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Report No. 23341-IND

Indonesia
Development Policy Review
The Imperative for Reform

December 10, 2001

Poverty Reduction and Economic Management Unit
East Asia and Pacific Region

Document of the World Bank

CURRENCY EQUIVALENTS

(As of November 2, 2001)
Currency Unit = Rupiah (Rp.)
US$1 = Rupiah 10,600

FISCAL YEAR:

April 1–March 31 till 2000
FY 2000 is 9 months, April 1 to December 31
Same as calendar year from 2001 onwards

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADF	Asian Development Fund
AFTA	ASEAN Free Trade Area
BAPEPAM	Capital Market Supervisory Board
BCA	Bank Central Asia
BI	Bank Indonesia
BII	Bank Internasional Indonesia
BIS	Bank for International Settlements
BPN	National Land Agency
BNI	Bank Negara Indonesia
BKKBN	National Family Planning Coordinating Board
BKN	Civil Service Agency
BKPK	Coordinating Agency for Poverty Reduction
BLBI	Bank Indonesia Liquidity Support
BoP	Balance of Payments
BPK	Supreme Audit Board
BPKP	Financial & Development Supervisory Board
BPN	National Land Agency
BPR	Bank Perkreditan Rakyat
BRI	Bank Rakyat Indonesia
BTN	Bank Tabungan Nasional
BULOG	State Logistics Agency
CBS	Central Bureau of Statistics
CEIC	CEIC Data Company Ltd.
CGI	Consultative Group on Indonesia
CITES	Convention on International Trade in Endangered Species
CPI	Consumer Price Index
DAK	Special Allocation Fund
DAU	General Allocation Fund
DIP	Authorization to spend
DPR	House of Representatives
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FITRA	Indonesian Forum for Budgetary Transparency
FSPC	Financial Sector Policy Committee
GBHN	State Policy Guidelines
GDP	Gross Domestic Product
GoI	Government of Indonesia
GTZ	German Technical Corporation
IBRA	Indonesian Bank Restructuring Agency
IDA	International Development Association
IDCF	Interdepartmental Committee on Forestry
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
IPP	Independent Power Producer
JITF	Jakarta Initiative Task Force
JSX	Jakarta Stock Exchange
KDP	Kecamatan Development Program
K-GRIP	Kabupaten Governance Reform Initiatives Project
KPPU	Commission for Business Competition
KTP	National Identity Card
Kwh	Kilowatt hour
LAN	State Administration Board
LoI	Letter of Intent
MenPAN	State Ministry for Administrative Reforms
MIGA	Multilateral Investment Guarantee Association
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MoU	Memorandum of Understanding
MPR	People's Consultative Assembly
NBFI	Non-Bank Financial Institution
NCCG	National Committee on Corporate Governance
NCCT	Non-Cooperative Countries and Territories
NFP	National Forest Program
NGO	Non Government Organization
NPPO	National Public Procurement Office
NTB	West Nusa Tenggara
OC	Oversight Committee
OECD	Organization for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
OPK	Special Market Operation
Perda	Regional Regulation
Persero	State-owned limited liability company
PLN	State Electricity Company
PP	Government Regulation
PROPENAS	National Development Program
ROSC	Review of Standards and Codes
SGP	Scholarships and Grants Program
SMEs	Small and Medium Enterprises
SMERU	Social Monitoring and Early Response Unit
SOE	State-Owned Enterprises
SSNAL	Social Safety Net Adjustment Loan
SUSENAS	National Socio-Economic Survey
UN	United Nations
UNSFIR	United Nations Support Facility for Indonesian Recovery
WTO	World Trade Organization

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ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

1. Indonesia's recovery was already slowing several months before the events of September 11. Political instability had raised social tensions and slowed reforms – fueling capital flight, alarming investors, and delaying official external finance for development. Progress on bank restructuring had slowed and the debt of financially strapped corporates remained largely unresolved. Corruption flourished, unchecked by a justice system that itself was corroded. Regional tensions increased even as the country embarked upon an ambitious decentralization program. And, if real wages are any indication, progress on poverty reduction – encouraging in 1999 and early 2000 – ground to a halt.

2. Markets welcomed the appointment of President Megawati Soekarnoputri in July 2001 with a substantial appreciation of the rupiah. The new government quickly reached agreement with the IMF on a long-delayed Letter of Intent, and Parliament approved the budget for 2002, autonomy laws for Aceh and Papua, and a new Oil and Gas Law.

3. But in the one hundred days since assuming office, the new administration has made little progress on structural and governance reforms – renewing nervousness in markets and worrying external donors and creditors. The events of September 11 and the slowdown in the global economy worsened the investment climate in Indonesia, adding to the government's already formidable array of challenges.

4. **Economic outlook**. Indonesia's economy is set for slower growth in 2001 and 2002 (3.3 percent and 3.5 percent respectively, compared to 4.8 percent in 2000). Although seemingly robust in comparison to other crisis countries in East Asia, this growth rate is still too low – because Indonesia's recovery has lagged behind its neighbors and over half of its population is vulnerable to poverty, more than any other crisis country. Moreover, Indonesia's fragile banking and corporate sectors, and the precarious state of its government finances, make the country highly vulnerable to risks – with immediate implications for fiscal sustainability.

5. **Fiscal sustainability and external financing needs**. The most immediate priority, then, is to ensure fiscal sustainability – for stability and as a foundation for growth. Implementation of a sound budget for 2002 is a step toward this objective. The budget involves sizable revenue mobilization, reduction in fuel subsidies, and asset sales (including – hopefully more successfully than before – privatization). Gross external financing to meet the budget deficit is estimated to be about US$7 billion. Of this, the CGI *disbursement* pledge being requested is US$3.0-3.5 billion.

6. In previous years, actual disbursements have fallen short of CGI pledges – particularly for program loans. Indeed, over the past four years, the shortfall adds up to US$9 billion. Official creditors are becoming increasingly wary of pledging in support of policy reforms when the track record gives little cause for comfort. As in previous years, disbursements from ongoing and new program loans pledged in the CGI will be conditional on policy performance, so their disbursement should not be a foregone conclusion.

7. **Reform priorities**. The events of September 11 have not altered Indonesia's reform priorities – on the contrary, they have emphatically underscored their urgency. But donors need to be realistic about what is feasible, given strong vested interests, severe institutional weaknesses, the uncertainties arising from decentralization, and a turbulent transition to democracy. Progress is most needed in the key areas of structural reforms, good governance, and empowering and investing in the poor. Together with fiscal sustainability, they are consistent with the premise that stability, growth, and effective government are the key ingredients for long-lasting and sustainable poverty reduction.

8. Poverty is *the* development challenge facing Indonesia today. The agenda in this report and for the CGI is about keeping faith with the millions of poor people in Indonesia seeking a better future for themselves and for their children. It is important that every effort is made to complete this agenda successfully – and that all stakeholders, including the international community, work jointly for this common purpose.

Summary of Key Recommendations

This report contains many policy recommendations for Government and the creditor community. Clearly, they cannot all be implemented at once. Here we list key recommendations and put them in the sequence in which we think they should be implemented – the important *and* urgent belong at the top of the list.

Actions needing completion this year (2001)

- Maintain a tight money policy through the rest of the year to bring down inflation.
- Privatize BCA, Bank Niaga, and Semen Gresik as planned.
- Enact an effective Anti Money Laundering Law that strengthens the legal framework for anti-corruption.
- Finalize an action plan to create the right organizational structure and legal framework for Indonesia's public procurement system.
- Adopt a rice policy which balances the needs of farmers and consumers (especially the poor), and which gives BULOG a medium-term, fiscally-sustainable role.

Actions for completion next year (2002)

For stability:

- Meet privatization and IBRA asset recovery targets in the 2002 budget.
- Implement reforms that ensure disbursements of pledged program financing from official creditors.

For structural reforms:

- In consultation with Parliament, prepare a medium-term financial sector reform strategy.
- Close or merge banks that fail to meet the central bank's year-end capital adequacy requirements.
- In consultation with Parliament, prepare a divestment strategy for state banks.
- Consolidate and restructure the Java-based, state-owned, sugar industry.
- Complete restructuring of PLN.

For good governance:

- Establish a credible, independent, anti-corruption commission and fund it adequately.
- In consultation with Parliament prepare a comprehensive strategy to reform the justice sector and the civil service.
- Enact improved versions of the state finances, state treasury, and state audit laws in cooperation with Parliament.
- Establish the organizations to oversee Indonesia's public procurement system.
- Adjust the legal and regulatory framework for government procurement to meet WTO and AFTA commitments.

For empowering and investing in the poor:

- Prepare and present to Parliament a comprehensive poverty reduction strategy based on consultations with key stakeholders.
- Ensure general allocation grants are more equalizing across regions.
- Allocate budgetary resources specifically for poverty alleviation programs in the regions.

1. MACROECONOMIC PERFORMANCE AND OUTLOOK

1.1 The sharp deterioration in the global economy following the terrorist attacks in the United States has added another challenge to the already daunting list faced by the new Megawati administration. The new government had inherited a fragile economy, amid faltering world trade and global demand. Indonesia's growth slowed and inflation climbed following months of heightened social tensions and political uncertainty preceding the special session of the Peoples' Consultative Assembly (MPR) in July 2001. In the end, presidential power was transferred smoothly and peacefully and financial markets heaved a sigh of relief, greeting the event with a sharp appreciation in the rupiah. The new President earned general acclaim for her cabinet appointments and her new economic team rapidly came to agreement with the IMF on a much-delayed letter of intent (Box 1.1). But the honeymoon was short lived. Within weeks, the exchange rate started deteriorating once again and inflation refused to be subdued. Moreover, in its first 100 days in office, the new Government seems to have made little progress on its immediate policy priorities, which include: maintaining macroeconomic stability, accelerating bank and corporate restructuring, regaining fiscal sustainability, and ensuring continued service delivery to the poor while rapidly decentralizing government. As a result, official program loans supporting policy reforms are likely to disburse only about US$0.9 billion this year out of a total of US$2.6 billion pledged – adding to concerns about the sustainability of government finances.

Stability and market sentiment

1.2 **Monetary and exchange rate developments**. In early 2000, the monetary and exchange rate situation was poised to become more supportive of economic recovery. The rupiah had strengthened from over Rp 16,000 per dollar at the peak of the crisis to around Rp 7,000. Inflation had been brought firmly under control, and interest rates had fallen to around 12 percent from a peak of nearly 70 percent. Real interest rates were still relatively high, but it was expected that they would begin to decline as reforms were implemented and risk premia began to narrow.

1.3 Instead, the environment for monetary policy deteriorated. Early slippages in reforms and an increasingly uncertain political climate raised risk premia and contributed to renewed downward pressure on the rupiah, which fell to about Rp 9,000 per dollar in the run up to the August 2000 MPR session. Partly as a result, inflationary pressures re-emerged in the second half of the year. Bank Indonesia was somewhat slow to respond to the emerging inflation threat, reflecting concerns about the effect of higher interest rates on economic growth, the banking system, and the budget.

1.4 These pressures continued into late 2000 and early 2001. After a brief respite, the rupiah came under sustained downward pressure, reaching Rp 12,000 per dollar in April 2001 on growing concerns about the overall direction of economic policy and emerging political instability. Bank Indonesia continued to raise interest rates during this period, but its ability to respond more forcefully was constrained by pressures to change the central

Box 1.1
Selected Government Commitments in the Letter of Intent of August 27, 2001

Macroeconomic Framework and Policies

- Maintain a growth target in 2001 of 3-3.5 percent, inflation 9-11 percent.
- Reduce base money growth to 12 percent by March 2002.
- Review implementation of 2001 budget and framework for 2002 budget in mid-October.
- Draft 2002 budget to include a deficit of 2-3 percent of GDP.
- Submit to Parliament the draft Sovereign Debt Securities Law.

Fiscal Decentralization

- Transfer to the regions a total of 2.1 million civil servants by end-2002.
- Calculate revenue sharing and General Allocation Fund transfers based on original budget estimate.
- Use contingency funds only up to the Rp. 3 trillion allocated in the revised budget.
- Finalize modalities to issue bonds in last quarter 2001 to resource surplus regions.
- Complete audits of the allocation of the contingency funds by end 2001.
- Refine the formula for the General Allocation Fund for use in 2002.

Banking System Reforms

- Launch Bank Mandiri IPO (up to 30 percent of shares) by end-2001.
- Publish key financial data for individual banks by end-2001.
- Adopt action plan to improve supervision, regulations, and governance of NBFIs.
- Complete by end-2001 all outstanding issues from BI's 1999-2000 audit.
- Resolve BLBI credits issue between BI, GOI, and Parliament by end-2001.
- Finalize replenishment of Government Guarantee Scheme by first week of September.
- Remove BII's impaired assets and replace with government bonds by mid-September.

IBRA Asset Recovery and Restructuring

- Respond to the OC review of first four large restructurings by mid-September.
- Publish next round of ten OC reviews by mid-October.
- Launch sale of unrestructured loans by end-2001 using competitive bidding mechanisms.
- Discuss with Parliament sale of 51 percent of BCA to a strategic partner.
- Sell majority stake in Bank Niaga by end-2001.

Corporate Restructuring and Legal Reforms

- Restructure a cumulative total of $14-15 billion by end-2001.
- Refer from FSPC by end-December 2001 cases with a total debt of $10-11 billion.
- Submit an amended version of the Bankruptcy Law to Parliament by end-2001.
- The Anti-Corruption Commission to become fully effective in coming months.

Public Sector and Other Structural Reforms

- BPKP audit of the Reforestation Fund will be completed by end-2001.
- Publish audits and announce corrective actions of key SOEs by end-September.
- Publish audit of the tax office by end-September and announce corrective actions by mid-October.

bank law and remove its senior management. Bank Indonesia's accommodative monetary stance in this period meant that base money growth accelerated sharply in the second half of 2000. Not surprisingly, interest rates climbed in nominal terms, but failed to keep pace with higher inflation; as a result, real interest rates fell at a time when risk premia for Indonesia were generally on the rise.

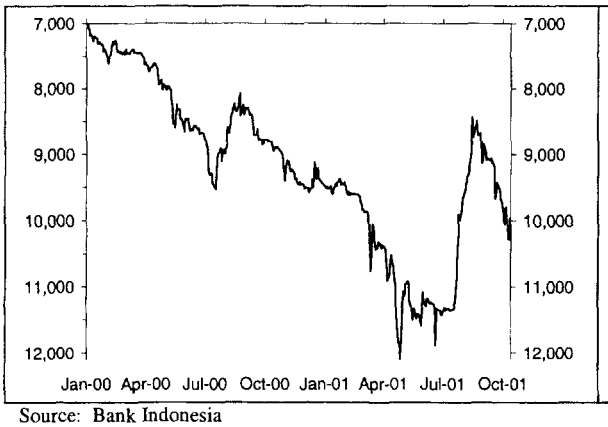
1.5 Since mid-2001, monetary conditions have been tightened significantly. This partly reflects further moves by Bank Indonesia to raise its key policy intervention rate in July. In addition, the improvement in market sentiment following the change of government contributed to a marked recovery in the rupiah, which reached an eleven-month high of about Rp 8,500 per dollar in mid-August. The stronger rupiah raised expectations for lower interest rates, as inflationary pressures abated and base money was brought back under control. Since then, however, the rupiah has come under renewed downward pressure, and inflation has yet to show signs of abating (Figure 1.1). These developments have reduced the scope for lowering interest rates in the short term.

1.6 **Market sentiment.** Domestic politics and global economic developments were not the only factors playing on the minds of investors and markets. Two other factors were at play in keeping markets jittery. First was the handling of legal disputes in the corporate sector and growing concerns about acquiring assets in Indonesia. Prime examples were: (a) the Manulife case, where a dispute over one small insurance policy with the insurance group led the claimants to initiate bankruptcy proceedings against the company and its foreign owners (Manulife and IFC); (b) the case of PT Panca in which unsubstantiated third party creditors voted against the company's bankruptcy as proposed by the original creditors (see Chapter 2); (c) PLN's dispute with IPPs where resolution is a pre-requisite for renewed large scale private infrastructure investment (see Chapter 2); and (d) Government's difficulties with privatizing BCA, Bank Niaga, and Semen Gresik – which add to the impression that acquiring assets from the Indonesian Government is difficult and risky. In all these cases, there is a clear perception that actions by the authorities reflect a systematic bias against foreign investors and an unequal application of the law in favor of domestic debtors.

1.7 Second was the Indonesian reaction to the U.S.-led strike against Taliban forces in Afghanistan. Television images of Indonesian demonstrations flashed around the world, alarming potential investors abroad and even stirring disquiet among residents. This further damaged Indonesia's reputation as a preferred location for foreign investors.

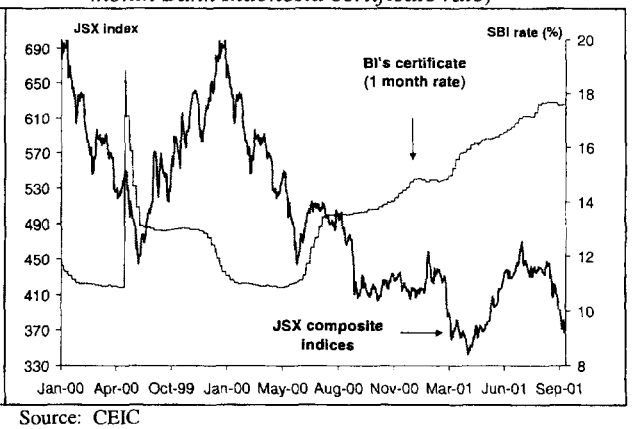
Figure 1.1
A macroeconomic snapshot, January 2000-October 2001

The rupiah bounced back briefly ...
(rupiah per US$, spot rate daily)



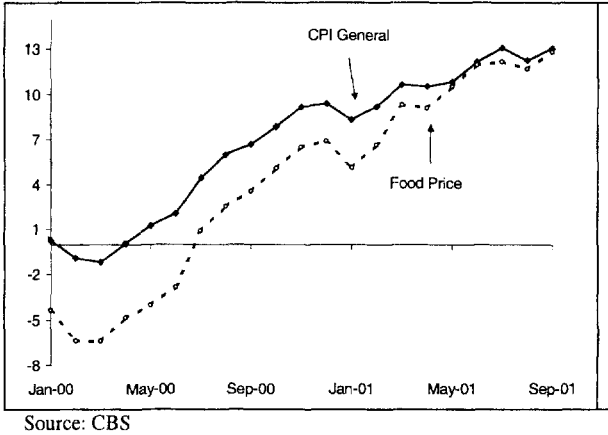
Source: Bank Indonesia

...a movement mirrored by the stock market.
(Jakarta stock exchange composite index and one month Bank Indonesia certificate rate)



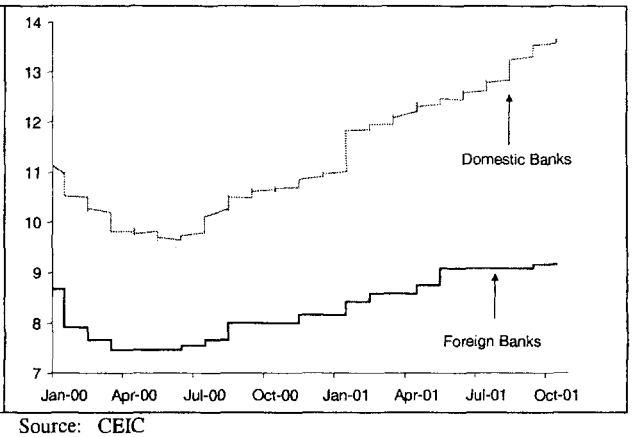
Source: CEIC

Inflation rose....
(12 month percentage change in consumer & food price index)



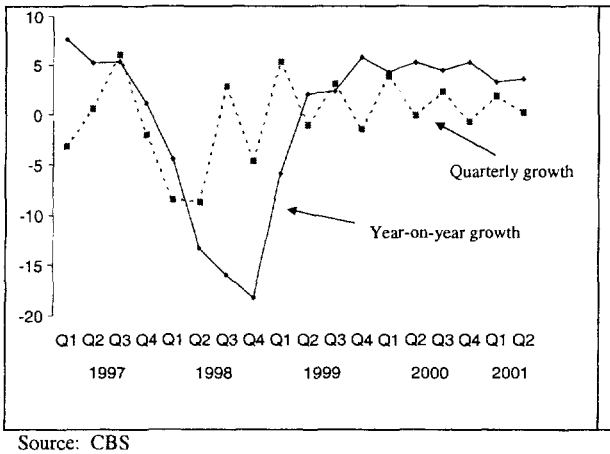
Source: CBS

...and interest rates caught up, but with delay.
(One month rupiah deposit rate in Indonesia)



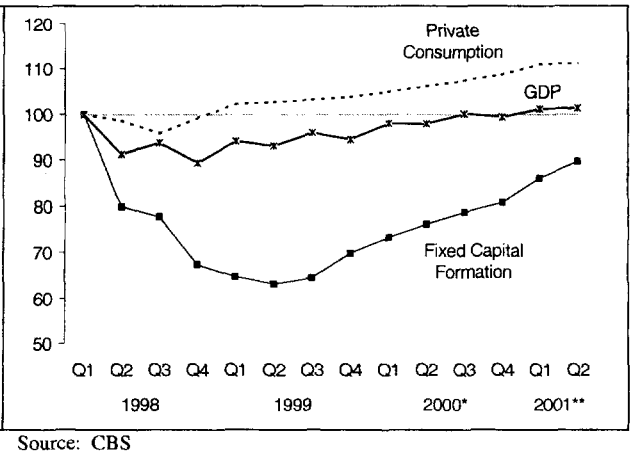
Source: CEIC

GDP growth remained positive....
(Year on year and quarterly growth, in percent)



Source: CBS

...driven by domestic demand.
(GDP, consumption and investment index, 1998Q1=100)



Source: CBS

The real economy

1.8 Recovery in the real economy also remains fragile. Despite the fact that the second quarter GDP results were better than expected, results for the first half reveal a marked slowdown—3.4 percent growth in GDP compared to 4.7 percent in the first semester of 2000 (Table 1.1).[1] Growth in government consumption eased because of fiscal strains, but private consumption growth held up well, despite a sharp decrease in consumer confidence amid political turmoil. And net exports declined substantially in the wake of the global slowdown (see below). But the big surprise was fixed capital formation which, defying pervasive evidence of investor pessimism, climbed significantly in the first half of 2001, maintaining a trend that began in early 2000. Part of this could be statistical artifact, owing to the choice of investment deflator. But it could also indicate increased maintenance and rehabilitation of capital stock as growing manufacturing and rising capacity utilization have exacted a toll on existing plant and machinery. In small and medium enterprises and export industries, it may reflect genuine investment in new capacity as firms responded to high profitability in the wake of depreciation in the currency. And it may arise from increased

Table 1.1
GDP growth slowed in 2001
(Growth in percent compared to same semester the previous year)

	2000		2001
	Sem. 1	Sem. 2	Sem.1
GDP growth	4.7	4.8	3.4
Non-oil GDP	5.1	5.4	3.9
By expenditure category			
Consumption	2.8	5.0	5.4
Household	2.9	4.3	5.3
Government	1.6	11.9	5.8
Fixed capital formation	16.8	18.9	17.7
Exports	18.1	14.1	14.4
Imports	4.4	32.0	34.4
By sector of origin			
Tradable			
Agriculture	-2.5	6.3	1.5
Mining & quarrying	1.8	2.8	1.7
Manufacturing	7.7	4.8	4.2
Non-tradables			
Construction	10.6	3.1	0.5
Finance	5.5	3.9	2.7
Transport	10.6	8.3	6.7
Utilities	9.8	7.8	8.6
Retail trade etc.	6.0	5.4	5.5
Other	2.3	2.2	1.8

Source: CBS

[1] GDP growth for the semester is measured over the same semester the previous year.

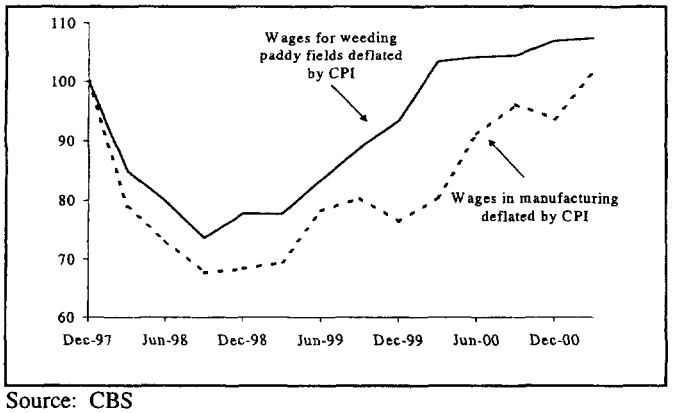
residential construction (which could also explain the growth in cement sales). Despite this, however, investment continues to be below pre-crisis levels.

1.9 Slower GDP growth in 2001 has been the result of a slowdown in virtually all sectors of the economy – but this was particularly pronounced in some of the non-tradable subsectors, including construction, transport, and finance. Puzzlingly, other non-tradable subsectors, such as utilities and retail and wholesale trade, continued to perform relatively well, showing few signs of being affected by the rest of the economy. The erosion of real electricity tariffs since the onset of the crisis, and the shift to more energy-intensive tradable sectors is likely to explain part of the growth in the power sector.

Income, wages, and poverty

1.10 The recovery has been good for the poor. Preliminary estimates from SUSENAS 2000 show that poverty declined substantially from its peaks in 1999. The headcount poverty index fell from over 27 percent in 1999 to 15 percent in February 2000, close to pre-crisis levels (see Chapter 4).[2] Other measures of poverty, using international standard poverty lines, lead to the same conclusion. The largest contributors to this decline were rising wages and a decline in food prices, notably rice. Unfortunately, since February 2000, the rupiah's depreciation was accompanied by rising food prices, while wages for unskilled labor in agriculture barely kept up (Figure 1.2).[3] This would suggest that the poverty rate has probably budged little since February 2000, and may even have increased marginally.[4] Of course, reality is much more variegated than such an aggregate analysis would indicate. For example, in some sub-sectors, notably hotels, real wages have declined by over 10 percent since early 2000, while in others they have increased. Also, trends in real wages have differed from region to region: while regions such as North and Central Sulawesi

Figure 1.2
Rural real wages did not do well in the second half of 2000



Source: CBS

[2] Currently, only a range estimate can be given, as data are still being cleaned up. Moreover, different methodologies give different outcomes: SMERU's preliminary estimate suggests a point estimate of 18 percent, whereas our own preliminary calculations suggest 15.24 percent—lower than the 1996 headcount.

[3] Indeed, in early 2000, agricultural real wages in Java were only 80 percent of their levels of January 1996.

show an improvement in real wages (and hence a likely reduction in poverty rates) since 1997, other areas such as Jambi continue to suffer poverty rates that are still more than double their pre-crisis level.

International trade and payments

1.11 The combination of a global slowdown and weak domestic demand – together with the downward pressure on the rupiah throughout 2000 and the first half of 2001 – sharply lowered non-oil exports and imports and increased the monthly trade surplus from April 2001 onward.

1.12 Year-on-year export growth has been negative now for six months in a row, mirroring the performance of other countries in the region (Figure 1.3). Non-oil exports for September 2001 were 24.2 percentage points below September 2000. Electrical products destined for the United States and Japan have been hardest hit. Yet, Indonesia's exports have fared better than those of most countries in the region as only 10 percent of Indonesia's exports depends on the steeply declining data processing and telecommunications sector, compared to 30 percent in the region as a whole.[5] In addition, a shutdown in Aceh's gas production triggered by regional unrest affected gas exports, and declining world oil prices dampened oil export revenues.

1.13 The deceleration in domestic demand and weaker exports meant that imports also declined for the first time in July 2001, followed by a sharp 25.4 percent year-on-year contraction in August followed by an equally worrying 27.9 percent fall in September (Figure 1.3). The slowdown was marked, as one would expect, in imports of intermediate goods (notably in chemical products), while consumer goods imports have remained reasonably steady. Because of the market slowdown in imports in 2001, the current account of the balance of payments is likely to remain in surplus at US$4.8 billion. However, at 3.2 percent of GDP, this is much lower than the 4.8 percent of GDP surplus in 2000.

1.14 **External payments and international reserves**. The capital account showed continued large imbalances between private and official capital. Despite large amounts of exceptional financing (a euphemism for arrears and rescheduling), private capital flows continue to be a drain on the balance of payments. Thanks to official flows, a major drop in reserves – or further depreciation of the rupiah – was prevented. Capital market inflows into Indonesia,[6] which are particularly sensitive to market sentiment, slowed to a trickle; in the rest of East Asia, they are rebounding smartly from their crisis lows (Table 1.2). Foreign direct investment into Indonesia continued to be dismal as well, although better than the $5.3 billion outflows that official statistics forecast for this year.[7]

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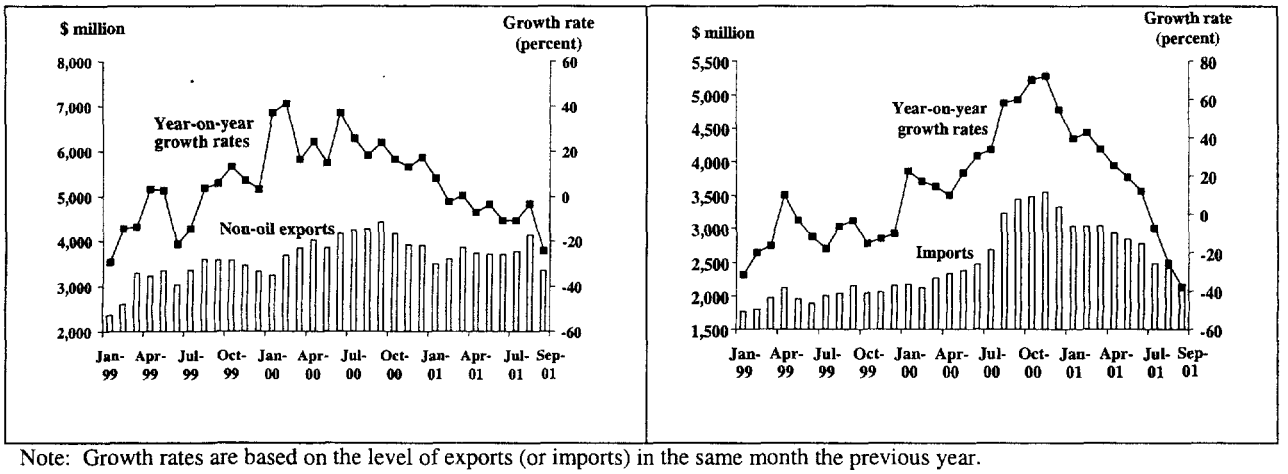
[4] This is consistent with our projections in Chapter 4.
[5] Source: TradeCan2000.
[6] Bank loans, equity, and bonds.
[7] Indonesia's BOP statistics divert from international practice in that FDI flows include debt transactions with non-parent companies and banks. As a result, FDI outflows are overestimated.

Figure 1.3
A slowdown in international trade

Sluggish non-oil exports..... **....and plummeting imports**



Note: Growth rates are based on the level of exports (or imports) in the same month the previous year.
Source: CBS.

1.15 The official capital account continues to be in significant surplus, thanks in large part to the Paris Club arrangement. Repayments of loans extended during the crisis are on the rise, however, and official foreign exchange reserves drifted down from $29.4 billion in end-2000 to $29.0 billion in end-September, 2001.

Table 1.2
No rebound for Indonesia
(Gross international capital market inflows to East Asia, US$ billion)

	1997	1999	2000	2001 Jan.-July annualized
Indonesia	**20.1**	**1.7**	**2.2**	**0.6**
China	24.8	6.9	25.5	13.0
Korea	26.9	14,6	22.7	34.6
Malaysia	10.5	6.0	6.5	8.8
Philippines	6.6	7.2	6.4	4.2
Thailand	8.5	3.5	3.7	2.2

Source: World Bank staff estimates from Euromoney, Bondware and Loanware.
Note: for Indonesia, BI sources show a higher level of inflows, but here internationally comparable data are shown.

Fiscal policy

1.16 Fiscal sustainability has become a crucial challenge for Indonesia. In this context, the outcome of the 2001 budget and the preparation of the 2002 budget are important first steps in consolidating the government's fiscal position, and providing a firm basis for further measures in succeeding years.

1.17 **The 2001 budget**. The fiscal outlook for 2001 continues to be difficult. By mid-year, the combination of higher interest rates and a weaker exchange rate had raised the projected deficit from 3.7 percent of GDP to 6.0 percent (Box 1.2). Parliament approved a package of measures in June to restore the projected deficit to 3.7 percent of GDP and included special measures to compensate the poor for increases in fuel prices (Box 1.3).

Box 1.2

New structural underpinnings affecting budget dynamics

In earlier years, a depreciating currency and higher oil prices had a positive effect on the budget – and higher domestic interest rates had little effect. Not in 2001. Fiscal decentralization and the newly acquired burden of variable interest rate domestic debt changed the structural underpinnings to the budget.

- A depreciation in the currency of Rp. 1,000 per dollar enlarged the deficit by 0.6 percentage points of GDP.
- Similarly, a 10 percent increase in the oil price *increased* the central government deficit by 0.2 percent of GDP. The key reason is that increased revenues from depreciation and higher oil prices is shared with the regions, while higher spending on interest and fuel subsidies is not.
- In addition, a 100 basis points rise in interest rates swelled the deficit by 0.15 percent of GDP, not to mention adding contingent liabilities to the government's balance sheet if it also contributes to higher recapitalization needs in banks.

Unfortunately for Indonesia, movement in all three variables during 2001 were in the direction of worsening the budget. This year, the government mitigated the damage to some extent by fixing transfers to the regions at levels stated in the original budget.

Next year, the Government plans to further reduce fuel subsidies. This will re-introduce a hedge in the budget against exchange rate movements. A more powerful approach would be an automatic fuel price adjustment mechanism, while a structural solution would lie in adjusting the regulations that guide revenue sharing arrangements with regional governments.

Box 1.3
Compensating the poor for fuel price increases

The 2001 budget revisions approved by Parliament in June included some Rp. 2.2 trillion in schemes to offset the impact of the fuel and electricity price increases on the poor. In all, seven schemes were designed. These were: the expansion of the OPK subsidized rice scheme by 1.215 million households; bus subsidy schemes to avoid increases in bus fares; various health initiatives; various education programs for the poor; a clean water scheme in 314 locations; a micro-capital scheme through 1,000 institutions; and a coastal community empowerment scheme. Although delayed, most programs are now up and running. The bus subsidy scheme, however, was cancelled, because most municipalities approved fare increases that outweighed the cost increases associated with the hike in fuel prices. To what extent the compensation schemes have actually benefited the poor is yet to be determined, and BPKP is set to audit the measures before the end of the year.

1.18 These revisions notwithstanding, the 2001 fiscal outlook remains worrying. The revenue and expenditure outcomes look likely to come close to budgeted levels, but a shortfall looms in available domestic and external financing for three reasons:

- First, as we have already noted, IBRA cash sales could be below target.
- Second, meeting the privatization target in these last two months of the fiscal year will be challenging, to say the least.
- And third, program financing is expected to fall significantly short of budget because reforms supported by these loans have been delayed. The second tranche of the World Bank's Social Safety Net Adjustment Loan (SSNAL) was cancelled because key actions were not completed. Similarly, other program loans, most from the ADB (with some co-financing from Japan), remain undisbursed because of delays in policy implementation.

1.19 Unless there is a concerted effort by all branches of government and Parliament to meet these policy conditions, there is a strong likelihood that these loans will not disburse this year as scheduled. To balance the budget, the Government will need to implement a package of measures including: getting the privatization program up and running; accelerating IBRA asset sales; raising more resources, perhaps by increasing bond issues to reluctant regions; cutting unallocated development expenditures while protecting high priority spending on health, education, and basic infrastructure maintenance; and accumulating arrears on expenditures already committed. The last measure is very costly and should be avoided to the extent possible – as it will disrupt development projects and impose further financial strain on key state enterprises such as PLN and Pertamina.

1.20 So far, implementation of the 2001 development budget has been slower than normal. One reason was that Parliament almost doubled the domestically financed component (when it reviewed the draft budget in late 2000). As a result, project preparation fell behind schedule in 2001. Moreover, Parliament wanted to review individual projects in the development budget, and as a result authorizations to spend (DIPs) were not issued

before April. Indeed, some implementing agencies had to wait until September to obtain their DIPs.

1.21 An important concern is whether decentralization will lead to a decline in development expenditures. The concern stems from two factors – whether regions have enough resources and whether they will emphasize development to the same extent as the center. Revenues have increased significantly for local governments, but so has recurrent spending as civil servants were transferred to their payroll. The resource revenue share benefited only some 15 to 20 local governments (out of a total of 341), and the general allocation fund (DAU) did not compensate the remainder adequately. So many local governments—and especially provincial governments—came under budgetary pressures.

Table 1.3
Planned central and regional development spending 2000 and 2001

	FY2000 estimate (9 months)	FY2001 budget
Regional development spending[1]	14.8	29.5
Total central development spending	40.7	45.5
Central government implemented	23.9	42.8
Regionally implemented from central budget	16.8	2.7
Total development spending	55.5	75
(as a share of GDP)	5.0	5.1

Source: MOF, regional budget documents.

[1]For 2000, estimated from budgets of 25 provinces and 310 districts and provinces. For 2001, regional spending was estimated by assuming that all regions spend the same share of their revenues on development as the 145 regions for which data are available.

Despite this, *planned* development spending by the regions was expected to double in 2001 and push total development spending to 5 percent of GDP, about the same as planned in 2000 (Table 1.3). In actuality, central and regional development spending will fall short in 2001—the former because of financing constraints (see below) and the latter because of an unexpectedly large wage increase—which was only partly compensated for by a Rp.3 trillion disbursement from the contingency fund.

1.22 **The 2002 budget**. The Parliament approved the 2002 budget on October 25, 2001. To reflect the changed economic environment, the Government agreed with Parliament to change the underlying macroeconomic assumptions in early October. The final budget incorporates an overall deficit of 2.5 percent of GDP, balancing the need for adequate development expenditures while consolidating the government's debt position. The budget assumes a real GDP growth rate of 4 percent in 2002, an annual inflation rate of 9 percent, and an exchange rate of Rp. 9000 per dollar. Key features of the budget include: some increases in tax revenues based on improved tax administration and some changes in excise taxes; a very modest rise in civil service salaries; a further increase in fuel prices (and, thus, lower fuel subsidies); a new formula for allocating central grants to districts to make it

more equalizing;[8] a central government development budget of 3.1 percent of GDP; and, finally, a challenging target for IBRA asset sales and privatization receipts. A significant part of the privatization and asset sales receipts are earmarked to repay expensive domestic debt.

1.23 The budget represents a considered approach to gradually bringing the deficit down while keeping the government's debt service burden to a minimum (under the circumstances). This comes, however, at some cost: the central government's development budget, for example, remains at 3.1 percent of GDP despite having been cut three previous years in a row – the state of Indonesia's infrastructure and declining quality in social services bear testimony to this. Of course, local governments could compensate by increasing the size of their development budgets (now estimated to be about 2.0 percent of GDP), but there is no certainty this will actually happen, as the regions are free to spend their general grant as they see fit.

Table 1.4
External financing needs and the CGI request

	US$ billions
Budget deficit	**4.7**
Domestic finance	**2.6**
Privatization receipts	0.4
Asset recovery	2.2
Foreign finance	**2.1**
Net disbursements	**2.1**
Amortization	**4.9**
Total financing needed	**7.0**
Non-CGI financing a/	3.7
CGI financing	3.3
TOTAL CGI FINANCING REQUESTED	3.0-3.5

a/ Includes export credits as well as financing from other sources, including Paris Club rescheduling.

Source: World Bank staff estimates.

[8] However, at the time of writing, Parliament has asked the Government to "compensate" the rich regions for a projected DAU drop in 2002. The Rp.4 trillion that it would cost to keep these regions at the same level would not only strain the central budget, but would further undermine the equalizing properties of Indonesia's fiscal system to the detriment of the poor regions.

1.24 Maintaining the deficit at 2.5 percent of GDP requires a significant improvement in tax effort. Oil revenues—which are expected to amount to 6.8 percent of GDP in 2001, will drop to only 4.4 percent of GDP next year because of lower oil prices and a stronger rupiah. To counter this, the Government plans to increase non-oil tax revenues by 2.8 percentage point of GDP to 8.6 percent—a plan that will require significant administrative reforms and reduction in tax exemptions.

External financing needs

1.25 The external financing needs of the budget follow from a broad strategic approach since the crisis of:

- a steadily declining budget deficit as a share of GDP;
- increasing the effort to raise domestic resources to finance the deficit;
- seeking all possible means to lower the debt service burden including through more concessional external borrowing; and
- rescheduling payment streams under existing international rules.

1.26 These directions are consistent with the broad objectives – or three pillars – of official financial support to Indonesia: assistance in support of macroeconomic stability; assistance in support of structural and governance reforms; and assistance for future development and poverty reduction needs.

1.27 The total budgetary financing needed in 2002 is expected to be about US$4.7 billion. Of this, about $2.6 billion will be financed by receipts from privatization and asset sales. Net disbursements of foreign finance will therefore need to be about US$2.1 billion. Add projected amortization, and the gross external financing need is US$7 billion. About US$3.7 billion is expected to be raised from a variety of sources – including export credits and rescheduling under the auspices of the Paris Club. That leaves about US$3.3 billion for CGI financing. Given the uncertainty that usually surround these numbers, the amount actually being requested from the CGI is in the range of US$3.0-3.5 billion (Table 1.4). This CGI request is substantially below the $4.5-5.0 range that was requested to help finance the 2001 budget, reflecting the smaller deficit this year and, hence, the need for less external financing.

1.28 In previous years, actual disbursements have fallen short of CGI pledges – especially from program loans (Box 1.4). Official creditors are becoming increasingly wary of lending in support of policy reforms when the track record gives little cause for comfort. As in previous years, disbursements from new program loans pledged in the CGI will be conditional on certain standards of policy performance by Government. While they will help toward meeting the budget deficit, they will be contingent and cannot be counted upon unless policy performance improves.

1.29 The uses to which the pledged amount is put are as important as the amount itself. For one, high fiduciary standards in Government will be important to ensure that these resources reach the project and program beneficiaries for whom they are intended. For

another, these resources need to be used for high priority projects which are judged on their *outcomes*, not just *outputs,* and which yield the highest economic and social returns. For this, projects need to fit within well-designed sector strategies that take account of the opinion of key stakeholders and recognize the appropriate role for Government in delivering public goods and services. And this also requires good coordination among the donor and creditor community, which has been progressing well in recent years, but which nevertheless has further room for improvement. Moreover, the Government needs to involve the beneficiaries not only in the design of projects but also in their monitoring and implementation (see Chapter 4 for more on this).

1.30 Another important feature of CGI meetings in recent years is the gap between the project finance pledged and the amount actually disbursed. Although actual disbursements appear to have held steady, there has been a steady decline in total project finance pledged (Table in Box 1.4). The number of projects in preparation appears to have atrophied gradually during the crisis, and large creditors, such as the World Bank and ADB, have

Box 1.4
What a difference!

Over the four year period 1998-2001, delays in policy implementation have cost Indonesia over US$6 billion in delayed or cancelled program financing – out of a total of about US$13 billion (box table). This does not include delays in project finance amounting to US$3.1 billion, and postponements in the IMF program which have cost the county a further US$1 billion in delayed tranche releases.[9]

Two conclusions can be drawn from this. First, slow and halting reforms have cost Indonesia dearly in terms of resource availability that could have boosted development spending for the poor. And second, contrary to opinion among some quarters (in Indonesia and abroad), official creditors *have* withheld finance when policy performance was slow or below par, correctly holding the Government to its commitments.

Box Table

Disbursements of program and project finance, pledged and actual (US$ billions)

	1998/99	1999/00	2000	2001 proj.	Total
Program					
Pledged	4.7	3.2	2.7	2.6	13.2
Actual	4.0	1.9	0.2	0.9	7.0
Difference	**0.7**	**1.3**	**2.5**	**1.7**	**6.2**
Project					
Pledged	3.2	2.6	2.0	2.2	10.0
Actual	1.5	1.8	1.9	1.7	6.9
Difference	**1.7**	**0.8**	**0.1**	**0.5**	**3.1**

Source: World Bank staff estimates based on data from the Ministry of Finance and Bank of Indonesia.

[9] The IMF recently completed its third review when its original schedule indicated it should have completed its eighth.

cancelled substantial amounts of undisbursed loans which no longer supported the priorities of an Indonesia in crisis. The result is a substantial decline in the stock of undisbursed project loans, and hence a decline in the level of disbursements. Yet, pledged disbursements have outstripped actual performance. Part of this could be due to unexpected delays in project implementation. But the fact that pledged and actual disbursements appear to be converging is a good sign that donors and creditors are taking a more realistic view of the pace of project implementation in Indonesia.

The macroeconomic outlook

1.31 Indonesia's economy was already slowing before September 11, 2001. The global effects of the terrorist attack will accentuate Indonesia's slowdown, especially if the rest of the world slips into recession, and world trade decelerates markedly as it threatens to do.

1.32 The World Bank projects that world GDP growth will slow from over 4 percent in 2000 to around 1.3 percent in 2001, and only slightly more in 2002, before climbing to 3 percent by 2003. Hopes for recovery in Japan, Indonesia's largest trading partner, have faded and growth in the USA, the second largest trading partner, could turn negative by the end of the year. World trade – which grew over 11 percent in 2000 – is expected to remain almost stagnant this year, and grow some 4 percent in 2002. Tourism, a sector that contributes some 3.5 percent to Indonesia's GDP, has been hit particularly hard by the September 11 attack.

1.33 These global trends towards recession will undoubtedly have their impact on commodity prices—which, with the exception of oil, were already showing a downward path for several years. Oil prices briefly jumped after the attack, but the markets now have decided that the demand effects of a global slowdown will outweigh the supply effects of any possible disruption, and oil prices could dip below $20 for 2002. While overall international interest rates are expected to fall and remain low, Indonesia's risk premium in international capital markets is more than 500 basis points over US Treasuries – reflecting continued negative market sentiment. It is unlikely to decline swiftly, and could even jump if domestic tensions rise.

1.34 Given these global trends, Indonesia's growth is set to slow. Exports could hardly be expected to play the role they did last year. So it will need to be the domestic market that leads the way. Unfortunately, the Government's debt situation precludes it from using the budget to stimulate the economy. The answer will need to come from the private sector.

1.35 It is for this reason that the climate for private investment has become so crucial for Indonesia's economic recovery. And this climate will depend entirely on the level of security and law and order in the country and the pace of domestic reforms, including progress in bank and corporate restructuring, fiscal decentralization within a framework of overall fiscal consolidation, monetary stability, and governance. But these are complex and far-reaching reforms which require effective implementation and a sound legal environment – and so expectations of progress must be modest. The new government, in its Letter of Intent to the IMF, committed itself to a realistic and feasible reform program over the next

six months. Unfortunately, progress so far has been disappointing, and the markets have shown their displeasure (see above).

1.36 The Bank therefore places Indonesian squarely in the "muddle-through" scenario as described in its Country Assistance Strategy. In this scenario, Indonesia maintains a modicum of macroeconomic stability, but implements structural reforms in fits and starts, with some policy reversals. Private investment (domestic and foreign) revives barely enough to keep GDP growth at about 3.5 percent in 2002, and 4 percent beyond that (Table 1.5). In the absence of decisive policy action, the fiscal position remains marginally sustainable. The government debt-GDP ratio and the debt service to fiscal revenues ratio decline gradually, but not by enough to reduce the economy's vulnerability to future shocks (see below).

Table 1.5
Indonesia's macroeconomic outlook under two scenarios

		Muddle-through scenario			Performance scenario		
	2000	2001	2002	2003	2001	2002	2003
GDP Growth (percent)	4.8	3.3	3.5	4.0	3.3	4.0	5.0
Inflation (percent change in GDP deflator)	11.3	10	8.5	5.0	10.0	7.5	5.0
Current account balance (percent of GDP)	5.3	3.0	0.9	-0.5	3.2	0.7	-0.2
Total external debt (percent of GDP)	100.2	86.3	75.5	69.5	86.8	75.1	68.5

Source: World Bank staff estimates.

1.37 Surprisingly, even in this "muddle-through" scenario, Indonesia is expected to grow faster in 2002 than the average of the East Asian crisis economies (Table 1.6). This is partly explained by the relatively limited impact of the global hi-tech slowdown on

Table 1.6
Indonesia's growth -- not bad in comparison
(Real GDP growth; in percent)

				Projection	
	1998	**1999**	**2000**	**2001**	**2002**
East Asia 5	**-6.7**	**6.8**	**6.9**	**2.3**	**3.4**
Indonesia	-13.2	0.8	4.8	3.3	3.5
Korea	-6.7	10.9	8.8	2.4	3.4
Malaysia	7.4	6.1	8.3	0.9	3.7
Philippines	-0.6	3.4	4.0	2.5	3.5
Thailand	-10.8	4.2	4.3	1.6	3.0

Source: Authorities' data and staff estimates.

Indonesia, and to some extent by the expectation of further catch-up investment necessary to maintain current production levels. Moreover, Indonesia has recovered less sharply from the crisis than other countries, and therefore still has some way to go to regain its pre-crisis per capita income levels.

1.38 There is also the possibility that Indonesia's policy performance may pleasantly surprise. This "performance scenario" involves an effective government that stays on track with its reform program, helps improve investor confidence, and provides the security and law and order needed to raise investment rapidly to pre-crisis levels. This scenario could mean a higher GDP growth from 2002 onward. Higher investment demand would reduce the surplus on the current account more rapidly. But a combination of higher growth, lower interest rates (in light of lower inflation and reduced risk premiums), accelerated asset recovery, and a stable exchange rate will hasten the decline of the government debt to GDP ratio and the government debt service to fiscal revenue ratio.

Risks

1.39 Before September 11, the principal risks facing the Indonesian economy were primarily domestic in origin – and these were enough to cause concern. But now, there is a significant overlay of global risks that on their own, and through their interaction with domestic forces, can significantly alter Indonesia's economic prospects. Domestically, halting and inadequate reforms, combined with political instability and regional tensions remain the largest risks. Internationally, the world slowdown could be even deeper and more prolonged than the current gloomy forecasts predict. And – despite being renowned as a moderate Muslim nation – Indonesia could find it difficult to balance domestic reactions to the aftermath of the September 11 attack and its international commitments as required, for example, by UN Security Council resolutions. All these risks could affect prospects for growth and poverty reduction, and weaken fiscal sustainability.

1.40 **Domestic risks**. As in the past, there may continue to be a significant gap between the promise – and the implementation – of reforms. For sure, there are some good reasons for this. Gone are the days when a few policymakers could make decisions behind closed doors. A democratic, decentralized Indonesia requires new decision-making procedures that imply a more complex and demanding environment for policymaking. But these procedures lend transparency and ownership to important economic decisions – which the international community supports wholeheartedly.

1.41 In short, Indonesia's political transition (as well as the international environment) require that decisions be made *better*. At the same time, however, Indonesia's difficult economic straits demand that decisions be made *faster*. There is an urgency attached to decisions on privatization, asset recovery, legal reforms, civil service reforms, and several key legislative initiatives. These have implications for sustaining the recovery and ensuring fiscal sustainability – arguably the most difficult macroeconomic challenges facing the country.

1.42 Domestic instability would add to this challenge by worsening negative investor sentiment, and – if not dealt with decisively – perhaps putting international financial

support at risk. Government has taken some measures to reduce regional unrest, including the recent passage of laws on special autonomy for Aceh and Papua. It has also started a process to return East Timorese refugees. And – albeit with some delay – it has dealt decisively with extremist groups that have threatened to attack foreigners residing and working in the country. But on all these fronts, there is always the risk that unrest and violence could once again arise and put to the test the Government's ability to maintain law and order and protect the security of people and property.

1.43 **External risks**. On the external front, further slowdown in the world economy could hit Indonesia through additional declines in export earnings and lower commodity prices. According to the World Bank, an extra 2 percentage point decline in investment in industrial countries costs East Asian countries *on average* some 1.5 percentage point of GDP in growth in the following year. Indonesia may not be hit as hard as the rest of East Asia on export *volumes* (simply because its trade to GDP ratio is lower than the regional average). But it will be hit harder on export prices, because further weakening is anticipated in already low oil and other commodities prices. If severe enough, the rupiah could show renewed volatility, interest rates would rise, and the recovery could slow further.

Fiscal sustainability and debt management

1.44 The interaction between external and domestic risks makes for a potent cocktail – especially for Indonesia's fiscal sustainability and debt management. Further slowdowns in world growth and trade, delayed reforms in bank and enterprise restructuring, and jittery external financing – all work in the same direction; they threaten Indonesia's fragile fiscal situation, which stems in large part from an explosive increase in government debt. Starting from moderate debt before the crisis and a widely-acclaimed record of prudent debt management, the Government is now burdened with debt that exceeds 90 percent of GDP and debt service payments that siphon about 40 percent of fiscal revenues.

1.45 Most debt crises in emerging markets had their origins in rapid accumulation of government and government-guaranteed external debt. But in the case of Indonesia, while foreign borrowing increased in the early 1990s, the level of the government's external debt was only moderate in relation to GDP, and the reliance on multilateral and bilateral concessional sources provided extended maturities (averaging over 20 years) and concessional interest rates (averaging less than 5 percent) -- which acted as insulation against shocks. Instead, the sharp rise in Indonesia's indebtedness since 1998 derived largely from the fiscal response to the impact on the banking system and relates to the issuance of domestic debt (mostly bonds) to re-capitalize ailing or bankrupt banks and compensate Bank Indonesia for liquidity credits during the early months of the crisis.

1.46 Indonesia's high level of government debt and debt service is not just a *product* of the instability that Indonesia has experienced over the last four years – it is now a potential *cause* of economic instability as well. High debt service payments put considerable pressure on the Government's ability to maintain essential spending on development and poverty reduction programs. And concerns about the sustainability of government debt exert a strong influence on investor confidence, affecting both domestic interest rates and

Indonesia's ability to attract long term investment. High government indebtedness also renders the economy highly vulnerable to shocks, greatly limits the Government's ability to respond to new shocks, and leaves little margin for error in economic management. Most worrying of all, a high level of domestic debt tends to reduce the credibility of the government's resolve to keep inflation low and increases the incentive to "inflate" away the debt (as has happened in some Latin American countries).

1.47 Reducing government debt to more sustainable levels is a central focus of economic policy. Indeed, the Government of Indonesia's commitment to fiscal sustainability is prominently mentioned in its five year program (Propenas, November 2000) and annual plans (Repetas 2001 and 2002). These focus on the goal of reducing the government debt to GDP ratio to below 60% by 2004. The 2001 and 2002 budgets have been consistent with this objective. Achieving this outcome will depend on progress in three areas:

- *Restoring growth.* Reducing debt in a low-growth setting is difficult. In a narrow sense, faster growth increases the denominator of the debt/GDP metric, reducing the debt burden. But more broadly, faster growth generates more resources for the budget and investment opportunities in the economy, facilitating adjustment and restructuring in the private sector and expanding the public sector resource base.

- *Maintaining fiscal discipline.* The crisis and its aftermath have imposed severe strain on the budget: rising debt service costs have reduced resources available for development programs even as the need for development and poverty-targeted spending has increased. But it is essential that such pressures are contained, and that the budget generate a continuing fiscal surplus over the medium term. This in turn will require both improved revenue mobilization (from both tax and non-tax sources) and improved financial management and procurement (especially in local governments, where institutions and capacity remain weak).

- *Accelerating financial and corporate restructuring.* The growth in domestic debt was matched by government acquisition of substantial assets (albeit of varying quality) mainly in the form of loans and equity. Expeditious disposition of these assets is key for two reasons: first, the receipts could be used to accelerate the reduction of domestic debt, and second, it would help galvanize the private sector and catalyze growth.

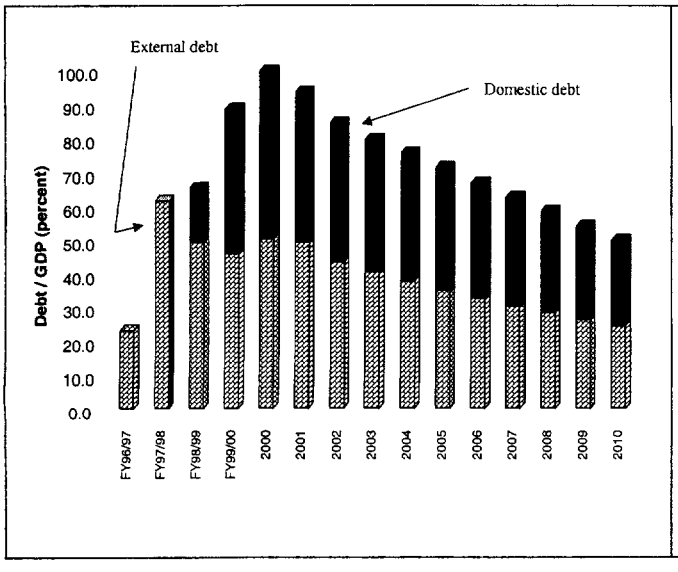
1.48 This essentially covers the entire macroeconomic agenda. We have already noted that progress on these fronts in the "muddle-through" scenario will be limited. But even so, the debt burden can gradually decline to moderate levels over the medium term (Figure 1.4). Specifically, the scenario assumes:

- GDP growth recovering to 4 percent by 2003, maintained through 2010;
- primary fiscal surplus of 3 percent from 2002 onwards – which basically means expending the same fiscal effort as is being proposed in 2002;
- Inflation reduced from 10 percent in 2001 to 5 percent from 2003 onwards;
- Constant real effective exchange rate from 2002 onwards;

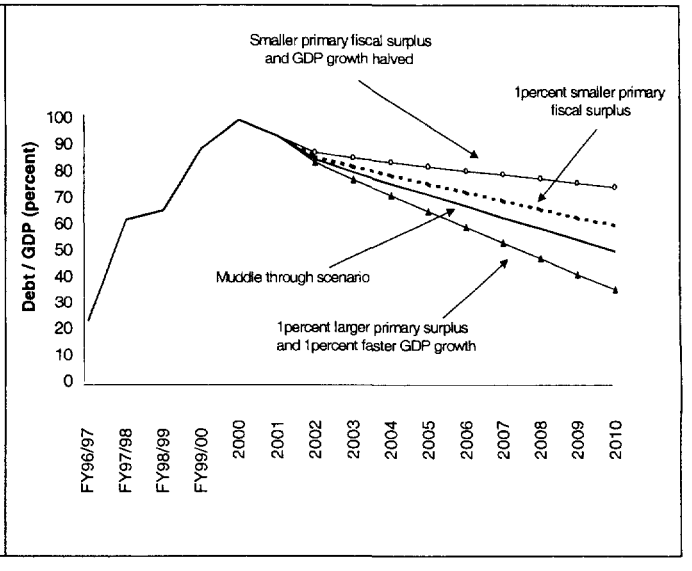
- Reduction in domestic interest rates to 13 percent from 2003 onward;
- IBRA asset recovery and privatizations equal to around 6 percent of GDP cumulatively over the next 3 years;
- No unanticipated large off-budget "surprises" or renewed crises requiring major additional debt creation by government.

Figure 1.4
The sustainability of government debt under different scenarios
(Using the trajectory of the ratio of government debt to GDP)

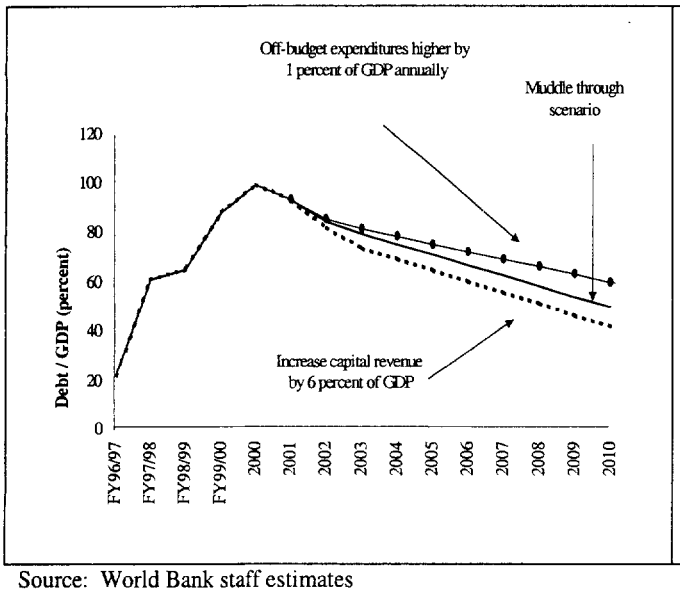
In the muddle through scenario, debt-to-GDP ratios decline.....



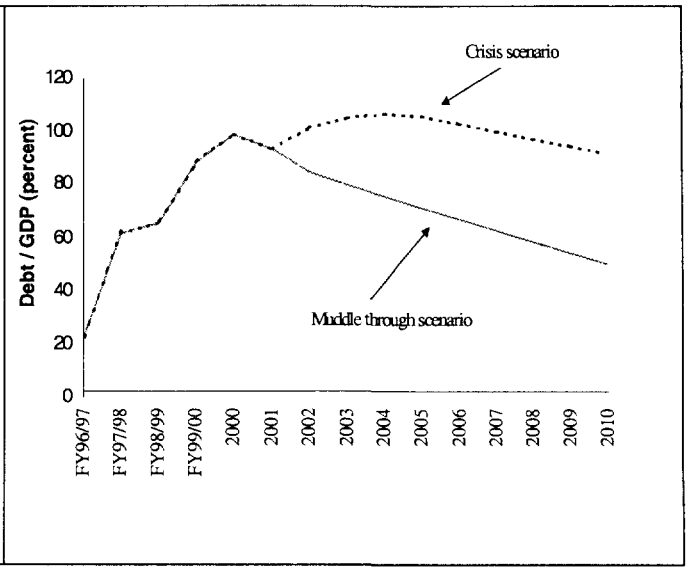
...but much depends on growth and fiscal effort.....



...as well as the Government's ability to contain contingent liabilities and raise capital revenues (through asset sales)...



...but Indonesia would find it difficult to absorb the effects of another crisis.



Source: World Bank staff estimates

1.49 Under this scenario, the government debt to GDP ratio would decline steadily over the coming decade from the 2000 peak, with reductions in both the external and domestic components. By the end of the decade, debt ratios would be lower than at any time since the crisis began (although still twice as high as in 1996/97, the last pre-crisis year). But it should be emphasized that while such an outcome is *feasible,* it is by no means *guaranteed:* all the risks mentioned in the previous section could threaten such an outcome, and the high level of debt itself makes it less likely (see above).

1.50 Poor performance in one or more of these areas would jeopardize the debt reduction outcome shown. Consider the effect of shortfalls in two key areas: a reduction in the primary surplus from 3 to 2 percent of GDP, and a halving of the GDP growth rate from 4 to 2 percent annually.[10] A lower primary fiscal surplus of one percentage point of GDP would lead to a debt/GDP ratio that is 10 percentage points higher in 2010 than in the original scenario; and halving GDP growth would raise it an additional 14 percentage points, with the result that the debt ratio falls much more modestly throughout the entire decade. Clearly, a combination of these two scenarios would lead to an unsustainable fiscal situation. Alternatively, if growth accelerates to 5 percent (rather than 4 percent in the base case) and the primary surplus can be maintained at 4 percent of GDP (rather than 3 percent), than the debt ratio would drop even more substantially, reaching around 35 percent by the end of the decade.[11]

1.51 Similarly, consider a relaxation of the condition on "off-budget" contingent liabilities.[12] If off-budget liabilities equivalent to 1 percent of GDP annually (around Rp. 16 trillion a year in 2002) require additional government borrowing, the pace of debt reduction would slow, and the debt/GDP ratio would reach 60 percent only in 2010. Alternatively, with higher capital revenues totaling 6 percent of GDP during 2002-2003 – perhaps from additional asset sales and privatization, the debt ratio at the end of the decade would drop to 42 percent (and the Government's target of a debt/GDP ratio of 60 percent is reached in 2006). As the rupiah revenues generated are used primarily to reduce domestic debt, the share of domestic debt in GDP would drop to only 18 percent, compared to 44 percent in 2001.

1.52 Finally, consider a crisis scenario, triggered, perhaps, by some combination of external events and domestic pressures (concerns over policy credibility, decline in investor confidence). In this scenario, we assume: (1) a precipitous drop in the exchange rate in 2002 (to 12,000 Rp/$); (2) a sharp rise in inflation (by 5 percentage points) in 2002, and a slow return to 5 percent; (3) an increase in interest rates on domestic debt (from 14 to 26 percent), with a slow return to existing levels; (4) no GDP growth for two years (2002-03),

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[10] Changes in the government debt to GDP ratio can be attributed to three factors: (1) the difference between the average interest rate on the debt and the growth rate of GDP; (2) the size of the primary surplus; and (3) the net impact of capital revenues (IBRA asset recovery, privatization) less off-budget losses (contingent liabilities, bailouts). The projections reported here are based on a simple accounting framework that incorporates these factors, and which has been used in earlier analyses of Indonesia's debt dynamics.

[11] While obviously a much worse outcome than the original scenario, in formal terms this scenario is still "sustainable", since the technical definition of sustainability requires only that the government debt/GDP ratio not rise over time.

[12] The key contingent liabilities include: (a) guarantees covering domestic banks' liabilities (excepting equity, of course); (b) obligations to private infrastructure providers (mainly in power generation, but also in toll roads); (c) obligations of minimum pension payments to civil servants; (d) off-budget government-sponsored credit schemes to the private sector; and (e) guarantees extended to some private sector entities to restore the flow of credit.

followed by slow recovery; (5) 2 percentage point drop in fiscal surplus/GDP ratio; and (6) off-budget contingent liabilities (increased bank bailouts, etc.) equivalent to 6 percent of GDP requiring financing over the 2002-2004 period.

1.53 The dimensions of this "crisis" would be considered quite serious for most countries, although they pale in comparison to Indonesia's experience in 1997. The net effect would be to drive debt ratios upward during the crisis period (2002-04) until they are above their previous peak in 2000. But once stability is restored and some growth resumes from 2004 onward, the government-debt GDP ratio begins to decline once again. By the end of the decade, debt levels remain virtually unchanged from today. The salient point is that current high levels of government debt make Indonesia more susceptible to external or domestic shocks, increasing its vulnerability and limiting feasible policy options open to policymakers.

1.54 None of these analyses explore the possibility that the government may, at some point, be tempted to monetize part of the budget deficit – sparking inflation, raising nominal interest rates sharply, and triggering rapid depreciation of the rupiah. This would place the economy in a vicious circle – macroeconomic instability would lead to higher deficits which in turn would be monetized, contributing to yet higher inflation. Thus, while lowering debt ratios is feasible in a stable environment, the task becomes much more difficult in an unstable one.

1.55 This analysis yields a number of conclusions about the importance of debt management and fiscal sustainability. First, growth and stability are essential – so sticking with the discipline of the IMF program will yield high returns in the long run. Second, new borrowing should be done prudently, in support of high priority public expenditures, and subject to best-practice financial controls and procurement procedures. Third, efforts must be made to recover some of the costs incurred during the crisis through the restructuring and sale of assets acquired by the Government. Fourth, prompt action must be taken to mitigate risks and ensure that no additional contingent liabilities emerge that would require budgetary resources (and hence more borrowing). Fifth, seeking the best possible terms on new financing – including through increased use of IDA, ADF, and grants – will help minimize the debt service burden. And sixth, seeking opportunities to lower debt–service temporarily, including through rescheduling under internationally accepted rules, will assist fiscal sustainability in the short-term.

1.56 Finally, developing a strong debt management capability is essential. While the preceding analysis has focused largely on the quantitative aspects of the debt situation in Indonesia, several institutional issues deserve mention as well. The first concerns the critical need to enhance government capacity for strategic debt management. The current fragmentation of data collection and control limits the ability of Government to monitor trends in the debt, and hampers efforts to anticipate and respond to emerging pressures or sudden shocks. Ongoing efforts to develop an effective Debt Management Unit in the Ministry of Finance need to be intensified. Given the importance of domestic debt in the government's debt portfolio, and the close connections between domestic and external debt, it is critical that the unit be responsible for both (unfortunately, the unit handling domestic debt is currently different from the one responsible for external debt). This joint unit should

be in a position to: implement the Government's debt management strategy; analyze alternative debt management scenarios, with especial attention to key uncertainties such as contingent government liabilities, asset recovery/sale options, and portfolio risks (refinancing, currency, and interest rate risks); and advise policymakers on the costs and benefits of different options.

1.57 Very soon, large amounts of government debt will reach maturity. While some of this maturing debt could be redeemed, the bulk will probably need to be refinanced. To do so in an orderly fashion and without affecting macroeconomic stability will require an effective bond market – which essentially means creating the institutions, regulations, and procedures needed for a functioning market.

Conclusion

1.58 Economic growth slowed, and inflation climbed in the first half of 2001. The poverty rate, which had declined significantly between 1999 and 2000, has probably budged little since then. The events of September 11 and their effect on the global economy, will almost certainly slow the economy further. We project the economy to grow 3.3 percent in 2001 and 3.5 percent in 2002. In comparison to projections for other crisis economies in East Asia, this may appear quite good. But it is of concern for Indonesia – especially since this outlook faces innumerable risks from domestic and external sources. Of greatest and immediate concern is fiscal sustainability. The high level of government debt not only imposes a big burden on the budget, but is itself a cause of instability. Maximizing fiscal effort and bringing down the debt ratio will be essential in restoring stability and laying a foundation for sustainable growth – both prerequisites for poverty reduction.

2. STRUCTURAL REFORMS FOR GROWTH

2.1 Indonesia's growth prospects appear to be less than cheerful. And the downside risks are worrying. Yet growth is an important prerequisite for poverty reduction. It brings with it increased employment, generates the resources necessary for investments in human and physical capital, and stimulates shifts in the structure of the economy toward higher productivity activities. In Indonesia, the Government's indebtedness precludes it from sustaining economic recovery through fiscal means. The private sector engine must, therefore, provide the traction. But for the private sector to succeed will require progress on two fronts – first the removal of structural constraints that impede private investment; and second, the development of institutions that improve the quality of governance, especially in the justice sector. This chapter deals with the first, focusing on five priorities – in the short-term, transferring productive public assets to the private sector and restructuring the debt of corporates; and in the medium term, reforming the financial sector, reshaping sectoral policies (using the examples of energy and agriculture), and promoting a responsive yet responsible private sector.

Moving public assets to the private sector

2.2 Now that the banking system has largely been recapitalized, the focus of Government must decisively shift toward moving financial assets back to the private sector. There are two reasons why. The first is budgetary. Indonesia's bank recapitalization costs (as a share of GDP) were the costliest the world has seen – and it is only appropriate that IBRA makes every effort to recover the value of the assets (estimated "fair value" of Rp. 168 trillion as of year end 2000) in its care to ease the government's debt burden. The second is to sustain the recovery. By selling its assets and returning them to the private sector where they can be used most productively, the Government will signal its commitment to private sector led growth, help attract capital back to the economy, and stimulate new investment.

2.3 Broadly speaking, IBRA possesses three types of assets – non-performing loans, non-loan assets (largely shareholdings and property), and majority equity stakes in eleven recapitalized banks. Selling assets in each of these three categories requires different strategies and considerations.

2.4 In 2000, IBRA did a good job in achieving its asset recovery objectives. It raised 96 percent of its Rp.18.9 trillion recovery target through loan collections and asset sales, including some of its SME and residential mortgage loan assets. But IBRA's net asset recovery targets for FY01 of Rp. 37 trillion (Rp. 27 trillion in cash and Rp. 10 trillion in bond swaps) were considerably more ambitious, requiring an acceleration in the pace of asset disposal and corporate debt restructuring. By the end of the third quarter in 2001, IBRA had raised Rp. 18.6 trillion in cash from asset sales and redeemed Rp. 5.2 trillion worth of bonds from recapitalized banks (Table 2.1). IBRA has, however, transferred to MOF a slightly higher amount of Rp. 19.8 trillion, which was met by drawing down part of its reserves.

2.5 **Sale of loan assets.** To achieve its target for the year within the next two months, IBRA has offered for sale several loan packages. IBRA has also outsourced the bulk of its medium-sized loans (which are slated to be sold in the first quarter of 2002) and launched the sale of its first set of restructured corporate loans and related equity stakes. Additionally, IBRA has sold a portion of its SME and residential loan mortgage book. To settle the outstanding obligations of smaller borrowers, IBRA has introduced new interest discount and foreign exchange rate incentives. All loan sales are to occur through transparent and competitive sale mechanisms.

2.6 IBRA's recovery rates so far – about 49 percent on restructured corporate loans and 33 percent on un-restructured SME/retail loans – are reasonable. It is unrealistic, however, to expect future loan recovery rates in excess of 33 percent since IBRA's remaining loan assets are mostly low quality (mainly category 5) loans.

2.7 **Sale of non-loan assets**. IBRA expects to achieve revenues of about Rp. 10 trillion from the sale of its shareholdings in more than 20 companies. Agreement of the concerned former bank owners has been provided and international advisory firms appointed for virtually all the proposed sales.

2.8 **Privatizing recapitalized banks.** Selling assets in the third category – equity holdings in recapitalized banks – is not proceeding smoothly. Their tepid financial performance has not helped. Loan-to-deposit ratios are below 25 percent. After lengthy and intense debate, Parliament recently agreed to sell up to 51 percent of BCA (over and above the 22.5 percent equity that was sold last year) and 51 percent of Bank Niaga. The majority stake sales of these two banks, scheduled for completion by end 2001, are considered a litmus test of the Government's seriousness in reforming and restructuring the banking system. Yet there continues to be uncertainties surrounding both. Any restrictions on the amounts that can be sold to strategic investors will not only reduce the bid price for the shares, but likely deter the best, most competent international banks from investing in them.

2.9 The Government is also considering creating a "power bank" through the merger of some smaller IBRA banks. While further consolidation within the banking sector is overdue, a generalized, forced merger of IBRA banks would delay privatization and produce a large unmarketable bank with a weak capital base and poor risk management systems. Such a bank would likely soon need rescue and recapitalization, adding further to the already enormous public cost of bank restructuring. It would be far wiser to sell these institutions to the private sector as soon as possible, and then allow market forces to dictate the direction of mergers and acquisitions within an appropriate regulatory framework.

2.10 **Privatizing non-financial state-owned enterprises**. No privatization transactions were concluded in 2000, and consequently there were no proceeds to set against the budget target of Rp. 6.5 trillion. An identical target was adopted for 2001, with 16 state enterprises slated for privatization. So far, the results have been identical too, and prospects for reaching the target appear slim.

Table 2.1
IBRA's cash recoveries, end September 2001
(in Rp. trillion)

	Actual	2001 target	Success rate (%)
Sale of loans	9.4	14.7	64
Sale of non-loan assets	6.7	10.7	63
Sale of bank equity	0.5	2.3	22
Other income	2.7	1.8	147
Gross cash recoveries	**19.3**	**29.5**	**65.0**
Net cash recoveries	**18.6**	**27.0**	**69.0**
Bond redemption	**5.2**	**10.0**	**52.0**

Note: Net recoveries include deductions for recovery costs.
Source: IBRA

2.11 Raising funds for the budget is an important consideration for privatization. But it is not the only one. It is also a core component of the Government's broader strategy for re-invigorating the economy and enabling rapid and sustainable growth. There is now overwhelming international evidence to show that privatization improves the performance of firms and economies. The data show that privatized firms display improved efficiency, profitability, employment, and growth. More important, cross-country evidence indicates that for every 1 percent of GDP privatized, overall GDP and employment climb by about 1 percentage point and 0.25 percentage points respectively the first year, and 0.8 percentage points and 0.5 percentage points the second. And these gains extend into the years beyond.

2.12 Opponents of privatization urge delay, arguing that asset prices will rise later. But buyers are scarce and asset prices low largely because investors are skeptical about the Government's seriousness in privatizing state assets. Asset prices will rise if there is investor interest, and investor interest will grow if the Government establishes a track record of successful privatization transactions. Moreover, it makes financial sense to delay asset sales only if asset prices are expected to increase faster than the rate of interest – about 17 percent a year currently. Asset values in Indonesia have not been rising anywhere near this rate, and in many cases, have fallen.

2.13 In short, the case for moving ahead with privatization is compelling. But what is the best way forward – especially given opposition in Parliament? The logical choice would be to start with privatizing small firms operating in competitive markets (where transactions would be simple), develop a track record, establish credibility, and then move on to bigger transactions. But Indonesia does not have that luxury. The needs of the budget dictate that large SOEs be privatized quickly. Unfortunately, privatizing such

firms is never simple – they tend to have legal or contractual impediments, occupy a position of natural monopoly, or have substantial political support for keeping them in the public sector.

2.14 Privatization requires strong political commitment at all levels. To obtain and align this commitment, the Government needs to:

- First, reach agreement with Parliament on a state enterprise restructuring and privatization *strategy*, following which Government should be allowed the freedom to proceed with individual transactions provided they are consistent with it.
- Second, establish credible regulatory arrangements for industries that enjoy a natural monopoly. Responsibilities for ownership, policy-making, and regulation need to be clearly separated, with regulatory agencies being competent, transparent, and insulated from Government intervention.
- Third, ensure transparency in privatization transactions.
- And fourth, avoid granting privatized companies any of the benefits – special tax treatment, subsidies, sovereign guarantees, preferred interest rates on bank loans – these firms may have received as state enterprises. But at the same time, Government should also eliminate their social obligations.

Corporate restructuring

2.15 The previous section focused on transferring assets from the public to the private sector. But there are many *private* corporates with unresolved debt repayment problems (Table 2.2). Banks are understandably unwilling to lend to them until their debts are restructured.

Table 2.2
Estimates of corporate debt in Indonesia, end 2000
(Rp. trillion)

	Onshore	Offshore (est.)	Total
Performing	25	34	59
Non-performing	37	23	60
Total	62	57	119

Source: JITF

2.16 Corporate debt restructuring is occurring through three avenues. First, the Indonesian Banking Restructuring Agency (IBRA) – holder of the bulk of distressed loans – is actively engaged in restructuring corporate debts. Second, the Jakarta Initiative Task Force (JITF) mediates restructuring negotiations between corporate debtors and creditors (often foreign creditors) and expedites needed regulatory approvals and regulatory relief. And third, private sector-led debt restructuring negotiations have occurred spontaneously – with no government involvement.

2.17 **Corporate restructuring through IBRA**. IBRA's mid October 2001 credit portfolio had a book value of Rp. 269 trillion. About 2 percent of its debtors accounted for almost 96 percent of loan assets, while some 194,153 small debtors (98 percent of the total debtors) with average debts of just Rp. 50 million accounted for 4 percent.

2.18 Early on, IBRA chose to sell its SME, retail, and commercial loans – but restructure the large corporate debts (Table 2.3). Only a very small proportion of such restructurings have actually been completed (Table 2.3). IBRA is finding it difficult to close deals. Many remain stuck in litigation. And debtors remain reluctant to move beyond the MOU stage, because this would mean disposing assets, accepting equity

Table 2.3
Status of IBRA corporate debt restructuring, September 2001
(Amounts in Rp. trillions)

Obligor group	Early stage a/	Middle stage b/	Late stage c/	Completed d/	Total
Top 21	4.3 5%	2.7 3%	68.9 76%	14.9 16%	90.8
Next 22-200	13.5 13%	32.8 32%	37.4 37%	17.8 18%	101.5
Remainder (201 onward)	11.3 22%	14.6 29%	19.4 38%	5.0 10%	50.3
Total	29.1 12%	50.1 21%	125.7 52%	37.7 16%	242.6

a/ Early stage includes no action on workout or legal proceedings; preliminary negotiation; or standstill agreement.
b/ Middle stage includes assignment of advisors; due diligence; or restructuring negotiations.
c/ Late stage includes finalization of a workout MOU or initiation of legal action.
d/ Completed includes loans that are in stages of implementation, full payment or disposal.
Figures exclude retail/SME, SOEs, interbank claims, affiliated and non-resident loans.

Source: IBRA

dilution, or paying creditors. Unfortunately in Indonesia, recalcitrant debtors seem to ignore the bankruptcy law with impunity (see below), and IBRA has little confidence of prevailing in the courts.

2.19 **Out of court workouts.** The Jakarta Initiative Task Force (JITF) was created to facilitate and mediate between debtors and creditors to help reach agreement out-of-court in debt restructuring negotiations. It also helps eliminate tax, legal, or regulatory impediments to corporate restructuring transactions on a case by case basis. More recently, it has been authorized to provide incentives (for example, tax or regulatory relief) to motivate quick resolution, or impose sanctions to penalize non-cooperation.

2.20 In April 2000, the JITF reviewed its docket of 214 cases and dismissed 154 cases where there was no realistic chance of restructuring or willingness to cooperate. After the first quarter of 2000, cases averaging $2.0 billion were added to JITF's docket in each quarter (Table 2.4). Some were FSPC referrals of cases where IBRA is a minority creditor. By mid October 2001, term sheets had been signed for 60 cases totaling $12.4 billion in debt. About 50 percent or 30 cases with an amount of $4.6 billion have moved beyond the term-sheet stage to formal legal documentation and implementation.

Table 2.4
JITF's Caseload
($ billions)

	Added during period	Completed during period	Cumulative completed	Active at end of month
1999	n.m.	1.30	1.30	23.0
2000:Q1	n.m.	0.67	1.97	6.67
2000:Q2	2.28	0.24	2.21	8.71
2000:Q3	3.64	2.96	5.17	9.39
2000:Q4	2.02	4.19	9.36	7.22
2001: Q1	2.07	1.04	10.4	8.0
2001: Q2	1.56	1.7	12.1	7.6
2001: Q3	1.75	0.08	12.21	9.3

Source : JITF

2.21 **Quality of IBRA and JITF corporate debt restructuring.** Corporate debt restructuring agreements that have successfully reached the MoU stage have the following features (Table 2.5):

Table 2.5
Use of debt restructuring methods, July 2001

	IBRA: Top 21	IBRA: Top 22-50	IBRA: rest	JITF	Non-official (outside IBRA/JITF)
Debt restructured (Rp. Trillion) a/	74.8	14.9	13.8	81.6	16.6
No. of cases	n.a.	n.a.	n.a.	43	20
Rescheduled (in percent)	27	40	32	57	81
Average term (years)	n.a.	n.a.	n.a.	7	5
Grace on principal (percent rescheduled)	n.a.	n.a.	n.a.	66	n.a.
Length of grace (years)	n.a.	n.a.	n.a.	2	n.a.
Converted to equity (percent)	12	30	7	27	11
Converted to convertible bonds (percent)	42	13	22	8	0
Other (percent) b/	19	17	39	7	8

a/ Includes past due interest and penalties for IBRA cases.
b/ Includes cash payment, debt buyback, debt/asset swap, and debt cancellation.
Note: Data for JITF is for January 1, 2000 to July 30, 2001.
Exchange rate used was Rp. 8,000/US$ 1.
Source: JITF compilation, including IBRA data as well as reports from *Bisnis Indonesia* and *Kompas*.

- IBRA deals have rescheduled a lower proportion of debts than deals by other creditors. More recently, the Government has finalized agreements on key large debt restructuring cases, including Chandra Asri.
- IBRA's top 21 deals rely heavily on debt conversion – 42 percent into convertible bonds and 12 percent into equity. The future ability of IBRA to recover substantial portions of its assets at value hinges on the success of these companies.
- JITF agreements – in which foreign creditors are major participants – feature higher levels of debt rescheduling (57 percent) and debt-equity conversions (27 percent). While 16 debt-equity conversions have been agreed under JITF (but not implemented yet), six would give majority control to creditors. If MOUs are implemented, as much as 42 percent of debt could be extinguished, of which debt-equity conversions accounting for 27 percent, debt to convertible bond conversion 8 percent, debt buyback 3 percent, cash repayment 2 percent, and debt cancellation 2 percent.

2.22 Even where IBRA has reached agreement with corporate debtors, the quality of restructuring has been questionable. The Government adopted a new set of corporate debt restructuring principles in April, 2001 to ensure more transparent restructuring agreements consistent with international best practice and to share the financial burden more equally between debtors, creditors and taxpayers. In accordance with these new

principles, IBRA's Oversight Committee (OC) recently reviewed the first 31 MoUs between IBRA and its top 21 obligors, citing numerous deviations in each. So far, the Financial Section Policy Committee (FSPC) has published its response to only 13 such reviews.

2.23 **Creditor rights and insolvency.** One of the reasons for the poor quality of corporate debt restructuring deals is the absence of a credible threat of bankruptcy. Creditors have found that they can rarely expect to prevail in court proceedings to enforce claims in cases of insolvency. Enforcement of unsecured or secured debt are subject to successive appeals by debtors to the District Court, the Court of Appeals, and through cassation procedures to the Supreme Court. There is also the possibility of a civil review before a different chamber of the Supreme Court. All this results in a lengthy and expensive judicial process.[5] There is also ample scope for anomalous judicial decisions that – from the perspective of fact or law – are unfathomable.

2.24 Indonesia's new bankruptcy law provides for equitable treatment of creditors, corporate reorganization, and preservation of assets. Intended to be read together with the Civil Code and Commercial Code, the law is not implemented properly, for a variety of possible reasons: [6]

- Corruption.
- Several decisions demonstrate that the Commercial Court appears not to fully understand the law or the principles underlying it.
- Administrators and supervisory judges tend to be inexperienced, particularly in asset recovery and business reorganization.
- If a judgment is made against a debtor, enforcement largely depends on the debtor's cooperation.
- Uncooperative debtors have many avenues with which to disrupt implementation of legal decisions not in their favor. Securing police assistance is difficult.

2.25 One recent case (see Box 2.1) indicates the potential ability of debtors to use provisions of the Bankruptcy Law to obtain court ratification of shady composition plans to the disadvantage of bona fide creditors.

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[5] White & Case LLP and Ali Budiardjo, Nugroho, Reksodiputro, "Legal Issues: Indonesia," in *Guide to Restructuring in Asia 2001*.

[6] Pricewaterhouse Coopers, "Financial Issues: Indonesia," in *Guide to Restructuring in Asia 2001*.

Box 2.1
Phantom creditors put IFC in a (noodle) soup: the case of Panca

In February 1998, Panin Overseas Finance stopped all payments of interest and principal due on its loans of around US$60 million to its creditors, including several foreign banks and IFC, a member of the World Bank Group. In 1999, the company name was changed to PT Panca Overseas Finance ("Panca").

Two separate audits by international accounting firms established that Panca had over US$40 million in assets, including US$25 million in cash. So the creditors rejected a plan that would return 17 percent of credits. Instead, in early September 2000, the creditors petitioned the commercial court to declare Panca bankrupt. The Commercial Court postponed the case for a month. When the court reconvened, Panca claimed to have drawn down Rupiah 1.6 trillion (US$175 million) in new unsecured loans during the month-long break. The loans, Panca claimed, had been arranged by Harvest Hero, a Hong Kong registered company with 13 other companies, based in Western Samoa and Bahamas. Panca claimed that the entire US$175 million in new loans had been used to purchase "factoring receivables" from a British Virgin Islands company that then defaulted the entire amount, so these new funds were not available to meet creditor claims.

The creditors protested that Panca had created these fictitious creditors to block the bankruptcy petition. They provided evidence that Harvest Hero had paid-up capital of HK$2 (25 US cents), no telephone listing in Hong Kong, and no permit to lend money there. Similarly, until recently, all other syndicate members were offshore shelf companies in tax havens and none of them had engaged in international finance in their respective jurisdictions. Harvest Hero's registration listed the address of one of the directors who had signed the loan agreement with Panca. The address turned out to be a small North Jakarta chicken noodles restaurant, whose proprietor had never heard of the director or Harvest Hero. Although the director had signed the loan agreements in July 2000, he was appointed as a director in Harvest Hero only in September 2000.

The Commercial Court, however, decided that the 14 new creditors were legitimate and allowed them to vote on the Company's composition plan. IFC appealed the Commercial Court decision, but the Supreme Court turned them down, reasoning that the new creditors were legitimate unless proven fraudulent by a court of law.

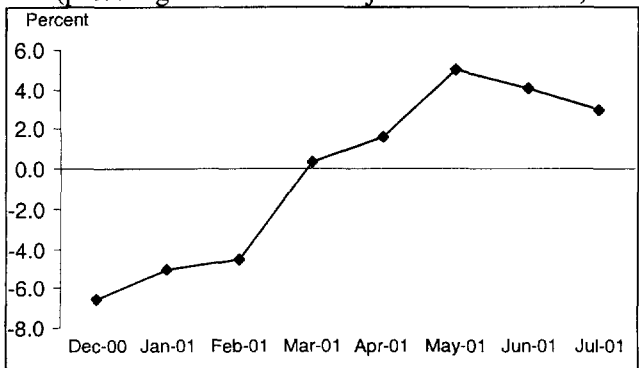
IFC has petitioned the Supreme Court to re-open the case based on new evidence and the case is still under review.

Reforming the financial sector

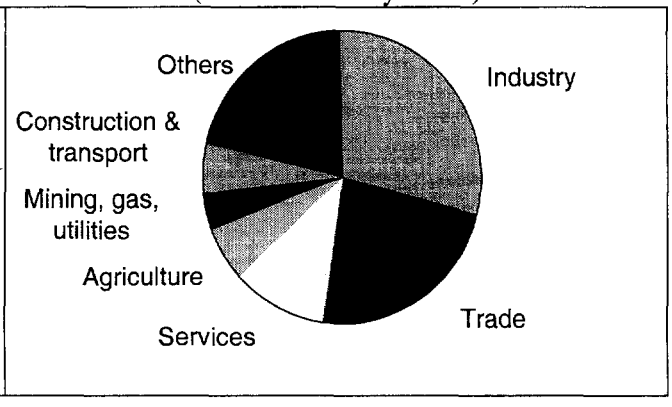
2.26 More than four years after the onset of the crisis, some progress has been made in stabilizing and recapitalizing banks. But the banking system remains vulnerable to further shocks, non-performing loans remain high, and intermediation margins are thin. Some banks have low capital adequacy ratios and face declining profitability, faltering progress in their debt restructuring, and slow resumption in new lending. Unfortunately, much of the official data on bank performance is of low quality, so conclusions have to be

Figure 2.1
Some progress in performance of the banking system

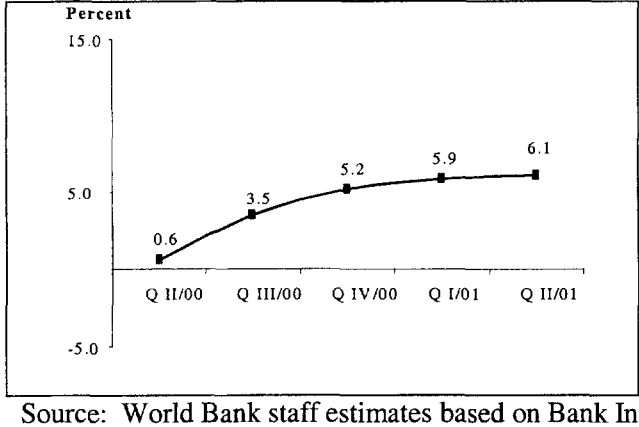
Loans are increasing in real terms...
(percent growth in loans adjusted for inflation)



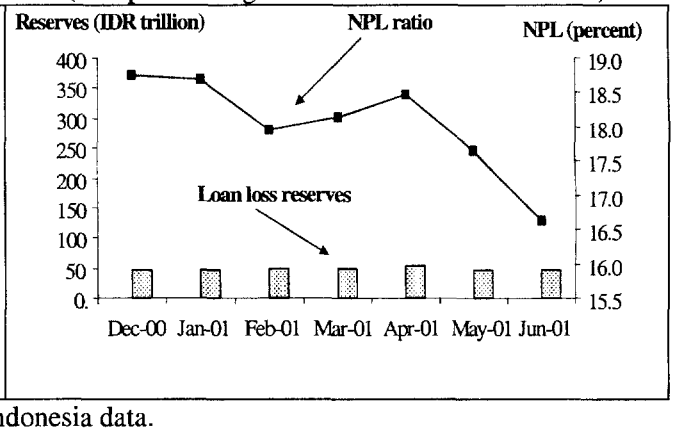
....with most loans going to industry and trade...
(share of loans by sector)



...while the capital assets ratio is rising....
(capital-assets ratio – unadjusted for risk weights)



....and the non-performing loan ratio is falling.
(non-performing loans as a share of total loans)



Source: World Bank staff estimates based on Bank Indonesia data.

tentative. With this caveat in mind, a brief survey of banking system performance reveals the following (Figure 2.1):

- **Lending**. Bank lending seems to be staging a recovery, but it is hesitant and may be faltering, and clearly inadequate to support substantial increases in investment. Moreover, the data are such that it is difficult to differentiate between defensive lending (which serves to rollover repayments) and loans for genuine new investments – and may therefore exaggerate the recovery in the banking system.

- **Liquidity**. System-wide liquidity is relatively stable, with 31 percent of liquid liabilities covered by liquid assets. But many banks have experienced liquidity pressures this year. After adjusting for exchange rate changes, during the second quarter of 2001 nationalized banks had the highest increase in deposits, while

recapitalized private banks and foreign banks experienced a decrease. The high concentration of short-term bank deposits from non-bank financial institutions is expected to create liquidity pressures in the near term as these depositors pay year-end obligations or seek other investment alternatives. State-owned banks, heavily reliant on SOE depositors, are also likely to face more severe pressures.

- **Earnings**. Rising interest rates and an unstable Rupiah meant that net interest margins (interest income minus interest expense) fell further. Banks with mainly fixed rate bonds in their book suffered the most, but banks with poor quality loans were also affected negatively as they needed to increase reserves for loan losses when loans were downgraded.

- **Non-performing loans**. Non performing loans reported to Bank Indonesia declined to 16.6 percent in June 2001. At the same time, reserves for loan losses also decreased, indicating that banks had written off some bad loans. There are growing concerns that the NPL rate may be higher than reported, especially as a recent Bank Indonesia survey found many banks had not properly classified their loans in accordance with prevailing regulations. A higher NPL ratio would require banks to (again) raise their loan loss reserves which, in turn, will negatively affect their capital position.

- **Capital**. The ratio of capital to total (unweighted) assets has climbed steadily. System-wide, banks still reported profits, which retained earnings. This profitability could be the result of reclassifying loans as performing assets – and there is some concern whether this is appropriate. Some banks, mostly small, still have a capital adequacy ratio less than the required 8 percent and may not reach the target by year end. So the solvency of the banking system remains tenuous. The assets of many banks are dominated by government bonds. By June 2001, banks had shifted only 12.8 percent of their government bonds (totaling Rp. 439 trillion) from the investment to the trading portfolio, a move which involves marking these bonds to market (in August 2001 such government bonds were traded at an average of 83 percent of face value). As banks start lending more and apply risk weights for new loans, solvency could be expected to deteriorate.

2.27 Bank and corporate restructuring is to undo the excesses and mistakes of the past. But what about the future? One opportunity from current crisis in Indonesia is the chance to build the foundations for an efficient and safe financial system. Weaknesses in the financial system played a major role in the 1997 crisis, and despite many reforms, progress has been limited. Government and parliament need a common vision of the Indonesian financial sector – and then work together to make it a reality. Much of the focus will need to be on the banking sector, because of its large size and its importance to macroeconomic stability. But other elements are also important. If the Government were to prepare a financial sector strategy – as a road map for the future – then the following five broad issues would be sure to be part of it.

2.28 **First, ensure banks are safe and strong**. Weak banks must not be allowed to threaten the viability of the entire banking system. The chances of further crises can be minimized if incentives are in place to encourage good lending practices and sound risk

management. One such incentive (or, rather, disincentive) is the threat of closure or sanctions from an effective regulatory and supervisory system.

2.29 True, sale or closure will involve expenditures up-front, but will reduce costs over the medium-term and generate market confidence. Doing so is important to the central bank's credibility. Government should give its support for sound supervision and prompt intervention when a bank's finances are found to be fragile. For example, supervisors should not be fearful of intervening well before a weak bank's capital is exhausted. And there should be every effort made to move towards new standards. Better enforcement of existing regulations would help.

2.30 As another measure to further strengthen recapitalized banks, Government needs to convert a portion of fixed rate recapitalization bonds to floating rate bonds – for two reasons: to improve intermediation margins; and to stimulate a secondary market for recap bonds and thereby increase liquidity. This again will involve up-front costs. But the benefits of such an action will far outweigh its costs.

2.31 **Second, decide the future of state banks.** In the future, a key issue is the share of government owned banks in the banking system. The Indonesian authorities have announced their intent to reduce this. The Government is committed by end 2001 to put forward its strategy for the divestment of its four state-owned banks – Bank Mandiri, BNI, BRI and BTN – which account for one-half of the banking system's liabilities.[1]

2.32 While state banks are being prepared for privatization, they should be the subject of intense central bank scrutiny to ensure they avoid bad lending. It is possible that some state banks may remain government owned. If they do, it may make sense to turn them into "narrow" banks (banks accepting deposits but holding only government debt) to limit any proclivity for bad lending and to keep their capital base as small as possible. Converting some state banks into narrow banks is not as big a step as it might seem – some state banks already have government bonds that account for 70 percent of their total assets.

2.33 To improve the performance of state banks and prepare them for successful divestment, the government should establish "best practice" governance structures and procedures for each. At the same time, it is important to press ahead with the operational restructuring of state banks. The Monitoring and Governance Unit (initially within the Ministry of Finance but to be transferred to the Ministry of State-Owned Enterprises) has begun monitoring their performance against financial and restructuring milestones contained in their business plans and performance contracts. The future of BTN and the handling of its portfolio will need to be resolved in the context of the Government's policy decisions on continuation of housing finance subsidies and its overall housing finance policy. Further issues that remain to be addressed in Indonesia's state banks include:

[1] These commitments are made in the letter of intent to the IMF dated August 27, 2001.

- the quality of the debt restructuring conducted and the quality of the remedial loan portfolio;
- clarity in representation of portfolio quality;
- the pace of operational restructuring (including rationalization of branch networks and staffing levels, improvements in credit practices, risk management and in external and internal governance issues);
- periodic re-evaluation of the realism in underlying assumptions (growth, revenues, etc.) underpinning the finalized business plans in each bank.

2.34 **Third, remove the blanket guarantee eventually – but not just yet**. The blanket guarantee will be risky to remove until confidence in macroeconomic stability is restored, the banking system is stronger, and the government has built a reputation for effective supervision. Nor would removal now reduce the Government's contingent liability by much. After all, the Government owns virtually 80 percent of the banking system (and will remain, de facto, a guarantor of the banks it owns), and owes a substantial amount of debt to the banks. But blanket guarantees of such magnitude encourage banks to follow high risk strategies (moral hazard) and lower incentives for depositors to seek well-managed banks. Indeed, we have already noted that deposits have been rising fastest in nationalized banks (see above). So eventually the blanket guarantee must be removed. One way to do it is to lower the interest rate ceiling gradually for all guaranteed deposits – thereby encouraging depositors to judge for themselves the risk premium they would require for depositing non-guaranteed funds in banks.

2.35 **Fourth, provide the poor with access to financial services.**[2] This will entail:

- A coherent strategy for developing the rural and micro-finance market and unification of the current plethora of programs under a single responsible authority with powers to implement this strategy;
- The Government's partnering with emerging coalitions of micro credit providers that focus on sustainability of micro credit, and encouraging links with the formal credit system;
- Returning to market-based credit allocation and interest rates, and adequate evaluation and collection efforts, as for example, in BRI programs, while eliminating the post-crisis, unsustainable, subsidized credit programs;
- Improving the legal system related to titling and pledging of collateral, the information on small borrowers, and other institutional mechanisms for lending to rural and micro borrowers.

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[2] See also the SME section in this chapter.

2.36 **Fifth, develop the bond market**. We already noted in Chapter 1 how important a liquid bond market will be when refinancing recapitalization bonds upon maturity. The bond market can be developed through a steady issue of government bonds, transparent auctions, an effective payments system, and the establishment of a registry. It will also contribute to money and debt market development. Passage of the long-delayed Government debt law is needed to move forward in this area.

2.37 The equity market is small and, while equity sales can be used to privatize firms, the market's limited capacity to absorb new issues and improve corporate governance should not be overstated. The capital market would benefit from better information, which is necessary for better governance and market discipline. Regulation, though improving, is still an issue in the minds of many potential investors. More generally, the equity market is unlikely to take-off until macroeconomic stability returns and demand increases as a result of growth in mutual funds (with a corpus of appropriate regulations ensuring transparency), pension funds and insurance companies. And for this, as with banks, the pension and insurance sectors would benefit from improved governance, regulation, and supervision.

Improving agricultural policy

2.38 The challenge in agricultural policy is that commodities produced by small farmers are also important in the consumption baskets of poor households. Indeed, many rural farm households are net consumers of basic food items, such as rice and soybeans (Box 2.2). Trying to help small farmers through a high price policy, supported by import tariffs, usually hurts poor households, including many poor farmers. It also increases input costs to industries that employ the poor, consume their output, and supply their inputs.

Box 2.2
Soybeans: protein for the poor

Soybeans are an important source of protein for the poor in Indonesia. Unfortunately, this is given scant regard by growers' representatives who want an import duty on this commodity. Production in Indonesia is marginally competitive at best, and for years, imports have filled a major part of annual needs. Implementing a tariff on soybean imports would shift agricultural resources into a marginally competitive crop activity, raise costs to poor consumers and potential processors, and detract from establishing an integrated, efficient domestic processing capacity. A better approach would be to make available improved seeds and disseminate superior planting practices, to help generate higher yields and returns.

2.39 To distribute the benefits of growth broadly among the rural poor requires a multi-dimensional strategy based on productivity improvements, not one where farmer incomes are artificially and expensively propped up through trade protection. Such a strategy will include reforms ranging from granting farmers freedom to choose their

crops to reinventing public institutions such as extension services. Government funding of agricultural research remains an important public function and could be enhanced to reverse recent erosion of budgets. On the farm input side, more aggressive liberalization of fertilizer production and supply is needed to increase market competition and service standards. Rural micro-finance policies must move away from subsidized credit programs and toward strengthening institutions delivering micro-finance. For land, both rapid improvements in land certification and administration, and multi-stakeholder formulation of a broader, medium-term agenda for broad land policy reform, will begin to provide farmers with greater security when investing in land improvements. Finally, providing a healthy environment for farmers to create member-driven, enterprise-oriented organizations, such as cooperatives and water user associations, will help generate efficiencies in production and marketing.

2.40 **Rice policy.** In January 2001, the Government created an interdepartmental working group to formulate a national rice policy that would take account of these issues. This team has produced working papers and a technical proposal on future rice policy.[3] This proposal was presented and discussed in various public meetings.[4] The core of this technical work is drafted into a proposed Inpres *Tentang Penetapan Kebijakan Perberasan* which (as of October 2001) is still with the Coordinating Minister for Economic Affairs for further action.

2.41 The rice economy has undergone abrupt and wide-ranging changes since 1998. The Government no longer subsidizes all consumers through sales from public stocks to the market. Instead, it provides rice at a subsidized price only to poor households (OPK). The State Logistics Agency (BULOG) no longer monopolizes rice imports and private imports are allowed, subject to a specific tariff (equivalent to about 30 percent *ad valorem*). Manipulation of customs procedures and outright smuggling, however, blunt this trade instrument. BULOG also no longer has access to cheap capital from the Central Bank, and thus relies on commercial sources for its credit and the government budget for its subsidies. BULOG is also charged with supporting a floor price for farmers that has climbed well above the world price and which it has not been able to support in the previous two peak harvest seasons.

2.42 The institutional, financial, and policy dimensions of rice policy are thus in transition. In developing its national rice policy, Indonesia needs to look beyond calls for a protected domestic rice market and develop a more robust rural incomes policy, since rice represents a small and declining share in rural incomes. Less than half the income of poor rural households comes from agriculture, only a fifth from rice. Propping up the price on commodities that are a declining source of producer income is a losing – and expensive – proposition. So the new national rice policy needs to be set in the broader objective of raising living standards in rural areas through broad productivity gains –

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[3] Keputusan Kepala Bappenas no. 005/KA/01/2001 Tentang Tim Pengkajian Kebijakan Perberasan Nasional, Januari 23, 2001.

[4] See "Reformulasi Kebijakan Ekonomi Beras Nasional: Hasil Rumusan Tim Pengkajian Kebijakan Perberasan Nasional sebagai usulan alternatif kebijakan bagi Pemerintah" in "Alternatif Kebijakan Perberasan: Tinjauan Kritis Hasil Tim Kajian Kebijakan Perberasan Nasional," Pusat Studi Pembangunan, Lembaga Penelitian IPB, Juli 2001.

from on-farm as well as off-farm activities. In this context, the following four broad points need to be considered:

- *Price policy.* The floor price for paddy is unsupportable. An alternative is to set a procurement price for rice needed to maintain emergency stocks and the subsidized rice program for poor households. Concentrating such purchases in the peak harvest period would attenuate the price decline that inevitably occurs at that time.

- *Trade policy.* The current policy balances producer and consumer interests. Tariffs should be capped at the lowest level that is considered politically acceptable, and then should be reduced over time according to a pre-determined schedule. During this period, there should be no non-tariff barriers, imports should remain open to private participation, and BULOG imports should operate by the same rules.

- *Role of BULOG.* BULOG's mandate should be to maintain emergency rice stocks, operate the subsidized consumer rice program (OPK), and procure for these public programs during the peak harvest season. A new Keppres specifies that Bulog will be coordinated by the Minister of Agriculture, and that it will become a BUMN by no later than end-May 2003.[5] Bulog is also pressing to regain State Trading Enterprise status and privileges within the WTO framework, on which basis it would reenter into trading in additional commodities. Although a change in BULOG's legal status to a BUMN would bring a change in its accounting rules and hence greater transparency in its financial management, this shift in status should not be accompanied by foray's into commercial trading of commodities for profit.

2.43 **Sugar.** In January 2000, the Government committed to consolidating and restructuring sugar factories on Java and promoting private investment in sugar off-Java. Four sugar mills were to have been shut down upon completion of the cane crushing season in 2000. Trade policy was adjusted to allow private imports, subject to a tariff of 25 percent that was to be phased down over 3 years. A plan was to be prepared by June 2000 for consolidation of the rest of the Java-based industry, and budget resources to be provided temporarily to firms implementing agreed restructuring plans.

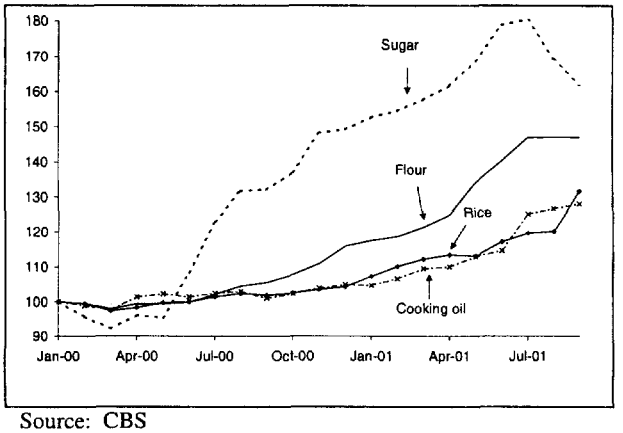
2.44 Little has happened since then. True, trade was opened to general private importers and a tariff introduced. But the Ministry of Finance (MOF) proved unwilling to finance the modest budget costs of the strategic study, let alone the severance costs for plant closures. Indeed, some policy actions contradicted stated policy – for example, the Government loaned Rp. 600 billion to state-owned sugar millers to procure sugar cane at above world prices. In June 2000, the moribund Indonesia Sugar Board was replaced by a National Sugar Board, still composed predominantly of government officials. It too has been largely ineffective in defining a new strategy for Indonesia's sugar sector.

2.45 Fortunately for the sugar industry, world sugar prices have since strengthened and the rupiah has weakened, providing temporary relief to mills and farmers, discouraging

[5] Keppres no. 103/2001 tentang Kedudukan, Tugas, Fungsi, Kewenangan, Susunan Organisasi, dan Tata Kerja Lembaga Pemerintah Non Departemen, 13 September 2001.

private imports, and reducing the domestic stock overhang (Figure 2.2). For the 2001 cane crushing season the Government has not made any further interventions in market mechanisms and not repeated the previous several years' support package of price support to farmers and provision of working capital to state sugar millers. In addition the Ministry of Agriculture facilitated piloting of a three-way contract among sugar farmers, millers and traders that specified prices and delivery mechanisms for sugar without government involvement.

Figure 2.2
Sugar prices are high
(Nominal price deflated by non food CPI)



Source: CBS

2.46 This pricing arrangement is a positive step. But it is only one component of the strategy needed for consolidation and renewal of the Java-based industry. While implementing this broader strategy in the medium term, the government should: not increase the current ad valorem 25 percent tariff on sugar imports, and perhaps even lower it; close loopholes on tariff concessions; continue to allow private imports; promote extension of the price contract pilot to other production areas; bring new private management and ownership into the sector through sale of the sugar production assets held by IBRA.

2.47 **Fertilizer.** Policy for nitrogen-based fertilizers (primarily urea) is driven by long-term contracts for natural gas sales to fertilizer manufacturers. These include a large subsidy, so there is an incentive for manufacturers and traders to export nitrogen fertilizer rather than supply the domestic market. This prompted the Government to impose restrictions on exports of nitrogen fertilizer in 2000 and to consider creating segmented market areas in which selected producers and distributors will be allowed to sell fertilizer. Marketing by state-owned fertilizer firms remains under the management of the holding company, PT Pusri.

2.48 In this policy environment, it will be difficult to privatize PT Kaltim, a transaction that has been postponed several times. Investors face large risks from a lack of clarity in long term policy on urea exports and domestic marketing. Moreover, the government is

finalizing arrangements for expanding one state-owned fertilizer producer, not yet slated for privatization, thus adding to the risk of potential investors.

2.49 Government needs to clarify long-run policy directions to make progress on needed liberalization of the fertilizer industry. Among the key actions needed are:

- designing a formula relating the domestic natural gas price to the international price of urea to eliminate windfall profits to fertilizer companies, unnecessary costs to farmers, and the temptation to restrict urea exports (as is done at present);
- allowing each fertilizer firm to sell its own output without hindrance; and
- strengthening the fertilizer regulatory system to ensure quality products to farmers.

Reshaping energy policy

2.50 Indonesia is blessed with huge energy resources – yet the energy sector is in trouble. The problems are twofold: pricing of energy at unsustainably low levels and a regulatory environment that does not encourage efficiency and probity. Both issues dominate policy concerns in electric power and the hydrocarbon (oil and gas) sector.

2.51 **Electric power**. The price of electricity remains well below the long-term cost of supply, and PLN continues to record large financial losses. The Government and PLN have actively socialized the need to restore the electricity tariff to a commercially viable level, setting a nominal target of US 7 cents per KWh by 2005.

2.52 While there is no explicit strategy for accomplishing this target yet, several tariff increases have been implemented. Following the 30 percent average increase of April, 2000--which affected primarily large industrial, business and residential consumers—average tariffs were increased by a further 22 percent through a two-stage increase in July and October of 2001. The largest increases this time fell on mid-size consumers, while small consumers – those with connection capacities of up to 450 VA and monthly consumptions of less than 30KWh – were again protected. Public reaction to these tariff increases has been relatively muted. Unfortunately, the financial benefits of higher tariffs to PLN have been substantially eroded by the further depreciation of the Rupiah.

2.53 Pricing electricity below cost not only undermines PLN's financial viability but contributes to rapid growth in electricity consumption. Clearly, tariffs need to be increased to commercially viable levels and prospective investors need to be assured of earning adequate returns on efficiently managed investments. With virtually no new generation capacity under construction, and no restrictions on new connections, Java-Bali could be facing power blackouts and brownouts in the next few years. Outside Java-Bali, many regions are already facing severe power shortages.

2.54 Implementation of a new legal and regulatory framework will also help. The draft of the new Electricity Law, delivered to Parliament in February 2000, supports key reforms. But some further refinement will be needed to: better delineate the role of local governments in planning, regulation and licensing; better define the jurisdiction of the independent regulatory agency; ensure the principles for tariff-setting are sound and

unambiguous; and specify more precisely the role of the proposed Social Electricity Development Fund.

2.55 Finally, long-term agreements have been concluded for a few operating independent power producers (IPPs), notably Drajat and Sengkang, while "close-out" agreements have been concluded for several plants that did not reach financial closing (notably Tanjung Jati A). In addition, the Government has agreed terms for repaying MIGA and OPIC for their claim payments to Enron (Pasuruan) and Mid-American Holdings (Dieng and Patuha) respectively. Intensive negotiations are underway for other operating plants, including Paiton I and Paiton II, but the process has been slow, further impairing prospects for attracting new private investment in the sector.

2.56 Finally, PLN's corporate restructuring commenced in late 2000, and progress has now been made towards decentralizing authority for key planning and management functions. International management consultants were engaged to assist with the next steps in the process, and in particular with the functional unbundling of the Java-Bali businesses. But there have been delays, and concerted efforts are needed to get the program back on schedule.

2.57 In early 2001, the Government approved the restructuring of its loans to PLN for 1998-2000. PLN had been unable to service its debt to Government during this period, and the accumulated arrears and penalties meant PLN's equity turned negative by end-2000. Part of amount due has been converted into a new Rupiah loan, while the balance has been treated as an increase in the Government's equity in PLN.

2.58 **Oil and gas sector.** The Law on Oil and Natural Gas was approved by the DPR in October 2001, providing a framework for restructuring the sector. The law strips Pertamina of its monopoly powers, converting it into a state-owned limited liability company (Persero), and establishes an implementing agency to oversee production sharing contracts and a regulatory agency to oversee natural monopolies in the downstream part of the industry. Implementing regulations, which are being finalized, will be crucial to the successful implementation of the law, and should be designed to support the goals of attracting new upstream and downstream investment and of promoting downstream efficiency improvements through effective competition.

2.59 While Pertamina has made a start on internal corporate restructuring to prepare for implementation of the new law, the changes fall short of the major structural reforms needed to enable and facilitate effective competition in downstream operations and to realize potential performance improvements in upstream and downstream operations.

2.60 The fuel subsidy continues to impose a very heavy burden on the budget despite several recent price increases. In April 2001, the Government raised prices for fuel supplied to medium and large industries and to international shipping and fishing vessels. Under this scheme, foreign oil and mining companies, foreign ships, and Indonesian ships operating international services are required to pay full international market prices, while medium and large industrial consumers and operators of fishing vessels are required to pay 50 percent of international market prices. The "international prices" are

set monthly on the basis of prevailing Singapore market prices in the preceding month.[6] The April 2001 increase was estimated to be equivalent to a 16.5 percent weighted average rise in petroleum prices.

2.61 In mid-June, 2001, a further round of price increases were implemented, this time affecting the general public. The price of automotive diesel oil was increased by 50 percent to Rp. 900 per liter, while gasoline was increased by 26 percent from Rp. 1150 to Rp. 1450 per liter. However, the price of kerosene was increased by only 14 percent to Rp. 400 per liter, which is less than 20 percent of Pertamina's published international market price for September 2001 and hence encourages smuggling and its substitution for other fuels.

2.62 In a competitive market economy, there is a strong case for allowing domestic fuel prices to be set in line with international prices, with changes in world prices and/or exchange rates to be fully passed through to changes in domestic prices. This both allows for producers and consumers to allocate resources and consume fuel products on the basis of market-based price signals, and also protects the government from incurring unduly large or volatile fiscal costs. A recent survey of petroleum pricing policies in developing countries showed that almost half of the 45 counties surveyed have either deregulated prices or have in place regulatory mechanisms that allow full automatic pass-through of international price changes.[7] The others have established either discretionary or automatic fuel price smoothing mechanisms. However, these have been associated with significant fiscal costs for governments. In Indonesia's case, the need to restore fiscal sustainability and reduce the burden of public debt argues strongly for moving to eliminating fuel subsidies and deregulating pricing policy as soon as possible.

2.63 Indonesia partially moved toward such a system – as part of the April 2001 package (see above). But it is time to move towards a system of automatic price adjustments for all fuel products, while gradually reducing the proportionate difference between the domestic and international price according to a pre-specified path.

Revitalizing mining

2.64 Investment in mineral exploration and mine development has all but ceased, and persuading world class investors to return will require the Government to tackle a formidable array of challenges. Of course, there is the pressing need to improve the overall investment climate – which is the focus of the first three chapters of this report. But in addition, there are several impediments specifically discouraging mining investment, which need to be resolved in the context of the passage of the new mining law. These include:

- *Authority to issue mining licenses.* The draft mining law authorizes districts, provinces, and the State to issue licenses depending on the location of the resource.

[6] Average MOPS (Middle Oil Platts Singapore) prices for the preceding month, adjusted for octane and specification differences, plus 5 percent for distribution costs and 10 percent VAT.

[7] See Giulio Federico et al, "Domestic Petroleum Price Smoothing in Developing and Transition Countries," IMF Working Paper 01/75, May 2001.

But this has two problems: first, licenses issued by authorities other than the State – the "legal" owner of the resource – are unlikely to be accepted as security by commercial lenders; and second, such a multi-tiered licensing authority creates the risk of overlapping jurisdictions.

- *Restrictions on mineral exploration and extraction.* The Forestry Law prohibits mineral exploration and extraction in protected forests that cover around 30 percent of Indonesia's total land area – and a decree from the Minister of Fisheries prohibits extractive industries on "small" islands of less than 2000 km^2. The prohibited areas include a number of potentially rich mining prospects including two very promising nickel deposits. The Government is right to be concerned with protecting the environment – and to that end, it needs to develop forest and environment management practices which balance the need for development with the need to protect the environment.
- *Incentives regime.* The Government should carry out a full review of various taxes and charges levied by regional governments as well as the center, to see where improvements can be made and the tax structure aligned more fully with international best practice.

2.65 These issues are mostly outside the jurisdiction of the Ministry of Mines and Energy and therefore require inter-ministerial cooperation and coordination, as well as consultation with the major stakeholders (including Parliament).

Promoting a responsive yet responsible private sector

2.66 The central thrust of Indonesia's growth strategy is through private investment and production. But one of the important lessons of the crisis is that private sector development cannot be sustained without appropriate attention to small and medium enterprises, corporate governance, and competition policy – all three of which ensure that development is broad based, and that all enterprises compete on a level field and according to well established and understood rules.

2.67 **Small and medium enterprises (SME).** Most SME programs have failed, partly due to lack of coordination, poor program design, and inadequate monitoring and evaluation. The Government has created an inter-ministerial task force to reassess strategy toward small and medium enterprises (SMEs) and bring cohesion to the many government programs supporting SMEs. Unfortunately, there has been little progress over the last six months.

2.68 The proliferation of licenses, permits, taxes and levies – especially at local government level – impose major costs on SMEs. In addition, SMEs face an "uneven playing field" due to laws and regulations that favor large conglomerates and impose high fixed costs on small businesses. To cut through red tape, the Government could create one-stop shops at the regional level, possibly through earmarked grant programs, and ensure adequate formal channels for SME advocacy in the policy-making process.

2.69 Government programs aimed at raising skills of entrepreneurs are of variable, often low quality. Private sector service providers, on the other hand, are often

undermined by public services that are below par. To rectify this, the Government needs to develop plans to eliminate, privatize or restructure SME programs that do not meet appropriate performance criteria. Except in selected cases, the Government should move away from providing business support services, and instead encourage public-private partnerships and private business centers.

2.70 Banks lend little to SMEs because it is costly and risky. To overcome this constraint would require:

- a credit bureau and credit registries run by the private sector, that can improve access to information and reduce the risk of lending to SMEs;
- incentives for banks to invest in staff training and procedures for SME lending;
- supervision and support mechanisms within the Ministry of Finance to assist small financial institutions that lend to micro enterprises (such as BPRs, deposit-taking NGOs, Credit Unions);
- programs to strengthen financial institutions lending to small businesses.

2.71 **Corporate governance**. Not only is good governance crucial for investor confidence, it also helps develop a more stable and efficient private sector. In 1999, the Government established the National Committee on Corporate Governance (NCCG) to: create a Code for Good Corporate Governance that sets a benchmark for corporate practice; suggest legal reforms to implement the Code; and establish an institutional structure to support the Code. Members of the NCCG were appointed by the GOI and drawn from Government, the academic world and the professions.

2.72 By early 2000 a draft Code of Good Corporate Governance had been prepared, and has subsequently been revised in line with comments from the business community. The National Committee is now focusing on its dissemination. Institutions and groups in the academic and business communities have focused on various aspects of corporate governance, including through public seminars. BAPEPAM, the capital markets regulator, has shown some resolve in tackling enforcement issues. Private consulting companies are reporting an increase in the level of business from private clients wishing to upgrade their corporate governance practices.

2.73 The Government is considering a Review of Standards and Codes (ROSC) in corporate governance, possibly in FY01/02. Plans are also afoot to upgrade the listing rules of the Jakarta Stock Exchange and to examine the feasibility of demutualizing the Exchange in the medium term. Future initiatives need to include continuing efforts to strengthen institutions, to foster networking between institutions within Indonesia and also internationally, to increase public awareness, to train practitioners and to promote implementation at the corporate level.

2.74 **Competition Policy.** In June 2000, GOI appointed 11 commissioners to run the Commission for Business Competition ("KPPU"), a new independent regulatory agency in charge of implementing and enforcing Law No. 5/1999 on competition. The

Commission's effectiveness will depend upon its capacity to: (i) remain independent from business; (ii) address competition issues in a technical, transparent, non-intrusive and fair manner; and (iii) develop an effective advocacy strategy for public policy measures affecting competition.

2.75 There is still a gap between the objectives of the law and its application in reality. To narrow this gap, KPPU has prepared a program with the following objectives:

- *Broadening the scope of work.* The law requires KPPU to offer technical assessments and advise government agencies on policy and regulations affecting competition in markets. To achieve this, KPPU needs to develop a framework and methodology to understand and approach the interactions between competition law and economic regulation, SOE privatization, SME development, improved corporate governance, and regional decentralization. The outcome will enable KPPU to have a more comprehensive vision of its role in shaping policy-making and facilitating reforms.

- *Training government officials on the Competition Law.* Efforts here would focus on: (i) strengthening regulatory, analytical and enforcement capabilities at KPPU to address firm/consumer complaints and requests for policy advice, (ii) initiating a dialogue with regional and local governments on the implications of the law; and (iii) training judges on enforcement and compliance with the competition law.

- *Dissemination of KPPU's objectives and policy principles.* Dissemination would focus on the preparation and publication of reports, booklets and brochures containing general information about the competition law and KPPU and would be aimed at government bodies, business communities and public at-large.

Conclusion

2.76 Progress on structural reforms has been slower than expected. While there has been forward movement in some areas (bank recapitalization, corporate debt restructuring, Pertamina's procurement systems), progress on the overall program has been significantly behind the Government's own timetable. Of greatest concern is the need for stronger strategic leadership in a range of areas – privatization, agricultural policies, energy and mining policies, and SME development. There is a critical need for a game plan to tackle the large structural issues that remain unresolved – including state ownership of large swathes of the banking system and corporate sector; inefficient, state-owned, loss-making sugar mills on Java; continuing large losses in PLN and the looming shortage of power generation capacity; long-term food security, including rice policy and the role of BULOG; burdensome fuel subsidies; inefficiencies and corruption stemming from Pertamina's monopoly over all aspects of the petroleum sector; and slow progress on competition law and corporate governance. Progress in these areas will be critical for increased investor confidence and greater efficiency in the allocation of Indonesia's increasingly scarce resources.

3. IMPROVING GOVERNANCE AND ANTI-CORRUPTION

3.1 The first chapter dealt with the importance of macroeconomic stability – an essential prerequisite for growth. The second focused on structural reforms to encourage the efficient use of resources – especially important given Indonesia's unusually constrained economic circumstances. This chapter addresses a third important element in Indonesia's economic agenda – namely the institutional and governance underpinnings that are needed to ensure sustained growth, even in a difficult world economic setting. It, therefore, pays special attention to such issues as the fight against corruption, better public financial management and procurement systems, reforming the legal and judicial system, effective management of the decentralization program, civil service reforms, and improved corporate governance. It also looks at how these issues affect the natural resources sector, mainly forestry and water.

3.2 Indonesia is already paying a high price for poor governance:

- The heaviest price is paid by the poor, whose ability to access essential services needed to build their human capital to climb out of poverty is compromised each day by a heavy handed and corrupt bureaucracy. A recent study shows that the poor see corruption and lack of transparency as financially costly, corrosive of morality and social capital and eroding their human capital by reducing their access to social services (Box 3.1).

- Investors are frightened away by the inability of the justice system to enforce contracts and by the increased level of violence and frequency of break downs in law and order. Recent court decisions and police investigations, particularly those relating to Manulife and Panca (Box 2.1), are reminders of the vulnerability of investors to a dysfunctional justice system.

- Scarce government resources are being lost through a flawed procurement and financial management system and through blatant disregard of public property. If a modest savings of 10 percent could be realized in public procurement in the development budget, it would yield the exchequer some $500 million. The amounts would be significantly larger if off-budget public investments were included. The reported loss of papers relating to the BLBI cases by the Attorney General's office, for instance, could conceivably result in very large losses to the public exchequer.

3.3 By their very nature, governance reforms will take years to implement and take root. Yet action is needed now to develop and begin implementing these long term strategies, without which investor confidence will prove difficult to restore and sustainable poverty reduction will prove elusive. Moreover, there are potentially a number of 'quick wins" that could significantly shift incentives and build momentum for these reforms.

Box 3.1
Corruption and the Poor

On the morning of June 29, 2001 Ibu Fitri hurriedly cleaned her small row house in Pulogadung, Jakarta, fed her youngest child, and then carried him to look for a minibus. That day was report card day for Sari, her eldest child, who went to elementary school in Pulogadung. Before handing out the report card, the teacher told Ibu Fitri that the parent of a student had just passed away, and that other parents should contribute some money for the good cause. She told Ibu Fitri that she would only give out Sari's report card after she paid up some condolence money. According to the teacher, other parents had given Rp. 15.000 - Rp. 20.000, but not less than Rp. 10.000. Ibu Fitri felt her heart beating faster. This expense would mean her children would be short of food. Her husband barely earned enough to keep the family going.

Ibu Fitri went to the headmaster for confirmation of the teacher's story. Since he could see she was visibly angry, the head master admitted that no one had died, and this was a ruse to get parents to pay. However, the headmaster refused to exempt her from making the contribution. He said that he had no authority over the case, and that Ibu Fitri had to deal directly with the teacher. Ibu Fitri could not understand how a head master had no authority over a teacher. She wondered if the head master was getting a cut.

But she understood now that she had no choice. With a lot of resentment, she gave the teacher Rp. 10.000, saying that she could not give more since her husband had not received his salary yet. With a sour face, the teacher snatched the money off Ibu Fitri's hand. When Ibu Fitri asked for a receipt, she kept saying angrily, "later, later". The teacher kept showing her animosity and would not pay any attention to Ibu Fitri. Since her youngest kid started crying, Ibu Fitri had no choice except to give the teacher another Rp. 5.000 for "pencil money". Only then did the teacher smile and hand her Sari's report card, a smile that made Ibu Fitri feel even more angry and frustrated.

When she got home Ibu Fitri shared her anger and frustration with her neighbors. What she could not share was the burden of replenishing the Rp. 15.000 that she had used to pay the ransom for Sari's report card. It was supposed to be a happy day for Ibu Fitri because Sari passed her first grade. But it turned out to be a day of frustration

- The Poor Speak Up

Each day in Indonesia, thousands of similar drama are enacted. Another poor person faces humiliation and anger as they face the cost of corruption and lack of transparency. They suffer from corruption in dealing with the police, at school, the electricity company, local aid projects, in obtaining ID cards, credit, etc. Speaking up for themselves, the poor see four major costs of corruption: ***financial costs*** – corruption eats into already tight budgets; ***moral decay*** – they see corruption eroding the rule of law and reinforcing a "culture of corruption"; ***loss of social capital*** – corruption destroys trust and damages relationships, corroding community cohesion; and ***human capital*** – corruption reduces access to and effectiveness of social services and thus erodes the human capital of poor people.

When asked why they think corruption persists, the poor blame low salaries, lack of morality, lack of transparency and information, weak management and fear of repression:

- *"Officials have a poor attitude and lack morals, and everyone is used to bribing to the extent that it has become a culture".*
- *"The reasons and rules are not clear. We have never seen a circular letter explaining the Jakarta Capital City garbage retribution. We do not know much about the officer who is collecting the fees or his office of origin"*
- *"The 'building fee' has become a frequently used term. Every time a new child enters that school they have to pay although they do not construct any new buildings"*
- *"I do not speak up because I am afraid that next time around, when rice is delivered to my village, I will be excluded from the allocation".*

Source: *Corruption and the Poor*, a joint initiative by the World Bank and the Partnership for Governance Reform in Indonesia, October 2001.

Corruption

3.4 Corruption is the most well known symptom of poor governance in Indonesia, and the one that is most detested by investors and the Indonesian public alike. International surveys of foreign investors show Indonesia as among the most corrupt countries in the world. The Indonesian public seems to share this judgment. A recently released survey by the Partnership for Governance Reforms in Indonesia[1] shows that Indonesian households, enterprises and civil servants all concur that corruption is one of the most severe problems facing Indonesia. Some key findings:

- Corruption in the public sector is regarded as very common by approximately 75 percent of all respondents, with 65 percent of households reporting actually experiencing corruption.

- The traffic police, the customs authority and the judiciary were ranked the three most corrupt institutions in Indonesia, while the media, the post office, and religious organizations were ranked the least corrupt. Ironically, those ranked the least honest or most corrupt were also perceived to be the least efficient in terms of service delivery.

- Corruption extracts a high cost from society, with between 1 and 5 percent of household income, official salary, or company revenue spent on unofficial payments. Unsurprisingly companies that paid more by way of bribes for procurement contracts did more business with the government than companies that paid less.

- Some 35 percent of companies surveyed said they were not investing in Indonesia because corruption related costs were too high. More than half the business enterprises surveyed (56 percent) were willing to pay more than 5 percent of company revenues if corruption could be eliminated.

- While public attitudes to corruption appear to be highly negative with 70 percent of respondents regarding corruption as a serious social problem, roughly a third of respondents when asked about hypothetical situations relating to their own values and behavior saw corruption as something normal and paid bribes. But they drew distinctions between bribing for a national identity card (KTP) which was seen as normal, and bribing a judge which was not seen as normal. The lower the rank of the civil servant receiving the bribe, the less the act of bribing was seen as wrong.

- A vigorous debate is now underway throughout the archipelago on how to control corruption. The Partnership for Governance Reforms is facilitating this debate and has launched workshops to disseminate diagnostic work and help

[1] *A Diagnostic Study of Corruption in Indonesia*, Final Report, October 2001. Partnership for Governance Reform in Indonesia. The study is based on a survey of 2,300 respondents consisting of 1,250 households, 650 public officials, and 400 business enterprises carried out in early 2001.

build consensus around a national anti-corruption strategy. It needs to engage government and Parliament more closely in this debate and to encourage some quick wins even as the more complex task of building consensus gets underway.

3.5 Corruption corrodes public trust in government and distorts incentives. There are four key elements that would be part of a national strategy. The first is to reduce opportunities for corruption. The second is to repair broken accountability systems, through strengthening public financial management and procurement systems. The third is to strengthen the legal framework for anti-corruption. The fourth is to deter corruption through better enforcement of the law. In the medium to long term the establishment of a more accountable, efficient civil service will help bring about a reduction in corruption and a well executed decentralization program will make governments more accountable to the people. These issues are addressed below as part of the key set of actions needed to strengthen institutions and improve governance in Indonesia.

Reducing opportunities for corruption

3.6 Much of the public anger against corruption in the Soeharto era came from what has come to be known as "policy corruption": the unscrupulous use of public policies to skew rewards towards a chosen few. The newly democratic Indonesia is already building many checks and balances that prevent such an abuse of power for private gain. Parliament in particular has been exercising its oversight functions with vigor. The media has been active in exposing corruption in public life, including in Parliament. Fit and proper tests are being administered to high officials. Reducing opportunities for corruption, however, calls for action on a few key fronts.

- *Policy formulation:* The government needs to establish a clear process for policy formulation that leads to a disciplined, stable, transparent and structured policy-making process. Important government policies and decisions need to be subject to review by all the relevant agencies and departments prior to consideration by the Cabinet and the President. Where appropriate, i.e., in the case of decisions that have large consequences for the budget or the economy, they need to be subjected to public hearings and prior parliamentary review through white papers or other mechanisms. Careful recording of decisions and the monitoring of their implementation needs to be ensured. This is often not the case today, and opens the way for policy decisions and laws that have not been subjected to the kind of scrutiny necessary both to avoid misuse of power and obtain stakeholder buy-in, which in turn should maximize the prospects that such policies and laws attain their objectives.

- *Enhanced transparency*: The government needs to develop a strategy to greatly enhance public access to information. A freedom of information law is under consideration and needs to be expedited. In the meantime, much could be done to make widely available all government laws and regulations and to actively publicize administered prices and government procurement tenders and outcomes.

- *Allowing choice and voice:* Government departments need to eliminate public monopolies where appropriate or ensure that consumers have a choice. And where

not appropriate, as for example with natural monopolies like water, ensure the voice of consumers is heard and acted upon. Reversing the huge accretions to public ownership that were an inadvertent consequence of the financial crisis will also help greatly reduce opportunities for corruption. (see Chapter 2). Rapid progress in privatization, through an open and transparent process, is critical not just to the macro-economic reform agenda, but to the corruption agenda as well.

- *Improving the legal and regulatory framework:* All laws, regulations, procedures and controls need to be reviewed to reduce the discretionary powers of the bureaucracy and to increase efficiency in public service delivery. This is where the state interacts daily with citizens and corruption has become the norm. With decentralization, this will become an even bigger challenge.

3.7 **Next steps :** These are long term measures, but as with all governance issues, lack a champion who will shepherd and push this agenda. An inter-ministerial committee under a senior minister needs to take this and other elements of the anti-corruption agenda and hammer out a program of actions that can then be implemented over time.

Public financial management and procurement systems

3.8 Strengthening fiduciary standards has become a high priority for Government – for four reasons. First, the public is demanding it, and understandably so. Indonesia's move to greater democracy and transparency must begin with better management of public finances. Second, donors and creditors are demanding it. Stung by revelations of "leakage" of public resources, donor and creditor agencies are concerned their aid is used for the purposes intended and reaches ultimate beneficiaries. Third, shrinking budgetary resources and rising public expenditure needs makes it imperative to use public resources wisely, prudently, and transparently. And fourth, fiscal decentralization has added a layer of complexity that demands installation of new and improved systems.

3.9 While reform of public financial management and procurement systems will take many years, there are two actions that need immediate attention:

- creating a legal framework to anchor future reforms in public financial management;
- creating the right organizational structure to guide the reform of Indonesia's public procurement system.

3.10 ***Public financial management:*** New draft state finance, treasury and audit laws are under consideration. These offer an unprecedented opportunity to set new rules for modern, effective management of public finances. But the current drafts of these laws could benefit greatly from revisions through a process that involves major stakeholders, including Parliament, the Ministry of Finance, and the Supreme Audit Board. International experience suggests that tinkering at the margin does not work: something more fundamental is needed.

3.11 Revisions to the draft laws should be guided by four key principles, namely: accountability for results to Parliament and the people, full transparency in all

government transactions, empowerment of professional managers, and oversight by a principal expert auditor. These principles suggest that the drafts need improvements in the following areas:

- Clear definition of the role and responsibilities of key players in the budget process, and better definition of the budget process itself, to ensure best possible use of government money, while safeguarding macroeconomic stability.

- Enhanced budget documentation and reporting requirements for Government so Parliament can fulfill its oversight role, and focus not just on inputs, but also on outputs and outcomes.

- Strengthening the role of the Ministry of Finance in the budget process and budget implementation as manager of the Government's money and accounts. In exchange, the Ministry of Finance should be made more accountable to Parliament through regular, scheduled reporting.

- Reinforcing both the position of the Supreme Audit Board (BPK) as the sole external auditor of all central government finance and its independence through tenure of its members and financing arrangements. Ensuring BPK's right to audit all state finances, providing a clear relationship between BPK and Parliament, and ensuring that BPK has unrestricted access to information.

3.12 The Minister of Finance established a high-level Committee in April 2001, to guide reforms of the financial management system, and it has been engaged in discussions with Parliament on the draft laws ever since. An agreement is now needed with Parliament on broad principles for a modern public financial management system for Indonesia and for the laws along the lines suggested above.

3.13 **Next steps** could include the appointment of a drafting committee with members representing Parliament, the Supreme Audit Board, and the Ministry of Finance, to finalize the laws according to agreed principles. The broad principles for reform and a strategy for a time-bound action program for the preparation of laws by the drafting committee of reforms could be adopted and made public, by a set date, in a "White Paper". But for this to happen, government needs to appoint a senior official as champion to steer these reforms forward and be held accountable for results.

3.14 *Procurement reforms*: The World Bank's *Country Procurement Assessment Report*[2] analyzed the procurement system in Indonesia and found it to be deeply flawed. Following discussions on the report, the Government established an interdepartmental Steering Committee and a Working Group in late 2000 to guide procurement reforms – beginning with the adoption and publication of an action plan to reform the legal framework and organization structure for procurement. The Working Group has been reviewing existing procurement regulations, and carrying out preparatory work for the establishment of a National Public Procurement Office (NPPO), and for building

[2] The World Bank, March 27, 2001. *Indonesia: Country Procurement Assessment Report.*

procurement capacity in all government agencies. But progress toward preparation and adoption of an action plan has been slow.

3.15 If the current hemorrhaging of public funds due to poor procurement practices is to be stopped, and if Indonesia's procurement systems are to be brought up to international standards to meet AFTA and WTO requirements, it is essential to appoint a full time senior official immediately to lead procurement reform (with a strong determination to rid public procurement of corrupt and collusive practices). This senior official needs to prepare, within a set timetable: (i) principles for reform of the organizational structure including the establishment of the NPPO and a legal framework for procurement, (ii) a set of reform options for a high-level decision on the preferred option, and (iii) a draft action plan for implementation of the agreed option within a specified timeframe, and (iv) measures to ensure uniform procurement standards apply throughout Indonesia.

The legal framework

3.16 The legal framework for anti-corruption is reasonably robust with recent changes made in the anti-corruption law. The law will establish an Anti-Corruption Commission with powers to investigate and prosecute corruption cases. While experience in other countries shows a mixed record for such commissions, the current state of the Indonesian judiciary suggests that this may be the only way to impart momentum to the enforcement of anti-corruption laws. But this will only work if commissioners are carefully chosen for their integrity and ability and if the 2002 budget adequately funds the Commission. One big lacuna in the legal framework, however, was highlighted by the decision of the Financial Action Task Force (FATF) in June 2001 to declare Indonesia a non-cooperating country on matters of money laundering and by the recent UN Security Council resolution calling on countries to act firmly against money laundering (Box 3.2).

3.17 Indonesia has therefore begun work on a law to eradicate money laundering. The present draft has many problems. These include the failure to cover non financial institutions, the need to ensure coverage of extra-territorial criminal acts relating to money laundering, vagueness in the provisions relating to the proposed Commission for the Eradication of Money Laundering Criminal Acts, and for the proposed center for Financial Transaction Reporting and Analysis, and inadequate coverage relating to assets to be frozen seized or confiscated.

Legal and justice sector reforms

3.18 Reducing corruption, creating a positive investment climate and ensuring that the benefits of development reach the poor all depend on an effective justice sector. In the New Order period, Indonesia attained high rates of growth and poverty reduction despite the lack of a strong justice sector. This was possible in a network based autocracy. Indonesia's transition to a democracy is a transition away from a society governed by networks and personal connections to one based on rules. Democratic governments cannot guarantee investors the kind of stability that authoritarian regimes sometimes achieve unless they are able to establish the rule of law. The justice sector is at the heart

Box 3.2
Money Laundering in Indonesia: Implications of the FATF Report

In June 2001, the Financial Action Task Force on Money Laundering (FATF) included Indonesia in its list of non-cooperative countries and territories. This will have important implications for the country, especially in light of increased world awareness of such issues after the September 11 events.

What is the FATF? The FATF is a 29 member inter-governmental body, with its Secretariat at the OECD, tasked to help all financial centers adopt international standards to prevent, detect, and punish money laundering. The FATF prepared forty recommendations as the international standard for effective anti-money-laundering measures, covering the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation.

Non-cooperative countries and territories (NCCTs). In February 2000, the FATF published an initial report on non-cooperative countries and territories, setting out: (i) 25 criteria to identify practices and rules that impede international cooperation in the fight against money laundering; (ii) a process to identify countries with such practices and rules and encourage them to implement international standards in this area; and (iii) possible counter-measures that FATF members could use to protect their economies against the proceeds of crime. In June 2000, the FATF published its first set of NCCTs, containing 15 countries, and updated this list in June 2001.

Indonesia is now on the list. Indonesia meets 9 out of the 25 NCCT criteria, and partially meets 4 other criteria. It lacks a basic set of anti-money laundering provisions. Money laundering is presently not a criminal offense in Indonesia. There is no mandatory system of reporting suspicious transactions to a Financial Intelligence Unit. Customer identification regulations have been recently introduced, but only apply to banks and not to non-bank financial institutions. In order to rectify those deficiencies, the Government has drafted a law concerning Eradication of Money Laundering Criminal Acts. The draft is being discussed in Parliament.

Implications for NCCTs. The FATF members request their financial institutions to give special attention to businesses and transactions with entities in countries identified as non-cooperative. This increases the cost of doing business. If a country does not make adequate progress, further counter-measures and sanctions are implemented. This could include a rigid examination of all incoming and outgoing financial transactions between banks and their foreign counterparts. It could lead to time-consuming and costly verification of transactions. Moreover, sanctions can increase the price of exports to FATF member countries to incorporate the cost of coping with stringent bank requirements. Foreign banks would also be more stringent with applications for letters of credit, further increasing the price of export products. In the Philippines, for example, government officials estimated that the counter-measures could cost $7 million a day in delayed transactions and greater scrutiny.

To get off the list, a country must satisfy the FATF that it has addressed the deficiencies identified. Particular importance is given to the relevant aspects of criminal law, financial supervision, customer identification, suspicious transactions reporting and international cooperation. Any new legislation or regulations must not only have been enacted but also have come into effect. Furthermore, the FATF takes steps to ensure that the jurisdictions concerned are indeed implementing the necessary changes effectively. Indonesia's case will be reviewed in June 2002.

of Indonesia's governance reform efforts because it is the sector where rules are laid down and enforced.

3.19 The critically weak and almost dysfunctional condition of the justice sector in Indonesia – the judiciary, the bureaucracy responsible for many aspects of the machinery of the legal and judicial system, the Attorney General's Office, the police – is one of the most fundamental impediments to both economic recovery and sustainable long-term development in the country. As the recent diagnostic survey on anti-corruption revealed public confidence in the sector is low (Box 3.3). Investor confidence is even lower (Figure 3.1). Indonesia rates particularly low on the court system's reputation for honesty and corruption.

Box 3.3
Perceptions of corruption in the legal system

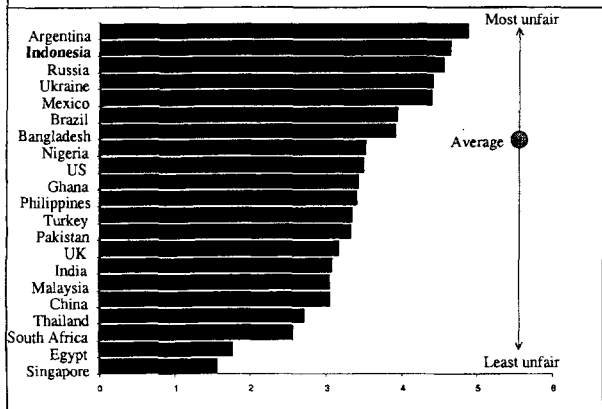
The Indonesian judiciary, police, and prosecutor are seen as among the most corrupt in the country. Judges and prosecutors, according to a recent diagnostic study of corruption in Indonesia,[1] were "consistently ranked among the least honest, just above the traffic police and customs". Of households and businesses which had recent experiences with the justice system, roughly a third paid bribes to judges. Two-thirds of households who did so paid bribes to prosecutors and three-fifths to staff in the prosecutor's office. Businesses paid between Rp. 1-5 million while households paid an average Rp. 1 million to courts, with 11 percent of households and 20 percent of businesses paying more than Rp. 5 million.

Households generally do not use the court system to resolve disputes, but businesses were more likely to do so. Asked to list obstacles to using the courts, key reasons given were that judges would make unfair decisions, that it would take too long, that unofficial costs were too high, that court decisions would not be enforced and that judges were incompetent. These reasons tally with the views of foreign investors in Figure 3.1.

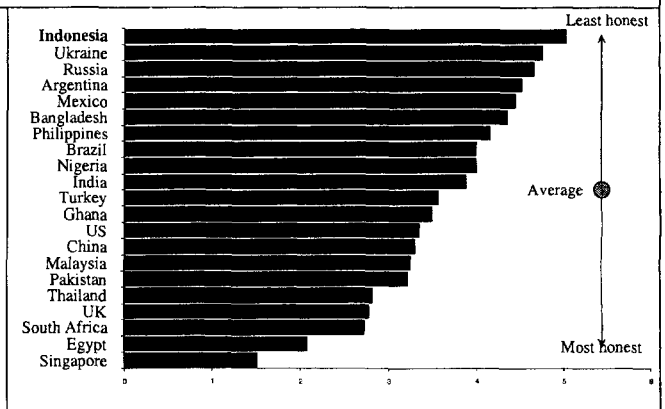
3.20 There have been a number of initiatives in the past three years to tackle weaknesses in the justice sector. First, an effort was made (perhaps prematurely) to free the courts of interference from the executive and the legislative branches of government, by giving courts autonomy, raising the salaries of judges and conducting fit and proper tests for vacancies arising on the Supreme Court. Second, to deal with bankruptcy cases, a commercial court was established outside the traditional court structure. The Supreme Court was persuaded to appoint *ad hoc* judges to this court, and to require that this court publish its judgments. Third, a concerted effort was made to establish a legal infrastructure to fight corruption through a new anti-corruption law which also required the establishment of an Anti Corruption Commission by August 2001 (see above). Further efforts included the appointment of an Ombudsman, the establishment of a standing Committee for the Audit of Assets of State Officials, the creation of a Joint Investigating Team under the Attorney General's Office to pursue allegations of corruption against the judiciary and the commissioning of a governance audit of the Attorney General's Office. Finally, recognizing the *ad hoc* nature of many of these

Figure 3.1
Business Perceptions of the Legal System

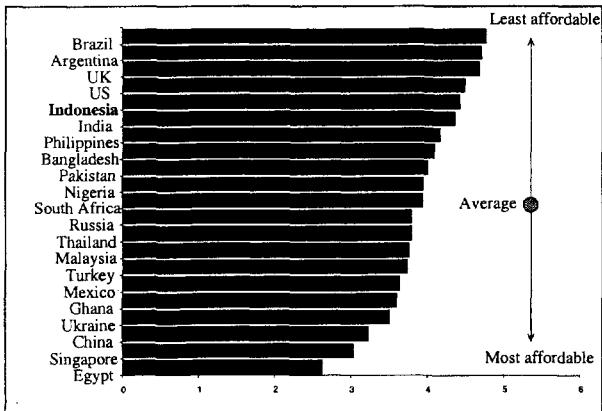
Indonesia's legal system is seen as highly partial...



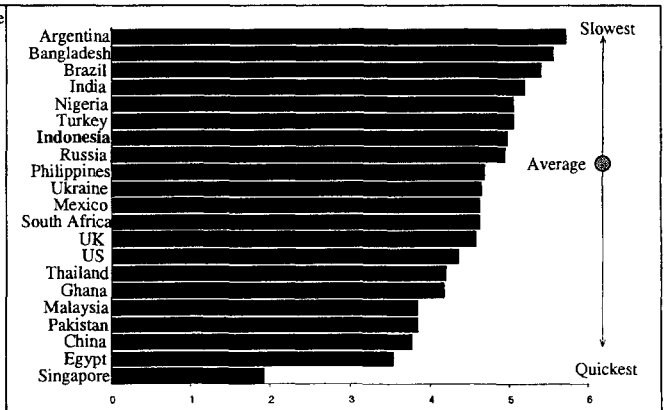
.....Dishonest



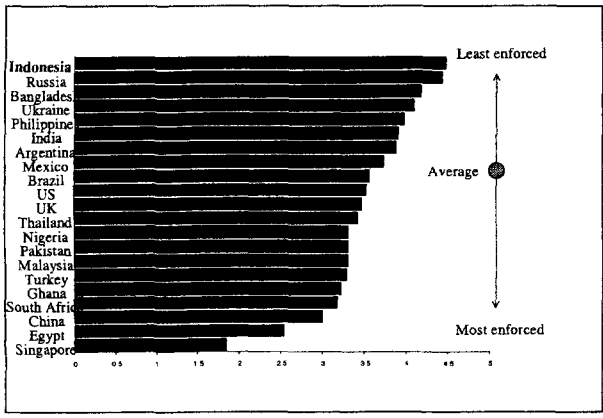
..... unaffordable



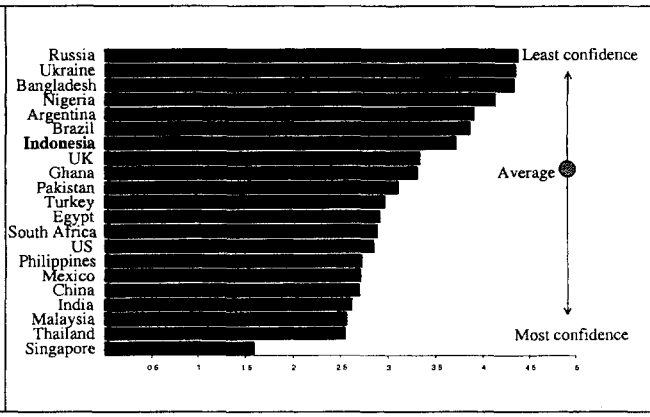
..... and somewhat slow.



Court decisions are not enforced.....



....and there is not much confidence in the system



Source: *World Business Environment Survey.* Note: Score ranges from 1 to 6. The higher the score, the worse-off the country is. The survey covered 81 countries.

initiatives, President Wahid appointed a National Law Commission to develop a coherent plan of action for reform of the sector.

3.21 But few positive results have come from these efforts at reform:

- Despite the appointment of several new justices to the Supreme Court, including the Chief Justice, through a fit and proper test administered by Parliament in full public view, recent judgments demonstrate that the pattern of questionable judgments persists. Moreover, when the Joint Investigating Team in the Attorney General's Office tried to prosecute judges on the Supreme Court for corruption, the Court promptly declared invalid the regulation establishing the Team – and thus revealed its unwillingness to reform itself. Meanwhile, surveys and anecdotal evidence also confirm continuing widespread public skepticism about the honesty and impartiality of the judiciary.

- The Commercial Court, through a number of questionable judgments, has not gained the confidence of the investor community either, and consequently has not played a significant role in corporate restructuring, which in turn has progressed slowly, sporadically and unsatisfactorily (see Chapter 2).

- The Anti Corruption Commission has yet to be established. Other institutions established to fight corruption lack adequate funding and political support. The Committee for the Audit of Assets of State Officials is struggling to get itself underway and even more to ensure that there is effective compliance with its mandate. No formal follow-up to the findings of the governance audit of the Attorney General's Office appears to have taken place.

- The National Law Commission does not appear to have been able to stake out a major role in policy-making circles. Like most other commissions, it has not been given a budget, and it appears to have no client in Government to whom it is accountable or to whom it can direct its recommendations, even though it is formally charged with advising the President.

3.21 To some extent it is understandable that the steps taken to date show few demonstrable results: institutional reform is a long-term process and typically takes years. And some measures taken may appear modest but are likely to have far-reaching impact: the publication of commercial court decisions, for example, has not only been valuable in evaluating the competence and integrity of that court, but also is likely to trigger similar changes in the rest of the judiciary. Slow progress to some extent also reflects lack of political consensus on how to deal with the past. Very few corruption cases of any significance have been prosecuted and, of those that were, many got dismissed on technicalities. An agreed approach to how to address the past with a view to reducing the burden on the system will be an important precondition. But the main factor underlying this limited success is the apparent lack of political commitment to manage and coordinate what are extremely complex long-term reform goals.

3.22 For meaningful reform to occur, the Government of Indonesia should seriously consider making comprehensive justice sector reform an explicit national policy priority with a commensurate allocation of political attention and resources. To that end, the Government should adopt a time-bound framework for justice reform consisting of measures and initiatives, determined to the maximum extent practicable based on a participatory process with relevant stakeholders including the National Law Commission. International experience suggests that the framework and resulting reform program should:

- Address all aspects of reform of the various institutions of the justice sector -- the police, the Attorney General's Office, the judiciary, the prison system, and the relationships among them.

- Articulate a vision of the proper role and responsibilities of these institutions, a basic policy statement for each such institution, and the reform objectives to be attained through the reform program. This should be based on the adoption of a vision statement for each institution that takes account of, and follows, a broad-based process of consultation with stakeholders and of a quick governance audit.

- Require the police, the Attorney General's Office, the judiciary, and the prison system to provide, within say 4 months, a strategy and implementation program for reforming themselves in line with the Government's vision statement. Each such program should be evaluated in light of the independent audit findings and recommendations and be subjected to a structured process of public scrutiny and debate. Final programs for reform should be adopted by the Government and endorsed by the DPR within 6 months of the targeted completion date for the presentation of the in-house program.

- Provide for monitoring of the program against the objectives and targets of the time-bound action plan and for regular reporting of program status and achievements, with an emphasis on transparency.

3.23 Given the lack of credibility of the justice sector in Indonesia, any program of reform for the sector is likely to be greeted with profound skepticism. For this reason, the Government of Indonesia should further consider taking a number of short-term measures that are within its control to demonstrate its intent and resolve. The following illustrative steps could contribute powerfully to establishing such credibility:

- A public deadline could be established (by law if necessary) for all state officials to register statements of wealth and sources of such wealth with the State Commission for Auditing the Wealth of State Officials. Failure to register would result in immediate suspension. Failure to adequately explain the sources of their wealth should at least lead to loss of public office.

- All members of the Supreme Court and Courts of Appeal who have not taken a fit-and-proper test in the last 3 years could be required to do so. Failure to submit to, or

pass such a test should result in immediate and permanent suspension or dismissal from service.

- The law could be amended to require the Supreme Court and Courts of Appeal to follow the Commercial Court practice and publish reasoned judgments within a specified period of a decision. Moreover, judgments by these courts and by the Commercial Courts should be reviewed and this review should be used to establish legal benchmarks. Promotions and postings should be based on such reviews.

Decentralization

3.24 The "Big Bang" decentralization on January 1, 2001 started better than most observers had expected, especially as several key safeguards were only put in place at the last minute. With the exception of teacher strikes on the issue of back-pay increases, the first 9 months of the program have been without major incident. The crucial transfer of 2.1 million civil servants is largely completed, the general allocation grant (DAU) to regions is being distributed, and disbursements of shared revenues began in July. But reports on predatory regional taxes are on the increase, whereas the center's supervision does not yet seem to work smoothly. Some key regulations are still outstanding. Moreover, the regulatory framework shows several weaknesses – in part signs of the haste with which it was put together, but in part because some of the regulations seem to contravene the laws. And within a year of implementing Law 22, Government has now decided to revise it, causing significant uncertainty at the regional level.

3.25 **Regulatory framework**. In the days just preceding January 1, 2001, the Government issued many regulations supporting implementation of Decentralization Laws 22 and 25/99 – and this was followed by another spate of regulations in early 2001 (Table 3.2). In the process, there are several regulatory issues that have arisen, including:

- The far-reaching regulatory powers of the regions may interfere with the free flow of goods, services, and capital within Indonesia, with potentially damaging consequences for the economy.

- Part of Presidential Decree 62/2001 on the functions of the central bureaus seems to contradict Law 22—by granting the land agency BPN continued right to manage land affairs—a function which is among the obligatory functions of the regions.

- MPR decree IV of August 2000 – calls for a revision of Laws 22 and 25, and yet allows regions to issue any bylaw on matters of decentralization not yet regulated by the center. While the decentralization laws are far from perfect, a major revision now may disrupt the decentralization process just embarked upon.

- Two laws on special autonomy for Aceh and Papua have been passed (Box 3.4) – which grant these two provinces additional resources – beyond that provided by existing law.

Table 3.1: Laws and regulations on decentralization issued in 2001

Laws	
UU No. 18/2001	Distinctive Autonomy for Special Regional Province of Aceh as the Province of Nanggroe Aceh Darussalam
Government regulations	
PP No. 56/2001	Concerning the Reporting on Regional Government Implementation
PP No. 52/2001	Implementation of Provision of Assistance Function
PP No. 39/2001	Implementation of De-concentration
PP No. 20/2001	Concerning the Management & Supervision of Regional Government Implementation
PP No. 11/2001	Concerning Regional Finance Information
PP No. 2/2001	Concerning the Protection and Transfer of the State Owned Goods/Properties from Central Government to Regional Government in the process of Regional Autonomy Implementation
PP No. 1/2001	Concerning the Guidelines of Compiling Regional House of Representative Regulations
Presidential decrees	
Keppres No. 74/2001	Concerning Supervision Management of Regional Government Execution
Keppres No. 62/2001	The Amendment of Keppres No. 166/2000 concerning the Position, Duty, Function, Authority, Organization Structure, and Working Procedure of Non Department Government Agency that has been changed several times with last change by Keppres No. 42 /2001
Keppres No. 42/ 2001	Amendment of Keppres No. 166/2000 concerning the Position, Duty, Function, Authority, Organization Structure, and Working Procedure of Non Department Government Agency that has been changed several times with last change by Keppres No. 16 /2001
Keppres No. 39/2001	Utilizing of Contingency Fund for Assistances in Personnel Transfer, Equipments, Payments and Documents (P3D) to Regional Government
Keppres No. 17/2001	Amendment of Keppres No. 178/2000 concerning the Organization Structure & Function of Non Department Government Agency
Keppres No. 16/2001	Amendment of Keppres No. 166/2000 concerning the Position, Duty, Function, Authority, Organization Structure, and Working Procedure of Non Department Government Agency that has been changed several times with last change by Keppres No. 173/2001
Keppres No. 6/2001	Concerning Determination of Numbers & Procedures in filling up membership of Regional House Representative in New Provinces and Regencies/Cities after the Election year 1999
Keppres No. 5/2001	The Implementation of Regency/City Authorities

Source: http://www.gtzsfdm.or.id/

Box 3.4
Special autonomy for Aceh and Papua

Law 18/2001 (approved on August 9, 2001) and the draft Law on Papua provide for special autonomy of Aceh and Papua.

Existing laws require the center to share with *all* regions 80 percent of revenues arising in the region from general mining, forestry and fishery, 15 percent from petroleum, and 30 percent from gas. The Special Autonomy Law for Aceh gives more -- 55 percent of revenues from petroleum and 40 percent from gas.[4] These arrangements for Aceh will cost the center Rp.1.5 trillion, which is equivalent to Rp. 375,000 for each Acehnese.

The draft Special Autonomy Law on Papua gives the Papuans 70 percent from oil and gas. The draft Special Autonomy Law for Papua will cost the center an additional Rp. 1.52 trillion – about Rp. 700,000 for each Papuan. As the Government's statement suggests, the center's development budget (Rp. 52.3 trillion) may also serve as a further channel for resource transfers to the region.

3.26 **Transfer of units and civil servants**. By end-September 2001, the transfer of civil servants, facilities, and archives was largely completed. In total, 239 provincial level offices of the central government, 3,933 district/city level offices, and over 16,000 implementing units were handed over to the provinces, districts, and cities[3]. With these offices, some 2.1 million civil servants were also transferred—200,000 less than originally assumed.

3.27 Given limited funding at the provincial level and the large number of civil servants that remained at that level, the provinces found their budgets squeezed. The situation worsened when all civil servants were granted a wage hike, which came on top of wage increases for regional civil servants arising from an upgrading in their functions. The contingency fund for decentralization brought some relief—disbursements totaled Rp. 3 trillion- but this is likely to be temporary.

3.28 **Regional regulations**. Perhaps motivated by the budgetary squeeze, many regions were eager to raise levies and taxes. Law 34/00 allows regions to do so, as long as they conform to principles listed in the law. The imposition of regional taxes has become a significant concern for investors, and some obvious abuses of Law 34 have been widely published. By August, 2001 MOHA received a total of 1060 regional regulations of which 809 have been approved and 84 were rejected; the remainder are pending review. The rejected regulations, however, have not been formally cancelled. Instead, the regions were requested by letter to reconsider them.

3.29 **Safeguards**. The Government put in place some key safeguards to hedge against the risks of decentralization, for example:

[3] GTZ Decentralization News, March 2001.
[4] The arrangement appears to become less advantageous after eight years, i.e., 2009.

- It banned regions from new borrowing in 2000, except through the center. While government regulations set affordability limits to borrowing by individual regions, this would not have assured that aggregate regional borrowing was in line with macroeconomic requirements

- In the 2001 budget, the Government also included the aforementioned contingency fund of Rp. 6 trillion, of which half was used by mid-September. The speed of decentralization made it virtually impossible to match decentralized expenditures with needed revenues, and despite transitional elements in the general grant allocation formula, mismatches were inevitable. As discussed, the contingency came in handy, especially at the provincial level.

- Central Government decided to continue to pay the civil service for a transitional period of 5 months, while deducting the wage bill from the general grant allocation to the regions. This assured a smoother transition of personnel than anticipated.

3.30 Beyond these short-term safeguards, attention must now shift to the longer term task of ensuring that local governments adopt fiduciary safeguards and strong anti-corruption measures. The short-term risks of an increase in corruption following decentralization are high, but these risks can be managed (Box 3.5).

3.31 **Next steps**. First, continued efforts should be made to make the general allocation grant (DAU) mechanism more equalizing across regions as well as predictable and transparent. Unfortunately, Parliament recently requested Government to revisit distribution of the Rp. 69 trillion general allocation grant to the regions so that no region would get less than last year. This makes the allocation less equalizing and moves it in the wrong direction.

3.32 Second, Government needs to clarify the process by which Law 22 will be revised, and what changes it plans to implement beyond the elimination of obvious flaws. The announced revision has created considerable uncertainty in the regions, and has given central ministries – reluctant to decentralize in the first place – an excuse to slow implementation. One way forward would be for the Government to submit a "White Paper" on decentralization to the MPR session in August, to present the Government's strategy in decentralization, and agree to revise the laws once sufficient experience with the current laws has been gained.

3.33 Third, Government could reinforce its review of regional regulations, and actually cancel some that conflict with national law. This would send a strong signal to investors and constituents that the center is prepared to challenge abuse of power in the regions.

3.34 Fourth, is to establish a more comprehensive monitoring system. Early detection of emerging issues in decentralization, and a quick response by the center, will be keys to the success of the program.

Box 3.5
Decentralization and corruption

As Government decentralizes and moves closer to the people, the cost of monitoring politicians should decrease, and so should corruption. Information provided by the Central Government can be used by local pressure groups to influence local governments. Political parties may be more accountable to their constituents, and may be tempted also to associate themselves with successful projects and programs. Competition among regions may also lead to decreased corruption and improved service delivery

In the short term, however, many fear that corruption will flourish in the regions due to their sudden increase in money, power, and resources, but without appropriate checks and balances. Ensuring that these checks and balances exist and, more importantly, that the right incentives are in place to prevent corruption, is a priority for reform. How to do this? Some clear lessons have emerged both from international experience and experience with projects in Indonesia.

Insisting on transparency and involving communities in decisions about their own development tends to prevent corruption. The Kecamatan Development Program (KDP) – supported by a World Bank loan – emphasizes transparency and community empowerment. It also bypasses local government, transferring money directly to villages. Roads and bridges built under KDP are on average 30 percent cheaper than comparable items in other projects. This, arguably, is a strong indicator of lower corruption levels. Internal rates of return also appear to be consistently higher than standard projects and ex-post maintenance reviews (3-5 years) found maintenance substantially better than through normal public service delivery methods.

Getting the incentives and accountabilities right is key to preventing corruption. In KDP's case, those who control the project are also its beneficiaries. They therefore have an interest in not seeing money disappear. How can one take this process from the Kecamatan to the Kabupaten? Attention will need to be paid to community consultation processes, exit and voice policies, auditing procedures and the role of matching grants. In particular, matching grants with budgetary contributions from the district and/or community would raise the local stake in projects and programs and increase local incentives to monitor projects closely – and may, in turn, encourage politicians to associate with these projects.

3.35 Fifth, the Government needs to finalize the regulatory framework quickly, especially for Special Allocation Grants (DAK) and for on-lending arrangements to the regions. The absence of such arrangements is holding back the timely preparation of projects for financing by the international creditor community. But finalizing on-lending arrangements could still take time as the Government needs to reach closure on a variety of issues, including terms and conditions, monitoring and accounting mechanisms, and institutional arrangements. In the meantime, to reduce uncertainty and motivate local government participation in project preparation, clear and unambiguous interim arrangements need to be announced and communicated .

3.36 Finally, the Government should complete and fund a program for capacity building in support of decentralization. This program – of benefit to the center and the regions – could signal the Central Government's seriousness in getting decentralization right and in working together with the regions for a successful outcome.

Civil service reforms

3.37 Aside from decentralization, there has been little progress on civil service reforms. Government should therefore return to its focus on preparing a civil service reform strategy to which it committed in September 2000. Such a strategy should include the size of the civil service, pay, extent of decentralization, measures to improve performance, and steps to fight corruption. Following this strategy, the revision of the Civil Service Law in line with the new decentralized environment will become necessary.

3.38 **Decentralization first**. The Government rightly focused on decentralization as a key challenge for the civil service. Decentralization required the reassignment of some 2.1 million civil servants on top of the 150,000 already decentralized last year, and just managing the issuance and countersigning of the transfer letters was a major achievement. But much remains to be done. Law 22/99 requires a fundamentally different way of managing the civil service – with much of the authority to hire and fire devolved to the regions. Although regulations indicate how the new system will work, much remains to be clarified – including authority over promotions, career management, training, and competency standards.

3.39 Decentralization is hardly the only challenge for the civil service. The Government officially wants to shrink the size of the civil service, but it is unclear how this can be achieved in a decentralized environment. Line ministries and regions are free to hire contract workers so long as they pay from their own resources. In addition, from a survey done among civil servants, it is clear that a lack of performance management and corruption are of greater concern than pay. In fact, recent research suggests that most civil servants' income is in line with their private sector comparators, given their age and education level. This finding sharply contrasts with surveys of the public who feel low pay is a main cause of corruption (Box 3.6).

3.40 **Next Steps**. After the transfer of civil servants, the Government should shift attention to some of the unresolved issues in decentralization, including potential overstaffing and wages. Government should also continue to watch closely whether regions are reluctant to accept central civil servants on their payroll. Some regions may consider providing incentives for civil servants to leave employment, in which case the Central Government could consider sharing the costs of retrenchment. Government should also consider whether continued central wage setting is appropriate for Indonesia, especially now that finances for the regions are no longer provided earmarked for wages. Over time, responsibility for civil service pensions will also need to be sorted out – until now it has been the Central Government that paid, but for future hires responsibility will shift to the regions. How this will be done, and how the pensions will be managed is key for future mobility of civil servants among the regions.

3.41 Finally, the Government needs to clarify how it intends to build a civil service that is professional, efficient, productive, transparent, and free of corruption, collusion and nepotism – as the MPR has instructed.[5] The initial attempts to formulate a civil

[5] *MPR Broad Guidelines of State Policy 1999-2004, Chapter 3, B 7.*

Box 3.6
Better managed institutions are less corrupt

In a recent survey on corruption conducted by the Partnership for Governance Reform in Indonesia, low salaries were seen as the most important factor causing corruption, with morality and lack of controls being cited as other factors. However, regression analysis showed that public institutions had lower levels of corruption where:
"

- budgets were perceived to be developed in close consultation with managers;
- rules, personnel polices, and procurement guidelines were perceived to be formalized, well-specified and implemented;
- budget decisions and personnel decisions were perceived to be clear, transparent, and effectively monitored;
- management tried to eliminate corruption involving even small amounts of money;
- merit and qualifications were considered more important in the treatment of staff than other non-objective criteria.

The above findings point to organizational characteristics of public institutions as causes of corruption over individual employment aspects such as salary and performance. In particular, quality management practices in procurement, budget, and personnel processes backed by strong anti-corruption orientation, limited discretion, and the implementation of rules were found to be significantly related to lower levels of corruption in public institutions."[1]

[1] *A Diagnostic Study of Corruption in Indonesia*, Final Report, October 2001. Partnership for Governance Reform in Indonesia.

service reform strategy which started last year came to a halt due to the frequent changes in leadership in the State Ministry for Administrative Reforms (MenPAN), and the lack of coordination amongst the Civil Service Agency (BKN), State Administrative (LAN), and Ministry of Home Affairs. Now is the time to revamp this civil service reform strategy. The Steering Committee which prepared the early draft could be in charge, if adequately supplemented with staff and resources. The strategy should include changes to the incentive system, size of the civil service, recruitment, performance management, remuneration, and probity. It should clarify responsibilities for managing, monitoring and reporting on the reforms, and set a clear timetable for implementation. To show its commitment, the Government should submit its strategy to Parliament for review and final approval. Only after a clear strategy has emerged would it make sense to revise Law 43/99.

Governance and decentralization – the case of forestry

3.42 Performance in every sector is affected by the quality of governance – directly and indirectly – as well as by the forces of decentralization. This is particularly important in natural resource management because environmental degradation has effects that tend to spread far beyond regional boundaries, and because the capacity of local governments is especially weak in this area.

3.43 As in most other areas of governance, the laws and policy instruments for managing natural resources are mostly in place; what seems to be missing is the will to use them effectively. Nowhere is this more true than in the forestry sector where the larger crisis of governance has affected the environment – and development – with tragic consequences.

3.44 **Forestry.** In February 2000, the Government committed itself to reforms supporting sustainable management of forest resources. These included: urgent action to control illegal logging, update the forest inventory, maintain the (temporary) moratorium on natural forest conversion, and restructure the debt of only those wood processing firms with legal and sustainable supplies of logs; establish an Interdepartmental Committee on Forestry (IDCF); and start a new National Forest Program (NFP) in consultation with all stakeholders. Unfortunately, the Government made little progress on this agenda, the only exceptions being the establishment of the IDCF and 70 percent completion of the forest inventory. In November 2000, the Government prepared a remedial action plan to advance stalled forestry management reforms but this too stalled.

3.45 Since March 2001, however, there has been some forward movement in reforms – focused on illegal logging, forest fire management, and forest inventory and mapping – but too little, as yet, to have made any difference to Indonesia's forests, where conditions are worsening.

- Among 14 recent cases of illegal logging, one suspect was a police district commander. He has been dismissed and is going to trial. Both Government and independent observers have confirmed a marked decrease in illegal logging in that district followed this enforcement action.
- On April 12, the Government issued a decree temporarily banning cutting of *ramin* and requested the secretariat of the Convention on International Trade in Endangered Species (CITES) to identify *ramin* as a species temporarily banned for export from Indonesia. The CITES listing became effective in August but is not being effectively enforced, as evidenced by *ramin* from Indonesia being unloaded in Singapore.
- Forest fire management in Indonesia has been hampered by the Government's failure to prosecute companies that have been implicated. There has been slow improvement in this area: five companies were eventually prosecuted in 1998, and the pace of enforcement has accelerated somewhat. There is also a private-sector initiative, the Haze Prevention Group, set up by three of the largest wood industry conglomerates to prevent and control forest fire.
- A process is underway to evaluate and classify indebted wood-processing firms (128 firms, total debt Rp.21.8 trillion) in IBRA's portfolio. Work was underway to prepare and implement due diligence criteria and procedures. The intention was to take into account a company's forest management and regulatory compliance when restructuring its debt. This effort has stalled; meanwhile substantial amounts of forest industry debt are being restructured without adequate consideration of forest management implications.

- The results of the forest cover mapping conducted in 1999 were made publicly available on a website and in the course of 2000, the quality of the mapping was upgraded with new satellite imagery for about 60 percent of the forest estate. The results reveal that 30 percent of the production forest and 6 percent of the protection and conservation forest surveyed are no longer forested.

- In October 2001, the Ministers of Industry and Trade and Forestry issued a joint decree putting in place a ban on export of logs and raw material for wood chips. The Bank, other donors and creditors and even the forest industry have pointed out that this needs to be accompanied by vast improvements in monitoring and enforcement and a crack-down on the corrupt practices that enable the present high level of illegal exports.

- The moratorium on conversion of natural forest included among the February 2000 commitments has been observed by the Ministry of Forestry but has become a much more difficult goal to achieve since decentralization, which expanded the authority of provinces and districts to issue logging and conversion permits.

3.46 The moratorium on natural forest conversion is supposed to remain in effect until the inventory and mapping is complete and the new National Forest Program has been formulated. Once the forest inventory and mapping is completed and the forest boundary re-drawn, the Government could release deforested "forest" land to local governments and to individual and communal owners, with incentives and technical assistance to promote agro-forestry. This may help to reduce pressure for forest conversion.

3.47 One of the early activities of the IDCF should have been to develop the National Forest Program. Some activities toward the eventual formulation of the Program are underway, but the IDCF action needed – establishment of a multi-stakeholder working group to guide and review the process – is conspicuously absent. In fact, nearly all of the activities to date to improve forest management are being conducted solely by the Ministry of Forestry, despite the widespread agreement that much of the work needed, particularly as regards governance, is beyond the authority and capacity of any single agency.

Conclusion

3.48 Institutional development for better governance will take years, if not decades. But in Indonesia, a start needs to be made immediately – especially in legal and judicial reforms, civil service reforms, public financial management, and forestry policy. Indonesia's international reputation for honest and efficient government is badly tarnished. Improving that reputation will take years of assiduous effort. So there is little time to lose.

4. TOWARD A STRATEGY FOR POVERTY REDUCTION

4.1 A recurring theme in this report has been the importance of stability and growth for poverty reduction. But stability and growth are not enough. While cross country analysis shows higher growth to be correlated with faster declines in poverty rates, countries with broadly similar growth rates have experienced very different poverty outcomes. Research into this question finds that poverty tends to fall faster in countries where all aspects of government activity – policies, programs, expenditures, institutional development – are geared toward poverty reduction. A narrow focus on paternalistic programs designed to "help" the poor tend to have little impact. Far more effective are efforts to change the policy, institutional, and regulatory environment that affects the poor – so they have avenues to participate in decisions that shape their lives and avail themselves of opportunities offered by growth. Poverty, after all is multidimensional in nature, so it will need a multidimensional approach to reduce it.

4.2 This chapter makes five points. First, at a minimum, government policies should not work against the poor, and preferably should work for the poor. Second, public investment in the poor – through health and education programs – is essential for poverty reduction not only because it raises productivity and incomes of the poor, but also generates external benefits for the rest of society. Third, new institutional arrangements, especially in a decentralizing Indonesia, should not disrupt the delivery of public services to the poor in the short term, and improve and sustain the quality and quantity of such services over time. Fourth, the poor need to be empowered to shape the policies and programs that affect their lives and ensure efficient and effective implementation of public service delivery. And fifth, given the multidimensional nature of poverty – and the need to mainstream "poverty concerns" in all government interventions – the Government should prepare a broad-based poverty strategy (after consultation with all stakeholders) incorporating all the above elements.

Poverty trends

4.3 Economic recovery and macroeconomic stability have helped reduce poverty substantially, as Chapter 1 reports. Preliminary estimates on the basis of SUSENAS 2000 suggest that, using the national poverty line, the poverty rate has declined substantially from its peak of 27 percent of the population in 1999 to around 15 percent (Table 4.1). While still higher than its pre-crisis low of 11 percent in 1997, it is now at a level comparable to that of 1996. Calculations using the international standard poverty lines of US$1 and US$2 a day per capita (at 1993 PPP prices) yield much the same conclusion.

4.4 The largest contributor to the reduction in poverty was rising income and a decline in food prices, notably that of rice. Estimates suggest that the drop in food prices between February 1999 and February 2000 explains around 41 percent of the decline in the poverty rate. More than three-quarters of this comes from the decline in the price of

rice.[1] Higher incomes explain the remaining 60 percent.[2] But renewed inflation and rising food prices since February 1999 may indeed have reversed some of these gains.

4.5 Moreover, lest victory be declared prematurely, we should remind ourselves that the headcount index of poverty is only one of many poverty measures. It does not acknowledge the broader, multidimensional nature of poverty. When the concept of poverty is expanded to include these other dimensions – reduced vulnerability, access to health, education, and basic infrastructure, and a chance to participate in social and political life as equals – then the number of people considered poor increases considerably. Consider the concept of vulnerability alone. Another crisis (or even a sharp increase in the relative price of rice), and Indonesia's headcount index of poverty could double again. The huge difference in the poverty rate between the US$1 and US$2 a day poverty lines (Table 4.1) is clear evidence that a large proportion of the population is "near poor" and are constantly vulnerable to falling into poverty. Poverty reduction, therefore, cannot be construed simply as reducing the poverty headcount index, but also reducing the vulnerability of this broad swathe of the population, and should continue to be the overarching objective of government policy.

Table 4.1
Latest estimates for Indonesia's poverty rate
(Headcount index; percent of population)

	1996	1999	2000
National poverty line			
Urban	7.2	16.3	7.3
Rural	20.5	34.1	20.7
Indonesia	**15.7**	**27.1**	**15.2**
Other poverty lines:			
US$1 a day	7.8	12.0	7.8
US$2 a day	50.5	65.1	57.9

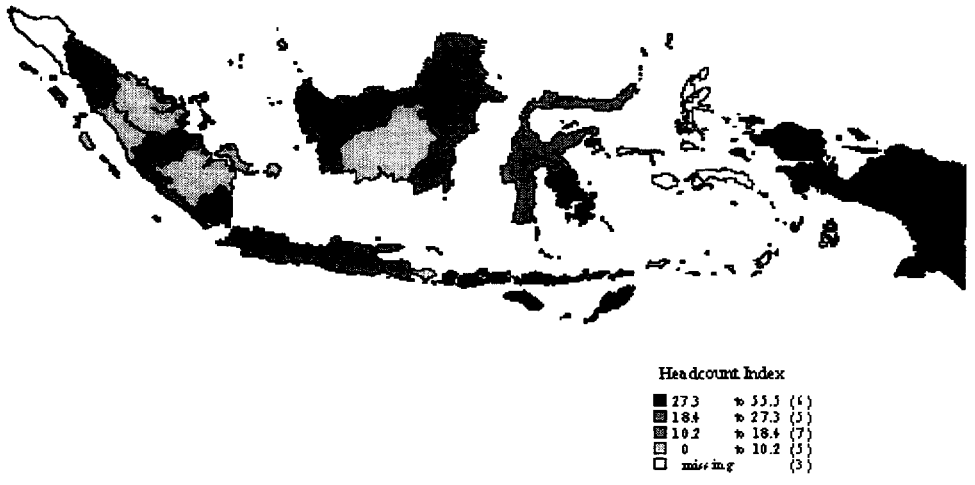
Note: The US$ 1 and US$2 a day poverty lines are at 1993 PPP prices and are the standard poverty lines used to compare poverty rates across countries. They are applied to all Indonesia.

Source: World Bank staff estimates based on SUSENAS data. These estimates differ from those in Tables 2 and 3 of the statistical annex because of different estimation methodologies.

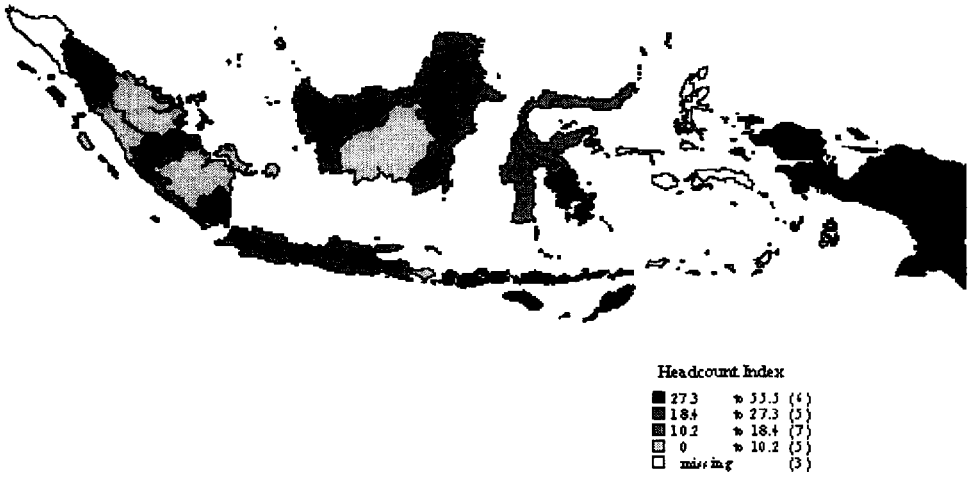
[1] This estimate is based on 1999 expenditure weights.

[2] Other factors, such as the change in price of non-food items, partially offset the poverty reducing effect of declining food prices and rising incomes.

The profile of poverty in rural areas – by region, 2000



The profile of poverty in rural areas – by region, 2000



4.6 Projecting poverty rates forward shows that they decline even under the muddle-through scenario – but only gradually. Indeed, by 2005, roughly the same proportion of the population will be below the US$2 poverty line as in 1996.[3] Clearly, the muddle-through scenario does not lead to the poverty reduction rates that Indonesia could and should achieve – and highlights the importance of rapid growth as an important condition for reducing poverty and vulnerability. But as we noted at the beginning of this chapter, growth is not enough. What is also needed are pro-poor government policies and empowerment of the poor.

Table 4.2
Lower rice prices helped reduce the poverty rate significantly
(in percent of population)

Treatment	Headcount (percent)
Actual poverty, 1999	27.1
Actual poverty rate, 2000	15.2
Difference	11.9
Accounted for by:	
Change in rice price only	3.8
Increased incomes	7.5
Change in price of local chicken meat	-0.1
Change in price of coconut oil	0.0
Change in price of cassava leaves	-0.1
Other factors (non-food prices)	-0.4

Source: World Bank staff estimates

Government policies and the poor

4.7 The impact of government policy on poverty goes well beyond the impact of direct interventions. Economic policies sometimes inadvertently work against the poor, and may even divert resources away from them. Striking examples are rice policy and fuel subsidies, and emerging intergovernmental fiscal relations and land policies could be next.

- **Rice** is the main food item for the poor. The Government has protected rice producers through import tariffs and domestic floor prices (see Chapter 2). The unintentional effect, unfortunately, has been to hurt the poor, including many poor farmers. Indeed, about two-thirds of farmers tend to work on such small land holdings that they are net consumers of rice – that is, they buy more rice on the open market than they sell. Naturally, if the relative price of rice rises as the result of a tariff, their real incomes

[3] The poverty rate using the US$2 a day poverty line is projected to be 49.5 percent in 2005 (Table 4.3), and it was 50.5 percent in 1996 (Table 4.1).

Table 4.3
Poverty rates in the muddle through scenario a/
(Headcount index; percent of population)

	2000	2001	2002	2003	2004	2005
Poverty Lines						
National	15.2	15.7	14.6	13.3	12.1	10.9
US$1 a day	7.8	7.1	6.5	5.8	5.5	4.5
US$2 a day	57.9	56.7	55.1	53.4	51.5	49.5

a/ The simulations from 2002 onward assume no change in relative prices or income distribution, but do take into account differences in sectoral growth rates. For 2001, we have incorporated changes in the relative price of food as of September.
Source: World Bank staff estimates.

fall. In recognition of this, an interdepartmental government team, created in January 2001, produced working papers and a technical proposal on future rice policy.[4] It is important that in implementing this policy, rice tariffs should be capped and then reduced over time, and there should be no non-tariff barriers introduced. Instead the Government should focus on increasing farmer productivity by using existing infrastructure optimally, and accelerating the transfer of research findings into farmers' practices.

- **Fuel subsidy**. Despite the price increases of April and June this year, the Government will spend some Rp. 62 Trillion on fuel subsidies in 2001. This is almost 20 percent of government spending, and half as much again as all development spending. Less than 5 percent of these subsidies reaches the poorest 20 percent of the population, and less than 10 percent reaches the poorest 40 percent. Moreover the fiscal burden of fuel subsidies means that development spending of benefit to the poor is squeezed. Fortunately, the Government is by now well aware of this misallocation of resources, [5] and has agreed with Parliament to increase fuel prices by an average of 30 percent next year. Part of the resources freed up can be used to compensate the poor, and as Chapter 1 pointed out, the program of choice for this should be OPK Beras.

- **Intergovernmental fiscal system**. With decentralization, regional governments have become responsible for many of the services that are central to poverty reduction. Quite apart from the capacity of local governments and participation of the poor in decision making (two longstanding and well known concerns), a key factor for delivering public services to the poor will be the availability of adequate resources with regional governments. For regional governments as a whole this is the case, because increases in their revenues exceed their new expenditure responsibilities. But the distribution of the Rp. 84 trillion "balance fund' is, in fact, quite unbalanced. The

[4] Keputusan Kepala Bappenas no. 005/KA/01/2001 Tentang Tim Pengkajian Kebijakan Perberasan Nasional, 23 Januari 2001.

[5] Quote form Megawati's budget speech.

general allocation fund (DAU) does equalize resources across regions by assisting the poorer regions more than the richer ones, and the distribution formula has been improved for next year. Yet deep fiscal inequalities persist among regions. Next year, the richest district or city will have *thirty* times more revenues per capita than the poorest.[6] Even the disparity between the *average* district/city and the poorest one is 5 to 1. Historical patterns of spending, and the political need to accommodate demands from resource-rich regions explain some of this inequality. But if these patterns persist, they are likely to translate into significant inequalities in public service delivery and poverty alleviation efforts. The Government recently revised the formula to allocate Rp. 69.1 trillion in 2002 through general allocation funds and make the distribution more equalizing across regions. Disappointingly, Parliament asked government to revisit this decision so that no region would get less than last year. This will simply continue the inequalities that already exist.

- **Land**. In practice, land laws and regulations work against the poor, who often hold only customary rights to land with no official title. Land conflicts are many and growing in frequency. They arise when large projects (for example, in infrastructure, construction, industrial, or plantations) need land. The poor are displaced time and again and compensated inadequately – and receive little protection from prevailing laws or the judicial system. A mechanism for adjudication and dispute resolution is not in place.

  Land titles help protect the rights of the poor, increase access to credit, and encourage sustainable use of natural resources. Since 1994, the National Land Agency (BPN) has issued over 2 million land certificates to the poor on Java. Broadening this approach to areas off Java will have to take account of more traditional communal land ownership patterns.

  In addition, Indonesia needs fundamental reforms to the legal and institutional framework for land administration. In this respect, it is encouraging that the MPR is in the final stages of accepting a draft directive of the Agrarian and Natural Resources Management Reform. The decentralization of land administration offers the opportunity for fundamental reform, but needs to progress with attention to the governance a framework to avoid the risk of simply decentralizing the previously corrupt and inequitable system.

Investing in the poor

4.8 The crisis has placed considerable pressure on the central budget. The sharp rise in debt service and high fuel subsidies have left little room for development spending. While the Government made serious efforts to protect spending on services to the poor (health, education, and basic infrastructure services such as rural roads, clean water etc.), an overall drop in their budgetary share and per capita real spending could not be

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[6] And maybe more, if Parliament insists on a "hold harmless" of the rich regions that received an unwarranted amount of DAU in 2001 because their resource revenues were not counted as constituting fiscal capacity.

averted. To illustrate the consequences, we focus here on two key areas -- health and education.

4.9 *Health.* Efforts to maintain government spending on health and education at constant real levels, for example, were not successful. Total public sector health spending fell by 8 percent in 1997/98 and a further 12 percent in 1998/99. As a result of the crisis, government health expenditures per capita were not sustained at the peak pre-crisis figure, but were protected at or above the mid 1990s level. Nevertheless, average per capita outlays remained very low overall and were especially low in provinces such as West Java. During the economic downturn, much greater use was made of external assistance, but such support did not, it appears, contribute to the sustainability of health financing and spending.

4.10 There also were shifts in the composition of expenditures, including reduced per capita public spending on primary health care and a rise in per capita hospital outlays (Table 4.4). These trends in outlays ran counter to policy intentions and actual needs. In short, spending patterns exhibited significant weaknesses even as the country was shifting to new funding and allocation arrangements in 2001.

Table 4.4
Public expenditures on health and education in Indonesia
(Rp.'000s, per capita, in constant prices, 1993=100)

	1996/97	1997/98	1998/99	1999/00
Health				
Primary care	10.3	9.6	8.5	8.2
Hospital care	4.1	4.4	4.6	5.3
Total	14.4	14.0	13.1	13.6
Education				
Primary	31.3	30.1	21.4	25.5
Junior secondary	11.5	11.9	8.1	9.1
Senior secondary	6.6	6.7	4.9	5.7
University	8.9	9.3	6.7	7.4
Non-formal	0.7	0.8	0.5	0.5
Total	59.0	58.8	41.5	48.2

Source: Ministry of Finance, Ministry of Health, BKKBN, Ministry of Education.

4.11 *Education* fared little better. Overall spending fell sharply (by over 28 percent) in real terms in 1998/99 before rebounding partially in 1999/2000. The share of education in the total budget fell from 13 percent to under 10 percent but then recovered to almost 14 percent in 2000. Real spending per student in 1999/2000 was 18 percent lower that in 1997/98 level. Primary school outlays per student (-13 percent change) were better protected than junior secondary (-25 percent), senior secondary (-19) and university

levels (-22 percent). Part of this trend of declining outlays per student can be explained by continued increases in enrollment at the secondary level (Table 4.5).

Table 4.5
Use of health and education services by provider

	1997	1998	1999	2000
Health a/				
Modern provider b/	12.8	10.5	10.6	9.0
Public	6.7	5.0	5.3	4.2
Private	6.7	6.2	5.9	5.4
Education c/				
Primary	108.0	107.6	108.0	107.7
Junior secondary	74.2	73.4	76.1	77.8
Senior secondary	46.5	47.4	48.4	50.1

a/ Percent of population that made at least one outpatient visit in the previous month
b/ Public and private do not add up to "modern" because people can visit both providers in the same month.
c/ Gross enrollment.
Source: Susenas data tapes

4.12 These spending reductions were not as painful as they could have been due to the government's efforts to maintain basic education enrolment during the crisis through the Scholarships and Grants Program (SGP). The goal of the SGP was to sustain pre-crisis participation and quality levels in basic and secondary education throughout Indonesia. These aims have been achieved, at least partially: enrolment has been maintained and schools serving poor areas have continued to operate. Effects on student learning are harder to detect, in part because pre-crisis achievement levels were already quite low. SGP also introduced important institutional advances, including arrangements for transferring funds directly to districts and schools, along with mechanisms for receiving and acting upon community complaints.

4.13 These schemes are being continued, but there remains a dire need for improving the *quality* of basic education in Indonesia and for rehabilitating functioning schools in the poorest parts of the country. It appears that quality deficiencies are not easily attributable to overall resource constraints. In particular, junior secondary school expansion did not deprive primary school students of funds needed to finance quality improvements. Instead, quality problem may stem from the way resources are allocated, and the limited attention and commitment to quality on the part of education decision makers. One indication of this was the government's decision to draw on development budget allocations to finance expanding access, consisting mainly of junior secondary school construction. On the other hand, donor funds were used to raise learning attainment. While laudable, these quality-strengthening initiatives were project-based, and usually were not sustained after the project.

4.14 *Consequences of low quality services.* The low quality of health and education services is beginning to take its toll. International comparisons of education achievement

suggest that Indonesian schooling compares unfavorably with neighboring countries. Warning signals on low learning achievement began to accumulate in the early 1980s and continue to be seen. The PROPENAS (2000-2004) cites Indonesia's low ranking in recent cross-country assessments of reading and mathematical ability. At the same time, parental and community dissatisfaction was (and is) registered in different ways including high drop-out rates and relatively low proportions of students proceeding to middle school even in localities with accessible facilities. Till 2000, enrollment seems to have held steady (Table 4.5). Enrollment continues to improve and so does the share of the public sector in the provision of junior secondary education. This is because most of the increase in enrollment stems from poor families who rely on the public sector.

4.15 Quite a different picture emerges in health. Here the government faces more competition, and the use of public services is in decline. Use of outpatient public health services dropped by 25 percent at the outset of the crisis, recovered by 6 percent the following year, only to drop by another 20 percent from 1999 to 2000. Part of this decrease in the use of public services resulted from a shift toward private sector providers, but a growing share of the ill resorted to self-treatment.

4.16 Ensuring sustainable public service delivery to the poor will require more than increased funding alone. First, the resources should be allocated to pro-poor priorities such as primary health care and education rather than curative care and tertiary education. Second, because service delivery is now largely decentralized, it requires appropriate institutional arrangements that govern the roles and accountability of the center and regional governments, and empowerment of the poor so that they have a voice in the allocation of public resources and can ensure sufficient and effective implementation of public service delivery.

Reducing poverty in a decentralized environment

4.17 The impact of the decentralization process on the poor is difficult to determine at this early stage. The difficult transfer of civil servants and government facilities has gone surprisingly well, but the regulatory framework shows signs of haste, and the regions have little guidance of what is expected of them. Capacity of the civil service is highly uneven across the country, and seems to be getting more uneven, as some regions have signaled problems in obtaining key personnel in education and health. Moreover, the uneven distribution of fiscal resources is likely to have its consequences for inequality of service delivery.[7] And simply the added difficulty of monitoring public expenditures on key services and their outcomes when a large part of government spending is decentralized will prove a serious challenge. Finally, the regional governments seem to have an appetite for increasing local levies and charges. If history is any guide, this could hurt the poor, notably poor farmers whose farm gate prices will drop if transport costs

[7] Before decentralization, Indonesia showed a remarkable equality of human development indicators, which was hardly correlated with per capita output. See M. Zulfan Tajoeddin e.a. Regional Disparities and Centre-Regional Conflicts in Indonesia, UNSFIR Working Paper 01/01-E, 2001.

increase because of levies, and small industries for whom low fixed costs is their only competitive advantage.[8]

4.18 The transition to a decentralized system presents important hurdles, however, as illustrated by experience with basic immunization. Responsibility for what had been one of the most centralized health programs was largely shifted to provinces and districts. They are expected to finance most of the operational costs, with sharply lower resources from the center. While complete data are not available, a recent World Bank supervision mission to two provinces revealed that *none* of the districts visited by the mission had allocated *any* resources for immunization in their annual budget plans. This could reflect either: weak advocacy by the central government; a serious lack of district capacity in priority setting; "free rider" behavior by local governments; or the districts' collective belief that the central government might be forced to resume funding for this basic public health service.

4.19 Education is a further example of transitional difficulties. Thousands of teachers went on strike because back pay due to a salary increase was not paid out. The reason for this was that the central government—which determines wages—announced the salary increase largely after local budgets had been passed. Thus, even though the central government increased the grants to the regions to cover the increase, this could not be disbursed because there was no authorized budget.

4.20 Early indications from the regions give cause for concern. An analysis of 146 approved district budgets reveals that the average share spent on development dropped from 36 to 32 percent between FY2000 and 2001. Furthermore, the share in the total development budget decreased slightly for education (52 to 48 percent) although it increased for health (from 25 to 30 percent). But there are large variations between districts, and data are incomplete and not always of high quality. Moreover, they represent budget plans; what is actually implemented – and the outcomes they produce – will need to be evaluated as the data come in.

4.21 One advantage of decentralization is that it offers opportunities for local initiatives. This has started to show. New funding arrangements in NTB target education expenditures to students, not facilities, and so increase competition among service providers. Many regions went through a participatory planning and budgeting process, while all regional heads had to submit their "Renstra" – which specify clearly the local government's goals. Budget watchdogs have sprung up in large numbers in the regions (Box 4.1). And several provinces have started health projects that will link their districts

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[8] SMERU has reported extensively on this phenomenon. Their reports show that after the introduction of law 18/1997 which abolished many fees and taxes, farm gate prices rose. In their recent work that tracks a number of regions during decentralization, they have observed a significant increase in fees. See for instance, SMERU, Otonomi Daerah dan Iklama Usaha, Bahan Konferensi, April 2001.

Box 4.1
Budget watchdogs in the regions

FITRA (Forum Indonesia untuk Transparansi Anggaran) in North Sumatra is a new NGO that monitors the transparency of the region's budget. FITRA is a network consisting of around 30 North Sumatran NGOs. The organization is largely funded by the Ford Foundation, but undertake studies financed by other sources as well. Their most recent effort, funded by the British Council, was a three months study of public services. They facilitated meetings between housewives and public transport providers on the implications of the decreased fuel subsidy for public transport fares for school children. Last year, they analyzed the province's budget; this year they will analyze the budgets of two districts in addition to that of the province. The two districts were chosen because the government informed them that these are the ones most prepared for decentralization. They also intend to campaign for more open debate in the preparation of the provincial budget. The debate will be focused on how responsive is the government towards poverty, education, women's empowerment and health.

with the province to capture economies of scale of province-wide initiatives. These tender green shoots of local initiatives and responsiveness may not necessarily herald a spring, but they certainly give cause for hope.

4.22 While decentralization may spur innovation and cut costs, there is no guarantee that regional governments will show greater focus on poverty reduction than the center. For one, regional elites may capture local institutions for their own purposes, and divert resources away from pro-poor activities. Moreover, poverty programs tend to have positive externalities, so regional governments may be disinclined to devote significant resources to an activity that may yield benefits outside the region.

4.23 Ensuring minimum standards for service delivery could help, but apart from being hard to specify for poverty programs, they could also stifle local initiatives. Moreover, some aspects of poverty programs are best implemented locally, such as identifying the poor. To resolve this dilemma, the Government (and external creditors and donors) will need to make greater use of the *special allocation grant* mechanism (*dana alokasi khusus* or DAK) for poverty programs. Currently, the DAK is only used for reforestation, but central government could prepare a DAK that funds poverty programs in the regions, possibly with cost sharing depending on the region's fiscal capacity.

Empowering the poor

4.24 The poor need to be empowered to shape the policies and programs that affect their lives and ensure efficient and effective implementation of public service delivery. In a decentralized environment this is easier to do than in a centralized one, but it is not a

guarantee for participation. Artificially "creating" participation through government sponsored organizations may not be an appropriate solution (Box 4.2). But steps toward more participation can be taken at every level of decision making on programs that benefit the poor. From consultation in the planning stage, to community implementation of programs, to monitoring of poverty programs, the poor or organizations with strong affinity for the poor should be involved to ensure their voice is heard when local governments allocate resources, approve program design, and implement projects.

Box 4.2
The chilling presence of government

The World Bank-funded "Local Level Institutions Study" documents changes in the social landscape and its effect on local decision making. The study uses a panel of 1000 households in 48 villages, and compares results with initial work conducted in 1995/1996. Several findings emerge.

- First, the study reveals the vibrancy of local endogenous institutions before and during the recent political changes. Strong local capacity exists and there are as many locally initiated and funded activities as existing government programs.

- Second, a household's own involvement with government-sponsored organizations tends to increase their reports of positive voice, participation, and information. Interestingly, it also tends to decrease the reports of positive voice etc. of those households in the village that are not members of these organizations. A similar "chilling effect" was found in the dissemination of information. Again, a larger share of household members in government-sponsored organizations said they were being informed while non-members said their access to information had *decreased.*

- Third, households living in a village where more people are members of the government sponsored village organizations are substantially less likely to be engaged in a protest. This is in contrast to the pattern found for membership in locally initiated social organizations: membership in locally initiated organization tends to increase the likelihood of a household being involved in protest activity (1.26 percentage points), and households living in villages with higher membership rates in locally initiated organizations tend to participate more often in protest activities (2.83 percentage points).

The study demonstrates the dangers of relying solely on official administrative structures without efforts to broaden participation and allow groups outside government sponsored institutions to have effective voice in local decision making. At a broader level, this empirical work extends the literature on "social capital" by demonstrating that not all local organizations are equal. Depending on who is doing the organizing, and why, increased participation in local organizations can either be exclusionary and reinforce existing divisions and structures (as appears to be the case for mandatory government organizations), or can widen the base of voice, information, and participation and increase the responsiveness of local government. Government and civil society are presently working on separate tracks, and getting them to work together will require major changes in the way local governments work with local communities.

4.25 There is considerable international and Indonesian experience with participatory policy processes to build on. The participatory planning and budgeting processes in Bima, the Philippines' report card on pro-poor services, the implementation of the Kecamatan Development Project (Box 4.3), and NGO participation in South Africa's Medium Term Expenditure Framework" – these are all examples of meaningful participation in government decision making. Ironically, it seems to be Parliaments at central and local level that are least inclined to hear the voices of the people: public hearings on draft bills or regional regulations seem to be more the exception than the rule, and debates often only become public when the major decisions have been taken.

Box 4.3
How a community, demand-driven, project like KDP can reduce poverty

KDP is a large, decentralized community development project in Indonesia. It covers more than 15,000 villages in approximately 27 provinces across the country. It works by giving villagers decision-making power over funds, which can be used either as grants for village infrastructure or as loans for income-generating ventures. The project is designed to give villagers the chance to prioritize village development needs and a say over how village resources are used. Villages compete with one another for project funds, giving villages an incentive to propose well-designed projects of demonstrable benefit.

How does a project like KDP support Indonesia's fight against poverty? Simply put, KDP works by strengthening local institutions, both formal and informal. For many of the most basic kinds of poverty fighting investments, local people are those who know best how to match local needs with available resources. KDP produces more economically productive infrastructure at lower cost for poor villages than any similar projects.

Villagers, especially the poor, have the right:

- **to participate** in all aspects of the project, from planning and decision making to implementation. About six months before the start of a project, KDP facilitators disseminate information about KDP by holding open village meetings; talking about KDP at local gatherings; meeting with small groups of villagers, including women-only groups; and publicizing information about KDP on village notice-boards. In this way, villagers are able to learn about their rights in KDP and about what to do if they are dissatisfied with it.

- **to transparency.** According to KDP rules, all financial information must be publicly disclosed. This includes details of budgets for original proposals; information about salaries and honoraria for all project participants; market prices of materials for infrastructure; details of funds borrowed as micro-credit and rates of repayment; details of bank withdrawals; and receipts and accounts for all project monies spent.

- **to be protected from corruption and misuse of funds :** Funds are transferred directly from the center to *kecamatan*-level bank accounts, with *no local government control* over funds. It also gets rid of all bureaucratic procedures usually associated with development projects, such as intermediary forms and approvals. By getting rid of red tape and direct government management, it minimizes in one step many of the opportunities to skim funds. Villagers control project budgets, and financial formats are simplified so villagers can understand them and they can tell when money seems to be missing.

Mainstreaming poverty reduction

4.26 Poverty reduction requires growth in which the poor can participate fully. Effective delivery of public services to the poor is essential to meet this objective. All the issues raised in this report have some consequences for one or other – from economic stability to the investment climate, from governance to the role of local governments in public service delivery. And so it is the case with Government. If it is to take poverty alleviation seriously, and push beyond the current paradigm, all government interventions – policies, programs, and projects – will need to be viewed through the prism of poverty reduction so that the overall thrust of government policy is in the desired direction. Poverty, therefore, cannot be viewed as distinct from development. The development strategy incorporated in the PROPENAS is a poverty reduction strategy. Just as that document correctly indicates, the right approach to poverty reduction is to mainstream it into all government activities.

4.27 The Coordinating Agency for Poverty Reduction was created in March 2001 to help prepare the country's poverty reduction strategy in consultation with stakeholders and to provide guidance on the implementation of the strategy. The agency was able to gradually build a core of expertise and prepared a draft agenda for consultations with stakeholders,[9] and a "*Poverty Toolkit*" to assist regions in shaping their policies and programs from a poverty reduction perspective.

4.28 Subsequently, however, in October 2001, the agency was abolished, and the President announced that the Coordinating Ministers for the Economy and People's Welfare will henceforth be jointly responsible for developing and implementing the country's poverty reduction strategy. The Coordinating Minister for Welfare will bring strengths in program implementation and practical problem solving. The Coordinating Minister for the Economy will provide the overall strategic direction and cohesive focus needed to ensure that future growth and development brings with it lasting benefits for the poor.

4.29 The need for a poverty reduction strategy should not be to have yet another government document or to satisfy the international creditor and donor community, but to coordinate all the arms of government, inform all government departments of their role in the grand design, and ensure that the public and the poor (as well as the international community) understand the government's approach so they can support it.

4.30 To be meaningful, all stakeholders – central and local government line ministries and agencies, central and local parliaments, non-government organizations, the poor themselves, and the international community – should be consulted in the preparation of such a strategy. Such consultations constitute a dual purpose – it could be an avenue for receiving good ideas, but it is also an important means of disseminating the government's own vision of the future and what it means for the poor.

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[9] "Building a National Consensus for Poverty Reduction", Draft for discussion, Jakarta, August 2001.

Conclusion

4.31 Poverty reduction remains the overarching objective of Government – as well as the international community. To achieve it will require the coordinated effort of all government departments, the international community, non-government organizations, and of course the poor themselves. And it will take the entire range of instruments in the government's arsenal of interventions. To ensure these actors and instruments are all working toward the same goal will require the preparation of a poverty reduction strategy that is the product of consultation with all the key stakeholders – and truly represents a national consensus. The appointment of the two coordinating ministers to lead this effort is encouraging, but it is only the first step in a long-term effort – one in which the country cannot fail.

STATISTICAL ANNEX [a]

List of Tables

Social Indicators

National Income Accounts

International Trade & Balance of Payments

External Debt

Public Finance

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[a] With the exception of the tables on External Debt, the Statistical Annex is a compilation of official data from Government sources. In some instances, these data may differ from data in the main text due to different Bank definitions and methodologies in constructing the statistical series.

Monetary Statistics

Agricultural Statistics

Industrial Statistics

Prices

Investment Statistics

Table 1. Selected Social Indicators, 1990-2000

	1990	1993	1996	1999	2000
Demography					
Population (million)	179.5	189.1	198.3	206.5	203.5
Population ages 0 - 14 yr old (%)	36.5	34.9	32.0	30.0	29.8
Population ages 15 - 64 yr old (%)	59.6	61.3	63.8	65.3	65.6
Population ages 65+ yr old (%)	3.9	3.8	4.2	4.7	4.6
Population growth rate (%)	2.0	1.7	1.6	1.6	1.4
Population density (per Km2)	94	99	103	107	106
Urban population, *% urban to total*	30.9	34.0	37.1	39.4	42.1
Gender ratio, *male to 100 females*	99.5	99.5	99.1	99.1	99.8
Dependency ratio (%)	67.8	63.4	57.0	53.1	52.4
Education					
Elementary school net enrollment ratio, *% of relevant aged group*	83.2	91.5	94.8	92.7	94.9
Junior high school net enrollment ratio, *% of relevant aged group*	40.5	..	48.6	59.2	60.8
Senior high school net enrollment ratio, *% of relevant aged group*	..	..	..	38.5	39.8
Population > 10 yr old not completed primary school (%)	37.5	41.8	40.1	35.4	34.0
Population > 10 yr old finished primary and Junior high school (%)	48.8	46.3	45.0	47.0	47.7
Population > 10 yr old finished high school and college (%)	13.7	11.9	14.9	17.6	18.3
Adult literacy rate	81.5	83.3	85.3	88.4	88.6
Health					
Life expectancy rate	62.5	62.7	63.2	65.5	68.0
Fertility rate, *births per woman*	3.1	2.9	2.8	2.6	2.5
Infant mortality rate, *per 1000 live births*	63.5	58.1	56.0	46.0	44.0
Mortality rate of children < 5 yr old, *per 1000*	86.4	78.1	70.4	59.6	44.7
Children < 5 yr old that have good nutrition (%)	54.2	55.5	63.9	69.7	71.1
Children < 5 yr old that had been immunized (%)	69.3	76.3	88.2	89.9	90.1
Number of medical doctor per 100,000 population	..	10.4	10.7	10.8	..
Housing and Sanitation					
Household with access to piped water (%)	12.9	14.7	16.7	18.6	18.6
Household with access to own septic tank (%)	17.9	22.0	26.1	30.4	28.5
Household with electricity (%)	46.8	55.3	72.2	83.7	86.3
Labor force					
Employed (%)	55.9	55.1	55.5	62.9	63.6
Looking for work (%)	1.44	1.56	2.85	4.27	4.12
Labor force participation (%)	57.3	58.0	58.3	67.2	67.8
Open unemployment rate (%)	3.2	4.3	4.9	6.4	6.1
Working children in 10-14 year old group (%)	9.5	10.8	7.9	6.9	4.7
Poverty and inequality					
Number of people under poverty line (million)	27.2	25.9	34.5 /a	48.4 /a	..
Population under poverty line (%)	15.1	13.7	17.7 /a	23.5 /a	..
Expenditure share of the lowest 40%, (%)	21.3	14.6	20.2	21.3	..
Expenditure share of the middle 40%, (%)	36.8	41.6	35.0	37.0	..
Expenditure share of the highest 20%, (%)	41.9	43.9	44.7	41.6	..
Gini Coefficient	0.32	0.34	0.36	0.32	..

.. : Data are not available

/a Using Susenas 1998 definition of the poverty line (the "new" definition).

Source: Central Bureau of Statistics.

Table 2. Key Social Indicators

Indicator	Latest Period	Previous Period
Poverty Rate (%)	**Feb-99**	**Feb-96**
- National	23.5	17.7
- Urban	19.5	13.6
- Rural	26.1	19.9
Inequality (Gini Coefficient)	**Feb-99**	**Feb-96**
- National	0.32	0.36
- Urban	0.33	0.37
- Rural	0.25	0.28
Mortality Rate	**2000**	**1999**
- Infant Mortality Rate	44.0	46.0
- Mortality rate of children < 5 yr old	44.7	65.5
Nutritional Status of Children under Five	**2000**	**1999**
- Good (%)	71.1	61.1
- Medium (%)	18.4	21.2
- Bad (%)	10.5	16.6
School Enrollment (%)	**2000**	**1999**
- 7-12 years old:		
* National	95.5	95.3
* Urban	97.3	97.5
* Rural	94.4	94.2
- 13-15 years old:		
* National	79.6	79.0
* Urban	88.3	88.0
* Rural	73.8	73.6
- 16-18 years old:		
* National	51.2	51.1
* Urban	66.7	68.8
* Rural	38.4	38.0

Indicator	Latest Period	Previous Period
Literacy Rate (%)	**2000**	**1999**
- National	88.6	88.4
- Urban	94.0	94.0
- Rural	84.4	84.5
School Dropout (%)	**2000**	**1999**
- Primary school	1.4	1.4
- Junior high school	2.1	2.2
- Senior high school	2.6	2.6
Health Facilities	**1999**	**1998**
- Community Health Centers:		
* Total number	42,247	36,307
* Per 100,000 population	20.4	17.8
- Hospitals:		
* Total number	1,111	1,112
* Number of beds	123,598	123,168
* Beds per 100,000 population	59.4	60.3
- Medical doctor per 100,000 population	10.8	11.0
Labor Force Participation	**2000**	**1999**
- National	67.8	67.2
- Urban	61.2	61.2
- Rural	72.8	71.6
Hourly Real Wages (1999 Rp)	**2000**	**1999**
- Agriculture	1,542	1,323
- Manufacturing	2,108	1,648
- Construction	2,168	1,843
- Trade	1,936	1,661
- Transportation	2,586	2,111
- Finance	4,127	3,160
- Services	3,129	2,663
- Others	3,396	3,200

Source: Central Bureau of Statistics.

Table 3. Poverty Line and Number of People Below the Poverty Line

Year 1976-1996

Year	Poverty Line (Rp/capita/month)		Number of People Below the Poverty Line (million)			Percentage of Population Below the Poverty Line (%)		
	Urban	Rural	Urban	Rural	Urban+Rural	Urban	Rural	Urban+Rural
1976	4,522	2,849	10.0	44.2	54.2	38.8	40.4	40.1
1978	4,969	2,981	8.3	38.9	47.2	30.8	33.4	33.3
1980	6,831	4,449	9.5	32.8	42.3	29.0	28.4	28.6
1981	9,777	5,877	9.3	31.3	40.6	28.1	26.5	26.9
1984	13,731	7,746	9.3	25.7	35.0	23.1	21.2	21.6
1987	17,381	10,294	9.7	20.3	30.0	20.1	16.1	17.4
1990	20,614	13,295	9.4	17.8	27.2	16.8	14.3	15.1
1993	27,905	18,244	8.7	17.2	25.9	13.5	13.8	13.7
1996	38,246	27,413	7.2	15.3	22.5	9.7	12.3	11.3

Year 1996-1999 /a

Year	Poverty Line (Rp/capita/month)		Number of People Below the Poverty Line (in million)			Percentage of Population Below the Poverty Line (%)		
	Urban	Rural	Urban	Rural	Urban+Rural	Urban	Rural	Urban+Rural
1996	42,032	31,366	9.6	24.9	34.5	13.6	19.9	17.7
1998 /b	96,959	72,780	17.6	31.9	49.5	21.9	25.7	24.2
1999 /c	92,409	74,272	15.7	32.7	48.4	19.5	26.1	23.5

/a Using Susenas 1998 definition of the poverty line (the "new" definition).
/b Based on Susenas of December 1998.
/c Based on Susenas of February (regular) 1999.

Source: Central Bureau of Statistics.

Table 4. Population and Growth Rates by Province, 1971-2000

Region	Population (thousand person) /a					Average growth rate (percent per year)		
	1971 /b	1980	1990	1995	2000	1971-1980	1980-1990	1990-2000
Java	76,086	91,270	107,581	114,980	120,429	2.0	1.7	1.1
DKI Jakarta	4,579	6,503	8,259	9,144	8,385	4.0	2.4	0.2
West Java	21,624	27,454	35,384	39,340	43,553	2.7	2.6	2.1
Central Java	21,877	25,373	28,521	29,691	30,857	1.7	1.2	0.8
DI Yogjakarta	2,489	2,751	2,913	2,917	3,109	1.1	0.6	0.7
East Java	25,517	29,189	32,504	33,889	34,526	1.5	1.1	0.6
Sumatra	20,809	28,017	36,507	40,984	42,666	3.4	2.7	1.6
Lampung	2,777	4,625	6,018	6,680	6,654	5.8	2.7	1.0
Bengkulu	519	768	1,179	1,418	1,405	4.5	4.4	1.8
South Sumatra	3,441	4,630	6,313	7,239	7,757	3.4	3.1	2.1
Riau	1,642	2,169	3,304	3,923	4,734	3.1	4.3	3.7
Jambi	1,006	1,446	2,021	2,383	2,401	4.1	3.4	1.7
West Sumatra	2,793	3,407	4,000	4,334	4,228	2.2	1.6	0.6
North Sumatra	6,622	8,361	10,256	11,144	11,476	2.6	2.1	1.1
Aceh	2,009	2,611	3,416	3,863	4,011	3.0	2.7	1.6
Kalimantan	5,155	6,723	9,100	10,520	10,948	3.0	3.1	1.9
West Kalimantan	2,020	2,486	3,229	3,650	3,740	2.3	2.6	1.5
Central Kalimantan	702	954	1,396	1,636	1,802	3.5	3.9	2.6
South Kalimantan	1,699	2,065	2,598	2,904	2,970	2.2	2.3	1.3
East Kalimantan	734	1,218	1,877	2,330	2,437	5.8	4.4	2.6
Sulawesi	8,528	10,409	12,521	13,775	14,446	2.2	1.9	1.4
Central Sulawesi	914	1,290	1,711	1,946	2,066	3.9	2.9	1.9
North Sulawesi	1,719	2,115	2,478	2,655	2,821	2.3	1.6	1.3
South Sulawesi	5,181	6,062	6,982	7,578	7,787	1.8	1.4	1.1
Southeast Sulawesi	714	942	1,350	1,596	1,772	3.1	3.7	2.8
Other Islands	8,630	11,072	13,672	15,035	14,966	2.8	2.1	0.9
Bali	2,120	2,470	2,778	2,900	3,125	1.7	1.2	1.2
West Nusa Tenggara	2,203	2,725	3,370	3,655	3,822	2.4	2.1	1.3
East Nusa Tenggara	2,295	2,737	3,269	3,588	3,929	2.0	1.8	1.9
Maluku	1,089	1,411	1,858	2,095	1,978	2.9	2.8	0.6
Irian Jaya	923	1,174	1,649	1,954	2,113	2.7	3.5	2.5
Indonesia	119,208	146,935	178,631	195,294	203,456	2.35	1.97	1.31

/a Based on Population survey 1971, 1980, 1990, 1995 and 2000.

/b Includes adjustment for the exclusion of rural Irian Jaya.

Source: Central Bureau of Statistics.

Table 5. Labor Force Participation by Province (%), 1980-2000

Region	1980	1985	1990	1995	1996	1997	1998	1999	2000
Java	50.9	53.1	56.8	56.1	57.7	58.0	65.5	66.7	67.0
DKI Jakarta	42.3	42.6	44.3	48.6	51.2	53.1	58.2	60.2	..
West Java	45.4	48.2	51.6	51.8	52.5	51.7	60.4	61.9	..
Central Java	54.9	57.1	62.2	60.2	62.5	61.4	71.2	72.2	..
DI Yogjakarta	58.9	61.1	64.9	60.6	61.3	63.0	67.7	69.6	..
East Java	53.0	56.4	60.9	59.4	60.9	60.8	69.8	69.8	..
Sumatra	50.2	52.7	57.2	55.9	58.2	57.8	68.4	66.9	68.5
Lampung	50.2	53.4	59.3	57.8	60.6	57.5	71.6	68.5	..
Bengkulu	55.1	58.8	66.4	60.8	65.3	63.4	74.9	74.1	..
South Sumatra	51.9	53.2	56.2	55.1	57.3	57.5	68.4	69.8	..
Riau	47.1	48.5	50.3	52.6	54.5	55.1	63.7	61.5	..
Jambi	51.2	52.2	56.2	52.5	56.9	55.0	66.8	65.9	..
West Sumatra	46.9	50.2	54.2	54.5	55.7	56.7	66.4	64.8	..
North Sumatra	52.5	52.5	56.9	57.2	58.3	58.5	68.4	69.0	..
Aceh	46.9	52.8	58.3	56.9	57.0	58.5	66.7	61.7	..
Kalimantan	53.0	56.0	60.0	59.7	62.1	61.3	69.5	69.4	70.9
West Kalimantan	57.8	58.2	61.2	61.2	61.7	61.4	69.0	69.6	..
Central Kalimantan	57.8	57.3	63.4	60.5	65.1	64.1	69.4	70.2	..
South Kalimantan	51.8	56.7	60.0	61.0	64.5	65.5	72.9	73.0	..
East Kalimantan	44.7	51.8	55.3	55.9	57.0	54.4	66.8	64.9	..
Sulawesi	44.7	50.4	55.6	55.6	57.6	57.7	65.2	65.1	62.8
Central Sulawesi	45.3	48.4	54.9	55.0	55.8	55.5	60.1	61.0	..
North Sulawesi	49.5	53.4	58.0	59.8	61.8	62.3	70.4	70.4	..
South Sulawesi	39.4	42.9	49.2	50.0	54.1	52.5	61.5	60.2	..
Southeast Sulawesi	44.9	57.0	60.3	57.4	58.7	60.7	68.9	68.9	..
Other Islands									
Bali	53.6	61.1	68.4	69.0	70.1	70.8	76.8	76.4	..
West Nusa Tenggara	50.1	51.6	61.1	61.8	63.5	65.5	70.8	72.1	..
East Nusa Tenggara	53.0	61.2	67.3	64.1	65.4	65.3	74.1	73.4	..
Maluku	42.2	58.7	49.8	50.1	55.0	53.8	64.8	67.3	..
Irian Jaya	48.3	59.6	62.6	65.3	63.8	66.6	75.5	76.8	..
Indonesia	50.2	53.0	57.3	56.6	58.3	58.0	66.9	67.2	67.8

.. : Data are not available

Source: Central Bureau of Statistics.

Table 6. Employment by Main Industry , 1990-2000 /a

Main Industry	1990		1995		1996		1997		1998		1999		2000	
	million	%	million	%	million	%	million	%	million	%	million	%	million	%
Agriculture, forestry, hunting & fishery	35.5	50.1	35.2	44.0	37.7	44.0	35.8	41.2	39.4	45.0	38.4	43.2	40.5	45.1
Mining and quarrying	0.7	1.0	0.6	0.8	0.8	0.9	0.9	1.0	0.7	0.8	0.7	0.8	0.5	0.5
Manufacturing	8.2	11.6	10.1	12.6	10.8	12.6	11.2	12.9	9.9	11.3	11.5	13.0	11.7	13.0
Electricity, gas & water	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.3	0.1	0.2	0.2	0.2	0.1	0.1
Construction	2.8	4.0	3.8	4.7	3.8	4.4	4.2	4.8	3.5	4.0	3.4	3.8	3.5	3.9
Wholesale and retail trade & restaurants	10.6	15.0	13.9	17.3	16.1	18.8	17.2	19.8	16.8	19.2	17.5	19.7	18.5	20.6
Transportation, storage & communications	2.7	3.8	3.5	4.3	3.9	4.6	4.1	4.8	4.2	4.7	4.2	4.7	4.6	5.1
Finance, insurance, real estate & business serv.	0.5	0.7	0.7	0.8	0.7	0.8	0.7	0.8	0.6	0.7	0.6	0.7	0.9	1.0
Public services	9.7	13.7	12.1	15.1	11.7	13.7	12.6	14.5	12.4	14.1	12.2	13.8	9.6	10.7
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	70.8	100.0	80.1	100.0	85.7	100.0	87.0	100.0	87.7	100.0	88.8	100.0	89.8	100.0

/a 1990-1998 data refer to population of 10 years of age and above who worked during the week prior to the census, starting 1999 data refer to population 15 years of age and above.

Source: Central Bureau of Statistics.

Table 7. Gross Domestic Product by Industrial Origin at Current Market Prices, 1990-2001 /a

(Rp. billion)

	1983 base				1993 base								
	1990	1991	1992	1993	1993	1994	1995	1996	1997	1998	1999*	2000*	2001** Jan-Jun
1. **Agriculture, Livestock Forestry and Fishery**	42,149	44,721	50,733	55,746	58,963	66,072	77,896	88,792	101,009	172,828	216,914	218,398	122,617
a. Farm food crops	25,908	26,149	29,443	31,404	32,093	34,941	42,200	47,622	52,189	91,346	115,135	110,641	65,459
b. Non-food crops	6,667	7,604	8,717	9,422	9,015	10,587	12,667	14,435	16,447	33,290	36,692	34,785	17,131
c. Livestock products	4,368	5,126	6,041	7,026	6,203	7,102	8,079	9,524	11,688	15,744	23,939	27,507	15,753
d. Forestry	1,855	2,018	2,180	2,541	6,268	6,897	7,390	8,171	9,807	11,701	13,840	15,078	7,962
e. Fishery	3,352	3,823	4,353	5,353	5,385	6,544	7,561	9,041	10,878	20,748	27,308	30,388	16,312
2. **Mining & Quarrying**	26,119	31,403	29,907	30,750	31,497	33,507	40,195	46,088	55,562	120,329	109,974	166,563	94,009
a. Oil & natural gas	21,789	26,126	23,384	23,169	23,121	23,070	25,410	28,118	34,037	74,884	71,847	123,410	65,387
b. Oth. mining & quarrying	4,330	5,277	6,523	7,581	8,377	10,437	14,785	17,970	21,525	45,445	38,127	43,153	28,622
3. **Manufacturing**	38,910	47,666	56,542	67,441	73,556	89,241	109,689	136,426	168,178	238,897	287,703	336,053	184,427
a. Refinery oil	3,575	3,807	4,322	5,211	5,541	5,855	6,599	8,340	8,116	15,092	16,217	21,824	13,002
b. LNG	3,715	4,714	4,384	4,253	4,253	4,584	4,800	5,854	7,506	18,080	18,325	28,108	14,666
c. Non-oil & gas mfg.	31,621	39,145	47,836	57,977	63,763	78,802	98,290	122,232	152,556	205,725	253,161	286,121	156,759
4. **Electricity, gas & water**	1,258	1,750	2,148	2,714	3,290	4,577	5,655	6,893	7,833	11,283	13,429	15,072	8,241
5. **Construction**	10,749	12,902	15,305	18,140	22,513	28,017	34,452	42,025	46,679	61,762	74,496	92,176	50,644
6. **Trade, Hotels & Restaurants**	33,000	36,954	42,732	49,789	55,298	63,859	72,843	87,137	99,582	146,740	176,664	196,050	108,337
a. Retail & wholesale trade	27,712	30,770	35,645	41,496	44,605	51,134	60,379	69,375	77,543	116,689	141,099	156,324	86,113
b. Hotels & Restaurants	5,288	6,184	7,086	8,293	10,693	12,725	12,464	17,762	22,039	30,052	35,565	39,726	22,225
7. **Transport & Communications**	11,000	13,908	17,099	20,728	23,249	27,353	30,795	34,926	38,531	51,937	55,190	64,550	37,407
a. Transport	9,694	12,327	15,133	18,183	20,101	23,191	25,477	29,246	31,498	41,837	42,736	49,337	29,032
b. Communications	1,306	1,581	1,966	2,545	3,148	4,162	5,318	5,680	7,033	10,100	12,454	15,213	8,375
8. **Banks & Finance**	8,287	10,158	12,500	15,257	14,005	17,818	20,852	21,853	24,831	31,710	30,529	34,901	20,334
9. **Ownership of Dwellings/b**	4,891	5,925	6,596	7,611	9,695	11,239	11,899	13,649	17,715	23,140	24,434	27,272	14,900
10. **Other Services**	19,236	22,065	26,323	33,842	37,709	40,539	47,441	54,779	67,402	97,128	120,648	139,649	75,344
a. Public	12,801	14,622	17,309	22,458	22,458	22,755	26,555	29,753	32,128	40,641	56,745	69,460	36,892
b. Other Private & Services /c	6,434	7,443	9,014	11,384	15,251	17,784	20,886	25,026	35,274	56,487	63,903	70,189	38,452
Gross Domestic Products	195,597	227,450	259,885	302,018	329,776	382,220	451,717	532,568	627,321	955,753	1,109,980	1,290,684	716,258

* : Preliminary figures. ** : Very preliminary figures.

/a. In 1996, the Government released national accounts series using the 1993 base.

/b. Using the 1983 base, this line refers only to Ownership of Dwellings. Using the new base, it includes Real Estates.

/c. Includes Business Services.

Source: Central Bureau of Statistics.

Table 8. Gross Domestic Product by Industrial Origin at Constant Market Prices, 1990-2001 /a
(Rp. billion)

	1983 base				1993 base								
	1990	1991	1992	1993	1993	1994	1995	1996	1997	1998	1999*	2000*	2001** Jan-Jun
1. **Agriculture, Livestock Forestry and Fishery**	22,357	22,715	24,226	24,569	58,963	59,291	61,885	63,828	64,468	63,610	65,339	66,432	34,207
a. Farm food crops	13,558	13,484	14,527	14,356	32,093	31,408	32,952	33,647	32,688	33,350	33,971	34,302	18,745
b. Non-food crops /b	3,724	3,924	4,111	4,351	9,015	9,472	9,912	10,355	10,497	10,502	10,741	10,909	4,708
c. Livestock products	2,328	2,468	2,665	2,814	6,203	6,451	6,790	7,133	7,483	6,440	6,869	7,060	3,664
d. Forestry	1,003	1,003	980	997	6,268	6,301	6,304	6,444	7,190	6,581	6,299	6,411	3,301
e. Fishery	1,745	1,835	1,943	2,053	5,385	5,660	5,928	6,249	6,610	6,737	7,460	7,750	3,789
2. **Mining & Quarrying**	17,532	19,317	18,958	19,370	31,497	33,262	35,502	37,739	38,538	37,473	36,572	37,423	18,801
a. Oil & natural gas	16,030	17,513	16,719	16,667	23,121	23,720	23,720	24,063	23,920	23,340	22,137	22,230	10,661
b. Oth. mining & quarrying	1,502	1,804	2,239	2,704	8,377	9,542	11,782	13,677	14,619	14,133	14,435	15,193	8,140
3. **Manufacturing**	22,337	24,585	26,964	29,484	73,556	82,649	91,637	102,260	107,630	95,321	98,949	105,085	53,789
a. Refinery oil	1,094	1,137	1,202	1,187	5,541	5,548	5,392	6,291	5,926	6,310	6,607	7,069	3,642
b. LNG	4,093	4,433	4,663	4,753	4,253	4,721	4,390	4,572	4,725	4,732	5,082	4,503	2,208
c. Non-oil & gas mfg.	17,150	19,015	21,099	23,544	63,763	72,380	81,855	91,396	96,980	84,278	87,261	93,513	47,939
4. **Electricity, gas & water**	726	843	928	1,022	3,290	3,703	4,292	4,877	5,480	5,646	6,113	6,649	3,495
5. **Construction**	6,673	7,424	8,224	9,223	22,513	25,858	29,198	32,924	35,346	22,465	22,286	23,789	11,929
6. **Trade, Hotels & Restaurants**	18,569	19,576	21,009	22,850	55,298	59,504	64,231	69,475	73,524	60,131	60,195	63,621	32,999
a. Retail & wholesale trade	15,425	16,214	17,406	18,969	44,605	47,620	51,397	55,514	58,842	47,846	47,694	50,457	26,207
b. Hotels & Restaurants	3,143	3,363	3,603	3,881	10,693	11,885	12,834	13,962	14,682	12,285	12,501	13,165	6,792
7. **Transport & Communications**	6,368	6,869	7,555	8,302	23,249	25,189	27,329	29,701	31,783	26,975	26,772	29,284	15,311
a. Transport	5,596	6,003	6,601	7,192	20,101	21,400	22,932	24,445	25,609	20,504	19,738	21,431	11,097
b. Communications	772	867	954	1,110	3,148	3,788	4,397	5,257	6,174	6,471	7,035	7,854	4,214
8. **Banks & Finance**	4,894	5,535	6,256	7,070	14,005	15,945	18,109	18,887	19,956	13,173	11,765	12,403	6,384
9. **Ownership of Dwellings /c**	2,999	3,120	3,249	3,411	9,695	10,087	10,643	11,266	11,826	9,476	8,906	9,205	4,611
10. **Other Services**	12,764	13,242	13,817	14,405	37,709	39,155	40,967	42,842	44,696	42,105	42,661	43,775	22,163
a. Public	8,783	9,052	9,320	9,509	22,458	22,752	23,046	23,338	23,617	21,888	22,251	22,555	11,307
b. Other Private & Services /d	3,981	4,189	4,497	4,897	15,251	16,403	17,921	19,503	21,079	20,218	20,410	21,220	10,855
Gross Domestic Products	115,217	123,225	131,185	139,707	329,776	354,641	383,792	413,798	433,246	376,374	379,558	397,666	203,689

*: Preliminary figures. **: Very preliminary figures.

/a. In 1996, the Government released national accounts series using the 1993 base.

/b. Includes the former smallholder and estate food crops under the National Accounts with a 1983 base.

/c. Using the 1983 base, this line refers only to Ownership of Dwellings. Using the new base, it includes Real Estates.

/d. Includes Business Services.

Source: Central Bureau of Statistics.

Table 9. Gross Domestic Product by Expenditure Category at Current Market Prices, 1990-2001 /a
(Rp. billion)

	1983 base				1993 base								
	1990	1991	1992	1993	1993	1994	1995	1996	1997	1998	1999*	2000*	2001** Jan-Jun
1. Private consumption	106,312	125,036	135,880	158,342	192,959	228,119	279,876	332,094	387,171	647,824	813,183	867,997	477,184
2. Government consumption	17,573	20,785	24,731	29,757	29,757	31,014	35,584	40,299	42,952	54,416	72,631	90,780	50,199
3. Gross fixed investment	55,633	63,894	70,820	78,243	86,667	105,381	129,218	157,653	177,686	243,043	240,322	313,915	189,451
4. Changes in stock /b	15,072	16,848	22,405	28,286	10,546	13,327	15,900	5,800	21,615	-82,716	-105,063	-83,319	-49,116
5. Exports of goods and nonfactor services	51,953	62,264	76,384	85,454	88,231	101,332	119,593	137,533	174,871	506,245	390,560	497,519	318,791
6. Less: Imports of goods and nonfactor services	50,946	61,376	70,337	78,065	78,383	96,953	125,657	140,812	176,600	413,058	301,654	396,208	270,250
Gross Domestic Product	**195,597**	**227,450**	**259,885**	**302,018**	**329,776**	**382,220**	**454,514**	**532,568**	**627,695**	**955,754**	**1,109,980**	**1,290,684**	**716,258**

* : Preliminary figures. ** : Very preliminary figures.
/a. In 1996, the Government released national accounts series using the 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.
/b. Residuals.

Source: Central Bureau of Statistics.

Table 10. Gross Domestic Product by Expenditure Category at Constant Market Prices, 1990-2001 /a

(Rp. billion)

	1983 base				1993 base								
	1990	1991	1992	1993	1993	1994	1995	1996	1997	1998	1999*	2000*	2001** Jan-Jun
1. Private consumption	62,053	66,584	68,485	72,476	192,958	208,062	215,798	257,016	277,116	260,023	272,070	281,957	146,741
2. Government consumption	11,317	12,113	12,819	12,830	29,757	30,443	31,476	31,681	31,701	26,828	27,014	28,768	15,199
3. Gross fixed investment	32,732	34,867	36,589	38,671	86,667	98,589	114,022	128,699	139,726	93,605	75,468	88,985	50,622
4. Changes in stock /b	3,303	1,990	2,314	3,404	10,546	14,836	23,435	5,873	3,342	-6,387	-8,572	-16,138	-13,400
5. Exports of goods and nonfactor services	28,863	34,600	39,675	42,297	88,231	97,002	102,975	112,391	121,158	134,707	92,124	106,918	59,851
6. Less: Imports of goods and nonfactor services	23,050	26,929	28,697	29,971	78,383	94,291	103,938	121,863	139,796	132,401	78,546	92,823	55,325
Gross Domestic Product	**115,217**	**123,225**	**131,185**	**139,707**	**329,776**	**354,641**	**383,768**	**413,798**	**433,246**	**376,375**	**379,558**	**397,666**	**203,689**

* : Preliminary figures. ** : Very preliminary figures.

/a. In 1996, the Government released national accounts series using the 1993 base, based on an update of the 1990 Input-Output Table and refined estimates of some sub-sectors.

/b. Residuals.

Source: Central Bureau of Statistics.

Table 11. Balance of Payments, 1994-2001

(US$ million)

Items	1994	1995	1996	1997	1998	1999	2000	2001/c
1 Non oil/gas, merch. (net)	1,595	-96	-1,849	3,129	13,864	14,355	15,963	14,470
2 Oil, merch. (net)	2,329	2,851	3,122	2,266	1,518	1,975	2,197	2,205
3 Gas, merch. (net)	2,755	6,644	5,896	4,679	3,047	4,314	6,881	5,329
4 Current account	-2,960	-6,760	-7,801	-5,001	4,097	5,783	7,998	4,249
a. Exports, fob	40,223	47,454	50,188	56,297	50,371	51,243	65,408	62,113
b. Imports, fob	-32,322	-40,921	-44,240	-46,223	-31,942	-30,599	-40,367	-40,109
c. Services, net	-10,861	-13,293	-13,749	-15,075	-14,332	-14,861	-17,043	-17,755
5 Official Capital	307	336	-522	2,880	9,971	5,353	3,217	1,528
a. Inflows	5,838	5,785	5,693	7,594	7,414	6,560	3,862	4,055
IGGI	3,908	5,635	5,093	7,594	5,897	6,560	3,862	4,055
Special assistance	268	226	165	92	0	0	0	0
Program aid	0	0	0	3,036	1,821	3,870	1,360	1,580
Food aid	0	0	0	0	160	273	76	0
Project aid	3,640	5,409	4,928	4,466	3,916	2,417	2,426	2,475
ODA	2,493	3,591	3,274	2,601	1,718	1,686	2,193	2,110
Non-ODA	1,147	1,818	1,654	1,865	2,198	731	233	364
Commercial loan	141	150	600	0	1,517	0	0	0
b. Amortization	-5,390	-5,449	-6,215	-4,714	-3,765	-4,070	-4,272	-4,892
c. Exceptional financing	0	0	0	3,036	6,322	2,863	3,627	2,365
- IMF Purchases /a	0	0	0	3,036	5,761	1,373	1,124	1,009
- IMF Repurchases	0	0	0	0	561	0	0	-1,502
- Rescheduling	0	0	0	0	0	1,490	2,503	2,858
6 Private Capital	3,701	10,252	11,511	-338	-13,846	-9,923	-9,992	-9,516
a. Foreign direct invesment	2,108	4,345	6,194	4,677	-356	-2,745	-4,549	-5,347
Inflow	3,412	5,975	8,154	10,005	6,986	3,702	2,974	2,824
Outflow	-1,304	-1,630	-1,960	-5,328	-7,342	-6,447	-7,523	-8,171
b. Others	1,593	5,907	5,317	-5,015	-13,490	-7,178	-5,443	-4,169
7 Capital account (5+6)	4,008	10,588	10,989	2,542	-3,875	-4,570	-6,775	-7,988
8 T O T A L (4 + 8)	1,048	3,828	3,188	-2,459	222	1,213	1,223	-3,739
9 Errors & omissions, net -(8+10)	-242	-2,312	1,263	-1,986	2,122	2,079	3,820	589
10 Monetary movements /b	-806	-1,516	-4,451	4,445	-7,254	-3,292	-5,043	3,150

/a Including Japanese new financing.

/b Since 1998 Monetary Movement is based on Gross Foreign Assets (GFA) replacing Official Reserves.
Since 2000, based on change reserve assets replacing GFA. Negative represents surplus and Positive represents deficit.

/c Projections

Table 12. Selected Non-oil Exports, 1990-2001
(US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 Jan-Jun
1. Rubber	885	924	1,039	959	1,268	1,986	1,894	1,505	1,010	855	881	628
2. Coffee	372	355	236	333	750	622	598	583	607	474	334	74
3. Palm oil & Cernel	253	335	465	535	878	973	1,017	1,662	816	1,170	1,195	459
4. Rattan	275	275	307	333	354	374	324	204	37	255	296	144
5. Foodstuff	308	382	467	455	603	670	747	881	923	904	718	348
6. Shrimps, Lobster, Tuna	705	811	802	902	1,056	1,093	1,058	1,097	1,768	1,607	1,672	743
7. Tin	176	146	148	92	121	240	310	277	260	242	234	112
8. Copper	400	146	687	646	879	1,551	1,397	1,548	1,749	1,077	1,854	1,282
9. Nickel	319	512	269	304	334	410	374	233	165	219	360	186
10. Aluminum	216	304	214	165	204	354	320	280	200	135	248	129
11. Iron Steel	367	172	381	464	454	522	608	660	990	772	805	3,445
12. Plywood	2,690	2,772	3,219	4,128	3,650	3,452	3,544	3,477	2,327	2,254	1,995	881
13. Textiles	1,084	2,772	2,470	2,311	2,517	2,908	2,683	3,390	3,461	3,086	3,540	1,509
14. Handicraft	346	1,539	541	663	978	655	526	1,027	2,089	612	617	309
15. Electrical app.	237	379	1,017	1,301	1,774	2,724	3,593	3,261	2,813	3,401	6,369	3,232
16. Garment	1,570	2,203	3,212	3,395	3,096	3,324	3,187	4,181	3,817	3,777	4,581	1,974
17. Pulp and Paper	250	312	401	483	782	1,504	1,369	1,953	2,469	2,646	3,042	1,103
Others	4,305	3,716	7,748	8,612	10,172	12,854	13,499	16,914	16,358	16,022	19,743	5,818
Total Non-oil Exports /a	14,758	18,054	23,624	26,080	29,870	36,214	37,046	43,133	41,859	39,510	48,483	22,376

/a Exclude exports from Batam.

Source: Bank Indonesia.

Table 13. Value of Exports by Principal Country of Destination, 1990-2001
(US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 Jan-May
Asean	2,543	3,197	4,361	4,997	5,981	6,476	7,689	9,258	9,347	8,278	10,883	3,983
Malaysia	253	342	488	586	738	987	1,110	1,506	1,359	1,336	1,972	722
Thailand	189	267	353	468	401	703	823	847	943	813	1,026	440
Philippines	161	168	181	285	365	590	689	793	708	695	820	331
Singapore	1,902	2,410	3,314	3,372	4,150	3,767	4,565	5,462	5,718	4,931	6,562	2,280
Brunei	11	10	25	35	50	24	27	40	36	28	25	8
Vietnam	27	141	165	172	196	264	337	390	351	332	361	143
Cambodia /a	-	-	-	40	44	80	60	70	65	69	52	28
Laos /a	-	-	-	0	1	1	1	1	2	2	1	0
Myanmar /a	-	-	-	40	35	60	78	150	167	74	65	30
Hong Kong	618	703	881	901	1,321	1,657	1,625	1,778	1,865	1,330	1,554	590
Japan	10,923	10,767	10,761	11,172	10,929	12,288	12,885	12,461	9,116	10,397	14,415	5,874
Other Asia				6,728	7,368	8,664	9,475	10,593	9,244	10,138	13,352	5,206
Africa	199	394	419	463	638	621	639	771	908	1,063	1,099	496
USA	3,365	3,509	4,419	5,230	5,829	6,322	6,795	7,113	7,031	6,896	8,476	3,408
Canada	139	172	289	304	322	359	368	398	412	354	404	170
Other America	102	184	328	469	562	759	758	950	927	830	1,075	408
Australia	403	628	746	774	705	915	1,216	1,511	1,533	1,485	1,520	666
Other Oceania	84	39	53	78	67	156	71	69	121	142	175	97
EEC	3,029	3,743	4,844	5,391	5,948	6,760	7,724	8,056	7,766	7,085	8,665	3,367
o/w United Kingdom	517	654	844	1,005	1,038	1,129	1,193	1,231	1,143	1,176	1,508	584
Netherlands	723	838	1,100	1,086	1,324	1,452	1,667	1,835	1,512	1,544	1,838	630
Germany	750	907	978	1,178	1,263	1,382	1,489	1,459	1,401	1,234	1,443	585
Belgium & Luxemburg	210	258	401	366	409	539	682	788	877	695	837	339
France	286	386	495	500	426	520	564	497	547	503	718	285
Italy	276	382	583	615	661	784	744	823	859	656	758	277
Spain	152	169	255	333	454	535	813	886	869	742	932	398
Others in Europe	264	269	301	316	385	441	571	485	578	667	508	237
Total	21,669	23,605	27,402	36,824	40,054	45,418	49,815	53,443	48,848	48,665	62,124	24,503

/a Before 1993 these countries trade data are included in 'other Asia'

Table 14. Value of Imports by Principal Country of Origin, 1990-2001
(US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 Jan-May
Asean	2,430	2,465	2,593	2,659	3,044	4,219	5,124	5,413	4,506	4,784	6,485	2,326
Malaysia	326	407	525	517	579	767	824	865	627	606	1,129	390
Thailand	183	278	345	235	406	737	1,095	867	842	933	1,109	519
Philippines	649	81	52	57	65	81	90	127	65	56	115	47
Singapore	1,272	1,699	1,670	1,793	1,877	2,368	2,875	3,411	2,543	2,526	3,789	1,280
Brunei	0	0	1	1	0	1	1	6	0	38	17	0
Vietnam	43	87	93	38	79	156	204	117	421	605	303	79
Cambodia /a	-	-	-	1	1	4	3	0	0	1	1	0
Laos /a	-	-	-	0	0	0	0	1	0	0	1	0
Myanmar /a	-	-	-	15	37	105	33	19	9	19	22	11
Hong Kong	273	232	229	247	241	275	262	325	264	228	342	131
Japan	5,300	6,327	6,014	6,248	7,740	9,217	8,504	8,252	4,292	2,913	5,397	2,370
Other Asia	4,633	5,156	5,496	6,014	6,750	8,111	8,423	8,035	5,033	5,952	9,196	4,191
Africa	170	195	213	140	332	608	643	684	430	573	825	590
USA	2,520	3,397	3,822	3,255	3,588	4,756	5,060	5,441	3,517	2,839	3,390	1,702
Canada	407	354	459	410	497	811	786	682	504	421	638	198
Other America	519	597	488	625	755	1,088	1,089	927	515	584	597	215
Australia	1,186	1,378	1,413	1,399	1,542	2,016	2,535	2,427	1,761	1,460	1,694	968
Other Oceania	115	118	136	161	184	206	245	234	166	117	265	130
EEC	4,060	4,705	5,400	6,651	6,612	8,175	9,234	8,333	5,866	3,801	4,163	1,965
o/w United Kingdom	440	603	719	782	710	902	1,118	1,084	920	511	557	334
Netherlands	550	505	507	626	564	842	493	566	338	347	434	174
Germany	1,502	2,061	2,141	2,072	2,473	2,819	3,001	2,629	2,366	1,399	1,245	597
Belgium & Luxemburg	232	254	324	340	292	401	394	340	277	178	239	114
France	643	544	816	853	786	1,064	1,006	1,017	568	372	400	176
Denmark	61	49	124	158	106	105	191	159	50	38	44	26
Ireland	74	13	23	21	22	41	39	35	26	31	66	21
Italy	410	536	558	523	670	791	1,212	918	480	277	345	196
Greece	6	5	8	12	26	61	76	52	19	25	15	7
Portugal	6	4	2	2	4	8	5	23	2	2	2	1
Spain	136	131	178	262	174	219	345	370	160	206	185	97
Others in Europe	764	899	969	519	700	1,148	1,025	927	483	332	522	257
Total	22,430	25,871	27,279	28,328	31,984	40,629	42,929	41,679	27,337	24,003	33,515	15,042

/a Before 1993 these countries trade data are included in 'other Asia'

Source: Central Bureau of Statistics.

Table 15 . External Public Debt Outstanding including Undisbursed as of December 31, 2000
(US$ thousand)

Type of creditor/ creditor country	Debt outstanding			Present Value
	Disbursed	Undisbursed	Total	
PUBLIC AND PUBLICLY GUARANTEED DEBT				
Bilateral Loans				
Australia	739,793	28,730	768,523	507,206
Austria	243,622	59,495	303,117	187,556
Belgium	129,211	2,548	131,759	100,808
Brunei	82,262	0	82,262	40,874
Canada	423,558	24,259	447,817	273,997
China	18,846	4,444	23,290	14,409
Denmark	39,944	0	39,944	30,599
Finland	12,510	4,116	16,626	10,649
France	698,203	37,037	735,240	460,839
Germany, Fed. Rep. of	2,650,653	196,566	2,847,219	2,008,262
Italy	176,367	0	176,367	123,074
Japan	22,517,675	5,606,320	28,123,996	21,755,874
Korea, Republic of	80,476	4,771	85,246	65,787
Kuwait	51,369	15,546	66,915	40,377
Multiple Lenders	3,632,714	0	3,632,714	3,049,266
Netherlands	599,335	14,239	613,574	416,504
New Zealand	4	0	4	0
Norway	30,060	0	30,060	22,170
Other	20,366	0	20,366	14,985
Saudi Arabia	23,823	0	23,823	13,306
Singapore	1,194	0	1,194	1,146
Slovak Republic	3,421	0	3,421	3,362
Spain	339,554	61,694	401,248	224,122
Sweden	11,606	0	11,606	10,704
Switzerland	151,083	0	151,083	132,769
United Kingdom	24,794	395	25,190	25,570
United States	2,495,755	107,106	2,602,861	1,874,179
Total Bilateral Loans	35,198,198	6,167,267	41,365,464	31,408,393
Bonds				
Multiple Lenders	545,000	0	545,000	541,317
United States	426,000	0	426,000	435,507
Total Bonds	971,000	0	971,000	976,824
Export Credits				
Austria	660,963	14,543	675,506	559,774
Belgium	136,572	266	136,837	107,222
Denmark	37,569	0	37,569	28,191
Finland	42,026	0	42,026	32,450
France	665,608	20,873	686,480	483,804
Germany, Fed. Rep. of	14,734	0	14,734	8,053
Japan	38,977	0	38,977	36,796
Netherlands	227,140	0	227,140	180,979
Norway	44,005	0	44,005	30,333
Spain	50,806	0	50,806	36,621
Sweden	22,213	0	22,213	11,634
Switzerland	266,396	0	266,396	198,062
United Kingdom	549,336	62,467	611,803	397,168
United States	245,220	0	245,220	178,812
Total Export Credits	3,001,564	98,149	3,099,712	2,289,898

Continued

Table 15 . External Public Debt Outstanding including Undisbursed as of December 31, 2000
(US$ thousand)

Type of creditor/ creditor country	Debt outstanding Disbursed	Undisbursed	Total	Present Value
Financial Institutions				
Australia	2,243	0	2,243	674
Austria	147,493	15,585	163,078	120,982
Belgium	2,228	461	2,689	1,946
France	176,095	39,071	215,166	148,535
Germany, Fed. Rep. of	2,020	79	2,098	1,780
Hong Kong	461,518	133,457	594,975	457,413
Japan	147,272	1,270	148,542	145,847
Multiple Lenders	6,885,475	0	6,885,475	6,843,055
Netherlands	59,966	8,076	68,042	50,744
Norway	40,595	8,544	49,139	27,526
Singapore	1,162,292	466,976	1,629,268	1,011,527
Spain	4,199	0	4,199	2,741
Switzerland	2,139	0	2,139	1,601
United Kingdom	389,484	37,862	427,346	269,024
Total Financial Institutions	9,483,019	711,379	10,194,398	9,083,395
Multilateral Loans				
ASDB "soft window"	648,714	150,525	799,239	353,831
Asian Dev. Bank	6,355,420	2,552,275	8,907,695	6,173,208
EEC	3,647	0	3,647	2,135
European Dev. Fund	1,236	393	1,628	971
IBRD	11,714,727	1,866,538	13,581,265	12,709,832
IDA	713,566	178,938	892,504	399,751
Intl. Fund Agr. (IFAD)	101,538	14,397	115,936	84,212
Islamic Dev. Bank	83,680	13,948	97,627	85,356
Nordic Invest. Bank	170,604	8,370	178,974	160,042
Nordic Investment Fund	11,301	0	11,301	10,237
Total Multilateral Loans	19,804,432	4,785,383	24,589,816	19,979,576
Nationalization				
Netherlands	15,876	0	15,876	14,723
Total Nationalization	15,876	0	15,876	14,723
Supplier Credits				
France	0	2,624	2,624	0
Japan	834,985	1,431	836,416	742,295
Singapore	0	6,246	6,246	1
Slovak Republic	0	10,413	10,413	0
United States	0	18,465	18,465	19
Total Supplier Credits	834,985	39,179	874,164	742,315
Creditor Types				
Bilateral Loans	35,198,198	6,167,267	41,365,464	31,408,393
Bonds	971,000	0	971,000	976,824
Export Credits	3,001,564	98,149	3,099,712	2,289,898
Financial Institutions	9,483,019	711,379	10,194,398	9,083,395
Multilateral Loans	19,804,432	4,785,383	24,589,816	19,979,576
Nationalization	15,876	0	15,876	14,723
Supplier Credits	834,985	39,179	874,164	742,315
Total	69,309,074	11,801,357	81,110,432	64,495,124

Notes:
(1) Only debts with an original or extended maturity of over one year are included in this table .
(2) Debt outstanding includes principal in arrears but excludes interest in arrears .

Source: IBRD Debtor Reporting System, based on data provided by Bank Indonesia.

Table 16 . Service Payments, Commitments, Disbursements and Outstanding Amounts of Total External Debt, 1980-2013 /a
(US$ thousand)

	Debt outstanding at end of period		Transactions during period					Other Changes	
	Disbursed only	Including Undisbursed	Commit-ments	Disburse-ments	Service Payments			Cancel-lations	Adjust-ment /b
					Principal	Interest	Total		
Actual									
1980	20,937,697	30,420,359	4,277,373	3,245,505	1,632,494	1,451,811	3,084,305	118,261	0
1981	22,761,139	33,805,826	5,008,002	3,845,429	1,784,995	1,707,127	3,492,122	163,286	325,746
1982	25,133,280	38,847,056	7,067,267	4,410,336	1,942,084	1,914,070	3,856,154	5,472	-78,481
1983	30,229,384	44,069,191	5,686,879	6,392,696	1,798,027	1,943,231	3,741,258	197,669	1,530,951
1984	32,025,604	46,152,969	4,816,038	4,840,324	2,270,173	2,575,904	4,846,078	26,707	-435,380
1985	36,715,241	52,664,318	4,583,947	4,170,204	3,421,579	2,401,135	5,822,715	514,815	5,863,797
1986	42,916,426	60,291,414	4,104,406	4,829,475	3,285,237	2,698,511	5,983,748	184,999	6,992,926
1987	52,535,204	71,997,352	5,994,820	7,489,770	4,059,579	2,941,855	7,001,434	635,419	10,406,115
1988	54,078,473	72,944,387	6,087,327	8,179,570	5,296,940	3,345,242	8,642,182	511,210	667,858
1989	59,401,728	78,040,191	7,643,407	9,008,916	5,993,871	3,839,209	9,833,079	307,264	3,753,532
1990	69,871,535	90,281,275	6,691,047	10,024,229	5,968,647	3,977,615	9,946,262	792,119	12,310,802
1991	79,547,725	100,178,464	8,811,427	11,758,429	6,857,771	4,617,488	11,475,258	2,102,942	10,046,476
1992	88,002,159	107,367,183	7,878,074	13,532,913	7,943,980	4,512,662	12,456,641	1,212,380	8,467,005
1993	89,171,879	109,869,371	8,136,637	8,084,176	9,137,539	4,951,220	14,088,759	428,180	3,931,270
1994	107,823,935	129,207,339	7,711,610	12,546,541	8,951,065	5,316,014	14,267,079	402,304	20,979,726
1995	124,398,325	149,421,280	10,954,145	13,628,469	10,196,992	6,219,010	16,416,001	568,988	20,021,412
1996	128,936,704	152,638,402	7,795,728	20,973,217	14,895,938	6,647,014	21,542,952	558,371	10,882,672
1997	136,160,846	155,516,175	3,424,551	22,453,960	13,010,479	6,726,343	19,736,821	451,022	12,928,863
1998	151,235,672	167,630,856	7,375,001	16,391,639	11,202,473	7,107,267	18,309,740	3,220,311	19,156,417
1999	150,990,499	166,504,501	5,233,619	9,460,136	11,710,701	5,953,972	17,664,673	639,680	5,977,364
2000	141,951,256	153,752,614	1,903,316	7,059,446	11,295,880	7,378,724	18,674,604	1,346,681	-1,996,847
Projected									
2001	128,240,716	134,858,643	0	5,049,558	15,941,595	6,312,278	22,253,873	0	-2,952,375
2002	116,118,867	119,379,584	0	3,357,211	15,581,834	5,458,507	21,040,341	0	102,775
2003	104,850,709	106,526,585	0	1,584,856	12,853,014	4,582,148	17,435,162	0	0
2004	95,348,794	96,148,939	0	875,742	10,377,657	3,934,340	14,311,997	0	0
2005	85,347,163	85,703,515	0	443,824	10,445,455	3,398,276	13,843,731	0	0
2006	76,690,045	76,816,838	0	229,584	8,886,830	2,777,136	11,663,965	0	0
2007	67,298,729	67,305,816	0	119,762	9,511,143	2,302,520	11,813,663	0	0
2008	58,482,417	58,484,981	0	4,526	8,820,837	1,772,500	10,593,337	0	0
2009	53,705,441	53,706,198	0	1,807	4,778,783	1,402,660	6,181,443	0	0
2010	49,072,238	49,072,478	0	516	4,633,719	1,152,291	5,786,010	0	0
2011	45,728,848	45,729,070	0	0	3,343,388	936,104	4,279,492	0	0
2012	42,262,734	42,262,956	0	0	3,466,114	786,709	4,252,823	0	0
2013	39,395,567	39,395,789	0	0	2,867,167	617,422	3,484,589	0	0
2014	36,837,464	36,837,685	0	0	2,558,104	499,316	3,057,420	0	0

/a Total external debt includes total amount of public, private, short term and IMF credit only debt.

/b This column shows the amount of arithmetic imbalances in the amount outstanding, including undisbursed, from one year to the next. The most common causes of imbalance are changes in exchange rates and transfers of debts from one category to another in the table.

Source: IBRD Debtor Reporting System, based on data provided by Bank Indonesia.

Table 17. External Debt Outstanding December 1997-June 2001

(US$ million)

	1997	1998				1999				2000				2001	
	December	March	June	September	December	March	June	September	December	March	June	September	December	March	June
External Debt	**125,817**	**131,587**	**135,005**	**136,299**	**145,599**	**146,448**	**141,296**	**142,764**	**144,798**	**140,725**	**141,587**	**138,394**	**139,496**	**136,486**	**135,151**
Government /a	53,865	54,159	55,166	58,666	67,315	68,404	70,418	74,809	75,720	75,036	76,356	75,304	74,891	72,324	70,665
ODA	38,162	37,853	38,672	40,803	48,421	49,788	52,091	55,445	56,453	56,316	57,179	56,620	56,152	53,756	53,100
Non ODA	14,812	14,632	14,164	15,485	16,045	16,247	15,952	16,982	16,880	16,336	16,794	16,307	16,342	16,225	15,576
Commercial	890	1,674	2,330	2,378	2,849	2,369	2,375	2,382	2,387	2,384	2,383	2,377	2,397	2,343	1,989
State Enterprises	3,995	3,842	4,008	3,850	4,153	4,123	4,121	4,020	5,004	4,937	5,126	5,114	5,083	5,002	4,837
Pertamina & Garuda	3,757	3,720	3,829	3,688	3,992	3,980	3,948	3,820	3,667	3,639	3,597	3,576	3,583	3,490	3,438
Other state enterprises	239	122	179	162	161	143	173	200	1,337	1,298	1,529	1,537	1,500	1,512	1,399
Banks /b	14,364	12,826	12,622	10,817	10,769	11,748	10,631	10,384	10,836	10,379	10,314	9,387	7,718	7,848	7,684
State banks	5,910	5,024	4,967	4,360	4,744	4,872	4,926	4,732	4,705	4,667	4,733	4,399	4,150	4,154	4,118
Private banks	8,454	7,802	7,655	6,457	6,025	6,876	5,705	5,652	6,131	5,712	5,581	4,988	3,568	3,694	3,566
Private non Banks /b	53,593	60,760	63,209	62,966	63,362	62,173	56,126	53,551	53,238	50,373	49,791	48,589	51,805	51,312	51,965
Loan	49,179	52,628	55,584	55,376	55,954	54,718	49,161	46,902	46,909	44,134	43,666	42,708	46,333	46,163	47,068
Bonds	4,414	8,132	7,625	7,590	7,408	7,455	6,965	6,649	6,329	6,239	6,125	5,881	5,472	5,149	4,897
Domestic Securities Owned by non-residents	10,271	6,432	5,607	5,667	5,287	3,491	3,653	3,178	3,299	3,559	2,577	2,398	2,197	2,089	3,646
Denominated in Rupiah	2,858	1,187	740	724	656	422	795	399	589	710	434	363	184	158	1,875
Bonds	322	170	102	98	99	56	96	72	90	104	78	79	30	21	23
SBIs	245	229	248	182	13	30	275	38	142	256	132	102	26	11	15
MTNs	369	165	87	93	109	86	86	71	110	100	77	51	17	6	4
CPs	11	10	6	6	9	4	9	8	10	2	7	7	5	4	3
CDs	1,088	240	51	30	24	0	18	0	0	0	0	0	0	0	0
PNs	823	373	246	315	402	246	311	210	237	248	140	124	106	116	1,830
FRNs		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Denominated in USD	7,413	5,245	4,867	4,943	4,631	3,069	2,858	2,779	2,710	2,849	2,143	2,035	2,013	1,931	1,771
PNs	5,297	3,708	3,731	3,525	3,295	1,839	1,693	1,610	1,661	1,817	1,128	1,115	1,147	1,061	1,015
MTNs /c	1,974	1,365	1,069	1,343	1,263	1,184	1,106	1,115	1,004	992	991	901	842	848	734
CPs /c	29	43	44	49	50	35	42	39	35	30	17	17	17	17	17
Bonds	98	127	22	24	21	7	13	13	8	8	7	0	7	5	5
FRNs	2	2	1	2	2	4	4	2	2	2	0	2	0	0	0
CDs	13	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total External Obligations	**136,088**	**138,019**	**140,612**	**141,966**	**150,886**	**149,939**	**144,949**	**145,942**	**148,097**	**144,284**	**144,164**	**140,792**	**141,693**	**138,575**	**138,797**

/a Includes debt owed to IMF.

/b Includes loans obtained by branches of Indonesian banks and affiliates of Indonesian companies abroad and channeled into Indonesia.

/c Including securities denominated in JPY.

Source: Bank Indonesia.

Table 18. Central Government Budget Summary, 1994/95-2002 /a
(Rp. billion)

	<---------- Actual ---------->						Provision Actual	<------- Budget ------->	
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000 9 months	2001 /b revision	2002
1. Domestic revenues /c	64,412	70,852	87,630	107,965	146,872	204,422	194,146	286,006	301,874
2. Current expenditures	32,137	35,201	44,972	75,232	115,272	173,444	164,087	213,388	193,741
3. Government saving (1-2)	32,276	35,651	42,658	32,733	31,600	30,978	30,059	72,618	108,133
4. Development expenditures	28,430	27,201	32,928	36,311	52,824	57,638	25,926	45,461	52,299
5 Balanced funds	0	0	0	0	0	0	33,894	81,477	97,969 /d
6 Primary Balance	10,316	15,325	19,632	13,157	11,349	15,628	23,568	35,250	46,365
7 Overal Balance (3-4-5)	3,846	8,450	9,730	-3,578	-21,224	-26,660	-29,761	-54,320	-42,135
Financing (6+7)	-8,461	-11,480	-1,100	1,636	22,403	45,633	29,761	52,530	42,135
8 Domestic	0	0	0	0	1,634	16,867	18,139	33,500	23,501
9 Foreign, net	-8,461	-11,480	-1,100	1,636	20,769	28,766	11,622	19,030	18,634
Program loan	0	0	0	0	24,926	25,201	3,296	13,728	36,771 /e
Project loan	9,838	9,009	11,900	14,386	26,181	24,383	16,389	22,265	25,830
Amortization	-18,298	-20,489	-13,000	-12,750	-30,337	-20,818	-8,063	-16,963	-43,967

/a Government new format since 1999/2000 and applied it to 1994/95-1998/99.
/b Budget revision April 2001
/c Including grants.
/d Including Fund for Special Authonomy
/e Including rescheduling.
Source: Ministry of Finance.

Table 19. Central Government Revenues, 1994/95-2002 /a
(Rp. billion)

	<---------- Actual ---------->						Provision Actual	<------- Budget ------->	
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000 9 months	2001 /b revision	2002
State Revenues and Grants	**64,412**	**70,852**	**87,630**	**107,965**	**146,872**	**204,422**	**194,146**	**286,006**	**301,874**
I. Domestic Revenues	64,412	70,852	87,630	107,965	146,872	204,422	193,935	286,006	301,874
1. Tax Revenues	49,175	54,258	64,422	81,752	118,795	135,533	111,064	185,260	219,628
a. Domestic Taxes	45,144	51,042	61,762	78,625	111,860	130,497	104,610	174,255	207,029
i. Income Taxes	23,497	26,583	34,144	45,206	72,345	82,311	57,615	94,971	104,497
- Non-Oil & Gas	18,764	21,012	27,062	34,388	55,944	59,683	40,144	69,246	88,815
- Oil & Gas	4,733	5,571	7,082	10,818	16,401	22,628	17,472	25,725	15,682
ii. Sales tax (VAT)	16,545	18,519	20,351	25,199	27,803	33,087	31,525	53,457	70,100
iii. Property taxes	1,647	1,894	2,413	2,641	3,565	4,107	3,824	6,289	8,129
iv. Excises	3,153	3,593	4,263	5,101	7,733	10,381	10,632	17,501	22,353
v. Other taxes	302	453	591	478	413	611	1,014	1,938	1,950
b. International Trade Taxes	4,031	3,216	2,660	3,127	6,936	5,036	6,454	11,005	12,599
i. Import duties	3,900	3,029	2,579	2,999	2,306	4,177	6,116	10,398	12,249
ii.Export taxes	131	186	81	129	4,630	859	338	607	350
2. Non Tax Receipts	15,237	16,595	23,209	26,213	28,076	68,889	82,871	100,746	82,247
a. Natural Resources Revenues	8,804	10,483	13,055	15,431	15,431	35,854	70,186	79,446	63,195
i. Oil	7,603	9,093	11,235	10,701	10,701	28,898	44,892	57,867	44,013
ii. Gas	1,201	1,391	1,821	4,730	4,730	6,956	14,726	17,359	14,524
iii. Public Mining	0	0	0	0	0	0	620	928	1,340
iv. Forestry	0	0	0	0	0	0	9,923	3,001	3,026
v. Fishery	0	0	0	0	0	0	25	292	292
b. Profits of Public Enterprises	1,322	1,604	2,650	2,341	3,428	5,430	5,281	9,000	10,351
c. Other Non-tax revenues (PNBP)	5,111	4,508	7,503	8,442	9,217	27,605	7,403	12,300	8,700
II. Grants	0	0	0	0	0	0	211	0	0

/a Government new format since 1999/2000 and applied it to 1994/95 - 1998/99
/b Budget revision April 2001

Source: Ministry of Finance.

Table 20. Central Government Expenditures, 1994/95-2002 /a
(Rp. billion)

	Actual						Provision Actual	Budget	
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000 9 months	2001 /b revision	2002
Total Expenditures	**60,567**	**62,402**	**77,900**	**111,543**	**168,096**	**231,082**	**223,907**	**340,326**	**344,009**
I. Current Expenditures	32,137	35,201	44,972	75,232	115,272	173,444	164,087	213,388	193,741
Personnel expenditures	12,596	13,001	14,455	17,269	23,216	32,719	29,990	38,206	40,748
Material expenditures	4,319	5,175	8,109	8,999	9,862	10,765	9,047	9,909	12,863
Transfers to regions	7,272	8,227	9,358	11,061	13,074	17,485	0	0	0
Interest Payments	6,470	6,875	9,902	16,735	32,574	42,288	53,329	89,570	88,500
Domestic	0	0	0	0	8,385	22,230	34,770	61,174	59,525
External	6,470	6,875	9,902	16,735	24,189	20,058	18,559	28,395	28,975
Subsidies	687	0	1,416	20,413	33,872	65,916	59,725	66,269	41,586
Petroleum subsidies	687	0	1,416	9,814	28,607	40,923	51,135	53,774	30,377
Non-petroleum subsidies	0	0	0	10,599	5,265	24,993	8,590	12,495	11,209
Other Current Expenditures	793	1,923	1,733	756	2,674	4,271	11,996	9,433	10,043
Development Expenditures	28,430	27,201	32,928	36,311	52,824	57,638	25,926	45,461	52,299
1. Rupiah Financing	18,592	18,192	21,028	21,926	26,643	33,255	9,326	21,712	26,469
a. Capital transfer to region	5,670	5,488	6,472	7,512	13,575	12,451	0	0	0
b. Central government budget	12,922	12,704	14,556	14,414	13,068	20,804	9,326	21,712	26,469
2. Project financing with foreign loan	9,838	9,009	11,900	14,386	26,181	24,383	16,600	23,749	25,830
II. Balanced Funds	0	0	0	0	0	0	33,894	81,477	94,532
1. Revenue sharing funds	0	0	0	0	0	0	3,418	20,259	24,600
2. General allocation funds	0	0	0	0	0	0	30,476	60,517	69,114
3. Special allocation funds	0	0	0	0	0	0	0	701	817
III Fund for Special Authonomy	0	0	0	0	0	0	0	0	3,437

/a Government new format since 1999/2000 and applied it to 1994/95 - 1998/99
/b Budget revision April 2001

Source: Ministry of Finance.

Table 21. Money Supply (M1), 1999-2001
(Rp. billion)

End of Period		Total	Currency		Demand deposits		Change over period	
			Amount	(%)	Amount	(%)	Amount	(%)
1991	I	23,570	9,026	38.3	14,544	61.7	1,415	6.4
	II	24,609	8,824	35.9	15,785	64.1	1,404	6.1
	III	25,805	9,025	35.0	16,780	65.0	2,823	12.3
	IV	26,342	9,346	35.5	16,996	64.5	2,523	10.6
1992	I	27,318	11,025	40.4	16,293	59.6	3,748	15.9
	II	26,844	9,944	37.0	16,900	63.0	2,235	9.1
	III	27,626	10,440	37.8	17,186	62.2	1,821	7.1
	IV	28,779	11,478	39.9	17,301	60.1	2,437	9.3
1993	I	30,592	12,324	40.3	18,268	59.7	3,274	12.0
	II	31,563	12,386	39.2	19,177	60.8	4,719	17.6
	III	35,041	13,106	37.4	21,935	62.6	7,415	26.8
	IV	36,805	14,431	39.2	22,374	60.8	8,026	27.9
1994	I	37,908	15,340	40.5	22,568	59.5	7,316	23.9
	II	39,886	15,825	39.7	24,061	60.3	8,323	26.4
	III	42,195	17,555	41.6	24,640	58.4	7,154	20.4
	IV	45,374	18,634	41.1	26,740	58.9	10,333	29.5
1995	I	44,908	18,902	42.1	26,006	57.9	7,000	18.5
	II	47,045	19,186	40.8	27,859	59.2	7,159	17.9
	III	48,981	19,564	39.9	29,417	60.1	6,786	16.1
	IV	52,677	20,807	39.5	31,870	60.5	7,303	16.1
1996	I	53,162	21,121	39.7	32,041	60.3	8,254	18.4
	II	56,448	21,271	37.7	35,177	62.3	9,403	20.0
	III	59,684	21,055	35.3	38,629	64.7	10,703	21.9
	IV	64,089	22,487	35.1	41,602	64.9	11,412	21.7
1997	I	63,565	23,312	36.7	40,253	63.3	10,403	19.6
	II	69,950	23,754	34.0	46,196	66.0	13,502	23.9
	III	66,258	23,916	36.1	42,342	63.9	6,574	11.0
	IV	78,343	28,424	36.3	49,919	63.7	14,254	22.2
1998	I	98,270	38,196	38.9	60,074	61.1	34,705	54.6
	II	109,480	44,924	41.0	64,556	59.0	39,530	56.5
	III	102,563	42,725	41.7	59,838	58.3	36,305	54.8
	IV	101,197	41,394	40.9	59,803	59.1	22,854	29.2
1999	I	105,705	44,682	42.3	61,023	57.7	7,435	7.6
	II	105,964	43,530	41.1	62,434	58.9	-3,516	-3.2
	III	118,124	46,424	39.3	71,700	60.7	15,561	15.2
	IV	124,633	58,353	46.8	66,280	53.2	23,436	23.2
2000	I	124,663	51,197	41.1	73,466	58.9	18,958	17.9
	II	133,832	55,831	41.7	78,001	58.3	27,868	26.3
	III	135,431	56,844	42.0	78,587	58.0	17,307	14.7
	IV	162,186	72,371	44.6	89,815	55.4	37,553	30.1
2001	I	148,376	60,114	40.5	88,262	59.5	23,713	19.0
	II	160,142	66,201	41.3	93,941	58.7	26,310	19.7

Source: Bank Indonesia.

Table 22. Changes in Money Supply and Affecting Factors, 1990-2001
(Rp. billion)

End of period	Net foreign assets	Public sector: Net claims on Central Government	Public sector: Claims on official entities & public enterprises	Claims on businesses & individuals	Net other items	Total change in broad money supply (M2): Amount	Total change in broad money supply (M2): Percentage (%)
1990	-2,171	-3,877	-921	35,809	-2,914	25,926	44.2
1991	7,499	-1,355	104	20,263	-12,083	14,428	17.0
1992	7,013	-1,292	492	15,257	-1,475	19,995	20.2
1993	-934	731	1,505	30,230	-5,383	26,149	22.0
1994	-4,428	-4,686	-485	37,845	1,064	29,310	20.1
1995	7,354	-7,472	1,305	47,504	-565	48,126	27.6
1996	18,015	-2,757	4,626	51,768	-5,658	65,994	29.6
1997	17,344	-16,486	5,031	132,031	-70,909	67,011	23.2
1998	73,692	17,513	6,389	93,032	31,112	221,738	62.3
1999	-12,581	425,287 /a	-8,139	-291,550	-44,193	68,824	11.9
2000	81,637	123,060	-4,505	46,852	-143,096	100,823	16.4
2001 /b	-30,440	357	-61	16,613	40,542	27,011	4.4

/a Includes effects of bank recapitalization
/b January-August 2001

Source: Bank Indonesia.

Table 23. Consolidated Balance Sheet of the Monetary System, 1990-2001
(Rp. billion)

End of period	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 as of August
Net foreign assets	16,122	23,621	30,634	29,700	25,272	32,626	50,641	67,985	141,677	129,096	210,733	180,293
Domestic credit	93,142	112,154	126,611	159,077	192,225	233,088	284,507	404,396	521,759	649,833	815,240	832,148
Claims on public sector	-4,322	-5,573	-6,373	-4,137	-8,834	-15,345	-15,694	-27,836	-3,505	416,119	534,674	534,970
Central government	-12,202	-13,581	-14,873	-14,142	-18,828	-26,300	-29,057	-45,543	-28,037	397,257	520,317	520,674
Claims on public enterprises	7,904	8,008	8,500	10,005	9,994	10,955	13,363	17,707	24,532	18,862	14,357	14,296
Government-blocked account	-24	0	0	0	0	0	0	0	0	0	0	0
Claims on private enterprises and individuals	97,464	117,727	132,984	163,214	201,059	248,433	300,201	432,232	525,264	233,714	280,566	297,179
Assets = liabilities	109,264	135,775	157,245	188,777	217,497	265,714	335,148	472,381	663,436	778,929	1,025,973	1,012,441
Import deposits	1,048	966	890	1,699	1,541	1,779	2,099	1,419	2,417	1,658	4,783	6,379
Net other items	23,586	35,751	37,302	41,876	41,444	41,297	46,635	118,224	86,114	131,066	274,162	232,226
Money and quasi money	84,630	99,058	119,053	145,202	174,512	222,638	288,632	355,643	577,381	646,205	747,028	774,037
Money	23,819	26,341	28,779	36,805	45,374	52,677	64,089	78,343	101,197	124,633	162,186	166,851
Currency	9,094	9,346	11,478	14,431	18,634	20,807	22,487	28,424	41,394	58,353	72,371	69,136
Demand deposits	14,725	16,995	17,301	22,374	26,740	31,870	41,602	49,919	59,803	66,280	89,815	97,715
Quasi money	60,811	72,717	90,274	108,397	129,138	169,961	224,543	277,300	476,184	521,572	584,842	607,186

Source: Bank Indonesia.

Table 24. Banking System Credits by Economic Sector, 1990-2001 /a

(Rp. billion)

	1990	1991 /e	1992	1993 /f	1994	1995	1996	1997	1998	1999	2000	2001/g
Agriculture	7,176	8,465	10,281	12,057	13,860	15,525	17,630	26,002	39,308	23,777	19,503	21,407
In rupiah	6,884	7,979	9,173	10,368	12,026	13,661	15,158	20,340	29,430	21,139	15,028	16,223
In foreign exchange	292	486	1,108	1,689	1,834	1,864	2,472	5,662	9,878	2,638	4,475	5,184
Mining /b	615	743	762	777	799	913	1,693	5,316	5,909	3,697	6,680	4,159
In rupiah	570	614	605	416	359	434	716	2,769	2,729	879	2,879	2,558
In foreign exchange	45	129	157	361	440	479	977	2,547	3,180	2,818	3,801	1,601
Manufacturing industry /c	30,502	33,131	37,458	51,432	60,211	72,088	78,850	111,679	171,668	84,259	106,782	112,780
In rupiah	25,002	24,828	26,197	36,334	42,236	48,476	51,984	56,123	85,594	35,561	35,697	44,665
In foreign exchange	5,500	8,303	11,261	15,098	17,975	23,612	26,866	55,556	86,074	48,698	71,085	68,115
Trade	29,737	33,049	32,944	37,794	44,372	54,224	70,586	82,264	96,364	43,288	44,099	45,743
In rupiah	27,267	28,842	28,100	31,470	36,840	43,608	55,763	57,471	59,830	29,687	30,601	35,535
In foreign exchange	2,470	4,207	4,844	6,324	7,532	10,616	14,823	24,793	36,534	13,601	13,498	10,208
Service rendering industry /d	17,897	20,066	25,899	35,824	50,806	66,584	91,655	113,569	139,124	43,161	44,316	46,865
In rupiah	14,943	16,683	21,979	30,167	42,453	57,432	78,392	85,598	101,129	26,332	23,784	28,209
In foreign exchange	2,954	3,383	3,920	5,657	8,353	9,152	13,263	27,971	37,995	16,829	20,532	18,656
Others	11,769	17,371	15,574	12,387	18,832	25,277	32,507	39,304	35,053	26,951	47,620	78,343
In rupiah	11,197	16,326	14,653	12,374	18,824	25,265	32,478	39,233	34,406	26,929	44,493	54,752
In foreign exchange	572	1,045	921	13	8	12	29	71	647	22	3,127	23,591
Total	97,696	112,825	122,918	150,271	188,880	234,611	292,921	378,134	487,426	225,133	269,000	309,297
In rupiah	85,863	95,272	100,707	121,129	152,738	188,876	234,491	261,534	313,118	140,527	152,482	181,942
In foreign exchange	11,833	17,553	22,211	29,142	36,142	45,735	58,430	116,600	174,308	84,606	116,518	127,355

/a Credits outstanding at end of period. Includes investment credits, KIK and KMKP. Excludes interbank credits, credits to central government and to nonresiden bridging finance credit, foreign exchange component of project aid, local cost of investment fund accounts, and credit extended to bank branches abroad.

/b Includes credits to PERTAMINA for repayment of foreign borrowing.

/c Processing of agricultural products is classified under manufacturing industry according to ISIC 1968

/d Credits for electricity, gas and water supply are included in service rendering industry sector.

/e Since 1991 excludes Bank Indonesia

/f As of 1993 includes Commercial Banks ex Non-Bank Financial Institutions.

/g As of August 2001

Source: Bank Indonesia.

Table 25. Banking Credits Outstanding in Rupiah and Foreign Exchange by Group of Banks, 1990-2001/a
(Rp. billion)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001/d
Bank Indonesia direct credits /b	718	783	771	158	130	71	26	50	40	38	36	36
In rupiah	718	783	771	158	130	71	26	50	40	38	36	36
In foreign exchange	0	0	0	0	0	0	0	0	0	0	0	0
State banks	55,826	59,861	68,236	71,760	80,010	93,480	108,925	153,266	220,747	112,288	102,061	107,187
In rupiah	50,648	52,628	58,133	59,738	68,085	79,394	93,051	113,436	160,113	84,038	68,489	75,446
In foreign exchange	5,178	7,233	10,103	11,805	11,925	14,086	15,874	39,830	60,634	28,250	33,572	31,741
Private national banks /c	34,975	44,452	45,352	63,995	90,504	116,886	156,412	176,262	199,931	62,805	92,531	112,763
In rupiah	31,458	39,467	39,685	55,076	76,506	99,466	130,194	135,475	139,155	46,047	66,281	84,821
In foreign exchange	3,517	4,985	5,667	8,919	13,998	17,420	26,218	40,787	60,776	16,758	26,250	27,942
Foreign banks	6,177	8,512	9,330	14,733	18,366	24,245	27,584	48,606	66,748	50,040	74,408	67,940
In rupiah	3,039	3,177	2,889	6,315	8,147	10,016	11,245	12,623	13,850	10,442	17,712	21,675
In foreign exchange	3,138	5,335	6,441	8,418	10,219	14,229	16,339	35,983	52,898	39,598	56,696	46,265
Total	97,696	113,608	123,689	150,429	189,010	234,682	292,947	378,184	487,466	225,171	269,036	287,926
In rupiah	85,863	96,055	101,478	121,287	152,868	188,947	234,516	261,584	313,158	140,565	152,518	181,978
In foreign exchange	11,833	17,553	22,211	29,142	36,142	45,735	58,431	116,600	174,308	84,606	116,518	105,948

/a Credits outstanding at end of period. Includes investment credits. Excludes interbank credits, credits to Central Government and to non-residents, bridging finance credit, foreign exchange components of project aid, local cost of investment fund accounts and credits extended to bankd branches abroad.
/b Excludes liquidity credits, includes credits to Pertamina for repayment for foreign borrowing.
/c Includes regional gevernment banks.
/d As of August 2001.

Source : Bank Indonesia.

Table 26. Commercial Banks' Outstanding Investment Credits in Rupiah and Foreign Exchange by Economic Sector, 1990-2001
(Rp. billion)

End of period	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001/b
Credits outstanding /a	20,734	25,748	35,223	42,713	47,136	59,274	70,443	100,735	141,464	57,691	65,256	78,099
Agriculture	4,520	5,450	7,050	8,730	9,865	10,564	11,737	14,629	17,250	11,615	10,810	13,084
Mining	373	459	459	310	196	256	405	1,321	2,029	1,329	2,884	3,022
Manufacturing industry	8,920	10,484	15,416	17,371	19,516	23,159	24,248	35,094	49,801	22,981	26,210	35,117
Trade	2,157	3,372	4,099	7,192	6,154	8,468	11,891	17,928	24,299	7,107	7,781	8,156
Service rendering industry	4,307	5,032	7,150	9,110	11,405	16,827	22,162	31,763	48,085	14,659	17,571	18,720
Others	457	951	1,049	0	0	0	0	0	0	0	0	0

/a Excludes Small Scale Investment Credits, investment credits to the Central Government and to non resident, bridging finance credit, foreign exchange components of project aid, and local cost of investment fund accounts and credit extended bank branches abroad.
/b As of August 2001.

Source: Bank Indonesia.

Table 27. Commercial Banks' Outstanding Funds in Rupiah and Foreign Exchange by Group of Banks, 1990-2001 /a
(Rp. billion)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 As of Aug
Deposits												
State Banks	40,638	41,812	52,600	61,684	64,283	75,920	90,434	133,042	271,554	286,427	328,457	327,776
Private Banks	33,951	43,143	51,079	67,541	88,925	117,451	164,979	177,193	235,605	252,880	279,037	286,540
Regional Development Banks	2,550	3,228	3,697	4,773	6,183	7,812	8,522	8,796	10,932	14,017	19,896	33,469
Foreign Banks	6,016	6,935	7,474	8,681	11,015	13,581	17,783	38,582	55,433	72,294	92,989	85,153
Total	83,155	95,118	114,850	142,679	170,406	214,764	281,718	357,613	573,524	625,618	720,379	732,938
Share in Total Deposits												
State Banks	48.9	44.0	45.8	43.2	37.7	35.4	32.1	37.2	47.3	45.8	45.6	44.7
Private Banks	40.8	45.4	44.5	47.3	52.2	54.7	58.6	49.5	41.1	40.4	38.7	39.1
Regional Development Banks	3.1	3.4	3.2	3.3	3.6	3.6	3.0	2.5	1.9	2.2	2.8	4.6
Foreign Banks	7.2	7.3	6.5	6.1	6.5	6.3	6.3	10.8	9.7	11.6	12.9	11.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Annual Growth Rate in Deposits												
State Banks	36.7	2.9	25.8	17.3	4.2	18.1	19.1	47.1	104.1	5.5	14.7	1.1
Private Banks	72.7	27.1	18.4	32.2	31.7	32.1	40.5	7.4	33.0	7.3	10.3	1.1
Regional Development Banks	52.3	26.6	14.5	29.1	29.5	26.3	9.1	3.2	24.3	28.2	41.9	1.9
Foreign Banks	81.5	15.3	7.8	16.1	26.9	23.3	30.9	117.0	43.7	30.4	28.6	1.1
Total	52.9	14.4	20.7	24.2	19.4	26.0	31.2	26.9	60.4	9.1	15.1	1.1

/a Demand, time and savings deposits including non resident and central government accounts

Source : Bank Indonesia.

Table 28. Interest Rates, 1990-2001

(Percent per year)

Year	Interbank call money /a	SBI /b	Time Deposits									
			State bank					Private national bank				
			1 mo	3 mos	6 mos	12 mos	24 mos	1 mo	3 mos	6 mos	12 mos	24 mos
1990	14.3	16.2	21.2	20.6	19.4	18.1	18.5	22.6	21.4	20.5	19.8	21.0
1991	14.7	19.3	20.0	21.3	22.3	22.5	21.0	21.8	22.6	23.3	23.4	18.6
1992	11.9	15.8	17.4	18.6	19.8	20.9	21.0	19.2	20.4	21.2	21.7	18.7
1993	8.4	10.4	11.2	10.8	14.3	15.7	18.5	14.8	15.8	16.6	17.1	17.4
1994	10.0	10.4	9.7	9.9	11.6	12.1	14.1	13.6	13.8	13.8	14.0	17.8
1995	13.8	14.2	14.4	13.9	14.8	13.9	14.0	17.4	17.4	17.2	16.0	16.2
1996	14.0	13.8	15.2	14.9	16.3	16.0	15.4	17.5	17.8	17.7	17.3	16.6
1997	29.2	14.7	17.7	17.9	15.3	15.5	15.4	22.0	21.0	17.4	17.2	16.9
1998	63.3	52.0	47.4	38.5	25.6	22.3	15.9	49.7	40.3	26.9	21.4	19.0
1999	23.6	23.4	23.3	25.8	25.2	27.8	17.2	23.7	25.9	24.6	25.4	21.8
2000	10.3	12.3	11.4	12.7	12.9	15.5	13.8	11.1	12.2	12.5	12.7	14.3
2001 /c	14.8	16.0	14.1	15.0	14.8	13.8	16.4	13.9	14.7	14.4	12.3	16.1

/a Average rate of overnight interest rate on Interbank Call Money transactions recorded at the Jakarta Clearing House.
/b Thirty days Bank Indonesia Certificate transactions.
/c Average rate January - September 2001.

Source: Bank Indonesia.

Table 29. Principal Agricultural Products by Subsectors, 1990-2000
(thousand tons)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Food crops											
Paddy /a	45,179	44,689	48,240	48,181	46,641	49,744	51,101	49,377	49,200	50,855	51,899
Corn	6,734	6,256	7,995	6,460	6,869	8,246	9,307	8,771	10,169	9,204	9,677
Cassava	15,830	15,954	16,516	17,285	15,729	15,441	17,002	15,134	14,696	16,459	16,089
Sweet potato	1,971	2,039	2,171	2,088	1,845	2,171	2,018	1,847	1,935	1,666	1,828
Soya beans (shelled)	1,487	1,555	1,870	1,709	1,565	1,680	1,517	1,357	1,306	1,383	1,018
Peanuts (shelled)	651	652	739	639	632	760	738	688	692	660	737
Fishery											
Saltwater fish	2,370	2,505	2,692	2,886	3,080	3,293	3,384	3,613	3,490	3,930	4,076
Freshwater fish	793	807	851	909	900	971	1,069	967	976	1,098	1,041
Cash crops											
Rubber	1,275	1,284	1,399	1,476	1,499	1,573	1,574	1,553	1,661	1,715	1,752
Coconut/copra	2,332	2,337	2,455	2,588	2,649	2,704	2,761	2,704	2,778	2,789	2,778
Coffee	413	419	437	439	450	458	459	428	514	511	495
Cloves	66	84	73	67	78	90	89	59	67	68	68
Tea	155	159	154	165	139	154	169	154	167	162	159
Sugar	2,119	2,253	2,307	2,329	2,454	2,077	2,160	2,187	1,929	1,907	2,093
Tobacco	156	161	112	121	130	140	151	210	105	105	109
Pepper	70	69	65	66	54	59	52	47	65	65	65
Palm oil	2,413	2,658	3,266	4,003	4,008	4,480	4,899	5,380	5,640	5,466	5,771
Forestry /b											
Log	25,312	23,892	28,267	26,848	24,027	24,850	26,069	29,520	19027	20,620	13,798
Sawn Timber	3,117	3,006	3,534	2,244	1,730	2,014	3,565	2,613	2707	2,060	3,021
Plywood	9,415	9,124	9,874	9,924	8,066	9,122	10,270	6,710	7155	4,612	3,711

/a Dry husk paddy grain ready for milling.
/b In thousand cubic meters, and in GOI FY -April to March until the year 1999, and April to December in FY 2000.

Source: Central Bureau of Statistics, Ministry of Agriculture, and Ministry of Forestry.

Table 30. Production of Major Crops by Type of Estate, 1990-2000

(thousand tons)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Smallholders											
Rubber	913	919	1,030	1,102	1,139	1,191	1,193	1,174	1,243	1,295	1,240
Coconut/copra	2,313	2,317	2,426	2,558	2,601	2,662	2,687	2,620	2,690	2,700	2,689
Coffee	384	390	409	410	422	430	436	396	470	466	1,503
Tea	31	32	32	37	30	33	34	33	34	34	34
Sugar	1,609	1,610	1,653	1,685	1,673	1,368	1,512	1,196	759	760	908
Tobacco	152	157	110	119	128	137	148	206	102	102	102
Pepper	70	69	65	66	54	59	52	47	64	65	65
Cotton	33	13	13	14	14	8	8	7	5	7	5
Palm oil	0	0	0	582	839	1,001	1,134	1,293	1,348	1,441	1,503
Private estates											
Rubber	145	146	163	166	172	182	179	190	226	224	228
Coconut/copra	19	20	29	30	27	28	55	63	66	66	67
Coffee	13	13	11	12	11	11	10	11	19	19	19
Cloves	2	2	2	2	2	2	2	1	2	2	2
Tea	29	30	28	33	31	34	39	33	42	40	39
Sugar	204	257	178	251	272	287	265	630	424	512	612
Tobacco	0	0	0	0	0	0	0	0	0	0	0
Pepper	0	0	0	0	0	0	0	0	0	0	0
Cotton	0	0	0	0	0	0	0	0	0	0	0
Palm oil	789	884	1,077	1,370	1,597	1,864	2,058	2,287	2,435	2,553	2,658
Government estates											
Rubber	217	219	205	208	188	200	202	188	193	196	200
Coconut/copra	0	0	0	18	21	15	19	21	22	22	23
Coffee	16	16	17	17	18	17	13	21	26	26	26
Cloves	0	0	0	0	0	0	0	0	0	0	0
Tea	95	97	94	95	78	87	97	88	91	88	83
Sugar	306	386	476	394	509	422	317	365	305	217	321
Tobacco	4	4	2	2	2	3	3	3	2	2	2
Pepper	0	0	0	0	0	0	0	0	0	0	0
Cotton	0	0	0	0	0	0	0	0	0	0	0
Palm oil	1,624	1,774	2,189	2,051	1,572	1,614	1,707	1,800	1,857	1,995	2,097

Source: Central Bureau of Statistics and Ministry of Agriculture.

Table 31. Rice-Area Harvested, Production and Yield, 1990-2001

Year	Area harvested (thd. ha)	Average yield (tons/ha)	Paddy output (thd. tons)	Rice output /a (thd. tons)	Growth (%)
1990	10,502	4.3	45,179	29,366	1.0
1991	10,282	4.3	44,689	29,048	-1.1
1992	11,103	4.3	48,240	31,356	7.9
1993	11,013	4.4	48,181	31,318	-0.1
1994	10,734	4.3	46,641	30,317	-3.2
1995	11,439	4.3	49,744	32,334	6.7
1996	11,570	4.4	51,102	33,216	2.7
1997	11,141	4.4	49,377	32,095	-3.4
1998	11,716	4.2	49,200	31,980	-0.4
1999	11,963	4.3	50,855	33,056	3.4
2000	11,793	4.4	51,899	33,734	2.1
2001 /b	11,412	4.4	50,096	32,563	-3.5

a/ Estimated on the basis of a conversion factor of 0.68 from paddy into rice for the years prior to 1989, and 0.65 for the years 1989 and after.
b/ Projections.

Source: Central Bureau of Statistics.

Table 32. Production of Minerals, 1990-2001

Year	Crude oil and condensate (mln bbls)	Tin concentrate	Copper ore concentrate	Nickel ore	Bauxite	Coal	Iron sand concentrate	Gold (kg)	Silver (kg)	Natural gas (mmscf)
		<		Metric tons			>			
1990	534	30	399	2,217	1,206	10,462	145	9,355	62,158	2,828
1991	581	30	657	2,300	1,406	14,143	173	13,889	77,897	2,462
1992	551	28	907	2,512	804	23,120	288	37,987	99,954	2,583
1993	547	30	928	1,976	1,320	27,605	341	42,097	90,301	2,662
1994	551	31	1,065	2,312	1,342	31,238	335	42,605	107,026	2,942
1995	547	38	1,517	2,513	899	41,517	348	62,818	265,222	2,999
1996	554	51	1,759	3,427	842	47,339	425	83,660	254,893	3,167
1997	549	55	1,841	2,830	809	52,074	487	89,979	270,392	3,189
1998	538	54	2,640	3,233	1,056	60,321	561	124,019	348,974	2,979
1999	495	48	2,645	3,235	1,143	70,703	562	129	292	3,064
2000	518	50	3,194	3,349	1,175	76,820	538	118	335	2,907
2001 /a	165	12	841	991	231	19,758	136	29	101	961

/a Data January - April 2001

Source: Central Bureau of Statistics.

Table 33. Fuel Production by Company, 1990-2001
(thousand bbls)

	Crude Oil			Condensate			Natural gas (000 MSCF)	
	Pertamina	Production sharing Contract	Contract of Work	Pertamina	Production sharing Contract	Contract of Work	Pertamina	Production sharing Contract
1990	24,137	427,447	12,726	187	65,807	157	260,878	1,868,647
1991	24,816	479,698	10,166	192	65,832	135	256,290	2,118,336
1992	24,613	451,912	9,405	109	64,677	132	270,882	2,308,299
1993	27,196	450,736	7,213	54	62,134	97	283,329	2,380,557
1994	23,761	462,694	0	67	64,624	0	300,233	2,644,745
1995	20,656	465,812	0	273	60,155	0	329,675	2,675,683
1996	27,251	463,570	0	60	63,042	0	345,193	2,821,427
1997	31,423	454,159	0	95	59,034	0	340,451	2,747,548
1998	43,090	438,565	0	518	55,327	0	338,012	2,641,448
1999	41,161	400,183	0	209	53,972	0	327,584	2,740,238
2000	45,683	419,700	0	720	51,401	0	347,662	2,559,665
2001 /a	15,137	132,909	0	165	16,856	0	116,799	843,887

/a Data January - April 2001

Source: Ministry of Mines and Energy.

Table 34. Domestic Sales of Petroleum Products, 1990-2001
(thousand bbls.)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Aviation gas	59	58	54	51	50	51	51	46	35	35	34
Aviation turbo	4,607	4,889	5,315	6,039	10,188	10,969	7,206	7,325	4,980	4,107	4,680
Regular gasoline	39,005	43,023	45,308	46,733	52,463	57,798	63,747	67,700	68,576	71,978	78,125
Kerosene	49,472	50,573	53,850	54,242	56,110	58,188	61,656	62,302	63,407	72,424	78,322
Motor diesel	72,950	80,837	92,061	104,460	100,730	106,755	119,138	136,509	122,967	126,721	136,481
Industrial diesel	10,720	10,806	11,318	11,445	11,174	10,069	8,679	8,821	7,950	9,491	9,125
Fuel oil	24,847	28,899	29,313	30,154	25,456	25,543	24,524	31,607	32,681	33,935	37,471
Total	202,707	219,085	237,219	253,124	256,171	269,373	285,000	314,311	300,594	318,692	339,524

Source: Ministry of Mines and Energy.

Table 35. Domestic Prices of Petroleum Products, 1985-2001
(Rp./liter)

	Apr-1, 1985-Jul-9, 1986	Jul-10, 1986-May-24, 1990	May-25, 1990-Jul-10, 1991	Jul-11, 1991-Jan-7, 1993	Jan-8, 1993-May-4, 1998	May-5, 1998-May-16, 1998	May-16, 1998-Sep-2000	Oct-2000 - June 15, 2001	June 16, 2001 - Present Subsidy price /c
Aviation gas	330	300	330	400	420	600	/b	/b	/b
Aviation turbo	330	300	330	400	250	600	/b	/b	/b
Premium gasoline	440	440	/a	/a	/a	/a	/a	/a	/a
Regular gasoline	385	385	450	550	700	1,200	1,000	1,150	1450
Kerosene	165	165	190	220	280	350	280	350	400
Motor diesel	242	200	245	300	380	600	550	600	900
Industrial diesel	220	200	235	285	360	350	350	400	600
Fuel oil	220	220	220	220	240	350	350	350	400

/a Discontinued since May 20, 1990
/b No longer regulated by the government since May 16, 2000
/c Since August 2001, there are four levels of prices; subsidy prices, 100%, 50% of world market prices and bunker international prices.

Source: Ministry of Mines and Energy.

Table 36. Indonesia Wholesale Price Index, 1990-2001 /a
(1983 = 100) /b

Sectors '/c	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998	1999	2000	2001/d
Agriculture (40)	191	206	225	251	298	355	400	445	750	298	410	459	594
Mining & quarrying (8)	169	188	201	218	237	266	296	318	396	173	214	236	281
Manufacturing (1183)	176	194	206	218	231	256	265	275	455	217	268	278	315
Imports (50)	191	201	208	211	215	230	243	261	598	286	289	316	368
Exports (46)	159	153	159	157	157	178	203	238	592	417	366	461	540
Excluding petroleum & gas (43)	195	203	212	223	255	298	306	353	994	444	370	393	482
Petroleum (3)	148	139	143	137	128	142	173	204	474	348	355	634	686
General index (327)	178	187	197	204	215	240	259	282	568	288	320	363	430
General index excluding exports (281)	185	199	210	221	235	261	280	298	560	250	298	320	430
General index excluding exports of petroleum (324	182	198	211	227	250	285	303	326	588	284	311	333	397

/a Figures show the average for the year .
/b Starting1998 onward - present based on 1993=100.
/c Figures within brackets ( ) under sector column indicate number of items represented in that sectors
/d Index of July 2001

Source: Central Bureau of Statistics.

Table 37. Consumer Price Index, 1990-2001 /a /b

End of period	Foodstuff	Housing	Clothing	Education	Prepared food and beverages	Health	Transport and Communication	Others	Total	Change (percent) /c
1990	109.3	107.8	111.2	-	-	-	-	112.4	112.4	5.6
1991	118.3	128.2	117.1	-	-	-	-	126.7	123.0	9.4
1992	127.4	136.8	124.1	-	-	-	-	137.6	131.9	7.2
1993	136.3	154.9	135.7	-	-	-	-	150.7	145.1	10.0
1994	151.1	170.1	144.5	-	-	-	-	158.3	157.4	8.5
1995	171.2	185.1	153.8	-	-	-	-	168.4	172.3	9.4
1996	187.4	194.8	164.2	-	-	-	-	184.6	185.9	7.9
1997	108.7	105.2	105.5	104.2	108.5	109.1	103.7	-	106.1	6.1
1998	209.2	173.9	141.7	191.7	179.5	147.0	145.1	-	168.2	58.5
1999	261.5	164.8	230.7	165.3	215.9	218.1	169.4	-	202.8	20.5
2000	249.0	175.2	245.3	183.9	229.5	229.9	182.8	-	210.3	3.7
2001 /c	266.7	194.0	266.1	209.0	258.7	254.1	205.6	-	231.9	10.3

/a Consumer price index average of the year.
/b Before 1997 using base period (April 1988-March 1989 = 100). Starting 1997 using new base period (1996=100), and classified into 7 components.
/c Average index of the January - October 2001.

Source: Central Bureau of Statistics.

Table 38. Approved Foreign Direct Investment by Sector, 1990-2001 /a
(US$ million)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001/b
Agriculture	117	14	66	138	690	1,153	1,306	437	965	413	390	280
Forestry	20	1	138	22	0	0	136	0	0	70	50	1
Fishery	20	11	28	0	40	231	80	27	33	9	5	81
Mining & quarrying	116	0	2,312	0	0	0	1,697	2	0	14	1	106
Manufacturing	5,822	3,970	5,669	3,423	18,739	30,441	19,884	23,017	8,388	6,929	10,634	3,902
Food	99	382	213	141	1,235	1,332	691	573	342	681	701	122
Textiles & leather	1,094	532	591	419	396	471	515	373	217	240	401	301
Wood & wood products	218	62	34	50	68	263	101	70	71	113	157	9
Paper & paper products	730	822	686	202	5,120	2,540	2,907	5,353	41	1,412	88	728
Chemicals & Pharmaceutical	1,991	923	2,342	1,171	7,743	19,368	7,362	12,376	6,179	3,268	7,407	1,715
Nonmetallic minerals	125	133	841	98	632	289	793	1,457	237	110	10	100
Basic metals	825	197	47	186	2,082	292	651	357	394	501	831	464
Metal products	460	856	863	1,114	1,423	2,258	2,939	2,332	891	593	1,005	0
Others	281	62	52	42	40	3,628	3,925	127	17	10	35	464
Construction	77	26	41	97	77	206	297	307	198	153	161	42
Hotels	874	4,019	919	394	344	999	1,717	463	451	229	257	263
Transport & communications	803	167	14	85	145	5,539	695	5,900	79	103	1,217	315
Real estate and business services	902	570	1,136	3,292	3,604	1,314	4,076	1,398	1,271	171	302	55
Total	9,493	8,934	10,323	8,144	23,724	39,915	29,929	33,833	13,563	10,892	15,284	5,750

/a Intended Capital Investment. Amount represents original approvals plus expansions minus cancellations.
/b Preliminary data January to August 2001

Source: Investment Coordinating Board.

Table 39. Approved Domestic Investment by Sector, 1990-2001 /a
(Rp billion)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001/b
Agriculture, fishery and livestock	6,442	3,468	1,952	2,835	7,140	8,621	16,026	14,642	4,772	1,586	1,543	1,239
Forestry	593	310	534	258	262	1,476	46	166	543	749	52	43
Mining	155	182	236	69	112	205	460	126	116	30	36	1,012
Manufacturing	39,850	27,624	19,079	24,037	31,933	43,962	62,703	79,334	44,908	94,335	81,994	36,024
Textiles	12,561	3,646	2,546	3,539	5,518	7,177	3,366	6,831	1,138	2,524	2,386	1,926
Chemicals	7,894	8,425	3,299	7,689	5,150	8,740	13,335	22,497	15,583	2,431	56,436	19,889
Electrical goods	0	0	0	5	12	620	3,486	11,639	3,469	51,917	274	234
Other manufacturing	19,395	15,553	13,235	12,804	21,253	27,425	42,517	38,367	24,718	37,463	22,898	13,975
Construction	87	275	215	187	731	848	1,550	877	1,992	395	843	1,973
Hotels	4,703	3,895	3,115	3,051	4,342	3,792	5,019	2,588	1,150	1,713	154	1,636
Real estate	1,783	2,633	536	3,049	3,336	4,659	8,688	4,301	1,548	996	293	438
Others	2,898	1,785	3,675	5,965	5,434	6,290	6,224	17,839	5,720	1,356	3,227	1,570
Total	56,511	41,078	29,342	39,450	53,289	69,853	100,715	119,873	60,749	101,160	88,143	43,935

/a Figures refer to intended capital investments, and represent original approvals plus approved expansion minus cancellations.
/b Preliminary data January to August 2001

Source: Investment Coordinating Board.