

APPENDIXES

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Table A1.1: SELECTED ECONOMIC INDICATORS

Indicators	1997/98	1998/99	1999/2000	2000^a
Real Economy				
Real GDP, percent change	2.0	-14.1	3.3	4-5
Gross Domestic Investment, percent of GDP	30.2	16.8	12.9	16.6
Gross National Savings, percent of GDP	29.1	21.1	17.2	20.4
Fiscal Position of Central Government (percent of GDP)				
Revenue and Grants ^b	16.0	14.8	16.7	16.8
Of which: Oil and Gas Revenues	4.4	3.9	5.2	4.8
Expenditure and Net Lending	17.0	17.2	18.1	21.6
Overall Balance	-0.9	-2.4	-1.5	-4.8
Money, Credit, Inflation (percent)				
CPI (average)	11.9	64.8	8.5	3 to 5
CPI (end of period)	35.8	46.5	-1.1	7 to 9
Broad Money	10.4	33.8	11.9	9.2
Overnight Interbank Rate (annualized)	47.1	34.4	9.5	...
External Account Balances (\$ billions)				
Current Account Balance	-1.7	4.6	6.6	5.9
Trade Balance	8.8	14.6	19.7	19.7
Exports	56.2	48.4	55.2	61.0
Of which: Oil and Gas	10.2	7.3	12.2	14.1
Imports	47.4	33.8	35.6	41.3
Of which: Oil and Gas	4.5	3.1	4.8	5.8
Capital Account	-11.7	-15.0	-15.1	-15.9
Overall Balance	-13.4	-10.4	-8.5	-10.0
Gross Reserves, End-of-Period	10.7	20.3	27.2	28.7
In Months of Imports	3.1	5.4	6.0	6.0
Medium- and Long-Term External Debt, End-of-Period	138.0	149.9	148.6	150.2
Percent GDP	166.7	129.0	97.0	91.8
Exchange rate (Rp/\$; end period)	8,325	8,685	7,590	-

Sources: From IMF web site 27 September 2000. Except for 2000, data are for fiscal years, which start on 1 April.

For 2000, data are on calendar basis, except for fiscal data that cover April to December 2000. Inflation data for 2000 from Bank of Indonesia and staff estimates.

GDP = gross domestic product, CPI = consumer price index

^a Estimated.

^b Excludes privatization receipts.

Table A1.2: COUNTRY PERFORMANCE INDICATORS

Indicators	1985	1990	Latest
Total Population (million)	164.6 ^a	179.4 ^a	206.5 (1999)
Annual Population Growth Rate (%)	2.22 ^a	1.98 ^a	1.66 (1995)
Total Fertility Rate (births per woman) ^b	4.1 (1980-85)	3.3 (1985-90)	2.6 (1997)
Maternal Mortality Ratio (per hundred thousand live births) ^b	360.0 (1984-88)	390.0 (1989-94)	-
Infant Mortality Rate (below 1 year, per 1,000 live births) ^a	71.0 (1986) ^c	71.0	52.0 (1997)
Life Expectancy at Birth (years)	61.0 (1983) ^d	60.0 ^a	66.0 (1998)
Female	-	62.0	68.0 (1998)
Male	-	58.0	64.0 (1998)
Adult Literacy Rate (10+ years; in percent of population)	69.0 (1980) ^c	84.0	88.6 (1999) ^a
Primary School Enrollment Rate (gross) ^d			
Female	92.0 (1980)	105.0 (1993) ^d	107.8 (1999)
Male	81.0 (1980)	105.2 (1993) ^d	108.1 (1999)
Junior Secondary School Enrollment Rate (gross) ^d			
Female	53.0 (1980)	60.0 (1993) ^d	76.1 (1999)
Child Malnutrition (percent of under 5 years) ^c	51.0 (1986)	44.0 (1989)	39.0 (1992)
Population with Access to Safe Water (percent)	38.0 ^c	63.0 (1992) ^d	74.3 (1999) ^d
Population with Access to Sanitation (percent)	-	51.0 (1992) ^d	80.5 (1999) ^d
Public Education Expenditure as percent of GDP ^c	1.5	1.0	0.8 (1995)
Public Health Expenditure as percent of GDP ^d	-	0.6	0.8 (1994)
Population Below Poverty Line (percent)	21.6 (1984) ^c	15.1 ^c	18.2 (1999) ^e
Expenditure Ratio of Highest 20% to Lowest 20% ^d	5.2 (1984)	4.7	4.70 (1999)
Human Development Index ^f	0.591 (1987)	0.515	0.670 (1998)
Human Development Ranking ^f	77.0	108.0	109.0 (1998)

^a CBS, Welfare Indicator, various issues.

^b CBS, Health and Demographic Survey.

^c CBS, Statistics in 50 Years of Indonesian Independence.

^d CBS, Welfare Statistics.

^e August 1999.

^f UNDP, Human Development Report.

GDP = gross domestic product, UNDP = United Nations Development Programme, CBS = Central Bureau Statistics

POVERTY REDUCTION

1. Poverty declined rapidly in Indonesia since the mid-1970s. According to official estimates, poverty decreased from 40 percent in 1976 to just over 11 percent in 1996. Few countries outside East and Southeast Asia have achieved such a massive reduction in poverty in so short a period. Although estimates of poverty may vary depending on the methodology used,¹ the broad conclusion is that poverty decreased dramatically in the 20 years prior to the financial crisis in 1997.

2. There is an enormous regional variation in the dispersion of the population and the incidence of poverty in Indonesia. The incidence of poverty and the number of the poor do not necessarily go hand in hand (Table A2.1). The largest number of absolute poor live on Java; however, the proportion of the population below the poverty line is greater in the eastern islands. Java is home to 60 percent of the population and 60 percent of the poor. Java's burgeoning population is squeezed on 7 percent of the total land area of the country. Kalimantan by contrast has 28 percent of the land area, but only 6 percent of the total population and 5 percent of the poor. The eastern most islands of Maluku, Nusa Tenggara Barat (NTB), Nusa Tenggara Timur (NTT), and Irian Jaya comprise 30 percent of the land area, 6 percent of the population, and 11 percent of the total poor. The proportion of the poor varies by region and subregion. Thus, Jakarta has the lowest poverty incidence at 4 percent while Irian Jaya, Maluku, and NTT are the poorest with poverty incidence exceeding 40 percent. As a result of increasing urbanization, the proportion of the urban poor to the rural poor has increased, but the number of rural poor remains by far the largest.

3. Indonesia is equally diverse in the distribution and types of natural resources, agro-ecology, and culture. For example, only 17 languages are spoken on Java and Bali while 447 languages are spoken across Maluku, NTB, NTT, and Irian Jaya. Thus, a variety of approaches to poverty are needed to address the constraints peculiar to the area, level of access to services, resource endowment, poverty profiles, and the aspirations of the poor themselves.

Table A2.1: Some Indicators of Regional Variation

Region	% Land Area	% Total Population	Population Density	Languages	% Poverty Incidence	% Total Poor
Sumatra	25	21	85	52	20	18
Java and Bali	7	60	884	17	23	60
Kalimantan	28	6	19	82	20	5
Sulawesi	10	7	72	114	21	6
NTB, NTT, Maluku, Irian Jaya	30	6	20	447	44	11
Total or average	100	100	101	712	23	100

4. The financial crisis interrupted Indonesia's track record of steady poverty reduction. According to the best available estimates, poverty increased by 40 percent between February 1996 and February 1999 (Table A.2.2). The crisis hit urban areas more severely, where poverty increased by 60 percent. Because of the linkages between urban and rural areas, the repercussions of the crisis were felt far and wide, and resulted in a steep rise in poverty in rural areas and off Java as well.

¹ Methodological concerns include changes in the definition of the poverty line and allowances for non-food expenditures.

5. While the level of poverty has probably not returned to precrisis levels, by February 1999 the poverty situation began to recover almost as rapidly as it had deteriorated earlier. By August 1999, the incidence of poverty had declined to near February 1996 levels. As the financial crisis gripped Indonesia, inflation rose sharply in mid-1998, then a period of deflation started in early 1999. The rise in prices, particularly in food prices, was not accompanied by an equivalent rise in wages. Faltering labor markets combined with rising food prices eroded the household's purchasing power, leading to a sharp increase in transient poverty. With rapid price stabilization in mid-1999, particularly in the price of rice, and gradually increasing nominal wages, household purchasing power recovered and transient poverty abated.

Table A2.2: Number and Percentage of Poor People in Indonesia, 1976-1999

Year	Number of Poor People (million)			% Poor People (Head Count Index)		
	Urban	Rural	Urban + Rural	Urban	Rural	Urban + Rural
1976	10.0	44.2	54.2	38.79	40.37	40.08
1996	7.2	15.3	22.5	9.71	12.30	11.34
1996 ^a	9.6	24.6	34.1	13.61	19.81	17.55
December 1998 ^a	17.6	31.9	49.5	21.92	25.72	24.23
February 1999 ^a	15.6	32.4	48.0	19.40	25.03	23.43
August 1999 ^a	12.4	25.1	37.5	15.90	20.22	18.17

^a The methodology was revised in 1998. The 1996 poverty incidence was recalculated according to the revised method for comparability.

6. A comprehensive annual national socioeconomic survey providing information down to the district level, supplemented by a 100 village survey, facilitated rapid and continuous assessment of the impact of the crisis on poverty. The move to decentralize the statistical system of Indonesia raises serious questions about the possibility of conducting nationwide surveys consistently in the future. Furthermore, the ongoing financial squeeze has forced the decision to conduct the national surveys on a much smaller scale in 2001. The implications for effective poverty monitoring must be seriously considered.

7. Three important lessons emerge from the crisis. First, the steep rise in transient poverty draws attention to the existence of a large number of people just above the poverty line, who are vulnerable to sudden shocks. Second, social safety nets help mitigate the impact of the crisis on the vulnerable; however, the absence of a social safety net program meant that start-up was slow and expensive. Third, sound macroeconomic management and financial sector reform are important not just for the macroeconomy but also from the perspective of poverty.

8. The presence of high and persistent poverty in parts of Indonesia dictates that concerted efforts be made to target the most backward regions. However, most of the poor are concentrated in Java, which is in the middle of the spectrum in terms of the incidence of poverty. Poverty alleviation will thus demand nation-wide efforts encompassing regionally specific programs.

9. While Indonesia has made great strides in various dimensions of human development such as health and education, a number of concerns still remain: low quality of education, poor maternal health, and deficiency of micronutrients. Table A2.3 shows a number of poverty and social indicators. There is also considerable regional variation in indicators of human development. The variations do not always coincide with variations in poverty incidence, suggesting a need for targeted measures for health and education in specific regions. Compared with its neighbors, Indonesia underinvests in health and education. There has, however, been a considerable closing of the gender gap between 1990 and 1999.

Table A2.3: Poverty and Social Indicators

Indicator	1980	1999
Life Expectancy (years)	M: 50.9, F 54.0	M: 64, F: 68
Infant Mortality(/1,000)	112	50
Under-5 Mortality (/1,000)	125	60
Total Fertility Rate (births per woman)	4.7	2.8
Adult Literacy (%)	M: 77.7, F: 57.7	M: 89.6, F:78.0
Gross Primary School Enrollment Rate	M: 114.6, F: 99.7	M: 116.9, F: 112.3
Gross Secondary School Enrollment Rate	M: 34.7, F: 23.3	M: 55.8, F: 47.6

M = male

F = female

na = not available.

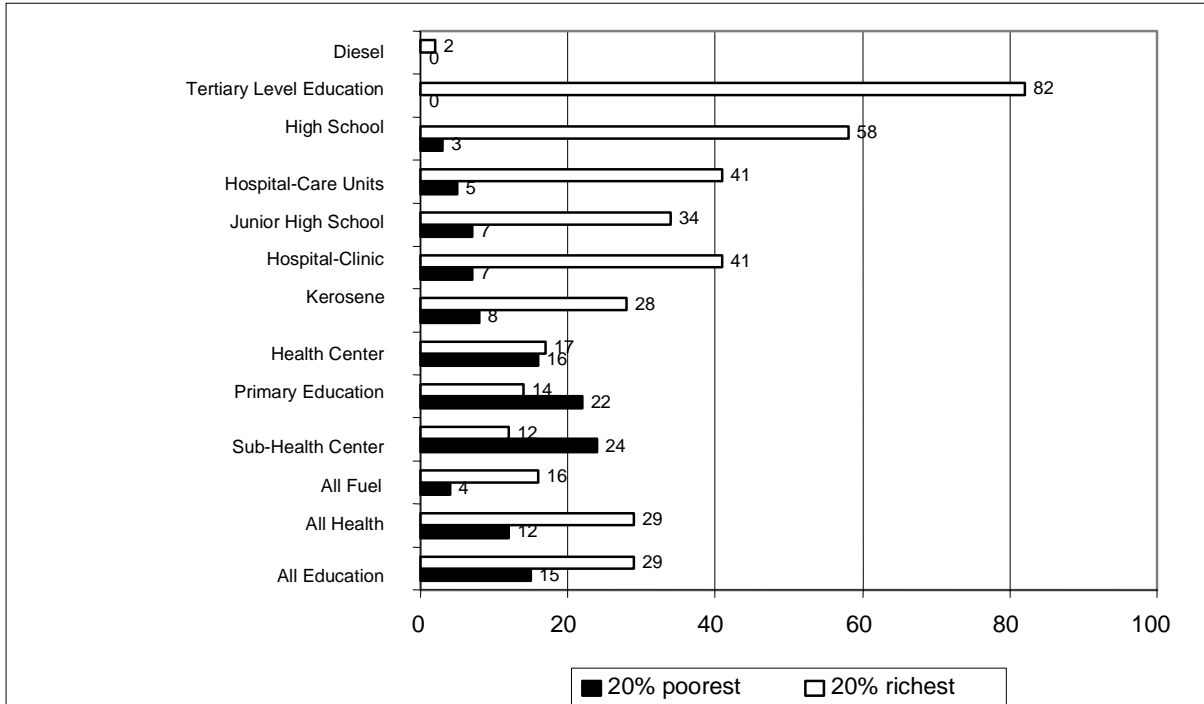
10. Stable economic growth has been the key factor in the decline in poverty during the past 20 years. Economic growth averaged 7 percent per annum during 1975-1996. In the decade from mid-1970s to mid-1980s, rapid agriculture sector growth contributed to poverty reduction. The catalytic agent was the rising income of small farmers, especially those involved in rice cultivation, benefiting from the productivity-boosting effect of the Green Revolution technology. However, the engine of growth and poverty reduction has changed since the mid-1980s, with manufacturing and services taking on a much more important role.

11. Corresponding to income growth, employment growth was high, and continued throughout the 1990s, although at a slower rate. Real wages also grew rapidly, averaging 5.7 percent per annum between 1990 and 1996. The growth in overall employment and outward mobility of workers from agriculture to higher productivity jobs in nonagriculture which results in higher real wages, will remain in the long term the major mechanism for reducing poverty in Indonesia.

12. This structural transformation will, however, need to be supported by appropriate macroeconomic and sectoral policies. The impact of the exchange rate and monetary policy on poverty in Indonesia is amply demonstrated by the inflationary spiral that characterized the financial crisis in 1997. As noted, the steep rise in poverty that Indonesia experienced during the crisis was not so much a consequence of contraction in the real economy as it was of spiraling inflation. The severe impact of macroeconomic shocks on the poor demonstrates the need for sound macroeconomic management.

13. On the fiscal front, Indonesia's reliance on indirect taxes as a major revenue source limits its ability to use taxation as a poverty reduction tool. Consequently, the focus of fiscal policy as a poverty strategy lies almost entirely on the expenditure side. In practice, however, for most categories of spending the benefits accrue disproportionately to the nonpoor (Figure A2). The exceptions are subsidies channeled through primary education and community health centers and subcenters. Fuel subsidies mostly benefit rich urban households. The key challenge to a pro-poor public expenditure strategy is to protect and expand core expenditures that benefit the poor, while improving the cost-effectiveness of overall social service delivery. Indonesia's public expenditures on education and health are lower than its neighbors'. Government spending on education dropped from 4 percent of gross domestic product (GDP) to 2.7 percent of GDP in 1990/91 and has fallen further since then. Health expenditures currently account for only 1.5 percent of GDP compared with 2.4 percent in the Philippines, 3 percent in Malaysia, and 5.3 percent in Thailand.

Figure A2: Efficiency of Various Development Expenditure Items
Percentage of Subsidies Received by Lowest and Highest Income Groups



14. A huge debt overhang severely constrains the resources available to stimulate growth and reduce poverty. A satisfactory resolution of the debt problem is therefore an essential precondition for resuming pro-poor growth.

15. Poverty reduction since the mid-1980s has been driven mainly by export-oriented, labor-intensive industrialization. By the mid-1990s, however, Indonesia's comparative advantage in manufactured products based on simple technologies and cheap labor faced competition from the People's Republic of China and South Asia. The steep exchange rate depreciation, real wage adjustment, and structural reforms in recent years will help keep Indonesia competitive in labor-intensive manufactured goods. In the long run, however, the driving force will have to come mainly from more technology- and skill-intensive manufacturing. While a move in this direction was observed in the mid-1990s, the absence of domestic competition stifled stronger productivity growth, rendering difficult a major breakthrough in the export market. Appropriate policies to create the necessary incentives to spur competition and productivity growth will be required.

16. Appropriate policies to support small- and medium-size enterprises (SMEs) to promote pro-poor growth will also be crucial. Major reforms have already been initiated to improve the policy environment for SMEs. More steps can be taken to address the constraints on SMEs. Recent regulations and restrictions imposed by local governments are a concern, as are changes in the policy environment resulting from decentralization.

17. Despite its declining share in national income, agriculture remains vitally important for pursuing pro-poor growth. Nearly half the labor force is still engaged in agriculture. About 60 percent are landless or near-landless agricultural workers. Any pro-poor growth strategy must find a way of raising the incomes of these rural poor. For many of them, higher-income jobs will have to be found outside agriculture. At the same time, productivity will have to rise in agriculture. Thus, directly or indirectly, agriculture must continue to play a pivotal role to ensure labor-absorbing and poverty-reducing growth.

18. In this context, the slowdown in agricultural productivity experienced since the mid-1980s is a matter of concern. By the mid-1980s, the Green Revolution technology had run its course, and rice productivity was rapidly approaching a plateau. Further improvement in productivity had to come from either a new generation of rice technology or agricultural diversification. But a new rice technology was not forthcoming, although biotechnology may change the picture in the future. At the same time, nonrice agriculture faced a host of impediments. The Government focus on rice and rice self-sufficiency resulted in relative neglect of nonrice agriculture. Remedying this problem is a principal challenge for the future.

19. The pursuit of pro-poor agricultural growth requires vigorous attempts to address the problems of tree-crop smallholders outside Java, including development and transfer of appropriate new technologies. Measures are needed to create an institutional framework through which smallholders can coordinate their activities to achieve economies of scale.

20. The problem is somewhat different on Java, where holdings are generally very small. A pro-poor growth strategy here will have to address the agricultural community as a whole. The key is to support diversification into horticulture and livestock activities. In the past, policy distortions reduced the incentive for diversification. Fortunately, many of these distortions are being swept away as part of general economic reform following the financial crisis. But many other impediments still remain—poor infrastructure, lack of access to credit, and inadequate research and extension for nonrice agriculture. Removing these impediments will require a major effort.

21. Insecurity of land tenure exacerbates the reluctance of farmers to adopt new technologies. A land registration effort and improved rural judicial processes will improve farmers' security. Scope for land reform may also rest with the Forestry Ministry, which controls 75 percent of Indonesia's 1.9 million square kilometers. Forty-five percent of forest land has closed canopy cover and 30 percent has lost its forest cover. Some of the latter is on gentle slopes suitable for agriculture. This issue has not been addressed and must be investigated.

22. Although the government approach to development became more inclusive after the launching of the *Inpres Desa Tertinggal*² program in 1994, the approach for decades had been to treat the poor as objects of development rather than full partners. In addition, the poor were sometimes denied services to which they were entitled, with little recourse to the justice system. Training is needed to orient public officials to the needs of the poor. At the same time the poor can be empowered through training in relevant laws and procedures.

23. Development of infrastructure, especially rural infrastructure, is an essential tool for poverty reduction. While infrastructure itself is not necessarily a directly pro-poor investment, it supports pro-poor activities such as agriculture, industry, and services. Without it, diversifying

² Presidential Instruction for Left-Behind Villages.

agriculture or ensuring the transition of industry to a higher base of technology and skill will not be possible. Table A2.4 shows tremendous scope for improving access to basic services.

24. Three categories of policies are relevant to targeted programs for poverty reduction: labor market policy, microfinance, and social protection. Two elements of labor market policy are especially important: minimum wage legislation and social security. Minimum wages can be an effective redistributive mechanism if they increase workers' wages without substantially increasing unemployment. Many viewed minimum wage increases with particular concern in a country in which employment growth had relied on the expansion of labor-intensive industries. Recent analysis shows, however, that the legislated minimum wage has not had an impact on employment and has not eroded the profitability of manufacturing. Neither has the minimum wage been completely adhered to, as about 30 percent of Indonesia's paid workers earn less than the minimum wage; effective industrial relations are critical in resolving this problem. Paid workers represent only one third of the labor force, the remaining being own-account and unpaid family workers. Minimum wage is only one of several labor-related tools for poverty reduction. The others include skills development and assistance for self-employment.

Table A2.4: Household and Regional Access to Infrastructure

Infrastructure	Percent of Total
Household	
Safe Water	73
Sanitation	80
Electricity	82
Region	
Villages accessible by 4-wheeled vehicle	82
Villages with PLN Electricity	66
Villages with Post Office	10

PLN = Perusahaan Listrik Negara (State Electricity Company)

25. Three social security schemes in Indonesia currently cover approximately 13 percent of the total labor force. These schemes are designed for formal sector employees and need restructuring. However, as noted earlier, paid workers represent only about 30 percent of the labor force. The challenge will be to develop a social security system that provides coverage for own-account workers and workers in the informal sector.

26. Providing microfinance has proved an effective tool for poverty reduction in Indonesia. The Bank Rakyat Indonesia (BRI) Unit Desa Program is widely viewed as a model of microcredit success. It reaches a large number of borrowers and is profitable and self-sustaining. The Subdistrict Credit Board (*Badan Kredit Kecamatan*) is another oft-cited microcredit success story and tends to attract poorer borrowers than BRI's units. It was established in the early 1970s by the government of Central Java and is still mainly restricted to areas in and close to that province. Another successful scheme, the *Pembinaan Peningkatan Pendapatan Petani Kecil*, known as P4K, is aimed at the very poor in rural areas in 18 provinces: primarily landless families with no regular income, marginal farmers with insufficient land or very poor land, farm laborers and sharecroppers, fisherfolk, and handicraft workers.

27. In addition to government schemes, hundreds of small microcredit schemes are currently run by nongovernment organizations (NGOs) throughout Indonesia. One promising scheme links provision of microfinance with the building of poor people's capacity to help themselves. NGOs are forming strategic linkages with BRI and Bank Indonesia for this purpose.

Such alliances provide a promising model for the future as they facilitate (i) greater access of the poorest of the poor to financial services, (ii) savings mobilization, and (iii) integrating microfinance with the overall financial system.

28. The recent financial crisis demonstrates that a large segment of the population can descend into poverty very quickly. Moreover, a large proportion of the population just above the poverty line is also vulnerable to poverty due to local or regional shocks such as those caused by drought, flood, political turmoil, commodity price drop, or price inflation. Under increasingly liberal market conditions, the poor and near poor are further exposed to more and different types of risk. Market liberalization to date has not been accompanied by an adequate social safety net. The consequences felt by the poor offer lessons for strengthening a national system of social protection.

29. The localized nature of poverty and the existence of a sizable population of vulnerable nonpoor call for an effective poverty monitoring system to keep track of the groups that are falling in and out of poverty over time, and are thus most in need of social protection. Decentralization to the districts will make further demands on available data. Experience suggests that some combination of geographic and individual targeting as well as the use of local knowledge will be most effective in reaching the poor. Improved and expanded data collection efforts will significantly improve the ability of assistance programs to reach the poor.

30. The problem of governance has received a great deal of attention in Indonesia after the fall of the Suharto government. Significant steps have been taken in the last two years to improve aspects of governance, including decentralization, civil service reform, public expenditure management, legal and judicial systems, market competition, and the public-private interface. All these have implications for promoting pro-poor growth. But perhaps the most directly relevant are the steps involving administrative and fiscal decentralization that are to be implemented by January 2001.

31. The poverty-reducing potential of decentralization will only be realized if the poor can make their voices heard. For this to happen, at least two measures are necessary. First, decentralization must be deepened by gradually taking local governance to the village level. The current proposals for decentralization to the district level are a major step in the right direction, but the process will need to move further. The district is still far for the majority of the rural poor. Second, the poor must be mobilized and organized. Civil society organizations, such as NGOs, have an important role to play in this regard. Until recently, the political climate prevailing in Indonesia was not conducive to NGO activities.

GOVERNANCE

1. In Indonesia, the emergence of governance issues in the public debate is related to the outbreak of the severe economic and financial crisis that engulfed the whole East Asia region and Indonesia in particular. During the preceding three decades of uninterrupted growth that catapulted Indonesia from a poverty-stricken nation to a middle-income economy, problems related to bad governance failed to get attention.

2. The economic crisis highlighted the significance of combating corruption. In combination with strong state interference and the granting of special privileges, incidences of corruption, collusion, and nepotism are high. As the crisis unfolded, unprecedented demands from citizens for institutional change emerged. At the core of these demands was the desire to curb corruption at all levels of government. Indeed the acronym KKN (from the vernacular of corruption, collusion, and nepotism) has come to symbolize the calls for fundamental change. The crisis made it imperative for the Government of Indonesia to make the promotion of governance and sound development management a key theme in its reform agenda.

3. Bad governance harms the poor disproportionately because they depend to a large extent on the quality and quantity of public services provided. In a situation of poor governance, the impact of public expenditures for essential services is minimal. This is due not only to shortages in the availability of government revenues, but also to allocative and operational inefficiencies. The poor suffer illegal fees and levies, which are often highly regressive. For example, the de jure free and open education and health system foreseen in the Constitution is de facto not present due to systemic, if informal, charges.

A. Evolution of Governance Reforms

4. Good governance is a central theme of the Government's reform program. Current reforms are aimed at dismantling the state monopolies and further deregulating trade, finance, industry and investment, to give more room to market-based economic decision making. At the same time, the Government is supporting corporate restructuring and corporate governance reforms. Efforts are also addressing the poor state of public financial management, particularly with respect to off-budget operations and civil service reforms. These are particularly important to support the ongoing process of decentralization—itsself a vital governance reform program to reduce overcentralization of government power and empower local communities. Various laws are being amended and new laws introduced to strengthen the legal and judicial framework and its enforcement. The Government is also pursuing anticorruption initiatives. The purpose of these reforms is to rebuild public institutions, improve the quality of their services, and regain the trust of the citizenry. An important aspect of the governance reforms is to involve civil society in policy deliberations and implementation to ensure transparency and accountability.

B. Corporate Governance and Financial Sector Reforms

1. Corporate Governance

5. The Government has implemented a wide range of legal and institutional reforms to improve corporate governance and established the National Committee on Corporate Governance (NCCG) in August 1999. The NCCG provides an institutional structure to

improve understanding of and build a consensus for improved corporate governance, introduce internationally compatible standards of corporate governance, and launch efforts to strengthen enforcement capacity. The NCCG prepared a draft Code of Good Corporate Governance providing a set of principles to guide the business sector and developed a broad framework covering a wide range of issues to systematically address. The issues range from the need to improve company registration procedures and strengthen implementation of company law, to improvements in securities markets legislation, accounting, and audit standards. However, with no secretariat for its operation, the NCCG cannot fully and effectively discharge its key responsibilities of coordination.

6. The Indonesia Debt Restructuring Agency (INDRA) and the Jakarta Initiative Task Force (JITF) were formed to assist companies in debt restructuring. The legal, organizational, and regulatory framework is in place. Capital market regulations introduced in 1998 allow new shares to be directly offered to the public, protect minority shareholders, and allow listed companies to buy back up to 10 percent of their issued shares. To support enterprise reforms, amendments to the Bankruptcy Law were made and special commercial courts were set up to handle bankruptcy cases. However, implementation lags behind regulation. Existing rules and regulations have not been rigorously enforced yet and the institutional setup is weak.

2. Banking and Financial Sector Reform

7. A healthy banking system is a requirement for private sector growth. Significant progress has been achieved in strengthening the legal and regulatory regime for the banking sector. Parliament recently passed a new Central Bank Law, which grants Bank of Indonesia (BI) considerable independence and authority over the formulation and implementation of prudential regulations. BI has issued new prudential regulations concerning loan classification, loan loss provisioning, treatment of debt restructuring operations, liquidity management, foreign currency exposure, connected lending, capital adequacy ratio, and publication of financial statements. New tax regulations were issued to eliminate obstacles to mergers, debt- to-equity conversions, and other corporate restructuring schemes.

8. Within the Indonesia Banking Restructuring Agency (IBRA) a specific Asset Management Unit was created to acquire non-performing loans from troubled banks. So far, however, IBRA has faced significant challenges in recovering assets. Lack of an effective bankruptcy process, as noted, deters asset recovery.

3. Antimonopoly and Consumer Protection

9. Parliament has passed an Antimonopoly Law (Law No. 5/1999). The law bans price-fixing cartels or any such agreements between firms that constrain competition through the division of product ranges or marketing territories. It also mandates the establishment of an Independent Supervisory Commission to investigate and impose administrative penalties for violating of the law. The commission has been established and according to the law must be operational by September 2000.

10. Parliament has also enacted a Consumer Protection Law (Law No. 8/1999) to complement the antimonopoly law. This law protects the consumers' rights when using products and services, and in choosing and obtaining goods and services at fair prices.

It also a mandates the creation of a National Consumer Protection Agency and authorizes it to implement the law.

4. Domestic Trade Deregulation

11. Ensuring the free flow of goods and services within the domestic economy represents an important component of competition policy. Taxes, charges, levies, and other barriers on domestic trade seriously undermine the competitiveness of farmers, particularly those who transport their products over long distances. With the introduction of Law 18/1997 on Local Taxes and Levies, the number of taxes available to subnational governments was reduced to 9 and the number of levies was reduced to 30. Subnational governments are no longer permitted to tax agricultural products involved in interregional trade. When implemented properly, the law has the potential to raise farmer incomes and stimulate regional trade and production activities. This activity is an important complement to the antimonopoly legislation and efforts.

C. Legal and Judicial Reform

12. The Government has stated that legal and judicial reform is a matter of high priority. In February 2000 a National Commission on Law Reform (NCLR) was appointed. The commission is expected to give new impetus to reforms in this area. The commission consists of six members and is charged with advising the President on specific sensitive legal issues and, as a steering committee, will design and establish the conditions for law reform in Indonesia. The NCLR has established four commissions to look at the priority areas of (i) administration of justice including reforms in court organization and management; (ii) good governance or administrative law, which will focus on legal aspects of administrative matters affecting the public; (iii) legislative capability, particularly in the areas of legal drafting and research; and (iv) legal education, including training of judges. The Government in 1996 commissioned a work plan based on the diagnostic assessment of legal development in Indonesia to document the views of thousands of legal practitioners, members of the judiciary, government officials, academics, and members of the business community in Indonesia. The study is universally recognized as the right starting point for legal and judicial reforms.

13. The Government has taken some important steps to combat corruption. The Clean Government Law requires public officials to declare their assets before assuming their posts and to agree to have their assets officially audited during and after their terms. The Law on Eradication of Criminal Acts of Corruption defines corrupt practices of a criminal nature and provides the basis for establishing charges and for prosecution. It also provides for public participation in legal surveillance and the establishment of an independent anticorruption commission for legal enforcement. New regulations to reform public procurement and project implementation practices have been issued. These are important steps but much more remains to be done to reduce the role of the Government in economic activities, encourage public participation, and strengthen the role of oversight agencies and civil society. Improving the competence and integrity of the judicial system to strengthen legal enforcement has remained an elusive objective, and weaknesses in this regard are constraining not only progress in governance reform but also the economic recovery.¹

¹ The Partnership for Governance Reforms has supported the development of an anticorruption action plan by the Attorney General's office and will further support implementation.

D. Decentralization and Public Expenditure Management

14. In 1999 the Government enacted decentralization legislation that provides the broad framework for an ambitious plan to decentralize expenditure and revenues. Law No. 22/1999 on Regional Governance revises the assignment of functions and redefines the roles of institutions at all levels of government. The law assigns to the districts and provinces all government functions except defense, judiciary, national planning, finance, and others. Formulation is largely at the district level—the provinces have little control over the districts and perform largely coordinating tasks, other than those few tasks that the districts cannot perform. Law No. 25 on Fiscal Balance further defines the sources of finance for the decentralization process. The law requires decentralization to be effective by May 2001.

15. Based on a Presidential Decree that was issued in April 2000, a Coordination Team under the leadership of the State Minister for Regional Autonomy was established. Preparations are under way to establish a Consultative Council for Regional Autonomy, which will advise the President on decentralization and related matters. Representatives from local government associations are among the council members.² Implementing the decentralization laws will require transfer of personnel, facilities, and projects from line agencies to regional governments.

16. Indonesia is unusually centralized, and therefore has much to gain from decentralization. The devolution of functions and resources foreseen in the laws, in concert with better accountability for regional executives, is likely to yield more responsive government and higher quality, more efficiently delivered services. Regional equity could be an important result of this process.

E. Aid Coordination in Governance Reforms

17. Aid agencies are becoming increasingly active in the field of governance in Indonesia and aid coordination meetings take place regularly on legal and judicial reform, decentralization, and corporate and financial sector reform. World Bank, the United Nations Development Programme (UNDP), and Asian Development Bank (ADB) have jointly launched, along with the Government and civil society, the Partnership for Governance Reforms in Indonesia. The Partnership is intended to coordinate aid activities encompassing the entire governance reform agenda. ADB has taken the lead in coordinating external assistance in corporate governance and in helping to formulate the reform agenda in this area. ADB is also taking a major role in decentralization and various anticorruption initiatives. The Partnership was launched in April 2000 and its role is evolving through active stewardship of the Government and the Executive Board, which comprises public servants and representatives from civil society.

18. World Bank, German Technical Cooperation (GTZ), Canadian International Development Agency (CIDA), the Indonesian Netherlands Association/Netherlands Government, Australian Agency for International Development (AUSAID) and Asia Foundation support the Government in the field of corporate and financial sector reform. The World Bank is active in supporting IBRA, the State Audit Board (BAPEKA) and

² ADB has been supporting the decentralization process, particularly through Loans 1677/1678-INO: Community and Local Government Support Sector Development Program (for \$320 million, approved on 25 March 1998) and associated TA.

Capital Exchange Agency (BAPEPAM), the Government accounting agency. The Indonesia Netherlands Association has created a Business Advisory Council to complement NCCG. The GTZ Competition Support Project helped the government to introduce the Antimonopoly Law and Antimonopoly Commission. The World Bank, United States Agency for International Development (USAID), bilateral services and, to a lesser extent International Monetary Fund (IMF) are actively involved in legal and judicial reform.

19. A large number of aid agencies are actively strengthening decentralization through central and local-level stakeholders. Details on their work can be found in a database established in BAPPENAS and supported by CIDA. Major agencies contributing to the design of decentralization legislation are GTZ, World Bank, and USAID. GTZ assists the responsible government agencies in improving the regulatory framework for regional and local governments and supports the process of implementing the new decentralization laws and related regulations by developing adequate capacity-building measures for local institutions. USAID particularly supports the Ministry of Finance in implementing the fiscal decentralization law.

20. Strengthening civil society organizations is the focus of the Ford Foundation, Asia Foundation, USAID, GTZ, and World Bank. Ford Foundation provides grants to a variety of non-governmental organizations (NGOs) working on participatory local governance. The focus is on citizen participation in local governance, understanding decentralization, and public service delivery. Asia Foundation in Indonesia is active in the fields of governance and media. The understanding of governance in this program is comparatively broad, covering areas such as democracy, economic reforms (focus on business climate for small and medium-scale enterprises, and removal of domestic trade barriers), Islam and civil society, women's political participation, and international relations. Another focus is on the media dimension of law. The USAID-funded Civil Society Support and Strengthening Program supports Indonesian civil society organizations and coalitions so that they can confront and resolve important reform issues, as well as become viable institutions themselves. The GTZ Support for Good Governance Project is located in the Ministry of Administrative Reforms. The project aims to assist the responsible government agencies in developing policies and regulatory frameworks in support of better public service delivery, introduce procedures and instruments involving customers and local communities at large and define and control the quality of provided service. The World Bank has assigned a civil society specialist to facilitate communication between the Bank and civil society and strengthen the involvement of civil society organizations in World Bank projects.

F. Challenges of Governance Reforms for ADB

1. Overview

21. The governance reform agenda is extensive and daunting. A sound and sustainable poverty reduction strategy must be firmly anchored on good governance. The ADB Poverty Assessment, initiated in December 1999, was based on a comprehensive consultation process that involved representatives from Government, civil society, the private sector, and aid agencies with a specific interest in the link between poverty and governance. The study emphasized the importance of a number of key issues including anticorruption, decentralization and public expenditure management, corporate governance, financial governance, legal and judicial reform, and strengthening civil society.

22. ADB has strongly supported governance reform in Indonesia, especially since the crisis. Starting with financial governance reform, ADB extended support to governance reform in key social and real sectors. ADB must be selective in supporting governance reform. It has already initiated work in some areas in which it has adequate competence, and it is essential to deepen the reforms in these areas. In Indonesia's present context, it would be extremely difficult to realize any other strategic development objective without pursuing good governance. Thus, good governance is envisaged as the main anchor of the strategy. Future operations will build on past work, especially in the areas of anticorruption, decentralization, corporate governance, and legal and judicial reform. The country operational strategy (COS) will therefore support governance reform in these areas.

2. Anticorruption

23. ADB's Anticorruption Policy aims at addressing corruption from the overall perspective of good governance. In May 1999 ADB adopted an anticorruption action plan for Indonesia under ADB's Anticorruption Policy. The action plan envisages initiatives in five major areas including (i) support for developing competitive markets; (ii) promoting efficient, effective, accountable, and transparent public administration; (iii) improving the quality of policy dialogue on governance issues including corruption; (iv) support for specific anticorruption efforts on a case-by-case basis; and (v) ensuring that ADB projects are implemented in a corruption-free manner. In these five areas, the action plan calls for implementing various measures to fight corruption both by the Government and ADB. Consistent with this approach, the COS will support policy and institutional reforms to reduce the role of Government in economic activities, promote market-based development, encourage competition, strengthen the legal and regulatory framework for economic activity, raise awareness, and foster participatory development processes, involving civil society. It is recommended that implementing the Anticorruption Plan be continued. However, the plan must be revised in the light of past experiences and to incorporate new concerns and new initiatives. These activities should be developed within the Partnership for Governance, which has supported an anticorruption plan sponsored by the Attorney General.

3. Decentralization

24. Assistance in decentralizing government functions and funding, and strengthening public institutions are key features of ADB's loan and technical assistance (TA) program. The overall aim is to support the Government's efforts for effective transfer and delegation of functions to provincial and district governments and to bring out more effectively the participatory process of development management. Parliament's approval of the Law on Regional Autonomy and the Law on Fiscal Balances in 1999 has put in motion a sweeping decentralization program aimed at the transfer of major administrative and fiscal responsibilities to the district governments. Decentralization holds strong potential for improving accountability, strengthening participation of beneficiaries, and heeding the voice of the people at the grassroots, thereby making development more broad-based. Implementing such an ambitious and complex agenda poses difficult challenges and risks. It is thus necessary for ADB to support the process to ensure that its pro-poor and regional development objectives are realized. ADB has a head start in supporting decentralization of fiscal responsibilities, basic social services (health and education), public expenditure management, and environment management. It is essential to carry this work forward.

4. Corporate Governance

25. ADB takes a broad perspective on corporate governance reforms, including improving external enforcement mechanisms as well as internal mechanisms and addressing the corporate governance issues of both the financial and the real sectors. The agenda of reform in corporate governance is substantial: amending the company law, disclosure of information, protection of shareholders and creditors, improving accounting and auditing standards, rules for listing on the stock markets, and regulations on transactions in the capital and securities markets. Worldwide there is a premium on good corporate governance standards. A recent survey of foreign investors indicated a 24 percent premium on the shares of Indonesian firms with internationally accepted corporate governance practices. Within the Partnership for Governance Reform with World Bank and UNDP, ADB has taken the lead role in corporate governance.³ ADB will lead in formulating the agenda and coordinating work in this area. The COS will support deepening of corporate governance reform in capital markets, and extend it to nonbank financial institutions and small- and medium-size enterprises (SMEs).

5. Legal and Judicial Reform

26. This is a very important area of reform in Indonesia, given its role in establishing the rule of law for commercial enterprise. ADB has thus far focused on other areas of governance reform. However, the Government has indicated that there is still a role for ADB support in certain areas of legal and judicial reform, and has requested ADB's assistance. Partly reflecting staff constraints, ADB will take a cautious approach to involvement in this area.

6. Civil Society Strengthening

27. ADB's support to civil society in Indonesia will be made more coordinated and effective. Civil society organizations, i.e. NGOs, have proved effective in raising awareness, giving voice to the concerns of people at the grassroots, and enhancing social capital. They could also be very effective in helping decentralized local governments be more responsive to local needs, as well as playing an effective watchdog role in promoting good governance. This would include monitoring anticorruption activities in ADB-financed operations. ADB's approach to civil society will not only be to consult but also to involve NGOs more in ADB operations. The COS will support involvement with civil society organizations not only in preparing, processing, and implementing projects, but also in advisory assistance, country programming, and strategy preparation. The COS will establish a partnership with civil societies to enhance their involvement in these operations. The partnership will entail periodic contact with them on an ongoing basis to inform them about ADB operations and seek their involvement. ADB will also support the Government's increasing involvement with civil society institutions.

³ ADB effectively supported corporate governance reform under the Financial Governance Reforms: Sector Development packages (Loans 1618, 1619, 1620-INO: for \$1,497 million, approved on June 1998) and the Industrial Competitiveness and Small and Medium Enterprise Development Program (Loan 1738-INO, for \$200 million, approved on March 2000).

G. Operational Aspects of Governance Reform

1. Ensuring the Antipoverty Impact of Governance Activities

28. Ensuring the antipoverty impact of governance activities requires a wide range of efforts. There must be increased effectiveness of poverty reduction resources and increased accountability in the use of public funds. There must be greater emphasis on building national capacities for formulating and implementing pro-poor policies and on improving administration and private sector participation for better service delivery. Shifting decision making nearer to the poor and helping the poor to organize themselves, for example through decentralization, will be useful. Corruption must be straightforwardly addressed as it strongly affects the poor. The rule of law must be strengthened with clear pro-poor enforcement procedures, and a diversified range of stakeholders must be involved, including community service organizations representing the poor.

2. Ensuring Transparency of the Reform Process

29. Although much has been achieved—important legislation has been passed and institutions set up—this is not recognized by all parts of society. Complaints about lack of reforms are widespread. It is therefore important to increase awareness of the ongoing reforms. ADB should consider supporting the Government to strengthen transparency on major legal programs and on implementation plans.

3. Improving the Integration of ADB Activities in Indonesia

30. Given the past lack of implementation plans in Indonesia, governance efforts were often undertaken on an ad hoc basis. The Partnership for Governance offers a mechanism to ensure that the reform process is done in a more systematic manner. As a first step, the Partnership has developed a Government assessment study to be reviewed formally at the mid-October 2000 meeting of the Consultative Group on Indonesia. New project interventions should be based on the overall agenda being developed with the Partnership working with institutions such as the NCLR and NCCG.

4. Long-Term Interventions

31. Interventions in sensitive areas such as governance require building trust and good working relationships, which take time. ADB instruments should be adjusted to accommodate that need. A more focused TA program with a longer term perspective, such as a cluster TA program, should be considered to support Government reforms in specific areas. Governance reform will be a protracted and challenging process in view of the widespread and entrenched nature of the problems. The reforms could meet significant resistance from vested interests. Nevertheless, credible progress and a firm sense of direction in governance reform are critical to restore public trust and investor confidence and for continued support of Indonesia's development partners. ADB must therefore be prepared to assist the Government to build on the reforms already undertaken and move the reform agenda forward decisively.

GENDER AND EMPOWERING WOMEN

A. Introduction

1. Significant advances for women in Indonesia were achieved during the last quarter century. Women live longer, are more educated, have more control over their reproductive functions, and have more choices. However, development has not progressed equally in all areas. Maternal mortality in Indonesia is the highest in the Association of Southeast Asian Nations (ASEAN) and half of all pregnant women are anemic.¹ Women earn 70 percent of what men earn, even adjusting for age and level of education.² Women are more likely to be in the informal labor market, and more likely to be unpaid family workers, and young educated women are more likely to be unemployed than their male counterparts.³ Investment and productivity in agriculture and the informal sector where women are heavily located have stagnated. Women have little input into and influence over national development programs, policies, and laws. In 1999, women occupied only 7 percent of the policy level positions in the civil service⁴ and representation in parliament and the court system was equally low. Consequently, women neither benefited as much from the development that did take place, nor did society achieve as much as it could have.

2. To address this challenge, the Government has embarked on major reforms in the treatment of women in society, the economy, and civic life. Part of the impetus for this reform was the expansion of gender studies that started in the early 1990s when researchers returning from studies abroad began to look at the situation of women in Indonesia from a gender perspective. As the body of knowledge of the barriers and challenges that women face grew, women's groups became increasingly aware that development policies established women in a subordinate position as wives and mothers.⁵ As the background section of one public decree notes. "The status and the role of women is in a subsidiary position and not yet equal to that of men."⁶ The Government has committed itself to enhance the status and role of women in all aspects of life through national policies supported by institutions capable of championing the achievement of gender equity and equality.

B. The Government Program for Empowering Women

3. The potential for reform is large and will have broad implications for the Government's ability to achieve pro-poor growth, good governance, and human resource development. The mandate for gender equity and equality is explicit in the Guidelines for State Policy (*Garis-Garis Besar Haluan Negara* or GBHN) and is interpreted through the Government's development plan, PROPENAS (June 2000 version), to require attention in six key areas:

- (i) removing barriers to participation through legal reform of gender-discriminatory laws;

¹ 1994 Indonesia Demographic and Health Survey, Central Bureau of Statistics, National Family Planning Coordination Board, Ministry of Health, and Macro International Inc.

² Oey-Gardiner Mayling, 1999 *Men and Women at Work*, Insan Hitawasanya Sejahtera.

³ ADB, 2000 Assessment of Poverty In Indonesia, Statistical Appendices, October.

⁴ This counts the women in levels (*eselon*) 1, 2, and 3 of the civil service. *PROPENAS 2000*.

⁵ Julia X 1991, *State Ibuism, The Social Construction of Womenhood in the Indonesian New Order*, New Asian Visions 6, June.

⁶ *Garis-Garis Besar Haluan Negara (GBHN)*, Consultative Assembly Decree on the Broad Guidelines of the State Policy for 1999-2004.

- (ii) mainstreaming gender equity and equality through institutional strengthening;⁷
- (iii) promoting women in economic life;
- (iv) improving women's health and promoting reproductive rights;
- (v) promoting gender equity in education and avoiding gender stereotypes; and
- (vi) developing gender-based variables for monitoring and evaluating implementation of PROPENAS in all key areas.

4. The key issues and problems addressed by these six areas of reform will be discussed and potential areas of intervention addressed.

1. The Legal Reform Agenda

5. The legal system contains many biases. The marriage law of 1974 obliges women to take care of the household, and men to protect their wives and provide for the family. This has resulted in other laws and programs defining women as wives and mothers to the exclusion of other aspects of their lives or roles in society. Health laws, for example, treat women as objects of family planning rather than as individuals with reproductive rights. Tax laws treat them as legal minors. Citizenship laws do not allow women to pass nationality on to their children. The legal position of women is weak in the realms of the workplace, inheritance, in the trade of women, and with respect to rape, adultery, and violence.

6. The Department of Justice, Office of the Attorney General, and State Minister for Legal Reform are responsible for legal reform. Their technical guidelines for implementing PROPENAS include reviewing and redrafting laws to ensure gender neutrality. These legal reforms could have broad implications for development processes. Revision of the tax laws, for example, will facilitate women's access to financial services and small- and medium-size enterprise (SME) development. Revision of labor laws will provide protection for home workers, key backward linkages for SME development.

7. One factor inhibiting change is the status of gender studies in legal education. Law school curricula and attorney training do not include gender awareness. As a result, there may well be a shortage of gender-aware lawyers and legal drafters to implement this agenda of legal reform. While the Legal Faculty of the University of Indonesia together with the Women's Studies Work has initiated efforts in this direction using a participatory approach with faculty and students, the effort is still small scale.

2. Mainstreaming Gender Equity and Equality

8. Although the commitment to gender mainstreaming is clear at the highest level, awareness or support of the need for gender equity in the rank and file of the government machinery is uneven. The role of women was first explicitly detailed in the GBHN for the five-year development plan, REPELITA III, in 1978. Since that time the development perspective of women has tended to be that of wives and mothers whose work depended on and was secondary to the male head of the household. The concept of gender mainstreaming is relatively new. Women's low participation in government contributes to the development of programs, policies, and laws that do not consider differences in the experience and aspiration of men and women.

⁷ Institutions here refer to formal government institutions as well as non-governmental organizations (NGOs) that support women's empowerment.

9. Indonesian women are represented in the same proportion in the civil services as they are in the labor force. In the civil service, women tend to be distributed unequally by job and by level, concentrated in traditional occupations and lower positions. Women's access to management level positions is reflected in their role in implementing development projects. For example, only 7 of 95 project managers of loans under implementation from Asian Development Bank (ADB) headquarters in November 1997 were women. Other multilateral and bilateral funding agencies probably show a similar pattern. Personnel procedures, personnel outcomes, and training programs do not lead to optimal use of personnel, particularly of females.

10. In the next few years, policy makers must deal with a range of difficult issues, including an ambitious decentralization program and severe fiscal constraints. In this process, other concerns may override gender equity. Decentralization is a particular worry, as local governments and local parliaments may not be equipped to understand the need for or importance of gender mainstreaming. For this reason, 14 provinces have established a women's empowerment bureau and 2 districts have established women's empowerment sections in the office of the district head. However, these bureaus are small and new and will require the support of institutions that can carry out policy analysis and program evaluation.

11. Women studies centers have been established in the provinces to carry out gender-based analyses of local policies and programs, to facilitate mainstreaming of gender concerns in local government activities, and to help incorporate gender concerns into local government programs and policies. While some women's studies centers are centers of excellence by any standard, the average center is weak and receives little funding priority.⁸

3. Promoting Women in Economic Life

12. During the last three decades the Indonesian labor force has become increasingly feminized, with the female labor force participation now around 44 percent. Despite this prominent role, women are treated, and often regard themselves, as supplementary income earners filling in the gaps left by men. PROPENAS notes that despite women's presence in the economy, policies, laws, and societal attitudes consider them as providers of supplementary income where men are the main providers. This results in inequity in their access to work, technology, information, and financing.

13. The increased participation of women in the labor force was due to the growth in opportunities in manufacturing, trade, and services, supported by the expansion of the education system that ensures an increasingly educated workforce. Investment in infrastructure brought the rural labor force to the cities on a commuting basis and brought industry and manufacturing into the rural areas. Young and relatively educated women found opportunities in the formal sector working for wages, especially in urban areas. Those with less education or in rural settings found their choices confined to the informal sector working in trade, industry, and agriculture. Poor women were likely to assist husbands and other relatives as unpaid family workers.

14. Economic improvement through the 1990s is shown by the increase in the proportion of the female formal labor force from 27 percent in 1993 to 32 percent in 1999 and the

⁸ TA 2038-INO: *Institutional Strengthening of State Ministry for the Role of Women*, for \$600,000, approved on 23 December 1993.

decline of unpaid family workers from 40 percent to 36 percent. This trend slowed, but was not reversed during the crisis years.

15. Once in the formal labor market, women fared poorly compared with men in terms of pay, earning 70 percent of what men earn, even adjusting for age and level of education. By law, men and women should receive equal pay for equal work. However, it is common in many countries that a history of discrimination and subtle barriers to skill enhancement result in lower compensation being paid to women.⁹ Other discriminatory practices are carried out in the private sector where men receive family allowances, while married women are treated as single. Women also do not often receive their entitlements to menstrual and maternity leave.

16. Female workers are more easily exploited in terms of wage and other benefits, partly due to poor information on their rights and poor enforcement of labor laws. Some studies have shown that some workers do not know how their wages are calculated or what is included in their work contract.¹⁰ Women in the informal sector are even more vulnerable. Household maids and home workers are not covered by labor regulations and there are no laws governing work agreements or occupational safety standards. Consequently these workers are increasingly vulnerable to exploitation and abuse with little formal recourse.

17. International migration, both legal and illegal, plays an important role in capping unemployment and supporting the rural economy. About half of the legal labor flow to Malaysia is female, as are more than 90 percent of workers sent to Saudi Arabia—two of the most important foreign labor centers. Indonesia has not ratified the 1990 Convention on the Rights of All Migrant Workers and Members of Their Families as it has been reluctant to take any action interfering with its relationship with receiving countries that also have not ratified these conventions. Women sometimes suffer relatively more from this situation. Labor supply agencies are allowed to charge higher recruitment fees, accommodation charges, and training fees for women than for men.

18. It is generally acknowledged that women play an important role in business, particularly in SMEs. However, existing laws and attitudes have raised barriers to their full participation in business. One legal barrier is the status of women as legal minors for taxation purposes. Women are required to register under the tax number of their husband unless they are civil servants or unmarried. The tax exemption of a wife, however, is half that of an individual taxpayer.¹¹ A woman seeking credit must often do so through her husband and his tax number. Women also say that they face petty harassment and hassles when they participate in tenders or apply for licenses. These legal and attitudinal gender-based constraints place a drag on growth and productivity in the smaller enterprises where women and the poor are concentrated.

⁹ A discussion of this issue is made difficult by the paucity of gender-disaggregated compensation and productivity data. For this reason, PROPENAS calls improving the availability of gender-disaggregated data an important element in the strategy to improve the overall condition of women in the economy.

¹⁰ D. L. Wolf 1992, *Factory Daughters: Gender, Household Dynamics, and Rural Industrialization in Java*. Berkeley: University of California Press.

¹¹ Staff study, Women in SMEs. ADB. 1999.

4. Improving Women's Health and Promoting Reproductive Rights

a. The Public Health System and Women's Health

19. While an expansion of the public health system has resulted in tremendous advances in life expectancy, reduced population growth rate, and decreased infant and child mortality, the nutritional status of women and high maternal mortality indicate that particular needs of women are still unmet.

20. A key area of concern of women's groups and PROPENAS is how the government will support a reduction in the population growth rate from 1.8 to 1.4 by 2005 while promoting women's reproductive rights. PROPENAS notes that the family planning program is gender-biased (95 percent of participants are female) and approaches women as objects whose fertility must be limited rather than as people with the right to manage and control their reproductive lives. This is a concern that can be addressed through further improvements in program quality and orientation.

21. Lessons can be drawn from the private sector initiative begun in 1997 in urban centers to enable the government to concentrate public resources in poor and relatively underserved areas. By 1997, 42 percent of women obtained their contraceptives from private providers.¹² The contraceptive use rate rose from 50.5 in 1992 to 57 percent in 1999. Given the relatively high level of contraceptives use, significant increases can only be achieved through further improvements in quality of service and variety of contraceptives available.

22. Another major concern of the Government and women's groups is the exceedingly high level of maternal mortality. The reasons for this are generally agreed upon. The proximate causes of 75-85 percent of maternal death in Indonesia are hemorrhage, infection, and eclampsia, with the underlying causes being long labor, anemia, unhygienic birthing conditions, complications from abortions, and poor nutritional status.¹³ The latest figure for the maternal mortality ratio (MMR) of 390 is from the 1994 DHS and calculated using the Sisterhood Method, now considered to underestimate maternal mortality and no longer generally used for estimating MMR.¹⁴ PROPENAS calls for a significant reduction of the MMR by 2005. Clearly monitoring this crucial national health indicator must be improved.

23. The Indonesian Safe Motherhood Program, *Gerakan Sayang Ibu*, is a community-based maternity program initiated in 1994. The program worked through local governments to ensure that women and their families understood the potential risk of any pregnancy, the causes of maternal mortality, and risk signs and necessary responses. Financing mechanisms were developed and then expanded under the ADB Social Protection Sector Development Program Loan and the Health and Nutrition Sector Development Program Loan to ensure access to adequate preventive and emergency care for poor women during the crisis. Use of antenatal health care also increased. Despite an initial decline in the percentage of births attended by modern medical personnel at the onset of the crisis, the aggressive expansion of the social safety net programs thereafter increased this percentage from 52 in 1997 to 60 in 1999. These social safety net initiatives are crucial to the welfare of

¹² 1997 Indonesia Demographic and Health Survey, Central Bureau of Statistics, National Family Planning Coordination Board, Ministry of Health, and Macro International Inc.

¹³ Meiwita Iskandar, et al. 1996. *Unravelling the Mysteries of Maternal Death in West Java*. Jakarta: Center for Health Research, University of Indonesia.

¹⁴ The Sisterhood Method for Estimating Maternal Mortality: Guidance Notes for Potential Users, WHO and UNICEF report, UNICEF/EPP/97.1.

Indonesian women and must be mainstreamed into local government health programs under decentralization.

24. Adolescent reproductive health has also emerged as a priority. While half of all women born between 1945 and 1960 gave birth to their first child by the age of 19, in 1994 only 9 percent of women under 20 had given birth.¹⁵ The widening gap between puberty and marriage, however, poses its own problems. Teenagers acquire their knowledge of sex, sexuality, birth control, and sexually transmitted diseases from parents and friends, and sometimes from clandestine sources. Teenage girls are particularly vulnerable to the consequences of insufficient information. Outreach is needed to equip adolescents with sufficient information about the changes they are undergoing, the choices they face, and potential consequences of their decisions. PROPENAS recognizes this, and the Government has initiated pilot programs to reach young people of reproductive age via the school, community, or workplace.

b. Nutrition as an Element in Women's and Public Health

25. Malnutrition and micronutrient deficiencies are estimated to contribute to more than 50 percent of under 5 morbidity and mortality, and can adversely affect the development of intellectual capacity. In adults, malnutrition, especially anemia, is a significant contributor to Indonesia's high maternal mortality, reducing resistance to infection. The crisis exacerbated the underlying nutritional deficiencies prevalent in the population and reversed some hard-earned gains such as the elimination of vitamin A deficiency. Protein deficiencies among children aged 6-23 months increased from 29.0 to 30.5 percent between 1995 and 1998 in the early days of the crisis, while severe protein deficiency increased from 6 to 10.5 percent. One half of children under-five years old had subclinical signs of vitamin A deficiency. The 1995 household health survey showed iron deficiency of 55.5 percent in pregnant women and 40.5 percent in under-five. Iodine deficiency in pregnant women remains a problem in about 10 percent of all subdistricts. Other micronutrient deficiencies for trace elements such as zinc, selenium, copper, and chromium are pervasive. The heights of schoolchildren also indicate the need for improving nutritional status. Nutritional status and types of deficiencies also show wide disparities by province and district. For example, anemia in pregnant women is 13-74 percent in Bali, 23-65 percent in East Java, and 68-98 percent in NTT. The underlying reasons, however, are similar: poverty, poor understanding of basic nutrition, and food insecurity.

26. The challenge to improve the nutritional status of Indonesians is linked to mainstreaming nutritional surveillance for early detection; and targeted food distribution programs for vulnerable groups such as pregnant and lactating women, infants, young children, schoolchildren, and those lacking food security. Longer term measures are also needed: improving household knowledge of nutrition, food diversification, implementing programs to address the pervasive problem of anemia in women and undernourishment in children, increasing productivity in agriculture, and improving the social safety net.

5. Promoting Gender Equity in Education

27. Through the 1990s, the gender gap in basic education closed and improvements were made toward the goal of reaching a universal nine-year education. According to gross enrollment rates, most children achieve an elementary school education. At the junior secondary level, the gender gap also closed and enrollment rates climbed from 60 percent in

¹⁵ 1997 Indonesia Demographic and Health Survey.

1993 to 76 percent in 1999. Despite the crisis, participation rates continued to improve, particularly among the poor. Girls from the lowest income groups made the greatest gains as participation increased by about 21 percentage points.

28. The gender gap closed at the senior secondary school level as the ratio of girls to boys climbed from 90 percent in 1993 to 99 percent in 1999. However, senior secondary education is far more accessible to the rich than to the poor. Fewer than 1 in 4 girls from the lowest income quintile go to senior secondary high school, in contrast to 4 in 5 from the upper quintile. While the overall participation rate rose from 38 percent in 1993 to 48 percent in 1999, the increase was primarily among middle- and upper-income groups. Government investments in this segment of education therefore are effectively biased against the poor.

29. The gender gap widens at the tertiary level where boys are twice as likely to be enrolled as girls. This lack of access exacerbates the difficulty of ensuring that women fill high-level positions. The 2:1 male-to-female imbalance in higher education hampers progress on gender issues and represents a severe cost to the nation. One avenue is to reduce inappropriate streaming—the direction of students dictated by gender instead of ability and choice. Strong messages from teachers and teaching materials influence children's choices and eventual fulfillment of potential, and thus perpetuate inappropriate streaming. PROPENAS notes this and calls for a review of all teaching materials and incorporation of gender neutral messages into textbooks to improve gender balance in education administration, and to redress gender imbalance in access to vocational and skill development training that has traditionally been oriented toward boys.

6. Database for Monitoring and Evaluating Empowerment of Women

30. There are obvious gaps in our understanding of the dynamics of women's roles in the rapidly changing economic and social environment of contemporary Indonesia. Labor market and health issues, especially mortality indices, require improved data collection and monitoring. But this information is costly to gather and cannot be assembled easily given the shift of much of the central Government's line agency staff to local governments. Supporting the development of a gender issues database (GIDB) should be an integral part of ADB's assistance for Government reforms. The work should be done in close cooperation with other international funding agencies, particular United Nations Children's Fund (UNICEF), World Health Organization (WHO), and other specialized and associated agencies of the United Nations (UN).

31. In developing a database, particular efforts should be made to have measures related to the following:

- (i) Legal reforms: number of laws reviewed and revised, number of law schools with gender sensitization programs, and number of cases brought to court involving violence against women.
- (ii) Mainstreaming women: proportion of women at different management levels and branches in government, proportion of women receiving international training, proportion of women project managers on foreign-assisted projects, number of provinces and districts with viable women's bureaus and divisions, and women's studies centers' expenditures.
- (iii) Promoting women in economic life: revision of tax and labor laws, extension of social protection to the informal sector, gender-disaggregated labor market data including compensation and productivity, surveys on women-owned or

- managed business, collection of data on women's access to credit, and gender-based public expenditure information.
- (iv) Women's health: nutritional status of women and children, incidence of nutritional deficiencies by province, targeted nutritional programs, regional maternal mortality, contraceptive prevalence, access to prenatal care and type of birth attendant, expansion of adolescent reproductive health programs.
 - (v) Education: gender-based public expenditures in education, removal of gender bias in curricula, number of girls in sciences in secondary education, proportion of girls in vocational training, proportion of girls by type of tertiary education.

C. An Action Plan for Women's Empowerment

32. The Government's sincere efforts may have little or no real impact if not actively supported by the international community. ADB can help in a number of areas, particularly through the activities it supports in different sectors. ADB operations in agriculture, education, health, and SMEs will be expected to explicitly target gender issues. More concretely, ADB operations can target a resolution of gender issues in eight areas.

- (i) Mainstreaming gender equity and equality in development planning and implementation. ADB will assess the gender balance of its executing agencies and any institution-building assistance will include a plan for increasing the pool of women available for promotion. ADB will track the proportion of project managers that are women, and encourage the Government to develop a strategy to significantly increase the proportion of female project managers over the next five years.
- (ii) Gender awareness in the legal system. Women's access and protection under the law cannot be fully guaranteed until legal drafters, judges, and lawyers become more aware of gender issues and laws are made gender-neutral. Steps have been initiated to develop gender awareness into law school curricula and training. The initiative should be assessed and expanded. Other efforts are required to provide equal opportunities and promote women's access by revising existing laws. ADB initiated awareness of this need through the regional technical assistance (RETA) on the socio-legal status of women, and is in a position to continue assistance in this sector.
- (iii) Expanding the participation of women in local-level poverty programs. Community empowerment programs give women an avenue for participating in development. ADB should encourage projects that provide women more substantial roles in, for instance, identifying, selecting, and implementing social assistance programs for the poor. The PKK or other grassroots organizations have been successful in mobilizing women for community-based efforts and their roles should be reinforced.
- (iv) Broadening income opportunities for women in the rural sector. The expansion of off-farm activities in the rural sector can provide women with employment opportunities outside of unpaid family work where the poorest women are engaged. Rural development can have a direct positive impact on poor women, particularly if accompanied by skills training.
- (v) Enhancing labor market protection. Female workers remain particularly vulnerable to exploitation in the labor market. Policy dialogue is required to promote the enforcement of labor protection laws. In addition monitoring

systems for wages and employment conditions need to be established and maintained. Building the capacity of women's studies centers and other institutions to perform wage and productivity analyses will promote women's visibility and access to fair terms of employment.

- (vi) Increasing investment in human development. The productive base of the country is increasingly dependent on the quality of its human resources. The female child born in the year 2000 will complete her basic education in the year 2015, and become a part of the labor force until 2060. Investment in her development will have a profound impact on economic growth into the middle of the century. To this end, public expenditures in education should be reviewed. Appropriate curricula should be developed and other measures taken to ensure that females have equal access to education and equal encouragement to participate.
- (vii) Improving local-level health care. The productivity of Indonesia's labor force is also influenced by the quality of health care delivered. In general terms, patterns of use indicate that regardless of income level, perceived quality of care is a significant factor in determining the type of health service provider used. To promote effective use of public resources, the quality of health care delivered by health centers and health subcenters needs to be improved.
- (viii) Reducing high maternal mortality. Maternal mortality is caused by a nexus of factors involving family, community, and the health care system. ADB's social safety net crisis operations have provided positive lessons for reducing these factors at relatively low cost and need to be mainstreamed into routine health sector operations under decentralized conditions.

ENVIRONMENT

A. Natural Resources Endowment and Key Environmental Problems

1. Indonesia's rich and unique natural resources are its most significant assets. The country has the most extensive forest reserves in the world after Brazil, representing 10 percent of the world's remaining tropical rainforest. It has territorial seas of 6 million square kilometers (km²). Its coastline of 81,000 km is second only to that of Canada in length. Indonesia has substantial reserves of oil and gas and a wide range of minerals. Its natural assets, especially its forests and biological diversity, hold an important place in the global ecosystem.¹ These resources have provided abundant raw materials for economic growth in recent decades. Prior to the onset of the economic crisis, agriculture, forestry, and fisheries accounted for 20 percent of non-oil gross domestic product (GDP) and 36 percent of non-oil export earnings. Indonesia's poor rely heavily on natural resources for their livelihood.

2. Indonesia's natural assets have been poorly managed and are in serious decline. The key problems are deforestation; marine and coastal resources degradation (depletion of fish stocks, loss of mangrove forest, coral reef destruction); and biodiversity loss. It is estimated that while Indonesia had about 152 million hectares (ha) of healthy forests in 1950, today less than 100 million ha remain, making the annual deforestation rate of 1-1.5 million ha among the highest in the world.² According to a 1999 World Bank paper, should existing annual deforestation rates continue, Indonesia will cease to be major supplier of wood products early in the 21st century. The primary threat to Indonesia's forests is the combination of commercial logging (legal and illegal), conversion of forestland into plantations, small landholder concessions, development projects (such as mining activities), and forest fires.

3. Marine and coastal resource degradation is widespread. Although the total national fish catch may be below the total maximum sustainable yield, the level of exploitation of certain species (such as yellow tail fish) is already above its maximum sustainable yield.³ Indonesia's coral reefs have been seriously damaged over the past two decades, resulting in a rapid decline in coastal fisheries production. A national survey in 1994 found that 42 percent of coral reefs are in poor condition and only 6 percent remain in excellent condition. The main reasons for the rapid decline in fisheries and coral reef resources are overfishing, poison and blast fishing, coral mining, sedimentation, and pollution. The area of mangroves decreased from 4.2 million ha in 1982 to 2.7 million ha in 2000. As a result of the deforestation and marine and coastal resources degradation, Indonesia has lost 49 percent of its original wildlife habitat.⁴ Most provinces in Indonesia had lost 80 percent of their original lowland forest by the early 1990s.

4. Urban environmental degradation is also a growing threat. As industrialization and urbanization have accelerated, the urban population as a percentage of total population increased from 19.4 percent in 1975 to 38.5 percent in 1999. Java, which has 60 percent of the nation's population, accounts for only 7 percent of the nation's land area. The population density of Java was 916 people/km² in 1999, one of the highest in the world.

¹ Although Indonesia comprises only 1.3 percent of the earth's land surface, it harbors 11 percent of the world's flowering plant species, 12 percent of mammal species, 16 percent of reptile and amphibian species, 17 percent of birds, and 37 percent of fishes.

² ICRAF, 2000. *Reforming the Reformists: Challenges to Government Forestry Reform in Post-Suharto Indonesia* (draft).

³ *Environmental Statistics of Indonesia (1998)*.

⁴ King P. 1998. The Bank's Role in Biological Diversity, A Discussion Paper.

5. Increases in air pollution emissions have exceeded economic growth rates in Indonesia, at approximately 9.5 percent annually for more than 20 years. In several urban centers, concentrations of various pollutants (including total suspended particulates, lead, and nitrogen oxides) have far exceeded the national level. Vehicle emissions—the most important source of air pollution in urban areas—have doubled in the past five years. By 2020 urban air pollution in Indonesia is expected to grow 800 percent for particulates, 900 percent for lead, and 1,400 percent for nitrogen oxides.⁵ Water pollution is another serious problem and adversely affects water sources for most urban centers. With the exception of bottled water, most water is not safe to drink. Indonesia has one of the worst service coverage for water supply and sewers in the world. Based on 1997 data, only 42 percent of households had access to safe drinking water and 31 percent of households had access to sanitation.⁶ The Government has classified 20 major rivers as having “acute” pollution problems.

6. Most cities struggle with the collection and sanitary disposal of solid wastes. For example, only 60 percent of the 6,600 tons of domestic solid wastes generated each day in Jakarta is collected and transported to a final disposal site. The garbage is often dumped openly without appropriate treatment. The Government budget for solid waste management is only about 15 percent of that needed. Although the private sector has been involved in collection and disposal services, private investment is low.

B. Poverty and the Environment

7. Many environmental problems are poverty-related and hit the poorest people. The poor in rural areas who directly depend on the natural resource base often live on the less favorable lands and cannot buffer the immediate effects of environmental stress. The poor in urban centers often suffer most from industrial and urban pollution and have least access to necessary public services—clear drinking water, sanitation, and clean energy for cooking. The hypothesis that poverty leads to environmental degradation is less obvious. On the contrary, the poor in general consume less and have less adverse impacts on the environment. For example, after years of blaming forest fires on indigenous people who traditionally use controlled fire to clear land for food-crop cultivation, in 1997 the Government recognized that the true culprits were politically influential firms owning large plantations. In another example, the cutting of mangrove forests in many coastal areas to make way for shrimp or fish ponds during the last two decades resulted in coastal erosion, salinization, and land encroachment. Most owners of the shrimp or fish ponds in the coastal areas who destroyed the mangrove forests are the rich rather than the poor. Similarly in urban areas, the poor reuse and recycle, walk or use bicycle or public transport, and produce much smaller amounts of wastewater and solid wastes per person. Poor people are often marginal in the decision-making process and have limited access to markets. Environmental degradation, to a considerable degree, is a result of activities that pursue rapid growth or quick economic returns without proper safeguards, policies, and control.

8. Rapid growth without considering environmental consequences may lift people out of poverty temporarily, but this will not be sustainable. The mangrove forests in South Lampung District were destroyed during the last two decades to build shrimp ponds. The disappearance of mangrove forests has resulted in serious soil erosion and salinization, which in turn destroyed the shrimp enterprises: shrimp production reached 600 kilogram (kg) per year, but was reduced to 200 kg per year in less than a decade.

⁵ Based on data provided by the Government to the fifth session of the UN Commission on Sustainable Development, 1997.

⁶ Data from a staff consultant study, Indonesia Statistical Mapping Project.

C. Economic Losses Caused by Environmental Degradation and Environmental Implications of the Financial Crisis

9. Economic losses caused by pollution and natural resources degradation have been significant. A recent Asian Development Bank report indicates that, between the 1980s and early 1990s, every percentage point increase of per capita GDP was accompanied by a 0.35 percent decrease in environmental quality in Indonesia. A study conducted by the Indonesian Government showed that the *green* GDP (or GDP after deduction of environmental costs) for the main economic sectors in Riau Province in 1991 was only about 40 percent of the unadjusted GDP.⁷ Other site-specific studies point to a similar pattern. In Jakarta, suspended particulate pollution is a leading cause of premature death, and lead emissions result in a significant loss of cognitive capacity among children. Damage from these two pollutants alone is estimated to cost as much as \$2.2 billion per year once economic and social losses are added together.⁸

10. These environmental problems accumulated in the years before the financial crisis. Although the crisis slowed some problems and intensified others, it didn't change the underlying trend of environmental degradation. The major positive effect of the financial crisis is reduced air pollution in urban areas, but this impact is temporary and the overall impact on urban pollution (air, water, and solid waste) is almost negligible. With regard to natural resources, some increase in illegal logging and mining during the crisis was evident. In the medium term, deforestation may accelerate as a result of currency depreciation. For similar reasons, marine and coastal resources degradation may increase unless the Government is willing to develop and implement policies that favor sustainable resources use.

11. The adjustment programs sponsored by the international community in response to the East Asian financial crisis have both positive and negative impacts on the environment. The removal of the ban on palm oil exports and its replacement with a declining export tax could have negative impacts on the forest. On the other hand, incorporation of the reforestation fund into the national budget, new resource rent taxes on timber, auctioning of forest concessions, banning burning as a land clearing method, and the scheduled end of energy sector subsidies and rise of electricity tariffs will have positive effects on the environment.

12. The economic crisis highlighted several issues in environmental and natural resource management. First, market-based incentives and well-defined regulations in exploiting environmental resources are necessary for environmental sustainability. Second, a participatory approach for natural resource management involving traditional owners and resource users through appropriate resource tenure reforms can be a powerful tool for poverty reduction as well as for sustainable management of resources. Third, improved governance in managing environment and natural resources is urgently needed. Transparency and accountability in resource allocation, utilization, and management need to be improved. Greater decentralization and public participation in decision making and resource allocation, guaranteed public access to information, and a range of institutional reforms are required. Fourth, mapping and inventories of natural resources need to be vastly improved. Accurate information must accompany decentralization and sharing of revenues from natural resources between the central Government and local governments.

⁷ Indonesia Central Bureau of Statistics and State Ministry of Environment, 1994. *Final Report on Environmental Accounting in Riau Province*. A method developed by United Nations Statistical Office for integrated environmental and economic accounting was employed in this study in calculating the green GDP.

⁸ ADB, 1997, *Emerging Asia: Changes and Challenges*.

D. Environmental Implications of Decentralization

13. Decentralization will have a profound impact on the environment. The Regional Autonomy (Law No. 22/1999) and Intergovernmental Fiscal Balance (Law No.25/1999) specify how natural resources revenues will be allocated and which levels of government will manage them. As a result, wide-ranging institutional changes are taking place. These changes are intended to transfer decision making, financial responsibility, provision of public services, and environment management to local governments. Local governments are expected to be more responsive and accountable because they are closer to the people they serve. Decentralization will provide opportunities for community-level participation and increase the local sense of ownership in environmental and natural resource management. However, decentralization cannot automatically solve the lack of integrated environmental planning and enforcement, and inadequate accountability and ability in environment management at local levels. Complementary environmental programs are needed to promote political commitment, provide economic incentives, and to build institutional capacity.

14. The critical issue is how to create a supportive context for regulating and coordinating environmental and natural resource policy, planning, and implementation through public and private sector initiatives. Some relevant suggestions outlined in ADB's Indonesian study for *Asian Environment Outlook 2000* are (i) reviewing sectoral and environment management responsibilities and accelerating local capacity building; (ii) enhancing field capacity through human resources development and facilities; (iii) strengthening the enforcement of environmental regulations; (iv) sharing environment management responsibilities and leadership; (v) consolidating fragmented environment management institutions into strong and capable local agencies; (vi) promoting more effective inclusion of the environment into curricula; and (vii) simplifying licensing and making processes more transparent.

E. Constraints to Environment Management and the Government's Strategy

15. The main obstacles to effective environment management in Indonesia include policy failure, inadequate institutional capacity, and lack of good governance. The existing policies rely heavily on command-and-control approaches, which are often not the least-cost solution and are vulnerable to political and economic pressures. Failure to properly price natural resources also contributes to environmental degradation. In the past, taxes on natural resource use were often lower than their economic value. Other instances of policy failure include open access to forest and fishery resources and lack of secure tenure. The main institutional problems include lack of coordination among government agencies involved in environmental policy implementation, weak organizational setting at provincial and district levels, inadequate information and policy analysis, and lack of capacity for environmental monitoring and enforcement. Good governance has been increasingly recognized as a key factor to effective environment management. No mechanisms ensure transparency and public participation in the process of developing and implementing environmental laws. Government responsibilities for environment management are often unclearly defined, and an incentive structure for environmental enforcement has yet to be established.

16. To control and prevent environmental degradation, the Government developed a series of environmental strategies, laws, and programs. It articulated its intent to integrate environmental considerations into its development plans. The Environmental Management Act of 1997, first issued in 1982, provides a legal basis for overall environment management; and

several special laws have been promulgated.⁹ However, many of these laws need revision as they were developed during the precrisis period and are inconsistent with decentralization. Indonesia has evolved a complex institutional structure for environment management, responsibility for which is not concentrated in a single agency but shared by a number of central and local authorities. At the national level, the Ministry of Environment and the Environmental Impact Management Agency (BAPEDAL) were the two key agencies responsible for environmental protection. Though the line ministries often lack a strong appreciation for environment management, they have been vested with considerable authority for managing natural resources and controlling environmentally harmful activities. At the local level, the ongoing establishment of provincial and district agencies began in 1994 as part of decentralization. It will take years and considerable capacity strengthening for these agencies to become the leaders in establishing, monitoring, and enforcing local environmental regulations.

17. Sustainable environmental and natural resources management will remain as one of the most important strategies for national development during the period of economic recovery and decentralization. In the medium term, the National Development Program (PROPENAS) 2001-2005 emphasizes the following strategies for environment management: (i) GDP calculation system reflecting environmental values (green GDP); (ii) complementary use of market-based instruments; (iii) application of the best available technologies for environmental improvement and for rehabilitation and conservation of natural resources; (iv) establishment of a responsibility system at the enterprise level by integrating environment and social costs with production costs; (v) institutional strengthening at local levels; (vi) an improved legal system that is responsive to human rights and balances competing ecological and economic concerns, and addresses gender equality and decentralization; (vii) promotion of public participation; and (viii) support of popular culture as a vehicle to promote environmental awareness.

F. Other Activities of Aid Agencies

18. Key aid agencies providing assistance in environment and natural resources management in Indonesia include World Bank, the Global Environment Fund (GEF), European Union, United Nations Development Programme (UNDP), and several bilateral agencies supported by the governments of Australia, Canada, Germany, Japan, Norway, United Kingdom, and United States.

19. The World Bank environmental program has emphasized improved management of water, forest, coastal, and marine resources, and cleaner urban air. Its ongoing nonlending services include updating the 1994 environmental sector study that focuses on forestry, mining, plantation crops, and fisheries. In the midterm, the World Bank program emphasizes strengthening environmental institutions and support of community-based natural resource management, mainly through lending in partnership with GEF. The European Union has been involved in natural resources management, especially the forestry sector. UNDP has been supporting implementation of the Montreal Protocol, development of a national agenda, and sustainable utilization of forest and coastal natural resources. Its medium-term program will focus on good governance and public involvement in environment management.

20. Institutional strengthening, public participation, energy efficiency, prevention and control of urban air pollution, and sustainable utilization of natural resources are the major areas

⁹ Water Pollution Control (1990), Spatial Planning (1992), Hazardous and Toxic Wastes Management (1995), Air Pollution Control (1999), and Forest Resource Management (1999).

supported by the bilateral agencies. More specifically, United States Agency for International Development and the Canadian International Development Agency have been playing an active role in community-based natural resources management, particularly in demonstration projects for sustainable utilization of forests, biodiversity, and coastal resources. The Japanese Government has provided a series of projects supporting activities in environmental research and education, environmental monitoring, and clean technology and pollution prevention. The German Technology Cooperation Agency funded activities in natural resource information, planning, and management. Its medium-term program focuses on decentralized environment management. The Norwegian Government has been supporting initiatives in environmental information systems, biodiversity protection, and management of protected areas.

G. ADB's Current Strategy and Activities

21. The 1994 Country Operational Strategy emphasized three broad areas of environment management in Indonesia: (i) institutional strengthening and policy review, (ii) pollution control and environmental rehabilitation, and (iii) natural resource management and conservation. Four technical assistance (TA) projects and two loans with environment as a primary objective were approved in 1998/99.

22. ADB has taken a lead role in supporting improved management of land, biodiversity, and coastal resources as well as integrated agricultural development. Perhaps the greatest weakness has been lack of involvement in the forestry sector. Urban environmental improvement has also not been emphasized, and there was only one project on water pollution control. Data on the TA projects show that institutional strengthening, environmental information system and planning, and forest fire prevention and control have been the major areas supported by ADB's advisory TAs.

23. Of the 20 postevaluated projects in the natural resources sector, 44 percent were partially successful and 14 percent unsuccessful, demonstrating the difficulty of projects in this sector. Traditional livestock and fisheries projects have been problematic. The Water Pollution Control Project,¹⁰ ADB's first and only project investing in industrial wastewater collection and treatment, appears to be partially successful. While the physical facilities of the treatment plant were essentially met, and the scope and cost are as originally envisaged, completion was significantly delayed and commercial operation has yet to commence.

H. Lessons Learned

24. The following paragraphs summarize the lessons learned from ADB's past experiences in financing natural resources management and pollution prevention and control, and identify the main factors influencing success.

1. Programming and Project Design in the Natural Resources Sector

25. Natural resources projects inevitably involve questions of resource access, rules guiding use of those resources, respect for traditional use rights, common property resource management rules, and the social consequences of supplanting traditional domains with more "modern" and exploitative regimes. In addition, natural resources are relatively easy to destroy but much more difficult to rehabilitate or restore, especially if the pressures that degrade the resources are not removed first. ADB has been aware of these design issues, but has rarely

¹⁰ Loan No.1158-INO: for \$8.4 million, approved on 4 February 1992.

been in a position to tackle the underlying power relationships that have pitted Indonesia's wealthy elite against traditional owners and users of natural resources. ADB has wisely stayed away from the most egregious examples of dispossession of traditional rights, such as the expansion of plywood and pulpwood empires and the conversion of healthy forests into oil palm plantations.

2. Implementation Problems

26. There is ample evidence that ADB projects would have been more successful if the executing agencies were more capable, stakeholders were more involved, there was no corruption, Government staff had taken responsibility for implementation instead of relying exclusively on consultants, there were adequate counterpart funds, and the project staff had not kept on changing. However, these implementation issues can also be dealt with as design constraints (i.e., given realities in the short and medium term) and hence should not be blamed for project failure. One approach for countries such as Indonesia, where implementation capacity is a concern, is to increase the intensity of ADB supervision during implementation, including the use of TA resources for capacity building. It is in this aspect of implementation that ADB has generally failed in its responsibility to Indonesia in the natural resources sector.

3. Role of Policy and Institutional Reform

27. For the past 30 years, Indonesia has had an implicit national policy (despite its more recent protestations regarding sustainable development) that condoned rapid exploitation of resources in the name of economic development. This policy benefited cronies and others in elite circles, while having disastrous impacts on some traditional users of natural resources. Policy dialogue by ADB staff was acceptable provided it did not challenge the power relations of the elite and their unassailable access to the nation's key natural resources. Once that line was crossed (for example in the forestry sector), ADB funding was no longer accepted. The danger now is that the local elite (at district or provincial levels) will believe that decentralization offers them the prerogative to exploit the area's resources, which for so long has been denied to them.

4. Urban and Industrial Pollution Prevention and Control

28. The success of urban and industrial pollution control projects depends on design and construction of physical facilities, but more importantly on policy, legal, and institutional mechanisms. ADB's Water Pollution Control Project in Bandung is a typical example. The primary treatment facilities have not been put into commercial operation due to the shortage of operation and maintenance (O&M) funds two years after construction of the physical facilities was completed. Although there is a general government policy that polluters should pay for wastewater treatment, there are no specific regulations or mechanisms to ensure they do. As a result, no tariff has been collected from beneficiary industries and the treatment plant has been only partially operated. This project illustrates the waste of resources that can occur when projects go forward in the absence of legal and institutional mechanisms needed for successful operations. Specific laws and regulations should provide for (i) tariffs necessary to cover O&M costs, debt service, or depreciation, whichever is higher; (ii) criminal and civil penalties for violators; and (iii) guidelines for institutional responsibilities for monitoring compliance, tariff collection and management, and enforcement.

29. This case highlights the urgent need for new policy directions for urban and industrial waste management. Policies should support (i) consultation with stakeholders (industries and consumers) during project preparation to establish willingness to pay, ability to pay, and

accountability; (ii) private-public partnership for project design, construction, and operation; and (iii) development of appropriate institutional arrangements, which is the responsibility of the governments.

I. ADB's Country Operational Strategy

30. The development process in Indonesia cannot be sustained in the long term without conserving its environmental resources. Sustainable environment management is also integral to poverty reduction since resource degradation deprives the poor of their traditional means of livelihood in the rural areas, and in the urban areas they are more vulnerable to air, water, and solid waste pollution. While ADB has a long record of supporting the Government in improved environmental and natural resource management, its operations require reorientation to simultaneously address poverty reduction and environment management during the transitional period, from top-down planned environment management to a decentralized regime with a greater reliance on market-based incentives.

31. ADB operations in Indonesia in the near and medium term will focus on sustainable utilization of natural resources and cleaner air and water in conjunction with poverty reduction by emphasizing the following key issues: (i) institutional capacity at provincial and district levels; (ii) good governance; and (iii) policy and legal reform in establishing environment management mechanisms addressing decentralized management, environment valuation (green GDP), market-based instruments, environmental planning, and law enforcement.

More specifically, ADB will undertake the following:

- (i) Initiate policy dialogue and investments that promote sustainable poverty reduction through sound environment management. For lending projects in the medium term, the program will emphasize sectors or regions where the poor are most vulnerable to an unsustainable environment (coastal areas, mining, plantation crops, and fisheries). Projects will enhance the quality and productivity of natural resources, income generation, and employment opportunities. The program will also examine the potential for bringing people closer to environmental facilities and services in urban areas (such as safe drinking water, sanitation, and clean fuel for cooking).
- (ii) Promote good governance. There is an urgent need to improve governance in managing the environment and natural resources, especially forestry and water resources. The mandate of the agencies responsible for natural resource management may require review and restructuring. ADB will support the improvement of transparency in resource allocation and utilization; establishment of mechanisms (such as guaranteed public access to information) that assure public involvement in decision making, policy implementation, and law enforcement; and the development of a genuine partnership between local government, civil society, and local communities.
- (iii) Support policy and legal reform and establishment of decentralized environment management mechanisms emphasizing environment valuation, market-based instruments (MBIs), environmental planning, and law enforcement. Given that most existing environmental laws need to be revised to meet the needs of decentralization and economic reforms, it is essential that ADB support policy dialogue and policy innovations. One area of ADB's potential projects is promoting tenure reform, recognizing traditional rights to resources and

enshrining these rights in modern laws. ADB will consider supporting introduction/improvement of MBIs in urban pollution control, especially urban wastewater, solid waste management, and automobile emission reduction. ADB will support activities to promote environmental valuation, environmental planning, and law enforcement. ADB will also be involved in establishing the legal and administrative frameworks needed for supporting a private-public partnership for reducing pollution and managing natural resources.

- (iv) Strengthen institutional capacity, with more active involvement in local levels and appropriate assistance at the central level. Considering that decentralization of Government activities is set as a long-term thrust and institutional capacity is particularly weak at the provincial and district levels, ADB will be more actively involved in capacity building at regional and local levels. Capacity building should address not only technical aspects (theories of environmental science, sampling and monitoring methodologies) but also policy analysis and environment management. Government authorities should participate in designing capacity-building programs. ADB may also consider establishing and managing an environmental information system that can assist decision making.

While ADB's program should emphasize institutional building and human resources development at the local level, support for restructuring environmental agencies at the central level should not be excluded. There are several reasons for this. First, national guidelines are urgently needed in decentralizing environment management. These guidelines must specify short-, medium-, and long-term priorities and identify the respective responsibilities of central and local governments. In addition, institutional strengthening is needed at the agencies that are newly established or reorganized, such as the new Ministry of Maritime Affairs and Fisheries. Finally, the highest level of government commitment to environmental sustainability is necessary.

- (v) Priorities for ADB operation in natural resources management. Priorities for ADB operations in this sector include strengthening the capacity of local governments and increasing beneficiary participation for terrestrial and marine resource management, promoting biodiversity conservation and mangrove and coral reef rehabilitation, and supporting integrated river basin management. In water resources development, ADB supports policy reforms such as cost recovery and democratic water users' associations. TAs or staff studies should identify the needs for decentralized forests management, assist the Government in developing the proposed National Reforestation and Land Rehabilitation Plan, and develop sector strategy. In supporting efforts to address forest fires and haze pollution, efforts must be made to address the underlying problems of inappropriate incentives. Resource inventories and democratic approaches to resource allocation and rent sharing between communities and government are elements necessary to support decentralization. Focusing TA support on capacity building for integrated natural resources management at the district level is another necessary element.

(vi)

- i Food and Agriculture Organization (complete citation, please), 1991.
- ii TA 2009-INO: *Industrial Pollution Control in Cimahi*, for \$, approved on
- iii ADB, *Environmental Paper No. 13*.
- iv By the end of 1999, the establishment of provincial BAPEDALDAS had been approved in 23 provinces. Meanwhile, application has been received for approval of establishing 141 of the 312 potential municipal/district BAPEDALDAS. Of the 141 applications, 58 have been approved and 83 are being processed.
- v PROPENAS 2001-2005, although still a draft, is nonetheless far along to provide a direction for the next planning period.

OPERATIONAL FOCUS OF MAJOR INTERNATIONAL FUNDING AGENCIES BY SECTOR

Table A6.1: Multilateral Agencies

Themes and Sector	ADB	World Bank	UNDP & Other UN agencies
A. Strategic Priorities	<p>Poverty reduction as the overarching objective</p> <p>Central objective: reducing poverty and regional inequity</p> <p>Main anchor: good governance</p> <ul style="list-style-type: none"> • Creating basic institutions • Encouraging sustainable recovery and pro-poor growth: enabling private sector development • Balanced regional development for regional equity • Social development • Preserving the environmental resource base: sustainable natural resource management 	<p>Poverty reduction</p> <p>Macroeconomic stability and sustainable growth</p> <ul style="list-style-type: none"> • Policy dialogue through letter of intent process • Private sector development • Environment management • Social development <p>Efficient service delivery to the poor</p> <ul style="list-style-type: none"> • Preparing services for a decentralized environment • Promoting community-based, demand-driven development projects <p>Promoting good governance</p> <ul style="list-style-type: none"> • Improving financial management and procurement • Dialogue and institutional support for judicial, legal, and civil service reforms • Support for the Governance Partnership 	<ul style="list-style-type: none"> • Community development program • Governance program, focusing on political governance dimension • Environmental management • Assistance in implementing international conventions for environment, social development, and labor
B. Sectoral Involvement			
Agriculture and Rural Development	<p>Rural empowerment and increase of agriculture productivity through technological improvement, market development and capacity building, small-scale infrastructure</p> <p>Improve drought resilience</p>	<p>Village-based rural infrastructure development</p> <p>Improving agriculture extension services</p>	<p>Community development fund facility</p>
Natural Resources and Environment	<p>Resource conservation focusing on coastal and marine resources</p> <p>Address urban pollution problems particularly related to sanitation and water supply</p> <p>Decentralized resource management</p> <p>Support market-based instruments for environmental protection and improved management systems</p>	<p>Natural resource management and biodiversity protection</p> <p>Forestry policy dialogue</p> <p>Water resources management</p> <p>Phaseout of ozone-depleting substances</p>	<p>GEF small grants facility</p> <p>Environmental governance</p>

Themes and Sector	ADB	World Bank	UNDP & Other UN agencies
Education	Support quality improvement in decentralized education and strengthen poverty targeting	Building effective decentralized education system	Basic education performance monitoring and pilot projects (UNICEF)
Health	Decentralized health care and service provision Emphasize women's health services	Building effective decentralized health system	Health care pilot projects and communicable disease controls (UNICEF and WHO)
Urban Development	Improved urban services particularly for the urban poor and building local capacity for service delivery	Municipal and community development support	
Infrastructure, Energy, Transport and Communication	Focusing on local road and small ports development, rural and outer islands needs Reduce program emphasis on large infrastructure projects, but complete sectoral commitments.	Municipal and community development support <ul style="list-style-type: none"> • Sector reform and restructuring (energy, railways, telecommunications) • Institutional development for decentralized environment (roads) • Maintenance and rehabilitation of core infrastructure (esp. primary roads) • Financing critical infrastructure investment (e.g., power transmission) • Support private participation in infrastructure development 	
Finance and Industry	Corporate governance reforms SME development Nonbank financial institutions	Further support to address banking sector development, including corporate governance reforms SME development (IFC)	Small business development (UNIDO) Labor market monitoring Building capacity of trade unions (ILO/DIFD)

ADB = Asian Development Bank, UN= United Nations, UNDP = United Nations Development Programme, LOI = letter of intent, UNICEF= United Nations Children Funds, WHO = World Health Organization, ILO = International Labor Organization, DFID = Department for International Department, British Embassy, SME = small- and medium-scale enterprise, UNIDO=

Note: In addition, the International Monetary Funds (IMF) provides assistance in macroeconomic surveillance and technical assistance in fiscal and monetary policy operations.

Table A6.2: Major Bilateral Agencies

Sector	Japan (JBIC & JICA)	USA (USAID)	Australia (AusAID)	Germany (GTZ & KfW)	Canada (CIDA)	Others (especially UK-DFID & Netherlands)
A. Strategic Priorities						
Crosscutting Themes	Achieving equality Human resources development Environment conservation Support for industrial restructuring Development of industrial infrastructure	Support for reforms Strengthen institutional capacity Strategic objectives (other than listed below) Democratic reforms Decentralization Encouraging sustainable, significant economic growth Reducing conflict Project assistance focused in East and West Java, West Papua and Aceh	Poverty reduction Sustainable economic recovery Democratization Improved governance Address vulnerable groups' needs	Decentralization incl. good governance Economic reform and establishment of market economy Infrastructure (transport)	Environmental protection Policy for private sector development Participatory development Gender equity	Governance (esp., via the Partnership) Environment, esp. forestry sector Social protection Community recovery program Pro-poor policy formulation (DFID) Sectorwide assistance modality (Dutch)
B. Sectoral Involvement and Areas of Emphasis						
Agriculture and Rural Development	Irrigation system improvement Farm input (fertilizer) supply development	Farm commodity program and policy advice	Rural development	Local capacity building, community empowerment	Rural participatory development	Rural community development program
Natural Resources and Environment	Technical assistance for environmental protection	Decentralization of natural resources management Biodiversity	Natural resource management, especially maritime and environment protection	Forestry, industry pollution, environment protection	Building capacity of key institutions	Forestry sector technical assistance Environmental fund for local governments Dutch assistance to water/environment
Education	Vocational and technical education		Basic and vocational education and training	Basic education and vocational training	Human resources development	Dutch assistance to basic education

Sector	Japan (JBIC & JICA)	USA (USAID)	Australia (AusAID)	Germany (GTZ & KfW)	Canada (CIDA)	Others (especially UK-DFID & Netherlands)
Health	Social protection	Women and child health care	Preventive health programs	Family planning, HIV/AIDs, Health sector infrastructure financing		
Urban Development	Urban infrastructure development and housing development	Urban environment management		Local capacity building, promotion of informal sector		
Physical Infrastructure	Gas and electricity development, national road improvement and telecommunications	Energy sector policy strengthening	Water supply and sanitation	Transportation, water supply and sanitation		
Finance and Industry	Stabilizing the macro economy Industrial structuring and business promotion Trade financing	Corporate and financial sector restructuring SME support	Financial sector restructuring	Micro/rural financial systems, SMEs, trade policy and private sector promotion	Private sector development policy support	Trade financing Corporate governance training

HIV= Human Immunodeficiency Virus, AIDS = Acquired Immune Deficiency Syndrome, AUSAID = Australian Agency for International Development, CIDA = Canadian International Development Agency, GTZ = German Technical Cooperation, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, KfW = Kreditanstalt für Wiederaufbau, UK-DFID = United Kingdom, Department for International Development, USAID = United States Agency for International Development.

CONCERNS, RISKS, MONITORING INDICATORS, AND MITIGATING ACTIONS

Sector and Concern	Risks	Major Monitoring Measures	Mitigating Measures
<p>Long-term sustainable reductions in poverty and improvement in regional inequalities</p>	<p>Progress demands success in the Asian Development Bank (ADB's) program, but more importantly, success in the broader Government programs and those of other international funding agencies</p>	<p>Social indicators: broad poverty measures (head count, depth, severity), income distribution, unemployment, extent of social service provision to low-income groups, coverage of social protection programs</p> <p>Regionally specific indicators, especially of income, output, inflation, investment, and employment</p>	<p>Revise strategy; review and revise levels of resource transfer; and provide technical assistance (TA) where warranted.</p>
<p>Need to support governance reforms aimed at creating basic institutions:</p> <ul style="list-style-type: none"> • anticorruption, • legal and judicial reform, and • support for civil society 	<p>Lack of progress means</p> <ul style="list-style-type: none"> • continued fragility of macroeconomic balances, • lack of significant growth and poverty reduction, • limited external financing, and • increased social costs. 	<p>Governance Indicators to be determined with the review of the Governance Assessment through Partnership for Governance Reforms. The draft governance indicators being developed by ADB in the Philippine operations provide an additional starting point for discussion, with Government.</p> <p>An indicative set of indicators would include successful prosecutions for corruption and malfeasance, real wages for civil service employees, survey information on public perception of corruption, and qualitative reports on civil service reform.</p>	<p>If reforms are incomplete, reduce lending only to core programs in social services and protection. Be prepared to be flexible and to respond to needs for policy advice, technical assistance, and policy-based loans. Support expanded staff in Indonesia Resident Mission (IRM) with appropriate skills.</p>
<p>Need to encourage sustainable recovery and pro-poor growth: enabling private sector development</p> <ul style="list-style-type: none"> • Strengthening economic performance through improved financial sector governance. • Supporting competition and small- and medium-scale enterprises (SMEs) • Improved corporate governance • Positioning the economy to benefit from changing technology and global conditions 	<p>Failure to manage a long-term recovery and the maintenance of significant potential for future growth will doom substantial poverty reduction efforts.</p> <p>Failure in banking to proceed with reforms will mean an industry structure dominated by noncommercial practices, vulnerable to systemic shocks capable of undermining macroeconomic stability.</p> <p>Progress is needed in enterprise restructuring to support private sector-led growth.</p> <p>The economy must maintain a basic openness to encourage foreign direct investment and technology transfer.</p>	<p>Indicators should address a broad range of issues: real gross domestic product (GDP) growth, fiscal balance, external account balance and foreign exchange rate stability, monetary and price stability, net international reserves, foreign direct investment (FDI), debt indicators, and measures of productivity by sector, as well as sectoral public expenditure allocations, particularly for social sectors, urban services, and rural infrastructure.</p> <p>In banking, the September letter of intent (LOI) provides specific targets, including</p> <ul style="list-style-type: none"> • Restructuring and reducing public ownership in banks; • improving bank supervision; and • strengthening Indonesian Banking Restructuring Agency (IBRA) governance accountability, and performance. <p>Additional indicators are</p> <ul style="list-style-type: none"> • profitability ratios, • lending levels, • nonperforming asset ratios, and • the share of output and employment generated by SMEs. <p>In the nonbank financial sector, indicators include capital assets measures, stock market capitalization, and bond issue measures.</p> <p>In enterprise reform, the September LOI provides a specific set of targets, including</p> <ul style="list-style-type: none"> • specific organization and efforts for 	<p>The basic sector strategy is to</p> <ul style="list-style-type: none"> • participate in coordinated aid agency efforts to support reforms, and • utilize economic and sector work (ESW) and advisory TA to provide policy advice.

Sector and Concern	Risks	Major Monitoring Measures	Mitigating Measures
		<p>Jakarta Initiatives Task Force (JITF) progress,</p> <ul style="list-style-type: none"> • provision of a tax and regulatory policy environment supportive of JITF, and • improving the operations of the bankruptcy court. <p>Additional indicators include private sector debt overhang measures.</p>	
<p>Need to support balanced regional development for regional equity, including</p> <ul style="list-style-type: none"> • decentralization; • rural development, involving farm systems development, irrigation, rural roads, and micro-credit; and • transport systems, particularly related to marketing and distribution 	<p>Failure to redress inequitable development undermines national efforts.</p> <p>Decentralization problems would disrupt service provision, risking economic and political stability.</p> <p>Failure to provide opportunities in rural sector means low sectoral productivity and limited poverty reduction.</p> <p>Weak transport will inhibit the development of outer islands.</p>	<p>Budget expenditures and revenues of local government, particularly for investment and for social and urban services</p> <p>Capacity of local government must be monitored. Index of governance by region must be assembled.</p> <p>Basic economic data must be measured separately for rural and nonrural populations, including income, public expenditure, financial system flows, investment, farm productivity, and availability of infrastructure.</p>	<p>Develop program strategy to support decentralization, local government capacity building, rural and outer island development.</p> <p>Be prepared to shift geographic emphasis due to need and to likelihood of successful interventions.</p>
<p>To reduce poverty through social development, comprising:</p> <ul style="list-style-type: none"> • social sector (health, education) and urban services, • social protection, and • gender and development challenges 	<p>Failure to improve extent and efficiency of service provision limits poverty reduction and potential for growth.</p> <p>Weak efforts at social investment and addressing gender issues result in inequities in development.</p>	<p>Public expenditures in social sectors and social protection</p> <p>Measures of service cost, productivity, and provision</p> <p>Indices of access to services and social protection and quality of service</p> <p>Basic economic measures must be kept by gender, including income, employment, and access to social services and social protection.</p>	<p>Use ESW and advisory TA to identify problem areas, design and redesign projects to reflect lessons learned and changing needs.</p> <p>Build capacity for local level officials.</p> <p>Actively involve civil society, in particular non-government organizations (NGOs), in the monitoring and evaluation.</p>
<p>Preserving the environmental resource base: sustainable natural resource management through appropriate management and appropriate economic incentives</p>	<p>Continuation of major environmental degradation and resource depletion risks seriously the potential for growth and specifically the immediate living conditions of many of the country's poor.</p>	<p>Basic environment indicators have been determined in the Environment Profile of Indonesia and ADB's program of environment mapping. These should be continued, paying particular attention to areas of ADB assistance, including (i) biodiversity, (ii) coastal resources, (iii) fire and drought incidence, and (iv) community-based management capacity.</p>	<p>Use ESW and advisory TA to identify problem areas, design and redesign of projects to reflect lessons learned.</p> <p>Build capacity for local level environmental officials.</p> <p>Actively involve civil society, in particular NGOs, in monitoring and evaluation.</p>