 23 of 1997 regarding the natural Environment, such as the DNS (Debt for Nature Swap) scheme, the CDM (Clean Development Mechanism), the Trust Fund Mechanism and green tax. Efforts to finding such alternative funding has met obstacles because the system and regulations on public finance is very rigid for anticipating various innovative financing schemes. In addition, it is necessary to develop various funding alternatives from domestic sources by developing various mechanisms for the management of funding through financial institutions and various other independent institutions.

The global environment issue has not yet been understood and applied in national and regional development. The growth of global awareness on the worsening condition of the environment and natural resources, have urged all nations to change their development paradigm, from the conventional economics to become the economic-ecological approach. For this purpose, 154 international and multilateral agreements have been produced, that are directly as well as indirectly related to the issue of the global environment. Indonesia has ratified 14 international agreements on the environment, but their socialization, implementation and reforms to such international agreements have not yet been effectively done, so that their utilization in the national interest has not yet been maximal. In addition, Indonesia's inputs for striving for the national interest at various international conventions, have also been limited, considering the weak institutional capacity, human resources,

and the system for Indonesia's representation at the various conventions. With Indonesia active in trade agreements, that are regional, such as the AFTA and APEC, as well as global, such as the WTO, it is necessary that national and regional development anticipate their impact to the environment.

The fact that laws and regulations on the natural environment are not yet synergistic. The laws and regulations on the natural environment are not yet consistent with laws and regulations in other sectors. Inconsistencies, overlaps and even contradictions are prevalent among the existing regulations, at the national as well as regional levels. It is thus necessary to continue efforts to improve the laws on the natural environment, so as to be effective in internalizing the principles of sustainable development.

The fact that awareness of the general public on the importance of conserving the environment is still low. The general public tends to believe that natural resources are available for an indefinite period and in unlimited quantities and can be exploited free of charge. Water, the air, climate, and other natural resources, are deemed to constitute the gift of Almighty God that can never be depleted. It has also been the believe that the natural environment will always be able to restore its carrying capacity and functions by itself. Such a view is very misleading and has led the general public to be not motivated to participate in efforts to conserve natural resources and the natural environment. This has been complicated by various fundamental problems, such as poverty, ignorance and greed.

B. TARGETS

With the above problems, the development targets to be attained are the improved system for managing natural resources and the natural environment for the creation of a balance between the aspect of utilization of natural resources, as contributors to economic growth (contribution of the sectors of agriculture, forestry, mining and minerals to GDP) and the aspect of protection to the conservation of the functions of the natural environment, as the life support system. Such a balance implies the need to ensure sustainable development. In this

respect, the mainstreaming of the principles of sustainable development in all sectors, at the central government as well as in the regions, is mandatory. The term sustainable development, refers to efforts to meet the needs of the current generation without sacrificing the interests of future generations. All of the activities must be based on the balanced relation among three pillars, namely is economically viable, socially acceptable and environmentally sound. These principles need to be further specified into policy instruments and laws and regulations on the environment that can induce medium term investment in all sectors and fields that are related to the targets of development of natural resources and the natural environment, and are as follows:

The development targets for **forestry** are: (1) law enforcement, specifically in the eradication of illegal logging and log smuggling; (2) determination of forest areas in the spatial layout of all provinces in Indonesia, for at least 30 percent of forests that have already been delineated; (3) completion of the determination of the units for forest management; (4) the optimized value added and benefits of timber forest products; (5) the increased non-timber forest products by 30 percent from the production level of 2004; (6) the expanded industrial forests (this) by at least 5 million hectare, as the basis for developing the forest economy; (7) the conservation of forests and the rehabilitation of land in 282 priority river basin areas for ensuring water supply and other life support systems; (8) the decentralized forestry management through the division of authority and responsibility that is agreed by the central government and regional government; (9) the growth of partnerships between the government, businessmen, and communities in the management of sustainable forests; (10) the applied science and technology that are innovative in the forestry sector.

The development targets for **marine matters** are: (1) the reduced violations and destruction of coastal and marine resources; (2) the improved management of the ecosystem of coastal areas, sea areas, and of small islands, that is to be made so as to ensure sustainability, integration and community based; (3) the agreement reached on sea borders with neighboring nations, mainly Singapore, Malaysia, Timor Leste, Papua New Guinea, and the Philippines; (4) the synchronized laws and regulations that are related to the management and utilization of coastal and sea resources; (5) the realized decentralization that

encourages the management of coastal and marine resources in an efficient and sustainable manner; (6) the increased extent of marine conservation area and the increased species/marine bio genetics that are scarce and threatened for becoming extinct; (7) the integrated development of the seas, coastal areas and inland areas in one area development strategy; (8) the realized utilization of marine, coastal and small islands in a harmonious manner in conformity with the carrying capacity of the environment; (9) the realized coastal and marine ecosystem for which its cleanliness, health and productivity are maintained; (10) the increased efforts for mitigating marine natural disasters and for ensuring the safety of communities that work at sea and that are living in coastal areas and on small islands.

The development targets for **mining** and **mineral resources** are: (1) the optimized role of oil and gas in government revenue, in order to support economic growth; (2) the increased reserves, production, and exports of oil and gas; (3) the assured supply of oil and gas and their products for meeting domestic demand; (4) the completion of the Law on Mining to replace Law Number 11 of 1967 on the Main Provisions on Mining; (5) the increased investment in mining and mineral resources with the expansion of employment opportunities and business opportunities; (6) the increased production and value added of mining products; (7) the realization of technology transfer and enhanced competence of manpower; (8) the increased quality of downstream industries that are mineral resources based; (9) the increased work safety and health in mining activities; (10) the identified geologic disaster prone areas, as the effort for developing a system for mitigating natural disasters; (11) the reduced mining activities without permits (PETI) and mining activities that destroy and create pollution; (12) the increased awareness for the importance of sustainable development in the exploitation of energy and mineral resources; and (13) the realization of mining activities that prevent the occurrence of pollution and degradation to the natural environment.

The development targets for **natural environment** are: (1) the enhanced quality of surface water (rivers, lakes and water sources) and the quality of ground water, accompanied by the integrated control and monitoring among sectors; the controlled pollution of coastal and sea areas, through the integrated approach between policies for soil

conservation in inland areas and the coastal and sea ecosystem; (3) the enhanced quality of urban air, specifically in urban areas, that is supported by improvements in the management and system of urban transportation that is environment friendly; (4) the reduced use of ozone destroying substances in a gradual manner with the aim of being completely eliminated by 2010; (5) the growth in the adaptation capacity to global climate change; (6) the conservation and utilization of biodiversity in a sustainable manner in accordance with the 2003–2020 IBSAP (Indonesian Bio-Diversity Strategy and Action Plan); (7) the increased efforts for managing urban wastes by placing environmental protection as one of the policy determining factors; (8) the enhanced system for the management of hazardous and toxic substances for activities that have the potential for polluting the environment; (9) the completed information and maps of areas that are vulnerable to environmental destruction, floods, droughts, earthquakes, and tsunamis, and other forms of natural disaster; (10) the formulated regulations on funding for the environment that is innovative for overcoming the low funding availability for the natural environment sector; (11) the enhanced international diplomacy in relation to the environment; and (12) the increased awareness of the general public on the importance of maintaining natural resources and the natural environment.

C. POLICY DIRECTIONS

In order to attain the above targets, the policy directions that will be pursued encompass improvement of the management and system for managing natural resources, optimizing the economic benefits of natural resources and the services of the natural environment, the development of laws and regulations on the environment, law enforcement, to rehabilitate and restore reserves of natural resources, and controlling pollution to the natural environment by taking into account gender equality. Through these policy directions, it is expected that natural resources can continue to support the national economy and increase the welfare of the people without sacrificing the carrying capacity and functions of the natural environment, so that such resources can still benefit future generations. In greater detail, the policy directions that will be pursued in the management of natural resources and the conservation of the natural environment, are as follows:

The development of **forestry** is directed at:

1. Improving the system for managing forests by increasing the direct involvement of local communities in the management of forests, increasing coordination and strengthening institutions in river basin areas, and increasing supervision and its law enforcement.
2. Realizing agreement among various levels of the government and implementing the division of authority and responsibility in forest management;
3. Effectuating the use of resources that are available in forest management;
4. Applying moratorium in certain areas;
5. Utilizing non-timber forest products and its environmental services in an optimal manner.

The development of **marine** assets is directed at:

1. Managing and enhancing the utilization of the potentials of sea, coastal and small island resources, in a sustainable and community based manner;
2. Developing a system for the control and supervision in the management of marine and coastal resources, accompanied by strict law enforcement;
3. Increasing efforts for the conservation of the seas, coastal areas and small islands and rehabilitating destroyed ecosystems, such as corral reefs, mangrove forests, sea weeds areas, and the estuaries;
4. Controlling pollution and destruction of the environment in coastal areas, seas, and sweet water areas (lakes, water sources, public waters), and small islands;
5. Nurturing regional and international cooperation for resolving sea borders with neighboring nations;
6. Strengthening the capacity of instruments for supporting marine development, encompassing science and technology, human resources, institutions and laws and regulations;
7. Enhancing research and development of marine technology;
8. Developing efforts for mitigating effects of natural disasters to the sea environment and coastal areas, enhancing work safety, and minimizing risks from sea natural disasters for the local communities in coastal areas and small islands;

9. Enhancing partnerships for increasing the role of the general public and private enterprises in the management of sea, coastal and small islands resources.

The development of **mining and mineral resources** is directed at:

1. Increasing exploration in the effort to increase reserves of oil and gas and other mineral resources;
2. Increasing exploitation by always taking into account the aspects of sustainable development, specifically considering possible destruction of forests, bio-diversity and pollution of the environment;
3. Increasing business opportunities for small scale mining enterprises in isolated areas by taking into account social and environmental aspects;
4. Increasing the benefits of mining activities and their value added;
5. Applying good mining practices at existing mining locations;
6. Rehabilitating former mining areas;
7. Ensuring legal certainty by the consistent synchronization of regulations and law enforcement;
8. Increasing guidance and supervision in the management of mining activities;
9. Increasing mining services and information, including information on areas that are vulnerable to geologic disasters;
10. Evaluating policies/regulations that are not appropriate.

The development of the **natural environment** is directed at:

1. The mainstreaming of the principles of sustainable development to all fields of development;
2. Increasing coordination in the management of the natural environment at the national and regional levels;
3. Increasing efforts to harmonize the development of laws on the environment and their enforcement in a consistent manner with regard to environment pollution;
4. Increasing efforts for controlling environmental impact from development activities;
5. Increasing the institution capacity of those managing the natural environment, at the national as well as regional levels, mainly in addressing problems that are accumulative, natural phenomena that are seasonal and natural disasters;

6. Developing public awareness on the issues of the natural environment and to actively participate as a social control instrument in monitoring the quality of the natural environment; and
7. Increasing the dissemination of data and information on the natural environment, including information on areas that are vulnerable to environmental disasters and information on early warnings of natural disasters.

D. DEVELOPMENT PROGRAMS

The above development targets and policy directions for development of natural resources and the natural environment in the next five years, are translated into the following development programs. In addition to these programs, the targets and priorities for improving the management of natural resources and for the conservation of functions of the natural environment, require the support from other development programs, that are carried out in various development sectors.

1. PROGRAM FOR CONSOLIDATING THE UTILIZATION OF THE POTENTIAL OF FOREST RESOURCES

This program is aimed at utilizing forest potentials in an efficient, optimal, just and sustainable manner, by establishing units for the management of sustainable production forests which meets the principles of Sustainable Forest Management (SFM) and supported by a competitive forest industry.

The main activities covered in this program are:

1. To determine forest areas;
2. To determine forest management units, particularly outside Java;
3. To reform the uses of forests and controlling the shift of functions and status of forest areas;
4. To develop social forests and small-holders forest undertakings;
5. To oversee institutions on production forests;
6. To develop the certification for the management of sustainable forests;

7. To develop non-timber forest products and their environmental services;
8. To conserve forest resources.

2. PROGRAM FOR THE DEVELOPMENT AND MANAGEMENT OF MARINE RESOURCES

This program is aimed at managing and utilizing marine, coastal and small islands resources in an optimal, just and sustainable manner, through the integrated approach among various uses so as to provide the proper contribution to national development, regional development and in increasing the welfare of the people.

The main activities cover:

1. To formulate policies and regulations on the management of marine, coastal and small islands resources, in an integrated manner;
2. To manage coastal, marine and small islands resources in an efficient and sustainable and community based manner;
3. To develop the system of MCS (monitoring, controlling and surveillance) in controlling and supervising, including the empowering of communities in the supervision system;
4. To reform the spatial allotment of marine, coastal and small island areas, in accordance with the carrying capacity of the environment;
5. To carry out research and development on marine technology, and research on other non-biological resources;
6. To accelerate the settlement of agreements on sea borders with neighboring nations, specifically Singapore, Malaysia, the Philippines, Papua New Guinea, and Timor Leste;
7. To manage and develop marine conservation areas, and to rehabilitate ecosystem habitats, that have been degraded such as corral reefs, mangrove forests, sea weed areas, and estuaries;
8. To increase the active participation of communities and private enterprises, through partnerships in the management of marine, coastal and small island resources;
9. To reform and enhance institutions, including community institutions at the local level;
10. To strictly enforce the law to violators and those responsible for the destruction of marine, coastal and small island resources;

11. To increase safety, mitigation of natural disasters, and forecasts of sea climate;
12. To develop knowledge on marine matters, especially for the young generation and school children.

3. PROGRAM FOR PROVIDING GUIDANCE TO OIL AND GAS MINING UNDERTAKINGS

This program is aimed at managing oil and gas undertakings to ensure that it can still be an important contributor to government revenues, increasing investments in the upstream and downstream activities, developing the potential of oil and gas in an optimal manner, and increasing the quality of human resources in oil and gas activities.

The main activities that will be carried out are:

1. To provide guidance to oil and gas undertakings;
2. To formulate price policies for gas fuels (BBG) and oil fuels (BBM);
3. To provide guidance to oil and gas supporting undertakings;
4. To increase local content;
5. To enhance the work safety and health in oil and gas activities;
6. To carry out community development in areas in the vicinity of oil and gas mining;
7. To manage oil wells;
8. To provide technical guidance to installations and equipment of oil and gas activities;
9. To formulate and evaluate exploration activities;
10. To supervise/monitor the POD (plan of development) in the fields;
11. To supervise the types, standards, and quality of BBM (oil fuels), BBG (gas fuels), natural gas, other fuel substances, and other processed products, including lubricants.
12. To carry out education and training in oil and gas;
13. To prepare work areas;
14. To promote and offer work areas;
15. To explore new oil and gas reserves potentials;
16. To increase the benefits of natural gas;
17. To optimize oil and gas fields;
18. To increase value added of oil and gas products;

19. To manage oil and gas natural resources at the central and regional levels;
20. To manage data and information on oil and gas;
21. To market LNG (liquefied natural gas) and CNG (compressed natural gas);
22. To promote efforts for reducing/eliminating BBM (oil fuels) subsidy;
23. To promote the business climate and commerce in oil and gas;
24. To carry out research and development on oil and gas;
25. To explore and exploit by considering the functions and carrying capacity of the environment.

4. PROGRAM FOR GUIDING MINERAL AND COAL MINING UNDERTAKINGS

This program is aimed at optimizing the utilization of mineral, coal, geothermal and ground water resources through the application of good mining practices.

The main activities include the following:

1. To formulate regulations, technical guidelines, and standards for the mining of mineral, coal and geothermal and ground water resources;
2. To oversee and supervise mining activities;
3. To supervise the production, marketing and management of minerals and coal resources, geothermal and ground water resources;
4. To evaluate the planning of production and marketing of minerals, coal, geothermal energy and ground water;
5. To evaluate the implementation of policies on the program for promoting communities in mining areas;
6. To evaluate, supervise, and put in order small holders activities, that have the potential of polluting the environment, specifically the use of mercury and cyanide in gold mining by small holders, including illegal mining and the use of certain chemical substances as supplementary material by small scale industries;
7. To provide technical mining guidance;

8. To manage data and information on minerals and coal, geothermal energy, ground water, and the widespread dissemination of geologic information related to efforts for mitigating natural disasters;
9. To socialize mining policies and regulations;
10. To increase the use of domestic production for mining exploration and exploitation activities;
11. To increase the benefits and value added of mining products;
12. To carry out geologic research and development, on minerals, coal, geothermal energy and ground water;
13. To carry out education and training on geology, technology on minerals, coal, geothermal energy and ground water;
14. To restore the environment in the post mining areas and to apply policies for post mining management and in the production of oil and gas that takes into account environmental impacts.

5. PROGRAM FOR PROTECTING AND CONSERVING NATURAL RESOURCES

This program is aimed at protecting natural resources from degradation and for managing existing conservation areas, to ensure the quality of the ecosystem so that its functions as a buffer to the life support system can be preserved satisfactorily.

The main activities include the following:

1. To reassess policies for the protection and conservation of natural resources;
2. To protect natural resources from exploitative and uncontrolled utilization, especially in conservation areas, including marine conservation areas and wet land areas, and other areas that are vulnerable to destruction;
3. To protect forests from fires;
4. To promote coordination among institutions that manage river basin areas;
5. To manage and protect bio-diversity, that are found inland as well on coastal and marine areas, from extinction.
6. To develop a system of incentives and disincentives in the protection and conservation of natural resources;

7. To formulate the funding mechanism for the protection and conservation of natural resources;
8. To promote partnerships with universities, local communities, non governmental organizations, the legislative branch, and the business community, in the efforts to protect and conserve natural resources;
9. To enhance the empowerment of communities and the business community in protecting natural resources;
10. To develop the system for protecting plants and animals through the control of epidemics, diseases, and *gula*, in an integrated manner and is environment friendly;
11. To assess the impact of acid deposition in the agricultural sector;
12. To formulate stipulations on spatial layout and zoning for the protection of natural resources, especially in areas that are vulnerable to tectonic earthquakes, tsunamis, floods, droughts, and other forms of natural disasters;
13. To develop patent rights of bio-diversity species that are original from Indonesia and certification on species;
14. To develop the carrying capacity and accommodation capacity of the environment;
15. To determine standard criteria on degradation; and
16. To make efforts to have DAK (Special Budget Allocation Funds) as compensation of regions that have and maintain protected areas.

6. PROGRAM FOR THE REHABILITATION AND RESTORATION OF NATURAL RESOURCE RESERVES

This program is aimed at rehabilitating nature that has been degraded and at accelerating the restoration of natural resource reserves, so as to be able to function as a buffer in the life support system and also to have the potential for being utilized in a sustainable manner.

The main activities that will be carried out include the following:

1. To determine the priority areas for the rehabilitation of mining sites, forests, lands and coastal areas and small islands;
2. To enhance the institutional capacity, facilities and infrastructure for the rehabilitation of forests, lands, coastal areas and small islands;
3. To enhance the effectiveness of reforestation efforts, that is carried out in an integrated manner;

4. To rehabilitate the ecosystem and habitat that have been degraded in forest areas, coastal areas (corral reefs, mangrove forests, sea weed areas, and estuaries), waters, ex-mining areas, accompanied by the development of its management system;
5. To restock agricultural and fishery resources;
6. To rehabilitate upstream areas for ensuring supply of water for agricultural irrigation and for preventing erosion and sedimentation in river and coastal areas; and
7. To revitalize lakes, water sources, specifically in the Jabodetabek area and in other large cities.

7. PROGRAM FOR ENHANCING THE CAPACITY TO MANAGE NATURAL RESOURCES AND THE NATURAL ENVIRONMENT

This program is aimed at enhancing the capacity to manage natural resources and functions of the natural environment through good governmental governance, on the basis of the principles of transparency, participation and accountability.

The main activities include the following:

1. To assess and analyze instruments for utilizing natural resources in a sustainable manner;
2. To increase the institutional capacity of those managing natural resources and the natural environment, at the central as well as regional levels, including traditional community institutions;
3. To enhance the role of communities in the management of natural resources and the natural environment, through the partnership mechanism;
4. To develop the system for controlling and supervising natural resources, including the system for overcoming natural disasters;
5. To develop the alternative funding system for the natural environment;
6. To increase coordination among government agencies, at the central as well as regional levels;
7. To develop laws and regulations in the context of controlling pollution and degradation of the natural environment;

8. To enforce the law in an integrated manner and to find legal settlement to cases of degradation of natural resources and the natural environment.
9. To ratify, apply and monitor international agreements in the field of the natural environment;
10. To establish the National Council for Sustainable Development;
11. To establish the Committee for Bio-Diversity, that is to be preceded by the establishment of the joint secretariat of the joint team for national bio-diversity;
12. To improve the procedure and system of representation of Indonesia at various international conventions on the natural environment;
13. To reassess and apply development policies through the internalization of the principles of sustainable development;
14. To increase formal and non-formal education on the natural environment; and
15. To develop the program for good environmental governance, in an integrated manner with other good governance programs.

8. PROGRAM FOR INCREASING THE QUALITY OF AND ACCESS TO INFORMATION ON NATURAL RESOURCES AND THE NATURAL ENVIRONMENT

This program is aimed at increasing the quality of and access to information on natural resources and the natural environment, in the context of supporting the plan on the utilization of natural resources and protecting the functions of the natural environment.

The main activities that are covered in this program include the following:

1. To compile data on natural resources, covering data on potential as well as data on the carrying capacity of the ecosystem areas, including small islands;
2. To develop the valuation of natural resources, covering forests, water, coastal areas, and mineral reserves;
3. To compile the balance sheet on the national natural resources and the balance sheet on the natural environment;
4. To compile and apply the Green GDP concept;

5. To compile data on the potential of forest resources and the Balance Sheet on Forest Resources;
6. To collect data and complete forest borders and border areas with neighboring nations;
7. To compile indicators on performance of the management of natural resources and the natural environment;
8. To disseminate and increase access to information to the general public, including information on disaster mitigation and potentials of natural resources and the natural environment;
9. To develop the early warning information system that is related to the global dynamics and changes in the conditions of nature, such as earthquakes, tsunamis, floods and droughts;
10. To develop the integrated information system between the system for monitoring the quality of the natural environment at the national and at the regional level.
11. To socialize, implement, and monitor various international agreements, at the central as well as at the regional levels;
12. To compile the report on the Status of the Natural Environment of Indonesia, as a supporting instrument for public decision making;
13. To increase involvement of the general public in the field of information and in monitoring the quality of the natural environment;

9. PROGRAM FOR CONTROLLING POLLUTION AND DEGRADATION OF THE NATURAL ENVIRONMENT

This program is aimed at increasing the quality of the natural environment in the effort to prevent degradation and/or pollution of the natural environment that is situated inland, on sweet water and sea waters, as well as the air, so that the general public obtains the clean and healthy quality of the natural environment.

The main activities that are covered in this program include the following:

1. To monitor the quality of the air and ground water, specifically in urban areas and industrial areas; the quality of surface water, especially in rivers with intense development activities and inter-province river; and the quality of sea water in coastal areas, in a

continual manner and coordinated among regions and among sectors;

2. To supervise the management of standard quality of waste water, gas emissions and the management of hazardous and toxic substances, that originate from point sources as well as non-point sources;
3. To increase environment laboratories in the provinces and facility for monitoring the air (ambient) in large cities or provincial cities;
4. To compile regulations for controlling pollution and degradation of the environment, to compile technical guidance and quality standards on the natural environment and for resolving cases, through legal channels, of pollution and degradation of the natural environment;
5. The use of environment friendly fuels, especially unleaded gasoline and the like in the transportation sector and energy, in the effort to reduce urban air pollution, based on the Euro II vehicle emission standards;
6. To socialize the use of clean and eco-efficient technology, in various manufacturing activities and in transportation;
7. To improve the system of trade and import of ozone destroying substances until the end of 2007 and eliminating ozone destroying substances by 2010, by socializing these to producers and consumers;
8. To supervise the implementation of abolishing ozone destroying substances at the district/city level;
9. To profoundly assess the impact of global climate change and efforts for anticipating such impacts to priority sectors;
10. Adaptation of climate change impact to sectoral strategic plans as well as to regional development plans;
11. To increase the production and use of compos fertilizer, that originates from domestic urban waste;
12. To increase the role of the general public and the informal sector, specifically scavengers, in the efforts to separate waste and 3Rs (Reduce, Reuse, Recycle);
13. To evaluate the establishment of a regional Final Disposal Site (TPA) companies in several large cities, specifically in the Jabodetabek and Bandung areas;
14. To develop the system and mechanism for the processing of hazardous and toxic substances, and the establishment of at least one facility for the processing of hazardous and toxic substances;

15. To develop the system of incentives and disincentives to activities that have the potential to pollute the environment, such as industries and mining;
16. To develop and apply various instruments for the management of the natural environment, including the spatial planning, analyses of environmental impacts and licensing;
17. To integrate environmental costs into production costs, including the development of progressive taxes in the management of natural resources and the natural environment;
18. To develop the technology with an environment orientation, including traditional technology in the management of natural resources, management of wastes, and industrial technology that is environment friendly; and
19. To formulate regulations and mechanisms for implementing on alternative environment funding, such as the DNS (Debt for Nature Swap), the CDM (Clean Development Mechanism), service charges to the environment, and so forth.

CHAPTER 33

ACCELERATING INFRASTRUCTURE DEVELOPMENT

The development of infrastructure is an integral part of national development. Infrastructure is the facilitator of economic growth. Activities in the transportation sector comprise the backbone of activities for the distribution of goods and passengers. The provision of infrastructure, such as electricity and telecommunications, is related to the modernization of the nation and constitutes an essential aspect in the efforts for increasing productivity. The widespread and equitable availability of housing and settlement facilities, such as drinking water and sanitation facilities, and the management of water resources in a sustainable manner, contribute to the enhanced welfare of the people.

In addition, infrastructure has an important role in strengthening the unity and cohesion of the nation. The transportation and telecommunication network, from Sabang to Merauke and from Sangir Talaud to Rote, constitutes one of the main uniting means of the Unitary State of the Republic of Indonesia. It has for long been understood that infrastructure is the major facilitator of development in any region. The disparity of welfare among regions can be fairly attributed to the discrepancy in infrastructure among such regions. In this context, the development of infrastructure based on regions will need to be increasingly taken into account. Experience has shown that transportation has an important contribution to the efforts to open up isolated regions and that the availability of irrigation is the precondition to the successful development of agriculture and other sectors.

Nevertheless, the provision of infrastructure, encompassing transportation, electricity, energy, post, telecommunications and information, water resources, housing, provision of water services, and environment conservation, has undergone quantitative and qualitative declines. The decline in quality and service provision and the postponement in the development of new infrastructure, can hamper national development. At the same time, the rehabilitation and reconstruction of various damaged infrastructure and the increase in

existing capacity and of new infrastructure will absorb a substantial amount of funding that cannot possibly be borne by the government by itself. Therefore, the need is very urgent to seek out innovative solutions for solving the problem of the maintenance and repair of damaged infrastructure.

There are still many non-cost recovery activities in infrastructure that will become the responsibility of the central as well as regional governments, among others in the development of roads, transportation safety facilities, water resources, and in waste disposal and sanitation facilities. With regard to other activities, the role of the government can be exercised through state capital participation in related State-Owned Enterprises (BUMNs) that are engaged in infrastructure, such as: toll roads, sea ports, airports, drinking water supply, housing, post, electricity, and telecommunications, for which the tariff system has not yet fully become attractive to private investors. Such activities mainly pertain to the PSO (public services obligation). Still, there are also activities that can fully be undertaken by private enterprises, such as electricity generation, telecommunications in urban areas, container sea ports, international airports and airports that are located in tourist destination regions, toll roads in sections in which traffic is heavy.

In view of the above problem, in the period of five years ahead, it is necessary that the handling of maintenance/rehabilitation activities and infrastructure development be clearly delineated. Activities that are related to the PSO are to become the responsibility of the government, the central as well as regional governments. The implementation is to be adjusted to the funding capability of the government. In this respect, it is necessary to have a synchronized handling of programs funded by the APBN (National Budget) and the APBDs (Regional Government Budgets).

For activities that are undertaken by state-owned enterprises (BUMNs), it is necessary to optimize the use of their company funding. For activities that affect the life of the people at large, government protection is needed, namely to avert the full control by private enterprises, it is imperative to ensure that the use of government capital participation in the relevant BUMNs be as efficient as possible.

For activities that can be fully carried out by the private sector, it is necessary to further explicate the relevant laws and regulations, especially those pertaining to guarantees and tariff system. With regard to the involvement of private enterprises in the construction of infrastructure, it is necessary to further explicate the authority of the respective private investors and the relevant state owned enterprises, and to avert that the state owned enterprises have monopoly rights for their respective fields of undertaking.

I. WATER RESOURCES

Water is the basic need of man for the continuation of life and for enhancing his welfare. Development of water resources basically comprises efforts to provide just access to all of the people in obtaining water so that people can live in a healthy, clean, and productive manner. In addition, development of water resources is also aimed at controlling the destructive potential of water so as to create a safe community life.

1.1. WATER RESOURCES PROBLEMS

The imbalance between supply and demand in the spatial and temporal perspectives. Indonesia, situated in the tropical area, is the fifth largest nation in terms of water availability. Nevertheless, Indonesia is naturally facing constraints to meet its need for water due to the uneven spatial and temporal spread of water, to the effect that water cannot always be made available, quantitatively and qualitatively, to meet the demand. From the standpoint of its spatial perspective, the island of Java, which is inhabited by 65 percent of the population of Indonesia, only has around 4.5 percent of potential sweet water of the nation. From its whole year distribution, 80 percent of the water available is supplied during the rainy season which lasts five months, while the 20 percent is available in the dry season lasting seven months. The abundant water availability in the rainy season, which has created benefits, also entails potential hazards to man in the form of floods. During the dry season, water scarcity has created another form of hazard to man, namely extended droughts. In 2002, floods had affected 20 provinces varying from low to high intensity ones, while in the same year drought had affected 17 provinces.

The increased threat to the sustained carrying capacity of water resources in terms of surface as well as ground water. The widening environmental degradation due to the significant destruction of forests has resulted in the decline in the carrying capacity of River Basin Areas for holding and storing water. Most worrying is the indication for the accelerated degradation of water catchment areas. This is indicated by the increasing rate of deforestation from 1.6 million hectare per year in the 1985–1997 period to 2.1 million hectare per year in the 1997–2001 period. This is also shown by the increasing total number of River Basin Areas that are in critical condition, namely totaling 22 areas in 1984, 39 in 1992 and totaling 62 River Basin Areas in 1998. The tendency for the widening extend and increasing number of river basin areas that are in critical condition have already resulted in the increasing scarcity and the increasing destructive capability of water. Moreover, the water scarcity has led to the unwise pattern of water usage, among others in the excessive exploitation of ground water that has resulted in the decline of ground surface and in the quality of ground water, and in the intrusion of sea water. The degradation of ground water is difficult to rehabilitate, so that the continuation of the process will ultimately lead to the occurrence of the environmental disaster with widespread implications.

The decline in the capacity to supply water. The growth of settlement and industrial areas has decreased water catching areas and has threatened the capacity of the environment to supply water. On the other hand, the capacity of infrastructure that accommodate water, such as dams and reservoirs, has steadily declined due to increased sedimentation, thereby reducing the continuous water supply capacity for irrigation and raw water purposes. Such condition has been exacerbated by the low quality of operation and maintenance activities, thereby leading a more drastic decline in the services provided by water supplying infrastructure.

The increased potential of water conflicts. In line with the population growth and the increased quality of life of the people, the need for raw water by households, settlements, agriculture as well as by industry has also continued to increase. In 2003, the total water need of the country was 112.3 billion cubic meters, and by 2009 it is expected to reach 117.7 billion cubic meters. The increasing demand for water on the one hand, and the increasingly limited availability of water on the other

hand, will certainly aggravate the water scarcity problem. In the dry season of 2003, Java and Bali experienced a water deficit of 13.1 billion cubic meters. Likewise, the Nusa Tenggara region experienced a water deficit of 0.1 billion cubic meters. The more serious the water scarcity problem becomes the greater will be the room for triggering water conflicts among water users, among regions, as well as between generations. Uncontrolled water conflicts could lead to conflicts of wider dimensions and may trigger various forms of disintegration problems.

The utilization of irrigation networks is not optimal In 2002, the total of irrigation network that had been constructed in Indonesia had the potential of irrigating 6.77 million hectare of rice fields. Around 48.3 percent of the network was located in Java, 27.1 percent in Sumatra, 11.7 percent in Sulawesi, and 6.8 percent in Kalimantan, while the remaining 6.1 percent was in Bali, Nusa Tenggara, Maluku, Papua, and West Irian Jaya. Out of this total of constructed irrigation network, around 1.67 million hectare, almost 25 percent, was not yet or not functioning. The not yet or not functioning of the irrigation network, covering a relatively extensive area, was attributed to among others the not yet completed network system, the lack of water, the not yet ready rice fields, uncertainties faced by labor farmers, or to the changed function of the land. This is also occurring in marshland irrigation networks. Out of the total of 1.80 million hectare already constructed, only 0.80 million hectare (44 percent) is functioning. In addition, in already functioning irrigation networks, degradation is occurring due to the low quality of operation and maintenance. It is estimated that the total of degraded irrigation network area has reached 30 percent. More apprehensive is the fact that most of the degradations have occurred in the major rice producing regions of Java and Sumatra. In addition to the decline in reliability of irrigation network services, there has also been a reduction in the extent of irrigated productive rice fields due to the shift of land function into non-agricultural uses, mainly for housing. The total of lands that has changed functions in Indonesia has reached 35 thousand hectares per year, most of which are in Java.

The widening extent of coastal abrasion. Environmental change and coastal abrasion have threatened productive lands and tourist areas. In addition, coastal abrasion in various border regions can result in the shifting of territorial border lines. Thereby, in such areas, the

safeguarding of coastal lines has strategic importance in guarding the territorial integrity of the NKRI (Unitary State of the Republic of Indonesia) and of the EEZ (Exclusive Economic Zone) of Indonesia.

Weak coordination, institutions, and administration. The change in the development paradigm in line with the reform spirit has required various adjustment measures in government administration, in the role of the people, the role of the BUMN/BUMD (National and Regional Government Owned Enterprises), and in the role of the private sector in the management of water resources infrastructure. The strengthened role of the people, regional governments, BUMN/BUMD, and the private sector, is necessary for expanding and consolidating the resource base. Even though the basic principles on this matter have already been stipulated in Law Number 7 of 2004 regarding Water Resources, it is nevertheless still necessary to have follow-up measures for issuing various implementing regulations of this law as operational reference. With regard to the institutional aspect, the weak coordination among agencies and among autonomous regional governments, have created an inefficient management of water resources, and in fact are in contradiction to each other. Moreover, the awareness and participation of the general public, as one of the preconditions for ensuring the sustainability of water resources management, is not yet up to expectation, due to the still limited opportunity and capability.

The low quality of data management and information system. The management of water resources has not yet been supported by an adequate data base and information system. The quality of available data and information has not yet met the required standards, in such terms as the timeliness of the data and information. In addition, public access to data is not yet satisfactory. There are various agencies that collect and process data and information regarding water resources, but exchanges of data and information among agencies still meet impediments. Another problem is the insufficient concern about and appreciation of the importance of data and information.

The damaged water resource infrastructure due to natural disasters, specifically in Aceh and North Sumatra. The natural disaster that occurred at the end of 2004 in Aceh and North Sumatra has damaged water resources, including the infrastructure. The entry of sea

water to inland areas in a large volume and at a relatively short time, has polluted water sources and has disrupted the supply of raw water for the people. Mud sediment and waste in rivers, have also disrupted and reduced the water flowing capacity. Such condition is very hazardous and has the potential to lead to floods. The hard hitting waves and mud sediments have also damaged irrigation networks in disaster areas. The disaster has also destroyed coastal areas and their potentials.

1.2. THE TARGETS OF WATER RESOURCES DEVELOPMENT

The targets of water resources development are: (1) the integrated and sustainable management pattern of water resources; (2) the controlled potential of water conflicts; (3) the controlled utilization of water resources; (4) the increased capability to meet demand for water by households, settlements, agriculture, and industry, with the main priority to meet the need of the public at large and small-holder agriculture; (5) the reduced impact of floods and droughts; (6) the controlled water pollution; (7) the protected coastal areas from sea water abrasion especially in small islands, border areas, and in strategic areas; (8) the increased active participation of the people; (9) the increased quality of coordination and cooperation among agencies; (10) the established pattern of sound financing; (11) the availability of data and system of information that is actual, accurate and easily accessed; and (12) the restored condition of water sources and water resources infrastructure, the availability of raw water for the people in general, the control of floods, especially in urban areas, and the restored condition of coastal areas in Aceh and in parts of North Sumatra from the natural disaster impact.

1.3. POLICY DIRECTION IN WATER RESOURCES DEVELOPMENT

Water resources management is to take into account the balance between conservation and utilization, between upstream and downstream waters, between the utilization of surface and ground waters, between the management of demand and the management of supply, between short-term and long-term interests. In the past, development had been more focused on utilization. Henceforth,

conservation efforts will be given greater importance so as to result in the even balance between efforts to meet short-term needs and efforts to meet long-term needs. In addition, the upstream-downstream pattern of relation will continually be developed so as to attain a management pattern that is more just. The development and application of the system of “conjunctive use” between the use of surface water and ground water will be encouraged especially for creating synergy and maintaining the sustainable availability of ground water. In this respect, the use of ground water will be limited, especially to meet the needs for households and agricultural undertakings, that financially have better business prospects. Efforts that place too much emphasis on supply are evidently less efficient and less effective for resolving the water resources management problems. In this respect, such efforts must be accompanied by steps to rationalize demand and use of water through the management of demand.

The use of vegetation for water sources conservation is a very important effort because of the absence of substitutes to vegetative functions in the environment. It is nevertheless realized that the vegetative approach will show results only after a long period. In view of this, for the period five years ahead, the vegetative approach needs to be supplemented by other efforts, such as through technical engineering, that is more quick yielding. Higher priority will be given to the building of small scale water pools, while greater considerations are to be given to the construction of larger water pools, due to the more complex issues involved, mainly related to social and environmental issues. The small scale construction will reduce the degree of concentration of costs and risks at one particular area and population. The efforts to conserve water sources are carried out not only for conserving the quantity of water, but also for maintaining the quality of water. Efforts to conserve ground water need to be continuously enhanced through recharging, making of water absorbing wells, or by applying other appropriate technologies. In order to protect water sources and avert floods, it is necessary to conserve water source sites and to safeguard river basin areas.

The utilization of water resources for irrigation in the next five years will be focused on efforts for increasing the functions of existing but not yet functioning irrigation networks, the rehabilitation of irrigation areas that are functioning but have been in disrepair, and increasing operation

and maintenance activities. Efforts to increase the functions of networks will be made only to areas where water availability is ensured and the labor farmers are ready to cultivate the area, with the priority irrigation areas for outside Java. Rehabilitation efforts will give priority to irrigated areas in major rice producing regions. Considering the wide extend of areas not yet functioning, thus in the five years ahead it will no longer be necessary to develop new irrigated rice-field areas, except for the completion of projects already started and in the process of being completed. The operation and maintenance of irrigation networks will be carried out on the basis of community participation in the whole process of activities. In order to control the tendency to increased shifting of land function, various incentive schemes will be developed so that farmers will continue to hold on to their rice fields.

In the utilization of water resources to meet the need for raw water, priority will be given to meet the basic need of households, particularly in water deficit prone areas, left behind areas, and strategic areas. The utilization of water to meet the need for raw water will be controlled and in line with this efforts will be made to increase the supply of raw water from surface water.

The destructive capacity of water, mainly floods, will mainly be controlled by applying the non-construction approach, through the conservation of water resources and the management of river basin areas, by taking into account coordination with the regional spatial plan. Efforts will continue to be made to increase the participation of the people and partnerships among stakeholders, not only during the occurrences of floods, but also in the stage of prevention and in the phase of post-disaster restoration steps. Steps to overcome floods will give priority to densely populated and strategic areas. The safeguarding of coastal areas from abrasion is mainly carried out in border areas, small islands and in centers of economic activities.

The development and management of water resources require institutional reform by changing the authority and responsibility of the respective stakeholders. The water resources council and the irrigation committee will be established and strengthened, as institutional instruments for managing various water conflict potentials and for consolidating the mechanism for coordination, among government

agencies as well as between government agencies and social institutions. Even though the domain of authority of the national government, provincial government and district/city government, has already been stipulated, a partnership among these three levels of government need to be continually encouraged so as to ensure synergy in the management of water resources in one river basin area. In the effort to solidify civil society, it is necessary to continually encourage involvement of the general public, state owned and private enterprises. In this context, the formulation of various implementing regulations will be completed in the next five years, to enforce Law Number 7 of 2004 regarding Water Resources.

The role of social capital in managing water resources is very important, especially in inducing a sense of ownership of water using communities. It is important for ensuring the continuity of infrastructure functions. The development of social capital will be made through the cultural approach, particularly for mobilizing local wisdom, which has traditionally been prevalent in the Indonesian society.

Policies for the development and management of water resources need to be supported by available data that is accurate and can be easily accessed by those needing such data. For this purpose, it is necessary to manage and strengthen the system for processing data and information on water resources in a planned manner and managed in a continual manner, so as to create a data base that can be used as reference for planning the development and management of water resources. The potentials of regional governments, the managers and users of water resources, need to be utilized in the most optimal manner.

The restoration of water services in Aceh and in parts of North Sumatra will be made by giving priority to supplying raw water to the general public by taking into consideration the condition of surface water that has been contaminated by sea water, and the control of floods through the flood management. Furthermore, efforts will be made to restore the functions of water pooling structures, restoring the functions of irrigation networks, and safeguarding coastal areas from erosion and sedimentation by giving greater emphasis on the vegetative approach.

1.4. PROGRAMS FOR DEVELOPMENT OF WATER RESOURCES

In order to attain the general targets and implement the policies referred to above, activities are carried out to be covered in five (5) programs, namely: (1) the program for the development, management, and conservation of rivers, lakes, and other water sources; (2) the program for the development and management of irrigation networks, swamp networks and other forms of irrigation networks; (3) the program for supplying and managing raw water; (4) the program for controlling floods and safeguarding coastal areas; and (5) the program for reforming institutions and administrative aspects.

1.4.1. PROGRAM FOR THE DEVELOPMENT, MANAGEMENT, AND CONSERVATION OF RIVERS, LAKES, AND OTHER WATER SOURCES

The aim of this program is to enhance the continuity of the function and utilization of water resources, the realization of an integrated management, and for ensuring the capability to renew and continue the water resources, so as to attain the pattern for managing water resources in an integrated and continual manner; and the control of ground water exploitation.

The activities that are carried out are: (1) managing the use of water resources; (2) conserving ground water in water shortage areas, such as Jakarta, Bandung, Surabaya, Semarang, and East Nusa Tenggara; (3) operation and maintenance of reservoirs, lakes, water source sites, water pools (*embung*), and other water pooling structures; (4) rehabilitating 100 water source sites in Jakarta, Bogor, Depok, Tangerang, and Bekasi and several water source sites/lakes in Central java, East Java, and in other regions; (5) constructing several reservoirs, such as in Banten, West java, Central Java, East Java, Bali, West Nusa Tenggara, East Nusa Tenggara, and South Sulawesi; (6) constructing around 500 *embungs* and other small scale water pooling structures, mainly in Java, East Nusa Tenggara, and in other drought prone regions; (7) enhancing the utilization of regional potentials and potentials of water reservoirs, lakes, water source sites, *embungs*, and other water pooling structures, including for the development of water tourist attraction sites; (8) forming competitive funds for the conservation of water by community groups as well as by

regional governments; (9) nurturing and promoting the community culture in water conservation; (10) strengthening institutes for the management of water resources that are dispersed in various provinces, such as in West Java, Banten, Central Java, Yogyakarta, East Java, Lampung, South Sumatra, North Sumatra, West Sumatra, South Sulawesi, West Nusa Tenggara, and in East Nusa Tenggara; (11) developing appropriate technology; (12) formulating norms, standards, guidelines and manuals; (13) constructing simple water pooling structures and rehabilitating reservoirs and other water pooling structures in the disaster affected areas in Aceh and in parts of North Sumatra.

1.4.2. PROGRAM FOR THE DEVELOPMENT AND MANAGEMENT OF IRRIGATION NETWORKS, SWAMPS, AND OTHER IRRIGATION FORMS

The aim of this program is to realize irrigation and swamp networks, and other water networks, in the context of supporting the program for enhancing national food resiliency, so that the capability to meet water demand for agriculture can be increased, and the utilization of ground water for irrigation can be controlled.

The activities that will be carried out are: (1) empowering water using farmers, especially on the management of irrigation networks; (2) enhancing the use of irrigation networks that are not yet functioning covering around 700 thousand hectares with the priority for regions outside Java; (3) rehabilitating irrigation networks covering around 2.6 million hectares, especially in the country's major rice producing regions and swamp irrigation of around 0.8 million hectare outside Java; (4) managing irrigation networks of around 5.1 million hectare and swamp and other irrigation networks of around 0.8 million hectare that are dispersed in all provinces; (5) optimizing the use of irrigation and swamp lands that have already been developed; and (6) rehabilitating and reconstructing irrigation networks that have been damaged by natural disasters in Aceh and in part of North Sumatra.

1.4.3. PROGRAM FOR THE SUPPLY AND MANAGEMENT OF RAW WATER

This program is aimed at increasing the supply of raw water to meet demand from households, urban areas, and industries, in the context of meeting demand from the general public and for supporting economic activities so as to be able to meet demand for raw water from households, settlements, and industries, with the priority placed in meeting the basic needs of the general public and in controlling the utilization of ground water for households, settlements and industries

The activities that will be carried out are: (1) operating and maintaining and rehabilitating waterways and other infrastructure for channeling raw water; (2) constructing the infrastructure for the taking and channeling of raw water especially in areas that have a high demand for raw water in strategic regions and left behind regions, such as Lampung, Jakarta, Central Java, East Java, West Kalimantan, South Sulawesi and Bangka Belitung; (3) constructing ground water wells by taking into considerations the principles of conjunctive use in water shortage areas, small islands and in left behind regions; (4) synchronizing activities of supplying raw water and activities for processing and distributing water; and (5) constructing raw water infrastructure by placing priority in the utilization of ground water in regions that have been contaminated by sea water, in regions that have been affected by the natural disaster in Aceh and in parts of North Sumatra.

1.4.4. PROGRAM FOR THE CONTROL OF FLOODS AND SAFEGUARDING OF COASTAL AREAS

This program is aimed at reducing the risk level and frequency of flood inundation, and overcoming the effects of floods and coastal abrasion that have affected production areas, settlements, and other public service facilities, so that the effects of floods and droughts can be reduced and coastal areas can be protected from sea water abrasion, especially in small islands, border areas, and in strategic regions.

The activities that will be carried out are: (1) the operation and maintenance and repairs of river channels, particularly in Jakarta, West

Java, Central Java, East Java, North Sumatra, West Sumatra, Riau, North Sulawesi, Gorontalo, South Sulawesi, and West Nusa Tenggara; (2) the rehabilitation, operation and maintenance of the infrastructure for controlling floods and safeguarding coastal areas, including dykes and normalizing rivers, especially in Java, Sumatra, and Kalimantan; (3) constructing the infrastructure for controlling floods and safeguarding coastal areas, especially in areas that are vulnerable to floods and sea water abrasion, in strategic areas, left behind areas, and the most remote islands in border regions, such as Aceh, West Sumatra, North Sumatra, Riau, Bengkulu Islands, Java, Bali, West Kalimantan, and North Sulawesi; (4) controlling the run off of surface water in water catchment areas and river sections through the issuance and enforcement of the law and regulations; (5) nurturing and developing local cultures in controlling floods; and (6) safeguarding coastal areas by placing priority in the planting of mangrove plants in coastal areas that have been affected by the natural disaster in Aceh and in part of North Sumatra.

1.4.5. PROGRAM FOR THE REFORM OF INSTITUTIONS AND ADMINISTRATIVE ASPECTS

This program is aimed at realizing effective institutions so that the potential of water conflicts can be controlled; increased participation of the people at large, improved quality and cooperation among government agencies; establishing a sustainable financing pattern; availability of data and system of information that is actual, accurate and continuous.

The activities that will be carried out are: (1) formulating Government Regulation regarding the Management of Water Resources, Government Regulation regarding Rivers, Government Regulation regarding Water Resource Undertakings in River Areas, Government Regulation regarding Irrigation, Government Regulation regarding Financing of Management of Water Resources in River Areas, Government Regulation regarding Perum Jasa Tirta I, Government Regulation regarding Perum Jasa Tirta II; (2) Presidential Regulation regarding the Formation of the National Water Resources Council; (3) reforming and strengthening institutions for the management of water resources at levels of the central government, provincial governments

and district/city governments; (4) establishing the forum for coordinating the management of water resources at the national level, provincial level, SWS level and/or at the district/city level; (5) establishing an information system and data processing that can meet the needs for data and information that are accurate, actual and easily accessed; (6) forming the network and institutions for managing data and information system and preparing and operating the decision support system (DDS); (7) increasing the participation of the people in the development, management, and conservation of rivers, lakes, and other water sources; (8) increasing the capability and empowerment of the people and water using farmers in technical, organizational and administrative aspects of developing and managing irrigation and other water resources; (9) enforcement of the law and regulations that are related to the management of water resources.

II. TRANSPORTATION

Transportation generally is the catalyst of economic growth, regional development and is the unifying element in the NKRI (Unitary State of the Republic of Indonesia). Transportation infrastructure encompasses road transportation, railways, river, lake and ferry transportation, sea and air transportation. Generally, the transportation infrastructure carries out a public service function and the mission of national development. Transportation also is a form of service industry. The development of transportation is directed at supporting the efforts to attain an Indonesia that is more prosperous and in line with attaining the goal of Indonesia that is safe and peaceful and just and democratic.

In the context of increasing the welfare of the people, the public service function of transportation is in the form of providing transportation services that encourage greater equity in development, that facilitate the meeting of needs of the public at large at affordable prices, in urban as well as rural areas, by supporting efforts to increase the welfare of communities in inland and remote areas, and by enhancing the mobility of goods and services and inducing growth of economic sectors in the national economy. Therefore the development of transportation is directed at increasing transportation services so as to become more efficient, reliable, of good quality, safe and at affordable

prices. In addition, it is also necessary to develop the national transportation system (*Sistranas*), for attaining the integration among transportation modes and an integration with the national spatial layout system, and with regional and sustainable development; and the creation of a national, regional and international distribution system, which can provide services and benefits to the general public, which include the enhancement of transportation networks between rural and urban areas and between production and marketing areas..

Moreover, the development of the transportation infrastructure will also be directed at supporting the realization of an Indonesia that is safe and peaceful, especially in the face of the many social and political problems that have arisen in various conflict regions and border regions, which require immediate measures for their prevention and resolution. The availability of transportation infrastructure and means is important in conflict areas and border areas as well as in isolated areas, for the purpose of stimulating the mobility of goods and people and for accelerating the development of the regions and for nurturing closer relations among regions in the NKRI. In line with the attainment of a just and democratic Indonesia, the role of transportation becomes important for bridging gaps and inducing greater equity in the distribution of the yields of development. Inter-regional transportation will open up opportunities for inter-regional trade and will reduce discrepancies among regions, and increase mobility of manpower, thus reducing the concentration of expertise and skills in some regions. The greater equity in expertise and skills, as well as with the reduced transportation costs among regions, will stimulate the creation of equal development opportunities among regions. The greater equity in transportation services provision in a just and democratic manner will also be directed at ensuring that any social group will have access to transportation services in an easy and affordable way.

Generally, the constraints faced by the transportation sector pertains to the aspects on capacity, condition, total number and quantity of physical infrastructure and means; institutional and regulatory aspects; human resources; technological aspects; funding/ investment aspects; management aspects; operation and maintenance. In addition, the earthquake and tsunami natural disaster in Aceh and North Sumatra, have paralyzed distribution networks and the mobility of goods and

services, mainly due to the destruction of transportation means and infrastructure in the disaster affected areas and due to the paralysis of human resource support. Therefore, in the period five years ahead, the general targets of transportation development are: (1) the enhanced condition and quality of the infrastructure and means by reducing the backlogs in maintenance; (2) the enhanced quantity and quality of transportation services, especially with regard to the safety of national transportation; (3) the enhanced quality of transportation services that is continuous and environment friendly, and in accordance with the set standards of service provision; (4) the increased national and regional mobility and distribution; (5) the increased equity and justice in the transportation services provision, among regions, among social groups in urban areas, rural areas as well as in remote and border areas; (6) the enhanced accountability in transportation services through the consolidation of the national, regional and local transportation system; (7) specifically for the national disaster affected regions, the program will be carried out for the rehabilitation of transportation infrastructure and means and for the promotion of human resources, which is integrated with programs in other sectors and with regional development plans.

In order to attain such targets, the general policies in transportation development are: (1) policies for developing transportation infrastructure and means; (2) the policies for increasing the safety of national transportation in an integrated manner; (3) policies for enhancing national mobility and distribution; (4) policies for the continued development of transportation; (5) policies for an integrated development of transportation on the basis of regional development; (6) policies for increasing data and information and for auditing the national transportation infrastructure and means; (7) policies for developing and consolidating the realization of national, regional and local transportation system, in a gradual and integrated manner; (8) policies for continuing the restructuring of institutions and laws on transportation and their implementing regulations; (9) policies for encouraging the development of a commercial transportation industry in regions that are already developed by involving private enterprises and the general public and by enhancing the guidance to national transportation undertakings; (10) policies for restoring the distribution and mobility channels in regions that are affected by national disasters in an integrated manner.

2.1. ROAD INFRASTRUCTURE

Road transportation is the principal mode of transportation for supporting national development and has a substantial contribution in facilitating the mobility of man and in the distribution of traded and manufactured commodities. Road transportation has assumed increasing importance for bridging gaps and inducing greater equity of the yields of development among regions, among urban areas and among rural areas and for accelerating regional development and for consolidating relations among regions in the NKRI (Unitary State of the Republic of Indonesia). Moreover, the increasing number of social and political problems that have arisen in border areas have required immediate measures to prevent and to overcome them. Therefore, the availability of road infrastructure that can reach all corners of the nation is imperative.

The construction of road transportation is an important part of national development, so that road infrastructure as a public means has a strategic economic and social value. It is time to place the function of road networks as one of the components of road infrastructure in an equally important position in the overall planning of transportation, especially in the decentralization era, so that it can become the unifying means of the nation in social, cultural, economic, political and security aspects. The aim of road transportation development is the increased transportation services in an efficient, reliable, good quality, safe manner and at an affordable price and the realization of a national transportation system in an inter-mode manner and integrated to regional development and to become part of one distribution system that is able to provide services and benefits to the general public, including the increased rural-urban road networks. An essential aspect for attaining this aim is the removal of sectoral arrogance, so as to be able to provide services in a proportional and effective manner.

2.1.1. PROBLEMS OF ROAD INFRASTRUCTURE

Generally, the condition of the national road networks has continued to deteriorate. Some of the main causes are the not yet optimal quality of road construction, excessive overloading, natural disasters, such as landslides, floods and earthquakes, and the declining ability to finance after the economic crisis that has led to the drastic cuts

in the public funding for the maintenance of roads. In 2004, out of the total road length of 348,148 kilometers in Indonesia, roads that are in damaged condition comprise 19 percent of the total of 34,629 kilometers of national roads, 37 percent of the total of 46,499 kilometer of provincial roads, 56 percent of the total of 240,946 kilometers of *kabupaten* (district) roads, and 4 percent of the total of 25,518 kilometer of *kota* (city) roads. In addition, there are also toll roads totaling 606 kilometer, that as a whole is in good condition. Out of the total road network, comprising national, provincial, district, municipal/city, as well as toll roads, the portion that is in good and satisfactory condition comprises 54 percent of the total of existing roads.

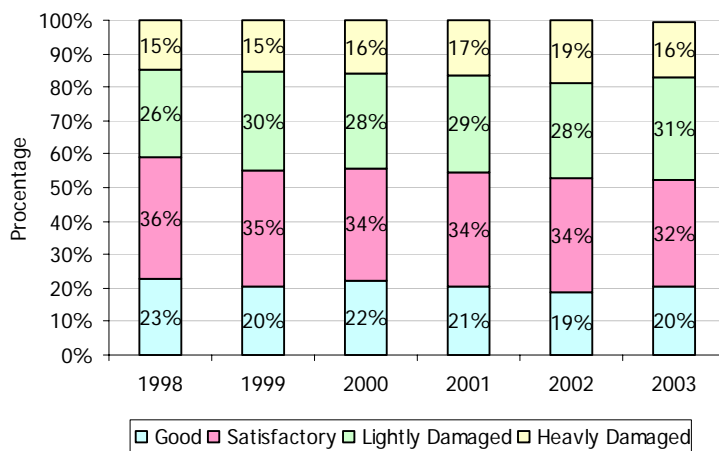
Table 1
Damaged National Roads (2002–2004)

Type of Road	Length (km)	Road Condition (Percent)			
		Good	Satisfactory	Lightly Damaged	Heavily Damaged
National Roads	34.629	37,4	44,0	7,7	10,9
Provincial Roads	46.499	27,5	35,3	14,4	22,7
District Roads	240.946	17,0	26,4	21,9	34,7
Municipal Roads	25.518	9,0	87,0	4,0	0,0
Toll Roads	606	100,0	0,0	0,0	0,0
Total	348.148	20,0	33,7	18,2	28,1

Source: Directorate General for Regional Infrastructure (2004)

Note: Data on National and Provincial Roads are based on the IRMS 2003 survey, projected to 2004. Data on Kabupaten/Kota (District/City) Roads based on the IRMS 2003 survey.

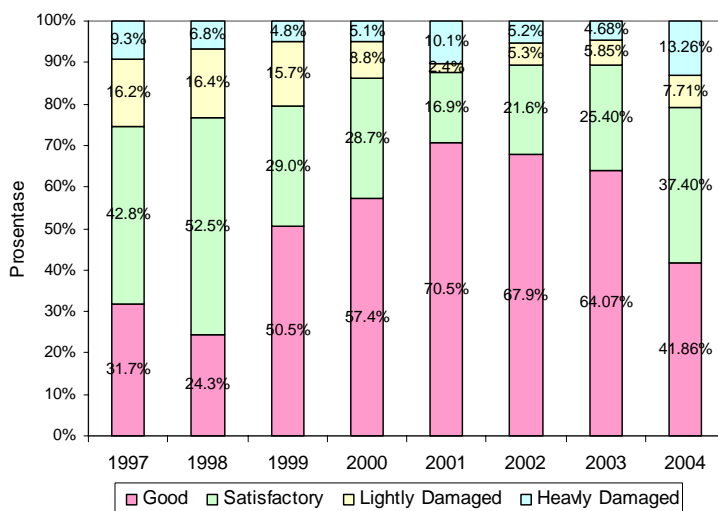
Graph 1
Condition of Kabupaten Roads, 1998–2003



Source: Directorate General of Regional Infrastructure, 2004

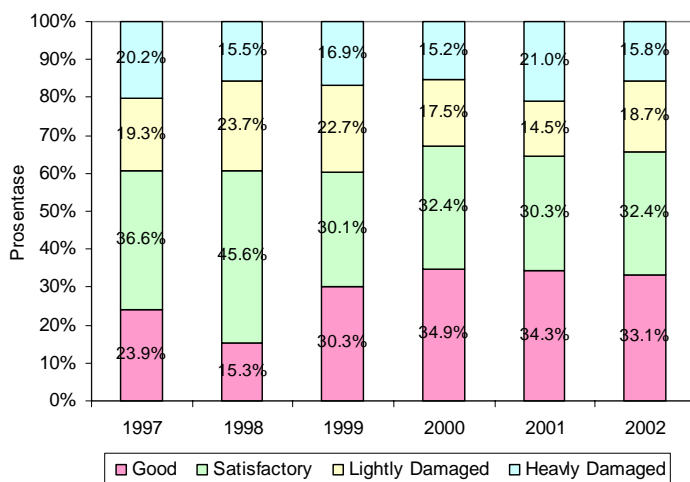
District and provincial roads that are in good and satisfactory condition have continued to decline, while the condition of national roads is relatively better and has continued to improve, as shown in Graphs 1, 2 and 3. The largest proportion of the exiting road network system is in the satisfactory condition category. This is due to the main component of the national road network system comprising district and provincial roads that currently are in the satisfactory condition and are tending to be categorized as being lightly damaged.

Graph 2
Condition of National Roads, 1997–2003



Source: Directorate General of Regional Infrastructure, 2004

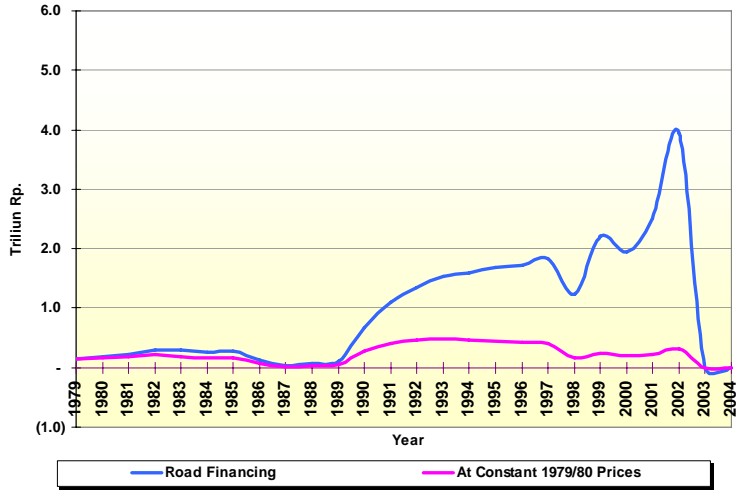
Graph 3
Condition of Provincial Roads, 1997–2003



Source: Directorate General of Regional Infrastructure, 2004

Funding remained relatively the same, in fact from the standpoint of capability declined. Even though the financing of road infrastructure through the years had been nominally increasing, the increase does not yet reflect the capability to meet funding needs for the maintenance or development of the existing road infrastructure. This is indicated in the funding at constant 1979/80 prices, namely the capability to finance given the varied inflation rates through the years. Even though such capability had increased since 2002, it is still below the average of the years before the crisis, as shown in Graph 4. **Because the need for maintenance funding cannot be met, a maintenance backlog has occurred, that has a big impact on the current condition of the national road network.**

Graph 4
Road Financing



Source: Directorate General of Regional Infrastructure, 2004

Extent of damage to roads attributed to excessive overloading and the still inadequate system for handling the problem, resulting in roads becoming dilapidated prior to the end of their technical life. This will require extra costs for maintaining the function of such roads and will reduce funds that can be allocated to other roads, thereby ultimately will disrupt the management of the entire road networks. In

addition, the biggest loss will be experienced by road users in the increase of time required to reach their destinations and thus will also increase the operational costs of vehicles. It will also indirectly result in the increase of transportation costs to the costs for distributing goods. Therefore, it is necessary that the central government together with regional governments must take concerted efforts to reduce and if possible eliminate the excessive overloading from heavy vehicles, particularly, single shaft trucks, with shaft pressure exceeding the road carrying capacity. If the fundamental causes are not yet fully resolved, then road maintenance, using APBN funds, will not be able to keep up with the rapid deterioration of the roads.

The degradation to the road infrastructure has resulted in the dramatic increase in the social-economic costs incurred by road users in various road sections that comprise the major economic routes. The Ministry of Settlement and Regional Infrastructure projected in 2000 that road user costs in one year reach around Rp 200 trillion (SEPM-IRMS), whereas data from the IRMS survey show that in 2002, the road user costs (RUC) for users of national roads and provincial roads reached Rp 1.5 trillion per day. The relatively large cost is incurred by road users in Java, namely of Rp 721,9 billion. The RUC by islands and by trans-roads is shown in the following table.

Table 2
Road User Costs in the entire Road Network
(national, provincial and non-status) per day

Classification		VOC billion Rp	T-Time Cost billion Rp	RUC billion Rp
I	Entire Road Network			
1	Sumatra	424.72	53,82	478,54
2	Java	641.09	80,84	721,93
3	Other Islands	312.16	33,67	345,82
4	Total Indonesia	1.377.96	168,33	1.546,28
II	Specifically Trans by Islands			
1	Sumatra	204.33	29,32	233,65
2	Java	240.36	33,86	274,21
3	Other Islands	156.37	18,16	174,53
4	Total Indonesia	601.06	81,34	682,39

Source: Directorate General of Regional Infrastructure, Ministry of Public Works, 2002 (processed).

The performance of the road infrastructure, that is indicated by the speed that can be attained by vehicles, is still low. The decline in the performance of service provision by the road infrastructure is characterized by the occurrence of frequent traffic jams, that result in the reduced efficiency of activities in urban areas, as the centers of distribution of commodities and of industrial activities. There are still many primary artery roads that have to go through densely populated areas, that normally are the centers of traffic jams, while the availability of toll roads is currently still very limited, thereby not yet able to provide optimal services to distribution activities. The relatively heavy traffic concentration is in the Northern Coastal Route of Java (Pantura), where the average speed is 55 kilometer per hour. On the basis of the 2003 survey, the roads in Java that has a V/C ratio of above 0.6, has already covered 890 kilometer, mainly in the northern coastal route of Java (Banten, West Java and Central Java) and the central route (Central Java and East Java). On the basis of the above condition, it is expected that the planned construction of toll roads and flyovers will enhance the accessibility and mobility in urban areas.

The road network system, that comprises the main routes in each of the islands in the eastern part of Indonesia, is not yet interconnected. The main routes in each island, such as in Kalimantan and Sulawesi, currently do not directly connect the centers of distribution of goods and services in each of the islands. If such condition is prolonged and not immediately overcome through the construction of new roads or by enhancing the current capacity, then it will impede investment activities in other economic sectors, that require the support of infrastructure services, which will ultimately hamper economic growth.

Since the economic crisis, the growth of toll roads has significantly slowed down, and the participation of the private sector in the financing of toll roads has in fact stopped. This is among others due to: the absence of planning for toll road network system, that can induce competition, the still not yet available regulation, procedure and stipulations on the undertaking of toll roads by private companies, the absence of the procedure for competitive selection while private investors that are being involved have been selected through negotiations that have not been transparent, on cost sharing, on the

duration of the concession, and the basis of income sharing. In order to overcome this problem, the government has issued Law Number 38 of 2004 regarding roads, that contain stipulations on the undertaking of road infrastructure. The government will immediately issue a series of implementing regulations of this law, especially pertaining to the participation of private enterprises in toll road undertakings.

The mechanism for funding and for handling national, provincial, district, city and village roads are not yet clear and are even still based on administrative borders of the regions, so that these have affected the road network system that has not yet formed an integrated inter-mode transportation network. In the era of decentralization, the authority to plan, maintain and construct and finance road networks in the regions (for provinces, districts, cities and villages), has become fully that of the respective regional governments. The concept for developing road infrastructure must be consistent with the aim of promoting economic growth of whole regions through the inter-regional approach. Currently, this concept is being developed in Sumatra island by forming the Transport Planning Group (TPG) in each of the provinces and the road transportation planning process will be applied that is still consistent with the decentralization principles. Another agenda is the effort to mobilize funds from sources other than the APBN (National Government Budget) and the APBD (Regional Government Budget) of the provinces, districts and cities, because thus far these funding sources have evidently been inadequate to finance the maintenance, enhancement and construction of roads and bridges.

2.1.2. TARGETS OF ROAD INFRASTRUCTURE DEVELOPMENT

The general targets of road infrastructure development are: (1) the well maintained and increased supporting capacity as well as quality of roads in regions that have fast growing economies; (2) the increased accessibility of regions that are and are not yet growing, by providing roads that are appropriate to their transportation needs in terms of speed and comfort, particularly in the main corridors of the respective islands, KAPET regions, rural areas, border areas, remote areas, as well as in small islands; (3) the realized active participation of the government, state owned enterprises, private enterprises, in the provision of road

infrastructure, through institutional and regulatory reforms and restructuring, among others the completion of implementing regulations to Law Number 38 of 2004 On Roads, in conformity with the challenges and changes that will be faced in the era of globalization and regional autonomy.

2.1.3. POLICY DIRECTIONS OF ROAD INFRASTRUCTURE DEVELOPMENT

- a. Maintaining the performance of already constructed roads by optimizing the utilization of roads by using results of studies on road technology.
- b. Harmonizing the road network system with the national spatial plan, which is the basis for regional development and enhancing the harmony with the system of other infrastructure networks, in the context of the inter-mode transportation system and the national transportation system (*Sistranas*) so as to ensure efficiency in the provision of transportation services.
- c. Coordinating the central and regional governments for explicating their respective rights and obligations in the handling of road transportation.
- d. Developing the island based (Java and Bali, Sumatra, Kalimantan, Sulawesi and Papua) master plan on the road infrastructure network system.
- e. Continuing and completing road reforms through Law Number 38 of 2004 regarding Roads and its implementing regulations.
- f. Promoting professionalism and self-reliance of institutions and human resources in road infrastructure undertakings.
- g. Encouraging involvement of the business community and the people in general in the undertakings and provision of road infrastructure.

2.1.4. PROGRAMS AND ACTIVITIES IN ROAD INFRASTRUCTURE DEVELOPMENT

In order to attain the aforementioned targets, several programs will be carried out to be funded by the central government, provincial

governments, district/city governments, state-owned enterprises (BUMNs) and private enterprises, through the following main programs:

1. PROGRAM FOR THE REHABILITATION/MAINTENANCE OF ROADS AND BRIDGES

This program is aimed at maintaining the existing national road network system in order that it can still be in an adequate condition, especially in road sections that comprise the main economic routes and have high priority. This program is also aimed at restoring the condition of roads that have been damaged and disconnected due to natural disaster that have occurred in several areas, such as in the provinces of Aceh, North Sumatra, and in Alor and Nabire. Road infrastructure, the construction of which has just started and those in the construction phase, will be maintained, in order that at the right time for continuing their construction the work can immediately be carried out without a big loss. This program is expected to utilize the infrastructure that is being used so that it can still operate at a maximal level.

This program for the rehabilitation/maintenance of roads and bridges encompasses the following main activities:

1. **Routine and periodic** rehabilitation/maintenance of national roads, covering around 173,837 kilometers.
2. Routine and periodic rehabilitation/maintenance of provincial roads, covering 196,441 kilometers.
3. Routine and periodic rehabilitation/maintenance of district/city roads, covering 721,696 kilometers.
4. Emergency handling/rehabilitation of national roads that have been affected by natural disasters, covering 1,614 kilometers.

2. PROGRAM FOR ENHANCING/CONSTRUCTING ROADS AND BRIDGES

This program is aimed at optimizing the utilization of road assets that have thus far already been constructed. Weak points have been found in various areas in the road infrastructure service provision in the form of bottlenecks that impede traffic flow. The handling of such sections will make it possible to maintain and even enhance traffic flow,

thereby can contribute to the growth of other economic sectors. This program encompasses the following main activities:

1. Enhancing/constructing primary artery roads extending 12,321 kilometers and bridges of 26,579 meters, comprising the main economic routes, such as the Northern Java Route, the Southern Java Route, the Java Central Route, the Sumatra Eastern Route, the Sumatra Central Route, the Sumatra Western Route, the Kalimantan Southern Route, the Kalimantan Central Route, the Kalimantan Northern Route, the Sulawesi Western Route, the Sulawesi Eastern Route, the Sulawesi Central Route, and strategic road sections that connect those routes.
2. Enhancing/constructing primary and strategic artery roads in urban areas, mainly for reducing traffic jams in intersections including crossings with railways, by completing the construction of various flyovers in the Jabotabek (Jakarta-Bogor-Tangerang-Bekasi) area, that are located among others at the cross-roads of Jalan Pramuka, Jalan Tanjung Barat, Jalan Raya Bogor, and Bekasi, and preparing the construction of fly-overs in several cities on the Northern Java Route, among others in Merak, Balaraja, Nagrek, Gebang, Tanggulangin, Peterongan, Palimanan and in Mangkang.
3. Handling 1,800 kilometer of roads in areas bordering neighboring nations, such as in West Kalimantan, East Kalimantan, East Nusa Tenggara, and Papua.
4. Handling of 3,750 kilometers of roads for isolated areas, such as the Sumatra Western Route, the Sulawesi Eastern Route, the Trans Flores Route, the Trans Seram Route, the Trans Halmahera Route, and strategic road sections in Papua, KAPET areas, and access roads to rural areas, isolated areas that include small islands, and along coastal areas such as Simelue, Nias, Alor, Wetar, and other isolated areas.
5. Enhancing/constructing provincial roads, covering 2,390 kilometers, and district roads, covering 81,742 kilometers.
6. Developing/constructing toll roads, covering 1,593 kilometers, aimed at maintaining the level of services, reducing inefficiency due to traffic jams at main road sections, and for enhancing the distribution of goods and services, especially in areas that have already highly developed economic activities. The activities, encompass the following:

- Constructing toll roads in the Jabotabek area, covering 257.5 kilometers, among others, the completion of the Jakarta Outer Ring Road (JORR) of Section W1, W2, E1, E2 and E3; access to the Tanjung Priok Port; phase one construction of the Jakarta Outer Ring Road (JORR); the Bekasi-Cawang-Kampung Melayu (Becakayu) toll road; the Bogor Ring Road, etc.
- Completing construction of the Surabaya-Madura bridge, covering 5.4 kilometers and the Cikampek-Purwakarta-Padalarang toll road section, covering 40 kilometers.
- Constructing the Trans-Java hi-grade toll road and several road sections in Sumatra and Sulawesi, covering 1,290 kilometer, and implementing the study and preparation for the construction of the Trans Java and Sumatra hi-grade road/toll road.

2.2. LAND TRANSPORTATION

2.2.1. ROAD TRANSPORTATION

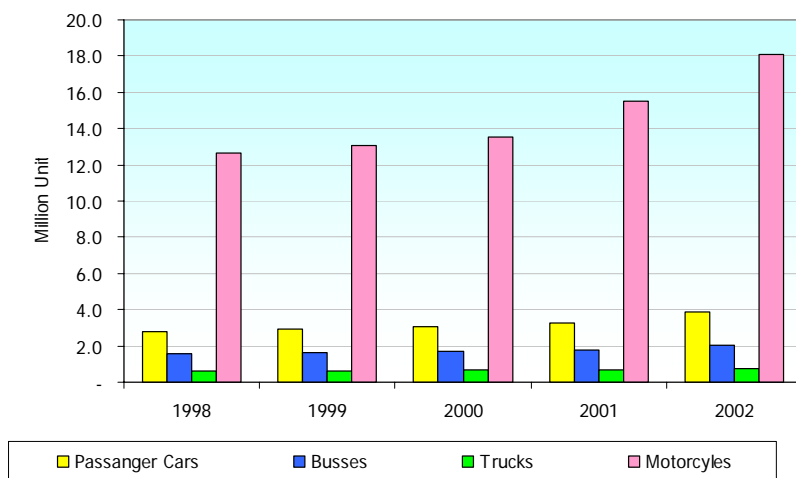
Road transportation is the main transportation mode that supports national development and has the largest contribution to total transportation compared to other modes. Therefore, the vision of road transportation is its functions as the supporter, engine and stimulator of national development and acts as the backbone of economic, political, social, cultural life and of defense and security. While the mission of road transportation is to attain a road transportation system that is reliable, having high capability in development and to increase the mobility of man and goods in order to support regional development in the context of realizing the national archipelago concept.

1. THE PROBLEMS OF ROAD TRANSPORTATION

- a. The poor condition of the road infrastructure that is due to the deterioration of roads, the not yet integrated development of road infrastructure with the road transportation network system, with the classification of road categories and terminals, with the road transport distribution patter, with the inter-city transport system and with the rural-urban transportation system.

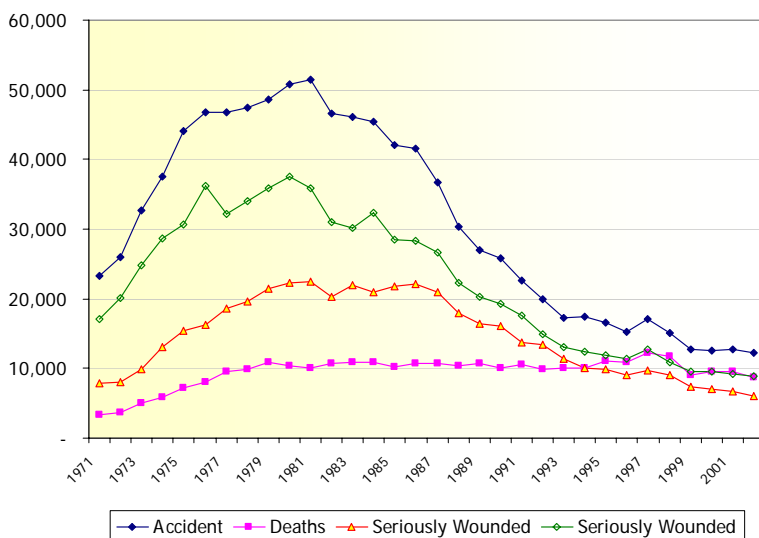
- b. The still high degree of road degradation attributed to excessive traffic load that could result in economic losses and is due to:
 - The not yet optimal supervision at weight bridges because of limited equipment and human resources as well as due to a poor management system;
 - the shift in the functions of the weight bridges, tending to become more as a source of regional government revenue rather than as a means to oversee excessive load;
 - All along the 1,360 kilometers of roads on the northern part of Sumatra, around 30 to 40 percent of vehicles have excess loads of over 100 percent, that generally comprise vehicles of timber/plywood, pulp, cement, palm coconut and coal companies. Around 5,000 kilometers of roads in Java and Sumatra, have their technical life curtailed by 50 percent.
- c. The poor quality and quantity of general transportation facilities, in spite of the annual increase of general transport route permits (inter-city and inter-province bus route permits).
- d. The still high number of fatal accidents due to the inadequate discipline of road users, the low standard of vehicles; the inadequate road safety facilities and signs; and the low law enforcement of traffic regulations and inadequate traffic education.

Graph 5
Road Transport Fleet, 1998–2002



Source: Directorate General of Land Communications, processed.

Graph 6
Total Number of Traffic Accidents, 1971–2002



Source: Directorate General of Land Communications, processed.

- e. The problem of mobility, particularly the low mobility of road transportation distribution, due to: (1) the slow growth in the capacity of road infrastructure compared to the growth of vehicles on the roads; (2) the continued worsening of road facilities; (3) the low utilization of road capacity and the many road sections that are prone to traffic jams due to the use of the road parts for social-economic activities, such as side-walk markets, parking space, etc.; (4) the not yet optimal management system of traffic; (5) the not yet well arranged road transportation networks, road classification and regulations on the bus terminal system.
- f. The problem on the affordability and equity of road transportation services; the many levies and service charges on the road, that have made the transport costs on the roads to become not yet efficient.
- g. The problems related to regulations and institutions, particularly: (1) the not yet well established national and regional transportation system; (2) the not yet fully completed revision of laws and implementing regulations pertaining to road traffic (Law Number 14 of 1992) ; (3) the not yet explicit roles and functions of central and regional government agencies on traffic matters; (4) the problem on education and not yet effective law enforcement of regulations, as evident from the frequency of traffic violations on roads. Traffic violations can be categorized into violations on load limit, vehicle instruments, availability of the required documents, and violations relating to road signs. The problem of traffic discipline is also one of the main causes of traffic accidents; (5) the not yet optimal role of private enterprises and state owned enterprises (BUMNs) in investments and undertakings of road transportation. Most of the public transportation undertakings have indeed already become the domain of private enterprises but the role of state owned enterprises has not yet become explicated whether to be engaged solely in commercially not too viable (pioneer and border transport for Perum Damri); whereas the role of Perum PPD in the public transportation system in Jakarta has continued to decline because since decentralization, urban transportation has become the responsibility of the regional government; (6) ineffective policies on tariffs and subsidies through various levies and “road pricing”.

Table 3
Total Number of Traffic Violations, 1998–2002

Type of Violation	1998		1999		2000		2001		2002		Increase 1998–2002
	Total	percent	Total	percent	Total	percent	Total	percent	Total	percent	
Excess load	107,005	8.9	87,535	10.2	103,854	7.1	124,966	7	150,693	6.9	29
Speed violation	52,457	4.4	40,009	4.7	18,672	1.3	30,426	1.7	35,590	1.6	-47.4
Signs	311,962	25.9	24,882	2.9	404,601	27.7	395,984	22.2	458,881	20.9	32
Documents	350,196	29.1	376,143	44	455,905	31.2	724,412	40.7	889,268	40.5	60.6
Equipment	241,321	20.1	190,906	22.3	270,654	18.5	377,710	21.2	417,158	19	42.2
Other	140,016	11.6	135,272	15.8	207,923	14.2	127,577	7.2	246,357	11.2	43.2
TOTAL	1,202,957	100	854,747	100	1,461,609	100	1,781,075	100	2,197,947	100	45.3

Source: Directorate General of Land Communications, processed

- h. The still limited development of human resources on road transportation, as regulators as well as operators, the not yet efficient and environment friendly guidance of transportation undertakings and in technological development of road transport facilities and infrastructure.
- i. The still high adverse environmental impacts (air and noise pollution) due to traffic jams and the dominance of privately owned vehicles on the roads, especially in urban areas.
- j. The low quality and quantity of public transportation, especially urban transportation due to the not yet integrated plan on spatial layout and on urban transportation, the awareness and capability of regional governments in the planning and managing of transportation, the low discipline of road users, the low professionalism of the transportation apparatus and operators, the high level of traffic jams during rush hours, and the low quality of public transportation services.

2. TARGETS OF ROAD TRANSPORTATION DEVELOPMENT

- a. Improved condition of the road transport infrastructure and the decline in traffic violations and violations on overloading so as to be able to reduce the resulting economic losses.
- b. Enhanced quality and quantity of road transportation means.
- c. Decreased number of traffic accidents on roads and the increased quality of transport services in terms of better discipline, safety and comfort of road transportation, especially public transport for urban, rural and inter-city transportation.
- d. Increased inter-mode integration and efficiency in supporting the mobility of people, goods and services, supporting the realization of the national and regional (local) transportation system, and the realized national distribution pattern.
- e. The increased affordability of public transportation for the public at large in urban and rural areas and the provision of support to pioneer road transportation in remote areas in the context of supporting regional development.
- f. The increased effectiveness of regulations and institutions on road transportation, through: (1) decentralization and regional autonomy, increased coordination and cooperation among central and regional

government institutions and agencies in promoting/overseeing road transportation, especially for urban transportation, rural transportation and inter-city transportation in provinces; (2) the increased participation of private enterprises and society in undertakings on road transportation (urban transportation, rural transportation, and inter-city transportation); (3) explicating the role of regulators of the central and regional governments and of the BUMN and BUMD in public transportation activities..

- g. The enhanced awareness of the general public in becoming good road users, and the satisfactory handling of air pollution and development of infrastructure technology that is environment friendly, especially in urban areas.
- h. The enhanced professionalism of human resources in the planning and oversight of road transport activities.
- i. The efficient undertaking of urban transport based on the local community and region, that is reliable and environment friendly and affordable for the people. In that respect, it is important that it be supported by urban transport planning that is integrated with regional development and that can anticipate the growth of transport demand and supported by the awareness and capability of regional governments and the local communities.

3. POLICY DIRECTIONS IN THE DEVELOPMENT OF ROAD TRANSPORT

- a. Improving road infrastructure condition through the comprehensive handling of overloading and involving the related agencies.
- b. Increasing traffic safety in a comprehensive and integrated manner, from various aspects (prevention, guidance and law enforcement, handling of the impact of accidents and accident prone areas, information system on traffic accidents and standard compliance of facilities, and driving licenses).
- c. Increasing the smooth flow of road transportation in an integrated manner: (1) organizing the network and terminal system; (2) management of traffic; (3) installing road facilities and signs; (4) enforcement of the law and discipline on roads; (5) encouraging the efficiency of the transportation of cargo and passengers on the road through the deregulation of levies and service charges on roads,

- organizing networks and route permits; (6) cooperation among (central and regional) government agencies.
- d. Increasing the accessibility of transport services to the general public, among others by providing pioneer transportation services in isolated areas.
 - e. Improving the performance of regulations and institutions by: (1) organizing the road transportation system consistent with the national and regional (local) transportation system; among others by formulating the RUJTJ (Road Transportation Network General Plan), encompassing the organizing of transportation points, scope of activities, space for traffic and organizing the national distribution pattern in accordance with the plan on road classification; (2) continuing the revision of Law Number 14 of 1992 regarding the road transportation and its implementing regulations; (3) enhancing the technical guidance for transportation in the regions, in line with decentralization and regional autonomy, by setting up the system for minimum standard of transportation services and the technical standard on Road Transportation and the scheme for enhancing the implementation of controlling and supervising Road Transportation in the regions; (4) enhancing the participation, investment of the private sector and the people in general in the implementation of road transportation by creating a healthy and transparent competitive climate, and by overseeing operators and companies engaged in road transportation; (5) restructuring the state owned enterprises (BUMNs), namely Perum Damri and Perum PPD, and regional government owned enterprises (BUMDs) in the provision of public transportation in order to enhance the quality of their services.
 - f. Enhancing the professionalism of human resources (officers), enhancing the discipline of road users, enhancing capability in management and traffic planning, and carrying out technical oversight on the operations of transportation services.
 - g. Supporting the continual development of transportation, especially in the use of mass public transportation in densely populated urban areas, that is affordable and efficient, that is community based and is integrated with the development of the region.

4. PROGRAMS AND ACTIVITIES IN THE DEVELOPMENT OF ROAD TRANSPORT

In the period five years ahead, the development programs on road transport cover the following: (1) rehabilitation and maintenance of road transport infrastructure; (2) construction of road transport infrastructure, consisting of means for overcoming overloading, enhancing road transportation safety, continual development of transportation; and (3) restructuring of institutions and road transportation infrastructure, consisting of enhancing service provision and the unimpeded services of public transportation including the transportation of goods, organizing the national and regional transportation system, overseeing the role of regional governments, BUMNs/BUMDs and the participation of private enterprises, and enhancing human resources involved in road transportation.

a. PROGRAM FOR THE REHABILITATION AND MAINTENANCE OF ROAD TRANSPORT INFRASTRUCTURE

The rehabilitation and construction of terminals in West Java, West Kalimantan, East Nusa Tenggara, and Papua and road transport facilities.

b. PROGRAM FOR THE CONSTRUCTION OF ROAD TRANSPORT INFRASTRUCTURE

1. Resolving the overloading problem through the following activities:
 - The more comprehensive handling of the overloading problem;
 - The construction and operation of weight bridges in Jambi, Lampung, West Java and Kalimantan.
 - The coordination and implementation of a joint action plan among government agencies at the central and regional government levels.
 - Increasing the involvement of private enterprises and by linking overloading with road maintenance contracts.
2. Increasing road transportation safety, through the following activities:

- Meeting the safety needs; the global road safety partnership (GRSP) of Indonesia; socializing safety of traffic and road transportation; applying the ABIU (Accident Black-spot Investigation Unit) at the regional as well as central levels; socializing the use of safety-belts on motor vehicles;
 - Increasing road instruments on national roads and motor vehicle testing in Central Lampung, Batang, South Sumatra, West Nusa Tenggara, East Nusa Tenggara, Bengkulu, North Sulawesi, Central Sulawesi, North Sulawesi, and South Kalimantan.
 - Improving the condition in accident prone areas and implementing the management of traffic engineering at crossings with rail-tracks.
 - Implementing technical qualification for public transportation drivers.
 - Setting of standard curriculum for drivers education.
 - Developing education on safety for children.
 - Forming the Road Safety Coordinating Agency.
 - Implementing road safety audit.
3. Continuous transportation development, especially in urban areas, with the following activities:
- Developing urban transportation with an environment consideration and region based.
 - Applying road transportation technology that is environment friendly.
 - Anticipating, planning and gradually implementing regulations on the incentive system and global standardization in road transport.
 - Integrating the transportation system plan with the spatial allocation plan and the development of public transportation in urban and rural areas that are community and region based.
 - Increasing the use of public transportation in urban areas rather than using private owned cars, and the use of mass public transportation based on roads and railways.
 - Implementing the action plan for regulation harmonizing and standardization on road transport that is related to globalization and the environment, and the master plan for

developing transportation technology that is environment friendly (including the use of alternative energies).

- Implementing demand management policies and incentive (pricing) policies.

c. PROGRAM FOR INCREASING ACCESSIBILITY TO ROAD TRANSPORT SERVICES

1. Construction of an integrated public transportation for urban areas that is affordable and is community and region based:
 - Enhancing the capacity of regional governments in the implementation and planning of urban transportation.
 - Enhancing awareness of the people in being disciplined when using public transport means.
 - Integration of transportation development and in land use and demand management.
 - Development of mass transport based on roads and railways in urban areas that are densely populated (metropolitans).
2. Provision of pioneer transportation (pioneer busses), especially to serve communities in isolated and remote areas.

d. PROGRAM FOR THE RESTRUCTURING OF ROAD TRANSPORT INSTITUTIONS AND INFRASTRUCTURE

1. Enhancing service provision and expediting road transportation, particularly public transportation and the transportation of goods, through the following activities:
 - Tariff policy for public transportation and promoting competition so as to yield the most efficient services.
 - Anticipating the handing over of tariffs to the market mechanism.
 - Coordinating and increasing cross country transportation (passengers and cargo).
 - Standardizing road instruments; standards on regulation and certification of motor vehicles.
 - Formulating the technical plan on traffic in road transportation in relation to matters on road networks, road facilities, and road transport safety.
 - Overseeing companies, terminal officers, and transport drivers; cooperation with private companies in supporting undertakings on road transport; increasing motor vehicle

- public repair shops that have been designated as units for the periodic testing of motor vehicles; accreditation of passenger terminal operators; accreditation of weighing bridge operators.
- Enhancing the information system on road transport permits.
 - Application of appropriate technology in road transportation, such as the smart-card system, tacholting to public busses, etc.
2. Enhancing mobility and the national distribution and reforming the national and regional (local) transportation system, through the following activities:
- Realizing the well organized road transportation system; improving the cargo transport network and the passenger transport network; improving the traffic management and planning of national roads.
 - Traffic management.
 - Improving access to inter-mode transportation through sea-ports, air-ports, bus terminals and railway stations, that is supported by infrastructure, facilities, management, tariff policy, system for tickets and documents and a data and information system.
3. Overseeing the role of the regional governments, national/regional governments owned enterprises and participation of private enterprises, covering the following activities:
- Restructuring of Perum PPD (Regional Government Transport Enterprise) by anticipating the shift in the BUMN ownership of urban public transportation to become the responsibility of regional governments (BUMDs) and to private enterprises.
 - Revitalization of Perum Damri so that it can compete with private companies in commercial services as well as assignment services (pioneering services) that can be made to compete in the market. Decentralizing and restructuring of the BUMN (Perum DAMRI) that is region of operation (islands) based, outsourcing to private enterprises that can

be made in the context of maintenance system and management system (operation cooperation and management cooperation).

- Enhancing the role of regional governments and the system for cooperation with private companies and cooperatives in pioneer transportation (procurement of facilities and in transport operation) and urban and rural transportation that is community based and concerned with the environment.
4. Enhancing human resources in road transportation for enhancing traffic discipline and in the planning and implementation of transportation.

e. PROGRAM FOR THE REHABILITATION OF NATIONAL DISASTER AFFECTED REGIONS

In the context of rehabilitating the road transport infrastructure and facilities that have been severely damaged due to national disasters, particularly the effect of the earthquake and tsunami in Aceh and North Sumatra, the government will rehabilitate and reconstruct road transport infrastructure and facilities in nine (9) locations, encompassing the rehabilitation/construction of terminals in Banda Aceh, Meulaboh, Lhokseumawe, Sigli, Langsa, Bireun and in Gunung Sitoli; construction of the bus stations in Banda Aceh; construction of road traffic safety facilities, consisting of the Motor Vehicle Maintenance Unit (UPPKB) and the Motor Vehicle Testing unit, in North Aceh, West Aceh, Banda Aceh, Greater Aceh, East Aceh, North Aceh and Lhokseumawe; and the procurement and replacement of pioneer busses in Aceh and North Sumatra.

2.2.2. RAILWAYS

The railways are undertaken on the basis of the principles of benefit, just and equitable, which take into consideration the balance with the public interest, integration and self-reliance, and that the railways are aimed at expediting the mass movements of people and/or goods, supporting greater equity, growth and stability and as the stimulant and engine of national development. Up to now, the development of railways has been confined only to Java and parts of Sumatra, and its share in

national transportation is still very low compared to other transportation modes in Java, Sumatra and in urban areas such as the Jabotabek area.

Generally, the railways have been facing constraints for being developed into a solid transportation industry. The railways need to be supported by various other systems and supporting facilities, such as its integration with the inter-mode transportation network, with its "feeder service" so as to become a "door to door service". The railways also need to be supported by the property business and by safe, comfortable and easily reached railroad station facilities; by an integrated inter-mode system; by an efficient and conducive structure of institutions and regulatory framework; by railway technology that is inexpensive and appropriate; by quality human resources and a management that is professional and oriented to consumer satisfaction. In addition, the railways generally still has a public service function and has various public service obligations that are compensated by government subsidies.

The inter-mode integration on a door-to-door basis of the railways is still very limited. Up to now, there are no clear programs from those engaged in the railways to utilize the opportunities in the business of transporting cargo, specifically container transportation. Aside from the coal transport in South Sumatra that has already used the inter-mode system, only the Bandung and Solo railways have already used dry-ports that are equipped with the track-sliding equipment, and even these are still on a small and limited scale. In other locations, such as in the main train routes across Java, there are no cargo terminal facilities, not to say of rail-track networks that are directed to industrial centers and to ports, except on a limited scale and even then they are not yet fully utilized.

The role of the government is still very dominant in the development of the railways, in its funding as well as in making investments, in its regulation and its development. The limited funding, human resources and institutions in railways, have resulted in the railways currently experiencing backlogs in its maintenance, especially with the limitation in planning and operation. In the future, it is necessary to redefine the system of public services, the role of the government as regulator, and the role of owners and operators in the railways.

The national railways has been lagging behind in all aspects, such as in its management, institutional structure, its route capacity, its facilities (locomotives and wagons), in its obsolete and depreciated rail-tracks, lack of investment and maintenance funding, and in the inadequate services to consumers and the general public, in the inflexible funding system due to its nature as a “natural monopoly”, and in its inadequate regulatory framework and institutions. The length of rail-tracks in Java is 4,184 kilometer and in Sumatra is 1,640 kilometers. Around 465 kilometers of rail-tracks in Java and 787 kilometer in Sumatra still use the small rail-track type (R-25 and R-33/34) that have been already in use for over seventy years.

The share of passenger transportation the national railways is still 7.3 percent of the total of passenger transportation in Indonesia (in 2000 passenger transportation by the railways is 187.4 million passengers, of which 118 million comprise passenger transportation in the Jakarta-Bogor-Tangerang-Bekasi/Jabotabek area) and the share of the railways in cargo transportation is 0.6 percent (22.7 million tons) of the total cargo transportation in Indonesia. Even though there has been a continuous growth in demand for railway transportation in the last ten years (an average of 6 percent for passenger and 5.8 percent for cargo transportation), the capacity and condition of the railway infrastructure has continued to decline due to the backlogs in the maintenance of railway infrastructure.

The decrease in total passengers by 1 percent per year and the decline of cargo by 5.6 percent per year since 2000 are attributed to inter-mode competition, poor condition of the railway infrastructure and facilities, inadequate application of technology and the insufficient support from good quality institutions and management of the national railways and to the poor quality of services and system of data and information. These are reflected in the declining maximum speed of railways in Java in 2002 compared to 1995, due to the poor condition of the infrastructure as well as to the very intensive use of the existing railways.

1. RAILWAY PROBLEMS

- a. There are still many railway infrastructures (rail tracks, railway bridges and railway signals and telecommunication instruments) that have already exceeded their technical life and there are many backlogs in the maintenance of the infrastructure. Bottlenecks in various main routes are attributed to the imbalance between the increase in the capacity of the routes and the increase in the frequency of railway services, the limited government funding for the maintenance and investment in railway infrastructure, while the role of the private sector has not yet been developed.
- b. The quality of railway facilities has continued to decline because most have exceeded their technical life and their maintenance has been inadequate, resulting in many facilities not ready for being operated. The still very limited maintenance due to limited funding, the still not yet efficient maintenance system, the not too independent and professional organizational structure/ institution as a maintenance unit, the still limited equipment, technology and human resources, the not adequately integrated system of operation and maintenance, the use of various technologies that are not adequately supported by a system of education, training, and a railway industry and in the supply of the needed materials.
- c. The high rate of railroad accidents, especially attributed to the backlogs of maintenance and to the low discipline of road users at railway crossings.
- d. There are still many railway crossings (there is on average one crossing for every 0.49 kilometer of rail-track in Java and for every 1.6 kilometer of rail-track in Sumatra) that can pose a hazard to the safety of railway operations and can limit the capacity of trains in terms of frequency and speed.
- e. The still low safety and discipline (sterilization) and the many harassment at stations and along the railway lines, attributed to the many illegal settlements and activities of the local communities alongside the rail-tracks. In addition, the low discipline by road users and the low safety instruments provided by the regions, have also posed hazards to the operation of train transportation.

Table 4
Large Accidents Involving Railways, 1995–2003

No	Description	Year									Total	Avarage 1990–2001
		1995	1996	1997	1998	1999	2000	2001	2002	2003*)		
CLASSIFICATION												
1	Train vs. Train Collision	3	7	9	8	6	13	10	10	-	120	8.57
2	Train vs. Motor Vehicle Collision	115	88	112	35	54	27	42	PM	11	820	63.08
3	Trains Derailed	72	65	82	66	89	68	40	PM	18	1,003	77.15
4	Floods/Landslides	7	15	16	12	9	10	10	PM	7	160	12.31
5	Other	24	21	16	5	38	17	32	PM	21	316	24.31
		221	196	235	126	196	135	134	10	57	2,419	196
VICTIMS												
1	Died	70	105	100	35	74	96	145	PM	PM	997	83.08
2	Seriously injured	103	151	131	46	84	104	219	PM	PM	1,995	166.25
3	Lightly injured	119	171	60	47	93	108	45	PM	PM	643	91.86
TOTAL		292	427	291	128	251	308	409	-	-	3,635	302.92

*) Data up to Quarter I

Source: PT. KAI, 2002 (data has been processed)

- f. The low transport mobility due to the not yet optimal inter-mode integration, the condition of the infrastructure and facilities, the limited growth of railway route networks and resources of the railways. Some portions of the railway routes is no longer in operation while other portions have already experienced an overload of utilization, that have resulted in the tardy operations of the railways.
- g. The still low railway productivity (in terms of productivity of transportation, punctual schedules, and comfort).
- h. The not too effective institutions and regulations of railways, particularly the not yet explicit role of regulators, owners and operators; ineffective coordination among the institutions in the funding and implementation of the railways and the not too clear policy direction in the restructuring of the railways that are also constrained by the capability of human resources and the not yet completed revision of Law Number 13 of 1992 regarding railways and its implementing regulations.
- i. The not yet effective policies in applying the PSO, IMO and TAC¹ funding schemes and the still weak functioning of planning, monitoring and evaluation, institutions and system of data and information, for supporting the implementation of such funding schemes as well as in the not yet completed blue-print on investment for the development of the national railways and its implementing strategy, through investments by the government, the BUMN (State-Owned Enterprise) and by the private sector (blue-print and investment strategy).
- j. The still inadequate role of the BUMN in railways and of private participation, due to the fact that :
 - There is still a monopoly by the BUMN in the undertaking of the railways;
 - There is as yet no clarity on the direction of internal restructuring of the BUMN and the separation of the role of the BUMN as the operator of infrastructure and facilities;
 - The not yet fully separated undertaking of the inter-city railroad transportation and urban railroad transportation in the

¹ PSO (Public Service Obligation), IMO (Infrastructure Maintenance and Operation), TAC (Track Access Charge).

- Jabotabek area and in the restructuring of institutions and in the management of the assets;
- The still low quality of railway human resources, especially in the culture of its organization, management and technology mastery;
 - The still not yet developed cooperation between the private sector and the BUMN and Government.
 - The risk management in the railway investment by private enterprises and by the BUMN needs to be planned in a comprehensive and detailed manner, in order to accelerate efforts for improving the investment climate in railway activities.
- k. The not yet developed railway technology and industries that support the national railways that is competitive, and the not yet optimal system of signaling, especially the still prevalent diversity of technologies and types, thereby making less efficient the activities in maintenance, procurement of spare-parts, operation, and in the education and training of the human resources.

2. TARGETS OF RAILWAY DEVELOPMENT

The targets of railway development is the improved railway services, especially with regard to its safety, by reducing accidents and fatalities due to accidents at railway crossings and the enhanced handling of security of operations on the main railway routes, and by enhancing the mobility of goods and services transports.

The targets of the railway development in the next five years can be divided into three priorities, namely the efforts to maintain services in line with the minimum standards, the efforts to optimize resources, and the efforts to develop the railway infrastructure and facilities.

1. The target for attaining safe operations in the short term, generally relates to conditions that are extremely poor, and for attaining a reliability level of 60 percent, through the following activities: (1) auditing the performance of the railway infrastructure and facilities; (2) overcoming crises; (3) dismantling for reuse and recycling of spare-parts; (4) limiting speed/frequency; (5) gradually closing of routes that are operating at a loss; (6) more focused priorities to strategic and dense routes.

2. The target in the optimizing efforts is the restoration of existing networks to their initial condition, and to attain safe and comfortable operations in the long-term, increasing speed and increasing capacity, and generally to attain a reliability level of at least 75 percent, through the following activities: (1) increasing efficiency and effectiveness; (2) increasing speed and capacity of existing rail-lines.
3. The target of efforts to expand the railways is the construction of new networks and increasing the capacity of rail-routes that are already over-used, through the following activities: (1) developing new networks, comprising double-track rail-routes and the development of new routes, and through the expansion of the railway fleet; (2) increasing speed/capacity; (3) reaching a reliability level of 100 percent.
 - a. The target with regard to regulations and institutions, are the completion of revisions to Law Number 13 of 1992 on Railways; improving the quality of planning and funding, improving the PSO, IMO and TAC funding schemes, and the increased opportunity for greater role of regional governments, BUMN and private enterprises in railway activities.
 - b. The target in the field of human resources and technology pertaining to railways, is the improved human resources and mastery of technology; standardized national railways in an integrated manner in order to enable the continuity of investment, operation and maintenance of the national railway infrastructure and facilities, in an efficient manner.

3. POLICY DIRECTIONS IN THE DEVELOPMENT OF RAILWAYS

- a. To increase the safety of transport and improving service provision by rehabilitating the railway infrastructure and facilities.
- b. To audit the performance of the railway and railway operators.
- c. To increase the role of the national and local railroad transportation, and enhancing the strategy of transportation service provision that is more competitive in terms of intra-mode and inter-mode transportation.
- d. To increase the capacity and quality of services, especially in corridors that are already overused and strategic corridors that need to be further developed. The direction for developing the railways is

linked to efforts for attaining the long-term *Sistranas* (National Transportation System), and comprises the following:

- Java is directed at optimizing the southern rail-routes and the north-south routes and to gradually develop the double-track routes; the planned development of urban transportation, that will be developed in the cities of Jakarta, Surabaya, local transportation in the areas of Bandung, Semarang and Yogyakarta.
 - Kalimantan is directed at the preparation and detailed analysis for the development of railway networks for meeting the need of cargo transport and for inducing growth of regions and the southern and central corridors.
 - Sulawesi is directed at the preparation for the gradual development of railway routes in accordance with the priorities and analysis on developing railway routes with a high priority in the urban areas of Makasar, Manado.
 - Maluku and Papua are directed at the analysis on the regional transportation system, including the plan for gradual and long-term development.
- e. To increase frequency and to provide affordable railway transportation services.
 - f. To carry out the planning, funding and evaluation of railway activities in an integrated and continual manner, that is supported by a system of data and information that are more accurate.
 - g. To continue the reform and restructuring of institutions and regulations and the restructuring of the BUMN engaged in railway activities.
 - h. To enhance the role of regional governments and private enterprises in railway activities.
 - i. To enhance human resources in railway activities and to promote technology for the national railways.

4. PROGRAMS AND ACTIVITIES IN THE DEVELOPMENT OF RAILWAYS

a. PROGRAM FOR THE REHABILITATION OF RAILWAY INFRASTRUCTURE AND FACILITIES

- **Phase for maintaining the level of services**
 - Resolving the problem of maintenance backlogs in a gradual manner with the following priorities:
 - The rail routes of Semarang-Surabaya, Solo-Surabaya, Malang-Blitar-Kertosono, Surabaya-Banyuwangi, Bandung-Banjar, Lahat-Lubuk Linggau, Prabumulih-Kertapati.
 - The bridges of: Purwakarta-Padalarang, Prupuk-Kroya, Malang-Blitar, Surabaya-Banyuwangi, Lahat-Lubuk Linggau, Prabumulih-Kertapati.
 - The signaling and telecommunication system along the following routes: Semarang-Surabaya, Surabaya-Banyuwangi, Malang-Blitar-Kertosono, Lahat-Lubuk Linggau, Prabumulih-Kertapati.
 - Rehabilitation of railway facilities, comprising 100 economy class (K3) wagons, 20 electric train wagons (KRL) and 34 diesel train wagons (KRD).
 - Rehabilitation of the signaling and telecommunication system.
 - Repairing and handling of railroad crossings, especially at 95 accident prone sites.
 - Auditing the performance of infrastructure and facilities and human resources in railway activities.
 - Completing the blue-print on the national railways and its phases in line with the application of the national and regional transportation system, and the system for its monitoring evaluation activities.
 - Revitalizing the infrastructure and facilities and management of the Jabotabek rail transportation (in line with the preparation for the Jabotabek railway spin-off).

b. PROGRAM FOR ENHANCING AND CONSTRUCTING RAILWAY INFRASTRUCTURE AND FACILITIES

- **The phase for optimizing railway infrastructure and facilities, through:**
 - The modernization and rehabilitation of train signals in 29 work packages, telecommunication networks consisting of 15 work packages, and electricity repairs consisting of 15 work packages.
 - Phased replacement of outdated train wagons, consisting of the procurement of 90 units of economy class (K3) train wagons, 10 sets of electric train wagons (KRL) and 15 units of KRDE.
 - Increasing the capacity of rail-tracks covering a length of 1,146 kilometer in North Sumatra, West Sumatra, South Sumatra, Lampung, Northern Coast of Java, Yogyakarta, Central Java, East Java and in the Jabotabek (Jakarta-Bogor-Tangerang-Bekasi) area, and enhancing 34 bridges of existing lines.
- The phase for constructing railway infrastructure and facilities, through:
 - Constructing new routes including the continuation of the double-track rail-lines covering a length of 645 kilometer, in a gradual manner, that are located in Aceh, North Sumatra, Lampung, Northern Coast of Java, Yogyakarta, South Route of Java, and Central Java, among others the speeding up of completing the construction of the double-track lines of Cikampek-Padalarang, Cirebon-Tegal-Brebes, Kroya-Kutoarjo-Yogya-Solo; and preparing and constructing the double-track lines of Cirebon-Kroya and Serpong-Tanah Abang of Phase I and Phase II. Including the preparation and construction of the cargo railway transportation in Sumatra, in stages (southern part of Sumatra and Riau) and the continuation of preparing the railway master plan in East Kalimantan, in stages.
 - Revitalizing and constructing railway mass transport in the Jabotabek area.
- Formulating and implementing the action plan in an integrated manner among the related agencies for increasing railway safety and the handling of railroad crossings in a comprehensive and

phased manner, with the emphasis in heavy traffic and accident prone sites, and the action plan for securing privately owned land areas along the main routes of railways, by involving the communities in the vicinity of the sites to participate in exercising social control.

- Improving the flow of national railway transportation for cargo/logistics, through the following:
 - Completing the *Sistranas* (National Transportation System) for the inter-mode transportation system.
 - Planning and constructing the railway access roads to sea-ports (Tanjung Priok, Belawan, Tanjung Perak, Merak-Bakauheni, Cilacap, and Banyuwangi) and to air-ports (Soekarno-Hatta).
 - Planning and enhancing cooperation and constructing access facilities at dry-ports (Solo, Bandung, Jember, Tebing Tinggi, Kertapati) and preparing the construction of new dry-ports (Bekasi, Tangerang, Tegal, Malang).
- Enhancing the data and information system on the national railways pertaining to infrastructure and facilities, planning and funding, management and public services.

c. PROGRAM FOR ENHANCING ACCESSIBILITY TO RAILWAY TRANSPORTATION

- Activities for providing transport services for the public at large in urban areas and inter-city transportation for the economy class at affordable tariffs through the PSO financing scheme and by procurement of K3 train wagons.

d. PROGRAM FOR RESTRUCTURING AND REFORMING RAILWAY INSTITUTIONS

- Restructuring of railway institutions and regulations, through the following activities:
 - Improving the implementation of the PSO-IMO-TAC funding mechanism, so as to become more effective, supported by sound planning, preparation of institutions and regulations, and the system for monitoring the evaluation and development of data and information system.

- Compiling the blue-print on investment acceleration and for developing alternative funding schemes in an integrated manner including policy analyses on various patterns of risk management of strategic projects that are funded by the government, BUMN and private enterprises in railways.
 - Developing the professionalism of management, human resources, application of appropriate technology, technical standardization and the information system on national railways.
 - Restructuring the railway business/corporation, through 'vertical and horizontal unbundling', and through the diversification of the service provision system.
 - Realizing the spin-off of the Jabotabek railways: separating long distance railway and commuter railway, and through institutional restructuring and human resources improvement.
 - Planning and implementing cooperation for enhancing the participation of private enterprises in the fields of railway facilities, stations, management system, service provision, and in the maintenance of railway infrastructure and assets.
 - Completing the revision of Law Number 13 of 1992 on Railways and its implementing regulations, so that the participation of private enterprises, regional governments, BUMN and BUMD, in the procurement of facilities and infrastructure, as well as in railway operations, can become more transparent and efficient.
- Restructuring the BUMN so as to enhance its performance, to support the increased participation of regional governments and private enterprises in railway activities, through the following:
 - Planning and determination of policy direction in restructuring of the BUMN (by determining and setting the stages of alternative plans on the restructuring of the BUMN through 'vertical unbundling' in the structure and functions of the BUMN, on the basis of functions , such as between the undertaking of railway infrastructure and railway facilities, or through 'horizontal unbundling' , on the basis of areas/regions of operation, among which is the separation between operation areas in Java and Sumatra, and

the spin-off of the railway in the urban areas in Jabotabek) towards a policy of multi-operator of facilities.

- Planning and phasing of the separation of infrastructure and facilities in line with the separation of sources of funding of the PSO-IMO-TAC.
- Planning and preparation of alternatives in the establishment of subsidiary companies or regional divisions on the basis of areas of service provision/regional division as well as by types of transportation undertaking.

In relation to the program of reconstruction of the earthquake and tsunami affected regions of Aceh and North Sumatra, borrowings and re-mapping will be made of the rail networks and to accelerate the construction of the railroads in Aceh for supporting greater national and regional mobility, so that the railway transportation can again connect Medan and Banda Aceh and to gradually reopen access to the main sea-ports.

2.2.3. RIVER, LAKE AND FERRY TRANSPORTATION (RLFT)

The river, lake and ferry transportation (RLFT) in Indonesia is defined as the “floating” bridge that connects disconnected points in the land transportation network; ferry transportation that carries passengers and cargo through the rivers and waters has fixed and regularly scheduled routes and uses specially constructed ferry ships.

The river, lake and ferry transportation is part of the land transportation system, with the mission to realize a transportation system that is reliable, satisfactory and competitive and capable of reaching all corners of the land area, connecting islands in the context of the effective and efficient realization of the archipelago concept of the nation, and capable of becoming the lifeline of economic, social-cultural, political life and for the defense and security purposes so as to consolidate national resiliency.

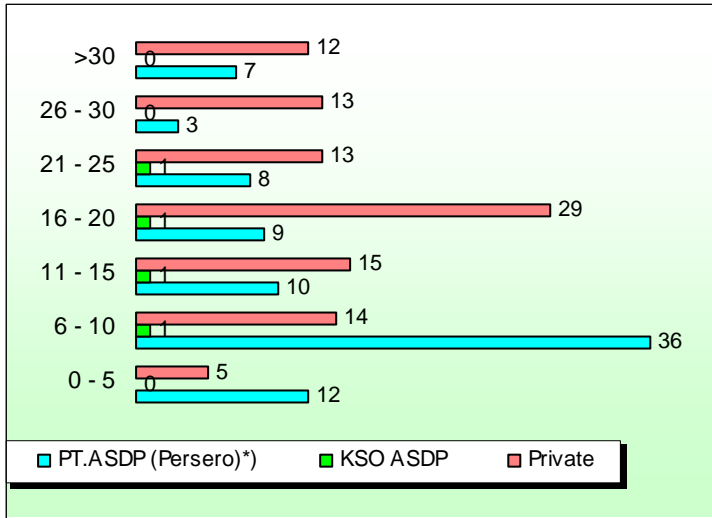
The RLFT development is needed for enhancing the welfare of the people, to allow greater access, thereby enabling greater mobility of the population through land transportation that is interrupted by waters

between islands, along river basin areas and lakes, and as a transportation means that can reach isolated and remote inland areas. The RLFT carries out the mission of enhancing the welfare of the people in general in a just manner through pioneer transportation, especially for left behind/ isolated communities.

1. PROBLEMS OF THE RIVER, LAKE AND FERRY TRANSPORTATION

- a. The still limited ferry infrastructure and facilities compared to the needs on the basis of the geographical condition and total number of islands in Indonesia (around 17,000 islands). The Ministry of Communications has thus far determined only 172 ferry routes, while those already operating still comprise 130 routes. The utilization of rivers, canals and lakes for the local communities/ urban transportation is still low and there is inadequate utilization of the potentials for supporting tourist transportation and regional development. The institutional, regulatory and human resources and funding aspects in the system for maintaining river and canal transportation, need to be coordinated with efforts to handle environmental problems and the development of tourism, local cultures and spatial planning.

Graph 7
Life of Ships, By Ship Owners
(2004)

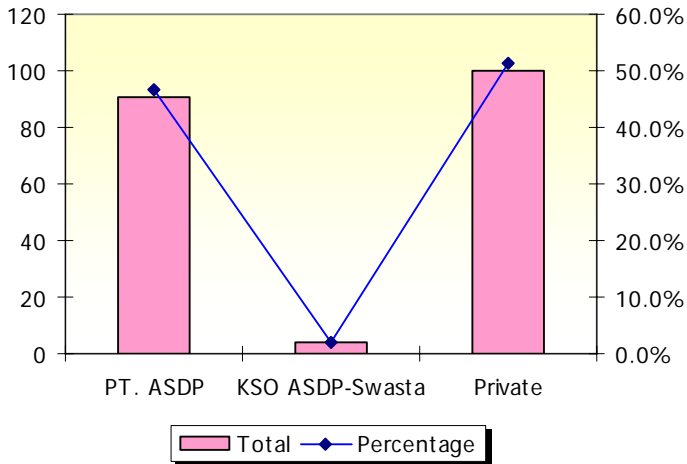


Source: Directorate General of Land Communications (processed)

- b. The still limited availability of facilities, namely only 195 ferry boats (47 percent State Owned Enterprise, 2 percent KSO and 51 percent private owned), while the pioneer RLFT facilities are already obsolete.
- c. The still not yet adequately integrated RLF transportation network with regional development and the weak coordination between the central and regional governments in the system for developing RLFT infrastructure and facilities in the era of regional autonomy.
- d. The limited reach of RLFT services in meeting the needs for inter-island transportation and in reaching isolated areas.
- e. The role of private companies and regional governments is not yet optimal in the RLFT undertakings, in terms funding for investment, operation and maintenance and in carrying out pioneer transportation. The role of the State Owned Enterprise/BUMN (PT ASDP) is still limited as operator of the RLFT infrastructure and facilities, particularly in the operation of pioneer ships and the

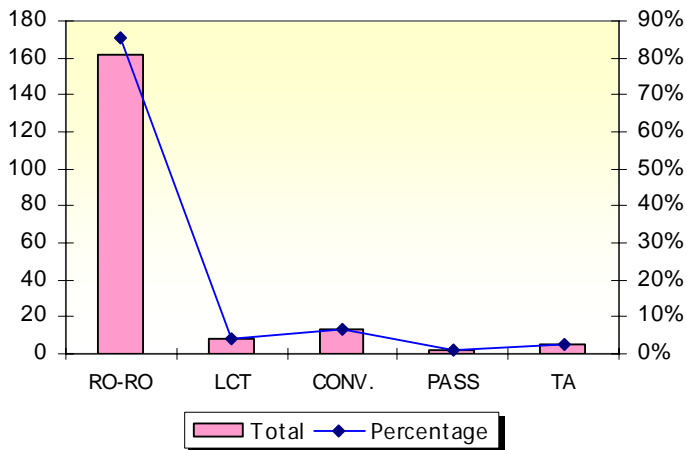
undertaking of various ferry routes/wharfs. The central government is still dominant in the financing of construction of RLFT infrastructure and facilities. Therefore, it is necessary to deregulate and restructure so as have a more optimal role of regional governments and to further encourage the role of the State Owned Enterprise (BUMN) and private enterprises. The role of private enterprises and the people as owners and operators of the transport infrastructure and facilities of local transport needs, has been more dynamic. The role of the BUMN is still limited to several river and lake ferry lines in Kalimantan and Sumatra. While the central government acts as regulator, the regional governments act as provider of river infrastructure for the general public. In ferry transportation, the role of the BUMN (PT ASDP) is still limited as the operator of the ferry infrastructure and as operator of the facilities. Other infrastructure operators are the UPT (Technical Implementing Units) of Regional Governments and the KSO (private owned) operators. The RLFT infrastructure and facilities for the BUMN are generally funded by the APBN (National Government Budget). The role of the regional government is still limited to supplying the RLFT facilities and infrastructure.

Graph 8
Size of Fleet by Ownership



Source: Directorate General of Land Communications, 2003 (processed)

Graph 9
Size of Fleet by Type of Ships



Source: Directorate General of Land Communications, 2003 (processed)

2. TARGETS IN THE DEVELOPMENT OF RIVER, LAKE AND FERRY TRANSPORTATION

- a. The increased total of infrastructure for increasing the total of new ferry lines that are ready for operation and for increasing the capacity of existing and heavy-traffic ferry lines.
- b. The increased worthiness and total number of RLFT facilities.
- c. The increased safety of the RLFT.
- d. The improved flow and total number of passengers and vehicles transported, especially the improved flow of inter-mode transfer at ferry wharves; and the improved services of pioneer transportation.
- e. The increased participation of private enterprises and regional governments in the construction and management of the RLFT, and the improved performance of the BUMN (State Owned Enterprise) in RLFT.

3. POLICY DIRECTIONS IN THE DEVELOPMENT OF RIVER, LAKE AND FERRY TRANSPORTATION

- a. Improving the safety and quality of infrastructure and facilities and the management of the RLFT;
- b. Improving the flow and capacity of traffic that have already become overused and improving the inter-mode transportation system and the continuity of land transportation that is interrupted in islands (rivers and lakes) and among islands through a point-to-point service, in line with the national and regional (local) transportation system. The policy directions in the development of the RLFT towards attaining the long term National Transportation System (Sistranas), are as follows:
 - Java and Madura are directed at supporting tourism and local transportation at inter-province and inter-island ferry lines, such as Merak-Bakauheni, Jakarta-Pangkal Pinang, Semarang-Banjarmasin, Lamongan-Balikpapan, Lamongan-Makasar-Takalar and Ketapang-Gilimanuk. In addition, the development of ferry lies among districts/cities will be continued.
 - Bali and Nusa Tenggara are directed at local transportation activities for supporting tourism on the lakes of Bedugul, Batur and Kelimutu; inter-country ferries, such as Kupang-Dili, and

designing the plan for Kupang-Darwin, and the inter-province and inter-island ferries going to Java and Sulawesi. The development of inter-district/city ferry routes must ensure the inter-mode integration in accordance with the growth of demand for road transportation.

- Kalimantan is directed at development of the river transportation network so as to reach all inland and isolated areas that are dominated by large water areas; the ferry transportation network at inter-province and inter-island lines, especially with the island of Sulawesi, such as the Balikpapan-Mamuju line, the Nunukan-Manado line, and with the islands of Java and Sumatra, and planning the international line of Tarakan-Nunukan-Tawao.
 - Sulawesi is directed at the development of the ferry transportation network with the high priority placed in the Tempe Lake, Towuti Lake and Matano Lake; and on ferry lines within provinces and among provinces.
 - Maluku and Papua are directed at increasing inter-province and inter-island routes in the respective provinces.
- c. Increasing accessibility to RLFT services: (1) developing river transportation, especially in the areas of Kalimantan, Sumatra and Papua that have large rivers; (2) developing lake transportation for supporting the tourist promotion programs; (3) enhancing ferry services that connect roads that are interrupted by waters, especially in the RLFT lines situated in the Southern Belt (Sumatra-Java-Bali-West Nusa Tenggara-East Nusa Tenggara).
- d. Inducing the greater participation of regional governments and private enterprises in RLFT undertakings; inducing the completion of steps to revise Law Number 21 of 1992 regarding Shipping including the revision of its implementing regulations; restructuring the BUMN and institutions involved in the RLFT mode, so as to become more efficient, transparent, and increasing the role of private enterprises in RLFT undertakings.

4. PROGRAMS AND ACTIVITIES IN THE DEVELOPMENT OF RIVER, LAKE AND FERRY TRANSPORTATION

In the next five years, the development programs pertaining to RLFT cover the following: (1) the rehabilitation of river, lake and ferry wharfs; (2) the construction of river, lake and ferry wharfs; (3) the development of RLFT accessibility; (4) restructuring and reforming RLFT institutions; (5) enhancing the performance of the BUMN and the role of regional governments and participation of private enterprises in the development of RLFT. The activities that will be carried out in the next five years are as follows:

a. PROGRAM FOR THE REHABILITATION OF RIVER, LAKE AND FERRY WHARVES

This program is aimed at maintaining the level of services of river, lake and ferry transportation. The activities that will be carried out are:

- The rehabilitation of river wharves at 23 locations in Sumatra and Kalimantan.
- The rehabilitation of ferry wharves at 23 locations, of which 5 are owned by PT. ASDP.

b. PROGRAM FOR THE DEVELOPMENT OF RLFT INFRASTRUCTURE AND FACILITIES

This program is aimed at supporting the RLFT development in order to connect the territorial integrity of the nation and to connect the land transportation network system that are interrupted/disconnected by providing an integrated RLFT network system.

The main activities that will be carried out are:

1. The construction of river, lake and ferry wharfs.
 - Development of the river/canal transportation system in Kalimantan that is integrated with the Trans Kalimantan land transportation system, especially the construction and maintenance of canals that can interconnect large rivers, such as the Kapuas River (West Kalimantan), the Sampit River, Kahayan River (Central Kalimantan), the Barito River (South Kalimantan) and the Mahakam River (East Kalimantan);

- Construction of ferry wharves, particularly on inter-province routes (southern belt and border areas);
 - Construction of lake wharves on the Toba Lake, Ranau Lake, Kerinci Lake, Gajah Mungkur Lake, Kedong Ombo Lake and on the Cacaban Lake.
2. Development of RLFT accessibility facilities, by: the construction of RLFT facilities in pioneer areas/routes and providing subsidies to RLFT pioneer operations; cooperating with regional governments through the regional transportation development approach.
 - Enhancing RLFT accessibility by adding 14 pioneer ships.
 - Providing subsidies for pioneer RLFT operations.

c. PROGRAM FOR THE RESTRUCTURING AND REFORMING OF RLFT INSTITUTIONS

This program is aimed at enhancing the quality of RLFT services and attaining the integration of services so as to become more effective and efficient.

The main activities that will be carried out are:

1. To reform the integrated inter-mode land transportation network system (integration of land transportation with the RLFT) within the *Sistranas* (National Transportation System) and the *Sistranwil* (Regional Transportation System).
2. To coordinate the planning and to reform the integrated transportation services between ferry transportation and sea transportation, and the joint utilization of pioneer wharfs that are managed by the UPT (Regional Governments).
3. To coordinate the various agencies in the development and utilization of river and canal transportation, especially in Sumatra, Kalimantan and Papua.
4. To socialize and manage river and lake transportation infrastructure and facilities.
5. To design the concept of river transportation development that is integrated with the program for reforestation and environment conservation, program for clean rivers, irrigation and natural resources, the program for promotion of tourism

and parks, and the program for enhancing access to/from river wharves.

6. Promoting the utilization of technology on canals and water gates/dams/controlling system and enhancing the safety of river waters, technical requirements and dredging aspects including the development of types of ships, terminal system, cargo handling equipment, wharfs, navigation and communications instruments in river transportation.
7. Enhancing human resources, developing the institutions and management that are supported by an information system on the planning, development and supervision of river and lake transportation.
8. Enhancing river wharfs that are undertaken on the initiatives of local communities so as to become permanent wharves, such as the wharves at the rivers of Kapuas, Punggur Besar, Sambas, Landak, Kubu, Padang Tikar in West Kalimantan, the rivers of Kuala Kapuas, Sampit and Kahayan in Central Kalimantan, and the rivers of Musi, Gasing and Musi Rawas in South Sumatra and on other rivers that are situated in Jambi, Riau and Papua.

To restructure the BUMN (State-Owned Enterprise) and enhancing the role of regional governments and the participation of private enterprises in the RLTF development:

- a. The gradual restructuring of the BUMN through vertical unbundling (infrastructure and facilities) and horizontal unbundling (regional divisions towards the multi-operators of BUMN infrastructure).
- b. Allowing the BUMN to construct and operate infrastructure by itself or in cooperation with private companies.
- c. Cooperation of the BUMN with Regional Governments/ Regional Government Owned Enterprises (BUMDs) in the management of wharves and in the operation of pioneer ships in the regions.
- d. The BUMN must compete in the carrying out the assigned pioneer transportation that is being compensated (pioneer subsidies) so as to become more efficient.
- e. Cooperation of private enterprises and the BUMN through the outsourcing of the management of parking spaces and terminals

and the ticketing system including investment in infrastructure and facilities.

- f. Cooperation of PT ASDP (State Owned Enterprise Engaged in RLFT), and Pelindo (State Owned Enterprise engaged in Sea Port Activities) in the joint management of wharfs in isolated/commercial areas.
- g. Cooperation with private companies and BUMN engaged in other land transportation activities (railways, toll roads and public transportation) in an inter-mode and integrated transportation service system.
- h. The creation of a competitive system in the provision of RLFT pioneer services, through a performance contract competition system on the bids and most efficient cost basis; and the system of government guaranteed (multi-years contract system so that private companies can carry out the procurement/leasing of facilities in an efficient manner in accordance with the economies of scale).
- i. Allowing cooperation in investment funding between the Regional Governments and the Central Government in the provision of infrastructure and subsidies to pioneer operations and the outsourcing of investment and management of terminals and parking activities, that are more commercially viable, to private companies.
- j. Designing the format and plan on the system of cooperation between private enterprises and the government, including in the management of risks and in seeking alternative funding through the concession of land management and in the development of regions, in order to increase investment in the provision and management of RLFT infrastructure and facilities.

In the context of rehabilitating the RLFT infrastructure that has been heavily damaged by the earthquake and tsunami disaster in Aceh and North Sumatra, nine ferry ports are planned to be rehabilitated and reconstructed in the next five years, among others in Meulaboh, Sinabang, Labuhan Haji, Singkil, Balohan, Ulelheue, Lamteng, Banjak Island and in Gunung Sitoli. The activities will encompass the rehabilitation and/or new construction of buildings, parking lots, movable ferry wharf bridges, pontoon rapid ship wharves, sea wave shields and port pools.

2.3. SEA TRANSPORTATION

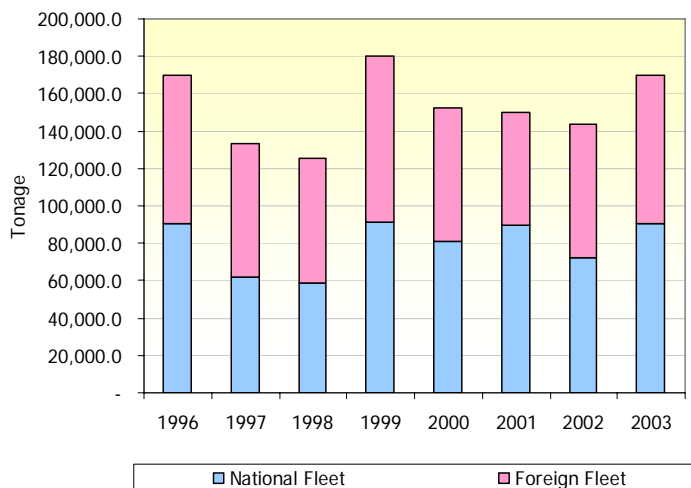
Sea transportation has an important role to play in the Indonesian economy. This is evident from the 99 percent of the total of 296 million tons of exports and imports in 2002 and 95 percent of the total of US\$ 88.4 billion of such exports and imports in 2002 using sea transportation. Such a large market potential (296 million tons for export-import and 143 million tons for domestic transportation) has not yet been fully utilized by the national shipping fleet.

In order to increase the role and market share of the national ships in domestic as well as in export-import transportation, it is necessary to have support from the government and from banks for the rejuvenation of national commercial ships, the majority of which is already obsolete and inefficient for being operated.

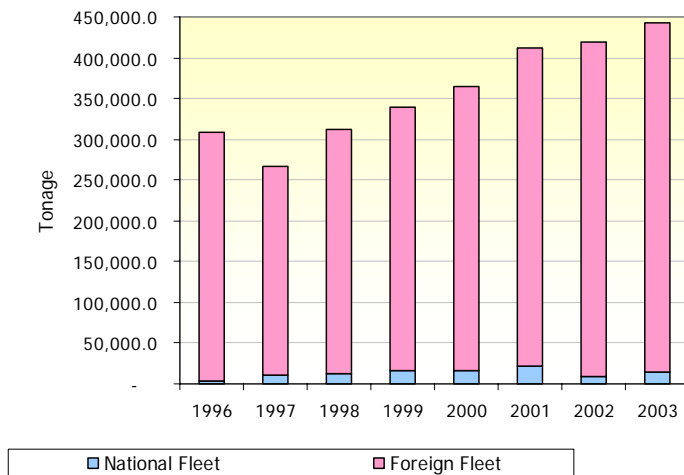
2.3.1. PROBLEMS OF SEA TRANSPORTATION

The main problems in sea transportation are the declining share of the national shipping fleet in the transportation of cargo and the not yet fully applied cabotage principle. In the 1996–2003 period, the average market share of the national fleet in domestic transportation and in exports-imports were respectively only 51.4 percent and 3.6 percent.

Graph 10
Domestic Sea Transportation Market Share of
National and Foreign Fleets (1996–2003)



Graph 11
Export-Import Sea Transportation Market Share of
National and Foreign Fleets (1996–2003)



Source: Directorate General of Sea Communication, Ministry of Communications, 2004 (processed)

Another problem is the still prevalent high-cost economy and the inadequacy of port infrastructure and facilities, which have added to the costs borne by users of port services, that have ultimately added to the costs borne by the general public. Of the 23 strategic sea-ports, there are 10 ports that have a BOR (Berth Occupancy Ratio) of above 70 percent in 2002. This implies that new facilities are needed in order to avert impediments in the loading/unloading process at sea-ports.

Table 5
Berth Occupancy Ratio (BOR) at 23 Strategic Ports
(percent)

No	Port	2000	2001	2002
1	Lhok Seumawe (Aceh)	40,20	35,08	29,68
2	Belawan (Medan)	61,13	61,05	60,52
3	Dumai (Riau)	76,00	74,72	78,80
4	Pekanbaru (Riau)	54,19	52,47	53,88
5	Tg. Pinang (Riau)	85,95	84,27	91,83
6	Teluk Bayur (West Sumatra)	60,70	54,00	64,10
7	Palembang (South Sumatra)	66,51	73,35	68,48
8	Panjang (Lampung)	68,69	69,32	61,55
9	Tg. Priok (Jakarta)	60,00	66,75	65,90
10	Tg. Emas (Semarang)	41,50	42,50	43,00
11	Tg. Perak (Surabaya)	75,00	74,00	71,00
12	Pontianak (West Kalimantan)	71,50	75,43	72,50
13	Banjarmasin (South Kalimantan)	85,00	82,00	101,00
14	Balikpapan (East Kalimantan)	83,17	83,36	84,10
15	Samarinda (East Kalimantan)	64,80	6,49	64,68
16	Benoa (Bali)	50,00	54,00	57,00
17	Tenau/Kupang (East Nusa Tenggara)	80,00	78,00	82,00
18	Bitung (North Sulawesi)	66,17	67,39	73,77
19	Makasar (South Sulawesi)	68,25	66,28	53,41
20	Ambon (Maluku)	82,10	42,15	39,55
21	Sorong (Papua)	72,89	84,03	80,05
22	Biak (Papua)	53,36	60,89	65,21
23	Jayapura (Papua)	66,41	66,12	66,44

Source: Directorate for Dredging and Ports, Directorate General of Sea Communications (2004)

Table 6
Performance of Navigation-Facilitating Instruments (NFI)
in Indonesia 2003

Variable	Performance ^{*)}	IALA Requirement ^{**)}
Adequacy	86.75 percent	95 percent
Reliability	95 percent	99 percent
Ratio	6.5 NFI/100 Nautical mile	25 NFI/100 nautical mile (developed nations)

^{*)} Directorate General of Sea Communications

^{**)} IALA

Source: Maritime Traffic Safety System, 2004

The adequacy rate of shipping safety facilities, such as Navigation Facilitation Instruments (NFI) has not yet met international standards. Currently the NFI adequacy and reliability rates are still respectively 64.02 percent and 95 percent. According to the International Association of Lighthouse Authority (IALA), the standard ratios for adequacy is 95 percent and for reliability is 99 percent.

There is the controversy on the authority for managing sea-ports between the central government and regional governments, specifically the district and city governments, on who has the right to manage sea-ports. Even though Law Number 22 of 1999 regarding Regional Government has been revised by Law Number 32 of 2004, the controversy still continues. Meanwhile, Government Regulation Number 25 of 2000 regarding Authority of the National Government and Authority of the Provincial Governments as Autonomous Regions, has not yet been revised. It is thus difficult to expect that the dispute between the central government and the district/city governments can be resolved. This has resulted in private companies becoming reluctant to invest in sea-ports.

2.3.2. TARGETS OF SEA TRANSPORTATION DEVELOPMENT

The targets of developing sea transportation are: (1) The increased market share of the national shipping fleet in domestic sea transportation as well as in sea transportation for exports-imports; (2) The increased performance and efficiency of sea-ports, specifically those managed by

the BUMN (State Owned Enterprise) because most of the export-import cargo and domestic cargo are handled by ports that are managed by the BUMN; (3) The fully equipped Navigation Facilitating Instruments and their maintenance facilities, so that the existing NFIs can function for 24 hours; and (4) The completion of judicial review of Government Regulation (PP) Number 69 of 2001 regarding Ports and the revision of Law Number 21 of 1992 regarding Shipping, specifically pertaining to the requirement to cooperate with the BUMN if a private enterprise intends to invest in port infrastructure. These revisions must be completed in order to attract private companies to invest in sea-port infrastructure.

2.3.3. POLICY DIRECTIONS OF SEA TRANSPORTATION DEVELOPMENT

- a. Increasing the role of the national shipping fleet for domestic as well as for export-import transportation, by applying the “cabotage principle”. In this respect, it is necessary to have the support from banks in the allocation of low cost credits for the rejuvenation of the shipping fleet.
- b. Reducing and even eliminating illegal levies at ports, so that the tariff determined by the port authority does not differ significantly from the expenses incurred by port users, by enhancing coordination among all related agencies that are involved in the cargo loading and unloading process.
- c. Meeting the international shipping standards that have been issued by the IMO (International Maritime Organization) as well as by the IALA, for enhancing shipping safety during voyage as well as on berth and during loading-unloading at ports in the territory of Indonesia, including enforcement of the ISPS Codes.
- d. Reforming regulations and laws and institutions in the sea transportation sub-sector, in order to create a condition that is attractive for private companies in constructing sea transportation infrastructure.
- e. Gradually handing over local port assets, that are managed by the UPT (Technical Implementing Unit), to the Provincial and District/ City Governments.

- f. Supporting the implementation of the *Sistranas* (National Transportation System) and the national port system.
- g. Continuing the pioneer sea transportation services.

2.3.4. PROGRAMS FOR THE DEVELOPMENT OF SEA TRANSPORTATION

In the period five years ahead, the sea transportation development programs are: (1) the rehabilitation and maintenance of sea transportation infrastructure; (2) the construction of sea transportation infrastructure; and (3) the restructuring of sea transportation institutions and regulations. The steps that will be taken are the rehabilitation of transportation infrastructure that are in dilapidated condition, the construction and equipping inadequate infrastructure and revising regulations and laws that have impeded the smooth flow of sea transportation.

a. PROGRAM FOR THE REHABILITATION AND MAINTENANCE OF SEA TRANSPORTATION INFRASTRUCTURE

1. Rehabilitation of Navigation Facilitation Instruments, comprising 94 lighthouses, 279 buoys, 72 floating buoys.
2. Rehabilitation of 49 navigation boats.
3. Rehabilitation of 493 square meter of Wharves of the Technical Implementing Unit (UPT) of the Directorate General of Sea Communications.
4. Rehabilitation of 15 marine surveyor ships.
5. Rehabilitation of Port Administration offices at 15 locations.
6. Rehabilitation of 97 patrol boats.
7. Rehabilitation or cleaning of port pools from ship wrecks at 3 locations.
8. Rehabilitation of 27,104 square meter of wharfs owned by the State Owned Enterprise.

Most of the above rehabilitation is the responsibility of the government because the activities constitute projects that are non cost recovery and are related to shipping safety and security. While the activity that is the responsibility of the State Owned Enterprises

is a cost recovery project, thereby becomes the responsibility of the State Owned Enterprise to finance it.

b. PROGRAM FOR CONSTRUCTING SEA TRANSPORTATION

1. Construction of infrastructure:
 - Construction of NFI (Navigation Facilitating Instruments): 88 light houses, 276 buoys, and 70 floating buoys.
 - Construction of 11 navigation ships.
 - Construction of 30 GMDSS (Global Maritime Distress and Safety System).
 - Construction of 862 square meter of Wharves of the UPT (Technical Implementation Unit) of the Directorate General of Sea Communications, and a 440 square meter wharf for navigation ships and a wharf for the berth of the Maritime and Coastal Guarding at 3 locations of 180 square meter.
 - Construction of 25 marine surveyor ships.
 - Construction of navigation office building of 5,350 square meter, closed building of 6,558 square meter, open building of 2,000 square meter, repair shop building of 2,460 square meter, buoy garden of 10,500 square meter and 19 repair shops and 29 transportation equipment.
 - Construction of 113 patrol boats.
 - Procurement of 5 oil booms (*gelang cemar*).
 - Construction of wharf of 900 square meter of the BUMN, including the loading-unloading equipment that can be operated in cooperation with private enterprises, such as in Bojonegara, Muara Sabak, and Surabaya.
2. Pioneer sea transportation services in 15 provinces
As is the case with the rehabilitation activities, the construction of port facilities of the BUMN can be made in cooperation with private companies. While specifically for the construction of new facilities for containers, car terminals, special ports for specific commodities, can be fully carried out by private companies.

c. PROGRAM FOR RESTRUCTURING INSTITUTIONS AND REGULATIONS ON SEA TRANSPORTATION

1. Revising Law Number 21 of 1992 on Shipping, in order to encourage the participation of private investors in the construction of sea-port infrastructure.
2. Developing the information system on sea-worthiness of ships.
3. Socializing regulations on ship worthiness requirements.
4. Evaluating and assessing regulations on sea worthiness requirements of ships.
5. The enhancement of human resources through training for ship measuring, auditor of the International Safety Management (ISM) code, testing and verification of ship seaworthiness.
6. Maritime Pollution exercise (exercise for preventing maritime pollution caused by ships) by the government of Indonesia together with Japan and the Philippines.
7. Evaluation of the implementation of the International Ship and Port Facility Security (ISPS) Code, that came into effect on 1 July 2004.
8. Fully effectuating the “cabotage principle” for domestic transportation so that the national shipping fleet can transport all of the domestic cargo.
9. Ratification of the International Convention on Maritime Liens and Mortgage of 1993, so there will be guarantee and legal certainty for creditors and other financial institutions in the provision of funding for the construction and rejuvenation of the national shipping fleet.

In the context of rehabilitating the sea transportation facilities and infrastructure that have been affected by the earthquake and tsunami disaster in Aceh, in the period five years ahead, the reconstruction and rehabilitation of 17 ports are planned, among others in Meulaboh, Malahayati, Sabang, Banyak Island, Tapak Tuan and Tello Island; and the reconstruction and rehabilitation of shipping safety instruments, encompassing communication instruments, the rehabilitation of SROP (coastal radio station), and lighthouses at 9 locations, among others in Malahayati, Sabang, Meulaboh and Singkil.

2.4. AIR TRANSPORTATION

Air transportation that has its advantage of speed over other modes of transportation can become a mode for the transportation of tourists, businessmen and the general public. The air transportation in Indonesia needs to be managed in accordance with international aviation standards and needs to be interconnected with other modes of transportation.

Currently 67.5 percent of international tourists coming to Indonesia use air transportation. Therefore, in order to attract international tourists, it is necessary that in addition to promoting tourist destination areas and ensuring security in those areas, also flight safety is assured over Indonesia's air territory. Such assurance can be realized by government agencies that have authority in the management of air transportation as well as by airport operators and airline companies, by meeting international aviation safety standards that have been determined by the ICAO (International Civil Aviation Organization).

2.4.1. PROBLEMS OF AIR TRANSPORTATION

The main problem of the air transportation sub-sector is **the increased number of airplane accidents and the threat of terrorism**. This is shown in Table 7 on the Total Number of Air Accidents & Dead/Missing Victims.

Table 7
Total Number of Air Accidents & Dead/Lost Victims
1992–2002

Year	Total of Accidents	Fatal Accidents	Lost/Dead (Persons)
1992	38	5	106
1993	32	7	83
1994	41	8	53
1995	46	6	30
1996	35	6	42
1997	38	8	398
1998	36	2	4
1999	31	3	12
2000	16	1	2
2001	37	7	17
2002	25	6	25

Source: Directorate General of Air Communications, 2003

Table 8
Total of Domestic Passengers and Cargo
1998–2002*)

Year	Passengers (persons)	Cargo (tons)
1998	7.863.838	147.718
1999	6.673.713	155.439
2000	8.654.181	161.200
2001	10.394.330	164.135
2002	12.686.932	136.207

Source: BPS (Central Agency of Statistics), 2003

*) Data on departures

The second problem concerns **the shortage of supervisors on air worthiness and the shortage of the means and infrastructure for supervising air transportation**. The demand for personnel that supervise air worthiness has increased, in line with the increase in air traffic. In the last five years, when the government has determined the policy of zero growth for civil servants, the total number of personnel

that handles air safety and air certification, namely those employed at the Directorate for Air Certification and Air Worthiness, the Directorate for Aviation Safety, and at the Directorate for Electric and Electronic Facilities, has remained relatively constant at around 400 persons, as in 2003 when the total is 374 persons. While in the last five years, air traffic has grown very rapidly. This is reflected in the table on arrivals and departures of airplanes, passengers and cargo, for domestic and international flights.

A third problem that must constantly be taken into account is the **many facilities that do not meet the required standards** on safety of airplane operations, such as on the width of airplanes and on the shoulder of runways and on aviation safety instruments, such as the vehicles for Rescue of Flight Accidents and Firefighting.

Table 9
Arrivals and Departures of Planes, Passengers and Cargo
For International Flights, 1998–2002

Year	Arrivals			Departures			Total		
	Planes (Unit)	Passengers (Person)	Cargo (Ton)	Planes (Unit)	Passengers (Person)	Cargo (Ton)	Planes (Unit)	Passengers (Person)	Cargo (Ton)
1998	37.205	3.778.509	119.570	37.829	3.833.025	226.268	75.034	7.611.534	345.838
1999	40.064	3.877.617	148.889	39.552	3.924.275	226.230	79.616	7.801.892	375.119
2000	40.571	4.243.327	173.791	40.052	4.728.389	215.240	80.623	8.971.716	389.031
2001	42.813	4.520.028	95.741	42.617	4.675.007	147.008	85.430	9.195.035	242.749
2002	36.705	4.725.068	96.957	36.787	4.745.681	145.917	73.492	9.470.749	242.874

Source: BPS (Central Agency of Statistics), 2003

2.4.2. TARGETS IN THE DEVELOPMENT OF AIR TRANSPORTATION

The air transportation development target is the assured safety, smooth flow and continuity of air transportation, encompassing domestic, international as well as pioneer air transportation. Another not less important target is the created healthy competitive business climate in the aviation industry, so that there are no business unit engaged in air transportation that is a monopoly.

2.4.3. POLICY DIRECTIONS IN THE DEVELOPMENT OF AIR TRANSPORTATION

- a. Meeting aviation security and safety standards, that have been issued by the ICAO (International Civil Aviation Organization), in order to enhance aviation safety, during flights as well as at air-ports in Indonesia.
- b. Creating business competition in the national aviation industry, that is more transparent and accountable, so that existing airline companies will have a solid basis for ensuring the continuity of their flight operations.
- c. Restructuring regulations and laws and institutions in the air transportation sub-sector, in order to create a condition that can attract private companies in the construction of air transportation infrastructure.
- d. Supporting the implementation of the development direction of the Sistranas (National Transportation System) and the national airport system.
- e. Continuing the pioneer air transportation services.

2.4.4. PROGRAMS FOR THE DEVELOPMENT OF AIR TRANSPORTATION

In the period five years ahead, the development programs on air transportation are: (1) rehabilitation and maintenance of air transportation infrastructure; (2) construction of air transportation infrastructure; and (3) restructuring of air transportation institutions and

regulations. The steps that will be taken are to rehabilitate air transportation infrastructure that are in poor condition, to construct and equip air transportation infrastructure that are inadequate and to revise regulations and laws that impede the smooth flow of air transportation by involving the related parties.

a. PROGRAM FOR THE REHABILITATION AND MAINTENANCE OF AIR TRANSPORTATION INFRASTRUCTURE

1. To replace and recondition vehicles for Flight Accident Rescue and Fire Extinguishers, at 59 air ports.
2. To rehabilitate 2.82 million square meters of runways, 231,013 square meters of terminals, and 143,038 square meters of operational buildings.

b. PROGRAM FOR CONSTRUCTION OF AIR TRANSPORTATION INFRASTRUCTURE

1. Construction of Infrastructure
 - Construction of 15.150 x 45 square meter of runways, among others in Makasar, Medan, Ternate and Sorong.
 - Construction of 171,085 square meter of passenger terminals, among others in Makasar, Medan, Ternate, Sorong and Lombok.
 - Construction of 938,150 square meter of apron.
 - To develop air navigation systems, comprising 5 packages.
 - To implement the Automated Dependent Surveillance Broadcast in Indonesia through the procurement and installation of equipment at 5 stations.
 - To procure and install CNS/ATM (Communication, Navigation, Surveillance/Air Traffic Management) equipment.
 - To procure and install ILS (Instrument Landing System) and RVR (Runway Visual Range) equipment at 10 locations.
2. Providing pioneer aviation services in 15 provinces.

c. PROGRAM FOR REFORMING INSTITUTIONS AND REGULATIONS ON AIR TRANSPORTATION

1. To revise Law Number 15 of 1992 regarding Aviation.
2. To revise several Decrees of the Minister of Communications pertaining to the structure and classification of air port service

tariffs at public air ports, the mechanism for determining service tariffs for air transport passengers related to economy class scheduled flights and to review air transport undertakings.

In the construction of new air-port facilities, such as in Medan and Lombok, the opportunity is widely opened for the partial as well as whole participation of private investors.

In the context of the rehabilitation of air-port infrastructure and aviation safety equipment in the post earthquake and tsunami disaster in the province of Aceh, the government will carry out activities for the reconstruction of runways and aviation safety equipment at 7 air-port locations. These activities cover, the reconstruction of the runway at Meulaboh and Sinabang, the overlaying of the runway at the Sabang Airport; the reconstruction of the air traffic control tower at Banda Aceh; and the replacement of communication equipment in Sabang.

2.5. DEVELOPMENT PROGRAMS TO SUPPORT TRANSPORTATION

In addition to the above programs and main activities, there are also supporting programs and activities to the development of the transportation sector, among others the following: (1) Program for developing inter-mode transportation; (2) Program for increasing infrastructure and facilities; (3) Program for developing search and rescue activities; (4) Program on research and development of communications; (5) Program for the management of human resources development and service training; (6) Program for the supervision of the state apparatus; and (7) Program for the development and promotion of meteorology and geophysics.

2.5.1. PROGRAM FOR THE DEVELOPMENT OF INTER-MODE TRANSPORTATION

This program is aimed at enhancing the quality of human resources in the transportation sector, meteorology and geophysics, specifically in the context of enhancing support for attaining the aim of developing the sector of transportation, meteorology and geophysics and for enhancing public services.

The main activities that will be carried out, are: (1) To formulate regulations on postal development; (2) To discuss the revision of the laws on transportation, among others, the law on road transportation, railways, sea transportation, air transportation, and telecommunications; (3) To formulate and socialize regulations pertaining to transportation; (4) To enhance international cooperation in transportation; (5) To assess plans, evaluate policies and carry out strategic analysis on communications and inter-mode transportation; (6) To compile the method of evaluating and monitoring of financial performance and funding of transportation; (7) To compile the method for overseeing personnel performance; (8) To enhance the Center for Data and Information; and (9) To improve expenditures on personnel, goods, capital needs and spending on maintenance.

2.5.2. PROGRAM FOR INCREASING FACILITIES AND INFRASTRUCTURE

This program is aimed at enhancing the facilities and infrastructure of the state apparatus in the Transportation Sector.

The program for increasing facilities and infrastructure for governmental activities, encompasses activities for enhancing the means and infrastructure on the communications system, procedure and standards of administration, the provision of the means for supporting operational activities and for coordinating and consulting plans and programs of the ministry/agencies.

2.5.3. PROGRAM FOR DEVELOPING SEARCH AND RESCUE ACTIVITIES

This program is aimed at enhancing the capability for the search and rescue of people that are involved in accidents, especially by enhancing the capability and speed of initial action, so that the victims can be handled speedily and appropriately.

The search and rescue programs, encompasses the following activities: (1) To compile and prepare technical guidelines; (2) To evaluate and oversee the SAR project; (3) To rehabilitate, maintain and

develop facilities, equipment for search and rescue operations; (4) To oversee and develop search and rescue infrastructure and facilities; (5) To ensure government funding for search and rescue operations, related to funding of personnel, goods, capital needs and maintenance activities.

In the context of the rehabilitation of the SAR infrastructure and facilities that have been heavily damaged by the earthquake and tsunami disaster in Aceh, steps will be taken to reconstruct SAR office buildings, office equipment, rescuer cars, rubber boats and the detection tower in Banda Aceh.

2.5.4. PROGRAM FOR RESEARCH AND DEVELOPMENT IN COMMUNICATIONS

The program for research and development in communications, encompasses the following activities: (1) To implement research and development in communications, covering land, sea and air transportation and post and telecommunications and the management of inter-mode transportation; (2) To compile the program for monitoring and evaluation; (3) To improve government operations, in the context of research and development, covering spending on personnel, goods, capital means and spending on travel.

2.5.5. PROGRAM FOR THE MANAGEMENT OF THE APPARATUS HUMAN RESOURCES AND SERVICE TRAINING

This program is aimed at enhancing the quality of human resources in the transportation sector through education and training activities.

The program for managing the capacity of human resources of the state apparatus and managing service education encompasses the following activities: (1) To carry out studies/analyses on transportation, management of inter-mode transportation, land transportation, sea transportation, air transportation, and of post and telecommunications; (2) To compile the program for monitoring and evaluation; (3) To develop institutions on education and training; (4) To develop the METI institutional aspects; (5) To develop and promote the Education and

Training Agency for Communications, encompassing the procurement of means and infrastructure, technical education and training activities, initiate steps for instituting education for degree (S2/Master), developing a rating school and the education and training campus at Semplak; (6) To develop the institutional facilities and infrastructure for implementing education and training activities, covering the Education and Training Center for land, sea and air communications, the STTD (Land Transportation Academy) in Bekasi, the STIP (Aviation Academy) in Jakarta and the STIP in Curug; and (7) To improve government operations in communication education and training activities, encompassing spending on personnel, goods, capital and spending for maintenance activities.

2.5.6. PROGRAM FOR THE SUPERVISION OF THE STATE APPARATUS

The program for supervising the state apparatus encompasses the following activities: (1) To organize and improve the system, structure of supervision so as to become more effective, efficient, transparent and accountable; (2) To intensify the implementation of internal supervision, functional supervision and social control; (3) To enhance follow-up measures to supervision findings through legal steps; (4) To improve government operations related to the supervision of the state apparatus, encompassing aspects on spending for personnel, goods and spending on maintenance.

2.5.7. Program for the Development and Promotion of Meteorology and Geophysics

This program is aimed at enhancing the capacity in providing meteorological and geophysical services, such as the provision of weather information, in the context of facilitating the activities of the people in general and specifically the activities of sea and air transportation. In this respect, it is necessary to have the organizational support, quality human resources, and adequate management and equipment.

The program for the development and promotion of meteorology and geophysics encompasses the following activities: (1) To formulate the Draft Law on meteorology and geophysics; (2) To formulate the Draft Government Regulation on the PNBPN; (3) To formulate the technical directives for implementing meteorology and geophysics; (4) To restructure the relevant institutions; (5) To promote the meteorological and geophysical observation system, through the automation of the equipment system, mainly at stations of the capital cities of provinces and at stations that are situated at disaster prone areas, in the major food producing and densely populated areas; (6) To modernize the equipment for producing and disseminating information on meteorology and geophysics, up to the district (kabupaten) level; (7) To promote the system for providing meteorological and geophysical data and information; (8) To carry out research and development activities on meteorology and geophysics that are beneficial for overcoming natural disasters, enhancing food production, support the distribution of goods and services and for enhancing public safety; (9) To increase cooperation with other agencies, domestic as well as abroad, for increasing the quality of service provision and for enhancing the capability of human resources; (10) To carry out activities on supervision; and (11) To enhance meteorological and geophysical operations.

III. ENERGY, ELECTRICITY, POST AND TELECOMMUNICATIONS INFORMATICS

3.1. ENERGY

Energy supply is currently a national issue that requires appropriate handling. Indonesia's energy potential is very large and diverse but its production has been limited so that it needs to be well planned, integrated and consolidated in an optimal manner thus capable of becoming optimally utilized for the welfare of the people at large, as stipulated by Article 33 of the 1945 Constitution. Even though Indonesia already has a national energy policy, such policy still needs to be based on a comprehensive plan on national energy policy. The economic crisis has led to various fundamental changes to the economy, to the supply and demand of energy and the costs for supplying energy. The economic

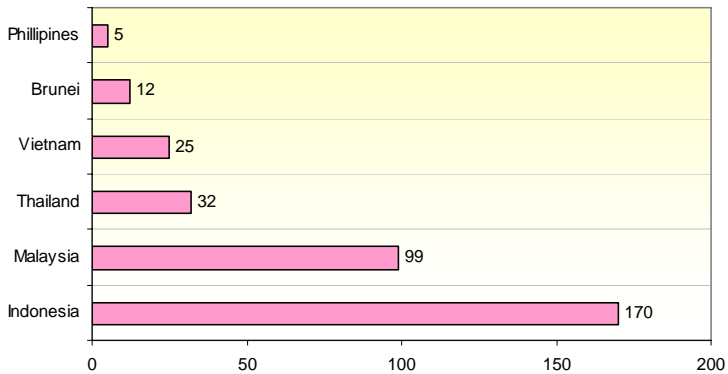
crisis has resulted in the imbalance of production costs, due to the depreciation of the rupiah, in relation to income in the energy sector. On the other hand, energy price adjustments cannot be averted and have already become the commitment of the government, in the context of reducing subsidies to the domestic energy price.

With the currently limited reserves of fossil energy, it is essential to start utilizing alternative energy sources, in a gradual and market oriented manner, towards the use of the optimal and wise energy mix. The use of alternative energy sources is meant for reducing the use of oil fuels that have become increasingly expensive and the supply has continued to decrease. As alternative energy sources, natural gas, coal and renewable energy sources, such as geothermal energy, hydro-power, nuclear energy, solar energy, wind energy, fuel cell energy and bio-mass can be used. In line with the continued depletion of fossil fuels, imports of crude oil have also continued to rise each year. In the last five years, imports of crude oil have grown at an average rate of 10.46 percent per year. Up to now Indonesia still imports crude oil from Saudi Arabia (Arab Light Crude), Iran, Australia, and Malaysia, to meet domestic demand and for optimizing inputs of refineries. In addition, Indonesia's imports in the form of oil fuel products (BBM) are still high. In the medium-term plan, policies that need to be pursued are to address the problems of exports and imports of crude oil and other oil products.

As a country that is blessed with an abundance of natural wealth, Indonesia has substantial and a diversity of energy sources, but their production has not yet been optimal. The potential of energy sources and their production, on the basis of 2003 data, are as follows:

1. The potential crude oil reserves is 8.82 billion barrel (proven reserves of 4.73 billion barrels and potential reserves of 4.09 billion barrels), that are concentrated in the central part of Sumatra (Riau) and East Kalimantan. Nevertheless, it is expected that crude oil production will fall to only around 500 million barrel per year, due to the aging of existing wells and to the export quota set by OPEC.

Graph 12
Asean Gas Reserves (TCF)



Source: Ministry for Energy and Mineral Resources, 2003

2. The potential of gas is geographically dispersed from Aceh to Papua, totaling 178.13 trillion cubic feet (TCF), consisting of 91.17 TCF of proven reserves and 86.69 TCF of probable reserves. Compared to other Asean nations, Indonesia has the largest gas reserve (Diagram 12). But Indonesia's production is still only 3 TCF per year and most is for export.
3. The potential of water energy has a magnitude of around 75 thousand MW. But its production is still 4,200 MW due to various constraints, such as the diversity of capacity, the high investment required, and the social constraint on the adverse environmental impact.
4. The potential of coal is 50 billion tons, with the major producing regions in South Sumatra and East Kalimantan and with the total potential of 12.9 billion tons (around 56.44 billion Oil Barrel Equivalent) and 13.8 billion ton (around 60.38 billion of Oil Barrel Equivalent). Of that total, the production has not exceeded 100 million ton per year, and most is for exports.
 - a. The potential of geothermal energy of Indonesia is the largest potential in the world and is found along the islands of Sumatra, Java-Bali, East Nusa Tenggara, West Nusa Tenggara, island group of Banda and Halmahera, and the island of Sulawesi

(Table 10). But production has reached only 807 MW. This shows that geothermal energy has a good prospect for being developed in view of its renewable nature and is able to induce downstream industries.

Table 10
Potential of Geothermal Energy (MWe)

Island	Potential	Reserves	Total
Sumatra	7,983.0	5,837.0	13,820.0
Java	3,953.5	5,300.0	9,253.5
Bali and Nusa Tenggara	602.0	885.0	1,487.0
Sulawesi	1,050.0	896.0	1,946.0
Maluku and Irian	442.0	142.0	584.0
Kalimantan	50.0	-	50.0
Total	14,080.5	13,060.0	27,140.5

Source: Directorate General of Geology and Mineral Resources, Ministry of Energy and Mineral Resources, 2004

- b. Renewable energy, encompassing solar, wind, bio-mass, bio-gas, peat moss soil energy and future forms of energy, have a significant potential for being developed. The average daily radiation of sunlight varies from 4.10 to 5.75 kWh per square meter; wind energy with an average speed varying from 2.39 meter per second to 5.57 meter per second at an elevation of 24 meter above the ground; bio-mass energy that is equivalent to 50 GW, consisting of solid bio-mass, mass gas, and liquid bio-mass originating from forests, agriculture and plantations; bio-gas energy that originates from waste of livestock breeding activities has a magnitude of around 684.8 MW; peat moss soil has a magnitude of 97.93 trillion MJ³, that is geographically dispersed in Riau (39.1 trillion MJ), West Kalimantan (16.2 trillion MJ), and Central Kalimantan (12.2 trillion MJ). Other regions, namely Aceh, North Sumatra, South Sumatra, South Kalimantan, East Kalimantan, and Sulawesi, each have a potential of less than 7 trillion MJ; nuclear energy has the potential for being developed with the discovery of quite significant uranium reserve in Kalimantan, with radioactive

mineral contents, mainly thorium and uranium. But in its utilization, such as for the development of Nuclear Powered Electric Generator, it is necessary to take into account aspects on the safety of nuclear reactors, readiness of human resources, processing of radioactive waste, the environmental impact, funding and the socialization for the introduction of nuclear energy. The potential of future energy sources, including hybrid technology and Fuel Cells, is currently being developed and is still in the stage of being analyzed at the sample project scale, as it has not yet reached the commercial scale.

Table 11
Potential of Primary Energy Sources

No	Energy Source	Potential	World Potential	Proven Reserves	Production (year)	Note
1	Crude Oil	321 billion barrel	1.2 percent	5 billion	500 million barrels	Fully depleted in 10 years, exported
2	Natural Gas	507 TSCF	3.3 percent	90 TSCF	3 TCF	Fully depleted in 30 years, exported
3	Coal	50 billion ton	3 percent	5 billion ton	100 million ton	Fully depleted in 50 years, exported
4	Hydro Power	75 thousand MW	0.02 percent	75 thousand MW	4,200 MW	Difficult for being developed in large scale, domestic use
5	Geothermal	27 thousand MW	40 percent	2,305 MW	807 MW	As a renewable energy, can be consumed for a long period

Source: Directorate General of Mineral Resources, 2003

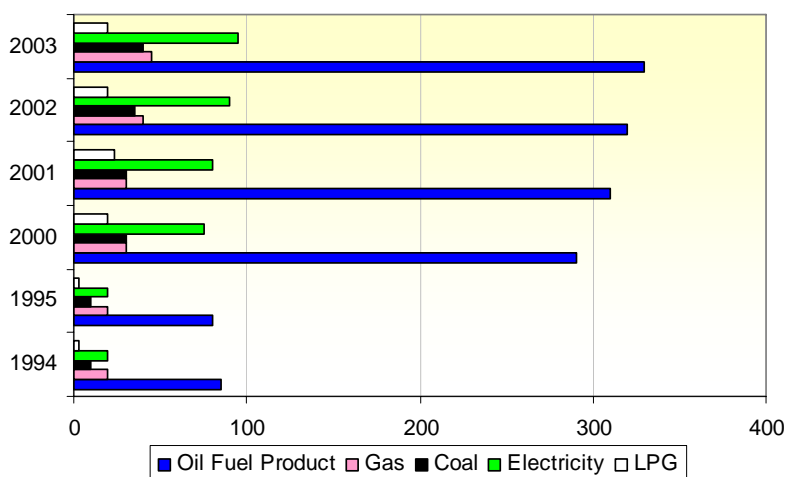
3.1.1. ENERGY PROBLEMS

The development of energy in Indonesia is facing various problems pertaining to the imbalance between the supply of primary energy and the consumption of various energy forms. To illustrate, the ratio between production and reserves of crude oil is very high, while the ratio of utilization and potential reserves of geothermal energy is longer due its nature as a renewable energy resource. The consumption of each energy resource (Graph 13) is still too high in terms of their respective production potentials (Table 11).

Another problem faced is the system for determining energy price that does not yet reflect its economic value thereby not encouraging the maximal use of energy and does not induce the initiative of the general public to save energy. To illustrate, transportation is the sector that is wasteful in the use of BBM (oil fuels).

The low diversification of energy is also one of the problems. This is shown by the high dependence on BBM (oil fuels). The major share of energy use has been non-renewable energy, such as crude oil, in spite of declining crude oil reserves.

Graph 13
Distribution of Final Energy Consumption, 2000–2003
(million of Oil Barrel Equivalent)



Source: Directorate General of Mineral Resources, 2004

Another problem is the not yet efficient energy utilization by households, industries and transportation. This is reflected in the not yet effective selection of types of energy by various sectors, the over-consumptive use of energy, and the low efficiency of equipment that use energy.

Several problems other than the main problems referred to above concern: price structure, taxes and subsidies applied to oil, that have slowed down the realization of the energy diversification aim, the preference of business companies to wait for a more conducive policy on downstream business activities; regulatory uncertainty between the central and regional governments; the still not yet stable security and political climate; and the still inadequate energy infrastructure, such as deficiency in domestic oil refineries.

In view of the classical issues involved in the supply of national energy, the potentials of existing energy sources and the trend of international and regional energy demand, and taking into consideration

the changes in the related regulations, the following is a summary of the various problems faced in the development of energy for the next five years.

The Inadequate Energy Infrastructure. The existing infrastructure is inadequate for meeting the demand for final energy. The existing infrastructure is generally obsolete, limited and has a low level of efficiency. The infrastructure is geographically not evenly distributed and most are not yet interconnected. Most of the infrastructure is oriented to BBM/Oil Fuels. The infrastructure of other forms of energy, such as gas, geothermal, coal, is still very deficient. The existing refinery capacity (one million barrels per day) is aging and can no longer keep up with the high level of oil fuels consumption (currently 1.3 to 1.4 million barrels per day). This has resulted in the growing imports of crude oil and oil products. The transmission and distribution of oil fuels is not efficient and cannot meet the growth of demand and is dominated by the use of land transportation mode. With regard to the gas infrastructure, the already constructed transmission and distribution gas transportation means are still too small compared to the potential domestic demand for gas (electricity, industries, households, transportation). The processing infrastructure is still confined to the gas phase not yet to the liquefied phase of gas. The substitution from oil fuels/BBM to natural gas has proceeded at a too slow pace. The infrastructure for coal, especially for the transportation of coal from the coal mines to consumption centers, specifically in Java, is still very inadequate.

The Not Yet Well-Planned Energy Business Prospect. The energy business is still oriented to quick yielding activities and is very much dependent on the crude oil commodity. In addition, it does not take adequate account of efficiency and value added in the domestic processing activities (as raw material for the petrochemical industry) and is not yet aware about the declining prospect of the oil business. Even though the growth of the energy business has been very fast, Indonesia has not yet made adequate long-term plans for the exploitation of energy resources, that should have been exemplified in the form of an energy mix master plan.

The Not Yet Effective Risk Management. Energy construction projects involve very high risk, particularly due to the insufficient

availability of accurate data/information for making estimates. The high investment and the price of energy must be borne at the early phase of construction, that has made energy price to become high. To illustrate: the construction of the PLT Geothermal, for which the market risk is still high, specifically due to the price still being regulated by the government and its changes cannot yet be accepted by the general public. The country risk is still high, so that government guarantee is needed.

The Not Yet Fully Reformed Regulatory Framework. Law Number 22 of 2001 on Oil and Natural Gas has been asked for being revised by the Constitutional Court in 2004, especially pertaining to articles that are related to general welfare as stipulated in the 1945 Constitution. Nevertheless, the Law on Oil and Gas still has certain problems, such as: the overdue preparation of Government Regulation (PP) on Downstream Activities, the not yet effectively functioning Agency for Regulating Oil/Gas Downstream Activities (BPH MIGAS), and the not yet issued Master Plan on the transmission and distribution of national gas. Meanwhile, Law Number 20 of 2002 on Electricity has already been abrogated by the Constitutional Court.

The Not Too Attractive Investment Climate. The development of energy infrastructure requires large investment, high technology, long gestation period, the too high fiscal costs in the exploration phase and in the upstream activities, the constraints on procedure, regulations, time and costs that have reduced the investment interest; the low equity capital that has limited the ability to obtain loans; domestic banks have little interest to lend for the construction of energy infrastructure projects.

The High Dependence on the Government. The energy sector is dominated by the State Owned Enterprise (BUMN) that is still substantially dependent on the government. The pattern of monopoly/duopoly that is practiced has impeded the growth of competition. The company's assets and performance of its operations has not yet reached the desired level of efficiency. There is as yet no clear accounting separation between its social mission and commercial pursuits. Its development investment needs still require facilities from

the government. All these have resulted in much of the costs still being borne by the government.

Not Yet Effective Institutions. The division of authority between the central and regional governments, between government and private sector, between sectors and regions, is not yet synchronous. The Regulatory Body/Supervisor that has been established has not yet functioned effectively, while other needed institutions have not yet been established, and there are overlaps and ambivalence in the main tasks and functions of agencies that are involved in the handling of the energy sector, all of which reflect the not yet effective and efficient restructuring of this sector.

The Concept on Security of Energy Supply Has Not Yet Been Formulated. This has resulted in the ambivalence in the direction for developing energy resources for meeting long-term needs for energy, and energy prices (BBM/Oil Fuel and electricity) are still regulated by the government, in a uniform and rigid manner and that is not subject to adjustments, while the restructuring of the energy sector still needs to be detailed out, with regard to the aimed final structure as well as on the migratory pattern.

3.1.2. TARGETS OF ENERGY DEVELOPMENT

In line with the medium-term plan until 2009, with the assumed economic growth rate of 6.6 percent per annum and with the elasticity of demand of 1.2, total demand for energy is projected to grow by around 7.1 percent per annum. With the endeavors to enhance efficiency and to rehabilitate the energy infrastructure, it is expected that the growth of energy use can be reduced. In addition, in accordance with the diversification policy, the use of energy is to be more directed to non-BBM energy use, so that the burden of the government in subsidizing BBM (specifically imported crude oil and oil fuel products) can gradually and systematically be reduced. For this purpose, it is necessary to construct the energy infrastructure, encompassing processing facilities (oil refineries, electric power generating stations), transmission and distribution pipelines (gas and oil products) and depots for their storage.

The projected supply of primary energy in 2009 is 1,280 million Equivalent of Oil Barrels and demand for final energy is projected to reach 1,070 million Equivalent of Oil Barrels (Table 12). It is expected that in 2009, the dependence on imported BBM (Oil Fuel Products), can be reduced, by among others increasing production, construction of refineries and steps to increase efficiency, including steps to conserve BBM (Oil Fuel Products).

Table 12
Supply and Demand of Energy (million Equivalent of Oil Barrels)

	Supply		Demand	
	2005	2009	2005	2009
Primary Energy				
Crude Oil	450	500		
Natural Gas	250	320		
Coal	120	150		
EBT	190	310		
Final Energy				
BBM (Oil Fuel Products)			325	400
Natural Gas			250	300
Coal			190	200
Electricity			100	170
Consumption by Sector				
Transportation			200	250
Households and Commercial			290	320
Industry			210	300

Source: Bappenas (National Development Planning Agency)

3.1.3. POLICY DIRECTIONS FOR ENERGY DEVELOPMENT

In the context of meeting future demand for energy and in the effort to provide access to various types of energy to the public at large, it is necessary to create a new system for the supply and transportation of energy, that is more comprehensive, integrated, and competitive and that reflects market prices. This can be pursued by preparing cross-sectoral facilities and infrastructure, eliminating monopoly at the upstream as well as downstream end of activities, as well as at the generation, transmission and distribution of new and other renewable energy resources.

To overcome the problems related to energy, policies are formulated for the intensification of efforts to search for energy sources, determining the price of energy, diversification of energy, conservation of energy, the appropriate energy mix, and for controlling the environment, with the following directions:

1. **Intensifying the search for energy sources**, through the more active encouragement of more intensive and continuous searches for new reserves of energy, mainly crude oil, gas and coal, and by reserving and utilizing natural resources for surveys of new reserves, such as the use of the reforestation fund in the forestry sector. Such reserve can be applied to Production Sharing Contractors that are operating in Indonesia. The efforts for finding energy sources are mainly carried out in regions that have never before been surveyed, while for areas that have already been indicated as having reserves, efforts must be made to enhance their status from having probable reserves to proven reserves.
2. **Determining energy prices** is conducted by estimating the cost of production and the economic condition of the general public. Through the development of the appropriate energy price policy, energy users can choose from among the alternative energy types that has the most appropriate economic value. Energy prices that are determined by the government must take into account various aspects, namely the optimizing of the utilization of energy resources and the optimizing of energy use, for the output of exploration/exploitation activities and the utilization of such output, increasing tax revenues, enhancing competitiveness, and for protecting consumers and promote greater equity.
3. **The policy to diversify energy** is directed at the diversification of renewable as well as non-renewable energy utilization, so as to attain the optimal regional/national energy supply, through the following: (a) reducing the share of crude oil use in the energy mix of Indonesia, among others by developing the infrastructure for the production and distribution of fossil fuels other than crude oil, namely coal, natural gas, geothermal energy, and other alternative energy sources; and (b) socializing the use of gas fuels in the transportation sector, coal bricks and solar energy in households,

geothermal and micro-hydro energy in the industrial sector; and by analyzing and promoting alternative energies such as wind energy and bio-fuel.

4. **Conserving energy** is to be applied to all phases of utilization, starting from the supply of energy resources to the final utilization phase so as to ensure that the interest of future generations is maintained. The conservation effort is implemented from two aspects, namely the resources (upstream) aspect, and the final utilization (downstream) aspect. Upstream conservation refers to efforts for conserving energy resources, the utilization of which is based on enhancing the value added and maintaining the interest of future generations, so that energy resources can be utilized for the longest possible period, while downstream conservation is implemented by enhancing the efficiency of utilizing energy infrastructure and of consuming final energy in all sectors.
5. **Energy mix** is developed for obtaining the optimum composition of energy utilization in a certain period for the whole of Indonesia. Efforts to attain such optimum energy mix are pursued by taking into consideration the availability of energy resources in Indonesia, the varied profile of energy demand, and the costs incurred for distributing energy from its production sites to locations where it is used.
6. **Policies to manage the environment** are pursued by taking into consideration all phases of energy development, starting from the exploration and exploitation of energy resources to the utilization of final energy through the use of energy that does not pollute the environment and through the use of environment friendly technology. It is necessary to increase the use of energy that has a low pollution impact, such as lead (Pb) free gasoline. The transportation sector must gradually reduce gas emissions, such as CO, HO, and NO. It is necessary that electric generating stations that use coal, develop a clean coal technology. For industries, the policy is directed at reducing and controlling gas emissions.

3.1.4. ENERGY DEVELOPMENT PROGRAMS

The energy development programs consist of the following: (1) Program for Enhancing the Quality of Service Provision of Energy Facilities and Infrastructure; (2) Program for Restructuring and Reforming Energy Facilities and Infrastructure; (3) Program for Enhancing Accessibility of Regional Governments, Cooperatives and the General Public to Service Provision of Energy Facilities and Infrastructure; and (4) Program for the Mastery and Development of Energy Technology Application. This program involves the government, private companies and the general public.

1. PROGRAM FOR ENHANCING THE QUALITY OF ENERGY FACILITIES AND INFRASTRUCTURE SERVICE PROVISION

This program is aimed at maintaining the quality of service provision of the energy facilities and infrastructure so that the accessibility of the general public to all energy products can be increased, become more efficient and that energy prices become affordable, and supported by the quality and quantity that meet the required standards.

The main activities that will be carried out in this program are as follows:

- a. Downstream, the activities encompass the construction of natural gas transmission and distribution networks by providing a tax incentive package that has been adjusted to the Master Plan on the Asean Gas Grid, the development of coal transportation, the analysis of low calorie coal and the bricket and UBC implementation to meet the needs of energy intensive industries, including electricity generating stations and households.
- b. Upstream, the activities comprise the increase of the capacity of oil refineries so as to become more efficient and can yield energy prices that are affordable for domestic consumers. In order to anticipate the increased use of BBM (Oil Fuel Products), efforts are made to optimally use alternative energy resources, for which the reserves are still abundant.
- c. Activities to increase the use of natural gas in the context of reducing dependence on BBM. Currently, a study is underway for constructing a gas transmission network from East Kalimantan to

Central Java, with the objective of meeting the natural gas need of Java, that has grown at a rate of 13 percent per year, and will reach 1.8 billion cubic feet by 2025, consisting of 55 percent for the generation of electricity, 25 percent for urban gas need and 20 percent for industrial uses.

- d. Activities for the construction of gas pipelines in Java, Kalimantan and Sulawesi; the construction of BBM pipelines in Java; the construction of oil refineries in Java, Sumatra and Nusa Tenggara; the development of geothermal energy for electricity, especially in Sumatra, Java and Sulawesi, totaling 2,972 MW, consisting of installed capacity of 1,055 MW and reserve capacity of 1,917 MW.

The activities for the rehabilitation and reconstruction of energy infrastructure and facilities in the earthquake and tsunami affected region of Aceh, encompass the following: (1) to operate barges and storage depots for expanding the volume of oil fuels by enhancing the frequency of their operation and use; (2) to increase the mobility of oil fuel land transportation by increasing the total number of fuel tanker trucks, and (3) to rebuild storage depots that have been demolished in Krueng Raya Banda Aceh and in Meulaboh.

2. PROGRAM FOR RESTRUCTURING AND REFORMING ENERGY FACILITIES AND INFRASTRUCTURE

This program is aimed at the phased creation of an energy industry that is self-reliant, efficient, reliable and highly competitive in the energy market. The main activities that will be carried out are : restructuring the existing industries, privatization, by unbundling existing players as well as newcomers and ensure competition, continuing the program for reforming and revising the Law on Oil and Gas, to make studies for determining the structure of the energy industry in the context of encouraging economic activities, and to revise Law Number 11 of 1994 on the Effectuation of the PPN (Value Added Tax) to contractors in the exploration phase, and the effectuation of import duties to imported oil/gas commodities.

3. PROGRAM FOR ENHANCING PARTICIPATION BY REGIONAL GOVERNMENTS, COOPERATIVES AND THE GENERAL PUBLIC IN THE PROVISION OF SERVICES BY ENERGY FACILITIES AND INFRASTRUCTURE

This program is aimed at giving greater opportunity to regional governments, private enterprises, the general public and cooperatives, to become more involved in energy undertakings. Specifically for regional governments, the bridging loans will be applied in accordance with the decree of the Minister of Finance Number 35/KMK/2001, and insofar as possible will be applied to other undertaking parties.

The main activity is the endeavor to increase the participation of regional governments, private enterprises, cooperatives and the general public, to construct energy infrastructure and distribution facilities, in conformity with the effective regulations. To illustrate, the participant can also engage in the upstream business for gas and coal, including *bricket* and UBC. To ensure the effective implementation of these undertakings, it is necessary to clearly delineate activities that are subject to competition and those that are not, and to have explicit criteria that define such areas.

4. PROGRAM FOR MASTERING AND DEVELOPING ENERGY TECHNOLOGY APPLICATION

This program is aimed at giving the opportunity to the private business community, state owned enterprises (BUMNs) and cooperatives as well as the general public to participate as providers, managers and buyers of energy, specifically in technology mastering, management, and marketing of energy products.

The main activities encompass the following: the development of appropriate technology for mass produced commodities; packaging tenders at the upstream side in order to ensure the survival of domestic industries, by prioritizing the use of domestic products; standardization and supervision of the quality of domestic products; making studies for the development of the CBM (Coal Bed Methane) technology for

increasing the utilization of coal; and by making studies on new oil/gas reserves and analyses of technology for processing oil/gas wastes.

3.2. ELECTRIC POWER

The economic, social, political and security development of a nation or region requires the support of reliable supply of energy, including electricity. Electric power, as one of the forms of final energy, has an important role in inducing various economic activities and for enhancing the welfare of the people. On the other hand, the development of electricity facilities and infrastructure requires very substantial investment as the investment in electric power is capital-intensive and technology involving high risk and has a long gestation period.

The development of electricity is facing various challenges, such as the geographical condition, which is very extensive and comprising of a large number of islands, and the demographic condition, with a very varied population density among the regions, thereby making it difficult to develop an optimal and efficient electricity system. Likewise the challenge with regard to potential primary energy used for the electricity generating stations, even though available in significant reserves, such reserves are located at remote sites and far from load centers, so that their development requires substantial costs, specifically for the construction of the relevant infrastructure. Another challenge, that is essential for being overcome is the capacity of human resources, as the principal agents in the development of electricity and in the application of science and technology, and the still weak business culture in electricity undertakings.

In the 1969–1993 period, the national capacity for generating electricity had sharply risen from 542 MW to 13,569 MW, an increase of over 24 times. Such a high increase in generating capacity is mainly attributed to the effectuation of Law Number 15 of 1985 on Electricity. In that era, specifically from 1993 through 1996, investments in the construction of electricity infrastructure, encompass the construction of electric generators with a capacity of 7,996 MW, transmission network of 6,350 kilometer, main transmission stations with a total capacity of 16,816 MVA and numerous other electric transmission networks. Such

electricity infrastructure construction activities had been able to meet demand for electricity that had reached an average growth rate of 13 percent per year.

With such construction achievements, the national electrification ratio in 1997 has already reached around 50 percent. The growth rates of production and installed capacity in the four years before the crisis, had been quite high, of 43.1 percent and 12.7 percent respectively for the Java-Madura/Bali (Jamali) system, and of respectively 46.7 percent and 31.4 percent for the system outside Jamali. Rural electricity, in the same period, had increased from 36,243 villages to 45,941 villages, with the increase predominantly in the eastern part of Indonesia.

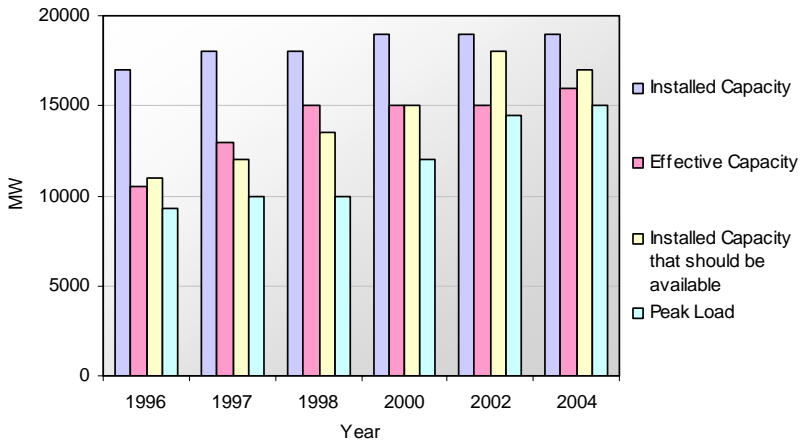
During the crisis, the growth of electricity demand has been a negative 0.5 percent in 1998, and had again risen by an average rate of 10.5 percent in the Jamali system and 8.5 percent in the system outside Jamali, from 1999 until now. The growth rate in that period had been much lower than in the period prior to the crisis, when it reached an average of around 12 percent per year.

3.2.1. PROBLEMS IN ELECTRICITY MATTERS

From 1997 through 2004, there had been relatively no addition in capacity to the Jamali system nor to the system outside Jamali. This has resulted in the electricity reserve of less than the required rate (25 percent). In the Jamali system, even though the installed capacity is greater than the needed capacity, the utilization has been very limited, while in the system outside Jamali, particularly in Sumatra and Kalimantan, a shortage of supply has already been experienced.

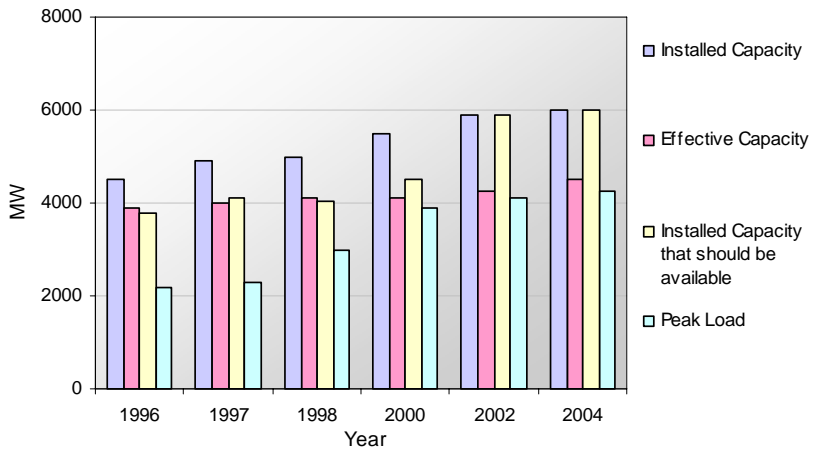
Limited electric generation capacity. The generating capacity in the Jamali system has reached around 15,177 MW. With its peak load of 14,575 MW, implies that it has a reserve margin of only around 4.1 percent. In the system outside Jamali, the generating capacity is only 4,000 MW (71 percent of installed capacity). Such a condition is due to the domination of the PLTD (Diesel Generators) of 2,445 MW (44 percent of all existing generators) and the age of the generators of over ten years (62 percent of PLTD capacity).

Graph 14
Java – Madura – Bali (Jamali)
Electricity System



Source: PT. PLN (State Electricity Company), 2004

Graph 15
Outside Java – Madura – Bali (Jamali)
Electricity System



Source: PT. PLN (State Electricity Company), 2004

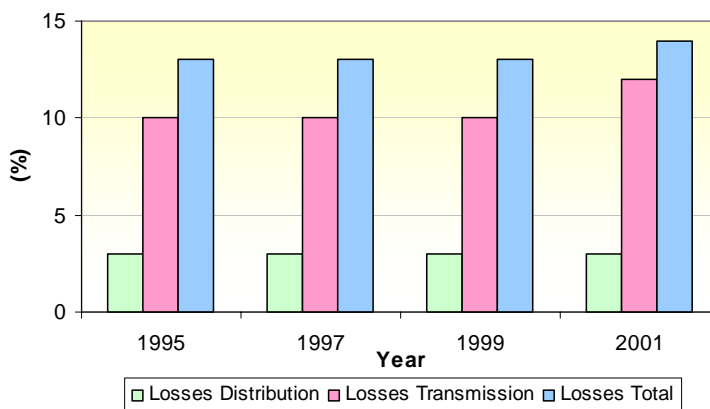
Limited Funding Capability. The investment funding capacity of the government, including of PT. PLN, cannot catch up with the investment needs. This is indicated by the high investment allocation from multilateral as well as bilateral sourced foreign loans. On the other hand, private investment is also facing constraints related to risks. The lack of government guarantee, inconsistencies of regulations, and various other risks, such as financial, political and project risks, have resulted in the investment climate being not yet conducive.

The electricity industry is not self-reliant. Up to now, the national electricity industry has been very dependent on imported facilities and materials that are of high technological content. Thereby, most of the value added is from imports, that must be paid in foreign currency. This has resulted in the electricity industry being very vulnerable to changes that occur in the exporting countries, and to foreign intervention, as well as to drastic changes in the exchange rate of the rupiah.

Too High Dependence on BBM Products. Currently most of the electricity generating stations, especially outside the Jamali regions, still use the BBM, due to the low economic generating capacity, the difficulty of finding alternative sources of energy, and the widely dispersed population. The shift from the PLTD (Diesel Electric Generating Stations) to more economical generating stations has been very slow due to the low economic growth performance and the inadequacy of infrastructure that can interconnect the system in a comprehensive scale.

The Low Performance of Facilities and Infrastructure. This is attributed to the insufficient maintenance in view of the continuous operations of the electricity generating stations. As there has been no addition to the capacity for replacing the currently diverse and obsolete generating stations, the efficiency of the existing stations has been low. Bottlenecks still occur in several parts of the transmission and distribution, in addition to the high rate of thefts to the parts. These have resulted in the high technical as well as non-technical losses, reaching over 11 percent.

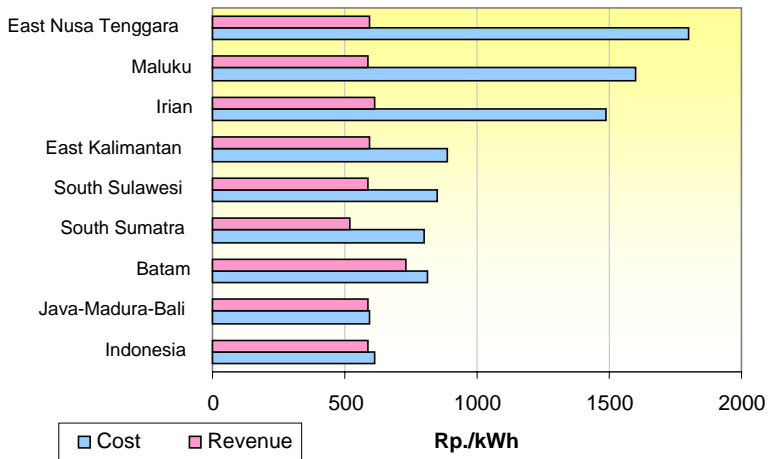
Graph 16
Rate of Losses of PT PLN, 1995–2003



Source: PT. PLN (State Electricity Company), 2003

Tariffs Have Not Yet Reached An Economic Structure. On the basis of the categorization of electricity users, over 65 percent of subscribers are households, for which the production costs are higher than the applied tariffs. The high production costs are attributed to the high operating and maintenance costs, that are still dependent on the use of BBM (Oil Fuels), especially outside Java, the low efficiency of the infrastructure and the low purchasing power of the general public. The price adjustments applied by the government in a gradual and systematic manner has not yet made the tariffs reached their economic level, so that the government still has to allocate subsidies for the less well-off group in society through PT. PLN.

Graph 17
Comparison of Costs and Revenues



Source: PT. PLN (State Electricity Company), 2004

The Low Participation of the Regional Governments and People. There is still a substantial portion of rural areas and population that still do not yet have access to electricity. This is evident from the electrification ratio that still is 53.9 percent. The development of electricity in rural areas is still very much dependent on the limited funding capability of the central government, while the role of the regional governments and people is still very insignificant. The low capability of the regional governments and people is attributed to their limitations with regard to funding, and authority bequeathed, in addition to regulations that have not yet created a conducive investment climate.

3.2.2. TARGETS IN ELECTRICITY DEVELOPMENT

Given the average annual economic growth of 6.6 percent to be realized in the next five years, the growth of electricity demand is projected to reach 8.3 percent per annum. To meet such electricity demand, the targets of electricity development in the period five years ahead are as follows:

1. Increased capacity of electric generation of around 12,267 MW;
2. The electrification ratio by 2009 will increase to 67.9 percent;
3. Increased electrification ratio of rural areas so as to reach 97 percent by 2009;
4. Increased efficiency of generating facilities through rehabilitation and re-powering;
5. Having rehabilitated, removed bottlenecks and having upgraded and improved the interconnection of transmission and distribution networks in Java, Sumatra, Kalimantan and Sulawesi;
6. Reduced transmission and distribution losses, especially the non-technical losses, by implementing activities based information technology, such as the enterprise resource planning (ERP) and the consumer information system (CIS);
7. Having restructured electricity through the evaluation of electricity models/industrial structure;
8. Increased utilization of gas, coal, geothermal energy and renewable energy for electric power generating stations;
9. Increased participation of the people in general, cooperatives and private companies as suppliers, purchasers in bulk form, as well as electricity users/subscribers and as business enterprises engaged in activities that support electricity development; and
10. The developed knowledge, technology and human resources in Indonesia that support the electricity industry.

3.2.3. POLICY DIRECTIONS IN ELECTRICITY DEVELOPMENT

Policies for the development of the national electricity for the next five years, are directed at the following:

1. Restoring the capacity to meet electric power demand for ensuring the reliable supply of electricity, especially in electricity shortage areas, isolated areas and rural areas, including regions that have been affected by natural disasters , such as the province of Aceh.
2. Increasing the participation of private investors, regional governments, cooperatives and the people in general in the provision of electricity facilities and infrastructure.
3. Increasing the effectiveness and efficiency of electric power infrastructure, especially steps to intensify the diversification of energy for generating stations, to reduce losses, rejuvenate

infrastructure that are not efficient, and applying good corporate governance.

4. Increasing self-reliance of the national electricity industry, by encouraging the increased capacity of human resources and by increasing the use of domestically produced goods and services.
5. Gradually and systematically adjusting tariffs until the tariffs reach their economic value.
6. Increasing safety in the use of electric instruments and ensuring the conservation of the environment in the construction of the national electricity.

3.2.4. PROGRAMS IN THE DEVELOPMENT OF ELECTRICITY

1. PROGRAM FOR ENHANCING THE QUALITY OF FACILITIES AND INFRASTRUCTURE SERVICE PROVISION

This program is aimed at restoring the quality of service provision of electricity facilities and infrastructure, in order to ensure the reliable supply of electric power, so that the access of the general public to electricity will increase, by taking into account the reliability, effectiveness and efficiency of the system and the price that are affordable to the people in general.

The main activities that are carried out in this program are among others the following:

- a. The construction of electricity generating stations and transmission and distribution networks, that include the construction of rural electricity, and encompass: the rehabilitation and re-powering of existing electricity generating stations and to construct new electricity generating stations, by providing increasing opportunity for the participation of private investors, especially national private companies, cooperatives and regional governments. These activities also place high priority to regions that have been affected by natural disasters, such as the province of Aceh after the tsunami disaster. Out of the total of 7,905 MW of additional generating capacity needed in the Jamali area for the 2004-2009 period, 3,150 MW can be offered for being undertaken in cooperation with private companies. Out of the total increased capacity of 4,362 MW needed

for the areas outside Jamali, around 1,405 MW can be offered to be undertaken in cooperation with private companies.

- b. The formulation of policies for funding of electricity construction, that include policies for adjusting tariffs, diversification and conservation of primary energy for the generation of electric power, and policies for reducing losses, especially losses in the transmission and distribution phases, that include technical as well as non-technical losses. In the context of attracting private investors, it is necessary adjust regional tariffs so as to reflect their economic value. Such value will take into account the costs for construction, transmission, distribution, losses, investment and profits for investors (BUMN/State Owned Enterprise, private companies, central/ regional governments, as well as joint ventures), including their allotment to each group of users, in line with the respective basic production costs/costs of goods sold. Accordingly, subsidies to electricity suppliers need to be reduced and are to be replaced by direct subsidies to the general public. Activities will be intensified to encourage the shift in the use of BBM/oil fuels for generating electric power to the use of alternative energies, such as geothermal energy, gas, coal and renewable energies, particularly those found in the relevant localities. To illustrate, constructions will be made of PLTPs (Geothermal Electric Power Generating Stations), PLTU (Steam Powered Generating Stations) of the Mine Mouth Coal type, using low calorie coal, and electricity generating stations that use renewable energy, such as the PLT Piko/Micro/Mini Hydro and the PLTS (solar energy using electricity generating stations). Specifically for the Jamali areas, the construction of electricity generating stations will place greater emphasis on generators that use geothermal and gas primary energy, that originate mainly in Sumatra and East Kalimantan. Efforts will be made to increase efficiency of the national electricity system, especially by reducing losses in the generation, transmission and distribution phases, that include losses in use as well as non-technical losses, such as inefficiencies in management and administration, and by increasing efficiency on the part of consumers/users (networks and instruments of consumers). Activities to increase the construction of transmission and distribution networks, especially for reducing bottlenecks and to reduce losses. In addition, efforts will be made to construct an ever

more wider interconnected network, so as to yield more optimal electricity transmission and distribution system.

- c. Increasing the construction of rural electricity, aimed primarily at the extensification and intensification of rural electricity networks, through the construction of electricity supplying facilities in rural areas and in areas that are left behind. The scope of the activities covers efforts for adding electric power generators, including small scale generators, the construction of medium and low voltage electric transmission and distribution networks, and the construction of electricity distribution stations.

2. PROGRAM TO RESTRUCTURE AND REFORM ELECTRICITY FACILITIES AND INFRASTRUCTURE

This program is aimed at gradually creating an electricity industry that is self-reliant, efficient, reliable and highly competitive.

The main activities that will be carried out in this program, cover various steps to revise laws and regulations. With the reenactment of Law Number 15 of 1985 on Electricity and Government Regulation Number 10 of 1989, and in the context of creating an electricity industry that is viable and efficient and for creating a conducive climate for the participation of private investors, regional governments, cooperatives and the people in general, steps will be taken to revise the electricity law and its implementing regulations. The reform of the law on electricity is to be in line with various other laws and regulations, such as the law on anti-monopoly and the laws on regional autonomy.

3. PROGRAM FOR ENHANCING ACCESSIBILITY OF REGIONAL GOVERNMENTS, COOPERATIVES AND THE GENERAL PUBLIC TO ELECTRICITY FACILITIES AND INFRASTRUCTURE SERVICES

This program is aimed at providing greater opportunity to regional governments, private enterprises, the general public and cooperatives, to become more involved in electricity undertakings. Specifically for regional governments, the bridging loan policy will be applied, in conformity with the Decree of the Minister of Finance Number

35/KMK/2001, and this will also be applied to other engaged parties, insofar as possible.

The main activities in this program are efforts to encourage private enterprises, cooperatives, regional governments and the general public to become suppliers of electric power, particularly in regions where there are still no electricity, subject to the effective regulations. While for regions that are not yet interconnected with the electricity network (not yet on grid), the provider can sell its electricity to PT PLN or in forms of joint ventures with PT PLN. These efforts are prioritized for generating stations that utilize the local energy potential, that include small-scale generators through the Scheme on Small Scale Energy Technology Generators for the People by Employing Renewable Energy.

4. PROGRAM FOR THE MASTERY AND APPLICATION OF ELECTRICITY TECHNOLOGY AND BUSINESS UNDERTAKINGS

This program is aimed at increasing the capability of the national electricity industry in developing the production of facilities as well as materials that support the domestic electricity activities and to reduce dependence on imported materials.

The activities that will be carried out encompass the development of appropriate technology that is directed at mass produced commodities. Also to encourage domestic industries through the packaging of tenders at the upstream side so as to ensure the continuity of domestic industries, by giving priority to domestically produced goods. To promote research and development in the national electricity technology, in increasing synergy and integrated with activities of the business community, education activities, research institutions for the greater mastery and application of electricity technology and business undertaking engaged n electricity, including activities for developing renewable energy for electric generating stations, in order to increase value added in productive activities and to yield a multiplier effect to the enhanced economic growth of the nation. In addition, it is also necessary to supervise the quality of domestic products, on the basis of government regulations on standardization and certification on electricity, including activities to ensure that the electricity industry

complies with the need to conserve the environment, without impeding endeavors to develop domestic technology.

3.3. POST AND TELEMATICS

In the last decade a paradigm change occurred in the world economy, namely the shifting of the industrial economies into information economies, which has been induced by technological progress and exemplified by the increasing role of information and science in man's life.

In the globalization era, when information has an economic value, the ability to obtain, utilize, and process information is an imperative requirement for a nation to stimulate economic growth while also increasing the competitiveness of the economy. In this respect, Indonesia has not yet the adequate level of readiness and capability. In the index of the Readiness for the Network World of 2002, Indonesia ranked the 64th out of 82 nations, while in the index for Competitiveness Growth, Indonesia ranked the 64th among 75 nations, far behind other ASEAN nations, such as Singapore (4th rank), Malaysia (30th), Thailand (33rd), the Philippines (48th) and Vietnam (60th).

The low access to information in Indonesia has resulted in a digital divide between Indonesia and other nations. Therefore, it is necessary to immediately institute fundamental reforms and to enhance the preparations and capability of Indonesia in facing the information era.

3.3.1. PROBLEMS OF POST AND TELEMATICS

The readiness and capability of the Indonesian people to access and utilize information are determined by two aspects, namely supply that is related to the capability to construct the infrastructure of post and telematics², and demand that is related to the need of users. The imbalance between supply and demand has ultimately resulted in the low readiness and ability to access and use information. Such imbalance is attributed to the following causes.

² The term 'telematics' refers to telecommunications, information technology and broadcasting

The limited availability of information infrastructure. The availability of information infrastructure has currently not yet been able to meet the needs of the country. The limited availability of the information infrastructure in Indonesia can be discerned from comparisons with other Asian nations. The teledensity (penetration rate) of fixed telephone lines, mobile phones and of internet users in Indonesia have still reached respectively 3.65 percent, 5.52 percent and 3.77 percent in 2003. In the same year, the average of Asian countries have reached respectively 13.64 percent, 15.03 percent, and 6.74 percent.

The uneven spread of the information infrastructure. The accessibility to information infrastructure is very limited and is still more concentrated in the western part of Indonesia and in urban areas. Up to 2003, 84 percent of the commercial postal infrastructure and 86 percent of telecommunications infrastructure are found in Sumatra and Java. In the same year, the postal and telecommunications infrastructure have only reached respectively 51 percent and 36 percent of the rural areas. Meanwhile, 20 percent of the population still have not yet been touched by the television and radio broadcasting infrastructure.

The limited capability to finance information infrastructure. The limited financing capability is especially discerned in sectors that use high technology, such as post and telecommunications-informatics. The very rapid progress in the telecommunications and information technology has resulted in the need for new investments within a relatively short period, resulting in long term investments becoming no longer attractive. Meanwhile, the construction of the information infrastructure itself requires relatively long term planning and implementation and has a long payback period.

As the funding capability of the government is very limited, it is necessary to seek out funding sources outside of the government for the financing of the information infrastructure. The barriers to entry that are still found for post and telecommunications-informatics undertakings, has resulted in the not yet optimal mobilization of funding from outside government sources. In addition, the still deficient cooperation mechanism between the government and private enterprises, especially for the supply of the infrastructure and services for non-commercial

activities, has resulted in the absence of schemes for investment risk sharing between the government and the private sector.

There is as yet no level-playing-field in post and telematic activities. In line with the growing role of information, there has been an increasing need for the development of the information infrastructure. In a monopolistic environment, it is difficult to meet such need due to the limitations of the provider. The subsequent increase in the total number of providers, involving multi-operators, the efforts to increase the infrastructure capacity should become possible. In that respect, the government has started to restructure undertakings in postal and telecommunications-informatics activities, by among others abrogating monopolistic forms of undertakings. This is expected to make possible efforts to increase the development, improved performance and efficiency of service provision in post and telecommunications-informatics undertakings. In reality, such a condition has not yet been fully attained because fair competition has not yet been realized due to the procrastination in restructuring the sector.

The utilization of the infrastructure is not yet optimal. In conformity with the existing regulations, activities in telecommunications and informatics can only use the infrastructure owned by the provider of the telecommunications and informatics services. On the other hand, in addition to the conventional infrastructure there are potentially other infrastructure that can be utilized for encouraging the greater penetration of telecommunications and informatics services, such as the electricity networks with power-line communications (PLC), and the optic fiber backbone of the state owned electricity company and of the state owned gas company. The not optimally utilized alternative infrastructure has directly reduced the possibilities for expanding access. In addition, the inadequate shared use of an infrastructure by various providers (resource sharing), such as the shared use of a broadcasting/receiving tower for cellular and broadcasting purposes, and in the shared use of a backbone, has resulted in duplicated investments.

The limited ability to adopt and adapt technology. The very rapid changes in the information and telecommunications technology requires a high capability of the provider of postal and

telecommunications-informatics services to adopt and adapt technology. The limited ability of the BUMN (State Owned Enterprise) engaged in postal services to adopt information technology, in line with the increasingly diverse alternative means of postal services, such as “short message services” and “e-mail” services, and the limited ability of the BUMN engaged in broadcasting to utilize digital technology, have not only reduced the efficiency and quality of service provision but also have reduced the competitiveness of the company.

The limited capability of the general public in accessing and in processing information into economic opportunities. This problem is related to the still low purchasing power and level of education of the general public. To illustrate, most (over 90 percent) of internet users live in Java, with around 50 percent having masters/post-masters degrees and around 40 percent have a senior high school education. The limitation in the development of contents and application in telecommunications and informatics that is line with the needs of the general public has also indirectly impeded the acculturation of telecommunications and informatics in Indonesia.

Considering the different characteristics of activities in post, telecommunications, information technology and broadcasting, the development problems faced by these four types of undertakings will be expounded in greater details in the following sections.

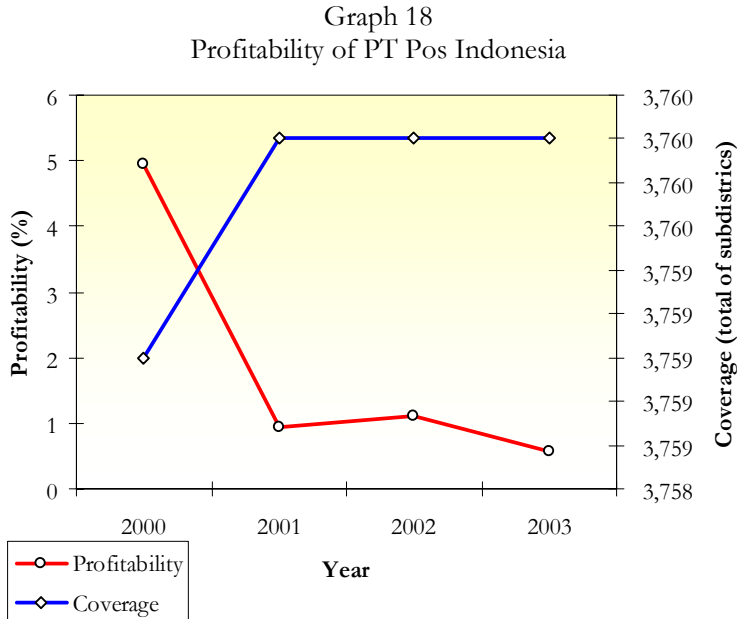
1. PROBLEMS IN POSTAL DEVELOPMENT

The development of postal services must keep up with the need for higher quality and expanded reach of its services and for shorter service delivery. In the commercial field, postal services is undertaken not only by PT Pos Indonesia, as the BUMN engaged in postal services, but also by various private companies (domestic and international enterprises engaged expedition services). In the commercial field, PT Pos Indonesia has to compete with over 600 private providers, that have 2,000 branch offices that are concentrated in Java (60.9 percent) and in Sumatra (23.3 percent).

Postal services in the non-commercial field are carried out by PT Pos Indonesia under the PSO (Public Service Obligation) scheme. The

PSO program basically requires PT Pos Indonesia to provide its services throughout Indonesia at an affordable rate (accessibility and affordability principle). The PSO is felt to be too burdensome because of the limited transportation network of PT Pos Indonesia and the large investment and operational costs that much exceed its revenues. In a situation when the production volume is low, naturally the tariff- that is determined by the government – cannot cover the costs for providing the expedition costs. Out of its total of 3,398 branch offices, most (2,496 offices) of which is located in rural areas, 71 percent have been incurring losses.

To maintain postal services in the PSO area, PT Pos Indonesia must subsidize its commercial services. This has resulted in its low ability to develop and in the company’s competitiveness. In the last five years (1999–2003) there has an expansion of reach only in one district that has increased the total reach of postal services from 3,759 districts to 3,760 districts. In the last five years, the profitability of the company has declined from 8.07 percent in 1999 to 0.56 percent in 2003 (Graph 18)



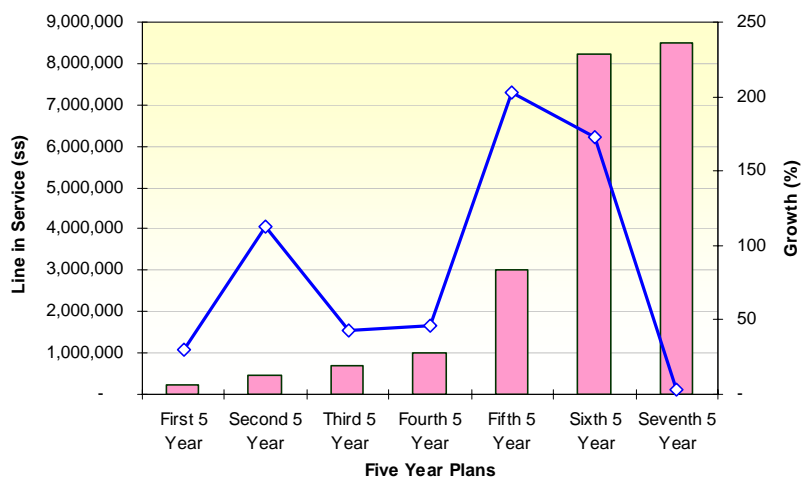
Source: Directorate General of Post and Telecommunications, Ministry of Communications, 2004 (processed)

In order to increase the performance of the national postal services, including the increase in the role of the BUMN engaged in the provision of the national logistical infrastructure and of the national payment system, the government is currently preparing the Draft Law on Postal Services to replace Law Number 6 of 1984 regarding Postal Services, in the context of restructuring postal activities. The procrastinated completion of the restructuring of postal activities, that was started in 2000, has resulted in the continued decline in the competitiveness of the BUMN engaged in postal services. In the context of enhancing the access of the general public to postal services, the government has since 2003 directly intervened, by financing the PSO program through the APBN. As the government is facing limited funding capability, it is expected that the continuity of the PSO program cannot be assured.

2. PROBLEMS IN THE DEVELOPMENT OF TELECOMMUNICATIONS

The growth of available telecommunication infrastructure in the last five years (1999–2003) has reached 16.18 percent, comprising the addition of 1.79 million of fixed telephone lines, from 8.36 million telephone lines to 10.15 million telephone lines, and the addition of 16.43 mobile telephone subscribers, from 2.22 million to 18.65 million subscribers. The slow growth of the fixed telephone lines, that is attributed among others to the shift in focus from fixed to mobile telecommunication service providers, has resulted in bottlenecks in the provision of telecommunication facilities (Graph 19). The failure to meet the target for constructing 4 million new telephone lines by 2004, as contained in the main points of agreement between the government and PT Telkom and PT Indosat in 2000, has made the construction of fixed telephone lines to become more left behind. The slow growth in the development of fixed telephone lines, which has occurred since the crisis, must be anticipated from the start, in view of the rapid growth of mobile phones and the growth of various other cable service applications, that will ultimately be limited by the limited radio frequency spectrum, as a scarce resource.

Graph 19
Five Yearly Construction of Fixed Line
Telecommunications Capacity (1968–2003)



Source: Bappenas, PT. Telkom (various years), processed

In order to increase efficiency in the provision of telecommunication services, specifically fixed line services, and to anticipate the global and competitive market demands, the government has reviewed the implementation of telecommunication services provision. Unlike the provision of mobile telecommunications that has been implemented in a competitive manner, the implementation of local fixed line telecommunication services have initially been the exclusive domain of PT Telkom until 2010, whereas the Long Distance Lines (SLJJ) and International Lines (SLI) are the exclusive domains of respectively PT Telkom until 2005 and PT Indosat until 2004. With the enforcement of Law Number 36 of 1999 on Telecommunications, monopoly practices in the provision of fixed telecommunication services have been terminated.

As a follow-up to the Law on Telecommunications, various efforts have been made by the government, such as: (a) repositioning and restructuring of the telecommunication providers by eliminating cross-ownerships and joint ownerships by PT Telkom and PT Indosat in affiliated companies engaged in telecommunications; (b) implementing

the early termination of the exclusive right of PT Telkom as the provider of local telephone connections and of long-distance connections and of PT Indosat as the provider of long-distance telephone connection services; (c) determining the duopoly policy that repositions PT Telkom and PT Indosat as the "full network and service providers" in the fixed line telecommunication undertaking; (d) determining the magnitude and mechanism for making compensation payments as a consequence of the early termination and the duopoly; (e) completing the revision and formulation of competition regulations; and (f) establishing the Telecommunication Agency of Indonesia as the regulating forum for ensuring transparency, independence and justice principles in telecommunication activities.

Since the effectuation of the duopoly policy for the local telephone connections, on 1 August 2002, and for the long-distance and international connections on 1 August 2003, the implementation of the duopoly policy has not yet been fully effective. Thus far, there has been no significant increase in new telephone lines, and in the addition of services and wider choices for the general public, nor in price competition. The less than expected effectiveness of the duopoly policy thus far is mainly due to the not yet adequate regulatory framework aimed at ensuring competition, such as on inter-connections and on numbering, and also to the still weak supervision to the implementation of competition. Such a condition has not only created difficulty for new providers for creating a significant customer base, but has also created anti-competition by incumbent providers.

The differences in the availability of telecommunication infrastructure are not only discerned between Indonesia versus other nations but also among the regions within Indonesia. Up to 2003, most (86 percent) of the existing infrastructure was found in Sumatra, Java and Bali (Table 24). Thereby, only 14 percent of the existing infrastructure was found in the eastern part of Indonesia. The unbalanced availability of infrastructure also occurs between urban and rural areas. The teledensity of the Jabodetabek (Jakarta-Bogor-Depok-Tangerang-Bekasi) area reached 35 percent and in other urban areas it reached 11-25 percent, while in rural areas was still 0.2 percent. Up to 2003, there were still 43 thousand villages (64 percent of the total number of villages) that did not yet have telecommunication facilities.

Table 13
Distribution of Fixed Telephone Centers (1996–2003)

Region	1996	1997	1998	1999	2000	2001	2002	2003
Region I	598.651	701.479	770.857	835.167	897.323	1.007.468	1.115.875	1.239.409
Region II	1.635.545	1.903.581	2.079.452	2.208.436	2.412.221	2.632.521	2.824.556	3.036.372
Region III	400.939	504.984	567.358	621.134	639.913	645.479	672.597	733.462
Region IV	339.047	395.730	475.410	531.593	579.647	618.101	646.701	668.261
Region V	667.200	842.447	935.372	1.048.556	1.198.142	1.317.384	1.427.660	1.594.827
Region VI	172.824	218.638	254.315	279.958	302.948	320.338	342.336	425.979
Region VII	371.824	415.607	488.880	555.349	632.411	677.649	720.310	780.805
Total	4.186.030	4.982.466	5.571.644	6.080.193	6.662.605	7.218.940	7.750.035	8.479.115

Source : PT Telkom (various years)

Note : Region I (covers Sumatra), Region II (covers Jabodetabek), Region III (covers West Java and Banten), Region IV (covers Central Java), Region V (covers East Java), Region VI (covers Kalimantan) and Region VII (covers the eastern part of Indonesia)

To solve the problem of low availability of telecommunication facilities in rural areas, the government has implemented the Universal Service Obligation (USO) program, since 2003. The objective of this program is to construct telecommunication facilities in areas that economically are not profitable, including pioneer areas, border areas, remote inland areas, and peripheral and isolated areas. Construction of telecommunication facilities was completed in 3,016 villages in phase one (2003) and in 3,500 villages in phase two (2004), are located in Java, Sumatra, Kalimantan and in the eastern part of Indonesia, by using APBN (National Government Budget) funds. Currently the government is still in the process of revising Government Regulation Number 14 of 2000 on Tariffs to Non-Tax Government Revenues that are Effective at the Ministry of Communications, which stipulates the contribution from the telecommunication provider of 0.75 percent of gross income as the source of financing of the USO program. Thereby, it is expected that from 2005 the USO program will no longer be funded by the APBN.

3. PROBLEMS IN THE DEVELOPMENT OF INFORMATION TECHNOLOGY

The widespread development of information technology had started only since 1994. In the 1999–2003 period, the total number of internet subscribers was estimated to have increased by over 238 percent, namely from 256 thousand subscribers to 865 thousand subscribers, while internet users have increased from 1 million to 8 million users, an increase of 700 percent. Even though, within a relatively short period, much progress was attained in the internet developments, the internet has not yet become the main choice for the general public in their communication activities and in obtaining information. Thus far, the broadcasting media (radio and television), the traditional media (face to face communication, exhibitions and films), and the publishing media (printing media and government publications) have more often been used as the means for communication and for obtaining information by the general public. The low use of the internet by the general public is attributed to the high cost for providing the hardware and for access to the internet, and to the still low computer literacy (*e-literacy*) of the Indonesian population.

The not yet completed regulatory framework for supporting the utilization and development of information technology, such as electronic transactions and the confidentiality and protection of data, are constraints for the development of various information technology based development. In addition, the proliferation of cyber crimes still cannot be effectively overcome, due to the not yet completed regulatory framework.

4. PROBLEMS IN THE DEVELOPMENT OF BROADCASTING

Broadcasting activities in the commercial field are carried out by the BUMNs/State Owned Enterprises engaged in broadcasting (RRI/Radio of the Republic of Indonesia and PT TVRI/Television of the Republic of Indonesia) and private broadcasters. The limited quality of human resources, the low quality of broadcast content development, and the limited utilization of high technology, have made the broadcasting state enterprises to become incapable to compete with private broadcasters.

At the start of the five year development period, the television and radio broadcast are estimated to cover respectively 88 percent and 85 percent of the Indonesian population. The large dependence of the broadcasting state enterprises to the APBN (National Government Budget) funding and the insufficient income of the companies, have resulted in the limited capability of the broadcasting state enterprises to rehabilitate and renovate their broadcasting equipment, that have already passed their technical life. Such a condition has resulted in the relatively low quality and service reach of their broadcasts.

3.3.2. TARGETS OF POST AND TELEMATICS DEVELOPMENT

In the information era, post and telematics have a strategic importance, not only for accelerating economic development, but also in various other aspects, such as for enhancing the quality of life of the people, and for supporting the political and defense and security aspects of the nation. In the context of ensuring the smooth flow of information, it is necessary to expand its reach and to increase the capacity and quality of post and telematic activities.

The general targets of the post and telematics development in the next five years are as follows:

1. The realization of a post and telematics activities that is efficient, namely capable of inducing national productivity and economic growth, by still taking into account the balance between social and commercial benefits;
2. Increased accessibility of the people to post and telematics services; and
3. The increased capacity and capability of the people in promoting and utilizing technology and the application of telematics in an effective manner.

The three main targets can be further elaborated into several supporting targets, namely:

1. Maintained quality of postal services in 3,760 districts;
2. Completed revitalization of postal services covering 14,250 postal branch offices;
3. Maintained teledensity for fixed telephone lines of 13 percent and for mobile phones of 20 percent;
4. Completed construction of rural telecommunication facilities of at least 43 thousand new telephone lines in 43 thousand villages;
5. The completed construction of community access points to information and communication technology for 45 thousand village communities;
6. The increased *e-literacy* of the Indonesian population to reach 40 percent;
7. The availability of 40 percent of the government apparatus that is capable to operate the *e-government* system;
8. The increased quality and service reach of the television and radio broadcasting to respectively reach 88 percent and 85 percent of the Indonesian population; and
9. The completed preparation of the migration of the broadcasting system from the analog to the digital system.

In the 2004–2009 period, the development of fixed line telecommunications is likely to involve new constructions by PT Telkom and PT Indosat, within the duopoly state, comprising 16 million telephone lines. With the elimination of the duopoly structure, through the additions of fixed network providers, the 16 million new line target,

will increase. The addition of new providers will be implemented after the government has determined its commitment for paying the compensation for the termination of the exclusive rights of PT Telkom and PT Indosat.

The development of postal services in the period five years ahead will place the priority to the PSO program, the financing of which will be provided by the government, with the implementation by the state enterprise engaged in postal services. In the development of telecommunications, for fixed lines as well as mobile phones, the financing will be from the providers, including the development in the USO field. Meanwhile, the financing of broadcasting development will be provided by the government, considering that by the end of 2004 and 2005, the Perjan RRI (State Owned Radio Broadcaster) and TVRI (State Owned Television) will have been transformed into public broadcasting institutions, as legal entities that are established by the state in accordance with Law Number 32 of 2002 regarding Broadcasting.

3.3.3. POLICY DIRECTIONS IN THE DEVELOPMENT OF POSTS AND TELEMATICS

In accordance with the particular characteristics of the providers in each sub-sector, different approaches will be applied in the efforts to increase infrastructure development of postal services, telecommunication, information technology and broadcasting activities, by still maintaining the synergy among the government, business community and users of services, in the context of realizing post and telematics service provision that is efficient. With regard to the post and broadcasting activities, the government still has the function to operate, so that government funding is still needed for investment in physical construction; while on telecommunication activities, the government no longer functions as operator. In the physical development of telecommunications, the government acts as facilitator.

To support the attainment of the development targets five years ahead, the direction of policies to be pursued is as follows:

1. **Restructuring in post and telematics activities.** This policy is aimed at creating a conducive investment climate, and for restructuring and improving the performance of post and telematics service providers. The restructuring will not be focused on the state enterprises that provide the services but more on the sector as a whole, including the restructuring of the legal system and regulations, the industrial structure and the business climate. This policy is also needed for anticipating the convergence of the telecommunications technology, and the information and broadcasting technology. The technological convergence will lead to the convergence of markets and industries that must be anticipated by dynamic policies, regulations and institutions, in order that more optimal steps can be taken for taking advantage of such changes.
2. **Increasing the efficiency of utilization and developing post and telematics infrastructure.** The provision of adequate post and telematics infrastructure is essential for reducing the digital imbalances among regions as well as between Indonesia and other countries. The limited resources, including financial resources, has directly limited the ability to carry out development/construction activities. Therefore, various policies will be pursued to increase efficiency in the utilization of the existing infrastructure as well as in the newly developed infrastructure, among others by optimizing the utilization of non-telecommunication infrastructure, that can be jointly used by telecommunication providers (resource sharing). With the greater efficiency of investment through resource sharing, it is expected that providers can use the savings from better investment use for expanding the local access network (last mile), or developing other services. With the greater capacity of the infrastructure, it is expected that it will become easier to generate traffic and at the same time, it will become more possible to have a greater growth of the application industry.
3. **Enhancing the promotion and utilization of information and communication technology based applications.** It is essential to have the infrastructure for the promotion of various applications that are based on the information and communication technology. In addition, the promotion and utilization of content and application that is based on the information and communication technology are

also important because information has an economic value, while the infrastructure is the means for obtaining information.

The rapid technological progress requires new investments that can burden the general public as it entails various extra costs. In the context of promoting various technology intensive applications, the government will enhance the capability of the industry in adopting and adapting technology and at the same time maintain the solidity of the exiting system, in conformity with specific standards and quality.

In addition, the government will strengthen the capability of the national industry and prepare the regulatory instruments that can encourage the wider application of telematics. This policy is also aimed at increasing the quality and competence of human resources in the industry.

3.3.4. PROGRAMS FOR THE DEVELOPMENT OF POST AND TELEMATICS

The development of post and telematics is carried out through three programs, namely the: (1) Program for completing the restructuring of post and telematics; (2) Program for the promotion, ensuring greater equity and enhancing the quality of post and telematics facilities and infrastructure; and (3) program for mastering and promoting the application of information and telecommunications technology.

1. PROGRAM FOR COMPLETING THE RESTRUCTURING OF POST AND TELEMATICS

This program is aimed at (a) enhancing efficiency in the post and telematics undertakings; (b) creating a healthy and level playing field competition; (c) creating a conducive investment climate; (d) opening up the opportunity for the entry of new providers that are deemed proper and capable; and (e) improving and enhancing the performance of providers.

The main activities that will be carried out are:

1. To complete the formulation and revising various supporting regulations on the restructuring of post and telematics;
2. To formulate the approach for the migration in telecommunications from a duopoly to a full competitive structure;
3. To terminate the duopoly structure in the undertaking of fixed line telecommunication undertakings and at the same time opening up the market for new fixed line providers that are deemed capable;
4. To consolidate the Telecommunications Regulatory Agency of Indonesia; and
5. To restructure and consolidate broadcasting institutions.

2. PROGRAM FOR THE PROMOTION, GREATER EQUITY AND ENHANCEMENT OF QUALITY OF THE FACILITIES AND INFRASTRUCTURE IN POST AND TELEMATICS

This program is aimed at: (a) the increased access of the general public to post and telematics services; (b) the increased quality of post and telematics services; and (c) the maintained and enhanced condition of the post and telematics facilities and infrastructure.

The main activities that will be carried out are:

1. To formulate the mechanism and magnitude of government aid for the implementation of the PSO/USO programs in post and telematics;
2. To construct new telecommunication facilities, of at least 16 million fixed telephone lines, 25 million mobile phone lines, and 43 thousand connections in rural areas;
3. To increase efficiency in the allotment and utilization of the frequency spectrum;
4. To evaluate, monitor and regulate standards in the operation and service provision in post and telematics;
5. To test post and telematics equipment;
6. To facilitate the construction of community access points in 45 thousand villages, including the empowerment of post offices as community access points; and
7. To revitalize the infrastructure in post and telematics.

3. PROGRAM FOR MASTERING AND PROMOTING INFORMATION AND COMMUNICATIONS TECHNOLOGY APPLICATIONS

This program is aimed at: (a) greater utilization of information and information and communication technology and its applications in the context of realizing good governance, that is transparent, efficient and effective; (b) the increased capacity of the general public in utilizing information and the information and communication technology, in the context of enhancing the standard of living and quality of life; (c) the increased capacity of domestic industries in utilizing and advancing the application of information and communication technology; and (d) the realization of legal certainty and protection of the utilization of information and communication technology.

The main activities that will be carried out are:

1. To complete the formulation of laws and regulations that are related to the utilization and development of the information and communication technology and its applications, such as the Draft Law on Electronic Information and Transaction;
2. Increasing the share of domestic industries, through selected products, standardization, enhancing the capability of human resources in information and communication technology, in order to create markets for mass production goods;
3. To develop the application of e-government;
4. To facilitate the OSOL (One School One Computer Laboratory) program at 50 thousand schools out of the 200 thousand schools throughout Indonesia;
5. To facilitate the procurement of 100 thousand low cost computers, for computer laboratories in schools;
6. To increase the provision of internet access to houses by encouraging the software industry to produce chips that are embedded in television sets;
7. To enhance the use of the open source system to all government institutions and the general public; and
8. To facilitate the increased links of hospitals, public health centers, libraries, research and development centers, cultural centers, museums, archive centers, by applying the information and communication technology, in conformity with the action plan of the World Summit on Information Society.

THE PLANNED REHABILITATION AND RECONSTRUCTION OF ACEH

The earthquake and tsunami that have occurred in Aceh and North Sumatra on the 26th of December 2004 have caused destruction to at least 19 post office buildings, 45,318 fixed telephone lines of PT Telkom (representing 58 percent of the total of existing telephone lines), 143 rural telecommunication facilities that have been funded by the APBN (National Government Budget), through the USO program, 2 mobile telecommunication network concentrators, 72 mobile telecommunication network relaying units, and various television and radio broadcasting infrastructure. The destruction can be classified into three categories, namely damaged, heavily damaged and flattened to the ground.

Within a one week period, the temporary repairs to the telecommunication facilities have reached 80 percent. Simultaneously with the repair works, various telecommunication facilities have also been provided as temporary solution, such as the provision of satellite based fixed and mobile telephone lines. The rehabilitation and reconstruction of telecommunication facilities will mainly be related to the: (a) restoring of fixed wire-line infrastructure, encompassing cable houses and cables that are connected to houses of subscribers; (b) revitalizing the telephone central station; (c) revitalizing buildings and facilities of the frequency monitoring institute; and (d) repairing and constructing the network concentrator towers and mobile telecommunication network relay units. In addition, the government will also rehabilitate and reconstruct various postal facilities (post office buildings) and broadcasting facilities (towers and relay equipment).

IV. HOUSING AND SETTLEMENT

The development of housing, specifically for communities of low income and below, had been pioneered by Perum Perumnas, as the government-owned developer, by developing a housing complex at Depok Baru in the middle of the 1970's, that had been followed up by private developers. The total number of houses that has been constructed up to 1997 reached 2,506,834 units, consisting of 758,756 units constructed by Perum Perumnas and 1,748,078 units built by

private developers. The total number of simple and very simple types of houses built with the KPR subsidy in the last five years, namely in 1997-2002, was 595,000 units. The total number of houses sold by using the KPR-BTN funding facility, up to 2001, was 1,587,518 units (97.8 percent), with the remaining sold by using the KPR-Bank Papan Sejahtera funding facility.

The source of funding facility for house ownership still originates from short-term funds (bank deposits and savings), even though house ownership credits generally have a long-term maturity. Loans for house ownership for the low income general public, are currently still dependent on interest subsidy provided by the government. The amount of the subsidy is determined each year, in conformity with the priority and capability of the APBN (National Budget). The low income people, that do not have the capability to own houses, normally rent houses. In addition, a portion of the population meet their demand for houses by their own funding and comprises around 70 to 80 percent of the total number of households.

The mismatch between the type of funding sources and the type of investment, the uncertainty each year about the magnitude of the subsidy, and the absence of the financing system for the population that meet their housing needs by their own initiative, are some of the causes for the large backlog in the total number of unmet housing demand up to 2004, reaching 5.8 million units and will total 11.6 million by the end of 2009.

In addition to the problem of inadequate availability of houses, there is also the problem of slump areas, that need to be addressed by the government. High economic growth which is not accompanied by the capability of the government to fund the basic needs of society, specifically the need for settlement infrastructure and facilities, is one of the causes of the expansion of slum areas.

The construction of infrastructure and facilities for drinking water and environmental sanitation (waste water, garbage disposal and drainage system), has already been in progress since Pelita I (First Five Year Development Plan). Much construction has been realized, but the scope of drinking water and environmental sanitation services in Indonesia is

still far below the needs. In 2002, the pipelined drinking water services level in urban areas is still 33.3 percent, while in rural areas is only 6.2 percent. Access of the population to facilities and infrastructure for processing waste water is 63 percent. The level of garbage processing is still very low. The data shows that the total volume of transported garbage is still 18.03 percent. With regard to the drainage system, up to now 7.34 percent of households still are living in flood-prone areas due to the poor quality and quantity of the drainage system.

As it is one of the basic needs of man and it is a non-cost recovery undertaking, private enterprises and the people in general are relatively not attracted in the supply and management of settlement infrastructure and facilities. The constraints faced by private enterprises and the people in general for participating in the supply and management of settlement infrastructure and facilities, are among others: (a) the still absent regulatory framework for joint ventures between the government and private enterprises and/or the general public; (b) the not yet created transparency and accountability in the cooperation between the government and private enterprises and/or general public; (c) the not yet created mechanism for the settlement of disputes that might arise between the government and private enterprises and/or the general public, and so forth.

4.1. DEVELOPMENT OF HOUSING

4.1.1. PROBLEMS IN HOUSING DEVELOPMENT

The limited capability to provide housing infrastructure and facilities. The government has thus far provided the basic housing infrastructure for simple and simple and healthy house areas, that are inhabited by the low income population. This is made for the purpose of reducing the sale price of houses in such areas. It is expected that the low income population will have the ability to own houses that are reasonable for being occupied in a healthy environment. Nevertheless, the capability of the government to support the provision of such infrastructure and facilities is still limited. This has become one of the obstacles in the effort to provide housing for the low-income population

and has led to the reduced quality of such housing areas. Such a condition has set the stage for the emergence of new slum areas.

The expansion of slum areas. In 1996, the extent of slum areas reached 40,053 hectares and by 2000 it rose to 47,500 hectares dispersed at 10,000 locations and are inhabited by around 17.2 million persons. The extent of slum areas has tended to increase each year, in line with the growth of the population and the increasingly uncontrolled growth of primary cities, that act as the centers for attracting increased migration. In addition, the growth of slum areas (in centers as well as periphery of cities) has also been induced by the limited capability and concern of the communities to engage in home improvement activities. Another contributing factor is the absence of synchronization between the urban infrastructure (specifically road networks) and construction of settlement areas. In urban peripheral areas, this has also led to the urban sprawl, that in turn has caused traffic congestions, inadequate compliance with regulations, that ultimately have created inefficiencies and waste of time and energy.

The still not yet optimal institutions that are involved in the development of housing and settlements. The institutions that are involved in housing development, have not yet performed optimally in their functions as providers as well as enablers. Even though the laws and regulations have stipulated that housing and settlement problems are to be handled by the regional governments, the fact is that such institutional capacity at all government levels is not yet optimal, resulting in the problem for providing housing and settlement areas that are within reach and habitable for the public at large, becoming ever more critical. The government has endeavored to establish the BKP4N institution. In reality this agency has not been effective due to its non-operational function and to the fact that it has been difficult to coordinate and to follow-up the policies that it has issued.

The increasing total number of households that do not yet own houses. In 2000, the total number of households that do not yet own houses is 4,338,864 households, that comprise the accumulated demand from preceding years that have not yet been accommodated by the provision of houses by the BUMNs, private developers and self-built houses by the general public and the growth of households. If the

government intends, in a ten year period, to meet the housing need by also taking into account population growth (growth of households), then since 2000, the total housing need per year is 1,163,533 units, so that at the end of 2004 the total houses needed is 5,832,665 units and by the end of 2009 the total housing need will be 11,665,330 units.

The mismatch in housing financing. The financing sources for housing ownership credits (KPR), are generally from short-term funds (deposits and savings), whereas the housing ownership credits have a long-term maturity. The still not yet available long-term sources for the housing funding is a constraint for the viable development of the housing market. Such imbalance has in the long-term resulted in the unhealthy development of the housing market. In addition, the housing market is very much affected by changes in macro economic changes, liquidity risks and fluctuations in interest rates. The absence of a long-term source of funding and the not yet operating secondary financing institution have resulted the housing sale made through the pre-sale mechanism, wherein buyers do not buy houses but buy maps that will be built if buyers have already fully repaid their down-payment. Such a condition has indirectly adversely affected buyers and has also created a non healthy housing market because the collateral is only based on only one document until the construction of the desired house has been completed, thereby making disclosure difficult in the case of default.

The still low efficiency of housing construction. The high administration expenses for licensing, incurred in housing construction, is one of the problems that have always been faced in housing construction activities. The licensing costs for housing construction, currently constitute 20 percent of the value of a house. This has created an inefficiency in the housing market because such costs will be forwarded to buyers and hence will make the houses becoming more unaffordable for the public at large.

The limited housing funding and a subsidy system that has made possible targets being missed. The various housing programs have not been well coordinated and effective. The development assistance and home improvement activities that have been self-initiated and undertaken in groups, are still in the forms of projects and have not fully reached the target groups. The program for rented simple

apartment houses, for the target groups that cannot yet afford to buy a house, has still relied on funds from government grants and government equity capital through the APBN (National Government Budget). The program approach in providing assistance has still been confined to the subsidized KPR (House Ownership Credit). The subsidy to interest rate in the KPR had for the first time been applied in the 1975-197 years, when the government through Perum Perumnas, had started to build modest type houses in Depok. The subsidy policy has still been continued until now, in spite of the many weaknesses therein, such as the possibility for using it as a means to speculate and such subsidy distorting the housing market. Such subsidy mechanism substantially depends on the annual funding allocation from the APBN, resulting in the instability of its annual availability. This has been aggravated by the placement of the subsidy as a program subsidy, that frequently have become a relegated priority to other activities.

4.1.2. TARGETS OF HOUSING DEVELOPMENT

The use of the house ownership credit as an instrument for house ownership has housing development target of meet the dwelling needs of the general public through the creation of a primary market that is healthy, efficient, accountable, non-discriminatory, and affordable for all layers in society, that is supported by a long-term housing financing system that is market friendly, efficient and accountable.

For the low income population, the general target is the established subsidy mechanism that is target effective, does not distort the market, is accountable and has a degree of certainty on the availability of funding each year. Another target is the established method of financing for house improvement and for new house construction, that is based on the self-initiative and capability of the general public. The target of the subsidy for low income housing is 1,350,000 houses, through the construction of 60,000 units of rented apartment houses, 25,000 units of self-owned simple apartments through the participation of private investments, and by enhancing access to micro-credits for the construction and improvements of 3,600,000 units of houses on the basis of self-initiative of the general public.

In conformity with the Millennium Development Goals (MDGs), another target to be attained is the reduction of the extent of slum areas by 50 percent in 2009, from the current level.

4.1.3. POLICY DIRECTIONS OF HOUSING DEVELOPMENT

The policy directions for attaining the aforementioned targets, are as follows:

1. Increasing available infrastructure and facilities for modest housing and healthy and modest housing;
2. Developing large scale housing areas;
3. Increased supply of dwellings (rented and owned) for the low income population through the national movement for the one million houses development (GNPSR);
4. Increasing the facilitation and empowerment of the low income population in making available land, sources of financing and environmental infrastructure, through the community based housing development;
5. Promoting micro credits for the construction and improvements of houses, that are linked to micro credits for income generation in the context of empowering economic activities of poor communities and for creating jobs;
6. Creating a new subsidy mechanism that is more target effective;
7. Developing an institution that is responsible for the construction of housing and settlements, at all governmental levels, and facilitating the transparent and participatory spatial planning for settlements;
8. Consolidating the housing primary market;
9. Developing the Secondary Mortgage Facility (SMF) and the Secondary Mortgage Market (SMM);
10. Establishing the regulatory framework and institutions for supporting the SMF and SMM (Laws on Securitization, Credit Bureau, Mortgage Right Document, tax incentives, etc.);
11. Developing fiscal incentives for private companies that make available housing for their workers;
12. Increasing supervision and technical guidance for building security and safety;
13. Creating legal certainty in having dwellings (secure tenure);

14. Increasing the quality of service provision of environmental infrastructure and facilities to slumps in urban and coastal/fishery areas.

4.1.4. PROGRAMS IN HOUSING DEVELOPMENT

In order to attain the aforementioned targets and policy directions, the programs that will be carried out are the program for promoting housing and the program for empowering housing communities.

1. PROGRAM FOR PROMOTING HOUSING

This program is aimed at encouraging the meeting of demand for housing that is reasonable, healthy, safe, and affordable, by prioritizing poor and low income communities, through the empowerment and increasing the performance of the primary housing market; developing the long-term housing financing system; developing micro credits and empowering local economic activities; developing the *Kasiba/Lisiba*; and developing the rented simple apartments, simple type houses, and the simple and healthy type houses.

The main activities that will be carried out in this program are:

1. To provide the infrastructure and facilities for simple type and simple and healthy types of housing areas, that include the provision of infrastructure and facilities for the housing of civil servants, armed forces, police forces and for low income communities, as the basis for developing ready to be built areas;
2. To develop a subsidy mechanism that is target effective, efficient and effective, to replace the interest rate subsidy system;
3. To build 1,350,000 new and proper houses for the people that do not yet own houses;
4. To increase access of the people to micro credit for the construction and improvement of 3,600,000 units of houses that are based on the own initiative of the general public;
5. To develop a micro credit institution (income generating credits and home improvement and home development credits) for supporting self-built houses in the context of poverty alleviation;

6. To construct 60,000 units of rented simple type apartment houses for the low income population;
7. To construct 25,000 units of simple type apartment houses for the low income population, through the participation of private enterprises;
8. To deregulate and re-regulate laws and regulations on land, banking, taxes, developers, and capital market related to the consolidation of the housing primary market;
9. To revitalize the BKP4N and to establish the national housing financing institution and its supporting regulations;
10. To revitalize urban areas that have undergone degradation of settlement quality in 79 areas;
11. To develop the system on building safety and security in medium and large cities;
12. To enhance the management of state buildings and houses;
13. To formulate norms, standards, regulations and manuals for the construction of houses and for the safety of buildings;
14. To develop the appropriate technology for facing disasters in the field of Housing and Construction of Buildings; and
15. To facilitate and stimulate the construction and rehabilitation of houses that are affected by natural disasters and social upheavals.

In order to carry out the above activities, it is necessary to have funding allocations from the central government budget, budgets of provincial governments and from the budgets of district/city governments, and from state owned as well as private enterprises. The government budget allocations are used to finance activities that are related to the formation of regulations, providing technical guidance and supervision, and for the formulation of norms, standards, regulations and manuals (NSPM).

2. PROGRAM FOR EMPOWERING HOUSING COMMUNITIES

This program is aimed at increasing the quality of housing by strengthening community institutions, in the context of social empowering, so as to create communities that are productive and are capable for contributing to healthy, harmonious and sustainable settlements.

The main activities that will be carried out in this program are:

1. To enhance the environment quality of slum areas, traditional villages, fishery villages, and former transmigration villages;
2. To facilitate and to provide technical assistance for housing improvements in slum areas, traditional villages, fishery villages and in former transmigration villages;
3. To facilitate and stimulate the construction of community initiated housing that is based on community empowerment;
4. To develop a fire fighting system;
5. To empower poor communities in urban and rural areas;
6. To improve the layout, rejuvenate and revitalize areas;
7. To formulate the norms, standards, regulations and manuals (NSPM) for the empowerment of housing communities and for the empowerment of poor communities in urban areas; and
8. To facilitate and stimulate the construction of houses that can adapt to disasters.

In order to carry out the above activities, it is necessary to have funding allocations from the central government budget, budgets of provincial governments and from the budgets of district/city governments, and from state owned as well as private enterprises. The government budget allocations are used for the empowerment of local communities and for enhancing the quality of the environment of low income communities, for facilitating the formation of the micro credit scheme, providing technical guidance and supervision, and for formulating the norms, standards, regulations and manuals (NSPM).

4.2. DEVELOPMENT OF DRINKING WATER AND WASTE WATER SEWERAGE

4.2.1. PROBLEMS OF DRINKING WATER AND WASTE WATER SEWERAGE DEVELOPMENT

The development of pipeline drinking water services has stagnated in the last ten years (1992–2002). In 1992, the total number of population (urban and rural) that has access to pipelined drinking water was only 14.7 percent. By 1997 it slightly rose to 19.2 percent and in 2002 it reached 18.3 percent. In rural areas, the pipelined drinking

water services have reached 5.5 percent in 2002, then rose to 7.0 percent in 1997 and fell to 6.2 percent in 2002. While in urban areas, the access rate is 35.3 percent in 1992, 39.9 percent in 1997, and reached only 33.3 percent in 2002. The pipelined drinking water services are generally undertaken by the BUMDs (Regional Government Owned Enterprises), namely the PDAM (Drinking Water Regional Enterprise), and in rural areas are generally undertaken by own initiative group of the local communities and/or by the BUMDES (Village Government-Owned Enterprises).

The low quality of drinking water processing that is carried out by the PDAM. The audit made to the PDAMs in 2000 showed that only 57.53 percent of the PDAMs have obtained the Unqualified Opinion note, a decline from 59.43 percent in 1999. The proportion of the PDAMs receiving the note of Unqualified With Reservations in 2000 is 25.27 percent, representing an increase from 23.58 percent in 1999. The proportion of PDAMs obtaining the note of Qualified Opinion reached 0.54 percent in 2000, representing an improvement from 0.94 percent in 1999, while the proportion of PDAMs with the note of Abstaining from Opinion reached 16.67 percent in 2000, a worsening proportion from 16.04 percent of the 1999 audit.

The efforts to reduce drinking water leakage have stagnated. Leakage caused by technical reasons (such as damaged water meter and leaking pipeline) and by non-technical reasons (illegal connections and administrative shortcomings) still ranges from 30 to 40 percent, which is still much higher than the normal rate of 20 percent. The leakage rate in 1996 was 39.85 percent, that could subsequently be reduced to 30.01 percent in 1999. By 2000, however, it again rose to 33.26 percent. The leakage rate will continue to increase if the performance of the PDAM management is not improved. There is a strong correlation between the decline in the performance of PDAM management and the increased leakage rate.

The increasing tendency for newly formed districts/cities to have their own PDAMs that are independent from the PDAMs in older districts/cities. This tendency is due to the new districts/cities needing their own sources of revenue, in this case from the PDAMs. Such a tendency has the negative effect of increased inefficiency in

drinking water services on account of becoming unable to reach economies of scale from the contraction of market share among the larger number of PDAMs. The increased inefficiency is also due to the newly created transaction costs for the supply of raw water between the old districts/cities and the new districts/cities.

The current tariffs cannot realize the full recovery of costs.

Most of the current tariffs of the PDAMs are still below the cost of producing drinking water, so that accounting wise, the majority of the PDAMs are operating at a loss. The current average tariff for all PDAMs is Rp 430 per cubic meter, while average production costs ranges from Rp 1,100 to Rp 1,700 per cubic meter. Meanwhile, the costs for producing drinking water will continue to increase in line with the continuing deterioration in the quality and quantity of raw water due to degradation of the environment. The declining quality of the environment has also resulted in the continuing deterioration of drinking water services in rural areas. This is caused by the continued decline in the total number of natural water sources, the continued decline in the depth of ground water and the continuing reduction in the quality of surface water (rivers, lakes, man-made water pooling, and dams).

The still not yet satisfactory processing of sludge. In the last ten years (1992–2002) sludge processing services has been quite satisfactory, namely having reached an average annual growth rate of 8.6 percent. The total number of population (urban and rural) that has access to sewerage system services had reached 30.9 percent in 1992, rising to 59.3 percent in 1997 and had reached 63.5 percent in 2002. The access rate in rural areas had reached 19.1 percent in 1992, rising to 49 percent in 1997 and to 52.2 percent in 2002. In urban areas the access rate is 57.5 percent in 1992, rising to 76.9 percent in 1997 and had reached 77.5 percent in 2002. Nevertheless, such achievements had not been accompanied by an increase in the further processing of household toilet sludge from septic tanks and toilets. This can be discerned from the low utilization rate of the Toilet Waste Processing Installation (IPLT) that has been constructed, namely less than 30 percent and in the still high utilization of rivers as sites for the disposal of such household toilet wastes.

The declining percentage of urban communities that have access to the sewerage system. This is due to the population growth

in urban that is higher than the growth of sewerage system growth. The low growth rate of sewerage systems in metropolitan urban areas is attributed to the increasing cost of construction and the continued decline in available land that can be used for the services networks. In addition, the willingness to pay of the general public for household sewerage systems is still very low, thereby not able to cover the costs of such services.

4.2.2. TARGETS OF DRINKING WATER AND WASTE WATER SEWERAGE DEVELOPMENT

The general target of the development of drinking water is the increased coverage of pipelined drinking water to reach 40 percent at the national level by the end of 2009, more specifically to reach 66 percent in urban areas and 30 percent in rural areas.

The general targets of the development of the sewerage system is the realization of the open defecation free condition for all districts/cities by the end of 2009, meaning that by 2009 all households will have at least toilets for their faces disposal, and the enhanced quality of ground water that is used as raw water in the process for producing drinking water. In addition, the target of waste water development is the enhanced utilization of the existing IPLT and IPAL installations, to reach at least 60 percent by the end of 2009 and the further processing of the waste water sewerage system and the reduced pollution of rivers, attributed to the disposal of faces, to 50 percent from the current condition by the end of 2009. Moreover, the centralized sewerage system will be built in phases for metropolitan and large cities.

4.2.3. POLICY DIRECTIONS IN THE DEVELOPMENT OF DRINKING WATER AND WASTE WATER

By the end of 2009 the development of drinking water and waste water is to be such that the service provision is to become of high quality, efficient, at affordable price, covering all income levels in society, and that is continuous, by pursuing the following policies:

1. Creating awareness among all stakeholders on the importance of enhancing drinking water and waste water service provision in the context of human resources development and attaining enhanced work productivity.
2. Increasing the participation of all stakeholders in efforts to attain the targets of drinking water and waste water development up to the end of 2009.
3. Creating a conducive climate for the active participation of private enterprises in the provision of drinking water and waste water services, through the deregulation and re-regulation of laws and implementing regulations related public-private-partnership.
4. Encouraging the establishment of regionalized management of drinking water and waste water in the context of increasing efficiency of services and efficiency in the utilization of natural water sources.
5. Enhancing performance in the management of drinking water and waste water through the restructuring of institutions and revising of laws and regulations pertaining the BUMD (regional Government Owned Enterprises) engaged in drinking water and waste water activities.
6. Increasing the quality of human resources that manage drinking water and waste water services through competence tests, education, training and by improving health services.
7. Reducing the rate of leakage in drinking water distribution so as to reach the normally tolerable rate of 20 percent by the end of 2009.
8. Restoring services of drinking water and waste water that have become damaged by natural disasters.

4.2.4. PROGRAMS FOR THE DEVELOPMENT OF DRINKING WATER AND WASTE WATER

In order to attain the aforementioned targets and to pursue the policy directions, activities are to be carried out, consisting of the following three programs: (1) the program for promoting community empowerment; (2) the program for developing institutions; (3) the program for promoting performance of the management of drinking water and waste water.

1. PROGRAM FOR COMMUNITY EMPOWERMENT

This program is aimed at enhancing community awareness on the importance of drinking water and waste water in the efforts for improving the quality including the productivity of human resources, with the following targets: (1) increased awareness of communities on the importance of behavioral pattern that is consistent with clean and healthy living; (2) increased participation of communities in the development and management of drinking water and waste water.

In order to attain the above targets, the following activities will be carried out:

1. To carry out public campaigns, mediations and facilitation to the general public on the importance of clean and healthy ways of living.
2. To increase the role of schools in supporting the clean and healthy ways of living.
3. To exhibit models of and promote the increased role of communities in the conservation of raw water sources.
4. To exhibit models of and develop community participation in increasing quality of the environment.
5. To conserve local cultures and wisdom that support the conservation and maintenance of raw water quality.
6. To promote the reward and punishment culture in community participation for enhancing the quality of the environment.
7. To promote charity funds and NGOs.
8. To increase community capacity on the basis of the demand driven approach, that is participatory, based on informed choice, pro poor, gender equality, education and that is self-financing.
9. Involving the local communities in initial design, construction as well as in the operation and maintenance, specifically in the rehabilitation of areas that have been affected by natural disasters.

2. PROGRAM FOR DEVELOPING INSTITUTIONS

This program is aimed at reforming laws and regulations and at promoting institutions that are related to the development of drinking water and waste water in the context of realizing an effective institutional

framework and administration system, the following main objectives will be pursued:

1. The increased coordination and cooperation among activities and among regions in the development of drinking water and waste water;
2. The completed law and regulations on public private partnership in the development of drinking water and waste water;
3. The increased role of private enterprises in the development and management of drinking water and waste water;
4. The availability of inexpensive and sustainable sources of financing;
5. The completed revision of law and regulations on BUMD (Regional Government Owned Enterprises) that are engaged in the development and management of drinking water and waste water; and
6. The restored performance of institutions that manage drinking water and waste water services in the natural disaster affected regions.

In order to attain the above targets, the following activities will be carried out:

1. To formulate the presidential regulation on inter-region cooperation (regionalization) in the development and management of drinking water and waste water;
2. To formulate the presidential regulation on cooperation between the BUMN/BUMD and private enterprises;
3. To increase cooperation between the BUMDs and private enterprises that is mutually beneficial, accountable and transparent;
4. To promote the water supply and wastewater fund;
5. To formulate the presidential regulation on the issuance of bonds by the BUMDs; and
6. To provide technical assistance to institutions that manage drinking water and waste water services, in natural disaster affected regions.

3. PROGRAM FOR PROMOTING PERFORMANCE IN THE MANAGEMENT OF DRINKING WATER AND WASTE WATER

This program is aimed at expanding the coverage of drinking water and waste water services that are undertaken by the BUMDs and by local communities, in an optimal, efficient and continuous manner. The

targets to be attained in this program are: (1) the expanded coverage of drinking water and waste water services that are undertaken by the BUMDs; (2) the enhanced performance of the BUMDs that manage drinking water and waste water services, so that they can attain Unqualified Opinion auditing status; (3) the expanded coverage of drinking water and waste water services, that are directly managed by the local communities.

In order to attain the above targets, the following activities will be carried out:

1. To restructure the management of the PDAM and PDAL;
2. To increase the total number of PDAMs and PDALs that have an Unqualified Opinion rating in metropolitan and large cities;
3. To enhance the capacity building of the PDAMs and PDALs through competence tests, education and training and by optimizing the ratio of personnel to total number of subscribers;
4. To revise regulations on the structure and determination of tariffs;
5. To reduce leakage by replacing leaking and obsolete pipelines, enforcing the law to illegal connections, enhancing the efficiency of bill collections;
6. To increase operation and maintenance activities;
7. To reduce idle capacity;
8. To refurbish the existing drinking water supply and waste water disposal systems;
9. To increase the involvement of the communities in the construction and management of drinking water and waste water;
10. To expand community based drinking water and waste water services;
11. To develop the waste water disposal system with a centralized system at metropolitan and large cities;
12. To provide drinking water and waste water infrastructure for low income housing areas;
13. To develop sludge and drinking water processing technology;
14. To restructure debts of the PDAMs and PDALs, specifically those related to foreign loans through the SLA (Subsidiary Loan Agreements); and
15. To repair drinking water and waste water infrastructure and facilities that have been destroyed and to construct such infrastructure in new housing areas of the natural disaster affected regions.

4.3. DEVELOPMENT OF WASTE AND DRAINAGE HANDLING INFRASTRUCTURE

4.3.1. PROBLEMS OF WASTE AND DRAINAGE DEVELOPMENT

Efforts to satisfactorily and in an environment friendly manner handle waste and drainage have stagnated. This is evident from the coverage of waste disposal services in urban areas in the ten years period (1992-2002) that had reached only 18.15 million persons, while the coverage of drainage services had only reached 2.51 million persons. Such stagnation has occurred due to the low awareness of stakeholders, particularly the decision makers, on the importance of handling waste and drainage in the context of maintaining the quality of the environment.

The increased environmental pollution due to the increased volume of waste from households and non-households that are disposed into rivers and/or that have been burnt. The percentage of waste that have been thrown into the rivers and burnt in 1998 is 65 percent and had risen to 68 percent in 2001. Even though the increase is relatively small, it is estimated to continue to increase in line with the growing difficulty of finding land that can be used as the final waste disposal sites. In urban areas, the growth rate of waste handling has been much below the population growth rate. The growth of budget allocation for waste handling is only around 1 to 2 percent per annum, while the urban population growth rate is 4.6 percent per annum, thereby resulting in a lack of services.

The decline in the quality of management of final disposal sites (TPAs). The changed system for the management of the TPAs, that have been designed for the sanitary landfill and/or controlled landfill into open dumping, is a reflection of such performance decline. The failure to maintain the TPA management in accordance with the sanitary landfill criteria, has reached 99 percent. This is evident by not one city that has managed the Final Disposal Sites (TPA) in conformity with their technical design, namely through sanitary landfill. Such a condition has been made worse by the poor quality of the environment in urban areas due to the proliferation of air pollution from the burning of garbage, resulting in the uncontrolled emission of methane gas and

the decomposing of waste substances, the degradation of shallow ground water and surface water due to the uncontrolled infiltration of seawater and the proliferation of carcinogenic dioxin gas.

The not functioning drainage outlets as the mean for draining away rainwater. The inadequate areas that can be used for waste disposal sites has resulted in local communities disposing their wastes into the drainage outlets. This has resulted in the increased percentage of areas being inundated and in the percentage of clogged drainage outlets. In 1996, the percentage of inundated areas is only 2.31 percent. It rose to 3.52 percent in 2001. The percentage of impeded drainage outlets in 1996 was 8.74 percent and rose to 10.04 percent in 2001. Such tendency will continue in the future in line with the continuing population growth, that implies the increase in piled-up wastes and the increasing difficulty for finding proper (temporary as well as final) waste disposal sites. In addition, the process of urbanization, the limited availability of land, and the weak enforcement of the laws on spatial use, have ultimately resulted in the increased encroachment of water bodies, including drainage outlets, that have been in existence for a long time (rivers, tributaries and sewers), as well as man-made drainage outlets (canals and gutters). The loss of water bodies in urban areas, particularly in metropolitan and large cities, at a rate of at least 5 to 10 percent per year.

4.3.2. TARGETS OF WASTE AND DRAINAGE HANDLING DEVELOPMENT

The general targets in the development and management of waste matters is the increased total volume of wastes that can be transported to 75 percent by the end of 2009 and the improved performance of those involved in the managing of final disposal sites (TPA), in a manner that is environment friendly, at all metropolitan, large and medium size cities.

The general targets in the development of drainage matters are the cleared drainage outlets from wastes so as to become capable to increase their drainage functions as the means for draining away rain water and the reduced areas that are permanently and temporarily inundated, to 75 percent of the current condition.

4.3.3. POLICY DIRECTIONS IN THE DEVELOPMENT OF WASTE AND DRAINAGE HANDLING INFRASTRUCTURE

The services that will be developed in the context of developing the wastes and drainage matters up to the end of 2009, is the waste and drainage services that are of high quality, affordable, efficient, and that can be accessed by all layers of society, and that is environment friendly, through the following policies:

1. Creating awareness of all stakeholders on the importance of increasing waste and drainage services;
2. Increasing the involvement of all stakeholders in the efforts to realize the development targets on waste and drainage matters by the end of 2009;
3. Creating a conducive climate for private enterprises to be actively involved in the provision of services on waste services, related to the handling and transportation aspects as well as to the management of the TPA (Final Disposal Sites);
4. Formulating the regulatory framework related to public-private-partnership in the management of wastes;
5. Encouraging the establishment of regional institutions for the management of wastes and drainage aspects;
6. Improving the performance of those managing wastes and drainage aspects through the restructuring of institutions and by revising the related laws and regulations;
7. Enhancing the quality of human resources as managers of wastes and drainage matters through competence tests, education, training, and by improving health services; and
8. Increasing performance in the management of the TPA (Final Disposal Sites) through the sanitary landfill system.

4.3.4. PROGRAMS FOR DEVELOPMENT OF WASTE AND DRAINAGE HANDLING INFRASTRUCTURE

In order to attain the targets and pursue the policy directions as referred to above, the following activities are carried that are classified into three (3) programs, namely the: (1) program for community empowerment; (2) program for developing institutions; (3) program for

enhancing the performance of those managing waste and drainage matters.

1. PROGRAM FOR COMMUNITY EMPOWERMENT

This program is aimed at enhancing community awareness in the handling of waste and drainage problems with the specific aim of reducing piled-up waste, the reduced encroachment of rivers, canals and drainage outlets, and the increased involvement of communities in the handling of waste and drainage matters.

The activities that will be carried out in order to realize the above specific aims, are among others:

1. To conduct public awareness campaigns on the 3Rs (Reduce, Reuse, and Recycle);
2. To develop community based recycle centers in metropolitan and large cities;
3. To socialize the structure of financing in the handling of waste and drainage matters;
4. To expand the capacity of individual garbage collectors in metropolitan and large cities;
5. To develop community based vermin compost and the composting activities in large and medium sized cities;
6. To make models for the development of small scale organic agricultural products as an effort to develop the compost market;
7. To conduct public awareness campaigns on the importance of drainage outlets in order to reduce the occurrence of inundations in metropolitan, large and medium sized cities;
8. To increase community based activities for the maintenance and normalization of drainage outlets in slump areas of metropolitan, large and medium sized cities;
9. To involve communities in the initial planning, design, construction as well as in the operation and maintenance activities, particularly in the natural disaster affected regions, in the context of the rehabilitation activities.

2. PROGRAM FOR THE DEVELOPMENT OF INSTITUTIONS

This program is aimed at realizing the institutional system that is effective, accountable and transparent. The specific aim is the existence of the regulatory framework on the relationship between the government and private enterprises in the management of wastes and drainage matters, the creation of new funding sources for handling wastes and drainage matters, the increased quality of coordination and cooperation among regions in the handling of wastes and drainage matters.

The main activities that will be carried out for realizing such aims are among others the following:

1. To review and revise laws and regulations that pertain to wastes and drainage matters;
2. To formulate the academic concept for formulating the draft law on waste matters;
3. To formulate policies, strategies, and action plans for addressing the waste problems on a national scale;
4. To carry out the project for making models of regional institutions that handle wastes and drainage matters;
5. To enhance the quality of human resources through education and training;
6. To make the model project on cooperation between the government and private enterprises in the management of wastes; and
7. To provide technical assistance to institutions that manage the waste and drainage services in the disaster affected region.

3. PROGRAM FOR INCREASING PERFORMANCE IN THE MANAGEMENT OF WASTE AND DRAINAGE

This program is aimed at realizing the aforementioned targets in a speedy, effective, beneficial and environment friendly manner. The specific aim the increased coverage of waste services, the reduced extent of inundated areas, the increased use of appropriate technology and the enhanced performance of those managing waste and drainage matters.

The main activities that will be carried out are among others the following:

1. To restructure and enhance the business professionalism of the Regional Government Owned Enterprise engaged in Sanitation (*PD Kebersihan*) and/or the Regional Government Office Responsible for Sanity Matters (*Dinas Kebersihan*) that handle waste matters;
2. To enhance human resources through the education and training of the apparatus as well as personnel of institutions that handle waste and drainage matters;
3. To increase the quality and quantity of transported waste;
4. To enhance the separation of organic and non-organic wastes;
5. To apply advanced technology for reducing waste volume in metropolitan cities;
6. To increase the quality of management of final disposal sites under the standards of the sanitary landfill system for large cities;
7. To compile the feasibility study for the utilization of the WTE (Waste To Energy) Incinerator in waste processing;
8. To enhance capacity building of institutions that handle the construction and maintenance of drainage;
9. To enforce laws to illegal housing settlements that use lands for drainage networks;
10. To increase and normalize drainage outlets;
11. To construct primary and secondary drainage networks for large cities;
12. To enhance operation and maintenance activities to primary and secondary drainage networks;
13. To enhance the cooperation between the government and private enterprises, through contract management, leasing, BOT and BOO, in the management of wastes and drainage matters;
14. To develop appropriate technology on waste and drainage matters; and
15. To rehabilitate the infrastructure and facilities of waste handling and the drainage systems that have been destroyed and to construct the infrastructure in various new settlement areas of natural disaster-affected regions.

CHAPTER 34

MACROECONOMIC FRAMEWORK AND DEVELOPMENT FINANCING

This chapter on macroeconomic framework and development financing describes the economic progress that will be achieved in the 2004–2009 period, on the basis of the various policy measures that are contained in the three development agenda and the development financing.

A. ECONOMIC CONDITION IN 2004

The economic condition towards the end of 2004 was as follows: *First*, since 2002, the monetary stability improved, as reflected in the stability and strengthening of the rupiah exchange rate; the falling inflation and interest rates; and the increased foreign exchange reserves. In the middle of 2004, monetary stability experienced external pressure in the form of excessive expectation on the change of monetary policy of the US. As was subsequently evident the US monetary policy became tighter in a gradual manner, coupled with efforts to consolidate the stability of the rupiah, and the smooth and safe implementation of the general election, domestic monetary stability was maintained. *Second*, the real sector started to show signs of moving again as reflected in the improved non-oil/gas exports and investment starting to increase, which in turn induced improvements in the agricultural, industrial, and services sectors.

With regard to **monetary** developments, from the beginning of 2002, the rupiah exchange rate was relatively stable with the tendency to strengthen. In 2003, the average daily exchange rate of the rupiah reached Rp 8,572 per US dollar, a strengthening of around 16.4 percent from that of 2001. In line with the strengthened rupiah exchange rate, the capital market had also showed a significantly improving performance. At the end of 2003, the Composite Share Price Index at the Jakarta Stock Exchange reached 691.9, a strengthening of 62.8 percent from the end of the preceding year. The excessive expectations

to the implementation of the general election and to changes in monetary policy of the US slightly weakened the rupiah. Nevertheless, the smooth and secure implementation of the general elections, and the certainty on the change in the US monetary policy, had stabilized the rupiah exchange rate. In 2004, the average daily exchange rate of the rupiah had reached Rp 8,928 per US dollar. At the end of 2004, the Composite Share Price Index at the Jakarta Stock Exchange rose to 1,000.3, an increase of 44.6 percent from that at the end of 2003.

The strengthening rupiah exchange rate accompanied by the controlled growth of base money, that in 2003 rose at the rate of around 10.3 percent, facilitated the efforts to control the rise in the average prices of goods and services. In 2003, the inflation rate declined to around 5.3 percent, which was much lower than it was in 2002 when it reached around 10.0 percent. The subsequent weakening of the rupiah exchange rate, accompanied by the increased growth of base money, which in 2004 had reached almost 20.2 percent, contributed to the rise in the average prices of goods and services. At the end of 2004, the year-on-year inflation rate reached 6.4 percent.

The under control inflation rate in 2003 provided a leeway for the reduction of interest rates. The average weighted interest rate of 1 month SBI fell from 13.0 percent in December 2002 to 8.3 percent in December 2003. The subsequent increase in inflation rate and the pressure on the rupiah had slowed down the further decline of interest rates. At the end of 2004, the average weighted interest rate of one-month SBI had reached 7.4 percent. In line with this pattern, the interest rate of the one month deposit fell from 12.8 percent in December 2002 to 6.6 percent in December 2003, reaching 6.4 percent in November 2004.

Meanwhile, the credit interest rate still had room for a decrease. The average weighted working capital credit interest rate fell from 18.3 percent in December 2002 to 15.1 percent in December 2003, and 13.6 percent in November 2004. The investment credit interest rate fell from 17.8 percent to 15.7 percent and to 14.2 percent in the same periods.

This decline was still possible due to the still large spread between the lending rate and deposit rate. The difference between the investment

credit interest rate and the 3 months deposit rate in November 2004 reached 7.5 percent, larger than around 4.2 percent in December of 2002.

With regard to the **banking** sector, the total of credits channeled increased to Rp 531.7 trillion at the end of November 2004, an average increase of 22.0 percent, even though the ratio of funds channeled to the total of funds mobilized from third parties (the Loan to Deposit Ratio) was still very low. In October 2004, the LDR reached 49.0 percent, which was higher than the 26.0 percent reached in 1999, but still much lower than before the crisis (prior to the crisis the LDR around 70 to 80 percent). The ratio of credits to the GDP had increased in 2003 to 24.5 percent, which was higher than that in 1999 of around 20.5 percent, but still much lower than that before the crisis of around 50 to 60 percent.

The relatively controlled inflation rate and the stable exchange rate of the rupiah, and the improving world economy, increased the performance of the external sector, that in turn increased foreign exchange reserves. Export proceeds increased in 2002 to US\$ 59.2 billion, an increase of 3.1 percent from the preceding year. In 2003, export proceeds reached US\$ 63.3 billion, an increase of 6.9 percent from 2002, especially stimulated by the increase of oil/gas exports that rose by around 18.5 percent, while non-oil/gas exports increased by around 3.7 percent¹. In the first eleven months of 2004, export proceeds had reached US\$ 62.8 billion, an increase of 10.0 percent from the same period in 2003, stimulated by oil/gas exports and non-oil/gas exports, that increased by respectively 14.2 percent and 8.8 percent².

The increase in export proceeds was mainly attributed to the still relatively high crude oil export price in world markets in relation to the still simmering and not yet restored security situation in the Middle East. The crude oil export price of Indonesia in world markets had increased from an average of US\$ 24.6/barrel in 2002 to US\$ 28.8/barrel in 2003. In the first eleven months of 2004, the export price of Indonesia's crude oil had reached US\$ 37.8/barrel.

¹ Bank Indonesia data.

² BPS (Central Agency of Statistics) data

The improving domestic economy in 2003 increased the demand for imports to US\$ 39.5 billion, an increase of 10.9 percent from the preceding year, contributed by the increase of oil/gas and non-oil/gas imports by respectively 17.4 percent and 2.4 percent³. According to the categories of commodities, the imports of consumption goods rose by 6.3 percent, the imports of raw/intermediate materials rose by 6.7 percent, while the imports of capital goods still decreased by 9.4 percent⁴. In the first eleven months of 2004, imports increased to US\$ 41.5 billion, an increase of 40.0 percent from the same period in 2003, contributed by the imports of consumption goods, supplementary materials, and capital goods, rose by respectively 32.5 percent, 40.2 percent, and 44.2 percent.

In 2003, the total number of foreign tourists visiting Indonesia through 13 entry gates, reached 3.7 million persons, a decline of 9.8 percent from the preceding year. This decline is attributed to the not yet recovered tourist climate in Indonesia on account of the Bali Tragedy and the increased international insecurity in relation to the flourishing terrorist activities in various parts of the world. Since quarter III/2003, the entry of foreign tourists started to recover. In the first eleven months of 2004, foreign tourists coming to Indonesia through 13 main gates increased by around 24.0 percent.

With the improving world economy, the current account surplus increased to US\$ 7.8 billion in 2002. In 2003, the current account surplus was estimated to be still high, namely US\$ 7.3 billion. Subsequently with the increased demand for imports in the first three quarters of 2004, the current account surplus declined to US\$ 2.3 billion.

In 2002, the deficit in the capital and private finance account fell to US\$ 0.9 billion, mainly due to the increased portfolio investment and FDI (net). In 2003, the capital and private finance account declined to US\$ 0.1 billion. In the first three quarters of 2004, the capital and finance account deficit reached a total of US\$ 0.6 billion. At the end of December 2004, the total foreign exchange reserves reached US\$ 36.3 billion.

³ Bank Indonesia data

⁴ BPS (Central Agency of Statistics) data

The continued economic stability was not independent from the **fiscal** performance⁵. As a result of fiscal consolidation measures, government revenues and grants in 2003 have reached 16.4 percent of the GDP, which is higher than that in 2002 when the ratio reached 15.8 percent. This performance is attributed to the increase of income tax from 5.3 percent of GDP in 2002 to 5.9 percent of GDP in 2003. On the budget expenditure side, government spending in 2003 rose to 18.1 percent of GDP, higher than in 2002 of 17.2 percent. This performance is attributed to the increase in spending of the central government and of the regional governments from respectively 12.0 percent of GDP and 5.2 percent of GDP in 2002 to become respectively 12.4 percent of GDP and 5.7 percent of GDP in 2003.

With such a performance, the ratio of the budget (APBN) deficit to GDP in 2003 had reached 1.7 percent, slightly higher than that in 2002 of 1.4 percent. Government debt stock could be held down to 58.3 percent of GDP in 2003. Generally, fiscal sustainability is estimated to be maintained, thereby able to provide a strong basis for formulating the APBN onward.

The improving monetary stability was evidently been successful in significantly stimulating the economy. In 2003, economic growth only reached 4.5 percent, slightly higher than that in 2002 of 4.3 percent, mainly contributed by the increased private consumption and exports of goods and services, each at the growth rates of 3.9 percent and 6.6 percent; while gross fixed capital formation only increased by 1.9 percent. From the production side, the economic growth of 2003 contributed by the agricultural sector by 3.1 percent, the industrial sector by 5.0 percent, and other sectors (outside industry) by 4.6 percent.

In the first three quarters of 2004, economic growth reached 4.9 percent, induced by private consumption, gross fixed capital formation, and exports of goods and services, that grew by respectively 5.3 percent, 11.3 percent, and 8.3 percent. From the production side, economic growth in that period was contributed by the agricultural sector, industrial sector and other sectors, at the growth rates of respectively 3.2 percent, 5.6 percent and 5.0 percent.

⁵ All ratios are estimated by using the new GDP series.

The relatively low economic growth was not able to create adequate employment opportunities for accommodating the increase of the work force and to reduce existing unemployment. Open unemployment that in 1997 totaled 4.2 million persons (4.7 percent of the total work force), had increased to 9.5 million persons (9.5 percent of the total work force) in 2003.

The slow economic recovery and the increased total number of the unemployed resulted in the total number of poor population not yet declining to the level prior to the crisis. On the basis of the Susenas (National Social and Economic Survey) of 2002, the total number of poor population reached 38.4 million persons (18.2 percent of the total population), which is greater than the total number of poor population in 1996 of around 34.5 million persons (17.7 percent). In 2003, the percentage of poor population improved to the proportion before the crisis (17.4 percent), even though it still amounted to a large total of around 37.3 million persons. Subsequently in 2004, the total number of poor population fell to 36.1 million, which represented 16.6 percent of the total population.

With the safe and orderly implementation of the General Elections, the maintenance development continuity and monetary stability after the termination of the cooperation program with the IMF at the end of 2003, and the improving world economy, economic growth in 2004 was estimated to reach around 5.0 percent. With such developments, income per capita in 2004 is expected to equal the level before the crisis (1996).

Nevertheless, at the end of 2004, the earthquake and tsunami disaster that occurred in Aceh and North Sumatra, affected the prospect of the Indonesian economy. The event had involved a huge number of deaths, that included productive human resources, and destroyed various production assets and economic and social facilities and infrastructure. The impact to the national economy, in terms of economic growth, public finance and the balance of payments, needs to be anticipated in the context of maintaining the direction of development activities and to immediately restore the welfare of the disaster affected regions.

B. THE EXTERNAL AND INTERNAL ENVIRONMENT IN 2004-2009

The state of the economy in 2004–2009 will be affected by the following aspects of the external environment. *First*, the increased integration of the world economy that on the one hand will create greater opportunities for the national economy, but on the other hand will also demand a higher competitiveness of the national economy. The external stimulus to the national economy will come from among others the following: a) the economies of the US and other most industrialized nations that are believed to still being the engine of the world economy and the markets of export commodities of developing nations; b) the Asian economies that are expected to still constitute a dynamic region, with the economies of China and other industrialized Asian countries as the engines, and as a region that in the long term as well as in the short term attracts foreign direct investment.

Second, even though the potential for the emergence of a world as well as regional financial crisis, has declined, there is still the potential for external uncertainty from among others the possible slowing down of economic growth in the major industrialized nations (mainly the US and Japan), due to such causes as the high crude oil price, the drastic change in monetary policy in the advanced industrialized economies, the decline in the flow of capital and the concentration of capital flows to several Asian nations.

The internal environment that is expected to have a positive influence to the Indonesian economy in the five years ahead is as follows:

First, the orderly and safe implementation of the General Elections, and the direct election of the President and Vice President, will form a stronger and more capable government for carrying out the governance of the nation. *Second*, the strong government will accelerate the settlement of policy conflicts between the central government and the regions, cross- sector policies, and sectoral policies that impede the creation of a healthy business climate that in turn will create law certainty for inducing accelerated economic activities. *Third*, enhanced political certainty will also increase the capability to ensure security and law an

order. *Fourth*, the increased trust of the people in the implementation of development programs will increase participation of the public at large.

C. PROSPECT OF THE ECONOMY IN 2004–2009

The natural catastrophe in Aceh and North Sumatra will affect economic growth and magnitudes in the balance of payments and national budget (APBN). The impact of the disaster to economic growth, balance of payments and national budget, will be separately discussed in a special document that relates to the efforts for rehabilitating Aceh and North Sumatra. Nevertheless, the direction of change to the prospect of the national economy will be presented at the end of this Chapter.

On the basis of the various measures that will be carried out in various fields, as have been discussed in the preceding chapters, and by taking into account the external and internal conditions that affect the Indonesian economy, the prospect of the economy in 2004–2009 is as follows:

1. IMPROVED WELFARE OF THE PEOPLE THROUGH EFFECTIVE ECONOMIC GROWTH

The various manpower policies that are directed at expanding employment opportunities such as described in the Chapter on Improving the Manpower Climate, and the implementation of policies in various fields that induce greater economic growth in various sectors, are expected to gradually reduce open unemployment from 9.7 percent of the total work force in 2005 to 5.1 percent of the total work force in 2009. A relatively large creation of employment is expected to occur in the processing industrial sector (2.4 million persons) and the sector that encompass construction, trade services, hotels and restaurants activities (5.4 million persons) in the 2004–2009 period. The growth rate of employment opportunities in the agricultural sector is expected to decline, in line with the expected sources of growth in the agricultural sector, namely more from the increase of productivity of farmers rather than from the expansion of agricultural lands, and from the fisheries and livestock sub-sectors that have a lower capacity to absorb manpower

than the sub-sectors of food products and estates. Thereby, it is expected that the income of farmers and their welfare will increase.

In line with the reduced unemployment rate and the implementation of various programs for alleviating poverty as described in the Chapter on Alleviating Poverty and in the document on the National Strategy for Alleviating Poverty, it is expected that the total number of poor population will decline drastically to 18.8 million (8.2 percent of the total number of population in 2009).

2. ATTAINING HIGH ECONOMIC GROWTH

The various policies to increase investment and non-oil/gas exports encompassing various sectors, as among others contained in the Chapter on Increasing Investment and Non-Oil/Gas Exports, the Chapter on Increasing the Competitiveness of the Manufacturing Industry, the Chapter on Revitalizing Agriculture, the Chapter on Empowering Cooperatives and Micro, Small and Medium Enterprises, and the Chapter on Acceleration of Infrastructure Development, and supported by policies to create security, law and order, will gradually increase economic growth from 5.5 percent in 2005 to 7.6 percent in 2009, namely an average growth rate of 6.6 percent per year. With the average population growth rate of around 1.2 percent, real income per capita (base year of 2000) will reach Rp 7.9 million in 2005 and Rp 9.9 million in 2009.

From the expenditure side, economic growth is contributed by the growth of investment, private consumption and the exports of goods and services. Investment, exports of goods and services, and private consumption, are estimated to have an average growth rate of respectively 15.2 percent, 7.1 percent and 4.8 percent per year. The growth of private consumption is expected to continue to be high even though in 2005 its growth rate will slow down from 2004, with the ending of the general election.

From the production side, economic growth is contributed by the growth of the non-oil/gas processing industry at an average growth rate of 8.6 percent per year, wherein the major contributors are the food,

beverages and tobacco industries, the paper and printing industries and the chemical fertilizers and rubber products industries. Meanwhile, the agricultural sector, in a broad sense, is estimated to have an average growth rate of 3.5 percent per year, wherein the major contributors are the food products, fisheries and livestock sub-sectors.

3. ATTAINING SUSTAINED ECONOMIC STABILITY

On the basis of the various policy measures, which are mainly contained in the Chapter on Consolidating Macroeconomic Stability, it is expected that a continued economic stability in 2004–2009, the prerequisite for attaining a high and sustainable economic growth, will be maintained.

a. BALANCE OF PAYMENTS

The balance of payments estimates are based on two basic assumptions, namely on the world economic condition and the domestic macroeconomic developments. The assumption on the world economic developments covers the world economic growth, especially of the advanced nations, the world inflation rate, the interest rate and the parity values of the currencies of the major industrialized economies. The domestic economy, the balance of payments estimates are very closely related to the economic growth target and the pattern of economic growth, the estimate on investment growth, and the estimates on investment financing sources, from domestic as well as foreign sources.

With the estimated improvement of the world economy and stimulated by the implementation of various development programs, such as the measures to increase the competitiveness of the economy and measures to create a conducive climate for export activities, in spite of the increasingly tight competition in international markets, it is estimated that the value of non-oil/gas exports in the 2004–2009 period will increase at an average growth rate of 7.3 percent per year. Meanwhile, oil/gas exports, specifically of Indonesia's crude oil, will very much depend on developments of the world oil price. This is because on the production side, Indonesia is bound by the OPEC quota and the limited production capacity of domestic crude oil. The average crude oil

price in world markets is expected to decline in the coming five years, after having reached its peak in 2004.

In line with economic growth and growth of investment, it is estimated that the value of non-oil/gas imports will increase at an average rate of 10.1 percent per year. As consumption increases, the value of oil/gas imports will increase at an average rate of 2.8 percent per year.

Foreign exchange proceeds from services will still rely on the tourism sector and on the income of Indonesian workers who are working abroad. The various incidents, starting from the tragedy of the WTC of 11 September 2001 to the latest bomb incident in front of the Australian Embassy in September 2004, have adversely affected the national tourist industry. Meanwhile, the high loan interest payments will also contribute to the deficit on the services account. The services deficit in 2009 is expected to reach US\$ 20.4 billion. With such estimates, it is estimated that the current account that in 2004 is still in surplus of around US\$ 6.9 billion, will gradually diminish and will become a deficit of around US\$ 2.6 billion in 2009.

With regard to the capital account, the public capital flow that is estimated to be in a deficit of US\$ 2.8 billion in 2004 will become a deficit of US\$ 1.8 billion in 2009. This is attributed to the estimated increase in public capital inflow from US\$ 2.3 billion in 2004 to become US\$ 3.3 billion in 2009. Meanwhile the amortization of public loans and the IMF loan are expected to decline since 1997 and will reach US\$ 6.4 billion in 2009. In line with the increased private capital inflow and the reduced payments of private foreign debt, the net private capital surplus is estimated to increase from around US\$ 0.5 billion in 2004 to become around US\$ 6.6 billion in 2009.

With such developments in the current account and in the capital account, it is estimated that the official foreign exchange reserves will slightly fall from US\$ 36.3 billion in 2004 to US\$ 35.9 billion in 2009.

b. MONETARY STABILITY

In the medium term, measures will be taken to gradually reduce the inflation rate from around 7 percent in 2005 to 3.0 percent in 2009. This estimate is based on the targeted low and stable inflation rate while still taking into account the economic growth target. The attainment of such inflation rate target is supported by the relatively stable nominal value of the rupiah of around Rp 8,700/US\$ (an appreciation in real terms). This is made possible by the estimated large capital inflows due to the improving business climate and the improved security situation in line with the installation of the government that is expected to be able to overcome the various investment impediments.

The controlled inflation rate will provide room for the decline of domestic interest rates. Such interest rates will fall if the risk level can be reduced. In the medium term, the decline of domestic interest rate will be slightly constrained on account of the tendency for international interest rates to rise, induced by the policy plan of the Fed to raise its interest rate.

c. PUBLIC FINANCE

Through various policies to attain fiscal sustainability and with the improving economic condition, the government debt stock and the APB deficit that in 1999/2000 reached respectively 93.6 percent of GDP and 3.9 percent of GDP⁶, had declined in 2004 to respectively 53.9 percent of GDP and 1.1 percent of GDP⁷.

With a fiscal sustainability that is better than before the crisis, the latitude is opened for increasing government budget spending to stimulate investment and increase basic public services for the people. In order to face possible future shocks, efforts are made to continuously consolidate fiscal sustainability by reducing the foreign debt stock not only as a percentage of GDP but also in absolute terms. In 2008, it is

⁶ Using old GDP series

⁷ Using new GDP series

estimated that spending and revenues in the APBN will have become balanced, and will even attain a surplus of 0.3 percent of GDP in 2009.

With regard to government revenues, various efforts will be continued to increase tax revenues, which are expected to increase by 0.5 percent of GDP each year in the 2004–2009 period. With regard to government expenditures, budget allocations will increase for the sectors of education and health, increasing access of the population to reasonable houses, increasing food security and increasing the quantity and quality of infrastructure in rural and remote areas. In addition, gradual reductions will be made to subsidies, especially untargeted subsidies, and increases in personnel expenditures will be controlled.

With regard to deficit financing, with the direction to reduce dependence on foreign loans, as referred to above, the issuance of bonds for the financing of government deficits will increase. On the basis of the continuation of policies and the improving economic condition in the last five years (1999–2004), it is estimated that the government debt stock will decline to around 31.8 percent of GDP in 2009.

From the above description, the increased welfare of the people, by enhancing the quality of growth, and stimulated by the average economic growth rate of 6.6 percent per year, and accompanied by the further consolidation of economic stability, is expected to be attained. Indonesia will gradually come out of the various problems it has been facing, such as the high unemployment rate and the large number of poor population. Such an economic condition, in synergy with achievements in various other development endeavors, will bring the Indonesian people to progress and prosperity.

d. REQUIRED INVESTMENT AND SOURCES OF FUNDING

On the basis of the measures taken to improve investment activities in various fields, it is estimated that the efficiency of economic activities, that is measured by the Incremental Capital Output Ratio (ICOR) will improve. In 2004, the ICOR is estimated to reach 3.9, then falling to 3.6 in 2009.

On the basis of the estimated level of investment efficiency with a view to attaining an average economic growth rate of 6.6 percent per year, the total investment required cumulatively for the five years period is Rp 4,073 trillion (at current price), representing an average increase of 21.2 percent per year. The share of private investment will be endeavored to increase to 16.0 percent of the Gross National Product (GNP) in 2004 to 24.4 percent of GNP in 2009; while the share of central and regional government investment is estimated to increase from 3.4 percent to an average of 4.1 percent over the same period. The total investment of the central and regional governments is estimated to reach around Rp 600 trillion in 2004–2009.

The required investment will mainly be financed by government as well as private domestic savings. In line with the increased government revenues and the controlled routine expenditures, it is expected that government savings will increase from 2.0 percent of GNP in 2004 to become 4.1 percent of GNP in 2009. Private savings are expected to increase from 20.0 percent of GNP in 2004 to 23.9 percent of GNP in 2009. Such private funding, in addition to being directly invested, will also be channeled through the banking system, the capital market, and other financial institutions, such as insurance and pension funds. On the basis of the implementation of various breakthrough measures, it is expected that various domestic sources of funding can be increased and will become funding for investment activities, among others by increasing tax and non-tax government revenues, optimizing natural resources (such as by preventing the thefts of marine resources, forest resources and minerals), and optimizing funds related to religious activities, such as the *wakaf* and *zakat* funds. In line with the increased investment, it is expected that foreign savings that is a negative 2.7 percent of GNP in 2004 will gradually become a positive, namely of 0.5 percent of GNP in 2009.

e. ESTIMATED IMPACT OF THE DISASTER IN ACEH AND NORTH SUMATRA TO THE NATIONAL ECONOMY

The earthquake and tsunami catastrophe that hit Aceh and North Sumatra at the end of December 2004, resulted in a large number of victims, including productive human resources, and destroying various

production assets and economic as well as social facilities and infrastructure. The disaster and the various efforts to rehabilitate the situation are expected to affect Indonesia's economic condition onwards, in terms of its economic growth, balance of payments and public finance. Nevertheless, as the source of such changes is not from the economic fundamentals, the efforts to rehabilitate and reconstruct Aceh will continue to be in line with the efforts to increase a quality economic growth and to maintain economic stability.

As a result of the reduction in the population and income of Aceh, it is estimated that in 2005, the consumption and investment of Aceh (NAD) will decline by respectively around 0.16 percent and 0.04 percent of the national GDP. Through various rescue, rehabilitation and reconstruction measures, investment, including government investment, will increase in the 2004–2009 period. Private consumption in the disaster impacted areas will recover in 2007. As a whole, it is estimated that the national economic growth target for 2004–2009, is not changed, namely at an average growth rate of 6.6 percent per year.

The Aceh and North Sumatra disaster will also affect projections for the balance of payments and the public finance (APBN). Nevertheless, up to now, the estimates for the balance of payments and public finance cannot yet be ascertained because the total funding need and its financing scheme for handling the impacted regions, including the funds obtained from the restructuring of foreign debt, are still too preliminary. The estimates are very provisional and will require adjustments if the assumptions used, such as the assessed needs and funding sources, undergo changes.

Government development funds, specifically for the rehabilitation and reconstruction of Aceh, will increase. The rehabilitation and reconstruction of Aceh are expected to require funding of over US\$ 4.0 billion within around 5 to 6 years. Half of this total is estimated to come from the APBN, while the other half will be carried out by the private sector, through domestic and foreign financing.

The APBN funding for Aceh will originate from among others the reallocation of APBN expenditure funds (from the central government as well as from the equalization funds), from grants, reallocation of old

loans, restructuring in the amortization of foreign loans, and if necessary from new soft loans. By taking into account the needs for the rehabilitation and reconstruction of Aceh and North Sumatra and the sources of financing, the deficit of the APBN will still be under control. If compared to the initial projection (before the Aceh and North Sumatra disaster), public expenditures will increase by around 0.1 to 0.2 percent of GDP, while the budget deficit will remain relatively unchanged, namely will increase by only around 0.1 percent of GDP. Thereby, the fiscal sustainability will be maintained.

With regard to the balance of payments, it is estimated that exports will not be too affected, as the share of non-oil/gas exports from the disaster impacted regions in the national non-oil/gas exports is relatively small. Oil-gas exports will not be significantly affected because the production of oil and gas in the two regions has not been significantly damaged. The estimated capital inflow will increase in line with the increased funds inflow for the rehabilitation and reconstruction of Aceh and North Sumatra, from government as well as private sources. However, the inflow of such funds will also be accompanied by the increased imports of goods and services. As a whole, it is estimated that the balance of payments will remain as initially projected.

Table 34.1.
MACRO ECONOMIC ESTIMATES

	Actual				Estimate	Medium Term Projection				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Quality of Growth/Equity										
Open unemployment										
Total (million persons)	5,8	8	9,1	9,5	9,9	9,9	9,4	8,5	7,3	5,7
% of total work forces	6,1	8,1	9,1	9,5	9,7	9,5	8,9	7,9	6,6	5,1
Total of Poor Population										
Total (million persons)	38,7	37,8	28,4	37,3	36,1	-	-	-	-	18,8
% to total population	19,1	18,4	18,2	17,4	16,6	-	-	-	-	8,2
Economic Growth										
Economic Growth *)	4,9	3,8	4,3	4,5	5	5,5	6,1	6,7	7,2	7,6
GDP per capita										
At Constant 2000 Prices	5.919	6.144	6.368	6.625	7.626	7.946	8.333	8.791	9.317	9.914
Economic Stability										
Inflation Rate, CPI (%)	9,4	12,5	10	5,1	6,4	7	5,5	5	4	3
Nominal Exchange Rate (Rp/Y\$)	8.425	10.241	9.375	8.578	8.928	8.900	8.800	8.800	8.700	8.700
Real Exchange Rate Change (%)	7,8	11	-15,5	-10,9	0,1	-4,5	-4,3	-2,8	-2,9	-0,9
Balance of Payments										
Current Account/GDP (%)	4,8	4,2	3,9	3	2,6	1,6	0,5	0,1	-0,2	-0,6
Non-Oil/Gas Exports Growth (%)	22,8	-11	3,4	3,7	11,3	5,5	6,5	7,5	8,1	8,7
Non-Oil/Gas Imports Growth (%)	29,1	-15,8	0,1	9,4	15,9	11,4	8,2	8,9	10,3	11,9
Foreign Exchange. Reserves (bln.	29,4	28	32	36,3	36,3	36,8	36	35,6	35,2	35,9
Public Finance										
Primary Balance/GDP (%)	2,5	2,8	3,3	1,8	1,6	1,8	1,7	1,9	1,9	2
Budget Surplus/Deficit to GDP(%)	-1,6	-2,4	-1,4	-1,7	-1,1	-0,7	-0,6	-0,3	0	0,3
Tax Revenues/GDP (%)	11,8	11	11,1	11,9	12,1	11,6	11,6	11,9	12,6	13,6
Government Debt Stock/GDP (%)	83,5	74,6	65,1	58,3	53,9	48	43,9	39,5	35,4	31,8
Foreign Debt	36,9	35,8	31,5	28,3	25,3	21,6	19,3	16,7	14,4	12,6
Domestic Debt	46,7	38,8	33,6	30	28,6	26,3	24,6	22,8	21	19,2

Note: *) For 2000, the old GDP series are used, while for growth in following years, the new series are used.

Table 34.2.
MACRO ECONOMIC ESTIMATES

Indicator	Actual				Estimate	Medium Term Projection				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP Growth, By										
Economic Growth	4,9	3,8	4,3	4,5	5	5,5	6,1	6,7	7,2	7,6
Consumption	2	3,9	4,7	4,5	5,1	4,1	5,2	5	5,8	6,3
Private	1,6	3,5	3,8	3,9	5,1	4,3	4,5	4,8	5	5,3
Public	6,5	7,6	13	10	5,7	2,6	10,5	6,4	12,1	12,7
Investment	16,7	6,5	2,2	1,9	7,2	14,6	17,8	16,3	14,3	12,8
Exports	26,5	0,6	-1	6,6	9,3	5,7	6	6,4	7,4	10,1
Imports	25,9	4,2	-4	2,8	17,4	10,3	8,6	10,2	10,8	11
GDP Growth, By										
Agriculture	1,9	4,1	2,8	3,1	3,1	3,2	3,4	3,6	3,6	3,8
Processing Industry	6	3,3	5,9	5	5,6	6,1	6,9	7,8	8,6	9,5
Non-Oil/Gas	7	4,9	6,4	5,4	6,5	6,8	7,7	8,7	9,4	10,2
Other	5,3	4	3,9	4,6	5,2	5,8	6,3	6,9	7,4	7,6
GDP Distribution (%)										
Agriculture	15,6	15,6	15,7	15	14,7	14,4	14	13,5	13,1	12,7
Processing Industry	27,7	30,1	30,7	30,6	30,6	31,4	32	32,1	32,5	33
Non-Oil/Gas	23,8	26,3	27	26,8	27,3	27,8	28,5	28,9	29,6	30,4
Other	56,7	54,3	53,7	54,4	54,6	54,2	54	54,4	54,5	54,3
Manpower										
Employment Opportunities	89,8	90,8	91,6	90,8	92,3	94,2	96,7	99,7	103	106,6
Agriculture	40,5	39,7	40,6	42	43	43,8	44,4	44,9	45,4	45,7
<i>Proportion (%)</i>	<i>45,1</i>	<i>43,8</i>	<i>44,3</i>	<i>46,3</i>	<i>46,6</i>	<i>46,5</i>	<i>45,9</i>	<i>45,1</i>	<i>44,1</i>	<i>42,9</i>
Processing Industry	11,7	12,1	12,1	10,9	11	11,1	11,5	12	12,7	13,4
<i>Proportion (%)</i>	<i>13</i>	<i>13,3</i>	<i>13,2</i>	<i>12</i>	<i>11,9</i>	<i>11,8</i>	<i>11,9</i>	<i>12</i>	<i>12,3</i>	<i>12,6</i>
Other	37,6	39	38,9	37,9	38,3	39,3	40,8	42,7	44,9	47,4
<i>Proportion (%)</i>	<i>41,9</i>	<i>42,9</i>	<i>42,4</i>	<i>41,7</i>	<i>41,5</i>	<i>41,7</i>	<i>42,2</i>	<i>42,9</i>	<i>43,6</i>	<i>44,5</i>
Open Unemployment (%)										
Total (million persons)	5,8	8	9,1	9,5	9,9	9,9	9,4	8,5	7,3	5,7
% of total work force	6,1	8,1	9,1	9,5	9,7	9,5	8,9	7,9	6,6	5,1

Note: *) For 2000, the old GDP series are used, while for growth in following years, the new series are used.

Table 34.3.
BALANCE OF PAYMENTS ESTIMATES
(billion US\$)

Indicator	Actual				Estimate	Medium Term Projection				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports	65,4	57,4	59,2	63,3	73	76	75,4	79,3	84,4	90,4
Oil/Gas	15,1	12,6	12,9	15,2	19,6	19,7	15,3	14,8	14,6	14,6
Non-Oil/Gas	50,3	44,8	46,3	48	53,4	56,4	60	64,5	69,8	75,8
<i>(Growth, %)</i>	<i>22,8</i>	<i>-11</i>	<i>3,4</i>	<i>3,7</i>	<i>11,3</i>	<i>5,5</i>	<i>6,5</i>	<i>7,5</i>	<i>8,1</i>	<i>8,7</i>
Imports	-40,4	-34,7	-35,7	-39,5	-48,3	-52,2	-54,4	-59,3	-65,2	-72,6
Oil/Gas	-6	-5,7	-6,7	-7,8	-11,5	-11,3	-10,1	-11	-12	-13
Non-Oil/Gas	-34,4	-29	-29	-31,7	-36,8	-41	-44,3	-48,2	-53,2	-59,6
<i>(Growth, %)</i>	<i>29,1</i>	<i>-15,8</i>	<i>0,1</i>	<i>9,4</i>	<i>15,9</i>	<i>11,4</i>	<i>8,2</i>	<i>8,9</i>	<i>10,3</i>	<i>11,9</i>
Services	-17	-15,8	-15,7	-16,5	-17,9	-19,1	-19,4	-19,7	-20	-20,4
Interest Payments on Government Loans	-3,5	-3,4	-3,1	-2,9	-2,9	-3,1	-3,1	-3	-2,9	-2,9
Current Account	8	6,9	7,8	7,3	6,9	4,7	1,5	0,4	-0,9	-2,6
Capital Account	-10,4	-10,5	-4,7	-4	-2,4	-3,1	-0,7	1,2	3,1	4,7
Government	-0,4	-2,2	-3,2	-3,5	-2,8	-2,9	-2,3	-1,9	-1,8	-1,8
Inflow	3,9	2,5	2,3	1,8	2,3	3,1	4	3,3	3,3	3,3
Outflow	-4,3	-4,7	-5,5	-5,3	-5,1	-6	-6,3	-5,1	-5,1	-5
Private	-10	-7,5	-0,9	-0,1	0,5	0	2,1	3,4	5,4	6,6
FDI, Net	-4,6	-3	0,1	-0,6	0,1	0,3	0,5	0,8	1,5	1,9
Portfolio	0	-0,2	1,2	2,3	2,4	2,4	2,6	2,8	3	3,2
Other	-5,4	-4,3	-2,3	-1,8	-2	-2,7	-1	-0,3	0,9	1,4
Exceptional Financing	3,6	1,5	2,6	3,7	-1	-1,1	-1,5	-2	-2,5	-1,4
IMF, Net	1,1	-1,4	-1	0,6	-1	-1,1	-1,5	-2	-2,5	-1,4
Debt Rescheduling	2,5	2,9	3,6	3,1	0	0	0	0	0	0
<i>(Rescheduling)</i>										
Surplus/Deficit	1,2	-2,1	5,7	6,9	3,5	0,5	-0,7	-0,5	-0,3	0,7
<i>(Overall Balance)</i>										
Foreign Exchange Reserves	29,4	28	32	36,3	36,3	36,8	36	35,6	35,2	35,9
<i>(In Months of Imports)</i>	<i>6,1</i>	<i>6,7</i>	<i>7,5</i>	<i>7,8</i>	<i>6,6</i>	<i>6,2</i>	<i>5,9</i>	<i>5,4</i>	<i>5</i>	<i>4,6</i>
Net Foreign Exchange Reserves	20,8	20,8	25,8	29,5	30,5	32,1	32,9	34,4	36,6	38,7
Foreign Debt	141,7	135	131,3	138,2	134,9	130,9	129,2	128,7	129,7	133,1
Government	74,9	71,4	74,7	81,7	77,8	73,8	70	66,1	61,8	58,6
Private	66,8	63,7	56,7	56,6	57,1	57,1	59,2	62,6	67,9	74,5

Table 34.4.
GOVERNMENT BUDGET ESTIMATES
 (% of GDP)

Indicator	Actual				Estimate	Medium Term Projection				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
A. Government Revenues and Grants	20,7	17,9	15,8	16,4	17,4	14,9	14,9	14,9	15,3	16,1
1. Tax Revenue	11,8	11	11,1	11,9	12,1	11,6	11,6	11,9	12,6	13,6
a. Income Tax	6,1	5,6	5,3	5,9	5,9	5,6	5,5	5,6	6,1	6,6
b. Value Added Tax	3,4	3,3	3,4	3,6	3,8	3,9	3,7	3,9	4,1	4,4
c. Other	2,3	2,1	2,3	2,4	2,4	2,2	2,4	2,5	2,5	2,5
2. Non Tax Revenue	8,8	6,8	4,7	4,5	5,3	3,2	3,3	2,9	2,6	2,4
a. Oil/Gas	6,4	4,8	3,2	2,9	3,8	1,8	2	1,7	1,5	1,3
b. Non-Oil/Gas	2,5	2	1,5	1,6	1,6	1,4	1,3	1,2	1,2	1,2
B. Primary Balance	23,9	20,2	17,2	18,1	18,6	15,5	15,5	15,2	15,3	15,8
1. Central Government Expenditures	20,3	15,4	12	12,4	13	10,4	10,1	9,8	9,6	9,6
2. Regional Government Expenditures	3,6	4,8	5,2	5,7	5,6	5,1	5,4	5,4	5,7	6,2
C. Primary Balance	2,5	2,8	3,3	1,8	1,6	1,8	1,7	1,9	1,9	2
D. Surplus/Deficit	-3,2	-2,4	-1,4	-1,7	-1,1	-0,7	-0,6	-0,3	0	0,3
E. Financing	3,2	2,4	1,4	1,7	1,1	0,7	0,6	0,3	0	-0,3
1. Domestic	1,9	1,8	1	1,5	1,8	1,5	1,1	0,8	0,4	0,1
a. Banking	-0,1	-0,1	-0,3	0,4	1	0,4	0,2	0	0	0
b. Non Banking (net)	2	1,9	1,3	1,1	0,7	1,1	0,9	0,8	0,4	0,1
- Sales of Banks Assest	2	1,7	1	0,9	0,6	0,2	0,1	0,1	0	0
- Privatization	0	0,2	0,4	0,3	0,2	0,1	0,2	0,2	0,1	0,1
- Bonds Issuance	0	0	0,1	0,6	1	1,6	1,8	1,9	1,7	1,3
- Amortization	0	0	-0,2	-0,3	-1	-0,7	-1,2	-1,3	-1,3	-1,2
- Repurchase of Bonds	0	0	0	-0,4	0	-0,1	0	-0,1	-0,1	-0,1
2. Foreign	1,2	0,6	0,4	0,1	-0,6	-0,8	-0,5	-0,5	-0,4	-0,4
a. Loan Absorption	2,1	1,5	1	1	1,3	1	1,2	0,9	0,8	0,7
b. Amortization	-0,9	-0,9	-0,6	-0,8	-2	-1,8	-1,7	-1,4	-1,2	-1,1

Table 34.5.

REQUIRED INVESTMENT AND SOURCES OF FINANCING

(trillion of Rupiah)

					Estimate	Total	Medium Term Projection					Total
	2000	2001	2002	2003	2004	(2000-04)	2005	2006	2007	2008	2009	(2005-09)
Investment Requirement (trillion Rp)	297,2	375,1	380,7	405,3	430,7	1.888,90	529,3	652,9	805,5	962	#####	4.073,00
a. Government	41,6	48,6	55,2	68,2	75,1	288,7	86,9	101,6	113,6	135,2	162,9	600,1
<i>percentage of GNP (%)</i>	3,2	3	3	3,4	3,4	3,2	3,4	3,6	3,6	3,8	4,1	3,7
b. Private (incl. change in stock)	255,5	326,5	325,5	337,1	355,6	1,600.2	442,5	551,3	691,9	826,8	960.5	3.472,90
<i>percentage of GNP (%)</i>	19,7	20,1	17,7	16,8	16	17,8	17,6	19,5	21,7	23,3	24,4	21,7
Sources of Financing (trillion Rp)	297,2	375,1	380,7	405,3	430,7	1.888,90	529,3	652,9	805,5	962	#####	4.073,00
1. Domestic Savings	351,2	450,2	441	465,6	491,7	2,199.7	570,9	666,3	808,8	954,4	1.100,70	4.101,00
<i>percentage of GNP (%)</i>	27,1	27,7	23,9	23,1	22,1	24,4	22,7	23,6	25,5	27	28	25,6
a. Government	30,3	36	16,1	3,4	45,2	131	61,7	76,9	97,3	126,2	160,9	523
<i>Percentage of GNP (%)</i>	2,3	2,2	0,9	0,2	2	1,5	2,4	2,7	3,1	3,5	4,1	3,3
b. Private	320,9	414,2	424,9	462,2	446,5	2.068,70	509,2	589,3	711,5	828,3	939,8	3.578,10
<i>Percentage of GNP (%)</i>	24,7	25,5	23,1	22,9	20	23	20,2	20,9	22,5	23,4	23,9	22,3
2. Foreign Savings	-54	-75,1	-60,4	-60,3	-61	-310.7	-41,6	-13,4	-3,3	7,5	22,7	-28.0
<i>Percentage of GNP (%)</i>	-4,2	-4,6	-3,3	-2,9	-2,7	-3,5	-1,6	-0,6	-0,1	0,2	0,5	-0,2
Savings – Investment (S-I)												
Ratio of GNP (%)	4,2	4,6	3,3	2,9	2,7		1,6	0,6	0,1	-0,2	-0,5	
a. Government	-0,9	-0,8	-2,1	-3,2	-1,3		-1	-0,9	-0,5	-0,3	-0,1	
b. Privatet	5	5,4	5,4	6,2	4,1		2,7	1,3	0,6	0	-0,5	

CHAPTER 35

IMPLEMENTATION NORM

The National Medium-Term Development Plan (RPJM) of 2004–2009 is an elaboration of the vision, mission and program of the President, who has been directly elected in the 2004 General Elections.

The National Medium-Term Development Plan of 2004–2009 is the guideline for Ministries/Agencies in the formulation of the Strategic Plans (*Renstra*) of the Ministries/Agencies and is the guideline for regions in formulating the Regional Medium-Term Development Plan (RPJM Daerah). The National Medium-Term Development Plan of 2004–2009 is also the guideline for formulating the Government Work Plan (RKP).

For that purpose, the following implementation norms are set:

1. Ministries, departments, non-departmental government agencies, regional governments, and the general public, including the private sector, are obligated to implement programs that are contained in the National Medium-Term Development Plan of 2004–2009, in the best possible manner;
2. Ministries, departments, non-departmental government agencies, are obligated to formulate the strategic plan, that contains the vision, mission, aims, strategy, policies, programs, and main activities of development, in accordance with the tasks and functions of the Ministries/Agencies, that are formulated on the basis of the guidelines contained in the National Medium-Term Development Plan of 2004–2009, that subsequently will become the guideline for formulating the Work Plan of the Ministries/Agencies;
3. Regional Governments are obligated to formulate the Regional Medium Term Development Plans, that elaborate the vision, mission and program of the relevant Regional Head, that subsequently will become the guideline for formulating the Strategic Plan of the

Regional Work Units, by taking into consideration the National Medium-Term Development Plan of 2004–2009;

4. Ministries, departments, non-departmental government agencies and regional governments, are obligated to ensure consistency between the National Medium-Term Development Plan of 2004–2009 and the Strategic Plans of Ministries/Agencies and the Regional Medium-Term Development Plans.
5. In the context of increasing the effectiveness of implementing the National Medium-Term Development Plan of 2004–2009, the Ministry of National Development Planning/National Development Planning Agency is obligated to monitor the elaboration of the National Medium-Term Development Plan of 2004–2009 into the Strategic Plans of Ministries/Agencies and Regional Medium-Term Development Plans.

CHAPTER 36

FORMULATION OF THE 2010 GOVERNMENT WORK PLAN DRAFT

In the context of maintaining the continuity of development and of filling the vacuum of the 2010 national development plan (Government Work Plan of 2010), that is to be used as guideline for the formulation of the 2010 National Budget Draft and by considering the very short time available for the President Elect, on the basis of results of the 2009 General Election, to formulate the National Medium-Term Development Plan of 2009–2014 and the Government Work Plan of 2010, the Government is formulating the Draft of the 2010 Government Work Plan, in accordance with the schedule and agendas for resolving development problems that have not yet been fully resolved up to 2009 and the development agendas that will be faced in 2010.

Henceforth, the President Elect and the Parliament that have been elected on the basis of results of the 2009 General Elections, still have very broad room for maneuver to revise the 2010 Government Work Plan Draft and the 2010 National Budget Draft, which have already been formulated, in order to further improve the implementation of national development.

PRESIDENT OF THE REPUBLIC OF INDONESIA,

Signed

Dr. H. SUSILO BAMBANG YUDHOYONO

Copied in accordance with the original,
Deputy Cabinet Secretary
For Laws and Law Regulations,

Signed

Lambock V. Nahattands