Report No. 15383-IND

Indonesia
Dimensions of Growth

May 7, 1996

Country Department III
East Asia and Pacific Region

CURRENCY EQUIVALENTS [a]

Before November 15, 1978, $1.00 = Rp415

Annual Average 1979-1995

1979	$1.00 = Rp623
1980	$1.00 = Rp627
1981	$1.00 = Rp632
1982	$1.00 = Rp661
1983	$1.00 = Rp909 [b]
1984	$1.00 = Rp1,026
1985	$1.00 = Rp1,111
1986	$1.00 = Rp1,283 [c]
1987	$1.00 = Rp1,644
1988	$1.00 = Rp1,686
1989	$1.00 = Rp1,770
1990	$1.00 = Rp1,843
1991	$1.00 = Rp1,950
1992	$1.00 = Rp2,030
1993	$1.00 = Rp2,087
1994	$1.00 = Rp2,161
1995	$1.00 = Rp2,249

FISCAL YEAR

Government	-	April 1 to March 31
Bank Indonesia	-	April 1 to March 31
State Banks	-	January 1 to December 31

---

[a] $ denotes US dollars.

[b] On March 30, 1983 the Rupiah was devalued from $1.00 = Rp703 to $1.00 = Rp970.

[c] On September 12, 1986 the Rupiah was devalued from $1.00 = Rp1,134 to $1.00 = Rp1,644.

ABBREVIATIONS, ACRONYMS AND DEFINITIONS

AMDAL	Environmental Impact Assessment
ASEAN	Association of Southeast Asian Nations
BAPEDAL	National Pollution Control Agency
BAPPEDA	Regional Development Planning Board
BAPPENAS	National Development Planning Board
BKPM	Investment Coordinating Board
BOT	Build, Operate and Transfer
BPD	Regional Development Bank
BPN	National Land Agency
BPS	Central Bureau of Statistics (Biro Pusat Statistik)
CGI	Consultative Group for Indonesia
COLT	Commercial Offshore Loan Team
CPI	Consumer Price Index
DATI I	Provincial Level Government
DATI II	Local Level Government
DIP	List of Project Contents
DOD	Debt Outstanding and Disbursed
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
HC	Carcinogenic Hydrocarbons .
ICOR	Incremental Capital-Output Ratio
IDT	Block grant program for left-behind villages
IHH	Forest Concession Fee
IMF	International Monetary Fund
INPRES	Instruction of the President
JABOTABEK	Jakarta, Bogor, Tangerang, Bekasi Area
JAMSOSTEK	Social Security System
KABUPATEN	Regency
KEPPRES	Decision of the President
KFM	Minimum Physical Need
KOTAMADYA	Urban Municipalities
KSO	Joint Operating Scheme
KUD	Local Cooperative
LNG	Liquid Natural Gas
LPG	Liquid Petroleum Gas
MLT	Medium- and Long-Term
MOEC	Ministry of Education and Culture

NGO	Non-Governmental Organization
PAM	Water Supply Company (Local)
PJP1	The First Twenty Five Year Long-term Development Plan
PTP	Publicly-Owned Plantation
PTT	Non-Permanent Employees
REPELITA	Five-Year Development Plan
RETRIBUSI	User charge
SAKERNAS	Labor Force Survey
SBI	Bank Indonesia Certificate (Central Bank liability)
SBPU	Money market instrument (Central Bank asset)
SIUP	Ordinary Business License
SPM	Suspended Particulate Matter
VAT	Value Added Tax
WTO	World Trade Organization

INDONESIA: DIMENSIONS OF GROWTH

CONTENTS

TABLES IN TEXT

FIGURES IN TEXT

BOXES IN TEXT

RINGKASAN EKSEKUTIF
INDONESIA: DIMENSI PERTUMBUHAN

Indonesia adalah salah satu dari Kelompok Negara Asia dengan Kinerja Ekonomi Tinggi. Pertumbuhan PDB per kapita selama 30 tahun terakhir berada pada peringkat 10% teratas dari seluruh negara berkembang; juga dicatat keberhasilan dalam pengentasan kemiskinan. Menurut Bank Dunia, pada tahun 1993 status Indonesia bergeser dari negara berpenghasilan rendah ke kelompok negara berpenghasilan menengah bawah.

Laporan ini mengkaji empat dimensi kinerja perekonomian Indonesia dan beberapa tantangan yang dihadapi dalam memodernisasi ekonomi Indonesia, seperti: pemeliharaan stabilitas ekonomimakro; peningkatan transparansi dan persaingan ekonomi (sumberdaya alam, polusi lingkungan, deregulasi, sektor keuangan dan keikutsertaan swasta dalam pengadaan infrastruktur); pemeliharan agar pasar tenaga kerja berfungsi dengan baik; kesinambungan pemerataan dan pengembangan basis pembangunan daerah.

Kesinambungan modernisasi ekonomi yang terutama dan yang paling hakiki tergantung kepada pemeliharaan stabilitas ekonomi. Dalam jangka menengah akan terjadi peningkatan besar terhadap permintaan investasi swasta. Pada periode berikutnya, pertumbuhan lebih cepat tetapi juga defisit neraca perdagangan nonmigas dan transaksi berjalan mengalami peningkatan. Defisit transaksi berjalan yang semakin besar akan dibiayai, yang paling utama dari pemasukan modal swasta luar negeri. Keadaan ini mudah bergejolak. Ketergantungan yang semakin besar pada pemasukan modal swasta luar negeri yang gampang bergejolak itu adalah salah satu sumber kerawanan ekonomi. Kehati-hatian dalam penerapan kebijaksanaan ekonomimakro adalah suatu langkah yang harus dilakukan dalam memelihara kepercayaan dan mengurangi risiko.

Kebijaksanaan seperti itu dapat mencakup peningkatan surplus anggaran-belanja negara dan pengetatan kebijaksanaan moneter. Kebijaksanaan-kebijaksanaan tersebut akan mengurangi tingkat pertumbuhan konsumsi dan mendukung peningkatan investasi swasta. Beberapa perangkat kebijaksanaan fiskal, seperti peningkatan harga Bahan Bakar Minyak (BBM) dan Iuran Hasil Hutan (IHH), serta pengurangan pengeluaran negara pada sektor yang sebagian besar telah mampu dikelola swasta, dan juga dalam meningkatkan efisiensi dan pemerataan. Pengetatan kebijaksanaan moneter bermaksud menyusun target secara konservatif terhadap pertumbuhan kredit dalam negeri, menyesuaikan tingkat suku bunga terhadap berbagai peralatan kebijaksanaan moneter Bank Indonesia sejalan dengan pergerakan suku bunga internasional, ketepatan pelaksanaan berbagai peraturan pada sektor keuangan dengan hati-hati.

Kelanjutan ketepatan pengendalian utang pemerintah dan semi-pemerintah oleh Tim Pinjaman Komersial Luar Negeri (PKLN) dan jaminan yang diberikan baik secara implisit maupun eksplisit terhadap hutang swasta, menjadi pendukung berbagai kebijaksanaan tersebut di atas. Untuk menciptakan peluang agar lebih besar pinjaman swasta, pemerintah dapat melakukan program pembayaran hutang luar negeri menggunakan surplus anggaran dan dari swastanisasi Badan Usaha Milik Negara (BUMN). Kebijaksanaan-kebijaksanaan ini mempunyai dampak sangat positif bagi peningkatan kepercayaan pasar.

Paket deregulasi Mei 1994 dan Mei 1995 meningkatkan transparansi dan persaingan, dan merupakan salah satu penyebab menguatnya permintaan investasi dan dalam peningkatan investasi asing yang disetujui. Paket Januari 1996 maju lebih jauh lagi dengan penurunan tarif sesuai dengan jadwal yang sudah diumumkan pada bulan Mei 1995. Petuntasan agenda deregulasi yang masih belum dilaksanakan diperlukan dengan tiga alasan. Pertama, mendorong produsen untuk lebih efisien dan meningkatkan manfaat kepada konsumen. Kedua, menunjukkan tekad pemerintah dalam memelihara stabilitas dan diharapkan akan meningkatkan kepercayaan para investor. Ketiga, deregulasi meningkatkan pemerataan melalui pemaksaan kegiatan-kegiatan yang dilindungi untuk mulai bersaing dan meningkatkan permintaan akan tenaga kerja.

Masalah yang berpangkal dari kurangnya transparansi dalam kebijaksanaan pertanahan, air bersih, dan kehutanan, juga akan memperlambat proses modernisasi. Pengurangan masalah tersebut dapat dilakukan dengan pemercepatan proses sertifikasi hak milik atas tanah, perluasan kepercayaan terhadap mekanisme pasar, seperti penetapam IHH yang lebih tinggi dan penetapan harga air bersih yang lebih baik. Karena kegagalan mekanisme pasar dalam mengendalikan polusi (misalnya polusi air dan udara) sehingga sistim transparansi sulit diterapkan, diperlukan kombinasi peralatan pengendalikan mekanisme pasar, deregulasi yang dipercaya dalam penerapannya, dan informasi dari masyarakat yang berkaitan dengan kinerja perusahaan-perusahaan dalam mengendalikan polusi.

Sebuah sistem keuangan yang sehat adalah salah satu syarat dalam sebuah perekonomian yang modern. Penerapan secara tegas peningkatan modal perbankan, perbaikan terhadap peraturan yang sudah ada, dan sepanjang masih mendapat dukungan politik dari jajaran yang tertinggi dalam menagih utang yang telah jatuh tempo pada bank-bank pemerintah, akan meningkatkan kepercayaan kepada sistem keuangan dan mengurangi tingkat suku bunga dalam negeri. Peningkatan transparansi dan kompetisi dalam proses swastanisasi akan menguntungkan konsumen dan pembayar pajak, dan, dengan meningkatkan lebih besar penerimaan, mempercepat pembayaran hutang luar negeri, serta mempertahankan stabilitas ekonomimakro.

Pasar tenaga kerja menunjukkan kinerja yang baik. Perluasan basis pertumbuhan telah mendorong pengalihan pekerja dari sektor pertanian ke kegiatan dengan produktivitas dan upah yang lebih tinggi. Pemerintah telah memperluas fasilitas pendidikan dasar dan pelayanan kesehatan dasar bagi hampir seluruh rakyat Indonesia. Kesenjangan jender dalam pendidikan dan penghasilan telah berkurang dengan cepat.

Tantangan dalam pasar tenaga kerja adalah mempertahankan pertumbuhan kesempatan kerja yang cepat dan mengembangkan kelembagaan yang memungkinkan kinerja pasar tenaga kerja dengan baik secara berkesinambungan. Peningkatan upah minimum yang besar baru-baru ini mulai mengurangi daya saing dan memperlambat penciptaan kesempatan kerja pada sektor formal. Keberlanjutan mempertahankan pertumbuhan permintaan tenaga kerja yang tinggi akan tergantung pada kemampuan dalam memelihara peningkatan upah minimum sejalan dengan peningkatan produktivitas, stabilitas ekonomimakro, dan deregulasi yang berkesinambungan.

Seluruh propinsi di Indonesia telah merasakan manfaat dari perluasan basis pertumbuhan ekonomi. Pendapatan per kapita, konsumsi per kapita, status pendidikan dan kesehatan menunjukkan perbaikan selama kurun waktu 1983-93. Agak kurang

mengesankan perbaikan dalam pemerataan distribusi pengeluaran. Bagaimanapun perbedaan antardaerah patut mendapat perhatian. Pertumbuhan PDB per kapita untuk kawasan timur yang berpenghasilan rendah melebihi 4% dan disertai dengan perbaikan dalam indikator-indikator kesehatan dan pendidikan. Di samping itu tingkat kemiskinan masih tinggi dan berbagai indikator sosial masih serupa dengan kelompok negara berpendapatan rendah.

Upaya pemercepatan pengentasan kemiskinan harus terus dilanjutkan mengingat masih banyak penduduk miskin di Jawa dan Sumatera dan masih tinggi tingkat kemiskinan—melihat jumlah penduduk miskin relatif rendah—untuk kawasan timur. Pembangunan daerah dilanjutkan dengan landasan pemcercepatan laju pertumbuhan dan perluasan basis pertumbuhan. Sekali lagi, stabilitas ekonomimakro sebagai fondasi.

Deregulasi mengurangi penyimpangan anti-perdagangan akan mendorong pembangunan daerah yang seimbang karena harga produk akan turun bersaing dengan produk impor, dan menaikkan harga produk ekspor. Pembangunan proyek-proyek pertanian dan prasarana yang diarahkan pada daerah miskin akan membantu daerah bersangkutan untuk memanfaatkan dengan lebih baik peluang dalam perdagangan dan sumberdaya yang dimiliki makin lebih baik. Langkah selanjutnya menggeser alokasi belanja negara kepada program-program yang sangat berguna untuk penduduk miskin, seperti pertanggungjawaban pelayanan pendidikan dan kesehatan yang didukung dengan desentralisasi perhitungan anggaran pengeluaran dan cara mencari sumber pembiayaan, akan membantu kelanjutan pemercepatan pengentasan kemiskinan pada seluruh wilayah nusantara.

A. Kebijaksanaan Ekonomimakro Untuk Mengurangi Risiko

1.   Indonesia mempunyai reputasi baik dalam pengelolaan ekonomimakro. Catatan keberhasilan termasuk penyesuaian yang cepat dalam menghadapi gejolak harga minyak pada pertengahan tahun 1980-an, memanasnya perekonomian Indonesia pada awal tahun 1990-an, dan dampak krisis Meksiko pada tahun 1995.

2.   Permintaan swasta dalam negeri yang kuat bertolakbelakang dengan pengetatan moneter dan fiskal tetapi defisit transaksi berjalan masih tetap tinggi mencapai $6.9 miliar (3.4% dalam PDB) dan laju inflasi berkisar 9-10%. PMA, investasi portofolio dan pinjaman swasta merupakan bagian terbesar dari sumber pembiayaan untuk menutup defisit transaksi berjalan, dan meningkatkan cadangan devisa pemerintah sebesar $2,7 miliar.

3.   Dominasi pembiayaan yang bersumber dari swasta mencerminkan transformasi struktural dalam perekonomian. Investasi swasta dalam beberapa tahun mendatang yang diperkirakan meningkat akan mempercepat pertumbuhan PDB. Tetapi akan mendorong mengimpor lebih tinggi dan selanjutnya defisit transaksi berjalan menjadi meningkat mencapai sekitar 4-4,5% dalam PDB. Modal swasta— PMA dan utang swasta—akan menjadi sumber terbesar dalam menutupi defisit. Ketergantungan yang besar terhadap arus masuk modal swasta merupakan salah satu sumber kerawanan ekonomi. Oleh karena itu, kebijakan ekonomi perlu diarahkan untuk mengurangi risiko dan kerawanan tersebut (lihat berikut ini).

4.   Kebijaksanaan fiskal dan moneter yang ketat untuk tahun 1996/97 diperkirakan tidak begitu besar turun pertumbuhan impor nonmigas dan komposisi impor akan bergeser ke barang modal yang mencerminkan perkiraan permintaan investasi swasta yang

semakin kuat. Pertumbuhan ekspor nonmigas diperkirakan akan sedikit meningkat. Defisit transaksi berjalan diperkirakan meningkat menjadi $8,8 miliar pada periode 1996/97 (4% dalam PDB). Pembiayaan defisit yang meningkat tersebut akan sangat ditentukan oleh kemampuan mempertahankan sentimen pasar (*market sentiment*) yang menguntungkan.

5.   Tanpa kebijaksanaan fiskal dan moneter yang lebih ketat, permintaan konsumsi masih tetap tinggi atau tumbuh lebih cepat pada periode 1996/97, yang cenderung memperbesar defisit transaksi berjalan. Kemungkinan bila terjadi defisit transaksi berjalan yang cukup besar akan menyulitkan upaya dalam mengendalikan perilaku. Arus modal masuk dapat dengan cepat berbalik menjadi arus modal ke luar, perekonomian menjadi terancam.

6.   Mengurangi risiko bermaksud berupa kebijaksanaan fiskal dan moneter yang ketat untuk membatasi kecenderungan makin besarnya defisit transaksi berjalan. Kebijaksanaan ekonomimakro adalah yang diutamakan dalam mengurangi risiko, seperti mendorong agar tingkat tabungan pemerintah menjadi lebih tinggi untuk mengurangi permintaan agregat dan melampangkan tempat peningkatan investasi swasta. Kebijaksanaan fiskal adalah efektif dalam mengendalikan permintaan agregat di Indonesia. Dalam mencapai tujuan, pemerintah berupaya untuk meningkatkan surplus secara keseluruhan (menurut meteran IMF/Bank Dunia) yakni sekitar 2% dalam PDB. Beberapa langkah yang dapat membantu mencapai tujuan tersebut secara efisien dan merata yaitu menaikkan harga BBM, tarif listrik, dan IHH, serta menurunkan pengeluaran pemerintah pada sektor yang telah mampu pihak swasta telah berperan besar dalam pengelolaannya.

7.   Kebijaksanaan moneter yang lebih ketat akan mencakup penetapan pertumbuhan kredit dalam negeri Bank Indonesia yang

konservatif, penyesuaian secara terus-menerus tingkat suku bunga sebagai instrumen kebijaksanaan moneter seirama dengan pergerakan tingkat suku bunga internasional, dan keakuratan pelaksanaan peraturan-peraturan yang berlandaskan kehati-hatian terhadap bank-bank komersial. Cadangan wajib perbankan yang lebih tinggi dan pelebaran batasan intervensi (*intervention band*) terhadap nilai tukar dapat meningkatkan efektivitas kebijaksanaan moneter. Jika arus modal secara mendadak terhenti atau berbalik arah, kebijaksanaan moneter perlu lebih diperketat lagi.

8.   Pemerintah juga dapat mengurangi risiko dengan mengurangi hutang pemerintah, dan dengan demikian menciptakan peluang bagi swasta untuk melakukan pinjaman. Hutang luar negeri Indonesia tergolong besar. Permintaan investasi yang lebih tinggi pada umumnya melibatkan pinjaman luar negeri yang cukup besar, sehingga akan menambah jumlah hutang yang ada. Sektor pemerintah perlu membatasi pertumbuhan hutang luar negeri dengan mengurangi hutang luar negeri Pemerintah. Pemerintah dapat mengurangi hutang dengan jumlah yang cukup besar dalam tiga sampai lima tahun mendatang sehingga menciptakan ruang bagi peminjam swasta dan akan mempunyai dampak yang kuat dalam mengendalikan pasar. Kebijakan ini didukung oleh pembatasan dari PKLN yang tepat terhadap hutang Pemerintah dan hutang yang berkaitan dengan Pemerintah.

9.   Swastanisasi akan meningkatkan efisiensi dan membantu mengurangi hutang luar negeri. Realisasi sasaran swastanisasi yang cukup tinggi akan tergantung pada percepatan pengembangan kerangka kerja yang transparan dan kompetitif untuk swastanisasi (Bagian C.5).

B. Pembiayaan Luar Negeri dan Bantuan Luar Negeri

10.   Proyeksi pembiayaan luar negeri untuk Indonesia didasarkan pada skenario kebijaksanaan ekonomimakro yang lebih ketat yang membatasi defisit transaksi berjalan pada tahun 1996/97 yang diperkirakan di bawah $9 miliar. Jumlah kebutuhan pembiayaan pada tahun 1996/97 diperkirakan lebih besar dibanding dengan pada tahun 1995/96, karena defisit transaksi berjalan lebih besar dan keperluan untuk menaikkan cadangan devisa dengan jumlah yang aman dalam mengantisipasi impor. Arus masuk dari pinjaman dan modal swasta yang cukup tinggi diperkirakan akan membiayai sebagian besar dari defisit pada tahun 1996/97.

11.   Namun demikian, bantuan luar negeri masih sangat diperlukan karena beberapa alasan. Pertama, bantuan tersebut menjamin tersedianya dana yang memadai untuk membiayai kegiatan-kegiatan pembangunan yang tidak menarik bagi investor swasta. Sebagai contoh, pembangunan sumberdaya manusia, pembangunan prasarana di luar Jawa, dan selama kerangka kerja partisipasi swasta masih dalam tahap penyempurnaan. Kedua, dalam jangka panjang, tingkat suku bunga yang lebih rendah dan diversifikasi risiko sejalan dengan pemberian bantuan tersebut akan memperbaiki struktur pembiayaan luar negeri dan mengurangi ancaman dari perubahan mendadak terhadap arus modal swasta. Ketiga, ketersediaan bantuan luar negeri yang memadai menjamin proses transisi yang mulus menuju pembiayaan swasta. Berdasarkan hal tersebut, komitmen dari negara donor CGI untuk jumlah sekitar komitmen tahun lalu akan sangat menunjang program di atas.

12. Seperti pada pertemuan CGI tahun 1995, prioritas dari bantuan tersebut adalah pembangunan sumberdaya manusia, pengentasan kemiskinan, dan penyediaan prasarana fisik yang dapat mengurangi kendala pertumbuhan sektor swasta. Prioritas-prioritas tersebut tidak diubah. Sebagai tambahan, sangat penting peran pemerintah dalam menetapkan kerangka aturan kerja untuk mendorong agar lebih besar keikutsertaan swasta dalam pembangunan. Sejalan dengan itu perlu peninjauan kembali kebijaksanaan belanja pembangunan berupa pengurangan atau pengalihan alokasi sehingga kegiatan pihak swasta tumbuh lebih maju, dan bantuan lunak agar dimanfaatkan secara maksimal melalui pengendalian dalam pelaksanaannya.

C. Meningkatkan Transparansi dan Persaingan

13. Pertumbuhan ekonomi telah meningkatkan rata-rata pendapatan pada seluruh pelosok Indonesia dalam 30 tahun terakhir ini. Basis pertumbuhan ekonomi—sektor industri pengolahan dan jasa yang tumbuh lebih cepat menarik pekerja pedesaan untuk bekerja pada kegiatan yang lebih produktif—menunjang kesinambungan modernisasi Indonesia. Selain itu merupakan jalan yang terbaik untuk mencapai kemajuan yang terus-menerus dalam mengentaskan kemiskinan. Tetapi, pertumbuhan juga akan menimbulkan berbagai permasalahan yang pada saat ini telah mulai dirasakan, paling tidak akan diambil kebijakan untuk mengatasinya. Permasalahan tersebut terlihat pada bidang pertanahan, sumber daya air dan kehutanan; polusi yang cenderung semakin meningkat; proses deregulasi; pada sektor keuangan; dan pada proses swastanisasi. Transparansi dan keterkaitan yang lebih besar kepada mekanisme pasar dapat memperkecil dampak dari permasalahan tersebut.

1. Transparansi dalam pengelolaan tanah, air dan hutan

14. Tanpa transparansi menyebabkan pasar pertanahan di Indonesia berfungsi dengan buruk. Kurang memadai pelayanan sertifikasi tanah dan tidak transparansinya peraturan kepemilikan tanah adalah sebagai akar penyebab permasalahan. Kesulitan dalam penjualan tanah akan mengurangi mobilitas sumberdaya. Masalah-masalah dalam penggunaan tanah untuk keperluan sebagai jaminan dalam mendapatkan kredit. Gangguan keamanan kadangkala muncul ketika terjadi perubahan kepemilikan atau penggunaan tanah. Mempercepat proses sertifikasi tanah merupakan suatu prioritas utama. Selain itu, perbaikan dalam prosedur dan kebijakan harga untuk penjualan dan pembelian tanah negara sangat diperlukan, dengan lebih memperhatikan pemberian hak bagi pemukim yang telah ada. Perhatian secara khusus harus diberikan kepada penggunaan ijin negara dalam mendapatkan tanah.

15. Hutan di Indonesia adalah sebuah sumber daya alam yang utama; Ketidaklestarian pemafaatan disebabkan karena kurangnya transparansi dalam pengelolaan dan kurang memadainya insentif untuk keperluan pelestarian. Sistem pemberian pengusahaan hutan yang berlaku saat ini mendorong terjadinya penebangan hutan yang cepat, karena beberapa hal berikut: (i) jangka waktu pengusahaan hutan yang relatif pendek (biasanya 20 tahun dibandingkan siklus pertumbuhan pohon-pohon tropis yang paling cepat 35 tahun); (ii) risiko kenaikan IHH, yang pada saat ini sangat rendah untuk suatu pemanfaatan sumber daya publik; dan (iii) sanksi yang lemah terhadap penebang hutan konsesi yang berlebihan. Kelemahan sistem konsesi ini diperburuk oleh industri perkayuan yang bersifat kartel. Perbaikan yang

menyeluruh dalam sistem insentif untuk penebangan hutan yang berkesinambungan akan dapat tercapai dengan menderegulasi sektor perkayuan, menaikkan IHH, dan memberikan kepercayaan yang lebih besar terhadap penyelenggaraan sendiri dari pengelolaan konsesi hutan melalui surat tanggungan (*performance bonds*).

16. Pengelolaan sumber daya air menjadi semakin penting di masa mendatang, khususnya di pulau Jawa yang menampung 60% dari penduduk Indonesia, 70% dari pertanian beririgasi, dan 75% dari industri. Masalah utama adalah persaingan di antara pemakai (pertanian versus industri), dan di antara pengguna air tanah dan permukaan yang makin cepat pertumbuhannya pada daerah perkotaan. Persoalan tersebut diperumit oleh masalah polusi air yang semakin meningkat.

17. Seperti halnya dengan tanah dan hutan, penetapan harga untuk pemanfaatan sumber daya air juga kurang tepat, yang mengakibatkan penggunaan air secara berlebihan oleh sebagian kelompok masyarakat (terutama para petani dan kalangan rumahtangga berpendapatan menengah dan tinggi di daerah perkotaan) dan dengan harga tinggi serta kelangkaan air bagi kelompok masyarakat lainnya (termasuk penduduk miskin di daerah perkotaan). Iuran irigasi yang tinggi dan perbaikan harga air diperlukan guna mengurangi pemborosan penggunaan air irigasi sehingga dapat digunakan di daerah perkotaan dengan permintaan yang makin meningkat cepat. Di daerah perkotaan reformasi harga diperlukan karena dengan harga air tanah yang rendah akan mendorong pengeringan persediaan sumber air dalam tanah, dan harga yang rendah dari PAM mempersulit upaya perluasan akses dan pelayanan yang memadai.

2. Polusi Industri, Air dan Udara

18. Indonesia menghadapi kemungkinan makin meningkatnya biaya yang berkaitan dengan pencemaran. Suatu kombinasi dari penetapan harga yang lebih didasarkan pada mekanisme pasar (misalnya, menaikkan harga BBM paling tidak sama dengan harga internasional), ketegasan pelaksanaan peraturan, dan sebarluaskan informasi kepada masyarakat agar lebih memperhatikan kinerja perusahaan-perusahaan dalam mengendalikan polusi karena apa yang disebut dengan transparansi dan kompetitif adalah sulit diharapkan berhasil karena kegagalan mekanisme pasar (misalnya polusi air dan udara).

19. Akibat buruk terhadap kesehatan karena terbatasnya akses air bersih sudah semakin serius. Mutu air yang rendah sebagai akibat dari fasilitas sanitasi yang tidak mencukupi dan limbah industri. Teknologi dasar pendistribusian air dan sistem sanitasi sudah cukup mapan. Dengan demikian, kebijakan dapat diarahkan kepada perluasan penggunaan dan perbaikan dari air PAM (termasuk mengurangi kebocoran), memperluas akses, dan memperbaiki fasilitas kebersihan atau sanitasi.

20. Polusi udara merupakan masalah kesehatan yang serius di daerah perkotaan di Indonesia. Yang mendapat risiko terbesar adalah kelompok penduduk miskin. Beberapa pilihan praktis dalam memperbaiki polusi perlu dikaji lebih mendalam. Antara lain seperti mengurangi secara dominan penggunaan bensin, menetapkan ukuran standar pembuangan gas, melarang penggunaan mesin ganda, mewajibkan cairan pembersih bagi mesin-mesin diesel, menaikkan harga BBM ke tingkat harga internasional (dan, untuk selanjutnya dapat memperhitungkan biaya polusi), serta meningkatkan mutu pelayanan transportasi umum di daerah perkotaan.

21. Limbah berbahaya dan bahan-bahan beracun merupakan produk sampingan dari pertumbuhan sektor industri yang tinggi. Bahan-bahan tersebut merugikan kesehatan, mutu air, serta kegiatan-kegiatan pada sekitar aliran sungai. Kerangka kebijakan dan implementasi untuk menangani polusi industri akan lebih efektif jika diarahkan kepada usaha-usaha pencegahan daripada membersihkan daerah yang sudah tercemar karena biaya lebih mahal. Pada praktek bermaksud bahwa kebijaksanaan harus diarahkan pada penetapan peraturan yang baku bagi pabrik-pabrik baru dan disertai penggunaan teknologi yang lebih "bersih," khususnya pada industri dan lokasi yang berpolusi tinggi, serta mendorong sektor swasta untuk menggunakan teknologi terbaik dan melakukan investasi dalam pengendalian polusi melalui suatu kombinasi antara penegasan peraturan dan insentif.

3. Ciptakan Kesetaraan Persaingan: Agenda Deregulasi yang belum tuntas

22. Paket Mei (Pakmei) 1994 dan Pakmei 1995 telah banyak menyetarakan arena persaingan. Paket Januari 1996 melanjutkan pemotongan tarif (dari 15,1% menjadi 14,2%) sesuai dengan jadwal yang dicantumkan pada Pakmei 1995. Suasana yang makin transparans patut diakui telah turut sangat berperan dalam pertumbuhan investasi swasta pada dua tahun terakhir ini. Implementasi dari Putaran Uruguay dan pemotongan tarif yang terjadwal dari Pakmei 1995 akan meningkat-kan efisiensi dan pemerataan. Pemercepatan penjadwalan pemotongan pembatasan tarif dan nontarif serta formalisasi penjadwalan tersebut, akan memperkokoh program ini. Yang paling penting, tahapan belum dilaksanakan adalah penghapusan hambatan non tarif (dikaitkan dengan deregulasi dalam negeri) terhadap komoditas pertanian yang ditangani oleh Bulog, penurunan tarif pada kendaraan bermotor, dibuka industri-industri strategis, dan penghapusan pemberian subsidi, serta penghapusan hambatan-hambatan ekspor.

23. Penuntasan agenda deregulasi tersebut merupakan hal yang penting karena tiga alasan. Pertama, dengan menyetarakan arena persaingan, deregulasi mendorong produsen untuk lebih efisien dan akan menguntungkan konsumen. Kedua, deregulasi akan meningkatkan tingkat kepercayaan. Para penanam modal menghargai lingkungan keadaan yang stabil dan kebijakan yang konsisten serta pemercepatan proses deregulasi yang mencerminkan tekad pemerintah dalam menciptakan keadaan lebih stabil dan sesuai dengan yang diharapkan. Ketiga, deregulasi meningkatkan mutu pertumbuhan. Kebijakan perdagangan yang menguntungkan kelompok tertentu—memberikan perlindungan tarif kepada Chandra Asri dan keringanan tarif kepada usaha pengembangan kendaraan nasional—dapat menjadi salah satu sumber keresahan bagi sebagian masyarakat.

a. Turunkan Hambatan Impor

24. Berpedoman pada pemotongan tarif yang diumumkan pada bulan Mei 1995 akan mengurangi perlindungan impor yang cukup besar. Penjadwalan tarif memiliki tiga tingkatan—0%, 5% dan 10%—dan rata-rata tarif menjadi 7%. Jadi, agenda yang belum tuntas dalam penghapusan hambatan nontarif impor terdiri dari penghapusan hambatan tarif untuk beberapa komoditi: beras, gula, terigu, kedelai, dan berbagai hambatan yang erat kaitannya dengan pabrik pengolahan tepung terigu (perlindungan terhadap industri pengolahan kedelai untuk bahan makanan dihapus sesuai dengan yang ditawarkan Indonesia dalam Putaran Uruguay). Dari beberapa dokumen yang dipercaya diketahui bahwa dengan pemberian hambatan nontarif terhadap komoditi-komoditi tersebut tidak menguntungkan dilihat dari efisiensi dan keadilan. Sebagai contoh, hambatan nontarif dalam mengimpor gula diberikan sebagai perlindungan terhadap produsen gula dalam negeri tetapi menurunkan pendapatan riil sekitar 0.6%. Penghapusan hambatan nontarif

akan memberikan manfaat yang merata terhadap rakyat Indonesia secara keseluruhan.

b. Hapuskan Hambatan Ekspor

25. Hambatan ekspor mencakup setengah dari ekspor non-migas, atau hampir 2.000 produk. Hambatan-hambatan ini sering menekan pendapatan petani kecil, cenderung menguntungkan konsumen domestik, dan menurunkan efisiensi, serta ekspor non-migas.

26. Penghapusan hambatan ekspor untuk semua produk dapat mengurangi distorsi-distorsi yang ada. Pengecualian dapat dilakukan pada pengelolaan *Multi-Fiber Arrangement* kuota tekstil dan larangan ekspor binatang langka. Penjadwalan terhadap penghapusan hambatan-hambatan tersebut dapat dipertimbangan, bila dengan adanya hambatan tersebut telah mendorong investasi besar-besaran dalam kegiatan industri yang terkait.

c. Pelihara persaingan dalam negeri

27. Banyak campur tangan pemerintah yang sudah ada sebetulnya bisa kompetitif. Intervensi yang banyak sekali tersebut mencerminkan banyaknya tujuan yang ingin dicapai. Beberapa komoditas dianggap sangat penting/pokok sehingga penyalurannya dianggap terlalu penting untuk diserahkan pada mekanisme pasar. Sebagai contoh adalah semen dan pupuk, yang pengaturan distribusinya disertai dengan kehadiran pabrik BUMN. Untuk produk-produk lainnya, hambatan persaingan dilakukan untuk melengkapi hambatan-hambatan impor, meningkatkan nilai tambah pada kegiatan pemrosesan, tetapi memberikan keuntungan yang tinggi bagi investor swasta (misalnya tepung terigu dan kedelai). Hambatan-hambatan ini juga memanfaatkan kekuatan posisi Indonesia di pasaran dunia, misalnya pada kayu dan kayu-lapis, walaupun keuntungan yang didapatkan tidak dinikmati

oleh masyarakat luas. Peningkatan pendapatan daerah juga merupakan alasan untuk melakukan intervensi dalam perdagangan bebas di dalam negeri.

28. Pendekatan deregulasi yang berdasarkan peraturan (*rules-based*) yang jelas dan transparan untuk menghapuskan hambatan-hambatan persaingan domestik sangat diperlukan. Pendekatan tersebut akan menghilangkan monopoli (yang ditetapkan Pemerintah) dalam pengendalian pemasaran dan penyaluran produk-produk penting/pokok, serta membuka sektor perdagangan besar dan eceran kepada PMA. Pendekatan ini mencakup peraturan yang menetapkan bahwa Surat Izin Usaha Perdagangan (SIUP) merupakan satu-satunya ijin yang diperlukan untuk mengekspor dan/atau bergerak di bidang perdagangan dalam negeri. Di samping itu, keikutsertaan dalam asosiasi-asosiasi perdagangan atau komoditas hanya bersifat suka-rela, bukan suatu syarat. Pendekatan ini juga dapat mencakup penghapusan retribusi dan pajak khusus lainnya. Pendapatan yang berasal dari pajak-pajak tersebut dapat digantikan oleh penetapan harga dari pelayanan Pemerintah yang lebih baik dan pajak kepemilikan.

4. Transparansi dalam Sistem Keuangan

29. Pengendalian yang tegas terhadap penilaian secara hati-hati atas perkembangan lembaga-lembaga keuangan permodalan dan mengurangi keterbukaan pinjaman pada kelompok sendiri (*related-group exposure*), selama pengelolaannya dilakukan dengan baik (*better collections*), akan meningkatkan transparansi dalam sistem keuangan. Pada gilirannya akan meningkatkan kepercayaan, mengurangi risiko ketidakstabilan ekonomi makro, dan meningkatkan efisiensi pada lembaga perantaraan keuangan (*financial intermediation*), sehingga akan menurunkan biaya dana investasi. Dimensi transparansi lainnya yaitu berkaitan dengan kelemahan dari

kerangka hukum/legal untuk transaksi-transaksi kredit. Sekali lagi, suku bunga rupiah menjadi lebih tinggi dari yang seharusnya dan banyak manfaat lain yang bersumber dari peningkatan transparansi dalam transaksi kredit.

30. Bank-bank Pemerintah mencatat kemajuan yang lambat dalam mengurangi hutang-hutang bermasalah (bad debts). Saat ini, usaha yang lebih baik untuk mengembalikan hutang-hutang tersebut sangat diperlukan, baik untuk menurunkan potensi "pengeringan" fiskal maupun untuk meyakinkan bahwa hutang-hutang itu harus dibayar. Dengan adanya beberapa peminjam "penting," usaha pengembalian hutang tersebut memerlukan dukungan politis dari jajaran yang tertinggi. Pemecahan yang langgeng bagi permasalahan bank-bank Pemerintah memerlukan perubahan dalam "kebudayaan" mereka. Swastanisasi dapat lebih menjamin suatu insentif yang sesuai untuk peminjam, pengelola dan pemilik.

31. Usulan-usulan untuk menolong bank-bank Pemerintah harus dievaluasi dengan mengkaji dampaknya terhadap hutang-hutang yang telah ada. Restrukturisasi permodalan dan pengambil-alihan hutang-hutang yang bermasalah (atau rekayasa finansial lainnya) mempunyai risiko penurunan pelunasan kembali hutang bermasalah dan hutang-hutang lainnya. Peminjam akan cenderung untuk menghentikan pembayaran hutang-hutangnya dengan harapan dapat di"putih"kan, seperti yang telah terjadi di banyak negara lainnya. Pembayaran hutang yang lambat ini akan meningkatkan biaya jaminan (bail-out). Usaha-usaha pengembalian hutang dapat turut memecahkan masalah ini. Lebih lanjut, usaha restrukturisasi permodalan bank-bank Pemerintah, tanpa perubahan budaya yang menyebabkan timbulnya masalah-masalah tersebut, hanya akan membuat masalah-masalah yang lebih besar pada masa mendatang. Jika restrukturisasi permodalan

tidak dapat dihindari, maka transfer yang berasal dari anggaran negara lebih baik dibandingkan dengan transfer atau pinjaman dari Bank Indonesia yang kurang transparan dan mungkin dapat mengendorkan kebijakan moneter yang ketat.

32. Bank-bank swasta, secara rata-rata, berkondisi lebih baik dibandingkan dengan bank-bank Pemerintah. (Kecuali banyak bank swasta yaitu bank-bank kecil non-devisa.) Namun, insentif untuk memberikan hutang-hutang yang berisiko terus meningkat karena didorong oleh rendahnya modal, tingginya pinjaman untuk sesama kelompok usaha, serta ringannya hukuman atas pelanggaran dari peraturan yang telah ada, dan kecilnya kemungkinan penutupan bank oleh pihak yang berwenang. Pemberi pinjaman dan pemilik tabungan bereaksi atas insentif dari hutang-hutang berisiko tinggi dengan meminta tingkat bunga simpanan yang tinggi; yang akan menjadikan tingkat bunga Rupiah menjadi lebih tinggi untuk semua peminjam.

33. Bank Indonesia menurunkan insentif terhadap pinjaman-pinjaman yang berisiko dengan turut membebankan risiko yang mungkin terjadi pada pihak pemilik modal. Ketentuan ini dimulai sejak bulan Mei 1993. Pada Desember 1996 angka rasio kcukupan modal yang layak (capital adequacy ratio/CAR) terhadap setiap bank diperketat menjadi 8% (setelah dikurangi aktiva yang akan jatuh tempo terhadap modal dasar). Pemenuhan aturan ini akan meningkatkan kepercayaan pada sistem keuangan Indonesia; dan setiap penundaan akan menurunkan tingkat kepercayaan. Tingkat kepercayaan ini akan semakin baik dengan peningkatan rasio kecukupan modal bagi bank devisa menjadi 12% dalam waktu enam tahun. Langkah ini dapat diperkuat dengan mengurangi periode phase-in dan diberlakukan kepada bank non-devisa. Risiko juga dapat diperkecil dan transparansi dapat ditingkatkan dengan pelaksanaan peraturan yang ketat, dan

hukuman yang lebih berat untuk pelanggaran batas pinjaman pada kelompok sendiri.

34. Penerapan peraturan tersebut dapat diperkuat dengan sebuah pendekatan yang berdasarkan aturan yang transparan yang memberikan hukuman yang meningkat secara bertahap jika bank melanggar aturan CAR dan batasan *exposure*. Contoh hukuman ringan yaitu dengan membatasi akses terhadap kredit Bank Indonesia. Hukuman terberat dapat berupa penutupan dan pencabutan ijin mendirikan bank (*bank charter*). Suatu aturan yang jelas untuk penutupan bank, termasuk transfer jaminan untuk likuidasi, juga diperlukan.

5. Penyempurnaan Proses Swastanisasi

35. Program-program pembangunan dalam Repelita VI memberikan peranan yang semakin besar pada sektor swasta. Keterlibatan sektor swasta, terutama dalam telekomunikasi, sudah mulai tampak. Tetapi partisipasi sektor swasta masih dapat dipercepat dan akan menghasilkan manfaat yang lebih besar (baik dari pendapatan yang diperoleh dari menjual aset dan konsesi maupun dari kinerja sektor-sektor yang terkait dengan swastanisasi tersebut), jika Pemerintah menerapkan kerangka peraturan yang lebih transparan dan kompetitif, baik dalam negosiasi maupun dalam sektor-sektor yang partisipasi sektor swastanya meningkat. Keberhasilan keseluruhan proses swastanisasi juga akan tergantung pada transparansi dan kompetisi. Pengalaman di dunia menunjukkan bahwa berbagai persepsi yang mengarah pada ketidakterbukaan, kurangnya kompetisi, negosiasi yang tidak adil, dan kecenderungan untuk memenangkan suatu kelompok (favoritisme) dapat membahayakan proses swastanisasi itu sendiri dan bahkan dapat membahayakan upaya-upaya reformasi secara keseluruhan.

36. Pemerintah mempunyai peranan yang penting dalam mengelola proses swastanisasi tersebut dan menjaga interaksi antara sektor swasta dan sektor Pemerintah. Kerangka peraturan yang transparan dalam upaya melibatkan sektor swasta dalam penyediaan prasarana akan meliputi:

i) Pra-kualifikasi para penawar potensial yang akan ikut dalam pelelangan berdasarkan pengalaman masa lalu;

ii) Definisi dari proyek/konsesi sederhana dan jelas;

iii) Definisi proses pelelangan dalam satu atau dua parameter kunci;

iv) Pemilihan atas dasar penawaran tertinggi untuk penjualan aset dan atas dasar penawaran terendah untuk suatu kegiatan penyediaan pelayanan;

v) Pengumuman pemenang lelang dilakukan secepatnya dan hindari pelelangan ulang.

37. Swastanisasi sebagian aset melalui pasar modal dapat dipergunakan untuk membayar pinjaman. Swastanisasi dengan cara tersebut cukup kompetitif dan persyaratan-persyaratan yang ketat untuk memasuki pasar modal dapat memperbaiki kinerja perusahaan dan mengurangi campurtangan politis. Kerangka kerja sektoral yang jelas diperlukan untuk memaksimalkan harga penjualan. Tetapi, swastanisasi yang setengah-setengah mungkin tidak akan banyak memperbaiki pengelolaan perusahaan. Sedangkan kurangnya perusahaan yang diaudit secara terbuka di masa lalu akan dapat membatasi jumlah perusahaan yang dapat masuk pasar modal.

Problems caused by the lack of transparency in land, water and forestry policies could slow modernization. These problems could be reduced by expanding land titling and relying more on market mechanisms, such as higher forestry fees and better pricing of water. A combination of market-based instruments, regulation with credible enforcement, and public information about firms' performance in controlling pollution are called for where transparency is difficult to achieve because of market failure—air and water pollution for example.

A healthy financial system is a prerequisite for a modern economy. Enforcement of the programmed increases in bank capital and the existing related-group lending limits, along with support from the highest political level to collect overdue loans from state banks, would increase confidence in the financial system and reduce domestic interest rates. Greater transparency and competition in the privatization process would benefit consumers, taxpayers and, by raising more revenue for the prepayment of external debt, macroeconomic stability.

The labor market has performed well. Broad-based growth pulled workers out of agriculture into higher productivity, higher income jobs. The Government extended primary education and health services to virtually all Indonesians. Gender gaps in education and earnings are falling fast.

The labor market challenge is to sustain rapid job growth and to develop institutions that permit the labor market to continue to perform well. Large recent minimum wage increases have begun to reduce competitiveness and slow job creation in the formal sector. Sustaining strong labor demand growth depends on keeping minimum wage increases in line with productivity growth, macroeconomic stability and continued deregulation.

All provinces benefitted from Indonesia's broad-based growth. Per capita income, per capita consumption, education and health status rose during 1983-93. The equality of the distribution of expenditure improved modestly. Differences were in the rate of improvement. However, regional disparities are a concern. In the low-income eastern islands per capita GDP growth exceeded 4% and health and education indicators improved. Despite this, poverty rates are high and social indicators still are similar to low-income countries.

Continued progress in reducing poverty still must contend with large numbers of poor people in Java and Sumatra and high rates of poverty—though the absolute number of poor is small—in the eastern islands. Sound regional development will continue to be based on rapid, broad-based growth. Macroeconomic stability, again, is the foundation. Deregulation to eliminate anti-trade bias would promote balanced regional development by dropping the prices of import-competing products and raising the prices of exportables. Focused regional agricultural and infrastructure development projects for poor regions would help them use their trading opportunities and their resources better. A further shift in public sector spending toward pro-poor programs—basic health and education—supported by decentralizing the responsibility and accountability for expenditures and their financing, would help sustain progress in poverty alleviation across the archipelago.

rata-rata nominal pekerja wanita sekitar 50% lebih tinggi dibandingkan dengan kenaikan upah pekerja laki-laki dalam kurun waktu 1986-1993.

45.   Sebelum akhir 1980an, pemerintah menyerahkan penentuan tingkat upah kepada mekanisme pasar tenaga kerja. Tingkat upah bagi pekerja industri di daerah perkotaan tidak jauh berbeda dengan upah di sektor pertanian dengan tingkat kualifikasi yang sama. Tingkat upah minimum para pekerja sektor formal umumnya setingkat atau lebih rendah daripada yang ditentukan oleh mekanisme pasar tenaga kerja. Juga terdapat peraturan-peraturan yang mengatur kondisi kerja, temasuk jumlah jam kerja, waktu istirahat, lembur, cuti tahunan, umur minimum, dan cuti hamil dan haid untuk wanita. Walaupun demikian, peraturan-peraturan ini sangat sulit dilaksanakan. Selain itu, peraturan-peraturan ketenagakerjaan ini juga tidak begitu bermanfaat bagi sebagian besar pekerja di perdesaan dan sektor informal.

46.   Dimulai tahun 1989, pemerintah meningkatkan Upah Minimum Regional (UMR), akibatnya tingkat upah riil meningkat sebanyak dua kali lipat dalam kurun waktu 1989 sampai dengan 1995. UMR yang lebih tinggi menguntungkan para pekerja pada perusahaan-perusahaan yang dipaksa melaksanakan UMR, seperti perusahaan-perusahaan besar di daerah Jabotabek dan BUMN. Pada hal, para pekerja tersebut telah terlebih dahulu memperoleh tingkat upah di atas UMR. Pada sektor industri pengolahan yang padat-karya, kenaikan gaji telah mulai mengurangi daya saing sektor tersebut.

47.   Jika kenaikan UMR lebih cepat dari pada inflasi dan perbaikan produktivitas, daya saing akan memburuk. Selain itu, perusahaan akan cenderung menggantikan tenaga kerja dengan mesin-mesin. Hal ini akan berakibat menurunnya kesempatan kerja di sektor

formal, khususnya bagi pekerja wanita dan pekerja muda usia. Dengan demikian, UMR yang terlalu tinggi dapat memperlambat pengurangan penduduk miskin. Hal ini disebabkan karena penduduk miskin di Indonesia bukanlah pekerja yang mempunyai upah tetap, melainkan pekerja sendiri dan/atau pekerja di perdesaan. Kebijakan ketenaga-kerjaan yang memperlambat pertumbuhan lapangan pekerjaan, khususnya di sektor formal, akan mengurangi kesempatan bagi penduduk miskin untuk mendapatkan pekerjaan di sektor industri atau formal.

48.   Walaupun telah terjadi kenaikan UMR, jumlah pemogokan, pemogok dan hari kerja yang hilang akibat pemogokan telah meningkat dalam periode 1989-1994. Makin banyaknya pemogokan ini mungkin mencerminkan kesulitan yang dihadapi oleh pekerja dalam melaksanakan perundingan dengan perusahaan pada tingkat perusahaan. Mekanisme yang lebih efektif dalam menyelesaikan perselisihan, termasuk organisasi perwakilan pekerja (serikat pekerja) yang terdesentralisasi, mungkin dapat memecahkan masalah perselisihan pekerja dan membuat pasar tenaga kerja berfungsi dengan baik. Suatu peraturan yang memperbolehkan terbentuknya serikat pekerja pada tingkat perusahaan (SPTP) telah disahkan pada tahun 1994. Sejak itu telah terbentuk SPTP di 1.000 perusahaan.

E.   Pertumbuhan Bermanfaat Bagi Semua Daerah

49.   Di semua propinsi di Indonesia, tingkat pendapatan dan konsumsi, serta indikator kesejahteraan sosial telah meningkat, dan terus dicapai kemajuan dalam pengentasan kemiskinan selama kurun waktu 1983-93. Hal ini disebabkan, antara lain, oleh kebijakan yang eksplisit dalam mendistribusikan pendapatan fiskal, khususnya pendapatan dari minyak dan gas dari propinsi yang relatif lebih kaya kepada propinsi yang relatif lebih miskin.

50.   Dibandingkan dengan negara-negara Asia Timur, Indonesia mempunyai distribusi pengeluaran yang lebih baik. Dalam kurun waktu 1983-93, distribusi pengeluaran secara keseluruhan sedikit membaik. Sedangkan distribusi pengeluaran di setiap propinsi tidak mempunyai kecenderungan yang sama. Menurut BPS, semua propinsi di pulau Sulawesi mempunyai distribusi pengeluaran yang membaik, sedangkan kesenjangan di Jakarta relatif meningkat.

51.   Kekuatan pertumbuhan daerah yang berbasis luas tidak dapat dipungkiri. Walaupun demikian, masih terdapat banyak penduduk miskin yang tinggal di pulau Jawa dan Sumatera. Di samping itu, tingkat kemiskinan (proporsi penduduk miskin dibandingkan dengan jumlah seluruh penduduk) masih tinggi di pulau-pulau di kawasan timur Indonesia walaupun dengan jumlah penduduk miskin yang relatif sedikit. Walaupun pertumbuhannya cepat, tingkat pengeluaran per kapita di propinsi-propinsi yang relatif miskin masih sekitar 40% dari tingkat pengeluaran rata-rata nasional. Indikator kesejahteraan sosial dari propinsi-propinsi ini juga masih setara dengan tingkat kesejahteraan dari negara-negara berpenghasilan rendah, walaupun terdapat investasi pemerintah yang besar dalam rangka menyamakan akses terhadap barang dan jasa pelayanan publik.

52.   Tantangan pembangunan daerah adalah mempertahankan pertumbuhan yang tinggi dan merata. Pertumbuhan ini harus dapat mengurangi lebih lanjut jumlah penduduk miskin yang masih banyak dijumpai di pulau-pulau yang padat penduduk, dan tingkat kemiskinan yang masih tinggi di propinsi-propinsi di luar Jawa. Stabilitas ekonomimakro sangat menentukan bagi berhasilnya upaya tersebut. Deregulasi perekonomian yang berlanjut, seperti yang disebutkan di atas, akan meningkatkan efisiensi dan memberi sumbangan pada pertumbuhan permintaan tenaga kerja yang tinggi dan berkesinambungan. Kebijaksanaan tersebut juga akan meningkatkan pendapatan per kapita riil masyarakat di luar Jawa, dengan menurunnya harga yang harus dibayar untuk barang-barang yang bersaing dengan barang impor dan meningkatnya pendapatan dari ekspor.

53.   Investasi yang terarah pada pertanian dan prasarana akan membantu penduduk di daerah-daerah yang miskin untuk memanfaatkan peluang perdagangan dan sumber-daya yang dimiliki. Program-program Pemerintah perlu semakin diarahkan pada daerah-daerah yang miskin tersebut. Untuk mendukung perubahan tersebut sektor swasta perlu meningkatkan perannya di daerah-daerah yang kaya, termasuk dengan membayar lebih banyak pajak daerah dan iuran-iuran untuk pelayanan yang didapatkannya.

54.   Peningkatan berbagai pengeluaran untuk pendidikan dan kesehatan yang sesuai bagi pengentasan kemiskinan juga didasarkan pada berbagai pertimbangan seperti efisiensi, pemerataan dan ketersediaan anggaran. Dalam kondisi penerimaan negara yang ketat, pertimbangan untuk mengarahkan anggaran belanja negara pada kegiatan-kegiatan pembangunan yang menghasilkan barang-barang kepentingan umum (*social good*) yang paling besar merupakan upaya yang layak untuk dilakukan. Perluasan dan perbaikan lebih lanjut pendidikan dan pelayanan kesehatan dasar akan menghasilkan manfaat sosial yang tinggi, yang akan terus menurunkan angka kemiskinan. Upaya melanjutkan dan memperkuat dampak pemerataan dari pengeluaran pemerintah akan tergantung pada kombinasi antara kemampuan untuk menggali sumber-sumber pendapatan negara yang baru dan belanja negara yang semakin produktif.

55.   Peningkatan produktivitas pengeluaran negara untuk pelayanan-pelayanan pemerintah

tampaknya memerlukan pendekatan yang lebih terdesentralisasi. Pada masa lalu, struktur Pemerintah Indonesia yang sangat terpusat sangat bermanfaat dalam menjamin terpenuhinya pelayanan-pelayanan dasar pendidikan dan kesehatan bagi seluruh daerah di Indonesia. Namun pendekatan ini diperkirakan akan semakin berkurang manfaatnya di masa datang, karena masalah kemiskinan yang sangat sulit untuk ditanggulangi di beberapa daerah, kebutuhan pembangunan yang terus meningkat dengan sumberdaya yang semakin terbatas, dan kebutuhan akan pelayanan pemerintah yang semakin besar dengan kualitas yang semakin baik.

56. Desentralisasi menimbulkan harapan akan semakin efisiennya beberapa pelayanan Pemerintah. Desentralisasi lebih menjamin semakin didengarnya suara pemakai jasa dan pihak-pihak yang berkepentingan (*stakeholders*). Pengalaman di dunia menunjukkan bahwa dengan hubungan yang lebih dekat antara pemakai dan pemasok, serta antara biaya dan manfaat, dapat meningkatkan efisiensi, memperbaiki pelayanan, dan meningkatkan tanggung jawab (*accountability*). Tetapi untuk itu diperlukan perubahan-perubahan mendasar dalam sistem hubungan keuangan Pemerintah. Secara khusus, Pemerintah Daerah akan memerlukan pendapatan asli daerah yang lebih besar. Pajak atas kepemilikan (*property tax*) dan biaya yang dibebankan kepada pengguna jasa (*user charges*) merupakan sumber pendapatan yang paling potensial. Pemerintah Daerah juga perlu meningkatkan kemampuannya agar dapat melaksanakan tugas-tugas yang semakin meningkat.

EXECUTIVE SUMMARY
INDONESIA: DIMENSIONS OF GROWTH

Indonesia is one of the High-Performing Asian Economies. Per capita GDP growth was in the top 10% of all developing countries during the last 30 years; poverty reduction was equally notable. According to the World Bank, Indonesia moved from low to lower middle-income country status in 1993.

This report examines four dimensions of Indonesia's economic performance and the challenges they hold for modernizing Indonesia: maintaining macroeconomic stability; increasing transparency and competition in the economy (natural resources, environmental pollution, deregulation, the financial sector and private provision of infrastructure); maintaining a well-functioning labor market; and sustaining equitable, broad-based regional development.

Continued modernization of the economy depends first and foremost on maintenance of macroeconomic stability. The medium-term prospects include a large increase in private investment demand. Over the medium term, this will lead to faster growth but it also will raise the nonoil trade and current account deficits. The larger current account deficit would be financed mainly from private external capital flows. These can be volatile. The increased dependence on volatile private external capital flows is a source of vulnerability. A prudent course would be to implement macroeconomic policies that maintain confidence and reduce risks.

Such policies could include a significant increase in the overall fiscal surplus and tight monetary policy. These policies would reduce consumption to accommodate private investment. Many of the

fiscal policy measures, such as higher petroleum prices and forestry fees, and cutbacks in public spending in areas where the private sector is playing a larger role, also would improve efficiency and equity. Tight monetary policy means setting conservative targets for domestic credit growth, adjusting interest rates on Bank Indonesia monetary policy instruments in line with movements in international rates and strict enforcement of financial sector prudential regulations.

Continued strict control of public and quasi-public liabilities by the Commercial Offshore Loan Team, and of explicit and implicit guarantees of private debt, would support these policies. To create room for higher private sector borrowing the Government could program significant prepayment of public external debt using budget surpluses and privatization proceeds. These policies would have a powerful positive impact on market confidence.

The May 1994 and May 1995 deregulation packages raised transparency and competition and contributed to the recent strength of investment demand and the record foreign investment approvals. The January 1996 package made further progress in line with the schedule of tariff cuts pre-announced in May 1995. Completing the unfinished deregulation agenda is desirable for three reasons. First, it encourages producers to be efficient and benefits consumers. Second, it demonstrates the Government's commitment to policy stability and predictability, and thereby enhances investors' confidence. Third, deregulation improves equity by subjecting protected activities to the rigors of competition and increasing labor demand.

Problems caused by the lack of transparency in land, water and forestry policies could slow modernization. These problems could be reduced by expanding land titling and relying more on market mechanisms, such as higher forestry fees and better pricing of water. A combination of market-based instruments, regulation with credible enforcement, and public information about firms' performance in controlling pollution are called for where transparency is difficult to achieve because of market failure—air and water pollution for example.

A healthy financial system is a prerequisite for a modern economy. Enforcement of the programmed increases in bank capital and the existing related-group lending limits, along with support from the highest political level to collect overdue loans from state banks, would increase confidence in the financial system and reduce domestic interest rates. Greater transparency and competition in the privatization process would benefit consumers, taxpayers and, by raising more revenue for the prepayment of external debt, macroeconomic stability.

The labor market has performed well. Broad-based growth pulled workers out of agriculture into higher productivity, higher income jobs. The Government extended primary education and health services to virtually all Indonesians. Gender gaps in education and earnings are falling fast.

The labor market challenge is to sustain rapid job growth and to develop institutions that permit the labor market to continue to perform well. Large recent minimum wage increases have begun to reduce competitiveness and slow job creation in the formal sector. Sustaining strong labor demand growth depends on keeping minimum wage increases in line with productivity growth, macroeconomic stability and continued deregulation.

All provinces benefitted from Indonesia's broad-based growth. Per capita income, per capita consumption, education and health status rose during 1983-93. The equality of the distribution of expenditure improved modestly. Differences were in the rate of improvement. However, regional disparities are a concern. In the low-income eastern islands per capita GDP growth exceeded 4% and health and education indicators improved. Despite this, poverty rates are high and social indicators still are similar to low-income countries.

Continued progress in reducing poverty still must contend with large numbers of poor people in Java and Sumatra and high rates of poverty—though the absolute number of poor is small—in the eastern islands. Sound regional development will continue to be based on rapid, broad-based growth. Macroeconomic stability, again, is the foundation. Deregulation to eliminate anti-trade bias would promote balanced regional development by dropping the prices of import-competing products and raising the prices of exportables. Focused regional agricultural and infrastructure development projects for poor regions would help them use their trading opportunities and their resources better. A further shift in public sector spending toward pro-poor programs—basic health and education—supported by decentralizing the responsibility and accountability for expenditures and their financing, would help sustain progress in poverty alleviation across the archipelago.

A. Macroeconomic Policy to Reduce Risk

1.   Indonesia has a well-deserved reputation for strong macroeconomic management. The track record includes rapid adjustment to the oil price shock in the mid-1980s, the overheating early in the 1990s, and the spillover in 1995 from the Mexico crisis.

2.   Strong private domestic demand in 1995 was met with monetary and fiscal policy tightening but the current account deficit still widened to $6.9 billion (3.4% of GDP) and inflation remained at 9-10%. Foreign direct investment, portfolio investment and private borrowing financed the bulk of the current account deficit and a $2.7 billion increase in official international reserves.

3.   The dominance of private financing reflects the structural transformation of the economy. A projected increase in the private investment rate over the next few years will quicken GDP growth. But it also will lead to higher imports and a further widening of the current account deficit to 4-4.5% of GDP. Private capital—foreign direct investment and private debt flows—would finance the bulk of the deficit. Heightened dependence on private capital flows is a source of vulnerability. Policies need to be set to reduce the risks from this vulnerability (see below).

4.   For 1996/97 tight fiscal and monetary policies are projected to slow nonoil import growth modestly and shift its composition toward capital goods reflecting projected strong private investment demand. Nonoil export growth is projected to pick up modestly. The current account deficit would increase to $8.8 billion in 1996/97 (4% of GDP). Financing this higher deficit will depend crucially on maintaining favorable market sentiment.

5.   Absent fiscal and monetary policy tightening, consumption demand could remain high or accelerate in 1996/97, which could widen the current account deficit even further. The possibility of a significantly wider deficit could make it difficult to maintain favorable market sentiment. Capital inflows quickly could become outflows, putting pressure on the economy.

6.   Reducing risk means implementing tight fiscal and monetary policies that limit the widening of the current account deficit. The main macroeconomic policy to reduce risk would be higher public saving to reduce consumption demand to accommodate rising private investment. Fiscal policy is most effective for managing aggregate demand in Indonesia. A reasonable estimate would be for the Government to increase its overall surplus (IMF/World Bank basis) by around 2% of GDP. Among the measures that would help achieve this goal efficiently and equitably are higher petroleum and electricity prices, higher forestry royalties (IHH), and cuts in public spending where the private sector is playing a larger role.

7.   Tighter monetary policy would involve conservative growth in Bank Indonesia's domestic credit, continued adjustment of interest rates on monetary policy instruments in line with movements in international rates, and strict enforcement of prudential regulations on commercial banks. Higher reserve requirements and a wider exchange rate intervention band could increase the effectiveness of monetary policy. If capital flows suddenly halt or reverse themselves, monetary policy would need to be tightened even more.

8.   The Government also could reduce risks by making room for private borrowing through public debt reduction. Indonesia's external debt is large. Higher investment demand generally involves significant external borrowing, which will add to debt. The public sector needs to limit the growth of external debt by reducing its own debt. Reducing public debt by a significant amount

over the next three to five years would create borrowing room for the private sector and have a powerful impact on market sentiment. This policy would be supported by the Commercial Offshore Loan Team's continued strict limits on public and publicly-related external borrowing.

9.   Privatization would raise efficiency and help reduce external debt.   Realizing an ambitious privatization target will depend on speeding up the development of a transparent, competitive framework for privatization (section C.5).

B.   External Financing and Foreign Assistance

10.   Indonesia's projected external financing needs are based on a scenario in which tighter macroeconomic policy limits the current account deficit to below $9 billion in 1996/97.   Total financing needs would be higher than in 1995/96 because of the higher current account deficit and the need to increase international reserves to maintain a prudent level of import cover.   Higher private debt and equity flows are projected to finance much of the higher 1996/97 deficit.

11.   Official   assistance   nevertheless   is highly desirable for several reasons. First, it ensures   adequate   financing   for   areas   of development that are not attractive to private investors.   Examples   are   human   resource development and public infrastructure in areas off Java and while the framework for private participation is being improved.   Second, the longer   term,   lower   rates   and   risk diversification   associated   with   official assistance improves the structure of external finance and reduces vulnerability to the risk of sudden shifts in volatile private capital flows. Third, the availability of adequate assistance ensures   a   smooth   transition   to   private financing.   For   these   reasons,   a   level   of commitments   from   Indonesia's   Consultative Group (CGI) similar to last year's level would be very supportive.

12.   As   recognized   at   the   1995   CGI Meeting, the priorities for this support would be   in   human   resource   development,   poverty reduction   and   the   provision   of   physical infrastructure that eliminates bottlenecks to private sector growth.   These priority areas have not changed.   In addition, Government encouragement to private sector development through the establishment of sound regulatory frameworks would be   important.   It   also would   be   important   to   re-examine   the development budget to make reductions or shifts in light of the growing private sector role,   and   to   maximize   the   benefits   of concessional aid by improving implementation.

C.   Enhancing Transparency and Competition

13.   Economic growth has raised average incomes in all parts of Indonesia over the past 30   years.   The   basis   of   that   growth—rapid growth   of   manufacturing   and   services attracting   rural   workers   into   higher-productivity jobs—can underpin continued modernization of Indonesia.   It also is the surest   path   toward   continued   progress   in reducing poverty.   But, continued growth will exacerbate strains that have begun to emerge, unless policy measures are taken. Such strains are appearing in the use of land, water and forestry resources; in the growing pollution problems;   in   the   deregulation   process;   in financial   sector   problems;   and   in   the privatization process.   Greater transparency and greater reliance on market forces would relieve these strains.

1.   Transparency in Land, Water and Forestry Management

14.   An absence of transparency makes the land market function poorly. Inadequate land titling and non-transparent regulations are the roots of the problem.   Difficulties in selling land decrease resource mobility.   Problems in using land as collateral reduce access to credit. Disturbances occasionally break out when land ownership   or   occupancy   changes.

Accelerating land registration is a priority. In addition, reform in the procedures and pricing policies for disposing of and acquiring public lands is needed, with due attention to acquired rights of existing occupants. In particular, care should be exercised in the use of Government permits to acquire land.

15.   Indonesia's forests are a major national resource; their unsustainable depletion is related to the lack of transparency in concessions and inadequate incentives for sustainable management. The present concession system encourages rapid depletion because of: (i) the short concession period—typically 20 years compared with a growth cycle for tropical hardwoods of 35 years at a minimum; (ii) the risk of an increase in the current low royalties (IHH); and (iii) weak sanctions for excessive exploitation of concession lands. The system's shortcomings are exacerbated by the cartelized domestic plywood industry. Deregulating the plywood sector, raising royalties, and relying more on self-enforcement through performance bonds on concessionaires would improve incentives to harvest sustainably.

16.   Issues of water resource management will be increasingly important in the years ahead, especially on Java, with 60% of the population, 70% of irrigated agriculture, and 75% of industry. The main issues will be competition between users (agriculture *vs* industry) and between groundwater and surface use in rapidly growing cities. The issues are complicated by the problem of growing water pollution.

17.   Like land and forests, water resources are mispriced, contributing to heavy use by some groups (farmers and middle and upper income urban households) and high prices and scarcity for others (including the urban poor). Higher irrigation fees and other price reforms could improve water use by discouraging waste of irrigation water and freeing it for use in the cities, where demand is expanding

rapidly. In the cities, pricing reform is needed because low charges for groundwater encourage exhaustion of aquifers and low charges for piped water make it difficult to expand access and maintain adequate service.

2. Air, Water and Industrial Pollution

18.   Indonesia faces the possibility of sharply escalating pollution-related costs. A combination of market-based pricing (for example, raising petroleum product prices to at least international levels), regulation with credible enforcement, and increasing public information on the performance of firms in controlling pollution is called for where transparency and competition are difficult to achieve because of market failure.

19.   The adverse effects on health due to lack of access to safe water already are serious. Poor water quality results from inadequate sanitation facilities and industrial waste. The basic technologies of water supply and sanitation systems are well established. Policies could be directed at expanding the use and quality of piped water (including reducing unaccounted for water losses), increasing access, and improving sanitation facilities.

20.   Air pollution is a serious health problem in Indonesia's cities. The poor are most at risk. Practical options for improving air quality need to be exploited decisively. These include phasing out leaded gasoline, setting higher emission standards, phasing out two-stroke engines, and substituting cleaner fuels for diesel, raising fuel prices to international levels (and, over time, beyond to reflect pollution costs) and improving the quality of urban public transport services.

21.   Hazardous waste and toxic materials are a by-product of rapid industrial growth. They threaten health, water quality, and downstream activities. The policies and implementation framework to deal with industrial pollution are most effective when

they focus on prevention rather than more expensive "end-of-the-pipe" clean-up. In practice this means: focusing on regulatory standards for new plants and application of cleaner technology, concentrating on the most polluting industries and locations, and encouraging private businesses to adopt best practice technologies and investments in pollution control through a mix of regulations and incentives.

3. Creating a Level Playing Field: The Unfinished Deregulation Agenda

22. The May 1994 and May 1995 deregulation packages went far in leveling the playing field for competition. The January 1996 package continued progress in cutting tariff protection—the average tariff declined to 14.2% from 15.1%—in line with the schedule pre-announced in May 1995. The more transparent climate contributed to the growth of private investment demand in the past two years. Implementation of its Uruguay Round offers and the tariff cuts pre-announced in May 1995 will improve further efficiency and equity. Accelerating the scheduled cuts in tariff and nontariff barriers, and formalization of the scheduled cuts, would strengthen this program. The most important, unfinished deregulation steps are removal of nontariff barriers (and associated domestic regulations) on the Bulog agricultural commodities, reduction of tariff protection on vehicles, the opening up of the strategic industries and the removal of their domestic subsidies, and the removal of export restrictions.

23. Finishing this agenda is important for three reasons. First, by leveling the playing field for competition, deregulation encourages producers to be efficient and benefits consumers. Second, deregulation enhances confidence. Investors value a stable and predictable policy environment and steady progress in deregulation demonstrates the government's commitment to policy stability and predictability Third, deregulation raises

the quality of growth. Use of the trade regime to benefit special groups—extending tariff protection to Chandra Asri and providing tariff relief to the joint venture developing the national car—can be a source of resentment to society at large.

a. Reducing Import Protection

24. Adherence to the tariff cuts pre-announced in May 1995 will reduce significantly import protection. The tariff schedule would have three principal rates—0%, 5% and 10%—and the average tariff would be 7%. Thus, the unfinished agenda for reducing import protection consists mainly of removing nontariff barriers, notably those on rice, sugar, wheat and soybeans and the associated restrictions that protect wheat flour milling (restrictions protecting soybean meal processing are being eliminated as part of Indonesia's Uruguay Round offer). The efficiency and equity losses from nontariff barriers protecting these commodities are well documented. For example, nontariff barriers restricting sugar imports protect domestic sugar producers but reduce real incomes by 0.6%. Elimination of nontariff barriers on imports would benefit the vast majority of Indonesians.

b. Removing Export Restrictions

25. Export restrictions cover half of total nonoil exports, affecting nearly 2,000 products. These restrictions often have depressed smallholder incomes, to the benefit of domestic users of these products, and reduced efficiency and nonoil exports.

26. An across-the-board elimination of export restrictions is warranted to correct these distortions. The main exceptions are management of the Multi-Fiber Arrangement textile quotas and the export bans on endangered species. Where the restrictions have encouraged large investments in processing activities, a schedule for

elimination over a limited time period could be considered.

c. Improving Domestic Competition

27. Numerous official interventions exist in what otherwise would be competitive markets. The myriad interventions reflect myriad objectives. Some commodities are termed "essential" and it is said that their distribution is too important to be left to the market. Examples include cement and fertilizer, where regulation of domestic distribution is accompanied by a significant state presence in production. For other products, restrictions on domestic competition complement restrictions on imports to promote value added in processing activities (wheat flour and soymeal for example). For still other products, the restrictions have exploited Indonesia's power in world markets (forestry products), but the benefits have not accrued to the public. Local government revenue is another motivation for domestic trade interventions.

28. A transparent, rules-based approach to deregulation of the numerous restrictions on domestic competition is warranted. This approach would dissolve Government-sponsored or sanctioned monopolies in marketing and distribution of "essential" and other commodities and open up further retail and wholesale trade to foreign investment. The rules-based approach would include legislation ensuring that an ordinary business license (*Surat Izin Usaha Perdagangan*) would be the only permit required for exporting and/or engaging in domestic trade. Membership in commodity or trade associations would be voluntary, not a condition for engaging in these activities. The approach also would include repeal and prohibition of commodity-specific taxes and *retribusi*. In localities where revenues from such taxes are important, better pricing of public services and property taxes could help replace foregone revenues.

4. Transparency in the Financial System

29. Strong implementation of the prudential measures to increase financial institutions' capital and reduce their related group lending exposure, along with better collections, would increase transparency in the financial system. This in turn would increase confidence, lower the risk of macroeconomic instability, and increase the efficiency of financial intermediation, thereby lowering the cost of investment funds. Another dimension of transparency relates to gaps in the legal framework for credit transactions. Again, rupiah interest rates are higher than they need to be and large benefits would flow from increasing transparency.

30. The state banks are making slow progress in reducing their bad debts. At this stage, strengthened collections of overdue loans to state banks are needed to reduce the potential fiscal drain and to signal unambiguously that loans must be repaid. Given the importance of many of the borrowers, better collections are likely to require support from the highest political level. A lasting solution to the state banks' problems is likely to require a change in their "culture." Privatization would help ensure appropriate incentives for owners, managers and borrowers.

31. Proposals to help the state banks deal with their bad debt problems need to be evaluated with regard to their impact on existing debtors. Recapitalization or takeovers of bad debts (or other financial engineering) run the risk of reducing incentives to service both the existing classified loans and current loans; debtors are likely to stop servicing debt in hopes that debts will be "nationalized", as has occurred in many countries. This slowing of debt service will raise the cost of any bailout. Strengthening collections can help reduce this problem. In addition, recapitalization of the state banks, without a change in the culture that gave rise to the

problems, leaves open the possibility that the problems will recur. If recapitalization becomes unavoidable, budgetary transfers are preferable to Bank Indonesia loans or transfers, which are less transparent and risk loosening monetary policy.

32. Private banks, on average, are in better condition than the state banks. (The numerous, small banks not licensed to engage in foreign exchange transactions, on average, are an exception.) But incentives for risky lending are increased by low capital and the high related-group exposure, as well as the low penalties for non-compliance with prudential regulations and the small probability of closure. Lenders and depositors react to these incentives for risky lending by demanding higher rates of return; this higher cost of funds translates into higher domestic interest rates.

33. Bank Indonesia is reducing the incentives for risky lending by putting more owners' capital at stake. This process was begun in May 1993. By December 1996 banks will have to meet the strengthened 8% capital adequacy requirement (calculated after deducting shortfalls in provisioning from core capital). Meeting this requirement will increase confidence in Indonesia's financial system; any delay would reduce confidence. An additional increase in confidence will come from the announced increase in capital requirements for foreign exchange banks to 12% over a six year horizon; this measure could be strengthened by shortening the phase-in period and applying it to non-foreign exchange banks. Riskiness also could be reduced, and transparency increased, by stricter enforcement of, and tougher penalties for violating, limits on lending to related parties.

34. Enforcement of these rules could be strengthened by a transparent, rules-based approach that penalizes banks on an escalating basis for failure to comply with prudential regulations such as the capital adequacy requirement and exposure limits. For example, access to Bank Indonesia's credits could be limited. The most extreme penalty would be closure and revocation of the bank's charter. Clear regulations for closing banks, including prompt transfer of collateral for liquidation, are needed.

5. Improving the Privatization Process

35. Repelita VI envisions increased reliance on the private sector. The private sector's involvement, especially in telecommunications, already is apparent. But private sector participation could be speeded up and would yield increased benefits—both the revenue from sales of assets and concessions and the improved performance of the sectors themselves—if the Government established a more transparent, competitive regulatory framework, both for the deals and in the sectors where private participation is growing. The overall success of the privatization process depends on transparency and competition. Worldwide experience suggests that perceptions of non-transparency, lack of competition, unfair dealing and favoritism can threaten the privatization process and even reform in general.

36. The Government has an important role in managing the process and the interaction between the private and public sectors. A transparent rules-based framework for involving the private sector in infrastructure provision would include:

i) Pre-qualify potential bidders on the basis of prior experience;

ii) Define the project/concession simply and clearly;

iii) Define the bidding process on the basis of one or two key parameters;

iv) Select the highest bid for the sale of assets or the lowest bid for the supply of a service;

v) Announce the winning bid promptly and avoid second-round re-bidding.

37. Partial privatization through financial markets raises revenue that can be used for debt retirement. It is competitive and the strict requirements for listing can improve company performance and reduce political interference. A clear sectoral framework is needed to maximize the sale price. But, partial privatization may not improve management substantially and the lack of a history of transparent, audited accounts may limit the number of firms that can be listed. The Government could explore other options, such as competitive choice of a strategic partner, for some of these cases.

38. A transparent sectoral regulatory framework is a major factor in maximizing the benefits of either listing or private infrastructure provision. The clearer the regulatory framework, and the more it mimics the incentives to better service/lower prices that would occur under competition, the higher the benefits to the country. These benefits would come in the form of higher sale prices for government equity and improved sectoral performance.

39. Public firms operating in competitive industries can be privatized without much concern over the sector framework. The market will encourage lower prices, better service and efficiency. In other sectors, gains to the country can be increased, and risks to investors can be reduced, by hiving off (unbundling) parts of public enterprises into firms that can be regulated by competition or a few, well-defined rules, and then privatizing those firms. To the extent that the Government retains a significant share in the privatized companies, as has been the case so far, it also will have to maintain close management of the companies' external debt

obligations and any implicit guarantees extended to the private sector, such as take-or-pay contracts.

D. Growth Benefitted Workers

40. Indonesia's economic growth and structural transformation have been facilitated by a well-functioning labor market. The share of workers has shifted dramatically from agriculture to the rapidly growing industry and service sectors.

41. The speed and pattern of GDP growth increased labor demand substantially. Higher labor demand translated into rapid wage growth. Thus, formal sector wage earners' position improved. This constituted a major channel for poverty reduction.

42. Employment of female workers has grown very rapidly in labor-intensive manufacturing. Most women industrial workers have primary education or less and carry out unskilled or semi-skilled tasks. Their main alternative is farm employment. By moving to industry, they earn somewhat higher wages and gain access to steadier, full-time employment.

43. Government policy has increased the educational level of the labor force and the more educated workforce earns higher wages. The share of the workforce with primary education or more doubled from about 30% in the early 1970s to over 60% in 1994. This education pays off for Indonesian workers. Average earnings of wage employees increase with each level of schooling.

44. Gender differences in wages and rewards to education are narrowing. Although women still are paid less than men with similar education and average female earnings are only two-thirds of average male earnings, the gap is closing. The percentage increase in the average nominal wage for women was about 50% more than for men in 1986-1993.

45. Prior to the late-1980s, the Government left wage determination largely to the labor market. Wages for urban industrial workers typically were not much higher than for agricultural workers with similar qualifications. Minimum wages for formal sector workers generally were at or below market wages. A generous umbrella of legislation governed working conditions, including hours of work, rest period, overtime, annual leave with pay, minimum age of employment, and maternity and menstrual leave for women, but it was difficult to enforce. These labor market regulations also were irrelevant to the large majority of Indonesians who worked in the informal and rural sectors.

46. Beginning in 1989 the Government began to raise minimum wages sharply, resulting in a doubling in real terms between 1989 and 1995. The higher minimum wages helped workers in companies where the minimum wage was more likely to be enforced—large companies around Jakarta and public sector companies. But these workers already have above-average earnings. Further, the wage increases have begun to reduce competitiveness in labor-intensive manufacturing.

47. When minimum wages increase faster than inflation and productivity gains, competitiveness erodes and firms increasingly substitute capital for labor. The result will be diminished formal sector employment opportunities, particularly for women and young workers. In this way higher minimum wages could slow poverty reduction. The poor in Indonesia are, by and large, not wage earners but the self-employed and/or in the rural sector. Labor market policies that reduce employment growth, especially in the formal sector, reduce the chance that these people will find manufacturing sector jobs.

48. The number of strikes, strikers and working days lost to strikes all rose sharply in 1989-94, despite the rise in minimum wages. The increase in strikes may reflect the difficulties workers face in organizing plant-level negotiations with employers. More effective mechanisms to help resolve disputes, including decentralized, representative worker organizations, might help resolve labor disputes and keep the labor market working smoothly. A regulation allowing the establishment of company unions (SPTP) was passed in 1994. Since then SPTPs have been formed in about 1000 companies.

E. Growth Benefitted All Regions

49. Across all provinces of Indonesia, income and consumption grew, social welfare indicators improved, and there was continued progress in reducing poverty during 1983-93. These results are in part due to the explicit policy of redistributing fiscal revenue, especially revenue from oil and gas, from wealthier to poorer provinces.

50. Indonesia compares favorably with its East Asian neighbors in cross-country comparisons of expenditure equality. During 1983-93 expenditure equality improved slightly in Indonesia as a whole. Within individual provinces, there were no clear trends, except for improvement in the provinces of Sulawesi.

51. The broad-based strength of the regional growth performance is unmistakable. Still, there are large numbers of poor people living in Java and Sumatra, and high poverty rates—though fewer numbers of poor—in the eastern islands. Despite rapid growth, the level of per capita consumption in the poorest provinces still is 40% below the national average. And despite significant public investments to equalize access to public goods and services, social welfare indicators in the poorest provinces resemble those of low income countries.

52.   The regional development challenge is to sustain rapid, equitable growth. Such growth must reduce further the large numbers of poor on the populous islands and the high poverty rates in provinces off-Java. Macroeconomic stability is essential. Continued deregulation of the economy as discussed above would raise macroeconomic efficiency and contribute to continued high growth of demand for labor. It also would improve real incomes off Java by lowering the prices paid for import-competing manufactures and raising the prices received for exports.

53.   Focused agriculture and infrastructure investments would help residents of poor regions take greater advantage of their trading opportunities and natural resources. Government programs increasingly need to focus on the poor regions. To support this shift the private sector needs to play a larger role in richer regions, including paying higher local taxes and service fees.

54.   Increasing the pro-poor focus of health and education expenditures also is justified on efficiency, equity and fiscal considerations. In an environment of shrinking revenue from oil and gas it makes sense to focus public expenditures where they produce the highest social good. Extending and further improving basic education and health care services would yield a high social return, reducing poverty further. Continuing and enhancing the redistributive impact of public spending will depend on a combination of new revenue sources and more productive public spending.

55.   Increasing the productivity of public spending is likely to require a more decentralized approach to delivery of public goods and services. The highly centralized Indonesian government structure was an advantàge in the past in extending a basic package of health and education services to all parts of Indonesia. It may be less of an advantage in the future for it will be strained by the stubbornness of poverty in some areas, the need to do more with fewer resources, and the need to provide better quality services.

56.   Decentralization holds out the promise of being able to deliver some public services more efficiently. It gives greater voice to users and stakeholders. Worldwide experience suggests that closer links between users and suppliers and between costs and benefits can raise efficiency, improve service delivery and increase accountability. But changes in the system of intergovernmental fiscal relations are needed to bring this about. In particular, subnational governments would need greater own-revenues. The property tax and user charges offer the largest potential. Subnational governments also will need to upgrade their institutional capacity to carry out their increased functions.

1
A MACROECONOMIC FRAMEWORK FOR REDUCING RISK

A. Overview

1.1 Indonesia has a well-deserved reputation for sound macroeconomic management. In the past decade, policy adjustments have dealt effectively with a wide range of shocks: the loss of oil revenues after 1985; overheating from the surge in oil revenues and mega-projects in the early 1990s; and the fallout from the Mexico crisis in 1995.

1.2 The economy began to overheat again in 1994-95. Increases in consumption and construction demand led to higher nonoil import growth. Despite tightening fiscal and monetary policies, the current account widened markedly and inflation continued in the 9-10% range.

1.3 Foreign direct investment and other capital inflows financed the wider current account deficit as well as an increase of $2.7 billion in official international reserves in 1995/96. Offshore revenues from privatization appropriately were used for a second round of public external debt prepayment. Budget surpluses were committed for future prepayments.

1.4 The rise in foreign direct investment (FDI) in 1995 may mark the beginning of a shift in the source of Indonesia's growth. In the past two years $64 billion in foreign direct investment projects were approved. This new investment will benefit the economy, by generating jobs, increasing tax revenues and upgrading technology. Complementing the FDI flows, continued support from the Consultative Group for Indonesia will provide a stable source of long-term funding, especially for projects with high social returns such as human resources, environment, poverty reduction and

Figure 1.1 Despite policy tightening ...

... strong domestic demand ...

■ Machinery & Equipment (left scale)
☐ Construction (left scale)
— Index of Car, and Cycle Sales (right scale)
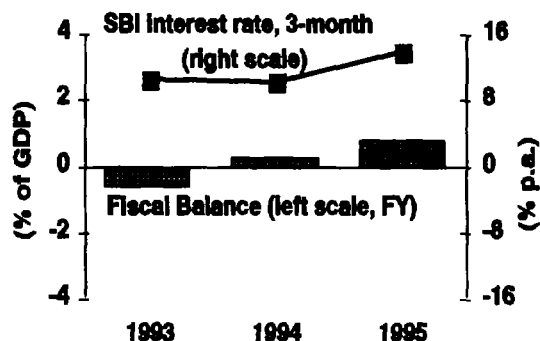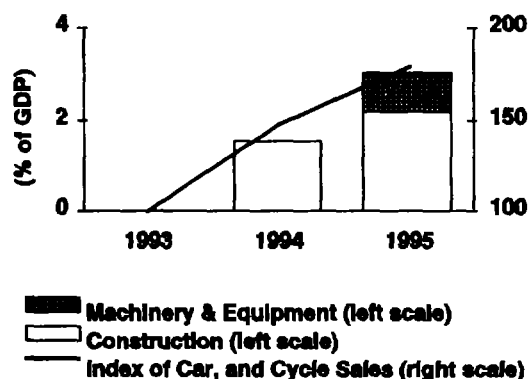
... led to a higher current account deficit and continued high inflation.
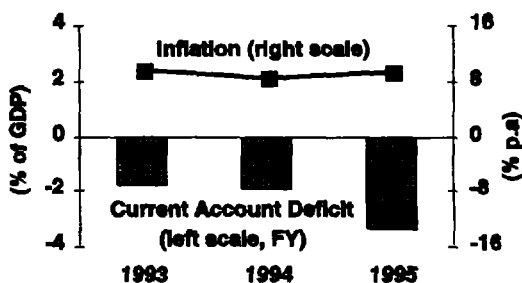
Source: BPS, BI, Indo. Auto. Ind. Asso., and staff estimates.

areas of infrastructure that do not yet lend themselves to private investment.

1.5   With private equity bearing the commercial risks, and in the deregulated environment following the May 1994 and May 1995 packages, most investments should be internationally competitive and cover their investment costs. However, the boom in foreign direct investment carries risks for efficiency and for the macroeconomy. From the efficiency side, some projects may not be sufficiently competitive on the international market to pay for themselves. In this case, the state may be pressured to extend some form of public assistance—for example, subsidies, protection or loan guarantees. Strict limits are needed on (implicit and explicit) public guarantees and other forms of public support to ensure proper incentives for private investor performance.

1.6   The macroeconomic risk concerns the potential for economic overheating and financial markets' reactions to it. The higher investment is projected to widen further the current account deficit in the next two years. A wider deficit represents greater risk. Volatile capital inflows could suddenly reverse themselves, putting sharp pressure on the economy. The main macroeconomic challenge is to reduce this risk by limiting the widening in the current account deficit and the growth in external debt. This will entail reduced construction and consumption demands and further prepayment of public external debt.

1.7   To minimize the macroeconomic risk and reduce inflation, the Government could further tighten fiscal policy, which is the most effective instrument for managing aggregate demand in the Indonesian context. A reasonable estimate would be to raise the fiscal surplus by around 2% of GDP. State revenues could be increased substantially through higher administered prices for petroleum products and power, non-tax revenues, and property taxes. Such measures also would increase economic efficiency and promote social equity.

1.8   As mentioned in President Soeharto's Budget speech, fiscal surpluses should be used to prepay more public external debt. The 1995/96 surplus is earmarked for prepaying high-interest public external debt. As in the past two years, receipts from privatization should continue to be used for the same purpose. [*] Taken together, the revenues from fiscal surpluses and privatization proceeds could be used to prepay major amounts of foreign debt over the next 5 years. Surpluses also could be used to cover the Government's underfunded long-term liabilities (such as the civil service pension fund). A pre-announced plan along these lines, together with explicit line items in the annual Budget, would have an excellent impact on external confidence.

1.9   Tight monetary policy also will be needed. This means setting conservative targets for domestic credit growth, adjusting interest rates on Bank Indonesia's monetary instruments in line with movements in international rates, and strict enforcement of prudential regulations. Higher reserve requirements and further widening of the exchange rate bands would strengthen monetary policy and deter hot money flows. Continued improvements to the banking system, capital markets, pensions and other non-bank financial institutions also will be important to mobilize domestic resources, to reduce reliance on external debt, to intermediate at low cost between savers and investors, and to enhance macroeconomic stability.

1.10   A related challenge is to continue the progress in strengthening the financial system. The financial system is a focal point for maintaining investor confidence. It also provides an alternative to external borrowing. The importance of progress in the financial sector is underscored by Indonesia's high external debt and the volatility of today's international financial flows, which leaves governments with significantly less margin for error than in the past.

B. Supply and Demand: Domestic Demand-Led Overheating

1.11   GDP growth rose in 1995 to 8.1%, again led by domestic demand; nonoil GDP grew 9.0%, compared with 7.9% in 1994 (Table 1.1). Agriculture, Trade and Utilities accelerated while Construction and Manufacturing continued to expand rapidly. Within Manufacturing, evidence suggests that the sectors oriented toward domestic consumption grew strongly again, while export-oriented sectors grew more slowly. The Property sector, a component of Other Private Business Services, slowed somewhat.

1.12   Agriculture growth rebounded from the drought-depressed rate of 1994, especially food crops. Non-rice production continued to be much stronger than rice, a trend projected to continue (Box 1.1). Forestry was stagnant because of weak export demand and supply problems that are attributable to unsustainable sectoral policies (Chapter 2).

1.13   On the expenditure side, final domestic demand led growth for the second year in a row (Table 1.1). Fixed investment rose by 13%, reflecting the strength in construction, foreign investment (see para 1.38) and

domestic investment approvals, which increased at an average annual rate of 33% in 1992-95 (Appendix Table 10.2). World Bank estimates suggest that private consumption grew faster than GDP. Some consumer durable sales—for example, motorcycles (37% after 1994's 26% rise) and motor vehicles (18% in 1995 after 53% in 1994)—continued to rise sharply. The rapid growth of private consumption demand may reflect continued strong real wage growth and the 1995 tax cuts. In contrast to private consumption, government consumption rose by only 3% in 1995. Rapid domestic demand growth spilled over into a sharp increase in imports, shifting net exports into deficit for the first time in many years.

Inflation: 9-10%

1.14   Consumer prices (December-over-December) rose by 9.0% during 1995 (Figure 1.2).[1] While this is down from 9.6% recorded last year, 1995 marks the fifth time in the past six years that consumer inflation has been in the 9-10% range. Slower growth in housing prices accounted for most of the decline in inflation during 1995, in part reflecting a slowdown in Jakarta's real estate boom. Other price increases were contained by increased imports, especially of basic foods

Table 1.1   Real Growth in National Output and Expenditure
(1993 prices, percent per year)

	1988-91	*1992*	*1993*	*1994*	*1995*
GDP	9.0	7.2	7.3	7.5	8.1
Nonoil & LNG GDP	9.3	8.3	8.1	7.9	9.0
Agriculture	3.6	6.3	1.7	0.5	4.0
Nonoil/ non-agric. GDP	11.1	8.9	9.8	9.7	10.1
Manufacturing	12.0	11.2	13.2	13.5	13.0
Utilities	13.7	8.9	11.1	12.7	15.5
Construction	15.0	12.4	14.5	14.9	12.9
Final Domestic Demand	11.9	6.0	7.1	8.5	10.2
Consumption [a]	10.9	7.0	7.4	7.0	9.1
Fixed Investment	14.6	3.6	6.6	12.6	12.9

Source: Biro Pusat Statistik.
[a] Staff estimates, calculated as a residual based on an estimated stock accumulation of 2.5% per year.

Box 1.1 Rice supply and demand are likely to grow slowly.

Rice production is projected to grow slowly in the medium term. On the supply side, productivity increases have slowed because high-yielding seed varieties now cover most irrigated rice lands. The (net) increase in rice land, the other factor that contributed to the growth of rice output in the past, is likely to be limited. The Government has embarked on an expansion of rice land in Kalimantan, which is likely to be costly and may have adverse environmental consequences. Opportunities do remain for expanding rice land on Java and increasing efficiency inexpensively, for example, by eliminating restrictions requiring farmers to produce sugar. However, over time, higher productivity uses of rice land, such as higher value crops and urbanization, and alternative demands for water, are likely to reduce the land under rice cultivation.

The demand for rice also is likely to grow slowly. Except for the lowest income group, per capita demand for rice has stagnated since the mid-1980s. Demand is likely to switch to other carbohydrates, a process that could be speeded-up by deregulation. In the near future, per capita demand for rice could fall, as it already has in Thailand. Once this occurs, the need for substantial increases in rice production and rice land is unclear; Indonesia could maintain rice self-sufficiency with rice output growing less rapidly than population.

Source: Garcia-Garcia.

such as rice and wheat. Inflation also was held down by delays in raising certain administered prices (Figure 1.2), mainly petroleum products and electricity, which taken together account for more than 8% of the consumer price index. Core inflation—outside food and energy—was a little below 8% during 1995, slightly lower than during 1994 (Figure 1.2). Slower growth in demand would reduce inflation.

1.15 Inflation accelerated in the first quarter of 1996. Temporary, flood-related supply disruptions were a factor, but all major categories (except energy, a largely administered category) rose sharply, indicative of the strength of demand around the Idul Fitri holiday season. In April the Government announced increases in transportation tariffs that will put additional upward pressure on inflation. Price increases in the rest of the year will need to average around 0.5% per month to keep inflation below 10% during 1996.

1.16 The Government announced that the daily minimum wage would rise by an (unweighted) average of 10.6% in 1996. The increases ranged from 5.4% in East Java to 14.3% in Central Sulawesi; in the heavily industrialized areas of West Java, the increases

were near 13%. The announcement also included a provision that regular workers receive a monthly minimum wage based on 30 days per month, compared with the previous convention based on a six-day week (i.e., excluding Sundays). This effectively boosted the minimum wage by a further 15-20%. As discussed in Chapter 3, it would be desirable to base minimum wage increases more on local labor market conditions than attempts to reduce poverty.

The Balance of Payments: Strong Domestic Demand Spilled-Over Into Imports

1.17 **Overview.** The current account deficit nearly doubled, from $3.5 billion (1.9% of GDP) in 1994/95 to almost $7 billion (3.4% of GDP) in 1995/96. The deterioration reflected rapid growth in nonoil imports that far exceeded the 15% increase in nonoil exports. In the capital account, increased foreign direct investment and other capital inflows financed the wider current account deficit and a build-up of reserves. Offshore privatization receipts were used to prepay high interest debt. Official reserves rose by $2.7 billion, increasing to 4.3 months of imports of goods and services.

Figure 1.2 Consumer Price Index
(12-month percentage change)
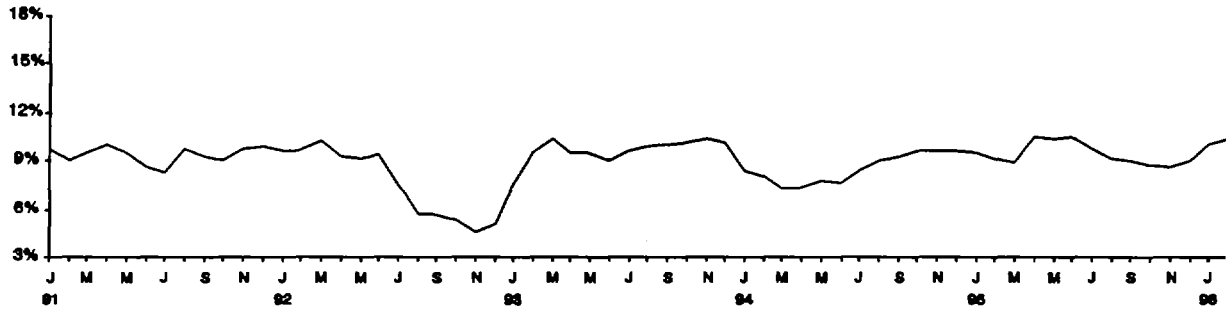
Core Inflation
(12-month percentage change)

Administered and Non-Administered Consumer Prices
(12-month percentage change)

Source: BPS.
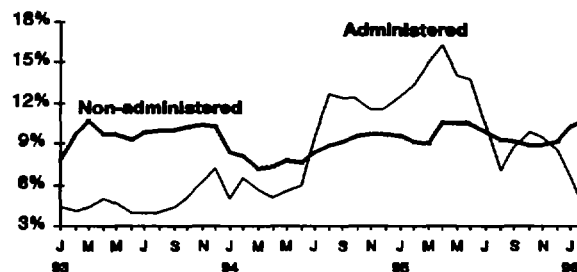
Merchandise Trade

1.18   The surplus on merchandise trade declined by almost $3 billion in 1995/96. Nonoil trade accounted for the bulk of the deterioration (Table 1.2). The decline would have been much larger except for a sharp improvement late in 1995 (Figure 1.3).

1.19   Nonoil exports (customs basis) grew by 15% in 1995. Rapid growth occurred in mining and a wide variety of industrial products, including processed rubber, paper, electrical goods, and ores and metal products (Table 1.3). Textile and footwear exports grew moderately. Textiles benefitted from a rise in unit values that reversed the decline of 1994. Coffee, cocoa and tea exports declined in 1995, due mainly to falling international commodity prices.

1.20   Exports of plywood, and to a lesser extent garments, continue to suffer from the same problems as last year. Falling wood prices explain only part of the drop of 7% in plywood exports; volumes have fallen nearly 15% over the last two years. In the short term, Indonesia's plywood exports may benefit from Malaysia's recently implemented export tax on plywood, which should reduce Malaysian plywood exports. However, from a medium-term perspective, exports will depend on sustainable management of Indonesia's forestry resources through major changes in policy (Chapter 2). Without more sustainable management, the World Bank projects that the volume of forest-based exports will begin to decline sharply around the end of the century.

Table 1.2 Balance of Payments
(US$ billions)

	1990/91	*1992/93*	*1993/94*	*1994/95*	*1995/96 est.*
Gross merchandise exports	28.1	35.3	36.5	42.0	46.0
Oil & LNG	12.7	10.4	9.4	10.3	9.7
Nonoil	15.4	24.8	27.2	31.7	36.3
Gross imports (cif)	-25.8	-30.2	-32.3	-37.7	-44.5
Oil and LNG	-4.2	-3.8	-4.2	-4.0	-3.8
Nonoil	-21.6	-26.4	-28.1	-33.7	-40.6
Trade Balance	2.3	5.1	4.2	4.3	1.5
Net Non-Factor Services	-0.5	-1.4	-1.2	-0.8	-1.0
MLT Interest Payments	-3.4	-3.8	-4.1	-4.3	-4.7
Other Factor Services and Transfers	-2.0	-2.4	-1.9	-2.7	-2.8
Current Account Balance	-3.7	-2.6	-2.9	-3.5	-6.9
Oil/LNG current account	6.0	4.1	2.7	3.8	3.1
Nonoil/LNG current account	-9.7	-6.6	-5.7	-7.3	-10.0
Capital Account Balance	9.0	7.3	3.2	2.0	10.1
Net Disbursements of Public MLT debt	0.6	1.8	1.4	0.2	-0.6
Disbursements	5.2	7.1	7.0	6.4	6.7
Amortization	-4.6	5.3	-5.6	-6.2	-7.3
Foreign Direct Investment, net	1.4	1.7	2.0	2.5	5.7
Other Capital, net	7.0	3.8	-0.2	-0.7	4.9
Change in Net Foreign Assets (- = increase)	-5.2	-4.8	-0.3	1.4	-3.1
Memo items:					
Official Reserves	9.6	12.0	12.7	13.3	16.0
Months of imports	4.4	4.8	4.7	4.2	4.3
Current Account/GDP (%)	-3.2	-1.8	-1.8	-1.9	-3.4
MLT Debt Service/Exports (%)	29.2	29.1	31.6	28.2	27.6
Terms of Trade (1993 = 100)	.				
Total	106.8	101.0	100.0	104.9	106.5
Nonoil	90.5	92.9	94.8	102.2	103.7

Source: Bank Indonesia, Biro Pusat Statistik, and World Bank staff estimates.

1.21   Growth of garments exports is down sharply from the boom years of the early 1990s.[2] Factors in the slowdown include: the tripling of minimum wages since 1989; intensified competition from new low-cost producers; diversion of output to the rapidly growing domestic market; and slow-moving bureaucratic procedures, like those for allocating quotas and providing import duty drawbacks to producers. Exports of garments and textiles may be stimulated by the January 1996 deregulation package (Chapter 2).

Figure 1.3 Quarterly Nonoil Trade (US$ billions)
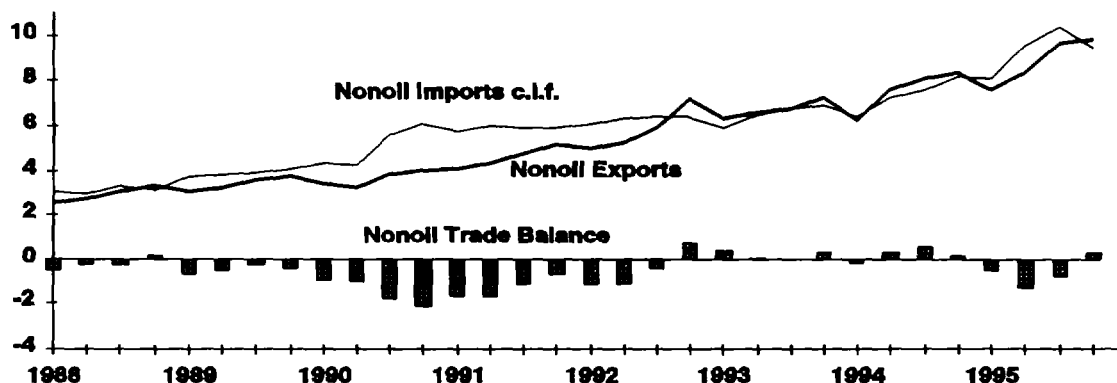
Source: Biro Pusat Statistik and World Bank staff estimates.

Table 1.3   Growth and Composition of Nonoil Exports

Sector (based on SITC)	Value in '95 (US$ bn.)	1994 (% change)	1995 (% change)
Total Nonoil Exports	35.0	12.1	15.1
Mining	2.7	23.6	48.9
Agriculture	2.9	22.7	2.5
Industry	29.3	10.3	14.1
Processed wood	5.0	-5.7	-3.9
Plywood	3.5	-12.0	-6.8
Other	1.5	15.1	3.7
Ores & metal	1.8	19.4	40.0
Textiles	6.2	-6.2	7.0
Garments	3.4	-8.1	5.0
Woven fabrics	1.6	-16.7	4.5
Other	1.2	23.9	16.4
Processed rubber	2.2	30.9	57.5
Processed food	0.8	10.1	0.7
Paper & products	1.0	34.1	50.7
Other industry	12.3	28.2	16.7
Footwear	2.1	13.7	8.8
Vegetable oils	1.1	60.3	-7.4
Toys & sport equipment	0.3	-16.6	90.9
Gold	0.3	214.9	-54.4
Plastics	0.5	-0.0	85.6
Electrical goods	0.9	40.6	28.5
Other	6.8	25.2	25.8

Source: Biro Pusat Statistik and World Bank staff.

1.22   Nonoil import growth (customs basis) accelerated to 27% in 1995 from 13% in 1994 (Table 1.4; on a payments basis, nonoil imports grew by 20% in 1995/96, unchanged from the previous year). Nonoil imports surged in the middle of 1995 (reaching 30% growth from September to September) before slowing sharply at year end. The acceleration of nonoil import growth fueled concern about economic overheating, raising the possibility of a significant widening of the current account deficit. The worst of these fears subsequently subsided and the surge later was traced largely to lumpy capital goods imports.[3]   This experience highlights the implications of the implementation of investment projects. Such projects are likely to be associated with large, lumpy capital goods imports. As discussed below, these are projected to sustain high nonoil import growth during the next few years, which will widen the nonoil trade and current account deficits. Indonesia's dependence on private capital flows for financing the current account deficit also is projected to increase. Policies discussed below are designed to lessen the vulnerability Indonesia faces because of heightened dependence on private external capital flows.

1.23 About 70% of the annual increase in nonoil imports was accounted for by strong growth of Intermediate Goods (Table 1.4). In addition to rising aggregate demand, imports in this category may have been boosted by the possibility that the VAT and luxury tax exemptions for BKPM approved project imports would be eliminated. The Government resolved uncertainty on this issue with an October 1995 circular confirming continued tax relief for projects undertaken by the end of 1998/99. Consumer goods imports grew the most rapidly of the three major categories, but they accounted for only about 15% of the increase in imports. Even if consumer goods imports had been constant, total imports would have grown over 20%. Few consumer goods are imported directly; generally, consumer demand is satisfied by local production using imported inputs.

1.24 Capital goods imports grew less rapidly than total imports, and accounted for about 15% of import growth. Capital goods import growth accelerated in the second half of the year. Data from the pre-shipment import inspection agency suggest that private capital goods imports grew at about the same rate as total imports, while public capital goods imports declined substantially. As noted above, capital goods imports are projected to grow rapidly in 1996, especially as the telecoms program speeds up and foreign investment projects are implemented.

1.25 The services account deficit increased by $0.7 billion in 1995/96. The larger deficit mainly was due to higher interest payments on external debt. Profit transfers from foreign investments in Indonesia also increased. Rapid growth of tourism—now larger than any single merchandise nonoil export—helped narrow the non-factor services deficit. Foreign visitors to Indonesia continue to increase at a substantial pace each year (by about 13% in 1995/96), but accommodation capacity is expanding rapidly among star-rated hotels. Occupancy rates at such hotels have come down and rate

discounting is common, which has contributed to slower growth in spending per visitor.

Table 1.4   Growth and Composition of Nonoil Imports
(% change)

Sector (based on BEC)	Value in '95 (US$ bn.)	1994	1995
		(% change)	
Total Nonoil Imports	37.6	13.2	27.4
Consumer Goods	2.3	22.7	67.2
Food & beverages	1.1	77.6	99.8
Passenger vehicles	0.1	-49.9	82.5
Durable goods	0.9	14.3	34.5
Other	0.1	-24.0	94.3
Intermediate Goods	26.7	15.8	28.4
Food & beverages	1.7	22.1	38.7
Raw materials	17.1	13.6	29.3
Fuel & lubricants	0.0	-42.1	135.2
Parts & accessories	7.8	19.9	24.2
Capital Goods	8.7	5.1	17.3
Machinery & equipment	8.0	1.0	20.5
Other	0.7	58.5	-9.0

Source: Biro Pusat Statistik, data processed by World Bank staff.

The Capital Account: Buoyed by Foreign Investment, Fluctuating in Line with External Shocks

1.26 The capital account surplus improved by $8 billion in 1995/96 (Table 1.2). There was a major expansion in estimated net foreign direct investment and a sizable increase in net private borrowing (Table 1.2). Estimated net inflows of foreign direct investment were $5.7 billion, up from $2.5 billion in 1994/95. Portfolio investment, estimated at $1.7 billion in 1995/96, was $1 billion higher than in the previous year. Public borrowing (net) was $0.2 billion in 1995/96. It has been declining in relation to total borrowing since the late 1980s (Figure 1.4). Estimated net private sector borrowing was $3.6 billion in 1995/96.

Figure 1.4 Cumulative MLT Borrowing Since 1989
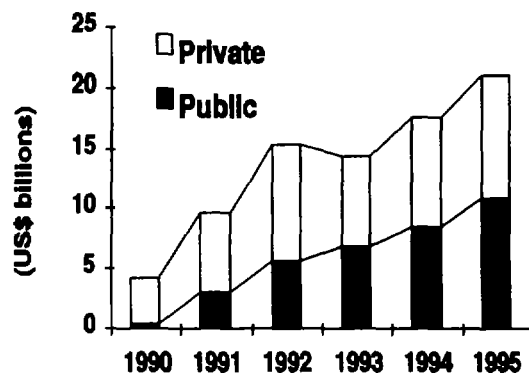
Source: World Debt Tables and staff estimates.

Figure 1.5 Country risk stabilizing
Onshore and Offshore US$ Deposits Differential
(3-month,%p.a.)

Source: Bank Indonesia.

Interest Spreads Have Fallen Since the Early 1990s, But Risen Since the Mexico Crisis

1.27   Capital flows and investor confidence in emerging markets, including Indonesia, followed developments in Mexico during 1995. "Country risk" (as measured by the spread between the interest rate paid for US dollar deposits onshore and offshore) rose steadily throughout the first quarter of 1995 (Figure 1.5) as the Mexico crisis stayed in the headlines and net portfolio flows to East Asia dropped sharply. By mid-year the spread leveled off; Indonesia and Thailand were regional beneficiaries of renewed capital inflows, and regional stock markets generally rebounded above their pre-Mexico levels. In the third quarter, the rally of the US dollar coincided with renewed problems in Mexico, which caused a drop off in inflows to Indonesia and other East Asian economies. Between November 1995 and February 1996, capital flows to East Asia picked up sharply, fueling sharp increases in regional stock markets.

1.28   Exchange rate risk (as measured by the spread between onshore rupiah and US dollar deposits) also rose during the first half of 1995,

then leveled off (Figure 1.6). It rose in early 1994 when the US Federal Reserve tightened monetary policy, continued rising through the Mexico crisis, and increased further during the second half of the year when the overheating issue came into the headlines. By year end, exchange rate risk appeared to have stabilized around 9% at annual rates, which is similar to recent levels.

Figure 1.6 Exchange rate risk stabilizing
Interest rate differential between 3-month rupiah and US$ time deposits at private forex banks
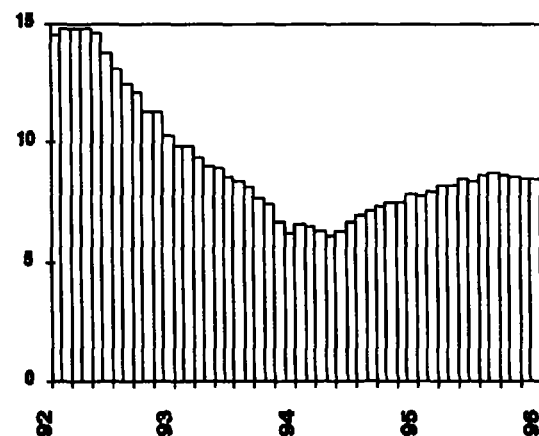
Source: Bank Indonesia.

External Debt: Prepayment of Public Debt and Reduced Reliance on Public Borrowing

1.29   Indonesia's external debt was $96.5 billion at end-1994 (World Bank 1996b). Of this amount, about two-thirds was public medium- and long-term debt. Estimated borrowing during 1995 suggests that external debt was over $100 billion by end-1995.

1.30   The most notable development concerning external debt during the past year was the continued use of privatization proceeds to retire external debt. In 1995/96 the Government used its share of the privatization proceeds of PT Telkom and PT Tambang Timah to prepay $760 million of loans to the Asian Development Bank and the World Bank. These loans dated from the early 1980s and carried interest rates exceeding 10%. Indonesia has prepaid $1.5 billion of high-cost debt in the past 2 years, reducing the amount of outstanding public debt by more than 2%. In his budget speech, the President committed future fiscal surpluses to speed up the repayment of public external debt. As high-interest, multilateral loan candidates for prepayment are exhausted, Indonesia could consider using the revenue from selling state enterprises to prepay commercial public debt. Other countries in the region, such as Malaysia and New Zealand, also are using privatization proceeds to prepay such public debt.

1.31   A second notable external debt development during 1995 was the impact of the sharp swings in the dollar/yen exchange rate. The depreciation of the yen/dollar rate in the first quarter of 1995 added about $6 billion to Indonesia's external public debt and could have raised 1995 debt service by $750 million. However, the rally of the US dollar in the third quarter of the year wiped out the earlier increase in the stock of yen-denominated debt and most of the rise in debt service.

Management of External Borrowing

1.32   One reason for the recent improvement in the indicators of public sector external indebtedness is the Commercial Offshore Loan Team or COLT. The COLT was established in October 1991 to improve management of commercial public debt. The COLT regulations set ceilings on commercial foreign borrowings by Bank Indonesia, state banks, state-owned companies and state-related projects for the five fiscal years ending in 1995/96 (Table 1.5). Export Credits are managed by the office of the Coordinating Minister for Finance, Economy and Development. Bank Indonesia also issued regulations in 1991 establishing a queuing system that applies to banks seeking to borrow abroad.

1.33   Regulations with varying degrees of restrictiveness govern certain borrowers. The regulations take five forms (Table 1.5 and para 1.60):

(i)   COLT approval for commercial borrowing. This covers state-owned enterprises, state-owned banks, and state-related projects.

(ii)   The net open position requirement, which limits banks' and non-bank financial institutions' net foreign exchange position (on- plus off-balance sheet) to a percentage of their capital—now 25%.

(iii)   Bank Indonesia monitoring and indicative ceilings. This covers large—over $20 million—money or capital market borrowings by private banks, non-bank financial institutions, and non-financial companies.

(iv)   Required reporting to the COLT and to Bank Indonesia. Borrowing not subject to COLT approval must be reported.

Table 1.5 Ceilings on Foreign Commercial Borrowing
(US$ millions)

	1991/92	*1992/93*	*1993/94*	*1994/95*	*1995/96*
Bank Indonesia	400	500	500	500	500
State banks	1000	1000	1000	1000	1000
Private banks	500	500	500	500	500
Private companies [a]	2500	2600	2700	2800	2900
State-owned companies	1500	1000	1200	1400	1600
Total	5900	5600	5900	6200	6500

Source: Bank Indonesia.
[a] The figure is indicative only and used by Bank Indonesia as a basis for monitoring.

The only exceptions are trade finance for non-financial companies and commercial borrowing related with money market transactions of less than $20 million.

(v)   A queuing system exists for projects by state banks and project finance by private companies, including banks.

Short-term trade finance, short-term money market borrowings, and purely private borrowings for projects with no public sector connection are exempt from coordination.

1.34   The regulations have restrained offshore borrowing by state banks and state-owned enterprises. They also have improved significantly Bank Indonesia's ability to monitor external borrowing. However, private banks note that tight ceilings disadvantage them to the benefit of their offshore branches and domestic non-banks. For private companies, loan signings during 1995/96 were more than double the indicative ceiling.

1.35   Macroeconomic stability requires continued tight monitoring of public debt and publicly guaranteed debt. It also requires continued adherence to the policy of no government guarantees of private debt. The Government should continue COLT's ceiling on any private borrowing that relies on a government guarantee or other form of comfort

from the government. Regarding purely private company borrowing, recent improvements in Bank Indonesia's debt reporting system argue for keeping the ceilings indicative only. Consideration also could be given to transforming the ceiling on private banks' borrowing into an indicative ceiling and relying on prudential regulation, especially of the net open position, to control their borrowing. This would eliminate the regulatory disadvantage private banks now face relative to offshore banks and domestic non-banks, and provide the authorities at Bank Indonesia with the information they need to monitor external indebtedness.

Official Reserves Rose $2.7 billion

1.36   Official reserves reached an estimated $16 billion at end 1995/96 (Table 1.2). In relation to imports of goods and services, official reserves increased to the equivalent to 4.3 months coverage. Official reserves dropped early in the year during the Mexico crisis. They rose in June-July when interest rates and the dollar rally attracted capital flows to East Asia. The increases stopped near the end of the third quarter when short-term interest rates declined, the dollar rallied against the yen and renewed concern arose over Mexico and domestic overheating.

1.37   As additional insurance against contingencies, Bank Indonesia maintains

significant stand-by lines of credit. In addition, repurchase agreements have been reached with several central banks in the region to provide liquidity in the event of speculative attacks on the currency. Moreover, Bank Indonesia has increased the yen portion of official foreign exchange reserves to hedge its exposure to currency fluctuations.

Increased Foreign Investment Approvals Foreshadow a New Source of Growth

1.38   As noted, foreign direct investment increased significantly in 1995/96 (Table 1.2). This is the early result of a dramatic surge in foreign investment approvals (which exclude certain key sectors of the economy; see Box 1.2) in the last two years (Figure 1.7). The increase is the second wave of foreign investment into Indonesia. The previous surge occurred in 1988-90 when Indonesia's textile sector received significant amounts of investment from North Asia. That investment led to the trebling of textile exports in the four years to 1992/93, when they were Indonesia's largest nonoil export.

1.39   Foreign investment approvals already were on the rise in early 1994, driven in part by a worldwide boom in foreign direct investment. But they have increased markedly since the Government significantly liberalized foreign investment regulations in May 1994. The high investment approvals foreshadow a period of private sector, investment-led growth. The accompanying equity inflows should provide substantial financing for the current account deficit. Implementation of a successful state enterprise privatization campaign could add to these flows and make it possible to retire large amounts of public external debt.

1.40   After averaging around $9 billion (for 361 projects) per year during the period 1990-93, foreign investment approvals jumped in 1994 to $23.7 billion (449 projects). In 1995 they surged, to $39.9 billion (799 projects). Average project size doubled from

$25 million in the early 1990s to more than $50 million in the past two years (see paras 1.44 - 1.45).

1.41   The largest expansion in investment approvals has been in Secondary Industry, with the great bulk of this expansion accounted for by the Chemicals Industry; the Paper Industry is a distant second (Figure 1.7a). The United Kingdom expanded as a country-of-origin (in Petrochemicals, Paper and Power) as has the United States, especially in 1995 (Petroleum Products and Electric Power).[4] There has also been a major expansion in large "Joint" country projects, particularly in the Petrochemicals sector (Figure 1.7b). Japan and Singapore accounted for the largest numbers of individual projects (more than 100 annually each), mainly in the $10-25 million range. Neither Japan nor Singapore has been the country-of-origin for any of the large projects mentioned above.

1.42   On the basis of plans submitted with investment applications, foreign investment approvals are becoming slightly more export-oriented (Figure 1.7c). Expected annual exports have increased by a factor of 3.7 between 1991-93 and 1994-95 while total approval increased by a factor of 3.5. Virtually all of the anticipated increase in exports is from two sectors—Chemicals and Paper. However, these figures (and thus the totals) are likely to be inflated because of the requirement that only "export-oriented" refineries would be approved. On the basis of firms' intentions, exports from newly-approved foreign investment projects in some of Indonesia's traditional export sectors, textiles and primary goods for example, would decline (Figure 1.7c).

1.43   Approved projects continue to be concentrated in East and West Java and Sumatra, notably Riau province (Figure 1.7d). The value of investment approvals was little changed in Jakarta and remained low in many provinces in the eastern islands.

Figure 1.7 Foreign Investment Approvals
(Annual Average)

Figure 1.7a By Sector
US$ millions
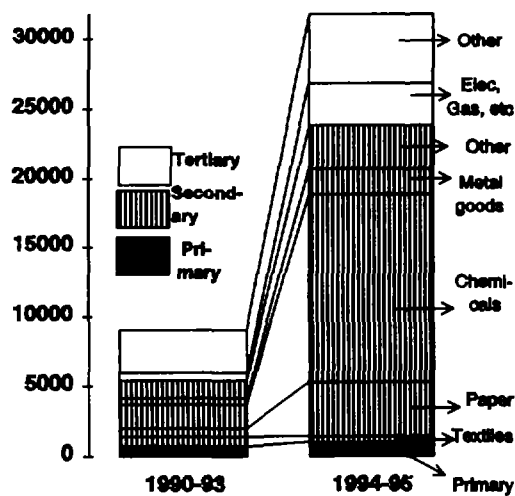
Source: BKPM.

Figure 1.7b By Country of Origin
US$ millions
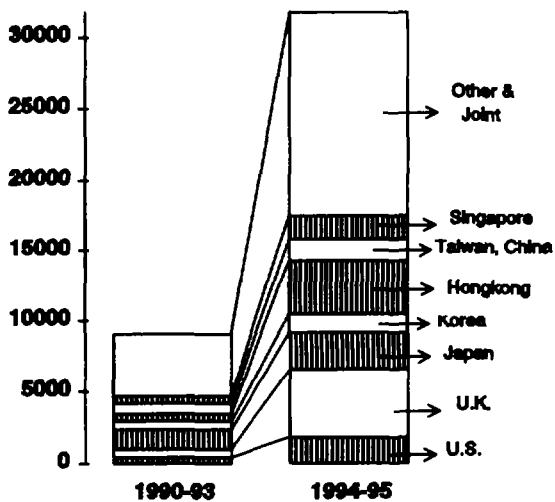
Source: BKPM.

Figure 1.7c Amount of Exports
US$ millions
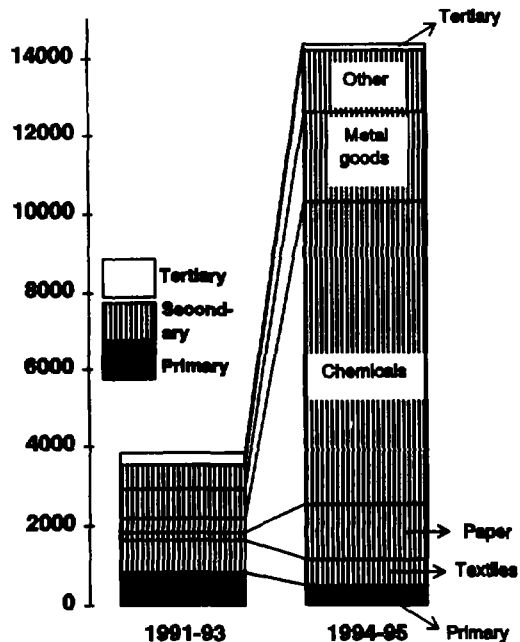
Source: BKPM.

Figure 1.7d By Location
US$ millions
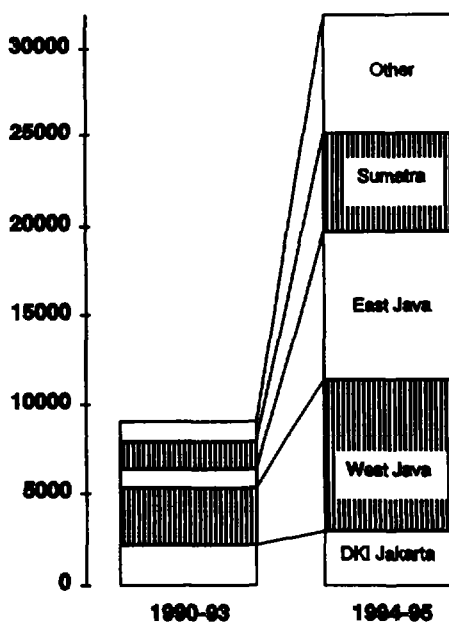
Source: BKPM.

1.44   Much of the jump in FDI approvals is attributable to big projects. In the early 1990s it was unusual to find $1 billion projects. In 1994 there were six and in 1995 there were 11. The big projects account for virtually all of the doubling in the value of the average project. The large projects are concentrated in a few activities, oil refineries, petrochemical plants, pulp and paper mills, and power plants. Eleven petrochemical projects (including oil refineries) worth $23 billion account for more

than one-third of the value of all approvals in 1994-95. It is not clear that all of these projects will be realized; the oil refineries are unlikely to go ahead until the law granting state-owned Pertamina the monopoly right to the domestic oil industry is modified to allow others in, and one firm already has canceled its application. Finally, as noted, there are several large projects that are not captured in the data, notably the multi-billion dollar Natuna gas project and two new LNG trains (Box 1.2).

Box 1.2   The links between investment approvals and the balance of payments.

The current increase in foreign investment approvals eventually will translate into inflows of foreign direct investment in the balance of payments. But, historically only about 40% of approved foreign investments are realized, and the changing composition of approvals (see main text) may further reduce this percentage. The average lag between approvals and direct investment in the balance of payments is estimated at 1.5-2 years with the largest impact in year 2.

Investment Coordinating Board (BKPM) data on investment approvals represent the total cost of a project, and they exclude oil and gas development activities (including the giant Natuna project) as well as bank and non-bank financial institutions. Foreign investment in the balance of payments covers the same sectors of the economy and measures the equity and debt components of project costs. The equity component of projects is generally 20% or more.

Countries that benefit from large inflows of foreign investment generally show large profit transfers to the foreign owners. Countries estimate profit transfers in different ways. Bank Indonesia uses a rule based on the historical equity share of foreign investment, the historical return on this investment (which they estimate by a sample) and an assumption about the operational share of equity. Using Bank Indonesia's rule, profit transfers are projected to grow to $2.5 billion over the next five years.

1.45   Stripping out the large (over $1 billion) projects, foreign investment approvals still have increased by more than 50% annually in the past two years with some very healthy characteristics. For example, the projects are distributed widely across sectors, including Food Crops, Plantations, Food Industry, Basic Metals and Metal Goods Industries, Transport and Housing. Also, this increase has been well spread-out among major investing regions: East Asia (Japan, Korea, Hong Kong and Taiwan, China); ASEAN (Singapore and Malaysia); Western Europe (the UK, Germany and the Netherlands); and the United States.

C. Macroeconomic Policies

1.   Fiscal Policy: Tightening in 1995/96

1.46   In 1995/96 the Government ran a surplus of roughly 0.8% of GDP (IMF/World Bank basis[5]), tighter than the 0.3% surplus in 1994/95 and much tighter than the original budget. The surplus reflects higher-than-budgeted international oil prices, better-than-projected nonoil tax collections, less-than-budgeted development spending, and restrained net off-budget spending (Table 1.6). The improved nonoil tax collections partly reflect

Table 1.6 Central Government Fiscal Operations [a]
(Rp trillions)

	1993/94	1994/95		1995/96		1996/97
		Budget	*Actual*	*Budget*	*Estimate*	*Budget*
Revenue & Grants	54.2	60.2	60.1	65.5	69.0	78.2
Oil/LNG taxes	12.8	12.9	13.4	13.3	14.8	14.1
Nonoil taxes	34.2	40.1	40.7	45.0	48.4	56.0
Non-tax revenues	6.7	6.8	5.5	6.7	5.2	7.6
Grants [b]	0.5	0.5	0.5	0.5	0.5	0.6
Current Expenditures [c]	33.3	35.2	35.3	40.3	43.6	48.3
External interest	6.3	7.1	6.5	7.2	6.9	7.8
Subsidies [d]	1.7	0.2	0.5	0.1	0.2	0.1
Other, of which:	25.2	28.0	28.4	33.0	36.5 [j][k]	40.3
Personnel [e]	18.2	19.7	19.8	23.3	23.2	27.8
Capital Expenditure	22.4	24.0	25.3	27.0	26.0 [j]	30.2
Estimated Off-Budget (net) [f]	0.6	...	-1.7	...	-4.2	...
Total Expenditure	56.2 [g]	59.2	58.9 [g]	67.3	65.3	78.5
Overall Fiscal Balance	-2.0	1.0	1.3	-1.8	3.7	-0.3
Financing						
External (net)	1.7	-1.0	-0.7	0.5	-0.0	-0.3
Disbursements	12.5	9.5	11.5	11.2	12.9	11.8
Amortizations	10.7	10.5	12.2 [l]	10.7	12.9 [l]	12.1
Domestic (net financial drawdown)	0.3	0.0	-2.3	1.3 [h]	-5.4	0.5 [h]
Exceptional: privatization receipts	0.0	0.0	1.7	0.0	1.8	0.0
			(as % of GDP)			
Revenue & Grants	16.4	15.9	15.9	14.7	15.5	15.5
Current Expenditures	10.1	9.3	9.3	9.0	9.8	9.6
Capital Expenditure	6.8	6.3	6.7	6.1	5.8	6.0
Total Expenditure	17.1 [g]	15.6	15.5 [g]	15.1	14.7 [g]	15.6
Overall Fiscal Balance	-0.6	0.3	0.3	-0.4	0.8	-0.1
Memo item:						
Oil prices ($/bbl) [i]	14.8	16.0	16.6	16.5	17.3	16.5

Source: Ministry of Finance, Bank Indonesia, and World Bank staff estimates.

[a] This table presents Central Government fiscal accounts in the format of the IMF's *Government Financial Statistics*, which differs from Government of Indonesia's Budget format. Section 5 of the Statistical Annex presents the fiscal accounts in the Government's format.

[b] Estimated grant component of external financing.

[c] Includes spending of a current nature classified as development expenditure in the Government's Budget (fertilizer subsidy, defence expenditure, operations and maintenance expenditure).

[d] Includes fertilizer and petroleum subsidies.

[e] Central Government's personnel spending plus transfers to regional governments for personnel expenditure.

[f] Derived as the sum of government saving (revenues less current expenditures) and net financing (external plus domestic), less estimated on-budget capital spending. (See note [c]).

[g] Includes estimated net off-budget transactions.

[h] Drawdown of off-budget government deposits (reforestation funds).

[i] Indonesian crude, annual average for the fiscal year or projection at Budget.

[j] Includes re-classification of pre-shipment import-inspection fees from capital to current expenditure.

[k] Includes re-imbursements of Rp1.5 trillion to Pertamina for domestic oil operations.

[l] Includes debt prepayment.

the booming economy. However, improved administration, some new taxes and increases in other tax rates also were helpful. For example, in July forestry fees were increased by 10% (although they remain a much smaller percentage of log values than in 1987), and a tax was imposed on the sale of luxury homes. The lower-than-budgeted development spending contributed to fiscal tightening as well as to slower disbursements of some foreign assistance. It is notable that the surplus in 1995/96 occurred despite large reimbursements to Pertamina for its domestic operations in 1993/94.

The 1996/97 Budget: Additional Tightening Warranted

1.47 Although the President's Budget speech recognized the dangers of overheating, the Budget for 1996/97 tightened the fiscal stance only slightly relative to last year's Budget; higher-than-budgeted revenues or less-than-budgeted spending will be needed to match the 1995/96 surplus. Such tightening of fiscal policy would be desirable to reduce the risks of overheating and make more room for higher investment demand. Tighter fiscal policy is the Government's most effective policy instrument for reducing aggregate demand. It also was an appropriate response to capital inflows in 1995/96. Finally, tighter fiscal policy can help tighten monetary policy (para 1.55).

1.48 The Budget also continues to reduce the share of public investment in public spending. The share of development expenditure in total spending declines to 38% in 1996/97 from almost 40% the previous year and almost 42% at the beginning of the decade. At the same time, current expenditures are projected to rise in relation to GDP. Some items of current spending increased sharply, notably the wage and salary bill (19% growth in 1996/97 although any across-the-board wage increase was left to the Parliamentary discussion) and Domestic Materials Expenditures, which has more than doubled in the past two years. To

some extent the changes in the latter category include a bringing on-budget of spending financed by own-revenue (the *Swadana* account) of certain current expenditures by some government agencies (for example, hospitals and educational institutions).

1.49 The Budget programmed a large increase in several categories of nonoil revenues, including income taxes, value added taxes and excises.[6] The ambitious targets for income and value added tax may be achieved without additional measures. Exceeding these revenue targets and generating a stronger overall fiscal position will be more difficult than in previous years. This is especially true considering the revenue losses stemming from the introduction of incentives for the national car (para 2.41) and the tax-deductible status of individual contributions to the poverty alleviation initiative of Presidential Decree No. 90/1995.

1.50 The Budget speech underscored the Government's readiness to take steps to overcome abrupt movements in international capital flows. It also pledged to use any budget surplus to prepay external debt. The Ministry of Finance's recent track record also needs to be kept in mind; in the past two years, the fiscal outturn has been tighter than the Budget (Table 1.6).

2. Exchange Rate Developments: Toward a More Market-Determined Exchange Rate

1.51 Indonesia follows a "managed float" exchange rate policy. Bank Indonesia sets the central value of the rupiah based on a basket of foreign currencies, and intervenes in the market to buy/sell rupiah in an "intervention band" around that central rate. By widening the intervention band, Bank Indonesia has moved to allow market forces a greater role in setting the value of the rupiah. Bank Indonesia widened its intervention band to Rp20 in January 1994, Rp30 in September 1994, Rp44

in June 1995, and to Rp66 in December.[7] The announcement had no noticeable immediate impact on the foreign exchange market.

1.52   Although the band is ten times wider than in 1992, it is still small (less than 3%) in comparison to many countries. For example, Chile, which also follows a managed float exchange rate policy, has an intervention band of 20%; Colombia has a 14% band; the Czech Republic is considering a 5-10% band; most countries in the European Monetary System maintain 30% bands; and even Germany and the Netherlands, two countries that are

regarded as having a "fixed" exchange rate against each other, have a band of 4.5%.

1.53   Bank Indonesia has roughly followed a real exchange rate rule since the devaluation of September 1986 (Figure 1.8). The rule is that the rupiah is depreciated to compensate roughly for the excess of domestic inflation over inflation in major trading partner countries. Since 1987, the real effective exchange rate—the nominal exchange rate adjusted for inflation differentials between a country and its main trading partners, as calculated by the IMF—has depreciated by an average of about 1% per year.[8]

Figure 1.8 The Real Exchange Rate
(Jan 1986 - Jan 1996)
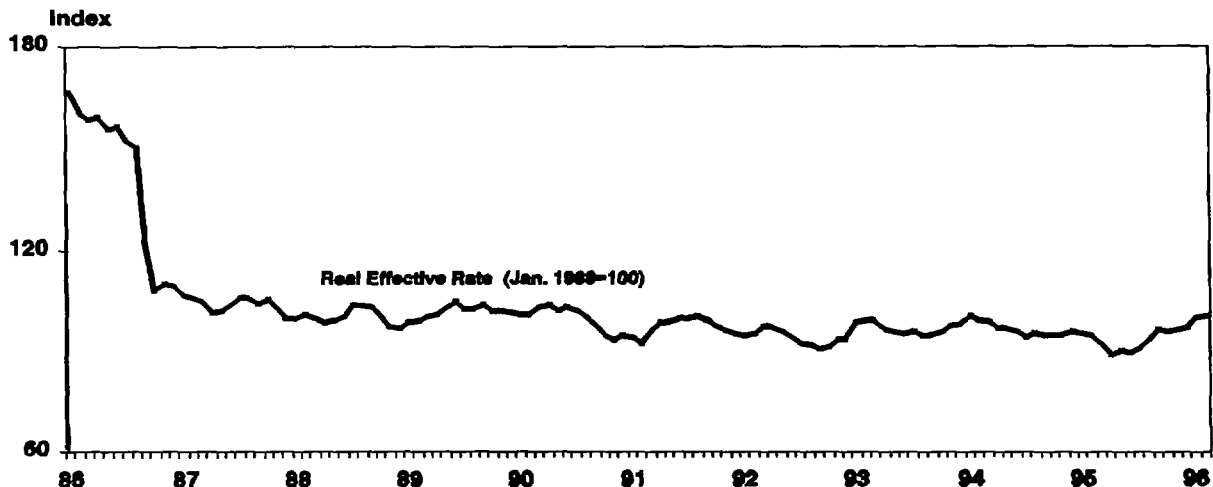
Source: IMF.

3. Monetary Policy Tightened in 1995

1.54   Responding to the Mexico crisis and signs of overheating, monetary policy tightened during 1995. Interest rates increased in the first half of the year (Figure 1.9) and reserve money growth came down substantially, mainly due to a build-up of government deposits. On the external side, net foreign assets increased substantially over the course of the year although foreign capital shifted direction, often abruptly, on several occasions during the year.

Figure 1.9 Rupiah Interest Rates (percent)
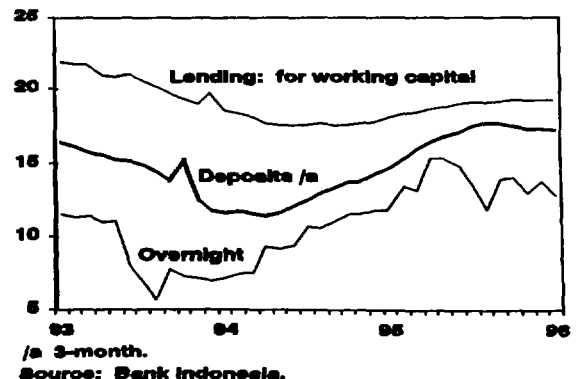
/a 3-month.
Source: Bank Indonesia.

Reserve money growth declined...

1.55   Reserve money growth was 16.7% in 1995 compared to 25.8% in 1994 (Table 1.7). The build-up of Government deposits offset the expansionary impact of foreign assets on reserve money ("Claims on government" in Table 1.7). Bank Indonesia unwound some of its money market instruments (Table 1.7). Bank Indonesia also provided large amounts of liquidity credits (below-market directed credits from Bank Indonesia) to Bulog, the State Logistics Agency, to finance rice purchases and to Bapindo, the troubled state-owned bank, near year-end.[9]   The increase in liquidity credits amounted to roughly half of the increase in Government deposits.

Table 1.7   Sources of Reserve Money Expansion
(Rp trillions)

	1993	1994	1995
Foreign exchange contribution	5.0	-1.5	5.2
Policy contribution	-4.7	8.6	0.2
of which:			
Claims on government	1.9	-3.1	-6.9
Liquidity credits	-2.3	0.9	3.4
Money market instruments	-4.3	10.8	3.7
Other	2.6	-2.5	-1.7
Reserve Money	2.9	4.6	3.7
(growth rate, % per year)	(19.5)	(25.8)	(16.7)

Source: Bank Indonesia.

... but broad money and credit growth stayed high.

1.56   For 1995 as a whole, the growth of broad money (M2) actually accelerated (Table 1.8), despite the drop in reserve money growth. Higher growth of M2 sustained strong credit growth, which exceeded Bank Indonesia's target range through the year. In addition, there was substantial growth in credit from the non-bank financial sector (which is outside the coverage of M2).

Table 1.8   Monetary Survey
(Rp trillions, change over year earlier)

	1993	1994	1995
Net Foreign Assets	0.9	-4.4	7.4
Net Domestic Assets	32.5	32.7	41.3
Lending to Business	30.2	37.8	47.4
Broad Money (M2)	26.1	29.3	48.1
Narrow Money (M1)	8.0	8.6	7.3
Time/Saving Deposits	15.3	15.6	32.7
Foreign Currency Deposits	2.8	5.1	8.1
Memo Items: (% change)			
Reserve Money	19.5	25.8	16.7
Lending to Business	22.7	23.2	23.6
Broad Money	22.0	20.2	27.6

Source: Bank Indonesia.

1.57   In an attempt to strengthen the link between reserve money and M2, in December Bank Indonesia raised commercial bank reserve requirements from 2% to 3% and excluded vault cash from reserves. Effectively these measures increased the reserve requirement by about 2 percentage points. Higher reserve money demand in February 1996 (when the new reserve requirement took effect) contributed to capital inflows and an accumulation of international reserves. The rise in M2 in relation to reserve money—the money multiplier—(Figure 1.10) highlights the complications of translating a slowdown

Figure 1.10   Broad Money Multiplier
(Jan. 1988 - Nov. 1995)
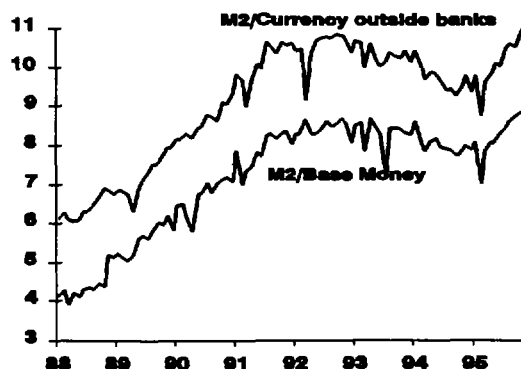
Source: Bank Indonesia.

in reserve money growth into a slowdown in broad money or credit growth (Box 1.3). It also argues for setting conservative targets for credit expansion.

1.58 During 1995, the expansion of bank lending was distributed evenly across sectors, with the exceptions of agriculture and property lending. Lending to agriculture expanded slowly. Growth of credit for property development decelerated sharply, though it exceeded total loan growth by a substantial margin throughout most of the year (Figure 1.11). Several factors can be cited for the slower growth of property lending, including higher interest rates, new tax measures and evidence of weakening demand (for example, softening rental rates and rising vacancy rates), especially at the upper end of the housing and apartment markets.

1.59 Looking at the flow of funds in the monetary survey, net foreign assets financed approximately 15% of the total increase in

---

Box 1.3 Making monetary policy in Indonesia.

The limits to conducting an excessively "loose" monetary policy are well-known in Indonesia: attempts to maintain interest rates much below (risk-adjusted) international levels will lead to capital flight and eventually exhaust international reserves. There are also limits to an excessively "tight" monetary policy. In both cases, monetary policy is ineffective for a simple reason; in an open economy, international capital flows respond fluidly to variations in domestic interest rates, thereby offsetting the central bank's attempts to control interest rates and money supply, unless exchange rates are allowed to vary (Mundell).

Very simple econometric analysis provides a quick assessment of the strength of these offsets in an Indonesian context. The results indicate that offsets are powerful and they act quickly; 58% of Bank Indonesia's actions (to change domestic credit) is offset within one month and an additional 21% is offset within two months. The total offset, of 80%, is higher and faster than previous estimates, probably because of the increasing integration of international and domestic capital markets. Nevertheless, room does remain for Bank Indonesia to change the money supply and interest rates in the short run.

Central banks in the region have been experimenting with various means to strengthen monetary policy to deal with capital inflows. For example, Thailand raised commercial bank capital ratios and the cash reserve requirement on short-term foreign loans raised by financial institutions. International experience indicates that such instruments can increase the importance of domestic monetary factors in determining domestic interest rates immediately after controls are imposed. However, the effects of these changes typically are short-lived. Moreover, controls tend to push legitimate business offshore (Garber and Taylor).

The implications for policy are clear. First, monetary policy has a role to play in dealing with overheating. But that role is limited and ultimately it can become complicated (Boediono). Second, monetary policy's impact could be strengthened by allowing the foreign exchange market a greater role as a transmission mechanism—for example, by widening the exchange rate intervention band. In this way, Bank Indonesia would not be forced to offset the impact of its own policies in the foreign exchange market. Third, monetary, exchange rate and fiscal policy need to be coordinated to achieve high growth, low steady inflation and prudent levels of official reserves. Finally, it is desirable for Bank Indonesia to err on the side of tightness in following international interest rates, owing to the strong impact that Bank Indonesia's policy can have on international reserves.

Source: Hanson

Figure 1.11 Credit Developments at Deposit Money Banks
(year-over-year % change)
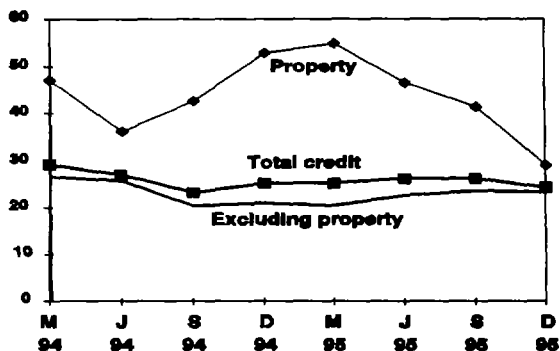
business lending (Table 1.8). The rest was financed by the growth of broad money, mainly rupiah time and savings deposits.

1.60 Bank Indonesia stepped-up non-market interventions to slow credit growth during 1995. There was extensive use of moral suasion to slow lending to the property sector. In August Bank Indonesia promulgated new regulations that limited banks' participation in the commercial paper market. In September, Bank Indonesia set up a schedule for increased capital requirements, which should slow bank lending and make it less risky (para 2.80). In December measures were announced to slow the growth of finance company lending. New entry into the industry was halted. Also, finance companies' total borrowing in relation to net worth was limited to 15 times, and to 5 times for offshore loans. Issuance of promissory notes and their equity position in other companies also were restricted.[10] Also, finance companies must submit regular financial reports to Bank Indonesia. The effectiveness of these measures in controlling credit growth will depend on their strong implementation.

1.61 For 1996, the President's Budget Speech emphasized the need to control liquidity growth. As follow-up, Bank Indonesia announced that the target growth of credit

would be 17%. Tighter regulation and higher capital and reserve requirements should help slow credit growth. However, Bank Indonesia did not raise interest rates on its money market instruments when it announced the tighter credit growth target.

D. Update on the Banking Sector

1.62 Appreciable progress continued in working out from under the burden of bad debts in 1995. After increasing for several years, classified credits (comprising "bad", "doubtful" and "substandard" credits as defined by Bank Indonesia) declined in relation to total credits during 1994, and this trend continued through 1995 (Table 1.9). However, the absolute amount of classified loans increased markedly during 1995, by almost Rp2 trillion. Within classified loans, the value of bad debts also increased, but only a little, owing mainly to extensive write-offs at Bapindo late in the year (para 1.55).

Table 1.9 Commercial Banks' Classified Credits
(percent of total credits, end of period)

	1993	1994	1995
All Banks			
Total Credits	100.0	100.0	100.0
Classified	14.2	12.1	10.4
Bad	3.3	4.0	3.3
State Banks [a]			
Total Credits	100.0	100.0	100.0
Classified	19.8	18.6	16.6
Bad	4.2	5.9	5.3
Private Banks			
Total Credits	100.0	100.0	100.0
Classified	7.3	5.4	4.9
Bad	2.1	1.9	1.4
Memo items:	(Rp tm.)		
Total credits	177.5	217.0	267.8
State banks	99.1	104.1	120.9
Private banks	79.8	108.5	141.3

Source: Bank Indonesia.
[a] Includes the five state commercial banks, Bank Tabungan Negara, and Bapindo. Excludes the Regional Development Banks (BPDs).

1.63 During 1995, both the state and private banks reduced classified credits in relation to total credits (Table 1.9). However, among the state banks there is a wide variation in portfolio quality. The Government has targeted Bank Negara Indonesia for public listing. Two other state banks account for much of the classified credits.

1.64 Among the private banks, classified credits are lowest in the private foreign exchange banks, a group that constitutes more than one-third of the entire banking sector. The private non-foreign exchange banks, which represent only 5% of assets of the banking sector but 38% of the number of banks, have a classified credit problem that is comparable in percentage terms to the state banks'.

1.65 The Directorate General of Taxation in the Ministry of Finance took a step in 1995 that may change banks' reported classified assets. It limited the tax deduction for bad debt provisions to 3% of loans (the previous maximum) or the amount reported in commercial financial statements, whichever is less. The excess (deficit) of provisions in relation to actual write-offs is to be reported as income (loss) in the subsequent year. This will continue to penalize banks with classified assets over 3%, but eliminate the incentive to over-report classified assets to the tax authorities. This action renewed debate as to reliability of financial reports in Indonesia and banking secrecy, particularly in the light of recent decision by Bank Indonesia to reduce the reporting frequency (from quarterly to biannually) of commercial banks' financial accounts.

1.66 Bank Indonesia has encouraged consolidation in the banking sector in the past few years. This partly reflects Bank Indonesia's case-by-case approach to dealing with insolvent banks. During 1994 the number

of commercial banks increased by only 6, reaching 240 where it stayed through late 1995. Bank Indonesia has discouraged the establishment of new banks by a tighter selection process, especially as regards the source of capital and persons eligible to hold positions as bank shareholders or managers. Bank Indonesia also has been active in encouraging takeovers, changes in management and technical assistance to management. Some 20 banks have experienced changes in this regard during the past 2 years. In many cases, the new owners or managers strengthened the capital structure of the banks.

1.67 As noted above (para 1.60) and discussed in Chapter 2, Bank Indonesia tightened prudential requirements in 1995. Bank Indonesia also issued guidelines on derivatives trading by banks, including disclosure requirements to customers and weekly reporting to Bank Indonesia. Such trading by banks, which was essentially unregulated in the past, is restricted to transactions in foreign exchange and interest rates. Banks may transact in stock-related derivatives with the permission of Bank Indonesia.

1.68 The banking sector's compliance with key prudential regulations was mixed as of mid-1995. The capital adequacy ratio exceeded the required 8% for commercial banks as a whole, and for each group. But there still were 22 banks (out of a total of 240 banks) that did not meet the required capital adequacy ratio and 65 (27% of all banks) that did not meet the legal lending limits. Of the 65, 20 were foreign exchange banks and 31 were non-foreign exchange banks. 25 banks (or more than 20% of the eligible total) exceeded the net open position requirement on foreign exchange exposure. However, there were indications of progress in some of these areas around the end of 1995.

E. Macroeconomic Policies to Reduce Risks

1.69   Indonesia has the potential to "take off" as President Soeharto said when he launched Repelita VI, the current five-year plan. Since then, the rebasing of the national accounts indicated that growth in Repelita V was higher than previously thought (Technical Annex) and the annual growth target for Repelita VI was revised upward to 7.1% from 6.2% in August 1995.

1.70   Stronger investment demand, including foreign direct investment, could provide the basis for the take-off scenario. The capital goods imports associated with investment will strain the nonoil trade and current account deficits. The wider current account deficit largely would be financed by private external capital. Thus, the success of the take-off scenario depends crucially on maintaining investor confidence. Prudent policy is to contain domestic demand—consumption and construction—so that growth in consumer goods and intermediates imports slows in order to accommodate higher capital goods imports. Failure to slow nonoil import growth in this way could lead to a much wider current account deficit than projected below. One lesson from Mexico is that sooner or later confidence falters in countries with large, increasing current account deficits.

1.71   The task for macroeconomic policy is to minimize the risks of overheating, and the likelihood of a fall in confidence. Briefly, this means offsetting private sector investment demand by raising saving. This will reduce pressures on inflation and the current account deficit. A principal focus of the effort to increase saving is tighter fiscal policy. Tight monetary policy is also needed.

1.72   Fiscal policy is the most effective instrument at the Government's disposal to raise saving. Although the development of the financial system, including the pension system,

could lead to an increase in private saving, a stronger public sector contribution to raising saving would be the most prudent policy.

1.73   A reasonable estimate would be for the Government to increase its overall surplus (IMF/World Bank basis) by around 2% of GDP. Such adjustment would require more than tight implementation of the Budget and continued improvements in tax administration. The additional measures, including some adjustment of development spending, could include:

(i)   Raise public enterprise prices, notably fuel and power, to efficiency levels. Increased fuel prices would get them closer to parity with international prices. This policy also would benefit the environment (Chapter 2). Likewise, electricity prices need to be increased in line with the existing formula, and the formula re-examined in the context of current over-capacity in generation and the prospective growth of private power.

(ii)   Reduce public spending on telecommunication and power generation where the private sector is playing a larger role. Also, power generation capacity is excessive (Chapter 2). In general, public enterprises can finance more spending by mobilizing more revenue. The management of public/private interactions and adjustments in the development budget will become increasingly important as Repelita VI draws to a close.

(iii)   Raise forestry fees (IHH), improve collections and bring reforestation levies on-Budget to improve transparency.

(iv)   Carry out decentralization by transferring personnel and functions to the regions, not by increasing staff.

(v)   Raise property assessments and property tax rates. Higher taxes on property

would help to further contain construction demand and support decentralization. Similarly, the motor vehicles tax could be raised and restructured as a means to cover road maintenance costs.

(vi) Slow the growth of overall personnel spending (to below projected nominal GDP growth).

(vii) Develop better sources of non-tax revenues, fees for services and user charges.

1.74 Another policy that would enhance confidence and reduce risks would be for the Ministry of Finance to announce an ambitious program to reduce public external debt using fiscal surpluses and the proceeds of privatization. Indonesia remains highly indebted externally; the debt associated with investment projects will make it more so. Prudent policy would be to create room for private external borrowing by prepaying public external debt. Setting an ambitious target for reducing Government external debt to be met over the next three to five years, accompanied by a line item in the Budget, would have a powerful impact on market sentiment. To be credible such a program would require both tighter fiscal policy and implementation of a transparent, rules-based framework for privatizing public enterprises such as elaborated in Chapter 2. Public surpluses also could be used to cover unfunded liabilities such as civil service pensions.

1.75 As discussed earlier, monetary policy has limitations in Indonesia. Nevertheless, Bank Indonesia is expected to carry out counter-cyclical monetary policy and, indeed, may have to take a major role. Tight monetary policy means restrained targets for Bank Indonesia's domestic credit growth, adjusting interest rates on Bank Indonesia's monetary instruments in line with movements in

international rates and strict enforcement of prudential regulations on banks. Monetary policy could be strengthened by raising reserve requirements and by giving the market a greater role in exchange rate determination (Box 1.3) by further widening the intervention band. This would make it possible to pursue a more independent, anti-inflationary monetary policy.

F. Projections and Foreign Assistance

1.76 Indonesia is projected to benefit from an investment-led expansion in the next 2-3 years, supported by tighter fiscal policy (Table 1.10). The resulting upgrading and structural transformation of the economy are projected to boost GDP growth to 8-8.2% in the medium-term. The main source of growth will remain the nonoil, non-agricultural sector. Agriculture, which still accounts for 15% of GDP, would expand more slowly, while the oil/LNG sector would be essentially flat.

1.77 Tighter fiscal and monetary policy and continued prudent debt management will be desirable to reduce the risks of overheating from rapid, private sector-led growth. Tighter fiscal policy could be brought about efficiently and equitably by raising petroleum, power, and other public enterprise prices, raising fees (especially IHH), raising property taxes, and reducing personnel spending, and public spending on telecoms and power where the private sector is playing a greater role, as noted above. Tighter monetary policy would entail prudent expansion of Bank Indonesia's domestic credit and tracking of international interest rates, so as to achieve a reasonable increase in official reserves. Prudent debt management will entail continuing to limit public and publicly-related external borrowing, and use of fiscal surpluses and privatization proceeds to prepay public external debt.

1.78 Even with this policies, the investment-led expansion is projected worsen the nonoil

Table 1.10 Summary of the Medium-Term Outlook

	Estimated	*Projected*			
	1995	*1996*	*1997*	*1998*	*1999*
Average real growth rates (%)					
GDP	8.1	7.6	8.2	8.2	8.0
Nonoil GDP	9.0	8.3	9.3	8.9	8.6
Gross Fixed Investment	14.0	15.0	13.0	8.0	7.0
Prices					
Oil ($/bbl, average OPEC price)	15.6	16.1	16.6	17.1	17.4
Nonoil Terms of Trade (1983/84=100)	103.7	103.5	103.1	102.9	102.7
Balance of Payments [a] ($ billions)					
Merchandise Exports (fob)	46.0	51.7	58.3	67.0	77.6
Nonoil	36.3	42.3	49.5	58.0	68.5
Merchandise Imports (cif)	-44.5	-51.5	-59.6	-68.6	-78.5
Nonoil	-40.6	-47.5	-55.6	-64.5	-74.2
Interest Payments (MLT)	-4.7	-4.9	-5.0	-5.1	-5.3
Current Account Balance	-6.9	-8.8	-10.7	-11.7	-11.4
Public MLT Loans (net)	-0.6	-0.1	-1.3	-1.5	-1.4
Direct Foreign Investment	5.7	8.4	9.1	10.5	10.0
Other Capital (net)	4.9	4.4	5.2	5.4	4.5
Use of Foreign Assets (- = increase)	-3.1	-3.6	-2.3	-2.7	-1.7
Memo Items: [a]					
Net Official Reserves ($ billions)	16.0	18.5	21.4	24.6	28.1
months of imports	4.3	4.3	4.3	4.3	4.3
Current Account/GDP (%)	-3.4	-3.9	-4.3	-4.3	-3.8

Source: Central Bureau of Statistics, Bank Indonesia and World Bank staff estimates.
[a] Fiscal year.

trade account. The merchandise trade balance is projected to swing into deficit in 1997/98, and widen through 1998/99, before narrowing as nonoil import growth moderates and nonoil export growth picks up. The current account deficit would increase to $8.8 billion in 1996/97 and peak at $11.7 billion in 1998/99. In relation to GDP, the peak of 4.3% would occur in 1997/98 and 1998/99, before declining to 3.8% in 1999/00.

1.79 In the absence of strong policy adjustments and reduced construction and consumption demand, the deficit could widen by significantly more in 1996/97. Sustaining investor confidence and strong economic growth with such a large deficit could be complicated.

1.80 As always, these projections are subject to several important risks. Volatility in

international commodity prices is an on-going concern. International oil prices were at their highest levels in several years in early 1996. If prices remain high, there is the possibility of significant relief for the widening current account deficit. Cyclical fluctuations in nonoil commodity prices also are a possible problem; commodity-based exports represent 40% of Indonesia's nonoil exports. In addition, there remains the possibility of a renewed decline in the value of the dollar against the yen, which would substantially increase Indonesia's debt servicing costs (World Bank 1995a).

1.81 There also is the vulnerability from increased reliance on private external capital to finance the current account deficit (see below). Greater dependence on increasingly volatile private capital highlights the need for macroeconomic policies to reduce risk, as discussed above. Provided private sector

confidence can be maintained, the projected current account deficit would be financed in large part by foreign direct investment, portfolio investment, private short-term and medium- and long-term loans. It will be important that foreign direct investment results in sound projects that pay for themselves through internationally competitive exports or by efficiently displacing imports.

1.82 Projected rapid growth of GDP and nonoil export growth and the prepayment of public external debt would lead to significant improvements in indicators of aggregate external indebtedness (Table 1.11). Prepayment of public external debt is projected to lead to negative net disbursements of $1-$1.5 billion in 1997/98-1999/2000 (Table 1.10) and a decline in the stock of public external debt (Table 1.11). Indicators of public external indebtedness improve significantly. Prepayment of public external debt is needed to limit the growth of debt in light of higher private borrowing, which is

projected to rise by two-thirds during 1994-98 (Table 1.11). Projected rapid growth of private debt leads to a worsening in the private debt-to-GNP ratio. But projected strong nonoil export growth keeps the private debt-to-exports ratio from increasing.

1.83 Saving-investment balances summarize the macroeconomic developments (Table 1.12). The widening current account deficit—required net inflows—arose from a considerable increase in the private investment rate and a modest decline in the private saving rate. The projection is for a further increase in private investment. Policies to contain consumption demand are projected to raise the private saving rate slightly. Central Government investment is projected to decline slightly in relation to GDP. Most importantly, significant fiscal tightening is seen in the projected increase in public saving, which generates a 2% of GDP increase in the surplus of public saving over public investment and contains the current account deficit.

Table 1.11 Medium- and Long-Term (MLT) Debt Indicators

	1986	1990	1994	1995 Estimated	1998 Projected
MLT Debt Outstanding and Disbursed (US$ bn.)	39.4	58.3	79.4	82.2	87.2
Public	35.6	48.1	63.8	64.3	61.5
Private	3.8	10.2	15.6	17.9	25.7
Debt Oust. & Disb. (MLT DOD)/GNP (%)	51.9	53.5	43.4	42.6	34.0
Public	47.0	44.1	34.2	33.2	24.0
Private	5.0	9.4	9.2	9.4	10.0
MLT DOD/Exports [a] (%)	257.3	184.3	151.1	151.8	110.7
Public	232.6	151.9	119.0	118.3	78.1
Private	24.7	32.4	32.1	33.5	32.6
MLT Debt Service/Exports [a] (%)	41.6	29.2	28.2	29.0	22.6
Public	35.2	23.4	19.2	19.0	12.9
Private	6.4	5.8	8.9	10.1	9.7
MLT Interest/Exports [a] (%)	17.1	10.8	8.9	8.8	6.5
Public	15.0	8.9	7.0	6.6	4.2
Private	2.1	1.9	1.9	2.2	2.3

Source: Bank Indonesia and World Bank staff estimates.
[a] Denominator is exports of goods and services.

Table 1.12 Saving-Investment Balances, 1994-1997 [a]

(percent of GDP at current prices)

	1994	1995	1996	1997
Gross investment	30.3	31.3	33.0	34.5
Gross national saving	28.4	28.2	29.1	30.2
Saving-investment gap [b]	-1.9	-3.1	-3.8	-4.3
Central government				
Gross investment	9.7	9.5	9.5	9.4
Public saving	9.9	10.0	11.0	11.9
Saving-investment gap	0.3	0.5	1.5	2.5
Private Sector and Public Enterprises				
Gross investment	20.6	21.8	23.5	25.1
Saving	18.5	18.2	18.2	18.3
Saving-investment gap	-2.2	-3.6	-5.3	-6.8

Source: Central Bureau of Statistics, Bank Indonesia and World Bank Staff estimates.

[a] All data converted to calendar-year basis.

[b] The (negative of the) current account of the balance of payments, expressed on a calendar year basis.

1.84   Indonesia's projected external financing needs are based on a scenario in which macroeconomic policy limits the current account deficit to below $9 billion in 1996/97 (Table 1.13). Total financing needs would be higher than in 1995/96 because of the higher current account deficit and the need to increase international reserves to maintain a prudent level of import cover. Higher private debt and equity flows are projected to finance much of the higher 1996/97 deficit.

1.85   Official assistance will continue to be very necessary in these scenario. First, it ensures adequate financing for areas of development that are not attractive to private investors. Examples are human resource development and public infrastructure in areas off Java and while the framework for private participation is being improved. Second, the better terms and the risk diversification associated with official assistance improves

the structure of external finance, which reduces vulnerability to the risk of sudden shifts in volatile private capital flows. Third, the availability of adequate assistance ensures a smooth transition to private financing. For these reasons, a level of commitments from the CGI roughly similar to last year's level would be very supportive.

1.86   To make the best use of the available donor assistance, Indonesia needs to improve the effectiveness of government spending in key areas. For instance, public investment could be significantly reduced for power generation and telecommunications, in line with the new emphasis on privatization at PT Telkom and PLN. Project implementation could be speeded up. Priority areas for public spending and donor support, as recognized by both the donors' and Indonesian sides of the July 1995 CGI Meeting, are human resource development (especially health, education and skills development), poverty alleviation, environmental protection, and infrastructure that is not amenable to private sector investment.

1.87   As mentioned above Indonesia is vulnerable to risks. The authorities are aware of the risks in the outlook, and they continue to manage the economy to reduce them. To cite some recent examples: prepayment of foreign debt with receipts from privatization; shifting the currency composition of official assets to match more closely the composition of official debt; preservation of external confidence during the Mexico crisis; progressive widening of the exchange rate bands to absorb shocks; and containment to date of collateral damage from a weak banking sector. The beginning of a period of private investment-led growth raises additional risks, notably increased reliance on volatile private external capital flows. Macroeconomic policies to reduce risk, as discussed above in section E, are appropriate for these times.

Table 1.13 Sources and Uses of External Financing
(US$ billions)

	Actual	_Estimated_	_Projected_		
	_1994/95_	_1995/96_	_1996/97_	_1997/98_	_1998/99_
Uses of Financing	11.7	21.5	23.9	25.0	27.0
Current account deficit	3.5	6.9	8.8	10.7	11.7
(of which, MLT interest payments)	(4.3)	(4.7)	(4.9)	(5.0)	(5.1)
Principal repayments	9.6	11.5	11.5	12.0	12.6
Increase in net foreign assets	-1.4	3.1	3.6	2.3	2.7
Source of Financing	11.7	21.5	23.9	25.0	27.0
Direct foreign investment (net)	2.5	5.7	8.4	9.1	10.5
Private MLT loans	4.9	6.6	6.9	8.1	8.7
Other (net)	-2.1	2.5	2.1	2.3	2.5
Public MLT loans	6.4	6.7	6.5	5.5	5.3
CGI assistance [a]	(3.8)	(4.1)	(3.9)	(3.9)	(3.9)
Other, incl. non-concessional	(2.6)	(2.6)	(2.6)	(1.6)	(1.4)

Source: Bank Indonesia and World Bank Staff estimates.

[a] Excludes grants, which are included in transfers in the current account, following standard methodology.

Technical Annex to Chapter 1: Revision of GDP Growth for 1988-93

1A.1 The average GDP growth rate for Repelita V (1988-93) was 8.3% per year according to the Central Bureau of Statistics's (BPS's) new, 1993 based national accounts. This compares with an estimated 6.9% per year using the 1983 based national accounts. Reflecting the revised, higher growth rate in Repelita V, President Soeharto, in his August 17 Independence Day speech raised the target growth rate for Repelita VI from 6.2% per year to 7.1% per year.

1A.2 Indonesia, and other countries, typically revise their GDP accounts every 10 years or so. The revisions are done to take into account new data, new products and technological change, which may change the ratio of the sectoral value added (GDP) to the total value of sectoral output. In addition, up-to-date data on value added in each sector are needed to compute annual growth rates more accurately. Following the national accounts standard

methodology, GDP growth in many sub-sectors is calculated by using indicators of physical output weighted by value added. Correspondingly, revisions of GDP typically produce higher growth estimates because of i) larger weights for faster growing sectors; and ii) higher growth in some sectors.

1A.3 In Indonesia, the higher GDP growth rate in 1988-93 in the revised national accounts is largely due to higher growth rates in secondary and tertiary sectors. The weights used to calculate GDP growth from 1988 to 1993 (the 1988 sectoral shares of GDP) are very similar in the two series (Annex Table 1). Correspondingly, alternative calculations of GDP using the 1983 and 1993 base sectoral growth rates with the "opposite", 1993 and 1983 weights, respectively, are very similar to the actual 1983 and 1993 base GDP estimates. (Annex Table 1, Memo item.)

Annex Table 1. Comparison of 1993 and 1983 base National Accounts

Sector	Comparison of Weights (share of real GDP in 1988)		Comparison of GDP and Sectoral Growth 1988-1993	
	1983 prices	1993 prices	1983 base	1993 base
Agriculture	0.21	0.22	3.0	3.7
Mining (incl. Pet.)	0.16	0.10	4.0	6.3
Manufacturing	0.18	0.20	10.2	11.1
Electricity, Gas & Water	0.01	0.01	13.2	12.2
Construction	0.05	0.05	11.9	14.4
Trade, Hotel & Restaurant	0.16	0.15	7.9	10.2
Transport & Communications	0.05	0.07	9.8	8.8
Banking & Finance	0.04	0.03	13.5	14.4
Real Estate	0.03	0.03	4.3	10.4
Other Services	0.12	0.14	4.6	4.7
Total	1.00	1.00	6.9	8.3
Memo item:				
GDP Growth			6.9 [a]	8.1 [b]

Source: Biro Pusat Statistik

[a] 1988 weights using 1993 base accounts, 1983 base sectoral growth rates.
[b] 1988 weights using 1983 base accounts, 1993 base sectoral growth rates.

1A.4 The higher sectoral growth rates in the 1993 based accounts (and the 9% higher nominal GDP in 1993) mainly reflect improved sectoral estimates of output by BPS, especially better data on output in fast growing products and sectors. Examples include products such as: cashews in Agriculture; leasing, venture capital, factoring and money changers in Services; private short courses in Education; and, private telecoms and power generation in Utilities. It also reflects, to a smaller degree, new estimates of sectoral value added in the latest (1990) Input-Output Table (up-dated to 1993).

1A.5 On the expenditure side of the National Accounts, Private Consumption was revised upwards by a large amount—by an essentially constant percentage adjustment of 16% to each year starting in 1990. Nonetheless, this revision does not appear sufficient to resolve fully the likely underestimate of this component of expenditure that results from use of sample surveys. In particular, estimated growth rates (of 5.8% and 6.5%) seem to understate the rise

in real consumption spending in 1994 and 1995. Concerning other components of expenditures, Investment also was revised upward, by around 10%; the Change in Inventories (which includes the residual between the expenditure and output sides of the accounts) was revised downwards. Other components were roughly unchanged.

1A.6 The revisions to expenditure suggest that the Indonesian economy is more efficient than previously estimated. The revised estimates of growth are much higher, while investment is only slightly higher. Technically, this is seen in the widely-used Incremental Capital Output Ratio (ICOR)—the investment associated with an extra unit of output that is often used as an indicator of the efficiency of investment. The smaller the ICOR, the more efficient investment macroeconomically. The ICOR (calculated as the ratio of investment to GDP divided by the growth rate of GDP, all in constant prices) averaged 4.0 from 1989-93 using the old accounts, but 3.2 using the new, re-based accounts (Annex Table 2).

Annex Table 2. Rebased accounts suggest higher investment efficiency

	1989	1990	1991	1992	1993	1994
Constant (1993) price GDP growth (%)	9.1	9.0	8.9	7.2	7.3	7.5
Gross Fixed Inv. [1] (% of real GDP)	24.8	26.4	27.4	26.4	26.3	27.6
ICOR93 [1]	2.7	2.9	3.1	3.7	3.6	3.7
Constant (1983) price GDP growth (%)	7.5	7.2	7.0	6.5	6.5	6.8
Gross Fixed Inv. [2] (% of real GDP)	26.6	28.4	28.3	27.9	27.7	...
ICOR83 [2]	3.5	3.9	4.0	4.3	4.3	...

Source: Biro Pusat Statistik and World Bank Staff estimates.
[1] 1993 Base National Accounts
[2] 1983 Base National Accounts

Endnotes

1. This compound growth is higher than the rate reported by the Central Statistical Office, Biro Pusat Statistik, which is the sum of monthly inflation rates, ignoring compounding.

2. As mentioned in previous Bank reports, the levels of earlier years may be inflated by fraud associated with a subsidized export financing scheme (WESEL EKSPOR), which was in place until May 1993.

3. Marine propulsion engines, turbo jets, laboratory equipment, machinery parts, centrifuges, telephone sets and machinery for the pulp, textile and rubber industries recorded large increases.

4. Hong Kong recorded a major expansion, mainly because of one large project (a $3.5 billion ethylene plant) in 1994. Korea and Australia expanded significantly in 1994 on the basis of a small number of plants. In the case of Korea, there was one steel mill, valued at $1.2 billion in 1994; for Australia, two petrochemical projects (of $1.6 billion and $1.8 billion, respectively) in 1995.

5. See the footnotes to Table 1.6. The IMF/World Bank presentation mainly differs from the Government's (GOI's) in three respects: i) certain development expenditures (e.g., military spending, fertilizer subsidies, and estimated maintenance expenditures) in the GOI presentation are classified as current expenditures on an IMF/World Bank basis; ii) foreign borrowings, which are a revenue item in the GOI format, are treated as foreign financing on an IMF/World Bank basis; and iii) amortization payments, which are classified as current expenditure by GOI, are treated as negative external financing by the IMF and World Bank.

6. The Ministry of Finance subsequently announced higher indirect taxes on tobacco and alcohol, effective 1 May, which could help achieve the Budget's high target for excises.

7. At that time the authorities also distinguished between the intervention band—the new Rp66 band—and a conversion band, which was defined as the old Rp44 band. The conversion band is used for legally required official transactions between the Government and Bank Indonesia. A larger buy/sell spread for these transactions would be considered a multiple currency practice under the IMF Articles.

8. Measures of the real effective exchange rate are sensitive to the choice of country weights and price indexes, for example, the index of consumer prices, wholesale prices or unit labor costs. The IMF measure pictured in Figure 1.8 uses trade weights (including an allowance for third country effects), and the consumer price index. Japan has a weight of 37% (reflecting the large volume of oil & gas exports to Japan as well as imports from Japan), European countries 25%, the USA 13%, ASEAN countries 12%, North Asia ex-Japan 7%, and China, Canada and Australia 2% each. Because of the high weight for Japan, movements in the dollar-yen exchange rate have a strong impact on the real effective exchange rate. A depreciation of the dollar/yen exchange rate translates automatically into a real effective depreciation of the rupiah. An index calculated with a smaller weight for Japan and a correspondingly larger one for the USA would show a loss of competitiveness since the early 1990s.

9. SBIs outstanding increased somewhat in the fourth quarter offsetting the increase in liquidity credits on reserve money.

10. Promissory notes can only be issued as collateral against bank loans and finance companies can only take equity positions in other financial sector companies (which places them on an equal footing with banks). In addition, total capital participation of a finance company must not exceed its not worth, and a finance company may not take up more than 25% of the equity of that company.

2
INCREASING TRANSPARENCY AND COMPETITION

2.1 The term "quality of growth" is frequently used to characterize the relation between economic growth and the environment. Economic growth that destroys the environment is low quality growth. But the term "quality" also is used to characterize growth that is in some sense fair. Economic growth that overly favors one group, especially if their gains do not come transparently or competitively, also is sometimes considered low-quality growth. This chapter looks at five dimensions of the quality of growth: land, forestry and water management; environment; restrictions on international and domestic trade; the financial sector; and the process for privatization/private infrastructure provision. The general conclusion is that the quality of growth could be improved significantly through introduction of more transparency and competition in all these areas.

2.2 The quality of growth is an issue in Indonesia today. Depletion of forests and land and water conflicts are visible problems that could be reduced by more transparent property rights and better, more competitive pricing. Action on air and water pollution is needed to avoid sharp increases in health costs.

2.3 There also is a growing perception that although Indonesia's broad-based growth has raised most incomes substantially, some have benefitted very substantially. Some public actions have reinforced this perception. Deregulation has led to rapid growth in GDP and labor demand by increasing competition. But deregulation has by-passed the Bulog commodities and their distributors, petrochemicals, the automotive sector, forestry and the strategic industries. Financial deregulation has increased access to credit (Harris *et al*, Goeltom). But large classified loans by the state banks to large borrowers,

low capital, and violations of the restrictions on related group lending suggest that the financial system sometimes benefits "insiders." These problems, in turn, raise the risk premium and domestic interest rates (Chapter 1). The listing of state enterprises and private provision of infrastructure hold out tremendous promise for efficiency gains. But the processes for greater private participation lack transparency and competition. This chapter looks at measures the Government could take to increase transparency and competition and raise the quality of growth.

A. Transparency in Land, Forestry and Water Management

1. Land

2.4 An absence of transparency makes the Indonesian land market function poorly and leads to conflicts and inequity. Inadequate land titling and non-transparent regulations are the roots of the problem. An overarching problem with land markets in Indonesia is the low rate of registration of land titles. Only about 22% of the non-forest parcels have been registered. In the provinces of West and East Java, where the total number of parcels is increasing rapidly with economic growth, the rate is only about 13% (and falling). Lack of registration reduces tenure security and ease of transfer. Non-transparent, cumbersome and unrealistic legal/procedural requirements are a major factor in the low rate of registration: current regulations basically require a landowner to have written evidence tracing ownership back to 1960. This problem is compounded by the lack of a procedure to formalize rights of long-term and locally accepted occupants, a concept used in other countries to avoid lengthy procedures, disputes and uncertainty of outcome with land registration. Institutional

inefficiencies and insufficient human resources in the responsible agency (the National Land Agency or BPN) also contribute to problems in registration and transfer. The uncertainty about the amount of time and cost for land acquisition dampens interest for investment.

2.5   In Indonesia, land markets are heavily regulated (with about 2,000 land-related laws and regulations identified by the World Bank) and are subject to *ad hoc* government intervention. While prices of prime metropolitan real estate are high by international standards, possession of a government permit can enable an investor to acquire land at considerably below-market prices. Disputes have occurred when landowners feel that they were disadvantaged in selling their land, or occupants feel they were unfairly compensated.

2.6   The use of Government permits for land acquisition (*izin lokasi* or location permit), should be minimized, since they cloud transparency, reduce market efficiency and disadvantage the poor (World Bank 1995a). When such permits are issued, the developer gets the exclusive right to purchase the land covered by the permit, which can result in a land price as low as 25% of the fair market price. The permit also contributes to inefficient, high-cost urban land markets by blocking out and freezing large tracts of land, which constrains land supply. The issuance of these permits appears to have increased substantially after the deregulation package of. 1993.

2.7   The lack of effective implementation of the Law for Spatial Planning (Law No. 24/1992) also creates problems of transparency and land management and is a drag on decentralization efforts (Chapter 4). The law authorizes regional governments to prepare their own spatial plans, called "Strategic Structural Plans," suited to local needs and conditions, and based on market principles, while allowing for restrictions on land use

where environmental and other externalities exist. The law supports modern land market principles such as local participation, decentralization of decision making and information disclosure. However, regional governments have had a difficult time trying to prepare these spatial plans, due to the lack of implementing regulations, as well as their own problems of institutional capacity and financial resources.

2.8   The following actions would be reduce these problems, and by improving property rights and land management, allow more transparent, market forces to play a greater role in allocating land:

* **Accelerate land registration** to provide a basis for well-functioning land markets. The most benefit will be derived from registration in urban and urban periphery areas, where land transactions are frequent and the probabilities of conflict are high. The Government has been moving forward on this front, with support from a land administration project cofinanced by the World Bank and the Government of Australia. Under the project, systematic registration, which capitalizes on economies of scale and beneficiary participation by mobilizing special adjudication/registration teams door-to- door, will be implemented for the first time in Indonesia. The new approach was recently tested in Kabupaten Bogor with positive results. It is scheduled to be implemented in ten Java districts. The project also supports review of land management policies, and improvement of land laws/regulations (including the regulations for land registration).

* **Review land management policies, in particular the location permit.** The location permit should be reviewed by reconsidering the changes introduced in the October 1993 deregulation package,

developing means to ensure that the AMDAL environmental assessment process is followed, and exploring more equitable land acquisition options by drawing on experience from other countries. An inter-ministerial effort is underway to improve the land permit system. The objective is a one-stop permit with greater coordination with local residents.

- **Implement the Law for Spatial Planning** to increase transparency in land use planning and support Indonesia's decentralization efforts, by making available to the regional governments implementing regulations, as well as assistance on technical aspects and resources.

2. Forestry

2.9   Indonesia's forests have been estimated to be worth more than its proven oil reserves (World Bank 1994a). Lack of transparency discourages the sustainable management of these valuable forests. Prohibitively high export taxes on logs reduce domestic log prices below world market prices, effectively giving plywood processors a large input subsidy. Logging fees claw back only a small part of this effective subsidy. The market for logs and their most important processed product, plywood, is cartelized. Apkindo, the Indonesian Plywood Association, controls entry to the industry. Forestry concessions are restricted to existing processors. Finally, all plywood manufacturers are required to market their exports through Apkindo.

2.10   Concessionaires have little interest or incentive to regenerate the forest or maintain its overall condition. Forest concessions typically are granted for a 20 year period, which is shorter than the growth cycle for tropical hardwoods. Concessions are not transferable. The current low royalties may not last. The penalty for over-exploitation is

limited to loss of concession, often after the damage is done.

2.11   The low price of logs contributes to waste through in inefficient logging and industry practices. Present rates of felling of natural forests, mostly in the outer islands—officially estimated at 30 million cubic metric meters annually but believed to be more than 40 million cubic meters annually far exceed the sustainable yield (22 million cubic meters a year). Wasteful logging practices and inefficient use of wood are pervasive. Because of this, forestry-based exports are expected to fall off sharply in the next decade, while local communities that depend on natural forests experience further alienation. Bio-diversity losses will accelerate.

2.12   The low price of logs also reduces the attractiveness of developing industrial plantations of longer rotation hardwoods, and Government revenues. The effective subsidy to domestic log processors, mainly plywood and paper and pulp processors, is estimated at about $2-$4 billion a year by the World Bank (the wide range is because of a wide range the estimated size of logging operations). The cartelized domestic plywood industry is estimated to absorb some $750 million of this figure through excessive use of logs in processing. This figure, in turn, is much larger than the total revenues from forestry royalties (IHH) derived by the Government.

2.13   Greater transparency in the management of Indonesia's forests would contribute toward sustainable logging, higher nonoil exports and higher government revenue. The following measures could be considered:

- **Deregulate plywood**. The main measures are the elimination of prohibitive export taxes on logs and of barriers to entry—the requirements that forestry concessions must be linked with processing plant capacity and manufacturers must market all exports through Apkindo. The

resulting increase in competition for logs would raise the efficiency of processors. But it would not ensure a sustainable pace of logging. For that the Government needs to:

• **Raise royalty fees.** Currently, total royalties are about $22 per cubic meter, far below the estimated difference between world and domestic log prices (about $90). Actual collections appear to be far less. A strong case exists for raising fees to over $50 per cubic meter (to approximate the ratio of public to private revenues on oil), which would imply an increase of at least $30 in the stumpage fee (IHH). Even allowing for some phasing-in, this should yield about Rp1 trillion more revenue in the short run. The fee could be further adjusted through annual royalty review and/or bidding for raw material supply.

• **Improve monitoring of concessions.** The concession system relies on Government monitoring. But monitoring strains administrative capacity. Greater involvement of the private sector could help economize on administrative capacity and provide effective monitoring of concessionaires. Measures include: making a professional pre-logging inventory; use of performance bonds on concessionaires to ensure sound regeneration practices; and improved inspection of all logging operations and regeneration areas (with actual inspection carried out by accredited firms). For example, the Government could mandate the new Ecolabelling Institute, an independent body, to oversee inspection.

2.14 Modern forestry management is experiencing a paradigm shift away from a focus on the supply of industrial wood and toward activities that involve local communities in keeping their forest ecosystems sustainable. Deregulation needs to be complemented by

measures that would increase the role of the private sector and local communities in sustainable forestry. Communities in Indonesia living in or near forests are currently excluded from title to or any participation in forest management, and are not consulted before new forestry projects are approved. Without a legal claim to the land, local communities have a powerful incentive to deforest and use the site for other purposes.

2.15 Greater community participation could be encouraged by increasing the transfer of forestry royalty proceeds to provincial governments and, in order to give an incentive to provincial governments to work with local communities and concessionaires, linking a part of the transfer to protection of regenerating areas. Finally, interest in sustainable forest management would go up if communities linked to forest land were given title to forest land. As a precursor, local communities could be given a say in awarding concessions or shares in concessions.

3. Water

2.16 More transparent management of Indonesia's water resources, with greater reliance on market forces, will be needed to avoid potential conflicts in this area over this increasingly scarce resource and maximize the efficiency of its use. Issues of water resource management (both quantity and quality) will be increasingly important in the years ahead—especially on Java, with 60% of the population, 70% of irrigated agriculture, and 75% of industry. Resolving problems of competing uses, including between surface and groundwater use in rapidly growing cities, are among the issues.

2.17 In volume terms, water use in agriculture currently accounts for 98% of total demand. Industrial and municipal requirements together account for only about 2%. However, the consumption of water by households and businesses will grow rapidly over the next two

decades. Accommodating this growth will require a shift of water from agriculture to municipal and industrial use. This already is becoming an issue in some parts of Java.

2.18 The challenges of meeting the demand for water in the dry season are complicated by the growing volume of pollution from urban and industrial sources (section B.2). Many of the major rivers on Java are polluted with a combination of untreated human waste, uncollected municipal refuse, and largely uncontrolled effluents from industry—including increasing amounts of toxic and hazardous waste. During the dry season, when river flows are greatly reduced, pollution loads increase dramatically.

2.19 River basin management will be need to improve, to manage water quality and the underlying conflicting demands for water. Many of the water companies are too small to do this effectively.

2.20 Better pricing could help in the management of scarce water resources. Low prices contribute to excessive use by some groups (chiefly farmers and middle and upper class urban householders), while others (including urban dwellers and the poor) lack access and often must pay high prices to vendors. Increased irrigation fees are needed to reduce the use of irrigation water, freeing it up for use in the growing cities. At the same time, pricing reform is needed in the cities. Low charges for groundwater are leading to rapid exhaustion of deep aquifers; low charges on piped water preclude increased access and the maintenance of adequate service levels.

2.21 In addition to the pricing reforms, significant investments in improved water supply, sanitation and drainage are needed in Indonesia's cities. Meeting these investment needs would be facilitated by higher water prices, as well as by the use of public revenues.

B. Air, Water and Industrial Pollution[1]

2.22 Pollution problems are classic cases of market failure and nontransparency. When property rights are not well defined, pollution costs are not taken into account. Without strong public action, Indonesia faces the possibility of going through a long period of sharply escalating pollution costs (Figures 2.1 and 2.2).

Figure 2.1 Pollution Prevention: Is There A Choice?
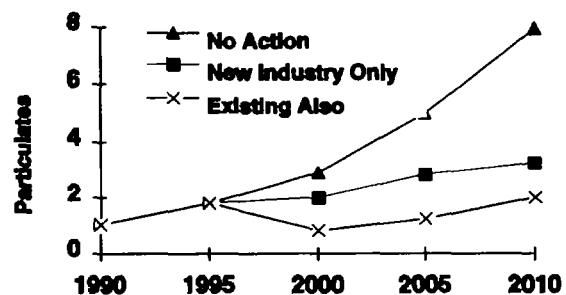
Source: World Bank 1995 f.

Figure 2.2 Quantifying the Trade-Offs: Costs and Benefits of Pollution Control
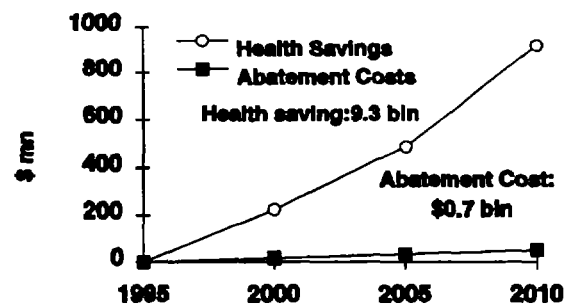
Source: World Bank 1995 f.

2.23 Problems of air and water quality are becoming severe. By the year 2020, one-half of Indonesia's population will be urban residents (68% of them living in Java's cities). Unless measures are taken to deal with the growing threat to air and water quality, future health costs could be large. In Jakarta, deaths due to respiratory illnesses already are twice the national average, and annual air pollution costs

are estimated to be about $0.5 billion. The adverse effects on peoples' health due to unsafe water may be even higher. Poor water quality often is the result of inadequate sanitation facilities and industrial waste.

2.24 Development and effective implementation of environmental policies and appropriate technology could help Indonesia avoid a long period of rising pollution and health costs. Quickening and improving the process would yield enormous potential benefits. The benefits to the poor would be especially large, since they suffer disproportionately from environmental degradation.

1. Improving Air Quality

2.25 The main health threatening air pollutants in Indonesias cities are suspended particulate matter (SPM), lead, carbon monoxide, sulfur and nitrogen oxides and carcinogenic hydrocarbons (HC). Motor vehicles emissions are the biggest source of this threat, contributing some 40-60% of SPM, 90-100% of lead, 89% of HC and 30-90% of remaining air pollutants. Rapid growth in the number of motor vehicles (over 20% a year), increasingly congested traffic, and longer commutes and rising daily exposure are all leading to sharply accelerating health costs. The health costs in Jakarta from SPM and lead are projected to double to $1 billion a year in five years. The poor are most at risk. The average blood-lead levels of bemo drivers, street-vendors, and slum-dwellers are about 2-5 times higher than farmers in Jakartas fringes, with devastating long-term health consequences.

2.26 Managing and reducing this threat is an urgent task. Immediate and practical options are available, and need to be exploited decisively:

- **Phase Out Leaded Gasoline.** The Government already has introduced no-

lead or low-lead gasoline, but it is being done slowly, and prices are higher than leaded gasoline. The Government could accelerate the process by undertaking a complete phase-out within say 3 to 4 years in major urban centers, as has been done in Thailand (program announced in 1992, completed in October 1995), and is being done in Malaysia, the Philippines, and Mexico. Adequate supplies of low-lead and unleaded gasoline can be achieved by imports of unleaded gasoline and non-leaded additives, Pertamina refinery conversions, and new private sector refineries. Raising the cost of leaded gasoline above unleaded gasoline could be an initial key to its use.

- **Set Higher Emission Standards, and/or Phase-Out Two Stroke Motorcycles.** Two-stroke engines are a major source of pollutants. Higher emission standards, and/or a phase-out program should be agreed with manufacturers.

- **Reduce Diesel Emissions.** Diesel-powered vehicles represent a difficult problem, since they are a major source of SPMs, but are more fuel-efficient and cheaper than gasoline vehicles. The technology to control diesel emissions also is more expensive and difficult. However, alternative fuels such as compressed natural gas should be introduced for all public buses operating in major metropolitan areas, such as Jakarta.

2.27 The above technical/regulatory options for vehicles and fuels would produce a major improvement in air quality. Additional measures to manage both the demand and supply of urban transport more efficiently also are needed:

- **Higher Fuel Prices.** Fuel prices were raised two years ago but have not been adjusted since. Existing prices do not

cover the externalities of pollution. Gasoline and diesel prices should be adjusted to international levels and then adjusted upwards over time to include pollution costs.

• **Improved Public Transport.** Public transportation can be unpleasant. It will be difficult to get people to abandon their cars if their public transport alternative is hanging half outside an over-crowded bus. Measures to ease congestion need to go hand in hand with improvements in the quality of public transportation or they will be perceived as unfair. Competition could be expanded above the low end, for example by allowing luxury busses to ply more routes. The authorities also could use this as an opportunity to phase out dirty diesel fuel in favor of clean compressed natural gas.

• **Congestion Pricing.** More vehicles mean clogged roads and heightened pollution loads. Studies suggest that congestion costs alone range from Rp700 per hour for a car or light truck, to Rp4700 per hour for a bus, with a weighted average congestion cost of about Rp1000 per hour per vehicle. Including the pollution load effects could easily double this figure. Such congestion costs should be priced, by levying equivalent charges, especially at peak-times. Area-licensing schemes as operated successfully in Singapore could be introduced in the Central Business Districts of major cities through color-coded monthly or daily passes. Area-licensing may be a ways off. But higher parking charges could be introduced quickly in inner city areas to reduce vehicle use.

• *Better Traffic Management.* Substantial room exists for better traffic management. Bus lanes, traffic signals and intersections, one-way streets, improved pedestrian and non-motorized provisions,

and making it easier to transfer from one transport mode to another (for example from train to bus) would help. Congestion pricing could provide some of the revenues for traffic management improvements.

2. Improving Water Quality

2.28 Water pollution is a leading cause of death and disease in Indonesia. It mainly originates from the fecal contamination of groundwater due to inadequate sanitation facilities, and inadequate supplies of safe piped water. The basic technologies of water supply and sanitation systems are well established. Reforms are needed in service mix and cost recovery, water conservation, demand management and regulatory and delivery institutions, together with stepped-up public investments. While people assign a high priority to safe water, less urgency is normally attached to the urban problem of treatment and disposal of household waste. However, the latter is the major contributor to illness and disease-causing contaminants. Some of the critical issues in improving water quality are:

• **Expand Piped Water Use.** The first priority is reducing "unaccounted-for" water losses. Some 35-40% of piped water is lost. Reducing these losses requires major institutional improvements in the operational efficiency of water companies. They need to be run like businesses but their social mission—getting cheap water to poor people—gets in the way (section E). Many small water companies need to be consolidated. Concessions to private water companies to deliver services are an option that municipalities in other countries have used successfully. (For concessions to fulfill their potential of delivering clean water at a reasonable price it would be better if they were awarded competitively. The Jakarta city government recently signed, without

competitive tender, a memorandum of understanding on management of Jakarta's water with two well-connected firms (section E).) Improved river basin management would improve quality. On the demand side, households would be more prone to connect to the system if pricing reforms reduced the burden of up-front connection fees. This fee could covered by higher tariff levels—consumers already are willing to and do pay much higher prices for access to water.

• **Improve Sanitation Facilities.** While many areas (some 60%) of most Indonesian cities can continue to rely on private on-site sanitation solutions (pit latrines and septic tanks), the rest—the densely populated inner areas—will need to be connected to a sewerage system, with adequate treatment facilities. The urgency of sewerage systems is increasing. In part this is because of inadequate investments and planning. In part, it is the high price. Only a small part of the total population can afford full sewerage services, which range from $300-$1000 per household. Three solutions need to be pursued simultaneously:

(i) Require private developers in higher-income and commercial areas to provide piped sewers.

(ii) In lower-income, high density areas, where on-site sanitation solutions increasingly are unsafe, experiment with alternative technologies. For example, less costly small-bore sewers, where solids are collected in an on-site tank before they reach the sewer, and systems in which small groups of houses develop (and pay for both construction and maintenance of) a joint system in which pipes are run from yard to yard before they connect to the street sewer.

(iii) Increase public investment in "trunk" sewerage services to reduce gradually the investment backlog.

3. Reducing Industrial Pollution

2.29   High levels of hazardous waste and toxic matters are a by-product of rapid industrial growth, threatening already dwindling sources of natural water, causing death and disease, and putting downstream activities at risk. In Surabaya, in 1988 irrigation water had to be released to "flush" a river that was so badly polluted by domestic and industrial waster that the municipal water treatment plant could not handle the load, and all local industry was closed for about two weeks. Suits are being filed against pulp and paper companies for polluting rivers, in one case so badly that the processing plant of the local drinking water company had to cease operations. Jakarta Bay fish samples already have unsafe levels of mercury, ranging from 7 to 18 ppb, compared to 6 ppb World Health Organization limit for human consumption. A combination of industrial pollution and severe drought damaged almost 10% of Indonesiaš shrimp ponds in 1994, causing losses estimated at $0.5 billion.

2.30   Rapid industrialization and the change in industrial structure will cause a sharp rise in industrial and hazardous waste. Air and water pollution intensities are especially high for certain industries such as cement, wood-processing, glass and pulp and paper. Pollution loads also vary by industry: pulp and paper, agriculture processing and basic chemicals contribute the most toxic wastes; wood processing and cement contribute the most to particulate matter; while biological oxygen demand (BOD) is highest for the food products, pulp and paper, and basic chemical industries. In all, 9 sub-sectors account for at least 75% of the industrial release of all three key indicator pollutants. As discussed in Chapter 1, manufacturing is projected to grow rapidly in the near to medium term. Future

pollution loads are expected to increase dramatically, by about 6-9 times 1990 levels for particulates, BOD and toxic waste by 2010. Geographically, industrial pollution loads are expected to be highly concentrated, with a dozen or so kabupatens accounting for much of the total load in Java for example. Still, these locations also are expected to hold large populations, and the health costs of unabated industrial pollution are expected to be very high.

2.31 Fortunately, Indonesia can take measures to reduce the amounts of industrial pollution and their associated health costs. New technology can reduce the growth of pollution and the associated health costs; new industries start cleaner; older and dirtier industries can be replaced by more efficient ones; and labor can shift from declining industries to fast-growing ones.

2.32 Development of policies and an effective implementation framework to deal with industrial pollution should focus on prevention rather than more expensive clean-up later on. In practice this means: (i) focusing on regulatory standards for new plants and application of cleaner technology; (ii) concentrating on the most polluting industries and locations; and (iii) encouraging

private businesses to adopt best practice technologies and investments in pollution control through a mix of regulatory and incentive approaches.

2.33 Indonesia has made significant progress in its industrial pollution control regime. Following the basic law on environmental protection, the Ministry of the Environment established the AMDAL program for environmental impact assessments, standards for ambient air and water quality, and the PROKASIH clean rivers program. Pollution control got an added boost from the formation of BAPEDAL in 1990. Since then, progress has been made in setting standards for the management of industrial waste (Box 2.1).

2.34 Unfortunately, this progress has met with legal, institutional and technical barriers, limiting the effectiveness of industrial pollution controls. The main issues are:

- **Ensure Better Compliance with Standards.** There must be a credible penalty for continued pollution above permitted levels. Enforcement of the 1982 law has been too lenient to provide a real deterrent. One of the greatest difficulties in enforcing regulations is the difficulty of pursuing cases through the court system. There is a need to assess

---

Box 2.1 Chronology of environmental protection measures

Basic Law on Environment		Air & Water Quality Standards		Effluent Permits		New Effluent & Emissions Standard		
	AMDAL		PROKASIH			Revised AMDAL		
1982	1986	1988	1989	1990	1991	1993	1994	1995
		Atmospheric Emissions Standards		BAPEDAL	Effluent Standards		Hazardous & Toxic Waste Regulation	
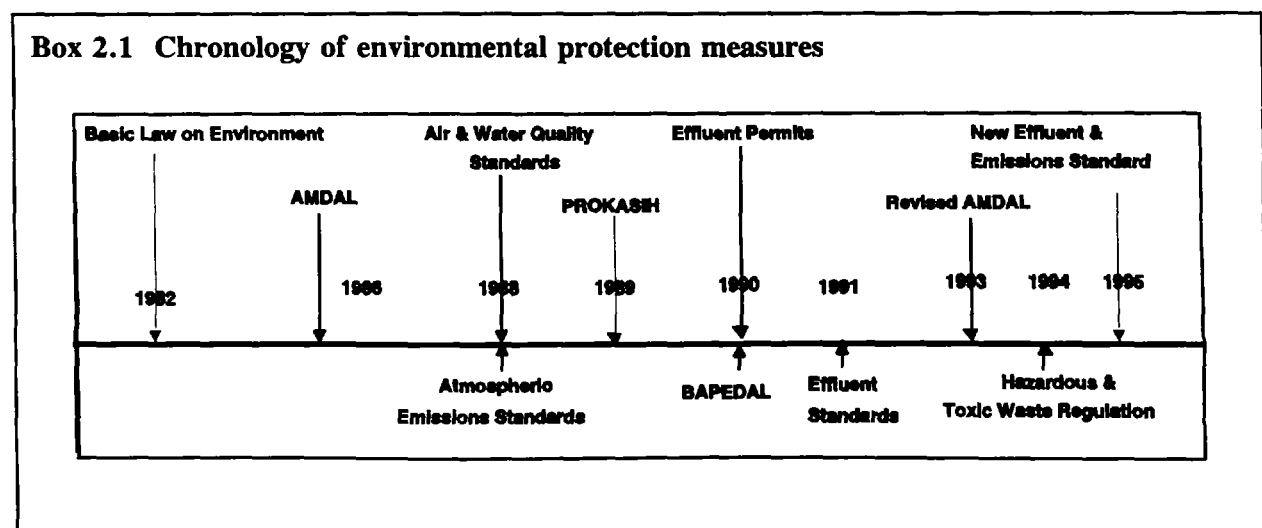
administrative penalties without needing access to the court system. Alternative dispute settlement mechanisms involving local communities can be valuable. For example, in a case in Semarang, Central Java, BAPEDAL facilitated direct negotiations between villagers and firms for compensation and clean-up. Expanded public information also can be a way of inducing firms to pollute less. BAPEDAL is moving ahead rapidly with its Business Performance Rating system (also known as PROPER), which is a published rating of industrial facilities according to their performance in abating industrial pollution (Box 2.2).

- **Monitor Reliably.** There must be reliable monitoring of industrial pollution. Trained personnel with the right equipment, skills and legal authority to collect and analyze samples regularly are needed at the provincial level and below.

Box 2.2 Reputational incentives as an enforcement mechanism: The PROPER system

Enforcement of regulations is difficult in many countries because it uses scarce administrative resources. In Indonesia, where the budget of the National Pollution Control Agency (BAPEDAL) is limited and pollution loads are increasing with rapid industrial growth, the Environmental Ministry decided that a large-scale public disclosure program could help reduce pollution.

The essence of the approach is that environmental reputation matters for firms through the reactions of customers, suppliers, stockholders and local residents. The use of reputational incentives can lead to significant pollution abatement by polluters in sectors, communities or markets where reputation has high value.

In June 1995 Indonesia launched a program for public disclosure of polluters' environmental performance. Firms would be re-rated in subsequent years to give them an ongoing incentive to reduce pollution. This initiative, called the Program for Pollution Control, Evaluation and Rating (PROPER) is expected to promote compliance with existing regulations and reward firms whose performance exceeds regulatory standards.

Under PROPER, polluters are assigned one of five "color" ratings ranging from gold for excellent performance to black for very poor performance. The first phase of PROPER has focused on 187 polluting facilities in Java, Sumatra and Kalimantan. It focuses on water pollution because of the existence of a database. In subsequent phases PROPER will be expanded to cover air, water and hazardous solid pollution from all medium/large industrial sources in Indonesia.

PROPER's implementation is based on the idea that the public will be skeptical of environmental performance ratings from a government agency that is committed to rapid industrial development. Thus, PROPER embodies a very conservative rating system. A polluter must be judged adequate in every environmental dimension to receive an adequate rating. Good or excellent performance in several dimensions are not allowed to compensate for inadequate performance in even one.

The PROPER program is new and obviously its success will depend on the importance of reputational incentives among Indonesian manufacturing firms. Moreover it is not entirely trouble-free. Like all numerical rating systems, PROPER's is often uncertain and expert judgement as well as measurement is likely to be important in its implementation. However, its main attractiveness over conventional enforcement, which relies on time-consuming legal procedures, are its lower cost and, in markets where reputation is especially important, greater pollution abatement efforts compared with other forms of regulation.

Early results are hopeful. Firms were given advance notice of their PROPER ratings before they were publicized and several approached the authorities to inquire about how they could get their rating upgraded.

• **Support Technical Information.** Even with adequate enforcement and monitoring, the private sector still needs technical experts to help them comply with standards, and make production cleaner and more efficient. The Government could help ensure that industry has adequate access to information and technical expertise.

2.35 The Government also could experiment more with market-based incentives. The first step would be to induce industries to reduce their waste by setting prices for energy and water efficiently. Another way would be to set pollution charges, which would permit firms with low abatement costs to profit from their investments. Legal authority for this already exists for setting such charges for hazardous toxic wastes and a pilot BAPEDAL project is being proposed. Finally, subsidies financed by pollution charges can be an effective means to finance pollution control investments, particularly for small and medium industries. Grants from international donors can also be used to meet such costs, where there are few other alternatives.

2.36 Measures to relocate industries outside residential areas and to promote the use of industrial estates with common waste treatment facilities could also be valuable. An important step towards this was the 1994 guideline from the Minister of Industry for all industries in Java to be located in industrial estates in their areas. The implementation of the measure should be given priority. More generally, existing policies concerned with spatial planning should be implemented more widely and consistently.

C. Unfinished Deregulation Agenda

2.37 The May 1994 and May 1995 deregulation packages went far in leveling the playing field for competition in Indonesia. The more open climate for investment created by these packages deserves part of the credit for the surge in private investment demand—foreign and domestic. Higher investment demand, as discussed in Chapter 1, could modernize the economy and support an increase in medium-term growth.

2.38 Indonesia already has programmed further significant trade reforms through its Uruguay Round offer and the May 1995 deregulation package (World Bank 1995a). Accelerating the scheduled cuts in tariff and nontariff barriers, and formalization of the scheduled cuts, would strengthen this program. The unfinished deregulation agenda consists of the removal of tariff protection on vehicles, the opening-up of the strategic industries to import competition and the removal of their domestic subsidies (the strategic shipbuilding industry is the subject of Box 2.3), the removal of export taxes on forest products, and the removal of nontariff barriers on the Bulog agricultural commodities.

2.39 Completing the deregulation agenda is important for three reasons. First, by leveling the playing field for competition it encourages producers to be efficient and it benefits consumers. Second, deregulation enhances confidence. The medium-term outlook laid out in Chapter 1 depends on maintaining private investors' confidence. Investors value predictability and stability most of all, including a stable policy environment. Steady progress in deregulation demonstrates the Government's commitment to policy stability and predictability, and thereby enhances confidence. Third, deregulation raises the quality of growth. Use of the trade regime to benefit special groups is a source of resentment to society at large. By subjecting protected activities to the rigors of competition and raising labor demand, deregulation improves equity.

2.40 Indonesia continued progress toward fulfilling its pre-announced tariff reduction targets by promulgating another deregulation package in January 1996. The unweighted

---

Box 2.3 The high-cost strategic shipbuilding industry

Shipbuilding is a strategic industry. Trade barriers—tariffs and bans on the import of used vessels—protect this infant industry. Prices of domestically-produced ships are higher than the prices of competing imports.

High-cost ships in turn inhibit the development of the domestic shipping industry. Only 40% of inter-island shipping is handled by Indonesian shipping companies. The domestic fishing industry, which is forced to buy high-priced domestically produced boats, also is disadvantaged. A new 300 ton fishing boat costs about $6 million in Indonesia compared with $4-4.5 million on the international market.

Deregulation to expose the shipbuilding industry to competition would be the first-best policy. This would force the industry to become more efficient and competitive and reduce the cost of inter-island shipping. But if the Government wants to continue to promote the domestic shipbuilding industry, the best way to do it would be through a small, transparent, time-bound production subsidy to the ship-building industry in the State Budget. Putting the subsidy in the State Budget in a transparent way would make it clear to taxpayers how much they are paying to develop the shipbuilding industry. The time-bound subsidy would guarantee that taxpayers would not be burdened with subsidizing an inefficient industry indefinitely.

---

average tariff dropped by nearly one percentage point to 14.2%. Virtually all tariff reductions were by five percentage points, with the largest to 10% from 15% (163 items) and to zero from 5% (92 items). The tariff code also was simplified. Prior to the January 1996 package the Indonesian tariff code contained nearly 9,400 items. The tariff code was streamlined by over 1,100 items. This simplification accounted for half of the drop in the unweighted average tariff. Nontariff barriers—restrictive import licenses—were removed on 80 products, most significantly hot and cold flat rolled steel products, which had been the only remaining steel products protected by restrictive import licensing. Monitoring charges for textile and garment exports subject to Multi-Fiber Arrangement quotas were shifted from firms to the Government and tariffs on capital goods and some raw materials directly linked with textile and garment exports were cut. To promote backward linkages between exporters and domestic input suppliers, duty-free status was extended to suppliers of inputs to processors operating in bonded zones and export processing zones. The Government also undertook steps to review regulations on exports and imports to see whether these were hampering export performance.

2.41   In a case of two steps forward and one step back, in February 1996 the Government acceded to Chandra Asri's request and introduced a 20% tariff surcharge—previously there was none—on two of its main outputs, propylene and ethylene. Petrochemicals were not included in the pre-announced tariff cuts of May 1995 and although tariff protection is more transparent than other forms of protection that had been discussed for the plant, the hike in domestic propylene and ethylene prices again raises the spectre that Indonesia is developing a high-cost petrochemicals sector (World Bank 1994a).

2.42   Then in March 1996 the Government announced that an influential group would be given an exclusive three-year exemption from import duties and luxury sales tax in order to develop a "national car." Automotive components already are highly protected by a

local content scheme and very high import taxes on vehicles imported in completely built-up condition. While the objective of the national car initiative—putting a low-priced car within ordinary Indonesians' reach—is laudable, the non-transparent and discriminatory manner in which protection was given is out of step with the rules-based approach to trade reform launched in May 1995. A more transparent, equitable approach, in line with Indonesia's policies to increase competition, would be a cut in tariffs on vehicles.

1. Reducing the Anti-Trade Bias of the Trade Regime

2.43   Indonesian trade policy still has an anti-trade bias. For import-competing activities, this means domestic production is favored over importing; for exportables, domestic sales are favored over exports. Import protection—tariffs and nontariff barriers—accounts for two-thirds of the anti-trade bias and export restrictions account for the remainder. The anti-trade bias also disadvantages the outer islands (Chapter 4). Elimination of the anti-trade bias would raise efficiency in import-competing industries, stimulate nonoil exports, and enhance the quality of growth.

a. Reducing Import Protection

2.44   Adherence to the tariff cuts pre-announced in May 1995 will reduce anti-trade bias by one-third. The tariff schedule would have three principal rates—0%, 5% and 10%—and the average tariff would be 7%. Thus, the unfinished agenda for reducing import protection consists mainly of removing nontariff barriers, notably those on rice, sugar, wheat and soybeans and the associated restrictions that protect wheat flour milling (restrictions protecting soybean meal processing are being eliminated as part of Indonesia's Uruguay Round offer). The efficiency and equity losses from nontariff barriers protecting

these commodities are well documented (World Bank 1994a, Jones). Elimination of nontariff barriers on imports would benefit the vast majority of Indonesians.

2.45   In addition to Bulog's sole right to import the above items, other agricultural products protected by restrictive import licensing include milk and dairy products, onions, garlic and cloves. In industry, the main items protected by restrictive import licensing include alcoholic beverages, salt, including iodized salt, fertilizers, propylene copolymers, printed matter, hand tools, motor vehicles and motorcycles and keyboard instruments in a completely knocked-down condition.

2.46   Attempts to develop the domestic automobile industry through local content schemes and high tariff and nontariff barriers extend back to the 1970s. Even with the implementation of the tariff cuts programmed in May 1995—the highest tax was reduced to 200% and it is scheduled to decline to 90% by 2003. The May 1995 package reduced the maximum import tax (tariff plus tariff surcharge) on vehicles to 200% (from 275%) and scheduled a reduction to 90% by 2003. Advancing the implementation of this import tax cut would reduce vehicle prices and promote a competitive automotive components sector.

2.47   The rationale for restricting iodized salt imports is not clear. Iodine deficiency is a problem in some parts of Indonesia. Although deregulating iodized salt imports alone would not solve the public health problem, the restriction is questionable. The rationale for restricting imports of hand tools also is unclear. These nontariff barriers keep domestic prices above the price of competing imports. For example, the domestic wholesale price of a hand pump was recently estimated at more than double the comparable price in Singapore. There appears to be an inconsistency between policies that raise the

domestic price of hand tools and the objective of promoting small and medium industry.

2.48   Nontariff barriers to imports lower the quality of growth. Those on wheat flour and soybean meal protect large, well-connected private interests. They also raise domestic prices and reduce real incomes. For example, elimination of the nontariff barrier on sugar imports would raise consumers' real income by 0.6% (World Bank 1995a), and more for the lowest income groups. An across-the-board elimination of nontariff barriers is warranted. As a transition measure, the protection afforded by the nontariff barriers could be replaced by temporary import surcharges.

b. Removing Export Restrictions

2.49   Indonesian exports remain subject to considerable regulation and control. Export restrictions cover half of total nonoil exports, affecting nearly 2,000 products. The export restrictions take four forms: Export Bans, Regulated Exports, which can only be exported by exporters approved by the Ministry of Industry and Trade, Supervised Exports, which require approval by the Ministry of Industry and Trade, and Export Taxes. Specific export taxes on forestry products are the most numerous followed by regulated exports. Most restrictions are directed toward agricultural exports. By value, nearly two-thirds of agricultural exports, including all the large cash crops—rubber, palm oil, coffee, and copra—are subject to some form of export restriction. Trade associations also affect the marketing of some commodities, primarily agricultural.

2.50   Five reasons are officially cited for using export restrictions: (i) to deal with quotas imposed by importing nations; (ii) to conserve natural resources and endangered species; (iii) to promote higher value added downstream industries; (iv) to raise the quality of the exported products; and (v) to regulate domestic supplies. Export restrictions with

competitive bidding for quota rights are an appropriate instrument for controlling exports subject to quotas in importing countries. Export restrictions also are appropriate in some instances to protect endangered species. However, export restrictions are not appropriate instruments for the other objectives. They have negative side effects, encourage smuggling and depress nonoil exports.

2.51   Export restrictions on inputs are an inappropriate means of promoting downstream industries. They lead to resource misallocation from under-production of the input, over-production of the processed good, and inefficiency in production. (Export taxes on forestry products are discussed in section A of this chapter and taxes on rattan exports are discussed in Chapter 4.)

2.52   In competitive markets, export restrictions are unnecessary for regulating domestic supply. The Minister of Industry and Trade supervises the export of some commodities—salt, cement, fertilizer, pulp and paper, crude palm oil (Box 2.4)—in order to ensure sufficient domestic availability. Export restrictions on cement, fertilizer, salt, and pulp and paper are only one part of a regulatory framework whose aim is to ensure adequate supplies of these "essential commodities" for the domestic market. Indonesia's greater openness has made these regulations unnecessary.

2.53   An across-the-board elimination of export restrictions is warranted for virtually all commodities subject to export restrictions except those on textiles, which are justified while they remain subject to Multi-Fiber Arrangement quotas, and the export bans on endangered species. Where the restrictions have encouraged large investments in processing activities, their progressive elimination over a limited time period could be considered.

Box 2.4 Export restrictions on crude palm oil are the wrong tool for the job.

Indonesia is one of the lowest-cost producers of vegetable oil in the world. Comparative studies on production costs generally estimate average costs at around $200/ton but a recent study puts the cost of production at only $127/ton. With palm oil prices now above $600/ton and projected to remain above $400/ton for the foreseeable future, the future of the industry seems bright.

Motivated by concern for inflation and a desire to protect the poor, the Government has intervened frequently in the marketing of palm oil since 1991. But income growth has led to a diversified household budget with less weight given to cooking oil, even among poor households. Cooking oil comprises 1.4% of the CPI and 4% of the household budget of the poorest 20% of the rural population. As a result the 21% increase in the price of cooking oil in 1994 contributed only 0.3 percentage points to the inflation rate and reduced the household income of the poorest consumers by 0.8% and better-off consumers much less.

The Government currently uses three policy instruments to affect domestic prices: an export tax; buffer stock operations; and directed sales from public palm oil estates. The export tax is triggered when fob prices reach $435/ton and targets only above-average profits. The tax limited the rise in domestic prices, but did so by transferring income from the oil palm growers, who primarily are off Java, to the Government and to consumers, who primarily are on Java. 22% of the growers are smallholders, whom the Government would like to help, not hurt. The Government should reconsider the tax.

Restrictions on trade have been lifted (except for the tax) so that domestic prices of crude palm oil and refined products, including cooking oil, have followed international prices. Crude oil and refined product stockpile operations and directed domestic sales cannot have had a substantial, enduring effect on domestic prices. These interventions transfer income but do not accomplish their intended purpose—improving consumer welfare. The interventions also create needless uncertainty for potential investors ("policy risk"). These interventions also should be abandoned.

Source: Larson.

---

2. Increasing Domestic Competition

2.54 Deregulation of international trade restrictions will expose many of the most highly protected activities in the economy to competition. But restrictions on domestic competition take many forms, including cartels, price controls, entry and exit controls, exclusive licensing, public sector dominance, and *ad hoc* interventions by Government in favor of specific firms and sectors. Some restrictions are imposed by the national Government, others by subnational Governments, and still others by trade and business associations (often with official sanction). A rules-based approach to deregulating barriers to domestic competition is needed.

2.55 The myriad restrictions on domestic competition reflect myriad objectives. Some commodities are termed "essential" and it is said that their distribution is too important to be left to the market (for example, cement, fertilizer). For other products, restrictions on domestic competition are used along with restrictions on international trade to promote infant industries or promote value added in processing activities (for example, wheat flour, soymeal). For still other products, the restrictions are instruments for exploiting Indonesia's power in world markets (plywood). In other cases, restrictions on domestic competition are second-, third- or fourth-best policies for problems that have arisen due to existing distortions (rattan).

Finally, local revenue raising is another motivation for domestic trade interventions.

2.56   Some Indonesian industries are organized as cartels with controls on prices, outputs, entry and exit enforced through trade associations (often with Government sanction). Most such industries are characterized by a sharp dichotomy with relatively efficient firms at one extreme and inefficient, high-cost firms at the other. The two are able to co-exist because the cartel rules prevent price competition within the sector and protect inefficient firms. This is the case, for example, in the cement and paper and pulp industries. The cost of supporting inefficient firms is passed on to consumers in the form of higher average prices. Often, Government supports the cartel arrangements because they protect state-owned enterprises in the sector.

2.57   Exclusive dealing arrangements restrict marketing of a variety of products. For wheat flour, Bulog's sole agent imports wheat on behalf of Bulog and, in exchange for a fee, processes the wheat into wheat flour. Although restrictions on investments in the wheat flour industry were lifted in 1993, new investors still would have to buy wheat from Bulog—in practice, through the agent—and export 65% of their output. Investor interest in the sector is not strong.

2.58   Deregulation along with privatization of publicly-owned plants would increase domestic competition. The Government would have to abandon the idea that intervention is necessary to protect consumers of "essential" commodities, which has led to protection of inefficient producers. The development of a national market with competitive private traders allows the Government to rely on the private sector for their production and distribution.

2.59   Subnational Governments also restrict trade in various ways. Strictly speaking, subnational Governments are prohibited from imposing commodity taxes without prior approval from the central Government. However, "user charges" (*retribusi*) can be implemented with approval of only the provincial Government and these are used to tax trade. Chapter 4 discusses the *retribusi* on copra in Central Sulawesi and Box 2.5 discusses the case of beer in Bali.

2.60   As discussed in Chapter 4, trade taxes appear to be attractive vehicles for raising revenue. This is false. Although they appear to tax "someone else" (middle-men traders or consumers in other provinces or countries), the most common result is that those consumers have substitutes and the main impact of trade taxes is to depress local producer incomes.

Box 2.5   The case of beer in Bali

The case of beer in Bali is a recent example of intervention in commodity trade. The Governor of Bali imposed a Rp200/bottle tax on beer and alcoholic spirits. He granted PT Arbamass a monopoly right (SK No. 636 A/1995) to collect the tax on each bottle of beer sold. But PT Arbamass added a Rp400 fee on top of the Rp200 tax. The distributors of domestic beer offered to pay the tax directly but refused to pay the collection fee, and halted their distribution of beer in Bali. Bali hoteliers were drawn into the dispute by the prospect of tourists going where the beer was flowing. The matter became so heated that the President of Indonesia eventually ordered the Ministry of Industry and Trade to halt PT Arbamass from collecting the tax. In yet another example of how difficult it can be to eliminate such things, the expected denouement was delayed when the office of the Governor of Bali stated that the levy was a matter of provincial authority, not subject to the Minister of Industry and Trade. In the end the Governor of Bali revoked the decree.

Despite central Government efforts to dissuade subnational level Governments from taxing trade, such interventions are pervasive. User charges are a potentially large source of subnational government own revenue. But the pricing of local public goods is complicated and there could be high returns to technical assistance on the setting of user charges (Chapter 4).

2.61 In view of the number and variety of restrictions on domestic competition and their myriad objectives, a rules-based approach to deregulation is warranted. This approach would dissolve Government-sponsored or sanctioned monopolies controlling marketing and distribution of "essential" and other commodities and open the distribution (retail and wholesale trade) sector to foreign investment. The rules-based approach would include legislation ensuring that an ordinary business license or SIUP (*Surat Izin Usaha Perdagangan*) be the only permit required for exporting and/or engaging in domestic trade and that membership in commodity or trade associations be voluntary, not a condition for engaging in these activities. It also would include repealing and outlawing commodity-specific taxes and *retribusi*. In localities where revenues from such taxes are important, technical assistance on pricing of public services could help replace foregone revenues. To ensure a strong supply response, domestic trade deregulation should be done in tandem with measures to open the economy to international trade—reduction of nontariff barriers and elimination of export restrictions.

D. A Healthy Financial System

2.62 Much has been accomplished to improve Indonesia's financial system. It is moving from a tightly controlled, state-run system into a vibrant, competitive marketplace. The stock market is growing rapidly and the money and capital markets are developing.

2.63 Strong transparent implementation of measures to reduce risks in the banks and to improve collections would generate large benefits and build on these accomplishments. In particular, the programmed increases in capital requirements and the tighter legal lending limits on exposure should be implemented, with stiff penalties for non-compliance including closure of institutions. These measures, and better collections of existing bad debts, would increase confidence, lower the risk of macroeconomic instability and increase the efficiency of financial intermediation, thereby lowering the cost of funds.

2.64 Other dimensions of transparency relate to gaps in the legal framework for credit transactions. Again, rupiah interest rates are higher because of the lack of transparency and large benefits would flow from improving the framework for credit transactions. More transparent laws relating to collateral would improve access to credit. As noted in Chapter 1, development of the financial system could help raise private saving. As noted in other World Bank reports, formal retirement savings plans, as regulated by the Pension Law, need to develop soundly (World Bank 1995k).

1. Bad Debt in the Commercial Banks

2.65 Indonesia, like many countries, faces the problem of a large stock of bad commercial bank loans. Experience worldwide suggests that such an overhang contributes to high lending rates for four reasons: (i) banks try to raise spreads to rebuild capital (but the ability to raise spreads is limited by the entry of new banks and the development of non-bank competitors); (ii) the possibility that the overhang may lead to macroeconomic instability, directly and because the non-payment culture tends to spread; (iii) uncertainties about the mechanisms to deal with

weak banks; and (iv) uncertainty that the practices that led to the bad loans have been corrected.

2.66   Experience worldwide suggests that the workout of bad debts involves:

(i)   Improving collection of existing loans, which requires support from the highest political level in the case of bad loans extended for "non-economic" considerations.

(ii)   Offsetting financial support to failing institutions with fiscal surpluses and tight money.

(iii)   Developing transparent methods for dealing with bad loans and insolvent banks, such as regulations for prompt takeover of collateral, and clear arrangements for lending to, and takeover of, problem banks.

(iv)   Improving the lending culture by ensuring that borrowers who default, particularly when they can pay, suffer prompt loss of collateral, and that bank owners and managers bear the costs of imprudent lending, for example through loss of capital.

2.67   Indonesia has begun many of these measures. The approaches to the state banks and the private banks have been different and the next two sections discuss how the respective approaches could be improved to hasten the workout from the bad loan problem.

a. State Banks

2.68   State banks have classified loans equivalent to about 17% of total loans (Chapter 1). This represents nearly three-quarters of total classified loans of the commercial banks. The Ministry of Finance, the Government's agent in ownership of the state banks, is handling their workout.

Restrictions on the state banks' loan growth, imposed as part of action plans to strengthen the banks, limited their growth to an average of about 12% per year in 1994-95. This has limited the new losses in these banks and placed emphasis on collection as the way to reduce their bad debt burden. Classified assets have fallen as a fraction of total credit as a result of better collections, growth, and recent writeoffs (Chapter 1).

2.69   At this stage, an aggressive collection campaign is needed for the remaining delinquent loans. This would reduce the financial cost to the Government of the bad debts and the threat of systemic risk in the financial system. The list of delinquent borrowers from state banks that circulated in 1993 contained many well-connected business groups. Significant strengthening of collections by the state banks thus will require support from the highest political level.

2.70   Proposals to allow the state banks to grow faster, with Government takeover of bad debts and injection of new capital, have a number of problems. First, the state banks' classified loan ratio is nearly four times private banks'. They are unlikely to grow their way out of the problem.

2.71   Second, what matters for efficiency is how state banks use new funds entrusted to them by depositors, not what happens to the stock of bad loans. The culture of borrowing from, and lending by, the state banks is largely responsible for their problems. Provision of new funds, without changing the culture, is likely to lead to even larger, more costly problems later. A lasting solution requires changing the state banks' culture. But changes in culture are difficult. World Bank experience indicates that privatization is likely to be necessary to create appropriate incentives for borrowers, managers, and owners. In those state banks where privatization is likely to be difficult, strict limits on asset growth, like those in place since 1993, continue to be

desirable. Significant downsizing and consolidation of activities, branch networks and staff also would be appropriate.

2.72 Third, proposals to help the state banks should be evaluated with regard to their effect on existing debtors. Bailouts (recapitalization or financial engineering for example) would reduce pressures for collection from existing borrowers. Bailouts also would run the risk of inducing solvent borrowers to stop paying in the hope that their debt will be nationalized. When this occurs the cost of the bailout rises.

2.73 Finally, the proposals also should be evaluated in terms of their impact on macroeconomic stability. The larger the proposed assistance, the more public resources will compensate for non-payment and the larger the threat to macroeconomic stability. If assistance is needed the most transparent and least risky way is through budget surpluses. Injections of funds from Bank Indonesia are less transparent; if they are made, then they need to be offset by tighter liquidity elsewhere in the system to maintain macroeconomic stability.

b. Private Banks

2.74 Private banks have an average classified loan ratio of 5% (Chapter 1). In most cases, the private banks began their adjustment process with a lower proportion of classified loans than the state banks. The private banks' also reduced their classified loan ratio through rapid growth, 28% per year in 1994-95. This growth *de facto* is privatizing the banking system; private banks now account for over 50% of bank loans (Chapter 1).

2.75 Within private banks, banks licensed to engage in foreign exchange transactions account for 39% of the total loans and have an average classified loan ratio of less than 4%. Non-foreign exchange banks account for only 5% of total loans but they have a classified

loan ratio of 14%. Joint-venture and foreign banks account for 9% of total loans and in terms of the health of their loan portfolios are comparable with the private foreign exchange banks.

2.76 Bank Indonesia, which regulates commercial banks, follows a consensual approach with problem private banks (World Bank 1995a, pp. 56-58). The first step is providing liquidity to the troubled banks. The conversion of that liquidity in some failing institutions has left Bank Indonesia a major shareholder in some private banks. In more difficult cases, the preferred approach has been to assist the bank to find a merger partner or new capital. (To increase the incentives to take over a weak bank, rather than open a new one, Bank Indonesia has gone slow on granting new licenses since 1994.) Closure has been rare.

2.77 The low expected losses to bank owners—because of low capital and the low probability of closure in the case of insolvency—increases the riskiness of the financial sector. The smaller the chance that bank owners will lose large sums, the greater the incentive to make risky loans. The rapid growth of real estate lending by private banks in 1994 would be consistent with this view. Moreover, insolvent banks that remain in operation have an even greater incentive to make risky loans. A high-return, high-risk project may be their only (slim) chance for survival. Violation of related group lending limits (Chapter 1) also increases risks in the banking system. Riskiness, in turn, raises the country risk premium and rupiah interest rates.

2.78 Thus, although rapid loan growth and the consensual, case-by-case approach to deal with weak banks have helped the private banks reduce their bad loan ratios and kept their banking problems out of the news, incentives for risky lending remain high. This approach does little to reduce the high risk premium, and may require substantial injections of public

funds. Bank Indonesia could reconsider the current approach in terms of ways to reduce the incentives for risky lending.

2.79   The incentives for risky lending would be reduced if owners of insolvent banks faced greater possibility of loss.   In particular, putting more of the owners' capital at stake should make bankers less prone to make risky loans.

2.80   In Indonesia, this process was begun in May 1993, and by December 1996, banks are scheduled to meet a strengthened 8% capital adequacy requirement (to be calculated after deducting shortfalls in provisioning from core capital). Meeting this schedule will increase confidence in Indonesia's financial system, further delay would reduce it, and reduce transparency.

2.81   In addition, in September 1995, Bank Indonesia further raised the capital requirements for foreign exchange banks from 8% to 12% of risk-weighted assets and increased the minimum capital to Rp150 billion from Rp50 billion.   However, the increases could be phased in more rapidly than the currently prescribed six years.   The increased capital requirements of September 1995 also could be extended to non-foreign exchange banks.

2.82   Of course, the threat of loss must be made credible.   One way to bring this about would be to adopt a more transparent, rules-based approach that penalizes banks on an escalating basis for failure to comply with the capital adequacy requirement, for example, by limiting access to Bank Indonesia's discount window.   The most extreme penalty would be closure and revocation of the bank's charter. In order to do this effectively, Bank Indonesia needs to establish clear regulations for liquidating banks.   These should include whether and how depositors would be paid, and provide for the prompt seizure of collateral for liquidation.   Such procedures would be

critical if deposit insurance were to be introduced.

2.83   Risky lending also could be reduced by limiting inter-group lending.   Regulations that came in force in September 1995 are a major step in that direction, limiting lending to related companies to 20% of capital.[2]   Again, an important issue is the implementation of these regulations, and the penalty for non-compliance.   Many banks still exceed the limit (Chapter 1).   In enforcing banking regulations, Bank Indonesia needs to step-up its use of sanctions, for example, by levying fines on banks that are consistently out of compliance. The Ministry of Finance should be prepared to revoke the license of banks that are chronically in violation of key regulations.

2.   Transparency and Access to Credit

2.84   Lack of transparency caused by an inadequate legal framework lessens transparency and slows the development of a modern financial sector in Indonesia.   Rapidly growing per capita income raises demand for financial assets and Indonesia's deregulated financial system is responding.   But the response is slower than it needs to be because gaps in the legal framework.

2.85   The potential gains from improving transparency and the legal framework for credit and capital market transactions are huge.   The lack of transparency makes it difficult for owners (equity holders) and creditors to monitor the actions of managers.   This contributes to the high proportion of private sector investment that is self-financed (three-quarters of private sector capital formation in 1994 according to the Indonesian flow-of-funds).   A more modern system for reconciling the needs of borrowers who seek long-term funds or credit commitments and lenders who prefer shorter-term, liquid investments could improve the allocation of capital by ensuring that it goes to the highest yielding investment projects.

2.86 Another result of the lack of transparency is a higher cost of funds. The uncertainty that a lack of transparency introduces cannot be hedged and must be paid for in a higher interest rate. Other ways include over-collateralization. Small businesses suffer most from the lack of transparency. Wealthy, well-known and highly creditworthy borrowers have no difficulty raising funds in the cheapest worldwide market. The Government of Indonesia has made increasing small entrepreneurs' access to credit a priority. Greater access could be achieved by improving transparency and the legal framework for credit transactions.

a. Gaps in the legal framework...

2.87 There are three main gaps in the legal framework that deserve attention. First, a change in law is needed to permit a wider variety of property to serve as collateral. Second, make it easier to verify and ensure the true ownership of collateral. Third, improve the enforcement of debt contracts.

2.88 It is hard to establish a legal basis for assets to be used as collateral or security in credit transactions in Indonesia. Banks cannot easily lend without security. In Indonesia "hypothecation" or mortgage is the standard form of security in credit transactions. But hypothecation is restricted to immovables and ships. It is impossible to secure loans with movable assets like industrial machinery, stock in trade, or monetary assets. Legal structures such as "fiduciary transfers of ownership" and assignment of rights, often in conjunction with "powers of attorney," are used to secure credit transactions at different stages in a marketing chain. But these security mechanisms don't always work well. As a result some kinds of credit transactions simply don't occur. For example, ordinary car loans—80% financing against the right to re-possess the vehicle—do not exist in Indonesia. Transactions that take place must include a charge for the uncertainty that surrounds security interests in Indonesia,

a long way of saying that the interest rate is higher than it otherwise would be.

2.89 Establishing true ownership of collateral ("perfection" of security) also is difficult in Indonesia. To have confidence in collateral, the lender must be sure there are no prior claims on it. In well-developed financial markets, information registries keep track of ownership of assets. Currently, registration is only available for real property (land and structures) but it is not a national system, nor is it computerized. There are no systems to register movable assets like industrial machinery and financial assets. In large part, lack of registries for these assets reflects the inability to use them as collateral or security.

2.90 The third problem is the enforcement of debt contracts in Indonesia. Money lenders, from the largest, most sophisticated commercial banks to the smaller, informal lenders, are concerned about getting their money back. The greater the risk that their loan will not be repaid on schedule, the higher the rate of interest, the shorter the period of credit, and the greater the extent of credit rationing. In Indonesia today these risks are unusually high because of lack of credit enforcement. Two basic methods of improvement in the area of enforcement are the court system and the alternative dispute settlement system. The Indonesian court system has not proven to be an effective instrument for recovering debts. The debtor enjoys a strong position. Enforcement of credit transactions may take several trials and many years before the courts issue an order of payment or execution of collateral.

b. ... produce inefficient market outcomes...

2.91 Banks and businesses have tried to find ways around the inability to create and enforce security interests. Since the range of assets that can be used as collateral are limited, other methods of collateralizing loans are used.

Pledges are one way, but require physical possession by the lender. Lenders end up adopting multiple forms of security and over-collateralizing loans.

2.92 To get around the difficulty of securing loans, banks rely on guarantees, excessive collateralization, and reputations and business links. But this solution not only adds to administrative costs, which must be passed on to borrowers, it also favors large, well-established firms over new, small firms. The successful Kupedes scheme (Box 2.6) exists to provide credit to small rural borrowers but the conditions that account for its success, especially the close relationship between loan officers and borrowers and use of social pressure to encourage repayment, are difficult to replicate in large urban areas.

c. ... and measures are needed to help the market find better solutions.

2.93 Many of the gaps identified above would be filled by the establishment of authoritative, Indonesian language code of conduct for commerce. The Law Development Agency is reviewing the relevant provisions of the Indonesian Civil and Commercial Codes dealing with commercial transactions. The Ministry of Finance is coordinating the initiative to draft a law on Secured Transactions.

E. Privatization in Indonesia

2.94 Repelita VI programs an increased reliance on the private sector. Privatization and a greater private sector role in infrastructure provision will increase efficiency and yield resources to retire public debt and make new investments. Private sector involvement, especially in telecoms, already is apparent. But private sector participation could yield greater benefits if the Government established a more transparent, competitive regulatory framework, both for the sale of assets and concessions and for the sectors

themselves. The needed regulatory reforms are the subject of this section.

1. Where is Indonesia in Privatization?

2.95 There are 180 state enterprises whose book value of equity was Rp143 trillion (about $66 billion) at end-1994. Although some of these enterprises are in sectors where the public sector traditionally dominates (defense, the postal service for example), most are in sectors where the private sector now dominates economic activity (Table 2.1).

Table 2.1 Public enterprises at a glance
(as of 31 December 1994)

Ministry	No. of enterprises	Equity (Rp. trillion)
Industry	28	5.2
Agriculture	35	3.8
Finance	30	12.2
Communications	17	13.2
Public Works	17	1.3
Trade	8	0.3
Mining	7	32.4
Post and Telecommunications	7	4.0
Forestry	6	0.7
Information	4	0.01
Health	4	0.4
Defense and Security	2	0.1
Culture	1	0.02
Manpower	1	0.1
Non-departmental	1	0.1
Strategic Industries	10	7.3
Total	180	143.3

Source: Ministry of Finance

2.96 Indonesia has followed the East Asian pattern of privatization: partial privatization of some firms through the stock market; and concessions for stand-alone infrastructure projects. However, progress has been slower

Box 2.6 A Success of Rural Finance: BRI's Unit Desa System, Kupedes and Simpedes

Much of the world is familiar with the success of Bangladesh's Grameen Bank. It is less well-known that Indonesia has over a decade of experience with a small-scale, rural credit scheme. In 1968, Bank Rakyat Indonesia (BRI) was charged with responsibility for smallholder agriculture and rural development. One of the major initiatives in this regard was the *Bimas* rice intensification program, which contributed to Indonesia's becoming self-sufficient in rice in 1984. The *Bimas* program included, among other features, credit to farmers at below-market roles.

When the *Bimas* program was terminated in 1984 (in part owing to ever-increasing lending losses) BRI had more than 10,000 employees in the rural credit program scattered among 3,300 village units across the country. To make use of this investment in human and physical resources, BRI launched a new rural lending program to be based on two main principles: it should not be dependent upon government subsidies; and it would be demand driven by the needs of the rural community. This program became known as *Kupedes (Kredit Umum Pedesaan)*.

Kupedes has been very successful. Growth has been strong; collection rates are very high; village units reach all regions of the country, roughly in proportion to density of rural population; and, the scheme has recently become the largest, single source of profits for BRI. Lending rates are market-determined (currently some 30% or more).

BRI has a similar experience with village savings. Based on experience with a nationwide, central-bank driven savings scheme known as *Tabanas*, BRI introduced its own saving scheme, *Simpedes*, in 1985. This was an immediate success based upon easy access to own deposits, fast service and simple procedures. Moreover, savings mobilized in this way actually exceed lending through *Kupedes*, striking evidence of the potential for savings mobilization at the village level.

Some lessons from Indonesia's experience with rural credit schemes are:

- **Subsidized credit programs can be very costly.** Indonesia's early experience with various credit programs (for instance, *Bimas* and *KIK/KMKP*) suggests the likelihood of high default rates brought on by undue pressure on banks to accommodate high-risk customers, fraud by bank personnel and lack of "ownership" by banks, which saw themselves as administrators of a government program.

- **Village units can be profitable.** *Kupedes* demonstrates that the size of loans is not a hindrance to profitability because high overhead costs can be offset by high lending rates and by high collection rates. Borrowers are attracted to the commercial lender despite high interest rates because they otherwise are dependent upon informal moneylenders.

- **Quality of service is important.** To hold down overhead costs, loan procedures need to be simple; to compete with the informal moneylender, service must be fast. For savings programs, like *Simpedes*, depositors need ready access to their savings; they are put-off by restrictions on their access to their money.

- **The local credit officer matters.** Physical collateral needs to be de-emphasized. To substitute and maintain the quality of the portfolio, the local credit officer must have personal contact and detailed local knowledge, including on such matters as local cash flow patterns.

- **Social pressures can be effective at improving repayment.** Social or peer-group pressures are powerful motivators for repayment at the village level. For this reason, loans financed through revolving-funds are relatively successful, as is third-party pressure that can be brought to bear by the knowledgeable local credit officer.

- **Rural people are not too poor to save, and they will put their saving into financial assets.** The lessons of *Simpedes* are that rural savers respond to the same incentives as more "sophisticated" urban savers—a reasonable rate of return, good service, and reasonable assurance that their savings are safe from the twin evils of inflation and low repayment rates on loans.

- **The "group lending" approach can be effective** and efficient because it can reduce transactions costs and risks.

Sources: Binhadi, Martokoesoemo.

than elsewhere in the region (World Bank 1995a). In 1989, the Government began an ambitious public enterprise restructuring program to support divestiture. However, the program's results were less than expected. Only one state-owned firm was listed in 1990-93. Concessions for ports and one power generation plant were negotiated in this period, roads with well-connected local private sector partners. In 1993, PT Satelindo was given a franchise for international telecommunications and cellular phones.

2.97 Indonesia speeded up its privatization program in 1994-96. The greatest advances were in telecommunications, as is common worldwide. Joint operating schemes were set up, under competitive arrangements, between PT Telkom, the state-owned domestic telephone company, and the private sector; they will bring private management and investment to the phone system outside Jakarta and Surabaya. PT Telkom and PT Indosat, the state-owned long distance telephone company, also were partially divested (Box 2.7).

2.98 Two private power plants with capacity of 2450 MW (Paiton 1 and Paiton 2, a joint venture between Siemens and a local firm, reached financial closure). Power purchase agreements also exist for another 1320 MW of private capacity, and are under negotiation for more than 5000 MW (in total equivalent to 65% of PLN's capacity at end-1993). None of the power plants were awarded under competitive tender. The earlier agreements had a much higher price/kwh than the later ones. Gas and coal contracts, as well as financing, remain to be finalized.

2.99 Lack of transparency also exists in many of the public/private deals. The Public Works Ministry chose private operators from among 20 pre-selected companies for negotiation on 19 toll road segments. In October 1995, the Jakarta water supply company (PAM Jaya) signed a Memorandum of Understanding to negotiate a 25 year

concession with two large local groups.

2.100 Regarding divestiture outside telecommunications, PT Tambang Timah, a tin mining company, sold 25% of its capital in a London listing and increased capital by 10% through a parallel listing in Jakarta and Surabaya, raising nearly $225 million. In addition, the Government has expressed interest in partially divesting Krakatau Steel; parts of PLN, the state-owned power company; Garuda, a state-owned airline; and Bank Negara Indonesia. The publicly-owned plantations (PTPs) were consolidated in early 1996 in anticipation of their divestiture.

2. The Potential Benefits of Privatization and Private Provision of Infrastructure

2.101 Greater reliance on the private sector would benefit Indonesia in three ways:

- Greater efficiency in operation—better service at lower cost.

- Resources for increased investment, without relying on tax revenue or increased public debt.

- Receipts that can be used to retire public debt.

The lessons of international experience suggest that efficiency gains and investment increases following privatization can be substantial (Box 2.8). While international experience shows that ownership matters, it also shows that so too does policy. Substantial gains only are available when private participation is accompanied by sound policies.

2.102 Substantial financial and efficiency gains appear to be available in Indonesia through privatization. The average return on assets and equity in listed private enterprises was nearly twice as high as in public enterprises (excluding Pertamina and the state banks). In the plantations sector, where private

Box 2.7 Privatizing Indonesia's Telecommunications

Opening telecommunications to the private sector is a key element in the Government's strategy to bring performance standards up to the levels in competitor countries. Through a program of phased deregulation, going further in most aspects than other Asian countries, the Government is creating a competitive multi-operator environment. Private companies, some with minority public participation, are now operating in the satellite, international and wireless communication segments.

The Government has used two approaches to involve the private sector in telecommunications (prior to beginning this process the Government awarded a franchise to provide additional international telecommunications service to well-connected PT Satelindo, which went on to sell 25% of its equity for $586 million to Deutsche Telekom AG):

* awarding concessions to five international consortia under joint operating schemes, with PT Telkom as a passive partner, for the development and operation of basic telecom services in Indonesia outside the metropolitan areas of Jakarta and Surabaya. The process—pre-qualification criteria, scope and content (including performance obligations) of the rights to the concessions, common denominator bidding variables, due diligence procedure, final negotiations, and award—was carried out with full transparency and strict adherence to clearly defined rules. The international investor community has given Indonesia high marks for the professional and transparent conduct of this process. Investment bankers have estimated that the capital value of PT Telkom, which will share in the revenues of the new consortia, has increased by about $2 billion as a consequence of this new strategic arrangement.
* Divesting assets of PT Indosat and PT Telkom. PT Indosat went public first by divesting 25% of Government equity through a listing in the NYSE and raising capital (10% increase) through a listing in the local stock market. The transaction raised a total of $1.16 billion. It was considered a success in the market. PT Telkom went public in November 1995 with the Government selling a 20% share of its equity in the company. $1.68 billion was raised through listings in the Jakarta and Surabaya stock exchanges (12.5%), and listings in New York and London plus small placements in Asia (for a total of 7.5%).

Unlike PT Indosat, PT Telkom's offering encountered some difficulties: it had to be scaled back in volume and price. The timing of the PT Telkom offering coincided with an unpredictable decline of telecom stocks world-wide and a weakening in emerging markets associated with problems in Mexico. But there also were other factors involved. The experience with PT Indosat and PT Telkom provides lessons for Indonesia's future privatization:

* market structure and regulatory oversight (tariff policy in this case) of the sector in which the privatized companies is operating have to be closely defined in order to mitigate risk perception of investors;
* the track record of performance (including all sources of revenues) of the company to be privatized needs to be sufficiently long to allow predictability of revenue streams;
* the international and domestic tranches have to be carefully coordinated;
* the number of managers has to be limited and the lead authority clearly established to avoid conflicting advice and messages to both issuer and buyers (the number of lead agencies with PT Telkom was unprecedented).

Uncertainties contributed significantly to a weakening in demand for PT Telkom shares. Local pension funds took up half of the domestic listing and agreed to hold it for two years. The Government also reduced the price of the offering and scaled back the international listing. This action was well received and enhanced the credibility of the Government in the market. The Government action helped convince investors that the clearing price of the offering was below fair market value and PT Telkom shares mounted an impressive rally, increasing by 70%.

Box 2.8 Quantifying the benefits of privatization

The Galal study analyzed the impact of privatization—divestiture of majority ownership—on net economic welfare by comparing the performance of divested firms with the counterfactual of what would have happened if the firms had remained in state hands. The result was that:

- welfare improved in 11 out of 12 cases;
- the gains averaged about 30% annually of pre-divestiture sales;
- in more than half the cases the gain in welfare exceeded 10 per cent; and
- in the single negative case the loss was only 7%.

The great bulk of the welfare gains from privatization stemmed from three sources: relaxing the investment constraint; increased productivity; and more economic pricing. The origin and distribution of the welfare effects varied across the cases: perhaps surprisingly workers did not lose; consumers won or broke even in a majority of cases; foreign buyers did well but so did nationals; and government sellers gained in three quarters of the cases. The overall conclusion is that ownership matters.

The Megginson study focussed on companies that were sold through a share issue and for which comparable pre- and post-issue financial and accounting data could be obtained. Again the striking result was significant improvements among privatized firms in terms of:

- profitability up 45% on average;
- output per employee 11%;
- capital spending up 44%;
- output up 27%; and
- perhaps surprisingly, employment up 6%.

The Megginson study did not precisely document the causes of the performance improvements. But its evidence supports the view that privatization has a positive impact on outcomes.

A study of privatization in Argentina documented the efficiency improvements in three enterprises:

- telecommunications—the growth rate of the telephone network quadrupled, price distortions were reduced, quality of service improved and private investors earned an attractive return;
- railroads—80% of freight services were concessioned and the amount of freight doubled and prices fell 20%; ridership on suburban passenger services in Buenos Aires increased by 30% to 40%; labor productivity in the sector increased by a factor of seven or eight; and subsidies fell by one half; and
- oil and gas—government realized $10 billion; more than 25 international companies entered; and labor productivity doubled.

Drawn from Galal, A. and others, Megginson, W. and others, and World Bank 1995m.

---

firms and public firms (PTPs) are directly comparable, the public firms have incurred high levels of debt to fund an ill-conceived expansion program. The costs of private palm oil development are one-quarter to one-third higher than those of private estates and the cost of a PTP mill is 40% higher than a private mill. Private estates' productivity is consistently higher in palm oil and rubber.

2.103 The domestic listings of the two telecommunications companies and the tin mining company raised about Rp3.3 trillion ($1.4 billion) in new capital for these companies' investment. In addition, PT Telkom expects to receive Rp15 trillion from its joint operating schemes (KSOs) over the next 15 years and the 5 KSOs are expected to invest about $3 billion in new telephone lines. The proposed Jakarta water concession

also would involve substantial investment. Private investment in power generation and roads is expected to be about $12 billion in Repelita VI (World Bank 1995a, p. 71). This private investment still is likely to lead to increases in Indonesia's private external debt.[3] However, the payments are the obligation of the concessionaires, not the country. And, these obligations give the projects' owners and operators an incentive to construct and operate effectively.

2.104 Privatization also would benefit Indonesia by generating revenues that could be used to reduce external debt. Indonesia already has used receipts from the offshore partial divestiture of PT Indosat, PT Telkom and PT Tambang Timah to reduce external debt by more than $1.5 billion (Chapter 1).

3. Maximizing the Benefits of Privatization

2.105 Achieving the benefits of privatization is not automatic: governments must pay careful attention to many elements of the overall environment including: the enabling framework of market structure, competition and regulatory policies; divestiture policies and processes, including preparation of enterprises for sale; institutional approaches; and public debt management. To be successful, privatization must be done right.

2.106 The overall success of the privatization process depends greatly on the extent that it is transparent and the sale of assets and the sectors are kept competitive. Worldwide experience suggests that perceptions of non-transparency, lack of competition, unfair dealing, and favoritism can threaten the privatization process and even reform programs in general. The Government thus has an important role to play in managing the process and the interaction between the public and private sectors (Chapter 1, and World Bank 1995a, Chapter 3).

2.107 A major policy recommendation for maximizing the benefits of privatization is to sell assets or concessions competitively and transparently. This maximizes the price for the asset and/or reduces the charge for services by the owner or concessionaire. In contrast, negotiated, non-competitive deals leave room for excess profits for the buyer and the possibility of side-payments. This, in turn, reduces the sale price or contributes to a high-cost economy, to the ultimate detriment of consumers.

2.108 Extensive negotiation on the terms of the deal and unsolicited bids also are time-consuming, judging from experience worldwide and in Indonesia (ports, power generation, toll roads, and water supply). Lengthy negotiations raise costs to the private sector. The result is a lower sales price or an increase in the price the concessionaire must charge. Lengthy negotiations also delay the time before benefits begin to flow to the country. Excessive restrictions on how the product or service will be produced or inputs sourced also tend to raise costs.

2.109 A transparent, competitive approach to divestiture or sale of concessions reduces these problems. The transparent, competitive approach can be summarized as:

(i) Pre-qualify potential bidders on the basis of prior experience;

(ii) Define up-front the project/concession simply and clearly (prepare the project and provide as much information on it as possible within the time frame.[4] Define carefully the government's future role. Limit contract specification to the essential parameters; avoid restrictions that limit the way the private sector satisfies these parameters, such as input sourcing requirements.)

(iii)   Define the bidding process on one or two key parameters (for example the price of the price of the asset or the cost to consumers of a service);

(iv)   Choose the highest bid for the sale of assets or the lowest bid for the supply of a service;

(v)   Announce the winning bid promptly and avoid a second round of re-bidding.

2.110   Privatization through financial markets tends to be competitive. The strict requirements for listing can reduce political interference. The main issue is securing effective underwriting services through a competitive procedure. However, prompt divestiture through financial markets may be difficult for firms lacking a history of transparent, audited accounts. Perhaps more importantly, sale of a non-majority portion of equity to many small investors or passive holders (like pension funds) may not improve management much. Competitive sales of ownership or management contracts, along the lines above, may yield smaller up-front cash returns and increase economic concentration, but they also may improve management more than partial divestiture through financial markets.

2.111   A second way to increase the benefits of privatization is through a transparent, competitive sectoral regulatory framework. The more clarity and transparency in the sectoral regulatory framework and the more it mimics the incentives to better, lower-price service that occur under competition, the higher and more sustainable the benefits to the country of privatization.

2.112   In looking at the enabling policy framework it is useful to distinguish between the privatization of firms producing goods and services in fairly competitive, open sectors, and infrastructure and utilities. Firms producing

tradables can be divested easily and quickly will achieve benefits. Within competitive, or at least potentially competitive markets, prices set a benchmark for efficiency. Accompanying liberalization and deregulation of product and factor markets may be necessary to make domestic markets more competitive and ensure efficiency improvements from divestiture. The main issues for the government are to ensure that deregulation continues along established lines, with no special protection or below-market credit for producers, and that the sales of assets or concessions are conducted as described above. Protection or access to below market credit (including Government guarantees) can improve the sales price of an asset or a concession. However, these policies reduce the benefits to the country as a whole.

2.113   Privatization of or private participation in infrastructure typically requires closer attention to market structure and economic regulation. It typically involves nontraded services and some elements of so-called "natural monopoly." The definition of a transparent regulatory framework is a major factor in attracting investors and will enhance the benefits from private participation significantly.

2.114   In many of these cases, infrastructure activities can be "unbundled"— split up into parts where competition or a few well-defined rules can provide much of the regulation for firms. Examples include long-distance telephone service and power generation with take-or-pay contracts. Of course these arrangements are only an imperfect substitute for a public regulatory framework. For example, take-or-pay contracts reduce the commercial risk that operators might bear in a market where they sold directly to buyers through transmission networks.[5] In other cases, infrastructure activities may face effective competition from substitutes—for example various modes of freight transport—and can be privatized as if they

were in a competitive market. In such cases privatization and private infrastructure provision can go ahead.

2.115 Where "natural monopoly" elements remain—such as water supply systems and electricity transmission and distribution networks—establishment of a suitable framework for economic regulation, essentially the control of prices or profits in ways that

mimic the market and encourage innovation—will be required. Such frameworks would address concerns over the misuse of market power, while assuring investors of the opportunity to receive a reasonable return on investment and providing incentives for efficient service provision. The approach for involving the private sector in Indonesia's natural gas sector illustrates some of these issues (Box 2.9).

Box 2.9 Private participation in building Indonesia's gas infrastructure

Development of Indonesia's domestic gas sector would have several major benefits. It would help meet fast growing domestic energy demand, enhance industrial competitiveness through increased security of energy supply and improve the environment through the substitution of cleaner natural gas for fuel oils. In addition, development of a national gas system could free an estimated 900 million barrels of oil for exports annually, yielding net savings of $800 million a year. Despite these potential benefits, Indonesia's domestic gas sector has been slow to develop. The government recently adopted a comprehensive approach to developing the sector, including plans to develop a competitive market structure, a regulatory framework and the corporate structure needed to build an efficient domestic gas system.

In this approach, private participation would be sought to help build a national gas system. PGN, the State-owned gas company, would be converted into a limited liability holding company with subsidiaries to construct and operate segments of a national transmission system. International gas utilities would be recruited as joint venture partners for those subsidiaries through a transparent and competitive process. Potential investors, including all partners that would participate in bidding consortia with international gas utilities, would be pre-qualified on the basis of their technical capabilities, record of operating performance and financial strength. Bids would be evaluated on the basis of quantitative variables specified in the bid document that is being prepared with the assistance of PGN's Financial Advisors. The evaluation would be carried out by an inter-departmental government team empowered to negotiate with the highest-departmental bidder. After selection of the Strategic Partner, PGN and its partner would finalize the design, implementation and financing plan for the proposed South Sumatera-West Java pipeline, which will be a key link in the planned national gas system.

2.116 Resolution of a number of such regulatory issues will be important in further privatizations or granting of concessions: in power, water and plantations, the costs of the companies' social missions have not been defined or allocated between the Government, the companies, and potential new investors; in power, the burden of excess generating capacity and take-or-pay contracts in setting future tariffs is unresolved as is the appropriate pace of tariff increases; in power, steel, gas and coal supply contracts need to be concluded; in banking, the still-large classified assets need

to be reduced further. The sooner and the more clearly these issues are resolved, the lower the risk to the potential investor or concessionaire, and the higher the benefits for the country.

2.117 Full or partial privatization raises the issue of the management of existing and new external debt. In Indonesia's four partial divestitures to date, the issue of existing debt has not come up—the companies' majority owner remains the Government. The international markets probably would consider

the Government responsible for the existing debt despite the lack of explicit government guarantee, and the debt overhang is reflected in the share price. However, in divestitures of the PTPs and other firms that have a large debt overhang, the Government will have to consider existing debt more explicitly.

2.118 New debt from the partially privatized firms likely will continue to benefit from the market's assumption that the Government implicitly guarantees the issue, at least for awhile. The Ministry of Finance and the Commercial Offshore Loan Team (COLT) need to manage carefully the debt issues by these firms to ensure that their new external or domestic debt does not impose a burden on the Government, and is consistent with the macroeconomic program.

2.119 The Government also needs to reiterate its policy of not providing guarantees of private debt. To date, Government guarantees have not proved necessary for raising finance for private infrastructure projects. Offering

guarantees at this point might well raise questions in the market about the continuation of this record, and certainly would lead to more requests for guarantees. Moreover, full Government guarantees of debt tend to reduce incentives for the concessionaire to perform effectively. Guarantees of the policy framework, which the World Bank could provide, might reduce investor uncertainty somewhat, but they also might reduce the credibility in policy reform that the Government has built up over many years.

2.120 Institutional oversight at a high level is needed to resolve these issues. In Indonesia an inter-ministerial team (Team Seven) headed by the Minister of Finance provides this oversight. Team Seven has the mandate to coordinate the privatization process for state-owned companies, including selecting the companies to be privatized and the method of privatization. The Government also is the developing a KEPRES to manage the contracting procedures for private participation in infrastructure.

Endnotes

1. This section is based on World Bank 1994f, 1995f.

2. To encourage more companies to list on the stock exchange, the legal lending limit for companies with more than 30% of capital listed was set at 30%.

3. The private companies undertaking the investments typically are set-up in Indonesia. Hence, their offshore borrowing is counted as Indonesian private sector debt, even if the majority shareholder of the borrowing company is foreign.

4. An important issue in some privatizations is the degree to which a company should be prepared for privatization by reducing excessive labor costs and taking-over its debt. A clear tradeoff exists here: the degree to which these issues can be resolved will increase the price of the company, but raise the cost to the Government prior to the sale. Hence, to the extent that the Government can resolve these issues more cheaply and quickly than the private sector, it should resolve them. If the Government is likely to take a long time resolving these issues, and pay high costs, then it should proceed with the privatization directly. Experience suggests that more extensive restructuring usually does not pay-off (World Bank 1994b).

5. The sale into the transmission and distribution network can be done in various ways. Take-or-pay sales to the transmitter/distributor, as has been done in many developing countries, means the only risk is failure to comply with the contract, and the commercial risk of sales falls on the transmitter/distributor. Competitive sales through a network to final distributors or users, as is done in the U.K. power system and the U.S. natural gas sector, provides a better division of risk. Of course, the risk remains that the still-publicly owned transmission and distribution firms may suffer financial difficulties that affect their ability to fulfill contracts and tariff-setting policies. But these risks are similar to, although much larger than, those that would occur in a fully private system where the final buyer may have difficulty fulfilling contracts.

3
GROWTH BENEFITTED WORKERS

3.1   Deregulation since the mid-1980s has led to a manufacturing boom and to rapid growth of wage employment and earnings of Indonesian workers, especially women. This boom represents a major shift in the sources of output and employment growth, and was associated with rising productivity (World Bank 1994a). However, there is a growing common concern in Indonesia that labor has not shared commensurately in the growth of the last decade. Part of this concern is fueled by the perception that an increased concentration of wealth has widened Indonesia's social gap. Expressions of dissatisfaction from workers themselves, in strikes and other forms of industrial action, reinforce the concern.

3.2   The Government has responded by increasing interventions in the labor market, especially in setting wages and benefits. In recent years, it has increased minimum wages sharply; passed an all-encompassing social security law that provides health insurance, life insurance, accident insurance, and pension benefits to all workers; and passed a ruling that compels companies to pay their workers a 13th month of salary each year.

3.3   This chapter looks at some of the issues raised by these developments. It shows that workers in Indonesia have indeed been major beneficiaries of the country's sustained growth. It also shows, however, that the rapid industrialization and formalization of the economy since the mid-1980s has led to some challenges for Indonesian workers that now need to be tackled.

A. Structural Change Increased Jobs in Manufacturing and Services

3.4   Economic development means dramatic changes in the structure of employment and

enormous increases in productivity (World Bank 1995b). As a country moves from poor to rich it can expect to see the share of employment in agriculture drop from 90% to 5% (World Bank 1995b). The choice of technologies in traditional industries changes as the rising cost of labor, together with technological advances, encourages new methods. Job opportunities expand in services and industry, as employment in agriculture and the informal sectors declines and workers move to urban areas and the formal sector.

3.5   In Indonesia, changes in the pattern of growth since the mid-1980s are following this pattern. Agriculture is declining in relation to industry. The decline is even more striking in relation to manufacturing, whose growth rate exceeded agriculture's by a factor of 3 (Table 3.1). The services sector has grown steadily by 7% a year since the early 1980s.

3.6   Employment followed output and value added growth. Agriculture sector employment growth declined steadily to the point that agriculture shed labor at the rate of 2% a year in 1990-93 (Table 3.1). Employment growth in the industrial sector, led by the manufacturing sector, has remained strong, though it slowed in the early 1990s. Employment in services, which grew rapidly during the oil-boom years, thanks to increased government spending, slowed during the second half of the 1980s, then picked up again and actually exceeded manufacturing employment growth during the early 1990s, in part due to growing financial sector employment. Agriculture accounted for over half of job-creation in the first half of the 1980s, industry for less than one-fifth. Those shares nearly reversed during 1985-90 and by the early 1990s agriculture was losing jobs to the services and industrial sectors (Table 3.1).

Table 3.1 Output Trends are Reflected in the Labor Market
(annual change, percent)

	Agriculture	*All Industry*	*(Manufacturing)*	*Services*	*All Sectors*
Growth of value added [a]					
1980-85	3.4	4.2	13.0	6.9	5.0
1985-90	3.0	7.0	10.7	7.3	6.3
1990-93	3.2	7.7	9.6	7.0	6.6
Growth of employment [b]					
1980-85	4.0	5.3	5.7	3.8	4.1
1985-90	0.8	7.0	7.2	3.2	2.5
1990-93	-1.8	6.3	4.5	4.9	1.5
Distribution of incremental employment %					
1980-85	53.5	16.7	12.3	29.8	100.0
1985-90	17.1	41.5	29.3	41.5	100.0
1990-93	-67.6	61.8	32.4	105.9	100.0

[a] Constant 1983 prices.

[b] Employment data are unavailable from a common source for the entire period, 1980-93. Employment estimates for 1980-85 and 1985-90 are based on Census and Inter-Census data, while those for 1990-93 are based on Labor Force Survey data.

The Move into High-Productivity Jobs

3.7 Productivity growth has been rapid in the manufacturing and service sectors: between 1980 and 1990, output per person in manufacturing grew by 65%, and in services by 42%. Agricultural productivity grew slowly till 1990 but, now that the sector is shedding labor, productivity can be expected to start to grow more rapidly. There also has been a reallocation of workers to higher-productivity jobs: the slowest growth in employment over the last two decades has been in agriculture, the sector with the lowest productivity per worker, and the fastest growth has been in industry, the sector with the highest

productivity per worker (output per person in industry is more than five times that of agriculture). Employment growth also has been rapid in the services sector, where productivity is triple that of the agricultural sector. The shift into higher productivity jobs is associated with a decline in the labor-intensity of growth and would be a problem if it were associated with rising unemployment and underemployment. However, as discussed below (para 3.23), unemployment has remained constant and low. While underemployment is high, few of the underemployed willingly would work more. Also, increases in education levels have reduced labor supply growth (World Bank 1994a).

Figure 3.1 Value Added Per Worker and Sectoral Distribution of Employment in East Asia

Malaysia: Value Added per Worker

Malaysia: Employment by Sector

Korea: Value Added per Worker

Korea: Employment by Sector

Indonesia: Value Added per Worker

Indonesia: Employment by Sector

◆ Agriculture   ■ Industry   ▲ Services
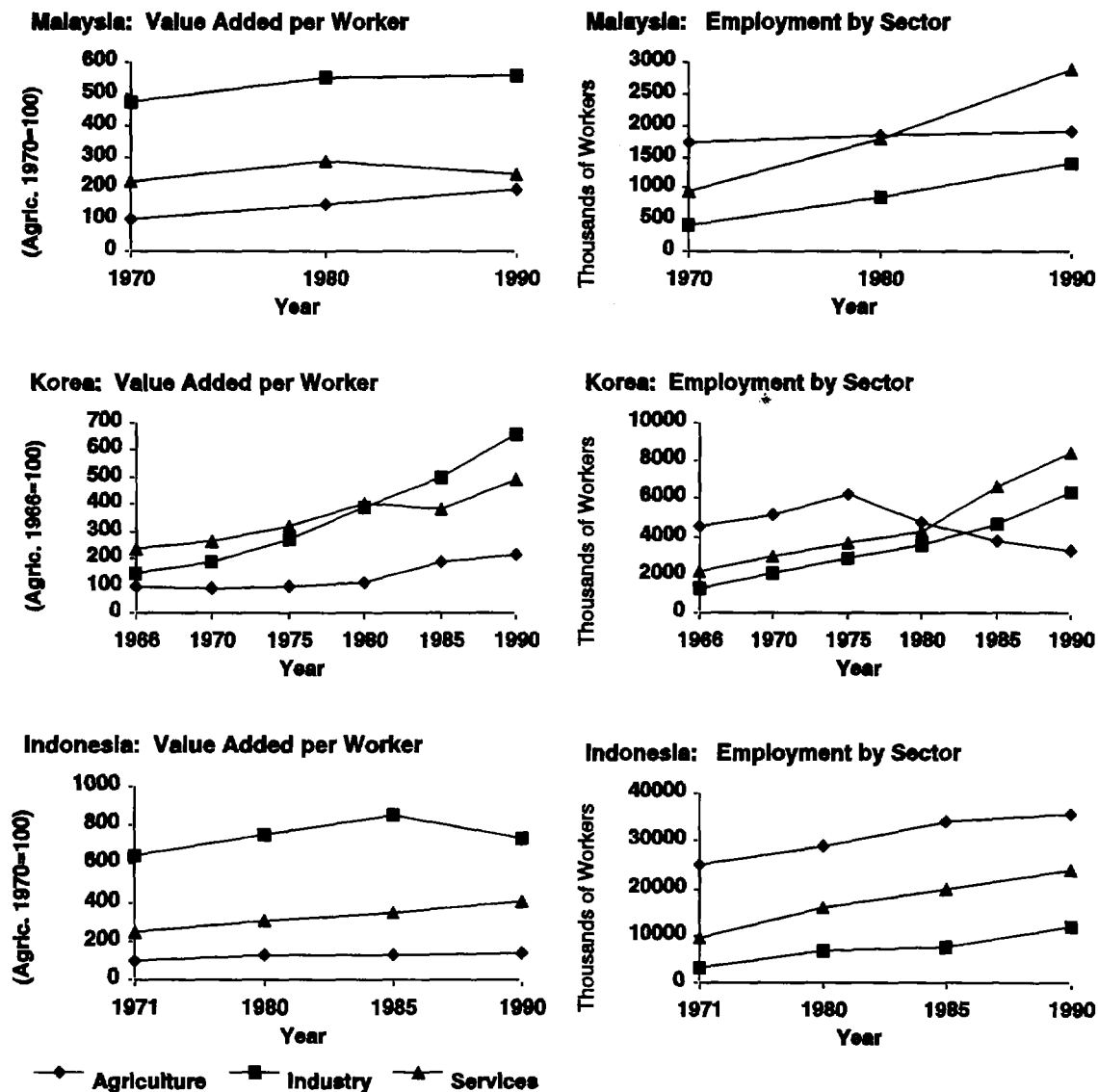
Source: World Bank 1995b for Malaysia and Korea; staff estimates for Indonesia.

B. Labor Market Developments

1. Labor Supply

3.8   There are almost 150 million people of working age (defined as 10 years and older) in Indonesia, of which 58% are economically active—either working or looking for work (Table 3.2). The other 42% is attending school, engaged in household work, or retired. Correcting the definition of "economically active" to include household activities, there is no difference between the share of men and the share of women in the workforce—about three-fourths.

3.9   The Indonesian labor force is projected to grow by an average of 1.5% annually over the next 30 years, down from 2.5% between 1965-95. There are several reasons for the slowdown. The total fertility rate in Indonesia halved between 1970 and 1993, and is expected

to continue to decline. Rising urbanization also should reduce labor force participation rates for both men and women (the labor force participation rate is higher in rural areas than in urban areas, for both men and women). Finally, lengthening school attendance also will reduce participation.

Table 3.2 "Economically Active" People Work

Type of Activity	Numbers in 1994 ('000s)			Percentage		
	Male	Female	Total	Male	Female	Total
Economically Active	52,328	33,447	85,775	72.0	44.5	58.0
Working	50,308	31,730	82,038	69.2	42.2	55.5
Looking for Work	2,020	1,717	3,737	2.8	2.3	2.5
Not Economically Active	20,341	41,690	62,031	28.0	55.5	42.0
Attending School	14,865	14,124	28,989	20.5	18.8	19.6
Housekeeping	293	22,119	22,412	0.4	29.4	15.2
Other	5,183	5,447	10,630	7.1	7.2	7.2
Total	**72,669**	**75,137**	**147,806**	**100.0**	**100.0**	**100.0**

Source: Labor Force Survey, 1994.

3.10 The labor force participation rates for Indonesian men and women, as in most countries, tend to follow a life-cycle pattern and vary by age. In a wide range of countries, almost all men between twenty-five and fifty-four are directly engaged in income-generating activities, whether in the home, on the family farm or enterprise, or in the labor market (World Bank 1995b). Between-country differences in labor force participation rates of men are confined to the young and the old. The Indonesian male labor supply pattern is typical of that in most countries. At least 95% of Indonesian men aged twenty-five to fifty-four are economically active, with participation tapering off after the age of fifty-five.

3.11 With the opening up of new employment opportunities in the manufacturing sectors in the mid-1980s the labor force participation of urban Indonesian women increased rapidly (Figure 3.2). Although urban women of almost all ages increased their participation in the workforce, the participation of women of 20-24 years of age increased most. The participation behavior of rural women, and of men, did not change much over this period.

Figure 3.2 Female Labor Force Participation Rates By Age, 1986-94
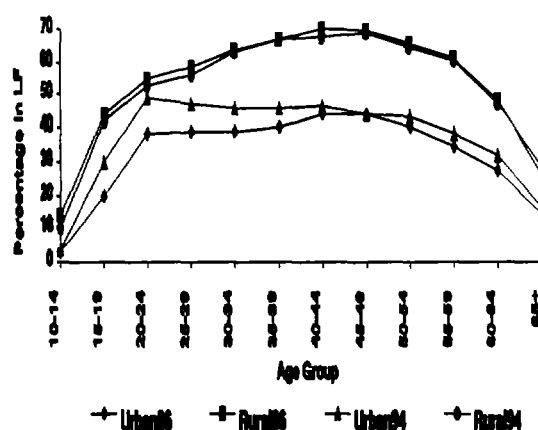
Source: Labor Force Surveys.

2. "Formalization" Accelerates in the 1990s

3.12 The 5.5% annual average rate of wage employment growth in 1986-94 is an unmistakable sign of a rapid expansion in the economy's demand for labor (Table 3.3). Formal sector employment—non-agricultural wage employment— grew faster. Thus, even though the unemployment rate has remained more or less constant since the mid-1980s, about 2.7 per cent a year, and never rose

above 3% over the period, the rapid growth of wage employment suggests a tightening labor market.

3.13 All workers have benefitted from the employment opportunities created by Indonesia's rapid economic growth. However, the kinds of labor-intensive industries that have grown in Indonesia since the mid-1980s (such

as garments, footwear and, more recently, electronics) use female labor more intensively than male labor. Consequently, formal sector employment has grown much more rapidly for females than for males, 7.3% a year since the mid-1980s versus of 5.3% for males. In manufacturing, female employment grew by 13% a year compared with 10% for male employment.

Table 3.3 Population and Employment Growth
(annual growth, percent)

	1986-90			1990-94			1986-94		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Working Age Population	2.7	2.5	2.6	2.0	2.3	2.2	2.3	2.4	2.4
Total Employment	2.9	2.3	2.6	2.0	1.9	2.0	2.5	2.1	2.3
Wage Employment	4.2	5.7	4.6	6.6	6.0	6.5	5.4	5.9	5.5
Formal Sector [a] Employment	2.9	5.6	3.6	7.9	9.0	8.2	5.3	7.3	5.9

Source: Labor Force Surveys, 1986-94.
[a] Non-agricultural wage employment.

3.14 Growth of wage employment and formal sector employment growth accelerated during the 1990s (Figure 3.3). The rate of growth of formal sector employment more than doubled to 8.2% from the late 1980s to the early 1990s as a result of which the share of formal sector workers in total employment, rose from 21% in 1990 to 27% in 1994.

3.15 Economic growth typically brings about increased formalization of the workforce (Table 3.4). With growth comes an increase in wage employment, and employment relationships become increasingly formal. For example, in Malaysia, which has a per capita income three times that of Indonesia, 62% of the workforce works for wages, double Indonesia's rate.

Figure 3.3 Trends in Population and Employment, 1986-94
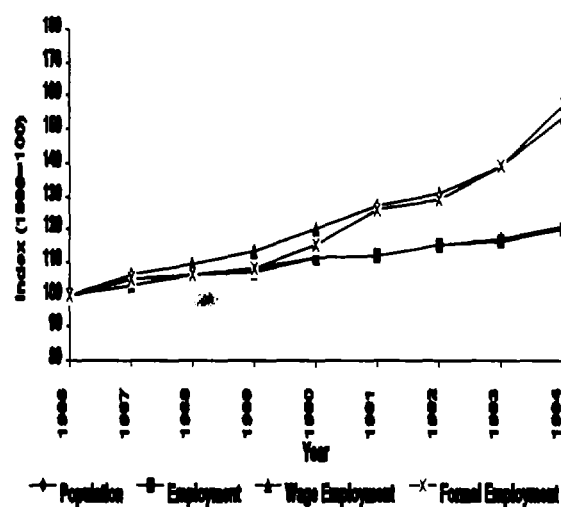
Source: Labor Force Surveys.

Table 3.4 The East Asian Workforce
(percent)

Country	Agriculture		Industry		Services		Total Wage Employment
	Wage	Nonwage	Wage	Nonwage	Wage	Nonwage	
China	1.0	60.0	4.0	14.0	11.0	10.0	16.0
Indonesia	**6.5**	**43.9**	**10.0**	**5.8**	**14.3**	**19.5**	**30.8**
Philippines	9.6	35.7	12.3	3.7	23.6	15.1	45.5
Thailand	6.6	59.7	8.7	3.2	11.6	10.2	26.9
Malaysia	8.8	21.8	19.0	3.6	34.0	12.7	61.8
South Korea	1.2	15.5	30.5	5.1	29.0	18.7	60.7

Source: World Bank 1995b.

3. Workers at All Levels Benefitted

3.16   Indonesian policymakers are concerned about the distribution of the benefits of growth among different groups in society. Using education levels as a proxy for skill levels, the benefits of growth in Indonesia have indeed been widely distributed between skilled and unskilled labor (Table 3.5). The earnings of all workers grew at an average rate of 12% per year between 1987 and 1994, with the rates ranging from 9% for those with university education to 15% for those with a Diploma I & II (which includes diplomas for teacher training and from various polytechnics). The earnings of those with lower levels of education (no schooling, primary and junior secondary), grew at about 11% per year, only slightly below the average for all workers.

Table 3.5 Growth benefitted workers at all levels.

Schooling Level	Nominal Earnings Growth, 1987-94 (annual avg., %)
No Schooling	11.0
Incomplete Primary	11.5
Complete Primary	10.8
Junior High School (General)	9.7
Junior High School (Vocational)	11.1
Senior High School (General)	10.8
Senior High School (Vocational)	11.5
Diploma I/II	15.2
Diploma III	12.7
University	9.2

Source: Labor Force Surveys

4. Unemployment

3.17   Indonesians, from policymakers to the man in the street, are concerned about the level and nature of unemployment. However, open unemployment in Indonesia is low—4.4% of the labor force[1] (Table 3.6). The unemployed are predominantly young people. The unemployment rate is highest in the age groups 15-19 years (13%), when secondary school leavers join the workforce, and in the age group 20-24 years (14%), when the tertiary education graduates enter the workforce.

Table 3.6 Unemployment in Indonesia, 1994
(Unemployment as a percentage of economically active population)

Age Group	Male	Female	Total
10-14	3.2	5.1	4.0
15-19	11.9	14.3	12.9
20-24	13.6	14.9	14.1
25-29	5.0	6.8	5.7
30-39	1.2	1.5	1.3
40-49	0.4	0.4	0.4
50-59	0.2	0.4	0.3
60-69	0.2	0.2	0.2
70+	0.2	0.0	0.2
Total	**3.9**	**5.1**	**4.4**

Source: Labor Force Survey, 1994.

Together these two age groups account for almost 70% of total unemployment, while accounting for only a fifth of total employment. Unemployment in those aged 30 years or more is very low in Indonesia. Unemployment rates also vary by gender, higher for females (5.1%), lower for males (3.9%).

3.18   Unemployment rates are highest among those with a general senior high school education and those with a university education (Table 3.7). Those with only primary school education or less generally come from poorer families; they cannot afford to be without some kind of work. This group makes up 73% of the employed but only 27% of the unemployed. By and large, those with higher education can afford to wait to find better jobs, because they come from richer families (university graduates in Indonesia come primarily from the top income deciles, World Bank 1993d).

Table 3.7   Educated entrants wait for jobs.
(unemployment rate as of % of economically active population)

Schooling Level	Male	Female	Total
No Schooling	0.4	0.4	0.4
Incomplete Primary	0.8	1.1	0.9
Complete Primary	2.0	3.2	2.4
Junior High School (General)	5.5	8.2	6.3
Junior High School (Vocational)	4.5	10.5	6.2
Senior High School (General)	13.6	24.9	16.9
Senior High School (Vocational)	8.9	14.8	11.0
Diploma	7.2	14.9	10.1
University	10.3	24.9	14.8
Total	**3.9**	**5.1**	**4.4** ·

Source: Labor Force Survey, 1994.

3.19   Unemployment is an urban phenomenon, as in other developing countries. The urban unemployment rate was more than triple the rural rate in 1994. Urban areas account for 30% of total employment but almost 60% of unemployment. There also are large regional variations in unemployment rates in Indonesia, from only 1.5% in the Eastern Islands of East Nusa Tenggara and West Nusa

Tenggara to 8.2% in North Sulawesi and 9.2% in the Greater Jakarta area. Variations between provinces are related to a number of factors, including income, education and urbanization.

3.20   One dimension of the unemployment problem is the extent of long-term unemployment. Duration of recorded unemployment typically has been long in Indonesia: 10 months for males and just under one year for females in 1992, longer than in several other Asian countries (Manning, 1996). Moreover, although there has been some tendency for durations of unemployment to fall slightly over time, they have remained high since the late 1970s (Dhanani).

3.21   To summarize, outright formal unemployment in Indonesia is largely frictional in nature and results from the normal operation of markets. It is part of the normal process of workers looking for the right jobs and employers looking for the right workers. There is no evidence in Indonesia of the types of unemployment that require corrective policy action—such as cyclical unemployment—associated with fluctuations in aggregate demand, or structural unemployment associated with economic stagnation, malfunctioning labor markets, or policy failures.

5. Mainly Rural Underemployment, Mainly Urban "Overemployment"

3.22   In Indonesia, as in most developing countries, human resources are underutilized. Many people want to work but cannot find as much work as they would like. In poor rural areas this takes the form of seasonal and chronic underemployment. However, in urban areas many people have to work long hours for their incomes. Over the course of development, underemployment declines and gives way to more formal employment and higher open unemployment. This transition is partly due to rising incomes and urbanization. As countries grow and household incomes rise, people increasingly can afford to wait for a

desirable job. Also, more modern economies organize work in ways that do not lend themselves as easily to work sharing or adjustment of hours, as agricultural arrangements do.

3.23 Underutilization of labor is common in Indonesia, though most of it is voluntary. Defining underemployment as working less than 35 hours per week, and severe underemployment as working less than 25 hours a week, 38% of workers were underemployed, and 21% were severely underemployed in 1994 (Table 3.8). Of these, however, only 12% were looking for additional work. Underemployment and severe underemployment are twice as severe in rural areas as in urban areas. About 45% of rural workers are underemployed compared with 21% of urban workers, and about 25% of rural workers are severely underemployed compared with 10% of urban workers.

3.24 Although there still is significant underutilization of resources, especially in rural areas, many Indonesian workers, especially those in urban areas, work long hours (Table 3.8). According to the Indonesian labor law, the normal work week consists of no more than forty hours with no more than seven hours in each day. However, only a quarter of all Indonesian workers work some kind of "normal" working week of between 35-44 hours. Nearly 40% work either more or less than this and 6% work more than 60 hours per week. Long hours mainly are an urban phenomenon: over half of urban workers work more than 45 hours per week, compared with only 30% of rural workers. With the rapid urbanization of the economy long working hours may become more common. The group working between 45-59 hours per week was the fastest growing of all groups of workers in 1986-94 (Table 3.8).

Table 3.8 Rural Underemployment, Urban Overemployment
(percent)

Hours of Work	Annual Employment Growth, 1986-94	Share of Employed, 1994		
		Rural	Urban	Total
1-9	-0.1	3.6	1.4	3.0
10-24	1.0	21.8	8.8	17.9
25-34	2.1	19.3	10.9	16.8
35-44	1.3	24.9	26.6	25.4
45-59	5.3	26.1	41.7	30.8
60+	-1.6	4.3	10.5	6.1

Source: Labor Force Surveys.

3.25 The number of hours worked differs by sector, with the longest working hours in industry and services (Table 3.9). When workers move out of the agriculture sector a large part of their increase in earnings occurs because they work longer hours. Most of the underemployment and severe underemployment is in the agriculture sector, with almost two-thirds of the workers working less than 35 hours per week, and with a third working less than 25 hours per week. The problem of long

working hours is concentrated in the industrial and services sector. Just over half of all industrial workers, and 45% of service workers, work more than 45 hours per week or more. Workers in the service sector work particularly long hours: 12% of them report working 60 hours or more per week.

Table 3.9 When you leave agriculture, you work longer hours.

Hours of Work	Percentage of Employed, 1994		
	Agriculture	Industry	Services
Under 10	5.4	1.4	2.0
10-24	26.2	8.9	8.8
25-34	31.9	13.3	17.8
35-44	22.0	25.9	26.3
45-59	13.5	46.8	33.1
60+	1.1	3.7	12.1
Total	**100.0**	**100.0**	**100.0**

Source: Labor Force Survey, 1994.

3.26   Surveys of workers in the industrial sector indicate that for many of them long working hours are a problem and they complain of forced overtime work. They suggest that the long working hours are not really voluntary—working a 10-12 hour shift daily is part of the job. Female workers, especially, find the long hours a problem, given their other household responsibilities. Surveys also indicate that, in violation of labor regulations, workers are often not paid at overtime rates for the overtime hours that they put in.

6. Wages and Earnings Growth

3.27   Rapid and sustained economic growth since 1970 has led to big gains in wages and incomes for Indonesian workers (Table 3.10). Since the mid-1970s, real agricultural wages grew at about 3.7% per year. Real manufacturing wages grew even faster, at about 5.5% per year, surpassing the rate of growth of real per capita GDP.

3.28   Indonesian wage earners also improved their position in relation to workers in most other countries in terms of wage growth during the last two decades (Table 3.10). Wages of agricultural workers rose faster than those of Indonesian agricultural workers in only three countries—Egypt, Korea, and Malaysia. In the manufacturing sector only Korea surpasses Indonesia's rate of growth of wages. In countries in other parts of the world—South Asia, Latin America or Africa—either growth has not been as rapid as in Indonesia, or workers have not shared in the growth as they have done in Indonesia.

Table 3.10 Indonesia's growth translated into higher wages.
(annual growth, percent)

	Period	Real GDP per Capita	Real Agricultural Wages	Period	Real GDP per Capita	Real Manufacturing Wages
Indonesia	**1976-88**	**4.0**	**3.7**	**1970-91**	**4.2**	**5.5**
Bangladesh	1960-91	0.8	-0.7	1967-89	0.7	-1.1
Colombia	1960-88	2.3	2.2	1968-92	2.5	0.4
Egypt	1970-88	4.5	5.2	1970-87	4.6	0.9
Ghana	1969-88	-1.2	-4.0	1964-87	-1.3	-3.6
India	1960-90	1.9	1.8	1963-90	1.9	1.7
Kenya	1964-92	2.1	-0.9	1963-91	2.1	-1.0
Korea	1960-78	6.9	7.1	1966-91	7.4	9.1
Malawi	1968-89	1.0	-3.7	1968-86	1.2	0.2
Malaysia	1971-92	4.4	4.0	1968-92	4.1	2.2
Mexico	1962-85	2.9	1.3	1970-91	1.6	-1.2
Pakistan	1970-92	2.3	2.9	1963-88	3.0	4.9
Peru	1960-86	1.0	-2.0	1963-86	0.7	-1.0
Philippines	1960-77	2.4	-1.1	1963-91	1.2	0.9
Sri Lanka	1980-90	2.8	-1.1	1966-90	2.9	1.0

Source: World Bank 1995b.

3.29 Average real earnings—the product of wages and hours worked—of Indonesian workers grew even faster than wages, as workers have moved to better paying jobs, and have found steady employment for longer hours (Table 3.11). Real earnings of workers grew by an average rate of nearly 6% a year in 1989-94, and the earnings increases for female workers exceeded those for male workers.

Table 3.11 Real Gains in Monthly Earnings of Wage Employees

	1989	1994	Annual Rate of Growth, 1989-94, percent
Nominal Monthly Earnings (Rp)			
Male	89,361	176,834	14.6
Female	50,933	113,497	17.4
Total	77,164	157,343	15.3
CPI Index, 1989=100	100	153	8.9
Real Earnings Index, 1989=100			
Male	100	129	5.2
Female	100	145	7.8
Total	100	133	5.9

Source: Labor Force Surveys.

3.30 Income growth in labor-intensive manufacturing has been particularly rapid for female workers. Most women in industry are poorly educated (primary school or less) unskilled or semi-skilled workers. Their main alternative is farm employment. By moving to industry, they earn higher wages and they gain access to steady, full-time employment, and longer working hours (Table 3.12). Consequently, women earn twice as much in labor-intensive manufacturing as in farming. The small differential between hourly wages for agriculture and manufacturing for women with similar qualifications indicates underemployment in agriculture persists.

Table 3.12 Hours worked, not wages, rise when workers leave agriculture. [a]

Year	Average Hours per Week		Average Weekly Earnings (Rp)		Average Hourly Wage (Rp)	
	Agriculture	Labor-Inten. Manufac.	Agriculture	Labor-Inten. Manufac.	Agriculture	Labor-Inten. Manufac.
1989	29	44	5,685	9,607	199	218
1990	27	44	6,123	10,237	228	232
1991	29	41	8,373	13,251	285	320
1992	25	44	8,704	15,268	344	346
1993	29	44	9,711	17,284	352	411
1994	28	44	11,284	22,283	421	507

Source: Labor Force Surveys.

[a] Earnings and hours in the main job only for female primary school graduates in Java. Labor-intensive manufacturing refers to the following industries: textiles, garments, leather products and footwear.

C. Education Improvements and Earnings

3.31   The increasing educational attainment of the labor force is one of the most dramatic changes in Indonesia in recent decades. 70% of the workforce had no or incomplete primary education as recently as 1971 but as a result of the massive investment in basic education enrollment rates at all levels of education increased (Figure 3.4) and the proportion of the workforce with less than a primary school education fell to one-third by 1994.

Figure 3.4 Rising Educational Levels of Indonesian Workers, 1976-94
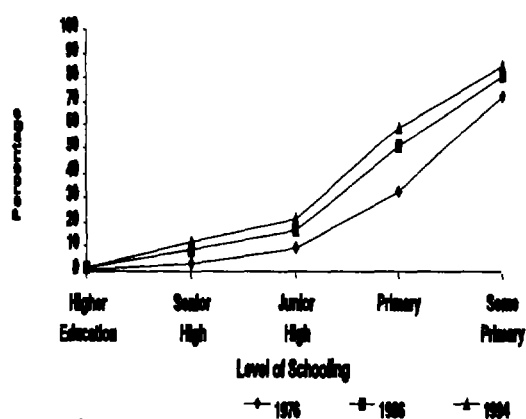
Source: Labor Force Surveys.

3.32   People will further their education if it is likely to pay-off. The labor market has encouraged workers to invest in education by rewarding these investments handsomely. The higher levels of education have contributed to the increase in productivity of Indonesian workers, and to a rise in their earnings. Average earnings of wage employees are higher with each level of schooling, with the earnings of university graduates being five times as high, on average, as those of workers with no schooling (Table 3.13).

3.33   The difference between earnings of workers with complete and incomplete primary education (Table 3.13) is the smallest. As noted in Chapter 4, this may reflect problems with the quality of educational services. Indonesia still is a rural society—70% of the 1990 population lived in rural areas—and youths in some rural areas make an important economic contribution in poor households. High opportunity costs for staying in school, combined with low wage differentials, make for low primary school completion rates in Indonesia's poorest regions. Chapter 4 discusses ways of reducing the opportunity cost of finishing primary school in the context of a pro-poor development strategy.

Table 3.13 Schooling Pays

Schooling Level	Index of Average Earnings (No Schooling = 100)	Female/Male Earnings (%)
No Schooling	100	50
Incomplete Primary	129	55
Complete Primary	156	53
Junior High School (General)	204	60
Junior High School (Vocational)	236	70
Senior High School (General)	282	75
Senior High School (Vocational)	290	79
Diploma I/II	384	86
Diploma III	507	75
University	546	66
Average	**217**	**64**

Source: Labor Force Survey, 1994.

3.34 There are gender differences in the rewards to education. At each level of education, women workers are paid less than male workers, with the result that the average female earnings are only two-thirds of average male earnings (Table 3.13). This gender gap in earnings follows a U-shape as the level of education rises, ranging from a high of 50% for women with no education to a low of 14% for women with a Diploma (I or II), then widening to 34% for women with a University education.

3.35 Although the level of schooling increased for both male and female employees between 1986 and 1993 (Table 3.14)[2], schooling levels grew considerably faster for females. As a result gender differences in schooling that were prevalent in 1986 have narrowed significantly. The gender gap in education status declined at all levels of education between 1986 and 1993 (Table 3.14). The male-female wage gap also has narrowed from 85% in 1986 to 40% in 1993.

Table 3.14 Men are better educated and paid, but women are catching up.

Variables	1986		1993	
	Males	*Females*	*Males*	*Females*
Percent of Individuals having:				
No schooling	6.1	18.2	3.9	8.8
Incomplete Primary	17.8	22.3	11.9	14.1
Complete Primary	29.8	22.2	28.5	25.8
General Junior High	11.6	5.6	13.5	8.9
Vocational Junior High	2.8	1.3	2.1	0.9
General Senior High	12.2	7.7	17.3	14.2
Vocational Senior High	13.7	18.1	14.2	19.1
Diploma 1,2	1.0	1.3	1.3	1.9
Diploma 3	2.6	2.2	2.9	2.8
University	2.4	1.1	4.6	3.6
Average Hourly Wage Rate (Rp)	741	400	996	711
Average Age (Years)	33.8	31.0	34.6	30.8

Source: Behrman and Deolalikar (1995) for 1986 and staff estimates for 1993.

3.36 An additional year of schooling led, on average, to an increase in earnings in the range of 2.8-9.7% in 1986 (Table 3.15).[3] The percentage increases in earnings per additional year of schooling were significantly smaller for subprimary and primary schooling than for the higher schooling categories. Also, there were no significant differences between the estimated impacts of vocational and general schooling.

At subprimary and primary levels of education, the returns to an additional year of schooling were about the same for both men and women. However, at post-primary levels, the marginal increases in earnings with schooling were greater in percentage terms for females than for males. These patterns also were found in 1993.

Table 3.15 Impact of Additional Schooling on Earnings, by Gender, 1986 and 1993

Level of Schooling	Impact of Additional School Year on Earnings in 1986 (percent)		Impact of Additional School Year on Earnings in 1993 (percent)	
	Males	*Females*	*Males*	*Females*
Incomplete Primary	2.8	2.8	3.9	2.8
Complete Primary	3.6	3.6	3.7	3.9
General Junior High	4.1	6.3	4.9	7.1
Vocational Junior High	4.6	5.7	4.9	9.4
General Senior High	4.7	9.1	4.3	10.1
Vocational Senior High	4.7	9.3	5.2	11.7
Diploma 1,2	4.7	8.9	5.8	9.7
Diploma 3	6.1	8.9	6.3	10.7
University	6.9	9.7	6.5	10.80

Source: Behrman and Deolalikar (1995) for 1986 and staff estimates for 1993.

D. Minimum Wage Policy

3.37   There are two approaches that governments can adopt to improve economic efficiency and social equity through labor market interventions. One is allow workers, or their freely elected representatives (unions or other organizations), to bargain with employers. The second is to intervene through direct government legislation that sets wages and working conditions. Most countries adopt a mixture of the two. For example, in addition to legislation establishing workers' basic rights (freedom of association and organization), many countries also have legislation to achieve particular social goals. The most common interventions include minimum wages, bans on child labor, and protection of women and minorities.

3.38   Prior to the mid-1980s, the Government largely left wage determination to the labor market. Wages for urban industrial workers were typically not much higher than for agricultural workers with similar qualifications. Although there was legislation governing minimum wages for formal sector workers, minimum wages were not binding. Although

there was a generous umbrella of legislation governing working conditions—hours of work, rest period, overtime, annual leave with pay, minimum age of employment, and maternity and menstrual leave for women—these regulations were seldom enforced.[4] Prior to the mid-1980s most of these labor market regulations were irrelevant to the large majority of Indonesians who worked in the rural and informal sectors.

1. Minimum wages are rising fast ...

3.39   In 1989, the Government introduced new legislation on minimum wages. The minimum wage refers to the lowest basic wage plus permanent allowances, where the basic wage must be at least 75% of the minimum wage. Minimum wages are to be fixed based on considerations of "minimum physical need" (KFM), the cost of living, and labor market conditions. The minimum wage is set separately by region, and sometimes, by sector. The 1989 regulation states that minimum wages must be reviewed at least every two years. A 1990 Decree requires that minimum wages be adjusted once a year in line with CPI changes.

3.40 Minimum wages on average tripled in nominal terms and doubled in real terms between 1989-95 (Figure 3.5). Underlying the national averages are large variations in minimum wage increases by province. Looking at the nine provinces in which manufacturing accounts for more than 10% of employment there was a wide range of minimum wage increases in real terms in 1990-95 (Table 3.16). Central Java and West Java, which is the second most industrialized province in Indonesia, experienced a tripling of real minimum wages. In Greater Jakarta, the most industrialized region in Indonesia, minimum wages increased by a smaller 55%.

Figure 3.5 Minimum Wages in Real Terms
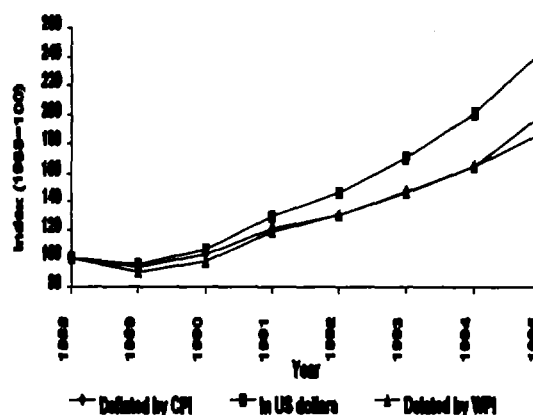
Table 3.16 Minimum Wages Increased in the 1990s

Province	Minimum Wage in 1990 (Rp per day)	Minimum Wage in 1995 (Rp per day)	Increase in Nominal Minimum Wage, 1990-95 (percent)	Increase in Real Minimum Wage, 1990-95 (percent)
Lampung	1750	3500	100	47
Jakarta	2100	4600	119	55
West Java	1200	4600	283	231
Central Java	780	3000	285	234
Yogyakarta	900	2850	217	160
East Java	1409	3700	163	105
South Kalimantan	1000	3500	204	159
Bali	1800	3900	117	65
East Nusa Tenggara	1600	2900	81	36

Source: Annex Table A1.

3.41 Productivity growth in Indonesia has been rapid enough to keep pace with the large increases in minimum wages, at least until 1993 (Figure 3.6). Between 1993 and 1994, minimum wages grew about 10% faster than overall productivity. In the large manufacturing sector, for which data is available only until 1992, productivity growth was so rapid that it has outpaced the rise in minimum wages. It is in this sector that minimum wages are most likely to be enforced, and therefore potentially are most damaging. Thus, at least until 1993 overall manufacturing productivity kept pace with minimum wages and the recent increases in minimum wages had little adverse impact on employment growth.

Figure 3.6 Ratio of Minimum Wage to Labor Productivity
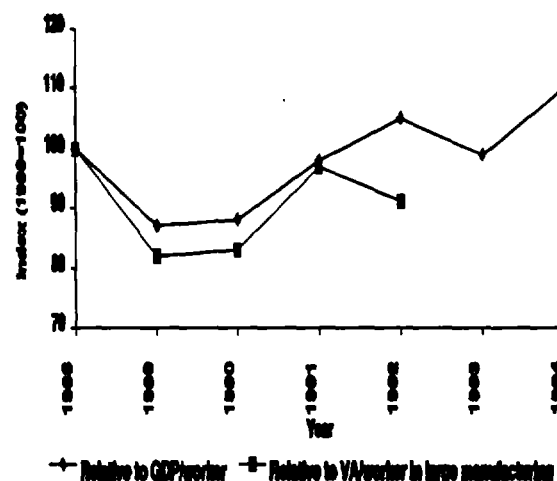
2. ... and beginning to bind.

3.42   More recent increases in the share of workers earning less than the minimum wage indicates that the minimum wage is becoming more binding. The percentage of manufacturing employees earning less than the

minimum wage increased from about a quarter in 1992 to a third in 1994 (Table 3.17). There was a large increase in the percentage of manufacturing workers earning less than the minimum wage between 1992 and 1994 in every region except East Java.

Table 3.17 Minimum wages are beginning to bind.
(percentage of manufacturing workers earning less than the minimum wage)

Region	Male		Female		Total	
	1992	*1994*	*1992*	*1994*	*1992*	*1994*
Jakarta	3.9	8.0	12.6	23.3	7.0	13.1
West Java	9.7	25.4	22.2	45.6	14.4	32.5
Central Java	13.4	31.4	48.1	64.2	27.6	45.9
East Java	24.1	23.9	56.8	58.9	38.6	38.8
Sumatra	12.6	22.6	12.6	57.9	23.1	33.0
Kalimantan	3.0	5.3	23.8	45.1	8.8	12.7
Sulawesi	11.9	17.4	11.9	70.0	25.8	34.2
Bali	23.6	36.0	23.6	72.0	39.3	57.6
Eastern Islands	17.3	31.4	17.3	73.5	27.7	45.0
All Regions	13.2	23.4	39.0	53.8	23.3	35.0

Source: Labor Force Surveys.

3.43   Looking at the increase in the proportion of workers earning less than the minimum wage, it appears that minimum wages are binding for female workers in most provinces, and for male workers in some. The percentage of manufacturing workers earning less than the minimum wage is particularly high for females.   In six out of the nine regions, over half of the female workers in the manufacturing sector reported earning less than the minimum wage in 1994, and in four regions (Central Java, Bali, Sulawesi, and the Eastern Islands) over two-thirds of female industrial workers earned sub-minimum wages. This is true despite a rapid increase in real wages for female workers between 1989 and 1994, as discussed earlier.

3.44   The increase in the minimum wage in relation to the average wage also suggests that the minimum wage is becoming more binding. Minimum wages have gone up from 48% of

average wages in 1990 to 60% by 1994 (Figure 3.7).   While this proportion has gone up for both men and women, it suggests that the minimum wage is more binding for women.   In 1994, the minimum wage as a proportion of average wages was a staggering 83% for women compared with 53% for men.

Figure 3.7 Ratio of Minimum Wages to Average Earnings, by Gender
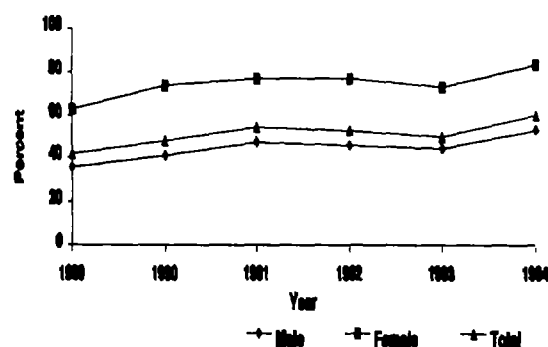
Source: Labor Force Surveys.

3.45 Provincial variation in the ratio of minimum to average earnings in manufacturing is large (Table 3.18). The ratio ranged from 0.3 in South Kalimantan to 0.8 in Central Java, Bali and East Nusa Tenggara. In 1991, it went up in all but two provinces (Table 3.18); in Greater Jakarta it remained constant, and it came down slightly (from 0.8 to 0.7) in East Nusa Tenggara. Minimum wages were equal to at least half of average manufacturing earnings in all the provinces by 1994, and in Bali the minimum wage actually exceeded average manufacturing earnings by 10%.

3.46 The relation between minimum and average wages at the provincial level differs by gender (Table 3.18). It is further evidence that the minimum wage is binding in most of the industrialized provinces, especially for women. The minimum wage by 1994, for females, was equal to at least 70% of average manufacturing earnings in Jakarta, and in six of the nine provinces it actually exceeded average female earnings. In contrast, for males the minimum wage did not exceed average male earnings in any province, though in Lampung it came close (90%).

Table 3.18 Minimum wages are approaching average earnings.
(ratio of minimum wage to average earnings in manufacturing)

Province	Male		Female		Total	
	1991	*1994*	*1991*	*1994*	*1991*	*1994*
Lampung	0.6	0.9	0.8	1.0	0.7	0.9
Jakarta	0.5	0.4	0.6	0.7	0.5	0.5
West Java	0.5	0.7	0.8	1.0	0.6	0.8
Central Java	0.6	0.7	1.1	1.2	0.8	0.9
Yogyakarta	0.4	0.5	0.7	0.8	0.5	0.6
East Java	0.4	0.6	0.8	1.1	0.5	0.7
South Kalimantan	0.3	0.4	0.6	0.8	0.3	0.5
Bali	0.6	0.8	1.1	1.5	0.8	1.1
East Nusa Tenggara	0.8	0.6	1.3	1.8	0.8	0.7

Source: Annex Table A2.

3. Impact of Minimum Wages on Average Wages and Employment

3.47 These data suggest that compliance with minimum wage regulations is an issue, one that is typical in developing countries. Compliance with minimum wage regulations in any developing country is likely to be low because enforcement is expensive. Compliance in Indonesia largely is limited to sectors that are dominated by more visible investors, such as foreign investors, multinationals (who often follow their own labor standards) or large domestic conglomerates, for whom the risks associated with non-compliance are higher. Most of such investors are in the export-oriented, labor-intensive sectors such as textile,

garments and footwear, and mostly in Greater Jakarta and West Java. Hence, the impact of minimum wage regulations is likely to be most binding in these sectors and regions. In sectors that are dominated by smaller, less visible firms, compliance is lower. Independent unions, which in other countries help enforce compliance with minimum wages, do not exist.

3.48 The recent sharp increases in minimum wages during the 1990s are estimated to have increased labor costs in Indonesia and reduced wage employment and investment.[5] The 100% increase in minimum wages are estimated to have pushed up average wages by about 10% (Table 3.19).

3.49   A doubling of minimum wages also is estimated to lead to a 2-3% decrease in total wage employment. Since minimum wages are more binding for young workers, an increase in this ratio has a much more adverse impact on their employment: the wage employment of workers aged 15 to 24 years goes down by twice as much (7%) as the average. Similarly, since minimum wages are more binding for

women, there is likely to be a stronger impact on female employment than male employment. These results indicate that urban wage employment, especially of women and of young workers, is likely to have suffered as a consequence of rapid minimum wage growth. Moreover, the loss in employment is likely to become greater, the closer the minimum wage approaches the average.

Table 3.19 Higher minimum wages raise average wages but reduce employment and investment.

Policy	*Impact on*	*Short-run Impact*
A 100% increase in the minimum wage	(1) Average wages	About 10% increase
	(2) Average employment of urban wage employees	About 2-3% decrease
	(3) Average employment of young (15-25 year old) urban wage employees	About 7% decrease
	(4) Total investment	About 5-7% of GDP decrease

Source: Rama (1996).

3.50   Part of the slowdown in manufacturing employment growth during the early 1990s from the late 1980s, can be attributed to the Governments minimum wage policies. Table 3.19 indicates that a doubling of minimum wages has a strong negative impact on investment: total investment is estimated to decline by about 5-7% of GDP. This decline in investment will lead to further decreases in employment.

3.51   While some workers in companies where the minimum wage is more likely to be enforced, such as large companies in the Greater Jakarta area and public sector companies, will have experienced a gain in their earnings due to the minimum wage policy, this is likely to have been at the expense of other workers, particularly women and young workers, who will have experienced a decline in their employment opportunities in the formal sector.   A slowdown of employment creation also is likely to lead to a slowdown in poverty alleviation since moving

to a more productive and better paying job has been an important means of escaping from poverty in the past.

4. Minimum Wages: Not a Tool for Reducing Poverty

3.52   The minimum wage is not an appropriate instrument for poverty alleviation. It only covers wage employees, and of those, only formal sector employees. The poor in Indonesia are, by and large, not wage earners but the self-employed and rural people. Over 48% of the reduction in the number of people living below the poverty line (or the national headcount index) between 1984 and 1987 was due to the drop in poverty among self-employed rural farmers (Huppi and Ravallion). The second most important contribution came from rural agricultural workers, who accounted for another 11% reduction in the headcount index. These two groups within the agricultural sector accounted for almost 60% of the reduction in poverty as measured by the

headcount index. In all, about 21% of the decline in the number of people living below the poverty line between 1984 and 1987 was due to within-sector improvements in the living standards of wage-earning households, with over half of this impact resulting from the gains to rural, agricultural households. Another 13% of the decline in the number of poor was due to population shifts among various employment sectors. These shifts occurred largely from rural to urban areas, which initially had lower poverty measures.

3.53 Poverty in Indonesia in 1993 remains a predominantly rural, agricultural phenomenon (Mason and Baptist, 1996). 87% of the poor live in rural areas, and 70% of the poor are farmers in rural areas (Table 3.20). Among the 13% of the poor that live in urban areas, less than half are wage earners, and only about a third are wage earners in the formal sector. In other words, urban formal sector wage employees, which is the group most likely to be affected by minimum wage regulations, make up less than 5% of the remaining poor in 1993.

Table 3.20 Poverty in Indonesia, 1993

Primary Income Source	Employment Status	Incidence of Poverty Head Count Index		Contribution to Poverty (percentage)	
		Urban	*Rural*	*Urban*	*Rural*
Agriculture	Wage earner	20.2	25.3	1.8	13.6
	Self-employed	13.8	20.7	2.0	56.5
Mining	Wage earner	1.7	12.6	0.1	0.3
Manufacturing	Wage earner	4.0	10.3	1.1	2.1
	Self-employed	3.8	16.9	0.2	2.6
Construction	Wage earner	6.6	12.4	1.2	2.4
	Self-employed	7.5	7.5	0.2	0.2
Trade	Wage earner	1.9	8.1	0.2	0.4
	Self-employed	5.5	7.8	2.8	4.2
Transportation	Wage earner	3.6	9.7	0.5	0.8
	Self-employed	8.4	8.1	1.0	1.0
Finance	Wage earner	0.4	4.3	0.0	0.1
Services	Wage earner	2.0	4.2	1.2	1.8
	Self-employed	5.5	8.0	0.6	0.7

Source: Mason and Baptist (1996).

3.54 Labor markets began to play a much more important role in poverty alleviation during the 1990s compared with the 1980s (Mason and Baptist 1996). 31% of the decline in the number of people living below the poverty line between 1990 and 1993 was due to within-sector improvements in the living standards of wage earning households. This is significantly higher than the 21% figure for 1984-87. However, the contribution of population shifts among sectors of employment, usually from self-employment in rural areas to wage employment in urban ones, to poverty

alleviation remained about the same in the two periods, at about 12-13%. Directly and indirectly, labor markets contributed to about 40% of the decline in poverty in the 1990s compared with one-third in the mid-1980s.

3.55 Since most of the poor are self-employed, the direct role of labor markets in the welfare of the poor continues to be small. However, the indirect effects are important and growing. Over time, the shift of population out of self-employment in rural areas and into urban wage employment has played an

important role in poverty alleviation in Indonesia. Labor market policies, such as the minimum wage policy, that slow down the rate of creation of wage employment, especially wage employment in the highly productive formal sector, are therefore likely to have an adverse impact on poverty alleviation in Indonesia.

3.56 Formal sector workers are not poor in Indonesia. Manufacturing workers, on average, earn more than five times the official urban poverty line (Table 3.21). In some

provinces, such as Lampung, Jakarta, and East Java, the workers earn up to 6-7 times the poverty line. While workers earn less than this multiple in others, in no province do they earn less than at least three times the urban poverty line. There is, as usual, some gender variation in earnings in manufacturing. Males in manufacturing earn an average of six times the poverty line, and the ratio ranges from 4-7 times the poverty line across provinces. Female earnings in manufacturing average four times the poverty line, and across provinces range from 1.5-6 times.

Table 3.21 Urban manufacturing workers are not "poor."
(Average earnings of urban workers in manufacturing in relation to official urban poverty line, 1993)

Province	Male	Female	Total
Lampung	7.1	5.2	6.7
Jakarta	6.2	4.2	5.6
West Java	5.3	3.5	4.6
Central Java	4.4	2.3	3.5
Yogyakarta	4.1	2.1	3.2
East Java	5.7	5.9	5.8
South Kalimantan	5.2	3.7	4.7
Bali	4.0	2.5	3.0
East Nusa Tenggara	4.9	1.5	3.5
All Indonesia	6.2	4.0	5.3

Source: Annex Table A3.

5. Minimum Wage Increases May Not Improve Industrial Relations

3.57 Increasing labor unrest in Indonesia in the 1990s is a cause for concern. The number of strikes per year went from 19 to 296 (Table 3.22). The number of strikers went from just over a thousand to over a 140 thousand or from 0.4 to 3.3 strikers per 1,000 non-agricultural workers. The economic loss from these strikes, measured by the number of working days lost, went from about twenty-nine thousand hours in 1989 to almost a million and a half hours in 1994.

3.58 Many of these strikes occurred in export-oriented zones close to Jakarta,

especially Tangerang and Bekasi, where foreign capital plays a major role. Summaries of the 47 major strikes reported in the major national newspapers in 1991 indicate the following pattern: just over half of all strikes occurred in the labor-intensive textiles, garments, and footwear sectors; almost all of these took place in Jakarta and the surrounding areas (Jabotabek); close to half the strikes occurred in establishments with 500 workers or more; and finally, a few of the strikes involved thousands of workers and extended over several days (Manning 1993). In 1994, 95% of all strikes took place in three provinces: Jakarta (19%), West Java, mostly in the areas surrounding Jakarta (39%), and East Java (37%), predominantly in Surabaya.

3.59 Wages and working conditions have been the main issue in recent unrest. The strikes appear to have been primarily associated with non-compliance with minimum wage increases—one-third of all strikes in 1994—and complaints about unsatisfactory working conditions (Manning 1996).

Table 3.22 Strikes are increasing.

Year	Strikes	Strikers	Work-Hours Lost	Strikers per 1,000 Non-Agricultural Workers	% of all Strikes in Manufacturing
1989	19	1,168	29,257	0.4	68
1990	61	27,839	229,959	0.8	89
1991	130	64,474	534,610	1.8	96
1992	251	143,005	1,019,654	5.2	na
1993	185	103,490	966,931	2.6	90
1994	296	147,662	1,421,032	3.3	94

Source: Human Resources Profile of Indonesia, 1995 and data provided by Ministry of Manpower.

6. Summary and Conclusion on Minimum Wages

3.60 Minimum wages are beginning to bind and to have a negative effect on the creation of wage employment, especially of women and young workers. Caution must be exercised in raising them further for fear of eroding competitiveness, lowering employment growth and, paradoxically, of increasing poverty and labor unrest. There is little evidence that minimum wages are an effective tool for reducing poverty, which is largely a rural and informal sector phenomenon in Indonesia. Compliance with mandated, minimum wages is limited to the formal, industrial sector. Even there, workers may not experience an increase in their welfare if employers respond to increases in minimum wages by reducing other forms of non-wage compensation that are not covered by minimum wage law, such as holidays, vacation, sick-leave pay, health insurance, and retirement benefits.

3.61 The higher minimum wages mandated by law are raising workers' expectations and, in the absence of adequate enforcement, are leading to non-compliance and increased worker unrest. Given that the costs of the minimum wage policy are clearly visible but the benefits are not, reliance on minimum wages as a tool to improve workers' welfare and to reduce poverty should be reduced.

3.62 The Government raised minimum wages in April 1996 by 10.6%. As noted in Chapter 1, the Ministry of Manpower also mandated that regular workers must be paid for a 30-day month, an increase over the previous 25 or 26 days (depending on the number of Sundays in the month, for which workers were not paid). Thus, effectively minimum wages increased by 30%. Future minimum wage increases need to take into account local labor market conditions and to be based increasingly on local indicators of the state of the labor market, such as the local rates of growth of wages and employment, rather than on poverty-based measures.

E. Emerging Issues of Labor Standards

3.63 Indonesia's rapid and broad-based pattern of growth has had a spectacular effect on poverty reduction. Only 25 years ago, at the beginning of the First Twenty Five Year Long Term Development Plan (PJP I, 1969/70-1993/94), Indonesia was one of the poorest

countries in the world (World Bank 1990a). In 1967, Indonesia$ GNP per capita was $50, roughly half that of India, Bangladesh, or Nigeria. Poverty was widespread throughout the country. The earliest estimates of poverty, in 1970, indicated that 60% of the population or about 70 million Indonesians were living in absolute poverty. By 1993, the proportion of poor had declined to 14%, or about 26 million people (Chapter 4).

3.64   The model of development that Indonesia has adopted—market-led growth combined with investments in physical and social infrastructure—has proved to be the most beneficial one for workers in developing countries, and also the one that has been most successful in alleviating poverty. Beginning in the late 1960s, the Government adopted a development strategy, which has been pursued through successive Five Year Development Plans, with a commitment to broad-based economic growth, particularly rural development. The Government$ development efforts were focused primarily on agriculture (especially rice), education, and transport infrastructure. The emphasis of Government policy was on providing opportunities to workers to find productive employment, and on enhancing the quality of labor through education and training. Beyond that, the determination of the rates at which wages, employment, and incomes would grow, and of labor market conditions, was left largely to market forces.

3.65   Dissatisfaction with this model is being expressed for the first time in the 1990s. Recent labor market policy initiatives have tended to be justified publicly in terms of their impact on workers' welfare, poverty alleviation and income distribution. For example, recent increases in minimum wages have been explained in terms of ensuring low-income workers the ability to afford a minimum basket of goods. Thus, the Government$ stated long-term objective with respect to the minimum wage policy has been to bring the minimum

wage, which typically lagged "minimum physical needs," in line with that indicator in all regions by April 1994, as noted above.

3.66   Aggressive minimum wage increases are not an appropriate policy to deal with problems of worker welfare, poverty alleviation, or income distribution, as discussed in the previous section. Moreover, the large minimum wage increases are provoking increasing non-compliance, which can be anticipated to lead to more industrial relations problems.

3.67   The focus of government policy needs to be on employment creation, with the determination of wages left largely to market forces. In addition, the government needs to intervene in certain areas to improve social outcomes, such as with issues of child labor and women in the workforce. The government can also promote improvements in workers' welfare by providing an environment where workers can negotiate freely with employers for better wages and working conditions.

1. Child Labor

3.68   The term child labor covers a wide range of situations to which ethical, economic and legal responses could be very different (Grootaert and Kanbur 1995). Children could be helping out on the family farm, as they traditionally did in Indonesia, or they could be engaged in onerous industrial work. For the purpose of defining a policy towards child labor, both the nature of the work and the nature of the relationship between the child and the employer must be considered.

3.69   According to the Labor Force Survey of Indonesia, there were about two million child workers between the ages of 10-14 years in 1994. No data are available on the number of working children below the age of 10 years.[6]

3.70   The prevalence of child labor is linked to poverty and to poor quality or availability of education.   As incomes have risen and as

education has spread, the number of children working declined by 26% during 1986-94 (Table 3.23). The number of children working in urban areas doubled but this largely reflects increased urbanization. The participation rates of urban child labor have risen about 25%. Nonetheless, the rapid growth of urban child labor is disturbing, since it is more likely to be associated with onerous forms of child labor. For example, official statistics, indicate a quarter of all urban working children work more than 45 hours a week, and a third of these report working more than 60 hours a week. In contrast, only 9% of rural working children report working more than 45 hours a week, and only 1% work more than 60 hours a week.

Table 3.23 Child labor increasingly is an urban phenomenon.
(thousands of workers)

	1986	1994
Rural	2,583	1,803
Urban	135	276
Total	**2,718**	**2,079**

Source: Labor Force Surveys.

a. The Legal Framework

3.71 Indonesia has enacted legislation to prohibit the employment of children under 15 years of age and to specify the conditions under which minors may work when they are legally permitted to do so, like most other countries. Indonesian Labor Act Number 1 of 1951 specifies that children 14 years of age or less are not permitted to work. This Act is roughly in line with the ILO Minimum Age Convention, 1973 (No. 138) which sets the minimum age for admission to employment or work at "the age of completion of compulsory schooling and, in any case, ...not less than 15 years" (ILO 1994). However, the administrative capacity to enforce this law is lacking and children work to supplement low family incomes. The Department of Manpower issued new regulations on child labor in 1987 acknowledging a class of children under the age of 14 who, for socio-economic reasons, must work. It seeks to protect these children by legalizing their employment and by setting minimum working standards for them.

b. Measures to Reduce Child Labor

3.72 Child labor is a consequence of poverty. But is also is a cause of poverty, and therefore requires some action. Some forms of child labor affect childrens' health and prevent them from attending school. When this occurs, the children's capacity to earn a decent living in the future is compromised, making them prime candidates for a lifetime of poverty.

3.73 National legislation and conventions banning child labor can only deliver results when accompanied by measures to shift incentives away from child labor and toward education. The most important role for governments is to provide a safety net to protect the poor, expand opportunities for quality education, and gradually increase institutional capacity to enforce legislated bans. Programs that provide income security for poor households, such as food-for-work or other public works programs, can reduce child labor. Measures to reduce the cost of school attendance (subsidies, construction of schools closer to childrenŝ homes) and to improve the quality of education (changes in curricula, more and better teachers) could also. As poverty falls and education improves, child labor will decline. That in turn will make enforcement of legislated bans easier.

2. The Working Conditions of Women

3.74 Women's working conditions have improved throughout Indonesia. Broad-based growth has been supported by healthier, more educated women. But women continue to have a higher illiteracy rate than men (Chapter 4) which partly explains the earnings gaps in Table 3.14.

3.75 The Indonesian Government has enacted a number of standards to improve the lot of women workers. These standards can be divided into two groups. The first provides women with special rights and protections in the workplace because of their role in bearing and raising children. An example is maternity leave. The second seek to end discrimination in the labor market by establishing equal pay for work of equal value or prohibiting the exclusion of women from certain jobs.

3.76 Indonesia, like nearly all countries in the region, has legislation establishing standard periods of maternity leave and other special benefits for women workers (Agrawal 1995). In addition, there are usually other protective standards, such as limitations on night work, and on working in certain hazardous places, such as mines. Typically, such legislation requires employers to provide these benefits to female workers, effectively increasing the cost of hiring them. So there is a risk that legislation aimed at protecting women will end up depressing their wages or discouraging their employment. However, in many countries of the region, including Indonesia, employers often fail to meet government-legislated standards. Very often, women workers, who are overrepresented in the informal sector, are so eager for jobs in the modern sector that they willingly ignore this failure. A survey of female workers in non-unionized factories in Java found that 47% of those who applied for maternity leave received it, and only 12% were paid for that leave. Many are not even aware that standards exist. There also are many documented cases of women being fired because of marriage, pregnancy or birth.

a. The Legal Framework

3.77 Indonesian labor laws provide a wide range of workplace protection and anti-discrimination measures for women. Indonesia ratified the 1979 United Nations Convention on the Elimination of All Forms of Discrimination Against Women (subsequently shortened to the Convention on Women) through Law No. 7 of 1984. The Convention is an international agreement containing stipulations that the countries which have ratified it have a legal obligation to take steps to eliminate all forms of discrimination against women, including discrimination in education, access to health and family planning services, opportunities to obtain work, legal status in family law, and in participation in political life. Article 11 of the Convention on Women relates to women in the workforce and provides for elimination of discrimination in the field of work including equality in wages, opportunity, choice of career and work, health protection and work safety, prohibition of dismissal due to marriage or pregnancy, provision of day care centers, etc.

3.78 While most elements of Article 11 of the Convention on Women are in line with Indonesian labor laws, some important aspects are not in line with the State Ideology and Marital Law of Indonesia. For example, Articles 31 and 34 of the Marital Law describe the division of roles between the sexes and state that "a man is obliged to give a livelihood to his wife and a wife is obliged to take care of her husband's household to the best of her ability" (Katjasungkana 1995). Thus, it is assumed that the man is the main breadwinner of the family, which is not the reality in all parts of the labor market today. This ideology leads to a difference in the way that men and women are treated in the labor market and is one reason for the discrepancy between their earnings. There are certain family allowances

that married workers are entitled to. However, with regard to these allowances, women workers are always treated as having a single status, because it is assumed that their wages are complementary to those of their husbands. Moreover, it is feared that a family may receive double family allowances if the wife is not given a single status. Thus, family allowances and medical allowances are not received by women labor, so that for the same work, the financial remuneration given to women workers is lower than that received by men (Ihromi 1995). This practice clearly violates the provision of Indonesian labor law.

3.79   There is ample evidence in Indonesia of a wide gulf between the provisions of the law and its implementation—resulting in widespread discrimination against women in the labor force. Standards designed to protect women from job discrimination are often difficult to enforce in any country, but in Indonesia this problem is compounded by the lack of effective labor unions to represent workers.

b. Improving the Status of Working Women

3.80   Women gain more from better access to modern sector jobs than from special standards to protect those who already have good employment. Evidence from many countries indicates that despite the frequent failure of employers to provide female workers with centrally-mandated benefits, women workers are usually better off with jobs in the modern sector—their wages, although low by formal sector standards, are more than double what

they could earn in the informal sector or in rural areas. Perhaps more important, having a stable source of income can change their status within the household and provide them with greater say in the allocation of household expenditures. In many countries there is a difference in secondary education attainment between formal and informal sector workers. This implies that improving women's access to secondary education is likely to improve their probability of getting a job in the modern sector and, therefore, is more likely to improve their lives than high centrally-mandated benefits.

3.81   There also are direct measures that could improve womens' access to more and better modern sector jobs. One example could be through merit-based hiring and promotion of more women in the public sector, since the public sector is an important source of employment for educated persons. Indonesia had almost 4 million civil servants in 1992, of which 35% were women (Table 3.24). On average, female civil servants have higher educational qualifications than their male counterparts—more than 90% of female civil servants had at least completed secondary school as compared with only 74% of males. Yet, as Table 3.24 indicates, women are under-represented in the higher ranks of the civil service. An affirmative action program aimed at ensuring equality in the promotion of equally-qualified men and women in the civil service would improve the position of women in the civil service and—by setting an example for the private sector—perhaps more broadly.

Table 3.24 Women are under-represented in the civil service.

Civil Service Rank	No. of Females	Total No. of Civil Servants	Females/ Total in Rank (percent)	Percentage of Female Civil Servants in Rank
I (Juru)	66,989	519,372	12.9	4.9
II (Pengatur)	1,024,269	2,578,322	39.7	74.9
III (Penata)	271,245	826,686	32.8	19.8
IV (Pembina)	5,091	40,220	12.7	0.4
Non PGPS/Non State Salary Scale	224	1,178	19.0	0.0
Total	**1,367,818**	**3,965,778**	**34.5**	**100.0**

Source: Statistik Indonesia, 1994.

3. The Right to Organize

3.82   Since the mid-1980s, there has been rapid urbanization, industrialization, and formalization of the workforce. Education of younger workers has increased, reaching secondary school levels. Employment opportunities have grown rapidly and there are signs of tightening labor markets in certain pockets of the country, such as in the areas surrounding Jakarta, West Java, and North Sumatra. With this tightening has come increased opportunity for workers to demand and negotiate over better wages and working conditions. For example, an increasing number of strikes in 1995 were for higher wages rather than for the enforcement of existing minimum wages.

3.83   There are growing demands from workers for free and effective trade unions that could act as their agents and could help them to negotiate for higher wages and better working conditions. In the areas of the country where labor markets are slack and workers have less bargaining power than employers, effective labor unions could play an important role in preventing labor abuses by helping to enforce existing labor regulations governing wages and working conditions. Where labor markets are beginning to tighten, unions could provide an important channel for collective bargaining and negotiations between employees and employers.

3.84   How have other East Asian economies handled this issue of the appropriate role of unions? This is one of the most controversial issues in the lessons from East Asia's success (World Bank 1996). Based on East Asia's example, many observers ask why developing countries need to concern themselves with trade unions, collective bargaining, and labor relations legislation. South Korea and Taiwan, China achieved almost unbelievable rates of economic growth by letting entrepreneurs manage their workforces as they saw fit. They obviously paid wages that were sufficient to acquire and retain the workers they needed. Would unions have raised wages above true market levels, reduced profits, and eventually impaired the process of growth and development? Was repression of unions a necessary condition for the success of East Asia?

3.85   The high-performing economies of East Asia followed a diversity of industrial relations policies (Freeman 1993). Even though some East Asian economies were able to repress unions for some periods of time, most are under pressure now to put in place a more modern system of labor relations. Several factors have contributed to this pressure. One of the main forces at work is the tightening of labor markets, especially in the Newly Industrialized Economies and more recently in Malaysia and Thailand. Tight labor markets

make it more difficult for an employer to replace dissident employees, and higher wages enable workers to sustain themselves on their savings for at least short periods of time and to support unions by dues payments. Secondly, the rapidly changing comparative advantage of some countries in the region, from labor-intensive goods to skill-intensive goods, requires more sophisticated production techniques, which also require more sophisticated worker-management relations. And finally, as workers become more educated and more vocal, resentment over working conditions that were stifled in the past can now be expressed openly. In the absence of an industrial relations system that allows grievances to be aired and disputes to be resolved, strikes and other forms of job action, sometimes violent, multiply.

3.86 The lesson from East Asia for industrial relations seems to be that while there are undoubtedly benefits from untrammeled labor markets in the early stages of economic development, after a certain level of development is reached, countries will inevitably feel the need for putting in place a modern industrial relations system. Failure to do so may entail serious costs later. South Korea provides an example. After years of almost complete labor peace the number of strikes increased enormously beginning in 1987. This was costly to the economy. The disappointingly low growth of the economy in 1989 was attributed to two major factors: appreciation of the South Korean currency, and "large wage increases, workplace stoppages,

and labor productivity decline owing to labor strife during the last two years" (World Bank 1990). Similar political and economic developments in Taiwan, China also led to an upsurge of labor activity there, though not as explosive as in Korea.

3.87 Indonesia is under pressure to ease restrictions on unions. In 1994, it passed a regulation allowing the establishment of company unions (SPTP) and since then, SPTPs have been formed in about 1000 companies. In considering future policy, it would be important to consider that effective, democratic, plant level worker organizations, by providing "voice" at the workplace, may be able to play a positive role and reduce some of the costs associated with worker unrest. Legislation encouraging collective bargaining at the enterprise level could enable workers and managers to negotiate outcomes that enhance workers' productivity. Improving the dispute resolution mechanism and the ability of the workers to be heard can reduce the incidence of illegal or wildcat strikes. What would be needed, however, would be more than legislative changes. In order to move to a mutually beneficial industrial relations system, appropriate and responsible changes in behavior from employers and workers would also be required. Careful changes in legislation, industrial relations practices, and increased deregulation and competition in product markets could improve the positive role that unions can play while controlling their negative role.

Annex Table A1   Regional Minimum Wages, 1990-95

Province	Minimum Wage in 1990 (Rp per day)	Minimum Wage in 1995 (Rp per day)	Increase in Nominal Minimum Wage, 1990-95 (percent)	Increase in Real Minimum Wage, 1990-95 (percent)
Sumatra				
Aceh	2133	3500	64	14
North Sumatra	1930	4200	118	68
West Sumatra	1600	3250	103	52
Riau	2000	4150	108	60
Jambi	1100	3300	200	154
South Sumatra	1600	3500	119	69
Bengkulu	1300	3500	169	121
Lampung	1750	3500	100	47
Java				
DKI Jakarta	2100	4600	119	55
West Java	1200	4600	283	231
Central Java	780	3000	285	234
Yogyakarta	900	2850	217	160
East Java	1409	3700	163	105
Kalimantan				
West Kalimantan	1400	3500	150	100
Central Kalimantan	1150	3700	270	217
South Kalimantan	1000	3500	204	159
East Kalimantan	1600	4200	163	110
Sulawesi				
North Sulawesi	850	4200	354	337
Central Sulawesi	850	2800	329	184
South Sulawesi	1599	3100	210	161
Southeast Sulawesi	1000	3350	110	48
Other Islands				
Bali	1800	3900	117	65
West Nusa Tenggara	1275	2950	131	79
East Nusa Tenggara	1600	2900	81	36
East Timor [a]	2000	3800	90	56
Maluku	1800	3800	111	69
Irian Jaya	1800	4750	164	116

[a] For East Timor, data are for 1991 instead of 1990.

Source: The minimum wage data are from "The Human Resources Profile of Indonesia," Ministry of Manpower, 1995. The price data are from Statistik Indonesia, BPS, 1994, and Indikator Ekonomi, BPS, October 1995.

Annex Table A2 Ratio of Minimum Wage to Average Earnings in Manufacturing by Province, 1991 and 1994

Province	Male		Female		Total	
	1991	*1994*	*1991*	*1994*	*1991*	*1994*
Sumatra						
Aceh	0.4	0.5	0.7	1.3	0.4	0.6
North Sumatra	0.5	0.7	1.0	1.1	0.6	0.8
West Sumatra	0.4	0.4	0.9	1.1	0.5	0.6
Riau	0.4	0.3	0.5	0.7	0.4	0.4
Jambi	0.4	0.6	0.6	0.8	0.4	0.6
South Sumatra	0.2	0.2	0.3	0.8	0.2	0.3
Bengkulu	0.4	0.5	0.8	0.9	0.6	0.5
Lampung	0.6	0.9	0.8	1.0	0.7	0.9
Java						
DKI Jakarta	0.5	0.4	0.6	0.7	0.5	0.5
West Java	0.5	0.7	0.8	1.0	0.6	0.8
Central Java	0.6	0.7	1.1	1.2	0.8	0.9
Yogyakarta	0.4	0.5	0.7	0.8	0.5	0.6
East Java	0.4	0.6	0.8	1.1	0.5	0.7
Kalimantan						
West Kalimantan	0.4	0.5	0.5	0.7	0.4	0.5
Central Kalimantan	0.3	0.4	0.4	0.5	0.3	0.4
South Kalimantan	0.3	0.4	0.6	0.8	0.3	0.5
East Kalimantan	0.2	0.4	0.4	0.6	0.3	0.5
Sulawesi						
North Sulawesi	0.6	0.6	1.3	1.6	0.8	0.8
Central Sulawesi	0.4	0.5	0.5	0.8	0.5	0.6
South Sulawesi	0.5	0.5	1.0	1.6	0.6	0.7
Southeast Sulawesi	0.5	0.7	1.6	0.9	0.5	0.7
Other Islands						
Bali	0.6	0.8	1.1	1.5	0.8	1.1
West Nusa Tenggara	0.7	0.9	1.1	0.8	0.8	0.8
East Nusa Tenggara	0.8	0.6	1.3	1.8	0.8	0.7
East Timor	1.2	0.5	na	0.2 [a]	1.2	0.4
Maluku	0.5	0.5	0.5	0.7	0.5	0.5
Irian Jaya	0.6	⁻0.5	0.6	0.4	0.6	0.5

[a] For East Timor, this ratio is implausibly low because there appears to be an error in the reported average earning for females (Rp400,00 per month): these earnings are more than twice the male earnings and significantly higher than the earnings in any other province.

Source: Labor Force Survey.

Annex Table A3 Comparison of Average Monthly Earnings of Urban Manufacturing Workers to Official Urban Poverty Line, 1993

Province	Ratio of Average Earnings of Urban Workers in Manufacturing to Official Urban Poverty Line, 1993		
	Male	Female	Total
Sumatra			
Aceh	7.9	4.4	7.5
North Sumatra	6.3	4.0	5.5
West Sumatra	7.0	3.2	5.6
Riau	6.9	4.0	6.1
Jambi	23.7 [a]	3.0	19.5 [a]
South Sumatra	8.2	2.1	5.8
Bengkulu	3.8	1.8	3.0
Lampung	7.1	5.2	6.7
Java			
DKI Jakarta	6.2	4.2	5.6
West Java	5.3	3.5	4.6
Central Java	4.4	2.3	3.5
Yogyakarta	4.1	2.1	3.2
East Java	5.7	5.9	5.8
Kalimantan			
West Kalimantan	5.3	3.7	4.8
Central Kalimantan	4.7	3.2	4.6
South Kalimantan	5.2	3.7	4.7
East Kalimantan	6.4	3.7	5.6
Sulawesi			
North Sulawesi	4.9	1.8	3.3
Central Sulawesi	5.1	1.1	4.9
South Sulawesi	5.0	2.4	4.3
Southeast Sulawesi	5.1	7.4	5.5
Other Islands			
Bali	4.0	2.5	3.0
West Nusa Tenggara	2.7	1.2	2.0
East Nusa Tenggara	4.9	1.5	3.5
East Timor	5.1	3.5	4.6
Maluku	5.2	4.8	5.1
Irian Jaya	5.7	2.9	5.1
All Indonesia	6.2	4.0	5.3

Source: Labor Force Survey and BPS Official Poverty Line.

Endnotes

1. The 1994 rate of 4.4 percent is not comparable to earlier rates because there was a change in the definition of unemployment in the 1994 Sakernas Survey.

2. The data in Table 3.13 is from Behrman and Deolalikar (1995) who examined the issue of whether there are differential investments and differential returns to schooling by gender in Indonesia. Their study was based on data from the 1986 Indonesian Labor Force Survey (Sakernas)—a stratified national sample of about 250,000 individuals over the age of ten. Their paper focused on the 30,227 individuals who received wages as paid employees, of whom about 30% were female. Their estimates were updated using data from the 1993 Sakernas.

3. The data in Table 3.14 are obtained by econometrically estimating the relationship between earnings and different levels of education. These estimates use the age of workers to control for differences in years of work experience. The estimates also take into account the dropout and repetition rates for each level of schooling and are based on the expected number of years that it takes to complete each year of schooling, rather than the standard years of schooling. It is assumed that the expected years to complete each schooling level have remained unchanged since 1986.

4. For details of labor market legislation in Indonesia see World Bank 1994i.

5. These results are from Rama, 1996, which uses the variance between provinces to estimate the impact of minimum wages on average labor costs and employment. To do this, it uses data from 27 provinces from the annual Labor Force Surveys (Sakernas) for the five years 1989-93.

6. Other estimates indicate that there are 2-3 million children working in the non-agricultural sectors (Goderbauer, H. and R. Trienes).

CHAPTER 4
GROWTH BENEFITTED ALL REGIONS

A. Overview

4.1   Indonesia's national growth record is well known. Rapid economic growth sustained over 30 years places Indonesia among the High-Performing Asian Economies (World Bank 1993c). It raised Indonesia from a per capita GDP of under $100 in 1970 to lower-middle income status in 1993. The incidence of absolute poverty fell from an estimated 70% of the population in 1970 to under 15% currently. Particularly notable was the period 1983-93, when per capita GDP, per capita consumption, and social indicators improved despite the drop in oil prices. Sound Government policy deserves much of the credit; macroeconomic stability was maintained, the economy was deregulated, and social expenditures across the provinces were sustained with support from the international community. The regional dimension of this process is less well known than the national record[1] and is the subject of this chapter.

4.2   Per capita GDP and per capita consumption improved in every province during 1983-93, the period for which consistent regional accounts are available. Social indicators confirm this development, improving in every province. Poverty incidence also declined in all provinces.

4.3   Rates of improvement differed between the provinces. Per capita GDP converged among the middle income provinces and relative to the oil-based provinces. The poorest provinces, East and West Nusa Tenggara and East Timor, grew about as fast as the rest of the country and faster than 90% of the developing world. But despite the impressive gains, a number of challenges remain. Although GDP growth was rapid in the

poor provinces, disparities in levels persist. Despite the large improvement in social indicators, some indicators remain similar to low income countries. Finally, despite the reduction in poverty, the numbers of poor remain large on Java and Sumatra and poverty incidence remains high in the eastern islands.

4.4   To meet these challenges Indonesia will need to continue to adapt its policies and institutions. To presage what follows below, five elements will be needed:

• **Continued macroeconomic stability**, to maintain rapid growth of labor demand (Chapters 1 and 3).

• **Continued deregulation** to improve efficiency and labor demand (Chapter 2). It also would reduce the anti-trade bias of the trade regime, lower prices paid for import-competing manufactures and raise prices of many agricultural exports.

• **Focused agricultural and infrastructure development programs for poor regions** to help them take advantage of their resources and trading opportunities.

• **Increased pro-poor focus of spending**. More and better primary education, would raise wage incomes. More spending on health, targeted to the poor, and improved delivery of safe water, would raise the effective income of the poor.

• **Decentralization**. Service delivery could be improved by greater devolution of responsibility and accountability to sub-national governments, along with a closer link between services and revenues, through user fees and property taxes.

B. Regional Disparities Decline

1. Background

4.5   61% of Indonesians lived in Java and Bali in 1990, 20% in Sumatra, and 19% in the eastern islands. Population densities vary from very high in Java (813/km^2 in 1990) and Bali (500/km^2) to very low in Irian Jaya (4/km^2) and Kalimantan (17/km^2). In the rest of the country population density ranges from 70 to 180/km^2. The population imbalance and fears of overtaxing Java's limited land (Geertz) have motivated Government out-migration programs, beginning in the Dutch era (Harjono).

4.6   The composition of GDP and employment differs significantly across provinces. In most of the poorer provinces and especially those in the eastern part of the country, agriculture remains the largest sector. In 15 of the 27 provinces, agriculture makes up over 30% of provincial GDP. The percentage is over 40% for 8 of the 9 eastern islands. In most of these areas, agriculture employs over 50% of the labor force. Export crops and, in some areas, non-rice food crops are more important off Java than on Java. Agriculture on Java is more rice-based. These differences largely are explained by ecological differences, in particular water availability. Public investment in irrigation also plays an important role. In eastern Indonesia and in more than half of the provinces of Sumatra, agriculture is likely to remain the major source of economic growth for at least the next decade.

4.7   Manufacturing is concentrated in Java, with 66% of total manufacturing GDP, and especially in Jakarta (15% of the total). Sumatra has another 19%, mostly oil and gas refining and textiles. Almost all the remainder is in East Kalimantan (12%), mostly oil and gas refining (80%) and plywood processing. The concentration of manufacturing in Java is the result of policy and natural economic forces. From 1973 to 1986 the economy

became increasingly inward-looking as the government used oil revenues to set up import substituting manufacturing industries such as steel, cement, and fertilizer. Java was a major beneficiary of these investments. When Indonesia began to deregulate and open to import competition in 1986, Java's natural advantages—in particular the large, low-wage labor force—attracted the lion's share of foreign investment in labor-intensive manufacturing (Hill 1987, 1990a, 1990b, Hill and Weiderman, and Azis 1991).

2. Regional GDP

4.8   Provincial per capita GDP was fairly similar in 1993, with some major exceptions (Figure 4.1). Jakarta and the oil-producing provinces were much higher than average. This is not surprising given the typical developing country pattern of high incomes in the capital and the concentration of mineral wealth, especially oil, in a handful of provinces. Although the provinces with the lowest per capita GDP were in eastern Indonesia, some eastern provinces with favorable natural resource endowments—East Kalimantan and Irian Jaya—had high per capita GDP. Differences in levels of provincial per capita GDP to diminished in 1983-93.[2] Figure 4.1 presents the GDP data, listing the provinces from west to east on the horizontal axis.

4.9   Oil and gas production is concentrated in four provinces. It accounts for about 58% of Aceh's GDP, 72% of Riau's GDP, 20% of South Sumatra's GDP, and 54% of East Kalimantan's GDP. Oil and gas operations are enclaves in these provinces. Revenue from oil and gas accrues to the Central Government, which constitutionally owns the resources. The Central Government redistributes the income back to the provinces through its own spending and its transfers to subnational governments (section C).

Figure 4.1 Levels of per capita GDP are similar except for Jakarta, the Oil Producing Provinces, Nusa Tenggara and East Timor.

Per capita GDP, 1993, Rp thousands, listed from West to East in the archipelago

Per capita nonoil GDP, 1993, Rp thousands
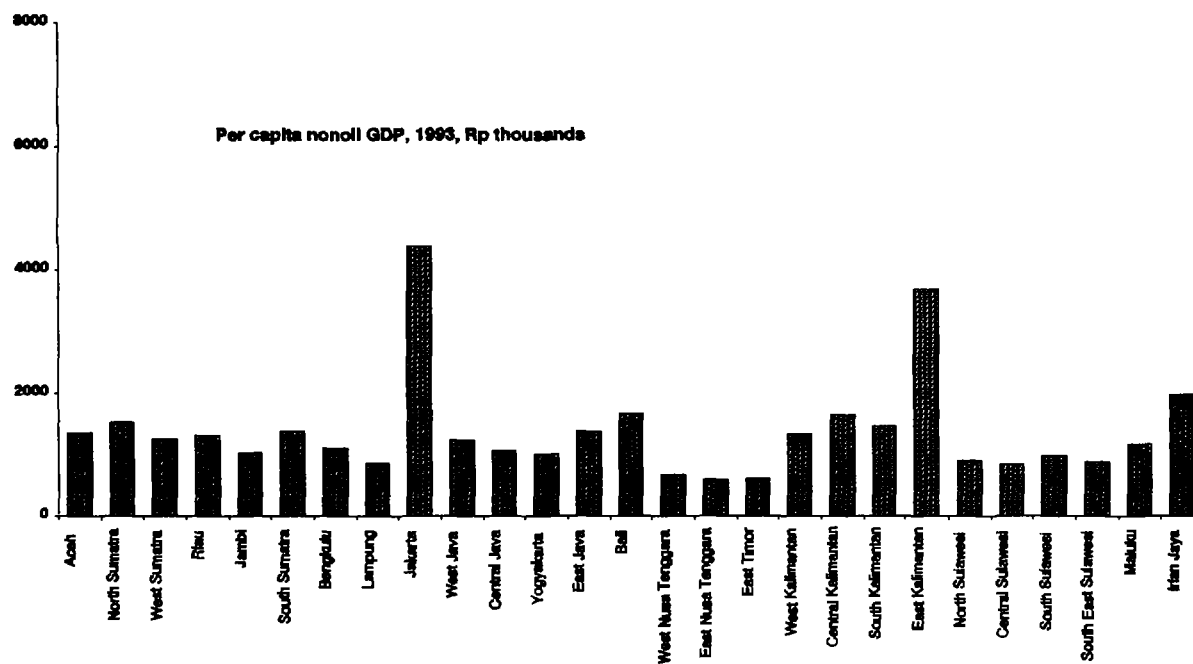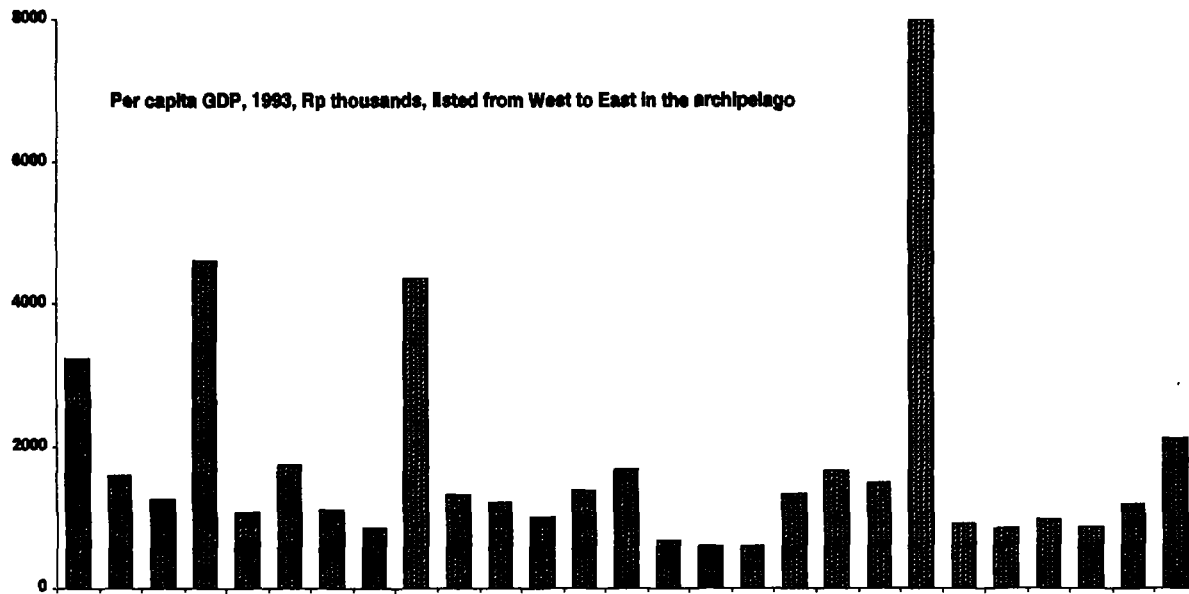
Source: Biro Pusat Statistik.

4.10 Nonoil and gas GDP is more similar across provinces than GDP (Fig. 4.1, bottom panel). East and West Nusa Tenggara and East Timor have the lowest per capita GDP (about Rp0.6 million). Excluding Jakarta, East Kalimantan, and Irian Jaya (where mining raises GDP), the provinces with the highest per capita non-oil GDP are Bali, North Sumatra and Central Kalimantan (about Rp1.5 million).

4.11 Per capita private consumption is an alternative measure of provincial welfare that also reduces the weight of oil and gas production.[3] The levels of per capita private consumption in 1993 for all provinces, again listed from west to east, are shown in Figure 4.2. As with per capita GDP, most provinces have similar per capita consumption. For the most part, provinces with below-average per capita non-oil GDP had below-average per capita consumption. The exceptions were Bengkulu, South Kalimantan, Maluku and Irian Jaya, where per capita consumption was below average and per capita nonoil GDP was average or above, and Central Sulawesi, where per capita consumption was above-average and per capita nonoil GDP below-average.

4.12 Based on per capita consumption the provinces can be divided into four groups: eight provinces whose per capita consumption was Rp0.6-0.8 million (Aceh, North and South Sumatra, Riau, East Java, and East, West and Central Kalimantan); twelve provinces with per capita consumption of Rp0.4-0.6 million (Bengkulu, Lampung, North Sumatra, West and Central Java, Yogyakarta, South Kalimantan, the four provinces of Sulawesi, and Maluku); and four provinces with per capita consumption of Rp0.3-0.4 million (East and West Nusa Tenggara, East Timor and Irian Jaya). Jakarta and Bali had high levels of per capita consumption, Rp1.5 million and Rp0.9 million respectively. Note that the differences in nominal figures tend to overstate differences in purchasing power because of the higher prices of service-related products in higher income regions.

Figure 4.2 Per capita private consumption levels also are similar.
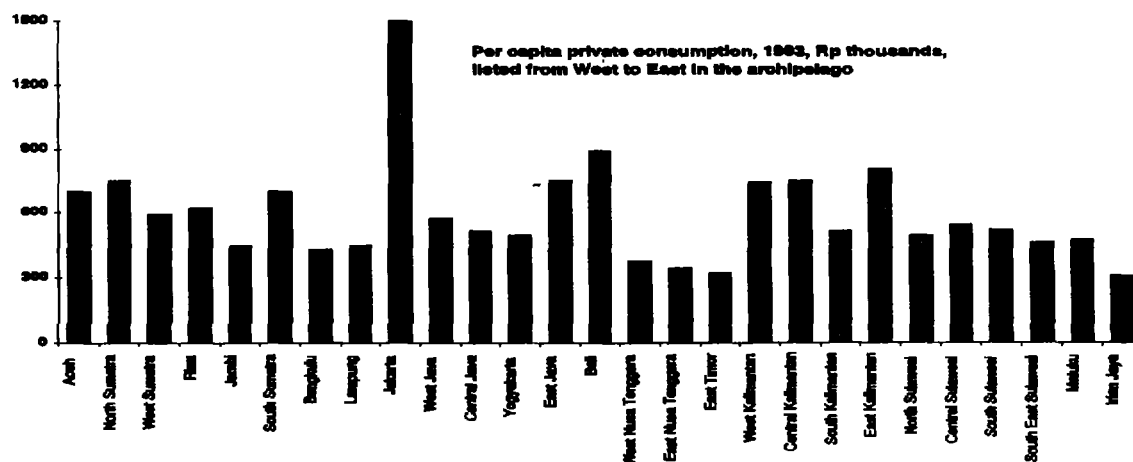
Source: Biro Pusat Statistik.

3. Rapid Growth in Per Capita GDP and Private Consumption

4.13   Per capita GDP grew in all provinces (Figure 4.3, lower tier).   Bali grew the fastest—7.5%— followed by Lampung, Central Java, Jakarta, South Sulawesi and North Sumatra. The slowest-growing provinces were East Kalimantan, Riau, South Sumatra and Irian Jaya.   The main reason for their slow

Figure 4.3 Per capita private consumption and GDP grew fast in most places.

Annual growth of real per capita consumption (1983-1993, percent)

Annual growth of per capita GDP (1983-93, percent)
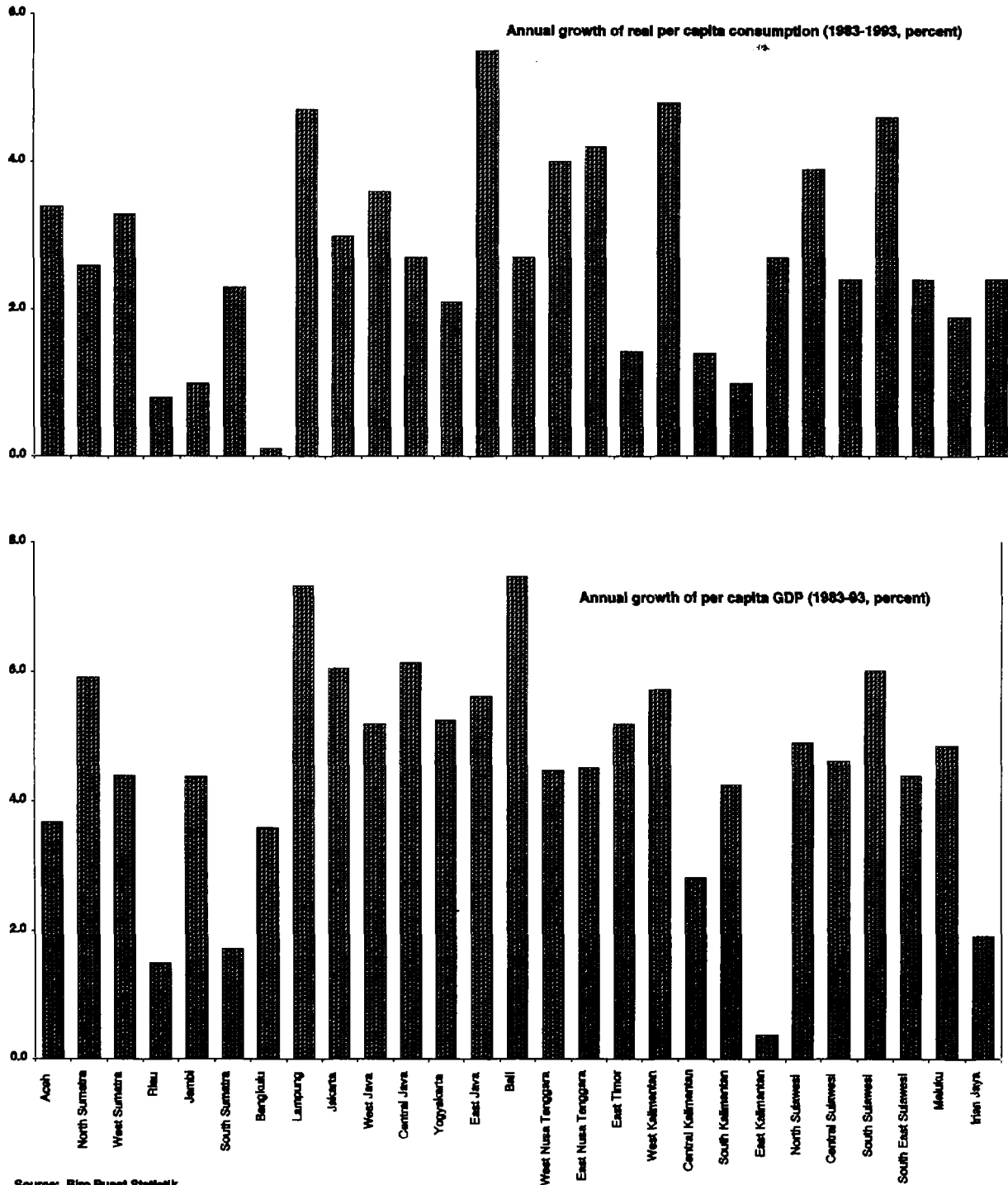
Source: Biro Pusat Statistik.

growth is the slow growth of real oil and gas production. Nationwide, real oil and gas GDP rose only 1% annually between 1983 and 1993.

4.14 Private per capita consumption also increased in all provinces (Figure 4.3). The growth rate of per capita consumption varied much more across provinces than per GDP. Among the reasons for this variation are the differential impacts of oil and gas, the differences in savings and investment (particularly local construction which increases GDP) in the provinces, and the differences in the amounts and types (consumption or construction) of Central Government transfers.

4.15 Population growth differences tended to increase the differentials in per capita growth. Generally speaking, GDP and consumption grew faster in provinces with lower population growth.

4. Provincial GDP and Consumption Per Capita are Converging Slowly

4.16 Provinces with the highest and lowest per capita GDP in 1983 generally retained their rankings in 1993. (Figure 4.4; note that the data are for real GDP. For convenience, the provinces are listed in order of their 1983 GDP per capita; a break in the upward trend in 1993 figure thus indicates a change in ranking.) East Kalimantan, Riau, Aceh, Jakarta, South Sumatra and Irian Jaya started and finished with the highest per capita GDP; East Timor, East and West Nusa Tenggara and Lampung started and finished with the lowest per capita GDP. Rankings of provinces in the middle group varied somewhat between 1983 and 1993. Some provinces that grew fast overtook others with higher initial levels of per capita real GDP, but slower growth. Bali, North

Sumatra, Central Java, and Southeast Sulawesi all advanced their positions.

4.17 Results were similar when provinces were classified by real nonoil/gas GDP per capita, or by real consumption in 1983 and 1993 (Figure 4.5). As with GDP per capita, the top and bottom groups largely remained the same, but changes occurred in some rankings. The exact changes vary by indicator, reflecting the different composition of GDP and variations in price levels between provinces.

4.18 Although provincial rankings remained fairly constant, the gap between rich and poor provinces is narrowing very slowly. But it is narrowing. Differences in per capita GDP declined about 1.7% per year on average, implying that the average 1983 gap would halve in 40 years. Notice, however, that this is an average concept, based on the average relationship between income growth and GDP in the base year. Even when this (standard) definition of convergence is achieved, some provinces would still have much lower GDP per capita than others. Notice also that this result, and the actual convergence that occurs, depend very much on the developments in the oil and gas-based provinces. Continued slow growth in these provinces automatically will reduce the GDP gap. However, it also will reduce the oil rents and related revenues that the Central Government can redistribute (section C).

4.19 The growth rates of provincial GDP per capita also are converging. Narrowing growth rate differentials across provinces is a common finding in studies of provincial or inter-country growth and is called relative convergence to distinguish it from absolute convergence, which refers to the tendency for levels of per capita GDP to get closer together over time.

Figure 4.4 Few changes in per capita GDP rankings between 1963 and 1993.
(Note: Provinces graphed from lowest to highest GDP per capita in 1963)
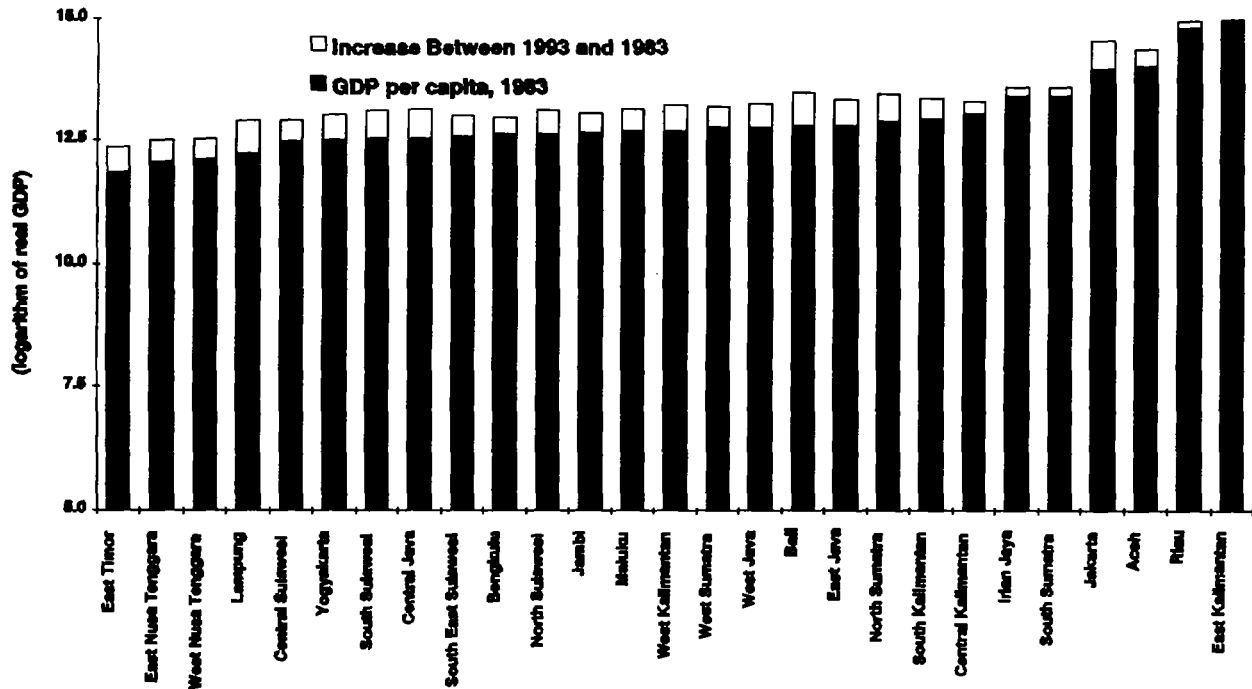
Source: Biro Pusat Statistik.

Figure 4.5 Few Changes in per capita consumption rankings
(Note: Provinces graphed from lowest to highest consumption per capita in 1963)
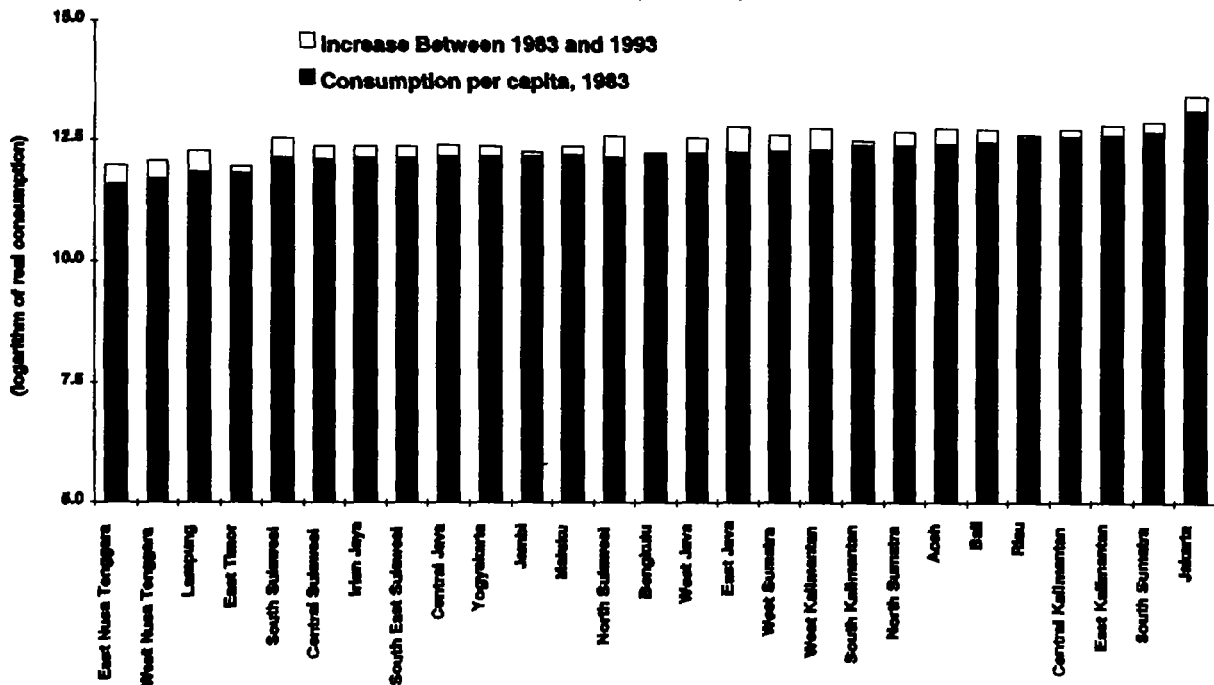
Source: Biro Pusat Statistik.

5. Equality within provinces: generally improving.

4.20 Indonesia compares favorably with its East Asian neighbors in terms of expenditure equality (Krongkaew). The Gini coefficient measure of expenditure equality in Indonesia was 0.31 in 1993, low by international standards—the lower the Gini coefficient the more equal the distribution—and down slightly from 1983.[4] The provincial Gini coefficients for 1983 and 1993 indicate improving equality of expenditure within the provinces of Sulawesi and East Kalimantan, a worsening in Bengkulu and little change elsewhere (Figure 4.6).

Figure 4.6 Sustained low inequality.
(Gini coefficients, 1984 and 1993)
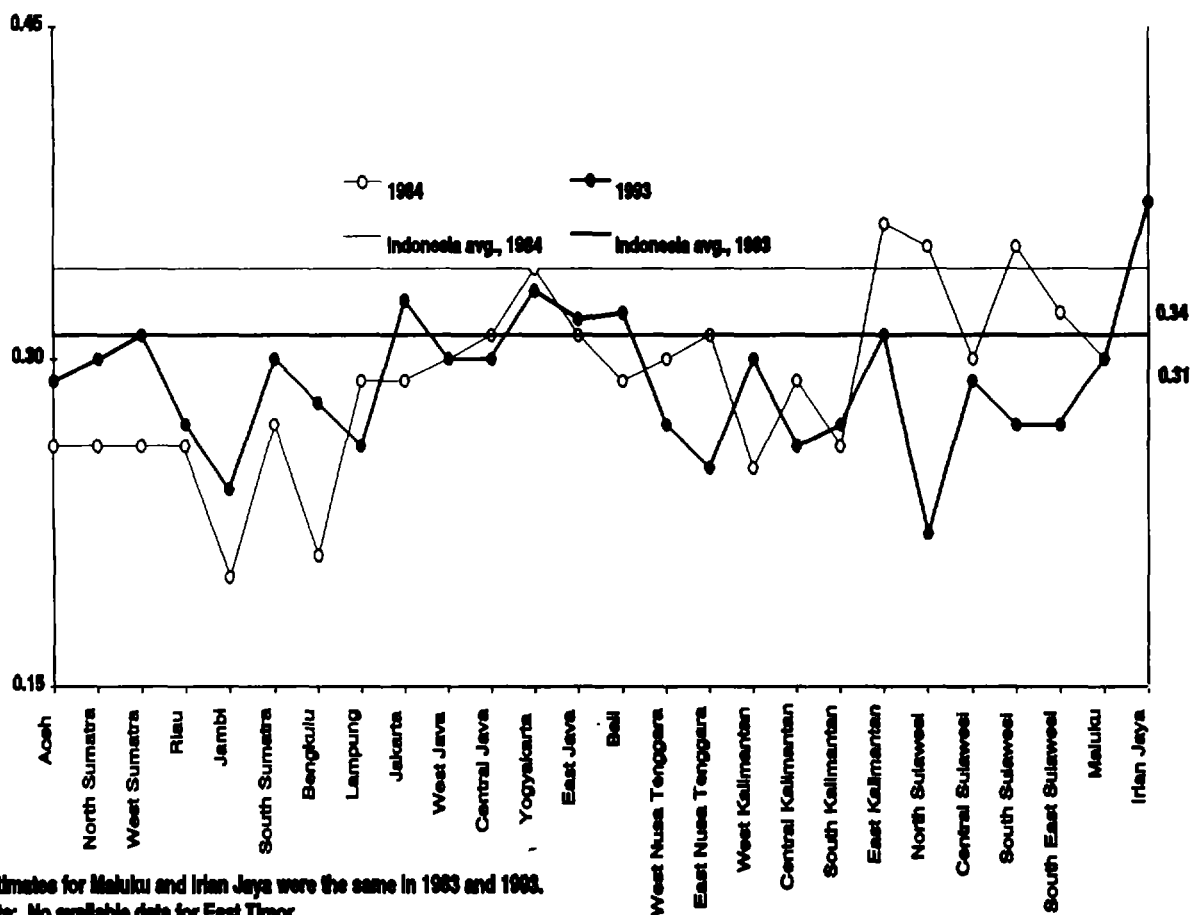
Estimates for Maluku and Irian Jaya were the same in 1983 and 1993.
Note: No available data for East Timor.
Source: Biro Pusat Statistik.

C. Regional Fiscal Issues

1. Overview

4.21 The Central Government has redistributed revenue to the poorer regions, including flows from donors and, in effect, oil rents. The decline of oil revenues as Indonesia becomes a net oil importer around the turn of the century poses a challenge for the Government. Like governments everywhere it will be under pressure to do more with fewer resources. Decentralization, backed with greater resource mobilization by subnational administrations (discussed below), would help the Central Government meet this challenge. Elimination of the anti-trade bias of the trade regime (discussed below) also would help the off-Java provinces grow faster and reduce the need for large scale fiscal transfers.

4.22 Indonesia has a highly centralized government. This reflects the fact that Indonesia is a unitary state, not a federal state. In a unitary state, all levels of government are in effect branches of the central government. There are three levels of subnational governments: 27 *Daerah Tingkat I* (known as *Dati I*), which correspond to the provinces; 296 *Daerah Tingkat II* (or *Dati II*), which comprise 55 Urban Municipalities (*Kotamadya*) and 241 Regencies (*Kabupaten*); and some 62,000 Rural Villages (*Desa*). Central government expenditures account for about 85% of total government expenditures, with *Dati I* and *Dati II* making up the remainder. Services are delivered to citizens by the Central Government directly, through "deconcentration"—establishment of Central Government ministries at all subnational Government levels—and through the *Dati* I and *Dati* II governments with various degrees of decentralization and participation as in Central Government financing of elementary school teacher salaries (section D.4).

4.23 The Central Government raises 90% or more of consolidated domestic government revenues. The largest part (about two-thirds) of subnational government revenue comes from transfers from the Central Government. Shared revenues—mainly the property tax, and natural resource royalties—account for another 10-15%, and own-source revenues the remainder (Table 4.1). These patterns are not surprising in light of the unitary government structure and the importance of oil, gas, and mineral revenues, which under the constitution belong to the Central Government. In other economies with large oil and mineral revenues, including Malaysia and the United Kingdom, the central government also accounts for a large percentage of total government revenues and expenditures (Shah and Qureshi).

4.24 For both provincial and local governments, the largest component of shared revenues is the property tax. This component has grown rapidly in the past several years, and there is great potential for further increasing its revenue base in virtually all subnational governments. User fees are another significant—but generally under-utilized—source of own revenues for subnational governments. Their importance varies greatly by level of government and by region. For example, for the total of all provincial governments user fees amount to only 15% or so of own-source revenues; in contrast, they are about half for local governments. Profits from state enterprises are a small source of revenue for subnational governments;[5] they represent 1-3% of own revenues for both provincial and local governments.

4.25 Central transfers are an important tool for provincial economic policy in Indonesia. They are of two types, general- and specific-purpose transfers. There are three types of general purpose transfers: INPRES Dati I, a formula-based grant to improve regional development on a provincial basis, with recommended priority areas for expenditure;

Table 4.1 Current revenues of provincial and Local Governments
(as % of current revenues)

	1985/86 - [a] 1989/90	1990/91 [a] 1992/93	1993/94	1994/95
A. Provincial Governments				
Own Source Revenues	21.4	25.1	26.2	31.0
of which: User fees	...	3.7	4.0	4.5
Shared Revenues	4.6	6.7	7.7	7.8
of which: Property tax	2.5	4.1	4.9	4.8
Loans	0.3	0.5	0.5	0.5
Grants from Center	66.8	60.0	60.8	54.7
Previous Year's Surplus	6.9	7.6	4.8	6.0
Total Current Revenue	100.0	100.0	100.0	100.0
(in Rp billions)	(3,433.8)	(6,379.5)	(8,382.3)	(9,709.0)
B. Local Governments				
Own-Source Revenues	18.2	13.0	11.2	...
of which: User fees	...	7.0	6.1	...
Shared Revenues	11.2	12.5	13.3	...
of which: Property Tax	9.9	10.2	10.4	...
Loans	2.2	1.0	0.6	...
Grants from Center	64.8	70.9	70.9	...
Previous Year's Surplus	3.5	2.7	4.0	...
Total Current Revenue	100.0	100.0	100.0	...
(in Rp billions)	(2,018.5)	(5,457.0)	(8,404.0)	...

Source: Ministry of Finance.
[a] Annual average.

INPRES Dati II, a per capita grant for infrastructure projects; and INPRES Desa, an equal per-village grant (supplemented by the *INPRES Desa Tertinggal (IDT)* program for the poorest villages). Specific-purpose grants are targeted on individual sectors (for example health, primary education) or they provide fiscal support, primarily for personnel and operating costs, to subnational governments. Since the mid-80s, general-purpose transfers have been increasing faster than specific-purpose transfers (19% annually compared with 15% in the 8 years ending 1994/95), especially for general-purpose transfers to villages, which have increased by almost 20% per year since the mid-80s. This shift reflects the central government's devolution of greater spending autonomy to the local level.

2. Fiscal Redistribution

4.26   The Central Government collects the vast majority of tax revenue and redistributes it to the provinces, as noted. An estimate of the regional net impact of fiscal redistribution is provided in Table 4.2. Three comments are in order: first, the geographical source of revenues and expenditures are an approximation, and oil and gas revenues have been estimated based on provincial shares of total oil and gas production. Second, the coverage excludes about 18% of income and VAT taxes and oil and gas revenues, which were not available on a regional basis, and assigns to Jakarta the taxes that were paid there, even if the underlying revenue-generation activity was located elsewhere.

Third, the table does not show donor funding, which in many cases is tied to Central Government transfers to lower level governments. Often these are loans that the Central Government repays.

4.27 Excluding oil revenue (the penultimate column of Table 4.2) the overall impact of fiscal redistribution is to reduce regional disparities by transferring revenue collected in high-income Jakarta, where taxpayers are "located" (even if production is elsewhere) to other provinces. In addition, the largest per capita transfers have favored some of the poorest regions, for example, Irian Jaya and East Timor. This finding supports other studies that show the redistributive impact of INPRES and other transfers to the subnational governments (Azis 1990, 1991).

Table 4.2 Estimated net impact of Central Government fiscal operations on provinces of Indonesia, 1990/91

Provinces	Collections of Income Taxes & VAT (Rp bil.)	Imputed Oil/gas Taxes (Rp bil.)	Central Transfers & Expenditures (Rp bil.)	Net Imputed Transfer Excl. Oil/gas (Rp thous.)	Net Imputed Transfer Incl. Oil/gas (Rp thous.)	Per Capita Net Impact Excl. Oil/gas (Rp thous.)	Per Capita Net Impact Incl. Oil/gas (Rp thous.)
Aceh	99.3	2,174.0	470.3	371.0	-1,803.0	108.6	-527.9
North Sumatra	486.9	284.2	802.6	315.6	31.5	30.8	3.1
West Sumatra	77.0		363.5	286.6	286.6	1.7	1.7
Riau	183.1	7,636.6	282.3	99.2	-7,537.4	30.2	-2,298.9
Jambi	44.7	39.8	188.6	143.9	104.1	71.4	51.7
South Sumatra	192.4	1,087.8	522.8	330.4	-757.4	52.7	-119.6
Bengkulu	17.0		155.0	138.0	138.0	117.0	117.0
Lampung	73.4		340.9	267.5	267.5	44.6	44.6
DKI Jakarta	11,733.4		3,210.8	-8,522.6	-8,522.6	-1,036.5	-1,036.5
West Java	1,003.2	2,895.9	1,664.3	661.1	-2,234.8	18.7	-63.1
Central Java	601.6	7.7	1,325.2	723.6	715.9	25.4	25.1
Yogyakarta	67.5		241.7	174.2	174.2	59.8	59.8
East Java	1,566.6	13.7	1,773.5	206.9	193.2	6.4	6.0
Bali	92.5		313.8	221.3	221.3	79.7	79.7
West Nusa Tenggara	27.2		224.9	197.6	197.6	58.7	58.7
East Nusa Tenggara	24.8		300.2	275.4	275.4	84.3	84.3
East Timor	16.7		135.4	118.7	118.7	158.8	158.8
West Kalimantan	72.2		286.2	214.0	214.0	66.1	66.1
Central Kalimantan	21.9		191.4	169.5	169.5	121.4	121.4
South Kalimantan	80.6	34.0	297.1	216.5	182.5	83.4	70.3
East Kalimantan	222.9	3,320.1	284.2	61.2	-3,258.8	32.7	-1,738.0
North Sulawesi	41.5		276.0	234.5	234.5	94.6	94.6
Central Sulawesi	27.2		224.2	197.0	197.0	15.7	15.7
South Sulawesi	111.6		543.6	432.0	432.0	61.9	61.9
South East Sulawesi	15.9		167.0	151.1	151.1	112.0	112.0
Maluku	39.7	9.6	214.2	174.5	164.9	94.3	89.1
Irian Jaya	67.1	234.6	365.5	298.4	63.8	183.2	39.3
Total: All Provinces	17,008.0	17,738.0	15,165.1	-1,842.0	-19,580.9	-10.3	-109.3

Source: Shah and Qureshi (1994), Table 3.9 and World Bank staff estimates.

4.28 Oil and gas revenues in effect are the source of much of the fiscal redistribution. When oil and gas revenues are included in net transfers (the final column of Table 4.2), there is a close relationship between net transfers and per capita private consumption.[6] The total net transfer from some of the large oil and gas producing regions—Aceh, Riau and East Kalimantan—is about double Jakarta's.

4.29 Government oil and gas revenue is projected to drop-off relative to GDP over the medium term.[7] The central government will lose its largest and most easily collected source of revenue for fiscal redistribution. Although donor funds are shifting toward regional projects, the net overall flow from donors, including interest and amortization, is likely to decline. Thus, the Central Government will have to raise significantly more nonoil taxes and non-tax revenues. But, in many other countries, the redistribution of such revenues from richer to poorer regions has posed political problems. Thus, the scale of fiscal redistribution that exists today may not be sustainable. This argues for greater selectivity and efficiency in government spending, and more reliance on local revenues and user fees. And, as noted above and discussed further below, it also argues for spurring regional growth through deregulation.

D. A Pro-Poor Approach to Regional Development

4.30 The challenge of regional development is sustaining strong growth in GDP and labor demand and poverty reduction. Reducing poverty is complicated by the fact that the largest numbers of poor people live on populous Java and Sumatra, but the highest poverty rates—though the number of poor is smaller—are in the eastern islands (Figure 4.7). Meeting this challenge will depend on action in five areas:

(i)   Maintenance of a stable macroeconomic environment.

(ii)   Continued deregulation. Carry out the preannounced program of tariff cuts and reduce protection to inefficient production by extending deregulation to nontariff barriers, distribution restrictions, and restrictions on exports.

(iii)   Focused regional agricultural and infrastructure development programs for poor regions to help them take advantage of their resources and trading opportunities.

(iv)   Increased pro-poor focus in education and health spending. More and better primary education will raise wage incomes. More spending on health, targeted to the poor, and improved delivery of safe water also would improve the productivity and effective income of the poor.

(v)   Decentralized delivery of public services to support quality improvements and the pro-poor focus. To be effective, decentralization needs to include a closer link between revenues and services through user fees and property taxes.

4.31 Policies to support continued macroeconomic stability are discussed in Chapter 1. Policies to deregulate at the national level are discussed in Chapter 2, and their regional implications are discussed below. Targeted agriculture and infrastructure regional development programs are the subject of subsection D.2. Policies to make health and education more pro-poor are discussed in subsection D.3. Decentralization is discussed in subsection D.4.

1. Deregulation to Eliminate Anti-trade Bias

4.32 Indonesia has pursued different development strategies over the past 30 years, with different regional implications. The import substitution phase of growth (1973-86) favored the development of heavy industry on

Figure 4.7 Where the poor are is not the same as where poverty rates are high.
(Population below the regional poverty line, 1993)
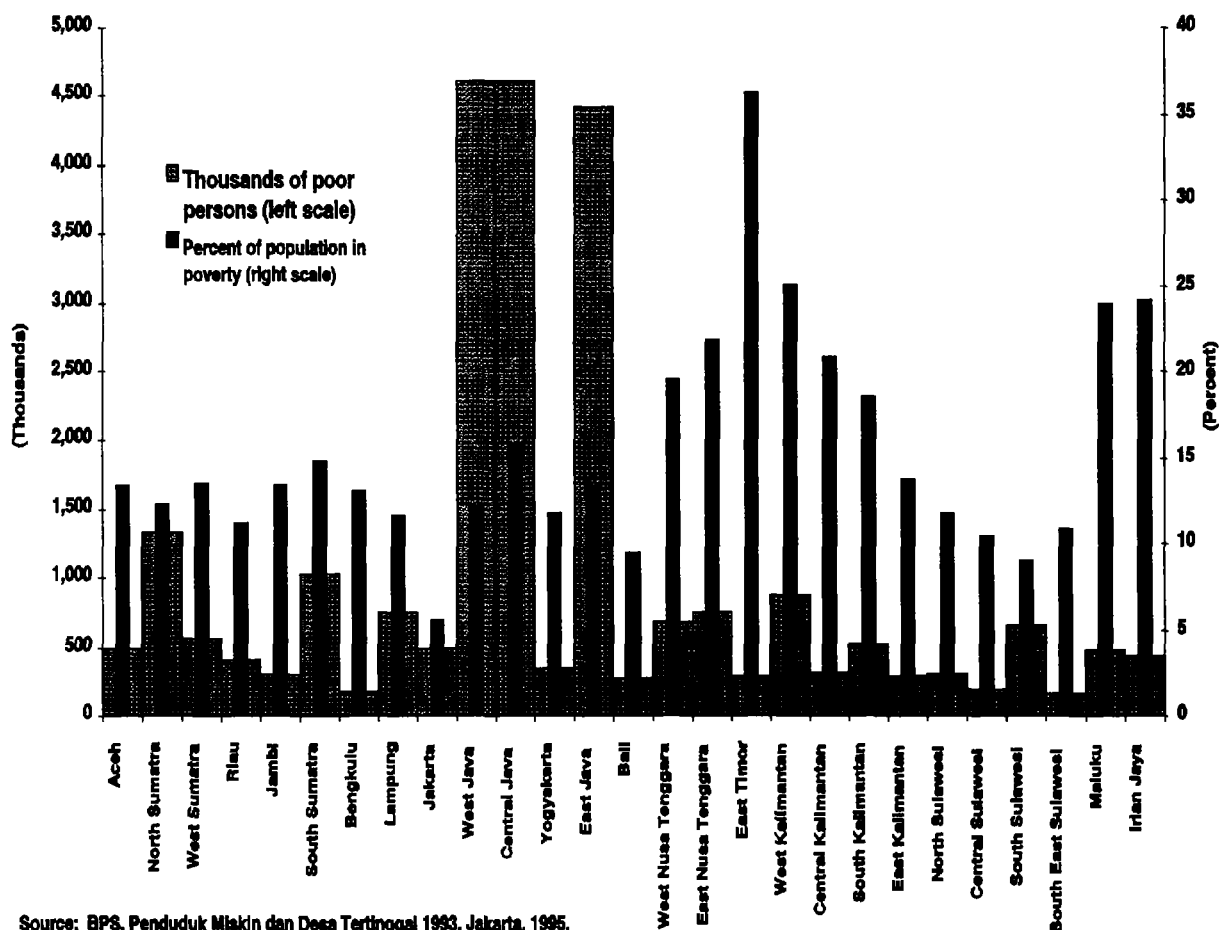
Source: BPS, Penduduk Miskin dan Desa Tertinggal 1993, Jakarta, 1995.

Java. Consumers paid higher prices for import-competing products. Import substitution also hurt exporters by generating a more appreciated real exchange rate.

4.33 The outward-oriented development strategy followed since 1986 led to higher growth of GDP and labor demand (Chapter 3); total factor productivity increased after 1985 (World Bank 1994a). Deregulation has gradually and significantly reduced the high tariff and nontariff barriers to imports that were a legacy of the import substitution development strategy. This not only has

improved the allocation of resources and forced producers to become more efficient, it has reduced the cost to consumers of previously high cost clothing and footwear, as these became competitive in world export markets.

4.34 To the extent that the anti-trade bias of the trade regime persists (see Fane and Phillips and Fane and Condon), it biases development against the outer islands (Henderson and Kuncoro, Azis 1991). Two-thirds of the 1995 anti-trade bias is attributable to tariff and nontariff barriers to imports. Indonesia's major deregulation package of May 1995

substantially reduced the anti-trade bias from tariffs on imports and it programs further major cuts (World Bank 1995a). This package will force import-competing manufacturing to become more competitive and reduce domestic prices to the benefit of consumers.

4.35 For import-competing production the unfinished import policy agenda consists mainly of reducing nontariff barriers on sugar wheat, soybeans, sugar, rice, livestock and milk products and the associated domestic regulations, reducing protection on vehicles and exposing the strategic industries to international competition (Chapter 2). Protection of inefficient industries reduces efficiency and raises the price of food. Deregulation would lower prices, reducing the high profits that currently go to the limited number of producers and/or distributors who, in many cases, are located on Java. In this way deregulation would raise substantially the real incomes of consumers, particularly lower income consumers (Chapter 2).

4.36 The other one-third of the anti-trade regime is attributable to export taxes; removal of these restrictions would improve efficiency and regional equity. Specifically, deregulation would raise the prices of many primary exports whose prices now are depressed by export restrictions. A major rationale for these restrictions is to increase domestic value added by "moving downstream" into processing— what has been called "forced export substitution" (Hill 1994). But these restrictions work by breaking the link between domestic production of the primary product and the world market, and forcing the primary producers to sell their products domestically at a much lower price; this lower price enables protected processors to operate less efficiently than international competitors. The export taxes on logs are the most commonly cited (Chapter 2). But export taxes or restrictions of varying kinds exist, covering nearly 50% of exports, mainly agricultural and forestry products. These restrictions not only reduce

efficiency and competitiveness directly as discussed above, they often have more complicated negative effects on efficiency, for example encouraging over-exploitation of renewable resources in the case of forestry. They also may shift production from goods in which Indonesia is internationally competitive to less competitive goods, with a corresponding net loss of foreign exchange earnings and a reduction in the growth of non-oil exports.

4.37 These restrictions have a regional bias when they reduce the price received by off-Java primary producers. For example, this has occurred in the case of rattan, where export bans on unfinished and semi-finished rattan may have wiped out unfinished and semi-finished rattan producers, mostly located off Java. This characteristic of export restrictions biases the trade regime against the primary product producers and toward the processors who use the primary products. Ironically, the bans have led to a crisis among rattan processing (furniture) manufacturers, who were the intended beneficiaries (Box 4.1).

4.38 Levies are sometimes charged by local governments on commodity trade. While the rates usually are low, at times they increase marketing costs and depress farmgate prices. The Central Government has in the past attempted to eliminate these levies and, more recently, has begun to denounce trade restrictions more openly. However, these efforts have not always been successful, and especially not when local governments have limited alternative sources of revenue. The example of copra levies in Central Sulawesi (Box 4.2) shows it is not easy to eliminate local charges on commodity trade. As discussed below, concerted action by the central government to restrict local commodity trade taxes needs to be accompanied by measures that permit localities to raise revenue in ways that do not tax business.

Box 4.1   Export taxes on raw rattan are wiping out rattan producers and processors.

The case of rattan is almost identical to the case of logs that was discussed in Chapter 2. Raw and semi-finished rattan account for about 90% of Indonesia's non-timber forest products. As in the case of logs, exports of raw and semi-finished rattan were prohibited (in 1986 and 1988). The objectives of the bans were fourfold: (i) to capture the value added in processing rattan; (ii) to generate income and employment; (iii) to increase profits for Indonesian firms; and (iv) to stimulate non-oil exports.

The immediate impact of the bans was to dramatically depress the domestic price of raw rattan and stimulate the rattan processing industry. Exports of finished rattan rose sharply by 71% in 1989 and 40% in 1990, by which time they had reached $220 million. The objective of generating income and employment also was realized, for a while. Prior to the ban there were 150,000 full-time workers employed processing rattan, mainly off Java. The jump in processing activities created new jobs and by 1991 total employment in rattan industries had risen to 187,000. Because of their superior infrastructure to support exports (especially West Java), Java was the main beneficiary of new investments in rattan furniture production. The number of rattan processing companies jumped by over 40% in the five years after the bans were imposed.

But as with log and sawn timber export controls, there were unanticipated side-effects. First, low raw rattan prices—prior to the bans the price of raw rattan was Rp 70,000 per quintal but by 1992 the price had fallen to Rp30,000—began to drive rattan gatherers out of the business. Large areas of cultivated rattan no longer or rarely were harvested. The focus of rattan furniture processing on Java meant that traditional rattan processing industries in Kalimantan and Sulawesi, which mainly were engaged in producing semi-finished rattan for export, declined sharply. Many opted to leave the business. The number of rattan processors in Sulawesi fell by nearly one-quarter while the number in Kalimantan nearly halved in the five years following the ban. Ultimately, supplies of raw rattan for the Java-based processors began to dry up. Significant rattan supplies were diverted to the much higher-paying world market through smuggling, while land previously valued as a source of rattan was converted to other uses, for example rubber in Kalimantan and cocoa in Sulawesi.

As a consequence the Java-based rattan processing industry is in crisis. Employment in the industry fell to 68,000 by 1993.

Sources: Bennett and Tambunan.

---

2. Targeted Agricultural and Infrastructure Development Programs

4.39   Deregulation that lessens the anti-trade bias of the trade regime will improve the off-Java provinces' terms of trade. This is an attractive regional development policy because policies that led to the tremendous reduction in poverty in Java may not be replicable across all provinces. Rapid growth in Java was based on the massive shift of workers from low-productivity jobs in agriculture to much higher-productivity industry and service sector jobs

(Chapter 3). This transition path may not be replicable in the off-Java provinces. Slow growth in some provinces is related to low natural resource endowments (low soil fertility, remoteness, and aridity) and therefore may be difficult to surmount. Low population densities in most eastern provinces will slow the movement of labor-intensive manufacturing to these areas. Exploiting trading opportunities through agriculture-led growth will require greater access to information and markets inside and outside the province and better infrastructure.

4.40 The objectives of a targeted rural development strategy are: to raise rural incomes and improve regional agricultural productivity and market orientation of smallholders currently at subsistence or semi-subsistence level; to encourage a more environmentally sustainable approach to agricultural development in the various agro-ecological zones; to promote broad-based participatory development that will assist in identifying area-specific constraints and permit efficient targeting of the rural poor; to strengthen decentralized planning and implementation capacity of agricultural services, including a viable rural finance system; to remove national and regional trade distortions; and to develop regional agricultural programs based on an integrated farming systems approach, with emphasis on adaptive on-farm research, and with due attention to upland (non-irrigated) areas.

4.41 Implementation of this strategy requires regional investment projects directed at the agricultural and infrastructure sectors with a strong focus on income generation and poverty alleviation, and policy and institution building to support decentralized delivery of agricultural support services (section D.4). Regional differences could be dealt with through region-specific strategies. This approach is attractive for Indonesia, being so vast and heterogeneous. In light of this heterogeneity the following strategy could be envisaged.

4.42 In poorer and more remote regions the delivery of agricultural support and infrastructural services would continue to be dominated by the public sector. Most of the eastern islands would fall into this group. Pilot programs to promote private sector involvement (universities in agricultural research, NGOs in extension services and health services for example) could be instituted. The Government's Village Infrastructure Projects are an example of this approach. The Central Government helps smaller towns and villages improve infrastructure services so that they are more acceptable to the inhabitants. The towns and villages require better roads, bridges, drinking water and other services whose provision is beyond local means. Standard budgets, geared to districts and municipalities, will continue to play an important role in developing these areas.

4.43 In regions at an intermediate level of development private sector involvement in delivery of agricultural and infrastructure services is possible and should be exploited. One concrete way of increasing private participation would be through an active program of privatizing public agricultural estate corporations (Chapter 2), which mainly are located in Sumatra and Kalimantan. At the same time a reasonable level of public sector support for agricultural support services and infrastructure would be needed, including natural resource and watershed management, research, some forms of extension, and support for specialized services (the integrated pest management program for example). Kalimantan provides an example of tailoring service delivery to a low population density area with some relatively large and isolated agglomerations (Box 4.3).

4.44 In more advanced regions (a number of areas on Java/Bali for example) public support for agricultural and infrastructural services could be decreased in favor of greater private sector involvement. There needs to be an active promotion of, and transfer of activities to, farmer and water users associations, and private sector provision of services. Public provision could be limited to those cases of demonstrated market failure. Development of the framework for private provision of infrastructure services as outlined in Chapter 2 obviously is a prerequisite for progress in this area.

Box 4.2 Local copra levies reduce farmgate prices in Central Sulawesi

Between 1979 and 1991, Copra Rehabilitation Fund (DRK) charges were an important source of local government revenue in coconut-producing areas. For example, in *kabupaten* Toli-Toli in Central Sulawesi, an arid, rural and isolated area whose economy relies heavily on copra, cloves and forest products, revenue from the DRK covered about 8% of total local government expenditure in 1989. The fixed DRK rate of Rp 15/kg levied on inter-island trade of copra was equivalent to a 3% ad-valorem tax on copra exports. This had to be absorbed mostly by coconut smallholders who produce 99% of all coconuts in the *kabupaten*. Most of DRK revenue became part of the local government budget, contrary to the original objective of re-investing the funds into rehabilitation of smallholder coconut trees.

When the central government abolished DRK in June 1991, the local government of Toli-Toli reacted quickly to prevent a revenue shortfall. It issued an instruction letter in July (No. 525.26/2143/VII/Ekon) that, in effect, forced farmers to sell copra only to village cooperatives (KUDs), and inter-island traders to purchase copra only from KUDs. The margin between KUD's buying and selling prices amounted to Rp80-90/kg (about one-third of the farmgate price), much of which was to be transferred to the local government. This measure led to a fall in farmgate prices of copra in Toli-Toli, which had already been lower than in other areas of the province (Table 1).

Table 1. Average farmgate prices of copra in Central Sulawesi (Rp/Kg)

Year	Toli-Toli	Rest of the Province	Toli-Toli in Relation to the Rest of the Province (%)
1989	348	437	87.9
1990	204	247	82.6
1991	274	372	73.7
1992	461	520	88.7
1993	368	424	86.9
1994	522	567	92.1

Source: Kanwil Perdagangan Province Sulawesi Tenggara, Palu, 1995.

The KUD monopoly lasted for only about six months, since the KUDs had limited operational/financial capacity, and because farmers found ways to sell directly to inter-island traders (albeit at prices lower than elsewhere in the province). In the meantime, Ministry of Trade decree of 1991 (No.144/Kp/VI/91) deregulated the copra and coconut oil trade at the national level.

The Toli-Toli local government continued to seek alternative revenue sources, and in July 1992 it issued a local regulation (No.2 Seri B 10 July 1992) that authorized levying of trade charges (*retribusi*) not only on copra but also on some other commodities.

Although the *retribusi* rate for copra in Toli-Toli was low—about 1% of the farmgate price at the time—it was against the deregulation trend and hence opposed by the central and provincial governments. The Governor sent a letter to the Regent (*bupati*) of Toli-Toli on 21 September 1992 reminding him that the *retribusi* charges on copra were not in accordance with the Ministry of Trade decree of 1991, and requesting him to discontinue the practice. As of end-1995 the *retribusi* on copra was still in place.

Box 4.3 Public-private partnership to deliver infrastructure services in Kalimantan

The region of Kalimantan, comprising 4 provinces, has an overall low population density with increasing population concentration in cities; the cities are separated by vast distances and mostly connected by river transport—many do not have all weather access to roads. Central and local governments have identified focal point cities to serve as regional centers, promote rural-urban linkages and trade, and have further growth potential. The objective is to promote regional development by focussing on these growth centers, and provide infrastructure in support of linkages. Three priority "packages" of complementary infrastructure investments are to be identified in parallel, also for parallel implementation; interurban transport, regional/municipal water, and municipal non-water serves. Both planning and implementation will be decentralized.

Interurban transport links may require the most investment. A pattern of improvements radiating from the focal point cities will result from the studies to enable the inland cities to trade with the port cities or others, but also to improve connections between the smaller cities in the hinterland and the main cities. The network development approach will improve national, provincial and district roads, river section and ports, to ensure connectivity, rather than trying to complete a notional national network on a priority basis.

Regional, municipal water development is necessary given the fast growth of the focal point cities and towns, and the need for long-term planning for adequate water resource selection, environmental concerns, and optimal technical solutions among alternatives. Currently mostly small and *ad hoc* service expansions are provided at high cost and inefficiently, compared to what could be done with a different approach. Also, greater accountability and autonomy in water enterprises to increase efficiency and allow private participation and more qualified staff will be sought.

Municipal non-water services include solid waste disposal, sanitation, drainage, urban roads, markets and even urban renewal and some municipal administration improvements. Solid waste volumes are increasing and current disposal methods and locations tend to be inadequate. Drainage may be inadequate and results in flooding during the heavy rainy seasons in the low lying cities. Sanitation also is difficult to ensure, technically because of the high water levels, and because of inadequate awareness of the consequences of improper sanitation. Therefore, campaigns to increase awareness of the environmental and health consequences would be undertaken up front, and neighborhoods would be involved in planning and carrying out projects.

Bappedas I and II would be very involved in the studies, as they already have been in the development of strategic regional and land use plans, to ensure that priorities are well selected and also that the larger aspects, such as river basin management, are coordinated.

3. Pro-Poor Health and Education Spending

4.45 Expanding access to essential health and education services has been a Government priority for 25 years. Literacy, primary education and primary health care have improved in all provinces. Regional disparities remain but are at least partly explained by the higher per capita cost of service delivery to the more sparsely populated regions off Java, lower demands for services (for example education in poor, rural areas), and institutional difficulties of service delivery from a centralized bureaucracy to distant areas.

4.46 The Government's approach has been to increase the supply of inputs—teachers, schools, health care workers and health centers. Within this approach, most emphasis was on training teachers and health care workers. Toward that end, in health, nine new public medical schools were established in the 1950s and 1960s, and three more were opened in the late 1970s and 1980s. These public schools have produced increasing numbers of general practitioners, from 460 per year in the

1960s to over 1,350 in 1999/93. The Government also has agreed to the establishment of private medical schools and there now are 14 such schools, mostly in Java, producing nearly 30% of all new doctors.

4.47 Increases have been recorded in most indicators of the penetration of health services, for example the population per health center and the number of doctors per health center (Table 4.3 and World Bank 1994d). The

Table 4.3 Population and doctors per health center, 1985 and 1992

	1985		1992	
	Population per Health Center	*Doctors per Health Center*	*Population per Health Center*	*Doctors per Health Center*
Aceh	20,418	0.66	22,701	0.91
North Sumatra	33,137	0.97	34,708	1.15
West Sumatra	26,000	0.93	24,672	1.03
Riau	27,326	1.13	28,933	1.40
Jambi	22,737	0.91	26,454	1.01
South Sumatra	32,401	0.99	29,954	1.09
Lampung	47,515	1.02	46,860	0.95
Bengkulu	11,848	0.85	11,180	1.08
Jakarta	27,961	1.35	35,926	1.38
West Java	49,972	0.98	32,109	1.20
Central Java	44,446	0.99	41,222	1.19
Yogyakarta	29,376	1.09	33,871	1.08
East Java	37,991	0.88	39,702	1.08
West Kalimantan	20,547	0.74	25,455	1.12
Central Kalimantan	12,391	0.61	25,770	0.84
South Kalimantan	18,460	0.68	18,744	0.79
East Kalimantan	14,110	0.64	13,679	1.29
North Sulawesi	20,833	0.97	19,734	1.24
Central Sulawesi	21,375	0.82	23,024	1.14
South Sulawesi	29,730	0.80	25,994	1.07
South East Sulawesi	15,696	0.59	5,973	0.84
Bali	31,783	1.01	25,251	1.74
West Nusa Tenggara	34,625	0.92	27,024	1.08
East Nusa Tenggara	22,774	0.53	26,100	0.69
Maluku	16,330	0.60	15,978	0.79
Irian Jaya	10,856	0.32	19,498	0.65
East Timor	10,230	0.61	15,110	0.88
Indonesia	32,267	0.90	30,608	1.10

Source: Ministry of Health.

manpower oriented focus of the Government's effort is seen in the fact that while only about half of all provinces in Table 4.3 recorded increases in population in relation to the number of health centers, virtually all—the ratio declined marginally in Lampung and Yogyakarta—recorded gains in the number of doctors per health center. The effort to redress regional imbalances is seen in the fact that number of doctors per health center increased most rapidly in the provinces that were farthest behind—Aceh, Bengkulu and most of the eastern islands.

4.48   Improved access has been accompanied by improved health indicators. For example, infant mortality fell sharply between 1980 and 1990 in all provinces (Figure 4.8), though the national average of 71 deaths per 1,000 live births remains high. Infant mortality rates are below the national average in most of Sumatra, Java and Bali and exceed the average in many of the eastern provinces, especially West Nusa Tenggara.

4.49   Average fertility also fell, from 3.8 to 3.6 between 1980 and 1990, with all regions

Figure 4.8 Despite improvements, infant mortality remains high.
(Infant mortality rate per 1000 live births)
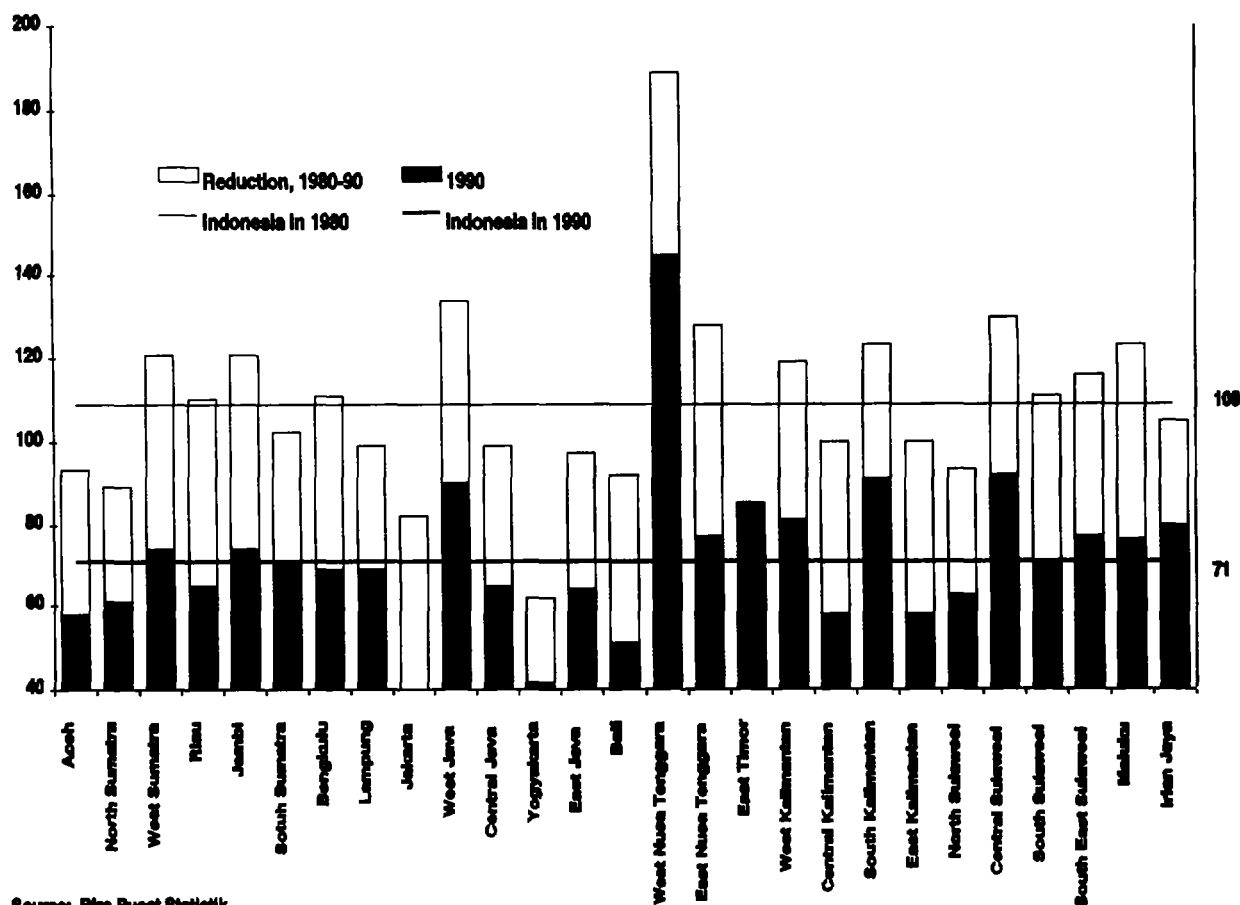
Source: Biro Pusat Statistik.

showing declines (Figure 4.9). East and West Nusa Tenggara, Sumatra and Sulawesi continue to have the highest fertility rates. The largest reductions were in parts of Sulawesi and Kalimantan, Jakarta, Bali, and parts of Sumatra. However, East and West Nusa Tenggara showed only small reductions. The regional differentials and changes only partly reflect differentials in the availability of health services (which themselves reflect differences in population density). They also reflect a number of well-known "background variables," especially education and employment opportunities for women.

4.50 Increased supply of education inputs also produced impressive gains. A massive teacher training program was launched resulting in an increase in the number of primary school teachers. From the early 1980s to the early 1990s the number of teachers nearly doubled to 1.24 million (Table 4.4). Much slower growth in the number of students

produced a fall in the student-teacher ratio to 21 by 1992/93 from 34 in 1980/81 (Table 4.4). Class sizes decreased in all regions, and in the eastern provinces are close to the national average. Moreover, differences in class size are not systematically related to average per capita income levels (World Bank 1993d).

4.51 Indonesia's emphasis on investment in education has led to one of the fastest rates of educational transition in the world. Between 1973 and 1984 school enrollments increased sharply, especially in primary education. Gross primary enrollments rose from 60% to 106% partly because the Government expanded primary schools massively through the special INPRES-SD program and provided free primary schooling. At least one public university was opened in each province and private schools at secondary and tertiary levels were allowed to expand unhindered. Indonesia achieved near universal (93%) net primary enrollment by 1984, a feat achieved by few upper-middle-income countries.

Figure 4.9 Women have fewer children in 1990 than in 1980.
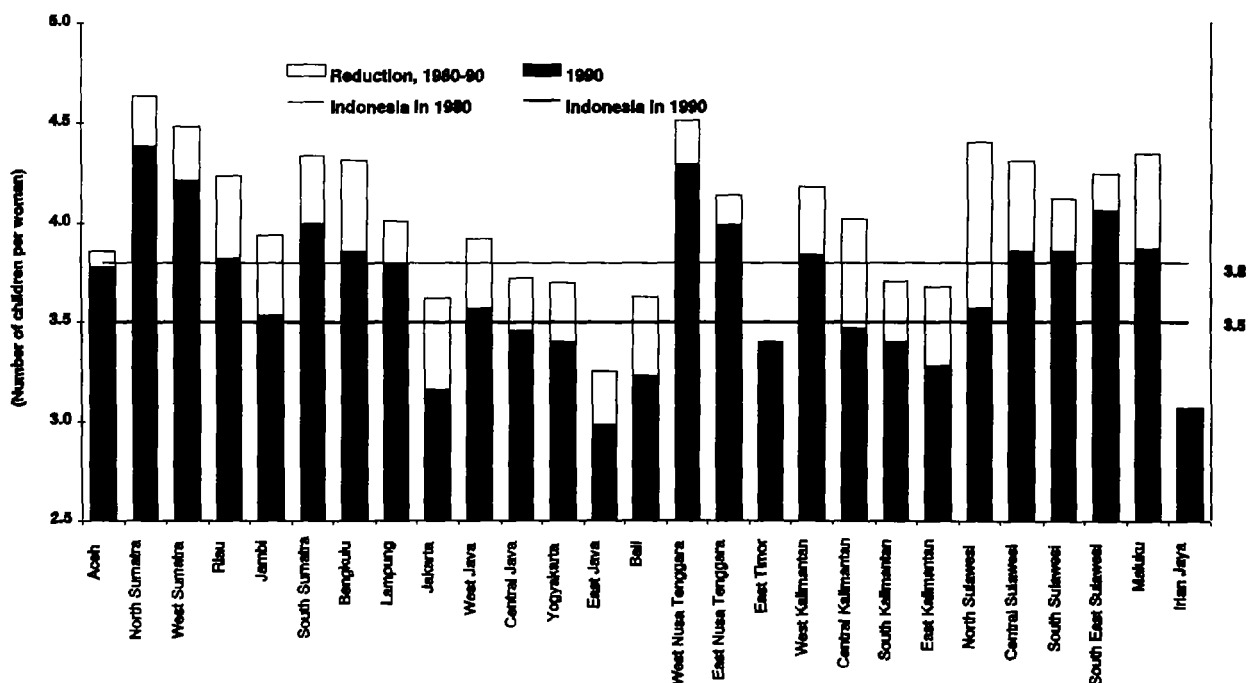
Source: Biro Pusat Statistik.

4.52 Nationally, illiteracy was halved in the 1980s, falling to 15% in 1990. Illiteracy dropped in all provinces though there were substantial regional disparities (Figure 4.10). School enrollment rates in the 7-12 age group exceed 90% except in East Timor (87%) and North Sulawesi (86%). Sumatra and Jakarta are have significantly less illiteracy than the national average, along with parts of Kalimantan and Sulawesi. Illiteracy rates are highest in East Timor, West Nusa Tenggara and Irian Jaya. Bali and parts of Java continue to have higher-than-average illiteracy rates, which is consistent with the still-high numbers of poor in these regions.

4.53 The expansion of Central Government spending on health and education has narrowed

Table 4.4 Increasing numbers of teachers reduced the student-teacher ratio

	Teachers		Students in relation to teachers	
	1980/81	*1992/93*	*1980*	*1993*
Aceh	12,402	24,643	32	21
North Sumatra	40,555	78,764	38	24
West Sumatra	18,303	31,537	32	22
Riau	10,206	23,923	31	25
Jambi	6,849	17,542	31	20
South Sumatra	21,477	44,641	34	24
Bengkulu	3,708	10,937	34	20
Lampung	17,350	40,818	41	25
Jakarta	26,627	45,545	36	22
West Java	99,855	249,761	42	20
Central Java	116,850	181,213	32	22
Yogyakarta	15,376	21,269	30	18
East Java	134,871	173,647	30	22
Bali	11,548	22,394	37	16
West Nusa Tenggara	12,504	22,021	31	23
East Nusa Tenggara	15,130	28,151	31	20
East Timor	1,686[1]	5,013	42	20
West Kalimantan	10,978	25,841	34	22
Central Kalimantan	5,557	14,062	28	18
South Kalimantan	11,786	21,192	25	17
East Kalimantan	5,761	16,470	31	21
North Sulawesi	16,121	24,637	25	14
Central Sulawesi	6,670	16,414	34	18
South Sulawesi	24,326	55,970	41	19
South East Sulawesi	5,262	12,858	33	19
Maluku	7,914	15,836	29	23
Irian Jaya	7,278	12,617	22	21
Indonesia	666,950	1,237,716	34	21

Source: BPS, Statistical Yearbook of Indonesia, 1982, Tables IV.1.2 and Statistical Yearbook of Indonesia, 1994, Table 4.12.

[1] 1981/82.

Figure 4.10 Illiteracy declined everywhere.

Note: Data in 1990 for East Timor is 1985.
Source: Biro Pusat Statistik.
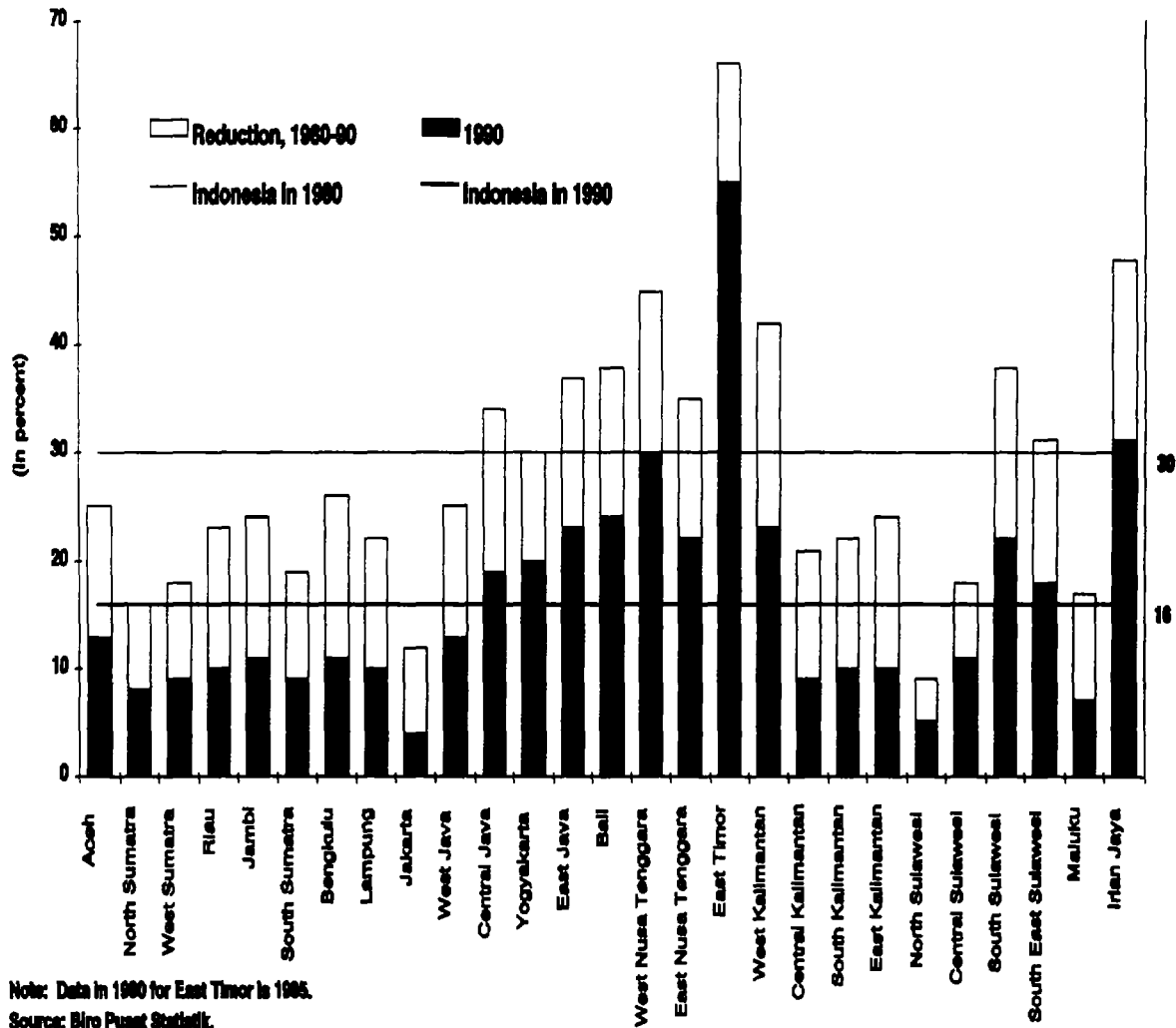
but not closed the regional imbalances in health and education status. Moreover, there are signs that the approach based on the provision of physical inputs could be improved.

4.54   One sign from the health field is low utilization of public facilities and staff, especially off Java (World Bank 1994d). Government service outlets do not seem to

have gained ground in the last five or six years and average daily patient contacts in many health centers and public hospitals remain low. The trained doctors, nurses, midwives and paramedics staffing these underutilized facilities do not appear to be fully occupied.

4.55   Low utilization of health centers is related to the range and quality of available

services and the effectiveness of staff, not only the accessibility of centers or the numbers of health workers found there. In part this reflects rigid, centrally determined staffing guidelines—one to three doctors per health center, three general practitioners per class D hospital, etc.—that are unresponsive to local demand conditions. In short the problem may be related with the demand side of the health services market, not the supply side.

4.56 There also are indications that the supply side approach is experiencing internal strains. It is becoming increasingly difficult to induce newly graduated general practitioners, whose compulsory assignment now is handled through a non-renewable three-year appointment as "non-permanent employees" (the Indonesian acronym is PTT), to take assignments in remote areas. Some provinces—Irian Jaya, East Timor, Aceh, Central Kalimantan and Southeast Sulawesi for example—are experiencing difficulties in obtaining doctors for available jobs. In an effort to even out the availability of physicians across the country, special incentives are paid to PTT doctors to induce them to practice in remote parts of Indonesia. Increasing the differential for working in remote areas could work. But it would cost more and create resentment among the civil service doctors, who still make up a large share of the health work force.

4.57 Quality also may be an issue in the education sector, as noted in the discussion of returns to education in Chapter 3. Those who complete primary education command only a small wage differential over those with incomplete primary education (Chapter 3). Pupil scores on reading-achievement tests for several East Asian countries showed that Indonesia had the lowest among its neighbors, about 2% below the Philippines but some 20% below Thailand and 30% below Singapore (Greaney). Tests of cognitive ability indicate weak learning abilities. A Ministry of

Education and Culture (MOEC) study suggests that students absorb, on average, less than 50 percent of the curriculum in primary schools (Suryadi). The MOEC study notes that an International Education Assessment study among fourth grade students in 27 provinces in 1990/91 showed low literacy standards and serious deficiencies in reading-comprehension skills.

4.58 Another indicator of low educational quality is the percentage of entrants to primary school who graduate. The national average primary graduation rate is about 68%. Java and Bali are well above the average, while all of the eastern islands are below (8 of 13) or near the average (Figure 4.11). The lowest completion rates are in East Timor, East Nusa Tenggara, and Irian Jaya. The regional differences reflect low population densities, the prevalence of agriculture in the eastern provinces and the fact education is seen as reducing the economic contribution of children in poor rural areas. In the high growth provinces the problem of "low payoff/high opportunity cost" is seen in high drop-out rates from secondary schools among the poor (World Bank 1994a).

4.59 Significant differences still exist in net enrollment rates for primary schooling between the richest and poorest provinces of Indonesia (East and West Nusa Tenggara, West Kalimantan, Irian Jaya, South East Sulawesi). Incomplete enrollments reflect the combined influence of weak demand for education (which is partly caused by low achievement) and inadequate schooling opportunities.

4.60 The findings that some areas remain well below average in basic health and education status and that low quality services also are a problem in some areas suggest that the pro-poor focus of health and education spending may require an approach that

Figure 4.11 Primary school graduation remains low in the eastern provinces.
(Graduation in 1992 as a percent of entrants in 1986).
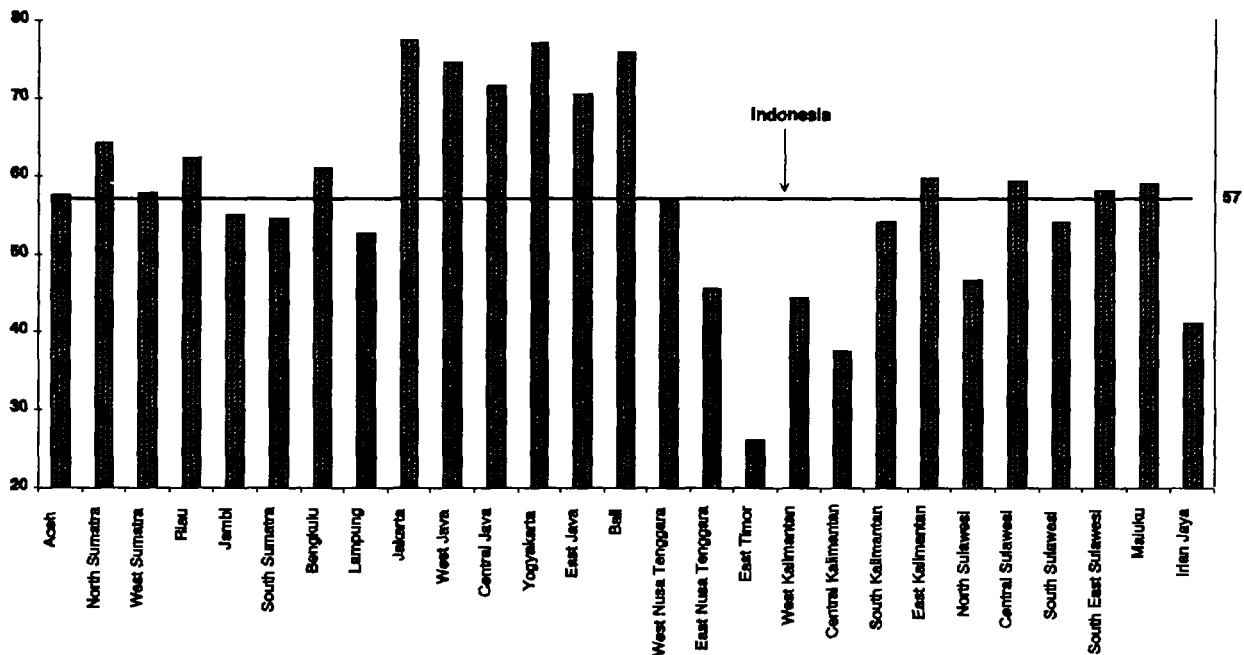
Source: Ministry of Education and Culture.

combines supply and demand. As noted above, for the past 25 years the Government has tried to even out access to basic health and education services, and, as noted above, there has been a lot of progress. Further gains would come from intensifying the supply side approach of increasing the number of health and education inputs across the archipelago. For example, reducing the distance from schools and health centers could raise enrollments where they are low and increase utilization of health services. But more progress also will depend on quality improvements. A more balanced approach in which local demands for health and education services are given more importance could lead to quality improvements.

4.61 The demand side of the education services market is made up of students and their parents. Sick people and those seeking preventive care account for most of the demand for health services. Putting greater weight on

the demand side of the market means listening more to these groups. This means withdrawing from the current approach that emphasizes close management by the Central Government and allowing local units greater scope to determine their response to local demands for health and education services.

4.62 Implementation of a more market-oriented, pro-poor approach to health and education public spending could be facilitated by assigning greater accountability and authority to subnational governments for health and education spending. Local governments need to be more responsible for decisions and actions relating to the coverage and performance of public facilities.

4.63 In education, for example, greater autonomy could be given to school principals for managing their schools. Greater autonomy given to principals would encourage the community to become more involved in school

oversight, which in turn would increase the responsiveness and accountability of teachers and administrators. More autonomy could be given to teachers to determine classroom practice within limits set by the national curriculum, and to have more choice over textbooks.

4.64   In health local governments could be given greater responsibility for determining the allocation and deployment of different worker categories in the public sector—provision of drugs, means of transport and staff housing (as needed), and supervision and assessment of workers and facility performance. Administrators could be selected through an open and competitive hiring process. In remote areas the local authorities could experiment with alternative management and delivery mechanisms, including turning over facilities to NGOs, using non-physicians as administrators, and subcontracting specific services to private practitioners.

4. Decentralization

4.65   Decentralization could achieve the objective of efficiently increasing the pro-poor focus of public spending on health and education spending. Smaller distances between service users and providers and closer links between costs and services will tend to raise efficiency, improve service delivery, and increase accountability. Decentralization also would allow better adaptation of expenditures to local conditions. Where capacity is sufficient it makes sense to rely on the greater ability of subnational governments to identify their needs and manage the delivery of public goods and services. Worldwide experience, in countries as diverse as Bolivia, Ecuador, the Philippines, and Mexico, suggests that decentralization can be effective in reducing costs and improving service delivery.

4.66   Increasing the effectiveness of public

spending will become increasingly important in Indonesia in light of the projected decline in oil revenues and (net) aid. These were the sources of fiscal redistribution; their slowdown will make it difficult to sustain fiscal redistribution on the previous scale. More efficiency in spending will be needed to offset the projected drop in these revenues; decentralization would promote greater efficiency.

4.67   However, decentralization is not a panacea. Its benefits depend on decentralizing services to the level of Government that captures most of the externalities and/or can handle the spending most efficiently, linking decentralized expenditures to decentralized revenues (to get a better reading on demand), and improving institutional capacity in the subnational governments.

4.68   In Indonesia's centralized government structure certain tasks are assigned to subnational—provincial or local—government levels for implementation. In addition to their very small own resources, subnational governments (provincial and local) receive transfers from the Central Government: block grants (INPRES funds); and subsidy transfers to pay civil servants and for primary education. Provincial and local government agencies also may participate in the "co-administration" of investments and activities financed through the national line ministry budgets or the special development budget. In this case, little discretion is allowed as detailed budgets are approved each year by the Central Government. Although implementation is to some degree decentralized, the subnational government usually has little authority to define either the nature or budget for these decentralized tasks and is essentially acting as an "agent" of the Central Government.

4.69   Some decentralization initiatives have begun. The Central Government has stated its objective to delegate the planning and execution

of a large cluster of public investments to local (*Dati II*) governments. The Government also is deconcentrating Central Government bureaucracies to the *kabupaten* level, in a pilot project (Projek Percontohan Otonomi Daerah Tingkat II) being run by the Home Affairs Ministry. Bappenas, the planning ministry, is leading an effort to design and implement targeted development strategies for more than 200 strategic regions (*kawasan andalan*). The Government also has supported substantial community level decision-making in infrastructure under the donor-funded Infrastructure for Lagging Behind Villages Program, associated with the IDT program, and the World Bank's Water Supply and Sanitation Services for Low Income Communities project (World Bank 1995a). As discussed in Box 4.4, gaps occasionally exist between decentralization policy and its implementation.

4.70   The Central Government also is moving to increase the authority of subnational governments over their spending of central government transfers. Recent examples are the consolidation of some specific-purpose transfers (for example, the INPRES grants for provincial reforestation and conservation and for provincial local road improvement) into the block grants to *Dati I* and *Dati II* and the creation of a new block grant for poor villages, the IDT. The Central Government also has increased the subnational governments' share of property taxes to 91%. Despite these efforts, *Dati* I and *Dati* II levels of government lack their own resources to carry out and maintain projects.

4.71   Central Government oversight of national budget expenditures is strict but coordination across sectors and levels of government usually is not as tight. Considerable fragmentation has occurred as the sources of finances for government programs have multiplied. For example, there are as many as ten sources of funds for health services, with one, the health INPRES grant,

further divided into ten elements. Similar problems exist with spending on roads at the *Dati* I and *Dati* II levels.

4.72   Simply loosening the Central Government's strings on its transfers to localities may not lead to the hoped-for efficiency gains. Efficiency only will come if a way is found to change the incentives of service providers to make them more responsive to local demands. A good way to do this is to require local service providers to mobilize increased funding from own sources, especially at the margin. Excessive reliance on grants reduces incentives for responsible local decisions. An example is the neglect of operations and maintenance spending after the project and the associated financing—the so called *DIP* transfers—finish. In some sectors, including agriculture, irrigation and road maintenance, this neglect has resulted in the need for additional projects to rehabilitate run-down public works.

4.73   The best potential for greater own-source revenue of local governments seems to lie with the property tax, vehicle taxes and user charges. Property rates are fairly low, and assessments appear to have lagged behind the growth in property values. Because of the low rate (0.1% of self-assessed value) and the low assessments, property taxes only amount to about 0.25% of GDP. Indeed, the name is something of a misnomer—it is largely a tax on mining, which accounts for 50% of the revenue nationwide, and 10% even in Jakarta. Better administration of the property tax could increase local government revenue, particularly in urban areas and the high-income housing developments being built on the fringes of Jabotabek. In Chile, another unitary state, the property tax is used to redistribute income (Box 4.5).

4.74   User fees also represent a potential way to generate revenues for improving local services. There is significant scope for higher

---

Box 4.4 The implementation gap in decentralizing responsibility for urban land use planning

The case for greater decentralization and private sector involvement is strong, as discussed in section D.2. The Government of Indonesia has established a framework for allowing municipalities to plan and implement urban development programs. However, implementation of the framework has lagged, and recent measures have actually reduced the role of subnational governments vis a vis the central government in land use planning.

With large deficiencies in urban infrastructure and a fast-growing urban population the Government issued a statement of urban policy in 1987 strengthening local governments' capacity to build, operate and maintain local services; improving the planning and programming of urban infrastructure investments; allowing greater local resource mobilization; and strengthening the consultative process at various level of government, particularly the participation of municipalities and regencies. An inter-ministerial team known by its Indonesian acronym TKPP was formed to support the policy statement.

Repelita VI and the second 25 Year National Development Plan shifted the focus of urban programs from overcoming current service deficits toward a more forward-looking emphasis on the investments needed to realize the economic potential of urban areas, including their functions as service centers for regional development. To accelerate decentralization and implementation of urban development plans, emphasis was placed on better use of resources, mobilization of local revenues, developing financing mechanisms, and increasing cost recovery by municipalities and their agencies. The Law for Spatial Development, which was passed by the Parliament in September 1992, would contribute to these objectives by unifying land-use planning. It assigned the task of setting the overall policy framework for land and water resource management to the central government and left local governments to fill in the details consistent with the national plan. It also includes requirements for information dissemination, local participation and environmental management concerning spatial planning.

However, implementing regulations for the Law on Spatial Development have yet to be promulgated. Responsibility for land and water use management remains scattered among different levels of government. Responsibility for financing and managing the provision of services remains unclear in many aspects, particularly regional-scale facilities and those protecting health and environmental quality. Lack of clear responsibility for land use management has inhibited the fulfillment of the loftier goals of Repelita VI and the 25 Year National Development Plan relating to the forward looking, strategic urban planning. At the local level, the approach continues to be too focused on alleviating current service deficits rather than realizing economic potential. Further, as discussed in Chapter 2, continuing the current practice of BPN issuance of *izin lokasi* and *izin prinsip* without regard to national development objectives—protection of watersheds, sensitive wetlands, prime agricultural lands, cultural heritage sites, for example—and local service capacities makes it difficult to create a well-coordinated system of development management.

---

user fees, especially in urban areas—for example, vehicle parking fees and periodic auctioning of public parking lots. Many public services are underpriced; the low fees act as a barrier to the provision of greater access and better-quality service. In many cases (urban water supply, local health services and public transport for example) the low prices mainly benefit the better-off, because the poor lack access (World Bank 1995a, 1994b). If more realistic fees were charged, it might even be possible to divest these services to the private

sector. However, care also must be taken with the relations between the local governments and such companies. In some cases, such as water, the local government's appropriation of revenues from local corporations has hindered service provision.[8] Thus, user charges need a major revamping, and there is an educational role for the Central Government (and aid donors) in assisting in this respect.

4.75   Increasing own revenues sounds good but, as the example of the levies on copra in Toli-Toli (Box 4.2) demonstrates, allowing localities to tax may lead to inefficient outcomes.   Taxes on trade are appealing, particularly if they appear to hit middlemen engaged in marketing, not local residents. But such taxes reduce incomes and efficiency.

4.76   The returns to technical assistance in the procedures of managing and operating local government public services can be high. The probability that technical assistance achieves a sustainable improvement in local capacity increases if the assistance is demand driven and responsive to local governments' needs and not supply driven. Training in pricing of public services, in competitive preparation of contracts, procurement, land use and planning, evaluation of aid and business offers, and other areas is likely to be needed for many subnational governments. There is a role for the Central Government to play in facilitating coordination among local governments, the private sector and NGOs for the training of local government administrators.

Box 4.5 Chile uses property taxes to redistribute income between provinces

Chile is effectively a unitary state, like Indonesia. Chile has a much smaller population but has to administer a country that is nearly as "long" as Indonesia, with disparate regional conditions and incomes. As with other unitary states, Chile uses revenues from VAT, income taxes, and copper to support investment in the regions and municipalities. These funds partly are allocated through the National Regional Development Fund on the basis of redistributive formulas and competitive submission of projects by municipalities.

The novelty of Chile's tax system is that it also uses a national property tax to redistribute income between regions and municipalities. Sixty percent of all property taxes, fifty percent of vehicle taxes, and parts of taxes on firms in the capital region are allocated to the Municipal Common Fund. The Fund is then redistributed to the local governments on the basis of tax base, population, share of tax—exempt property, and tax revenue per capita. Effectively the fund transfers revenues from municipalities with high income from taxable property to those with less taxable property.

Endnotes

1. See Hill (1991) is a compendium of recent english language articles on regional development.

2. The coefficient of variation (a standard measure of dispersion equal to the standard deviation divided by the average) of provincial per capita GDP declined to 0.94 in 1993 from 1.21 in 1983. See also section B.4.

3. The consumption figures, for both the provinces and the national GDP, are based on Susenas surveys of expenditure.

4. Expenditure data typically are more evenly distributed than income data.

5. Local water companies could improve their revenues through better use of user fees. However, the present system of transferring much of their cash surpluses to the local governments reduces the companies ability to use their own revenues to improve service and distorts their incentives to favor more borrowing (World Bank 1995a, Chapter 3).

6. The Spearman rank correlations coefficients were .429 (t = 2.38) and .328 (t = 1.74), including oil and gas and excluding oil and gas, respectively.

7. Oil production is expected to drop-off slowly over the medium-term, and the mix of production increasingly favors high-cost enhanced oil recovery fields, which remit lower revenues to the Government. LNG/LPG production rises over the medium-term, but yields less in Government revenues than oil production. Moreover, some of the new gas fields (Natuna for example) will probably be developed only very slowly.

8. See note 5.

Bibliography

Agrawal, N. 1995. "Indonesia: Labor Market Policies and International Competitiveness." Background Paper for the World Development Report 1995 and World Bank Policy Research Working Paper 1515. Washington, D.C.

Azis, Iwan J. 1990a. "Inpres: Role in the reduction of Interregional Disparity." *Asian Economic Journal*, August.

_____, 1990b. "The Reduction of Interregional Disparity." Asian Economic Journal, September, pp. 1-27.

_____. 1991. "Key Issues in Regional Economic Development," in H. Hill (ed.), *Unity in Diversity: Regional Development in Indonesia since 1970.* Oxford University Press, Singapore.

_____. 1992. "Interregional Allocation of Resources: The Case of Indonesia." *Papers in Regional Science: The Journal of the RSAI*, Vol. 71, No. 4, 393-404.

Behrman, J.R., and A.B. Deolalikar. 1995. "Are There Differential Returns to Schooling by gender? The Case of Indonesian Labor Markets." *Oxford Bulletin of Economics and Statistics*, Vol. 57, No. 1, pp. 97-117.

Bennett, C.P.A. 1996. "Rattan Resource Management," processed.

Binhadi. 1995. *Financial Sector Deregulation; Banking Sector Development and Monetary Policy, the Indonesian Experience.* The Indonesian Bankers' Institute.

Biro Pusat Statistik. 1989. *Level of Development of Income distribution in Indonesia.* Jakarta.

_____. *SAKERNAS*, various issues. Government of Indonesia, Jakarta.

_____. *SUSENAS*, various Issues. Government of Indonesia, Jakarta.

_____. 1994a. *Statistik Indonesia: Statistical Yearbook of Indonesia.* Jakarta, Indonesia.

_____. 1994b. *Welfare Indicators.*

Boediono. 1995. "Problems of Implementing Monetary Policy in Indonesia." *Indonesia Assessment 1994: Finance as a Key Sector in Indonesia's Development.* Research School of Pacific and Asian Studies, Australian National University and Institute of Southeast Asian Studies, pp. 119-128.

Boediono, and W.W. McMahon. 1992. *Education, Structural Change and Investment in Indonesia,* Discussion Papers on Education, Economic and Social Development, Pusat Informatika, Ministry of Education and Culture and USAID IEES/EPP Project. Jakarta.

Dhanani, S. 1994. *Unemployment and Underemployment in a Growing Economy: Evidence from Indonesian Labor Force Surveys 1976-1993*. Technical Report No. 45. Jakarta.

Fane, G., and C. Phillips. 1991. "Effective Protection in Indonesia." *Bulletin of Indonesian Economic Studies*. April. Vol. 27, No. 1, pp. 105-125.

Fane, G., and T. Condon. "Trade Reform in Indonesia, 1987-95." *Bulletin of Indonesian Economic Studies*, (forthcoming).

Freeman, R.B. 1993. "Does Suppression of Labor Contribute to Economic Success? Labor Relations and Markets in East Asia." Harvard University, Department of Economics, Cambridge, Mass.

Galal, Ahmed and others. 1994. *Welfare Consequences of Selling Public Enterprises: An Empirical Analysis*. Oxford Press for the World Bank.

Garber, P. and M.P. Taylor. 1995. "Sand in the Wheels of Foreign Exchange Markets: A Skeptical Note." *The Economic Journal*. January. Vol. 105, No. 428, pp. 173-180.

Garcia-Garcia, Jorge. 1996. "Estimating Rice Consumption in Indonesia." Background report, World Bank, Jakarta.

Geertz, Clifford. 1963. *Agricultural Involution: The Processes of Ecological Change in Indonesia*. University of California Press.

Goderbauer, H. and R. Trienes. 1995. "Child Labour" in D.R. Harris ed. *Prisoners of Progress: A Review of the Current Indonesian Labour Situation*. FNV/INDOC/INFID, The Netherlands.

Goeltom, Miranda S. 1995. "Real Sector Effects of Financial Reform: A Panel Study of Indonesian Manufacturing, 1980-1991." Paper presented at the Conference on Deregulation of the Indonesia Economy, processed.

Grootaert, C., and R. Kanbur. 1995. "Child Labor: A Review." Background Paper for the World Development Report 1995 and World Bank Policy Research Working Paper 1454, Washington, D.C.

Hanson, James A. 1995. "Monetary and Fiscal Policy in the Indonesian Economy," presented at the *Seminar Marking the 40th Anniversary of the Faculty of Economics at Gadjah Mada University*, Yogyakarta, Indonesia, processed.

Harjono, Joan. 1986. "Transmigration: Looking to the Future." *Bulletin of Indonesian Economic Studies*. Vol XXII (2), August, pp. 28-54.

Harris, J., F. Schiantarelli and M.G. Siregar. 1994. "The Effect of Financial Liberalization on the Capital Structure and Investment Decisions of Indonesian Manufacturing Establishments." *The World Bank Economic Review*, Vol. 8, No. 1, pp. 17-48.

Henderson, J.V. and Ari Kuncoro. 1994. "Industrial Centralization in Indonesia," processed.

Hill H. 1987. "Concentration in Indonesian Manufacturing." *Bulletin of Indonesian Economic Studies*, Vol. 23, No. 2.

_____. 1990. "Indonesia's Industrial Transformation: Part 1." *Bulletin of Indonesian Economic Studies*, Vol. 26., No. 2.

_____. 1990. "Indonesia's Industrial Transformation: Part 2." *Bulletin of Indonesia Economic Studies*, Vol. 26, No. 3.

_____ (ed.). 1991. *Unity in Diversity: Regional Economic Development in Indonesia since 1970.* Oxford University Press, Singapore.

_____. 1994. "The Economy" in *Indonesia's New Order: The Dynamics of Socio-Economic Transformation*, H. Hill ed., Allen and Unwin, Australia.

_____, and A. Weiderman. 1991. "Regional Development in Indonesia: Pattern and Issues," in H. Hill (ed.), *Unity in Diversity: Regional Economic Development in Indonesia since 1970.* Oxford University Press, Singapore.

Huppi, M., and M. Ravallion. 1991. "The Sectoral Structure of Poverty in Indonesia During an Adjustment Period: Evidence for Indonesia in the Mid-1980s." *World Development*, Vol. 19, No. 12, pp. 1653-1678.

Ihromi, T.O. 1995. "Some Results of the Research on the Implementation of Article 11 of the Convention on the Elimination of All Forms of Discrimination Against Women in the Labor World." Paper presented at the Panel Discussion in the Framework of the 45th Anniversary of the University of Indonesia, Jakarta, processed.

International Labour Organization. 1994. *Child Labour in Indonesia.* Geneva, Switzerland.

International Monetary Fund. 1995. *International Capital Markets, 1995.* Washington.

Jones, C. 1994. "Rice Price Stabilisation in Indonesia: An Economic Assessment of the Changes in Risk Bearing," *Working Papers in Economics and Econometrics*, No. 274. Faculty of Economics & Commerce and Economics Program, Research School of Social Sciences, Australian National University. September.

Katjasungkana, N. 1995. "Where Are We 10 Years After the Ratification of the Convention on the Elimination of All Forms of Discrimination Against Women?" Paper presented at the Panel Discussion in the Framework of the 45th Anniversary of the University of Indonesia, Jakarta, processed.

Krongkaew, Medhi. 1994. "Income Distribution in East Asian Countries: An Update." *Asian Pacific Economic Literature*, Vol. 8, No. 2, November, pp.58-73

Kuncoro, Ari. 1994. "Industrial Location Choices in Indonesia," unpublished Ph.D. dissertation, Brown University.

_____. 1996. "Regional Development in Indonesia: A Review of the Literature," processed.

Larson, D. 1996. "A Review of the Palm Oil Subsector in Indonesia," processed.

Lim, L.L. 1993. "The Feminization of Labour in the Asian Pacific Rim Countries: From Contributing to Economic Dynamism to Bearing the Brunt of Structural Adjustment," in H. Ogawa and J. Williamson, ed., *Human Resources in Development Along the Asia-Pacific Rim*, Oxford University Press, Singapore and New York.

Manning, C. 1993. "Structural Change and Industrial Relations During the Soeharto Period: An Approaching Crisis?" *Bulletin of Indonesian Economic Studies*, Vol. 29, No. 2, pp. 59-95.
_____. 1996. "Labor Market Transformation in Indonesia: The Halting Steps of An East Asian Giant," forthcoming.

_____. 1996. "Deregulation and Regional Labor Markets in Indonesia: Widening or Narrowing Employment and Wage Gaps?" processed.

Martokoesoemo, Soeksmono B. 1995. "Small-Scale Finance: Lessons from Indonesia," in R. McLeod ed. *Indonesia Assessment, 1994*. Australian National University.

Mason, A. and J. Baptist. 1996. "How Important are Labor Markets to the Welfare of the Poor in Indonesia," processed.

Megginson, William L. and others. 1995. "The Privatization Dividend." *Public Policy for the Private Sector Quarterly*, No. 5, December, Washington, D.C., The World Bank.

Mundell, Robert A. 1968. *International Economics*. University of Chicago, United States of America.

Plunkett, H. and Pasinringi, A. 1995. "The Indonesian Cement Industry: The Current Regulatory Arrangements and The Economics Cement Production and Distribution." Paper presented at the Conference on Deregulation of the Indonesia Economy, processed.

Rama, M. 1996. "The Consequences of Doubling the Minimum Wage: The Case of Indonesia," processed.

Shah, Anwar and Zia Qureshi. 1994. "Intergovernmental Fiscal Relations in Indonesia: Issues and Reform Options." World Bank Discussion Paper No. 239.

Soelistianingsih, L. 1996. "Regional Income: Evolution, Convergence and Causes of Disparities," processed.

Suryadi, Ace. 1993. "Improving the Educational Quality of Primary Schools." Educational Policy and Planning Project, Government of Indonesia and USAID, Jakarta.

Tambunan, Mangara. 1995. "The Raw Rattan Export Bans and the Impact on Industrial Development," *Kelola*, Vol. 4, No. 10.

Tan J-P, and A. Mingat. 1989. *Educational Development in Asia: A Comparative Study Focussing on Cost and Financing Issues*. Asia Regional Series, Washington D.C., The World Bank.

UNICEF. 1994. *The State of the World's Children*, Table 9.

World Bank. 1990a. *Indonesia: Strategy for a Sustained Reduction in Poverty*. A World Bank Country Study, Washington, D.C.

_____. 1990b. *Trends in Developing Economies*, Washington, D.C.

_____. 1991. *Growth, Poverty Alleviation and Improved Income Distribution in Malaysia: Changing Focus of Government Policy Intervention*. A Country Economic Study, Washington, D.C.

_____. 1992. *Indonesia: Growth, Infrastructure and Human Resources*, No. 10470-IND.

_____. 1993a. *Indonesia: Sustaining Development*. Washington, D.C.

_____. 1993b. *World Development Report 1993: Investing in Health*, Oxford University Press for the World Bank.

_____. 1993c. *The East Asian Miracle*. Oxford University Press, New York.

_____. 1993d. *Public Expenditures, Prices and the Poor*, No. 11293-IND, Washington, D.C.

_____. 1993e. *Chile: Subnational Government Finance*. World Bank Country Study, Washington, D.C.

_____. 1994a. *Indonesia: Stability, Equity and Growth in Repelita VI*, No. 12857-IND, Washington, D.C.

_____. 1994b. *World Development Report 1994: Infrastructure for Development*. Oxford University Press for the World Bank.

_____. 1994c. *World Debt Tables, 1994-1995*, Volumes I and II.

_____. 1994d. *Indonesias Health Work-Force: Issues and Options*, No. 12835-IND.

_____. 1994e. *Indonesia: Economic Consequences of Power Supply Inadequacy in the Manufacturing Sector*, processed.

_____. 1994f. *Indonesia: Environment and Economic Development: Challenges for the Future*.

_____. 1994g. "Report on Government Estate Companies," processed.

_____. 1994h. "Indonesia Labor Legislation in a Comparative Perspective: A Study of Six APEC Countries," processed.

_____. 1994i. "Priorities and Strategies for Education." Draft paper, Education and Sector Policy Department, Washington, D.C.

_____. 1995a. *Indonesia: Improving Efficiency and Equity: Changes in the Public Sector's Role*, Report No. 14006-IND.

_____. 1995b. *World Development Report 1995: Workers in an Integrating World.* Oxford University Press for the World Bank.

_____. 1995c. *World Debt Tables 1995-96*, Volumes I and II.

_____. 1995d. "Monitoring Environmental Progress." *A Report on Work in Progress*, Environmentally Sustainable Development. Washington, D.C., The World Bank.

_____. 1995e. *Mainstreaming the Environment.* Washington, D.C.

_____. 1995f. "Industry and the Environment in Indonesia: Pollution Prevention Pays." The World Bank, EA3EN.

_____. 1995g. "Indonesia—Fertilizer Supply and Distribution," processed.

_____. 1995h. *Priorities and Strategies for Education: A World Bank Review, Development in Practice Series.* Washington, D.C.

_____. 1995i. *Managing Urban Air Quality.* Asia Technical Paper No. 220.

_____. 1995j. *Colombia: Local Government Capacity: Beyond Technical Assistance.* Report No. 18085-CO, Washington, D.C.

_____. 1995k. *The Emerging Asian Bond Market, Indonesia.*

_____. 1995l. "Privatizing Argentina's Public Enterprises." *OED Precis.*

_____. 1996. *Involving Workers in East Asian Growth.* Regional Perspectives on World Development Report 1995, Washington, D.C.

INDONESIA

COUNTRY ECONOMIC REPORT

STATISTICAL ANNEX [a]

List of Tables

Population and Employment

1.1 Population and Growth Rates by Province, 1930-1990
1.2 Distribution of Population by Age Group and Sex, 1961-1990
1.3 Employment by Main Industry, 1971-1990
1.4 Population Distribution by Province and Urban & Rural, 1980-1990

National Income Accounts

2.1 Gross Domestic Product by Industrial Origin at Current Market Prices, 1983-1995
2.2 Gross Domestic Product by Industrial Origin at Constant Market Prices, 1983-1995
2.3 Expenditure on GDP at Current Market Prices, 1983-1995
2.4 Expenditure on GDP at Constant Market Prices, 1983-1995
2.5 Distribution of GDP at Current Market Prices, 1983-1995
2.6 Distribution of GDP at Constant Market Prices, 1983-1995

International Trade & Balance of Payments

3.1 Balance of Payments, 1983/84-1995/96
3.2 Non-oil Exports, 1984/85-1994/95
3.3 Value of Exports by Principal Country of Destination, 1983-1995
3.4 Value of Imports by Principal Country of Origin, 1983-1995

External Debt & Capital Flows

4.1 Summary of External Debt Data, 1982-1994
4.2 External Public Debt Outstanding as of December 31, 1994
4.3 Service Payments, Commitments, Disbursements and Outstanding Amounts of External Public Debt, 1980-2009
4.4 Development Assistance Flows, 1987-1992

Public Finance

5.1 Central Government Budget Summary, 1983/84-1996/97
5.2 Central Government Receipts, 1983/84-1996/97
5.3 Central Government Expenditures, 1983/84-1996/97

---

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

Table 1.1

INDONESIA

COUNTRY ECONOMIC REPORT

Population And Growth Rates by Province, 1930-1990

Region	Population ('000)						Average growth rate (% p.a.)				
	1930	1961 /a	1971 /a	1980	1985	1990	1930-61	1961-71	1971-80	1980-85	1985-90
Java	**41,718**	**63,059**	**76,086**	**91,270**	**99,852**	**107,528**	**1.3**	**1.9**	**2.0**	**1.8**	**1.5**
DKI Jakarta	811	2,973	4,579	6,503	7,885	8,225	4.3	4.4	4.0	3.9	0.8
West Java	10,586	17,615	21,624	27,454	30,830	35,380	1.7	2.1	2.7	2.3	2.8
Central Java	13,706	18,407	21,877	25,373	26,945	28,519	1.0	1.7	1.7	1.2	1.1
DI Yogjakarta	1,559	2,241	2,489	2,751	2,930	2,915	1.2	1.1	1.1	1.3	-0.1
East Java	15,056	21,823	25,517	29,189	31,262	32,490	1.2	1.6	1.5	1.4	0.8
Sumatra	**8,255**	**15,739**	**20,809**	**28,017**	**32,603**	**36,836**	**2.1**	**2.8**	**3.4**	**3.1**	**2.2**
Lampung	361	1,668	2,777	4,625	5,905	6,006	5.1	5.2	5.8	5.0	0.3
Bengkulu	323	406	519	768	943	1,181	0.7	2.5	4.5	4.2	4.6
South Sumatra	1,378	2,773	3,441	4,630	5,370	6,278	2.3	2.2	3.4	3.0	3.2
Riau	493	1,235	1,642	2,169	2,548	3,283	3.0	2.9	3.1	3.3	5.2
Jambi	245	744	1,006	1,446	1,745	2,016	3.6	3.1	4.1	3.8	2.9
West Sumatra	1,910	2,319	2,793	3,407	3,698	4,001	0.6	1.9	2.2	1.7	1.6
North Sumatra	2,542	4,965	6,622	8,361	9,422	10,254	2.2	2.9	2.6	2.4	1.7
Aceh	1,003	1,629	2,009	2,611	2,972	3,417	1.6	2.1	3.0	2.6	2.8
Kalimantan	**2,170**	**4,102**	**5,155**	**6,723**	**7,722**	**9,111**	**2.1**	**2.3**	**3.0**	**2.8**	**3.4**
West Kalimantan	802	1,581	2,020	2,486	2,819	3,237	2.2	2.5	2.3	2.5	2.8
Central Kalimantan	203	497	702	954	1,118	1,398	2.9	3.5	3.5	3.2	4.6
South Kalimantan	836	1,473	1,699	2,065	2,273	2,599	1.8	1.4	2.2	1.9	2.7
East Kalimantan	329	551	734	1,218	1,512	1,877	1.7	2.9	5.8	4.4	4.4
Sulawesi	**4,231**	**7,079**	**8,528**	**10,409**	**11,554**	**12,519**	**1.7**	**1.9**	**2.2**	**2.1**	**1.6**
Central Sulawesi	390	693	914	1,290	1,511	1,705	1.9	2.8	3.9	3.2	2.4
North Sulawesi	748	1,310	1,719	2,115	2,313	2,480	1.8	2.8	2.3	1.8	1.4
South Sulawesi	2,657	4,517	5,181	6,062	6,610	6,983	1.7	1.4	1.8	1.7	1.1
Southeast Sulawesi	436	559	714	942	1,120	1,351	0.8	2.5	3.1	3.5	3.8
Other Islands	**4,219**	**7,106**	**8,630**	**11,071**	**12,316**	**13,654**	**1.7**	**2.0**	**2.8**	**2.2**	**2.1**
Bali	1,101	1,783	2,120	2,470	2,649	2,779	1.6	1.7	1.7	1.4	1.0
West Nusa Tenggara	1,016	1,808	2,203	2,725	2,995	3,371	1.9	2.0	2.4	1.9	2.4
East Nusa Tenggara	1,344	1,967	2,295	2,737	3,061	3,270	1.2	1.6	2.0	2.3	1.3
Maluku	579	790	1,089	1,410	1,609	1,853	1.0	3.3	2.9	2.7	2.9
Irian Jaya	179	758	923	1,174	1,371	1,631	4.8	2.0	2.7	3.2	3.5
East Timor	n.a	n.a	n.a	555	631	750	n.a	n.a	n.a	2.6	3.5
Total Indonesia	**60,593**	**97,085**	**119,208**	**147,490**	**164,047**	**179,248**	**1.5**	**2.1**	**2.4**	**2.2**	**1.8**

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

Source: Central Bureau of Statistics, Population Census Reports, 1961, 1971, 1980 and 1990;
Statistical Yearbook Of Indonesia, 1984; and SUPAS 1985.

INDONESIA

COUNTRY ECONOMIC REPORT

Distribution of Population by Age Group and Sex, 1961-1990 /a
('000)

Age Group	1961 Male	1961 Female	1961 Total	1971 Male	1971 Female	1971 Total	1980 Male	1980 Female	1980 Total	1985 Male	1985 Female	1985 Total	1990 Male	1990 Female	1990 Total
0-4	8,529	8,649	17,178	9,675	9,560	19,235	10,872	10,422	21,294	11,008	10,543	21,551	10,766	10,120	20,887
5-9	7,744	7,701	15,445	9,593	9,302	18,895	10,889	10,446	21,335	11,379	10,739	22,118	11,791	11,290	23,081
10-14	4,353	3,892	8,245	7,406	6,875	14,281	9,179	8,525	17,704	10,783	10,113	20,896	10,998	10,438	21,437
15-19	3,865	3,905	7,770	5,627	5,779	11,406	7,552	7,806	15,358	8,335	8,232	16,567	9,555	9,367	18,920
20-24	3,480	4,373	7,853	3,627	4,461	8,088	6,010	7,055	13,065	6,385	7,903	14,288	7,662	8,486	16,148
25-34	7,392	8,610	16,002	7,722	9,226	16,948	9,685	9,920	19,605	12,026	12,442	24,468	13,962	14,770	28,732
35-44	5,765	5,406	11,171	7,062	7,119	14,181	7,876	8,172	16,048	8,538	8,485	17,023	9,778	9,475	19,253
45-54	3,587	3,511	7,098	4,360	4,213	8,573	5,761	5,856	11,617	6,418	6,514	12,932	7,036	7,284	14,320
55-64	1,913	1,865	3,778	2,224	2,373	4,597	3,297	3,354	6,651	4,150	4,474	8,624	4,615	4,887	9,502
65+	1,183	1,245	2,428	1,450	1,539	2,989	2,200	2,593	4,793	2,619	2,954	5,573	3,213	3,749	6,962
Not stated	60	57	117	7	8	15	11	9	20	4	3	7	3	5	8
Total	**47,871**	**49,214**	**97,085**	**58,753**	**60,455**	**119,208**	**73,332**	**74,158**	**147,490**	**81,645**	**82,402**	**164,047**	**89,376**	**89,872**	**179,248**

Percentage distribution

Age Group	1961 Male	1961 Female	1961 Total	1971 Male	1971 Female	1971 Total	1980 Male	1980 Female	1980 Total	1985 Male	1985 Female	1985 Total	1990 Male	1990 Female	1990 Total
0-4	17.8	17.6	17.7	16.5	15.8	16.1	14.8	14.1	14.4	13.5	12.8	13.1	12.0	11.3	11.7
5-9	16.2	15.6	15.9	16.3	15.4	15.9	14.8	14.1	14.5	13.9	13.0	13.5	13.2	12.6	12.9
10-14	9.1	7.9	8.5	12.6	11.4	12.0	12.5	11.5	12.0	13.2	12.3	12.7	12.3	11.6	12.0
15-19	8.1	7.9	8.0	9.6	9.6	9.6	10.3	10.5	10.4	10.2	10.0	10.1	10.7	10.4	10.6
20-24	7.3	8.9	8.1	6.2	7.4	6.8	8.2	9.5	8.9	7.8	9.6	8.7	8.6	9.4	9.0
25-34	15.4	17.5	16.5	13.1	15.3	14.2	13.2	13.4	13.3	14.7	15.1	14.9	15.6	16.4	16.0
35-44	12.0	11.0	11.5	12.0	11.8	11.9	10.7	11.0	10.9	10.5	10.3	10.4	10.9	10.5	10.7
45-54	7.5	7.1	7.3	7.4	7.0	7.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	8.1	8.0
55-64	4.0	3.8	3.9	3.8	3.9	3.9	4.5	4.5	4.5	5.1	5.4	5.3	5.2	5.4	5.3
65+	2.5	2.5	2.5	2.5	2.5	2.5	3.0	3.5	3.2	3.2	3.6	3.4	3.6	4.2	3.9
Not stated	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Central Bureau of Statistics, Census Reports, 1961, 1971, 1980, and 1990; Intercensal Population Survey, 1985.

Table 1.2   *131*

INDONESIA

COUNTRY ECONOMIC REPORT

Employment by Main Industry , 1971-1990 /a

Main Industry	1971		1980		1982		1985		1990	
	million	%	million	%	million	%	million	%	million	%
Agriculture, forestry, hunting & fishery	26.5	64.2	28.0	54.8	31.6	54.7	34.1	54.6	35.5	50.1
Mining and quarrying	0.1	0.2	0.4	0.7	0.4	0.7	0.4	0.7	0.7	1.0
Manufacturing	2.7	6.5	4.4	8.5	6.0	10.4	5.8	9.3	8.2	11.6
Electricity, gas & water	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Construction	0.7	1.6	1.6	3.1	2.2	3.7	2.1	3.4	2.8	4.0
Wholesale and retail trade & restaurants	4.3	10.3	6.6	12.9	8.6	14.8	9.4	15.0	10.6	15.0
Transportation, storage & communications	1.0	2.3	1.5	2.9	1.8	3.1	2.0	3.1	2.7	3.8
Finance, insurance, real estate & business services	0.1	0.2	0.2	0.4	0.1	0.2	0.3	0.4	0.5	0.7
Public services	4.1	10.0	7.7	15.1	7.1	12.3	8.3	13.3	9.7	13.7
Others	1.9	4.6	0.7	1.4	0.0	0.0	0.1	0.1	0.0	0.0
Total	41.3	100.0	51.2	100.0	57.8	100.0	62.5	100.0	70.8	100.0

/a Refers to population 10 years of age and above who worked during the week previous to the census.

Source: Central Bureau of Statistics, Statistical Yearbook of Indonesia, 1975, 1982, 1985 and 1990 Census.

<u>Table 1.4</u>

INDONESIA

COUNTRY ECONOMIC REPORT

<u>Population Distribution by Province and Urban & Rural, 1980-1990</u>

Region	1980		1990		Growth Rates (% p.a.)	
	Urban	Rural	Urban	Rural	Urban	Rural
Java	**22,926,377**	**68,290,593**	**38,335,297**	**69,182,666**	**5.28**	**0.00**
DKI Jakarta	6,071,748	408,906	8,222,515	0	3.08	0.00
West Java	5,770,868	21,678,972	12,208,176	23,170,307	7.78	0.67
Central Java	4,756,007	20,611,337	7,694,539	20,822,247	4.93	0.10
DI Yogyakarta	607,267	2,142,861	1,294,056	1,618,555	7.86	(2.77)
East Java	5,720,487	23,448,517	8,916,011	23,571,557	4.54	0.05
Sumatera	**5,481,488**	**22,514,439**	**9,293,747**	**27,128,739**	**5.42**	**1.88**
Lampung	576,872	4,047,366 ·	747,327	5,256,782	2.62	2.65
Bengkulu	72,492	695,496	240,192	938,759	12.73	3.04
South Sumatra	1,267,009	3,360,710	1,839,492	4,438,453	3.80	2.82
Riau	588,212	1,575,684	1,047,454	2,233,592	5.94	3.55
Jambi	182,846	1,261,630	432,727	1,581,327	9.00	2.28
West Sumatra	433,120	2,973,012	807,983	3,190,694	6.43	0.71
North Sumatra	2,127,436	6,223.514	3,638,832	6,613,479	5.51	0.61
Aceh	233,501	2,377.027	539,740	2,875.653	8.74	1.92
Kalimantan	**1,441,300**	**5,275,596**	**2,506,657**	**6,596,249**	**5.69**	**2.26**
West Kalimantan	416,923	2,067,968	642,989	2,592,377	4.43	2.29
Central Kalimantan	98,257	855,919	245,249	1,150,612	9.58	3.00
South Kalimantan	440,901	1,622,326	702,950	1,893,697	4.78	1.56
East Kalimantan	485,219	729,383	915,469	959,563	6.55	2.78
Sulawesi	**1,654,190**	**8,746,358**	**2,761,021**	**9,750,142**	**5.26**	**1.09**
Central Sulawesi	115,472	1,169,056	281,134	1,422,196	9.31	1.98
North Sulawesi	354,607	1,760,215	564,795	1,913,151	4.76	0.84
South Sulawesi	1,096,075	4,963,489	1,685,443	5,295,146	4.40	0.65
Southeast Sulawesi	88,036	853,598	229,649	1,119,649	10.06	2.75
Other Islands	**1,342,474**	**9,659,008** ·	**2,494,449**	**11,150,256**	**6.39**	**1.45**
Bali	363,336	2,106,388	734,237	2,043,119	7.29	(0.30)
West Nusa Tenggara	383,421	2,340,257	582,180	2,789,519	4.26	1.77
East Nusa Tenggara	205,457	2,531,531	372,242	2,895,677	6.12	1.35
Maluku	152,944	1,255,507	352,438	1,498,649	8.71	1.79
Irian Jaya	237,316	869,975	395,131	1,233,956	5.23	3.56
East Timor	0	555,350	58,221	689,336	0.00	2.18
Total Indonesia	**32,845,829**	**114,485,994**	**55,391,171**	**123,808,052**	**5.36**	**0.79**

Source : Central Bureau of Statistics

INDONESIA

COUNTRY ECONOMIC REPORT

Gross Domestic Product by Industrial Origin at Current Market Prices, 1983-1995 /a
(Rp. billion)

	1983 base											1993 base		
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993	1994 *	1995 **
1. Agriculture, Livestock, Forestry and Fishery	17,764.7	20,419.7	22,512.9	24,870.9	29,116.0	34,277.9	39,163.9	42,148.7	44,720.8	50,733.1	55,745.5	58,963.4	65,992.4	78,556.6
a. Farm food crops	11,125.9	12,691.8	13,860.2	15,084.9	17,540.2	21,123.8	24,491.9	25,907.5	26,149.2	29,443.0	31,403.5	32,093.4	34,938.3	41,173.1
b. Non-food crops /b	2,670.2	3,331.7	3,693.1	4,224.7	5,118.8	5,633.5	6,196.7	6,666.8	7,604.1	8,717.1	9,422.0	9,014.8	10,152.1	11,460.5
c. Livestock products	1,754.3	2,084.1	2,427.0	2,639.6	3,014.6	3,544.8	3,814.0	4,368.0	5,126.2	6,040.7	7,025.9	6,202.7	7,139.7	8,205.1
d. Forestry	994.2	939.0	938.0	1,000.6	1,246.8	1,448.3	1,634.7	1,854.6	2,018.0	2,179.6	2,541.4	6,267.6	7,388.5	8,136.4
e. Fishery	1,220.1	1,373.1	1,594.6	1,921.1	2,195.6	2,527.5	3,026.6	3,352.0	3,823.3	4,352.7	5,352.7	5,384.9	6,373.8	7,581.5
2. Mining & Quarrying	16,107.4	16,937.6	13,570.8	11,502.8	17,266.8	17,161.8	21,822.5	26,119.0	31,402.8	29,907.2	30,749.6	31,497.3	33,507.1	37,631.2
a. Oil & natural gas	15,103.0	15,916.7	12,583.8	10,501.8	15,979.4	15,524.7	19,283.0	21,789.2	26,126.1	23,383.9	23,168.6	23,120.8	23,070.0	24,608.0
b. Oth. mining & quarrying	1,004.4	1,020.9	987.0	1,001.0	1,287.4	1,637.1	2,539.5	4,329.8	5,276.5	6,523.3	7,581.0	8,376.5	10,437.1	13,023.2
3. Manufacturing	9,896.4	13,112.9	15,503.4	17,184.7	21,150.4	26,252.4	30,323.3	38,910.2	47,665.5	56,541.6	67,441.4	73,558.3	88,891.7	108,164.1
a. Refinery oil	358.9	1,012.7	1,863.7	1,915.4	1,819.7	2,025.9	2,148.1	3,575.0	3,806.5	4,321.8	5,210.7	5,540.5	5,606.1	5,804.3
b. LNG	1,871.2	2,706.7	2,423.7	1,968.5	2,097.3	2,948.2	3,298.9	3,714.6	4,714.4	4,383.6	4,253.3	4,253.3	4,584.0	4,549.9
c. Non-oil & gas mfg.	7,666.3	9,393.5	11,216.0	13,300.8	17,233.4	21,278.3	24,876.3	31,620.6	39,144.6	47,836.4	57,977.4	63,762.5	78,801.6	97,809.9
4. Electricity, gas & water	313.9	354.2	395.9	647.1	746.9	869.0	1,008.3	1,258.1	1,750.2	2,147.7	2,714.3	3,290.2	3,812.8	4,809.0
5. Construction	4,597.2	4,756.8	5,301.8	5,313.7	6,097.4	7,169.2	8,884.2	10,748.5	12,902.1	15,305.2	18,139.9	22,512.9	28,016.9	34,338.9
6. Trade, Hotel & Restaurant	11,418.7	13,434.5	15,416.8	17,121.8	21,048.3	24,379.2	28,855.5	32,999.7	36,953.8	42,731.5	49,789.4	55,297.8	62,207.3	73,126.3
a. Retail & wholesale trade	9,810.5	11,371.4	12,962.2	14,235.3	17,561.2	20,388.5	24,441.0	27,711.7	30,769.8	35,645.3	41,496.1	44,604.8	49,397.3	58,088.9
b. Hotels & Rest.	1,608.2	2,063.1	2,454.6	2,886.5	3,487.1	3,990.7	4,414.5	5,288.0	6,184.0	7,086.2	8,293.3	10,692.8	12,810.0	15,037.4
7. Transport & Communications	4,098.1	5,050.8	6,100.3	6,406.9	7,442.6	8,139.7	9,305.5	10,999.6	13,908.0	17,099.3	20,728.2	23,248.9	26,988.6	30,201.7
a. Transport	3,693.7	4,611.3	5,538.5	5,769.7	6,638.8	7,227.2	8,280.1	9,693.5	12,327.4	15,133.2	18,183.1	20,101.2	23,048.4	25,186.6
b. Communications	404.4	439.5	561.8	637.2	803.8	912.5	1,025.4	1,306.1	1,580.6	1,966.1	2,545.1	3,147.7	3,940.2	5,015.1
8. Banks & Finance	2,358.6	3,058.2	3,496.2	4,036.7	4,795.1	5,322.4	6,668.7	8,287.1	10,157.5	12,499.7	15,256.6	14,005.3	17,817.5	21,232.8
9. Ownership of Dwellings/ Real Estate /c	2,355.5	2,572.6	2,775.0	2,976.0	3,349.1	3,736.0	4,151.1	4,890.8	5,924.7	6,595.9	7,610.6	9,695.1	11,239.0	11,899.2
10. Other Services	8,712.3	10,187.8	11,923.7	12,621.9	13,814.3	14,797.3	17,003.7	19,235.5	22,064.9	26,323.3	33,842.4	37,708.9	40,538.5	47,440.8
a. Public	5,711.5	6,469.9	7,925.1	8,307.3	8,911.8	9,446.2	11,174.2	12,801.4	14,621.6	17,309.4	22,458.0	22,458.1	22,754.9	26,555.2
b. Other Private & Services /d	3,000.8	3,717.9	3,998.6	4,314.6	4,902.5	5,351.1	5,829.5	6,434.1	7,443.3	9,013.9	11,384.4	15,250.8	17,783.6	20,885.6
Gross Domestic Products	77,622.8	89,885.1	96,996.8	102,682.5	124,816.9	142,104.9	167,184.7	195,597.2	227,450.1	259,884.5	302,017.9	329,775.9	379,211.8	445,400.8

* : Preliminary figures.
* : Very preliminary figures.
/a. In 1995, the Government released national accounts series using a 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.
/b. Includes the former smallholder and estate food crops under the National Accounts with 1983 base.
/c. Using 1983 base, this line refers only to Ownership of Dwellings. Using the new base, it includes Real Estates.
/d. Includes Business Services.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Gross Domestic Product by Industrial Origin at Constant Market Prices, 1983-1995 /a
(Rp. billion)

	1983 base											1993 base		
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993	1994*	1995**
1. Agriculture, Livestock, Forestry and Fishery	17,764.7	18,512.6	19,300.0	19,799.1	20,223.5	21,213.7	21,918.0	22,356.9	22,714.8	24,225.5	24,569.3	58,983.4	59,287.4	61,637.4
a. Farm food crops	11,125.9	11,680.2	11,985.6	12,286.6	12,415.4	12,974.0	13,488.7	13,558.2	13,484.2	14,526.7	14,355.9	32,093.4	31,405.3	32,804.9
b. Non-food crops /b	2,670.2	2,794.8	3,086.5	3,142.3	3,257.8	3,458.1	3,549.2	3,723.6	3,924.0	4,111.2	4,350.7	9,014.8	9,495.9	9,935.8
c. Livestock products	1,754.3	1,890.1	2,036.5	2,063.7	2,110.8	2,211.7	2,243.7	2,327.7	2,468.3	2,664.5	2,813.5	6,202.7	6,451.4	6,719.8
d. Forestry	994.2	894.4	850.7	888.7	967.9	1,013.0	973.8	1,002.7	1,002.9	980.4	998.6	6,287.6	6,295.9	6,299.0
e. Fishery	1,220.1	1,253.1	1,340.7	1,417.8	1,471.8	1,556.9	1,662.6	1,744.7	1,835.4	1,942.7	2,052.6	5,384.9	5,638.9	5,878.1
2. Mining & Quarrying	16,107.4	17,120.1	15,480.4	16,308.6	16,365.5	15,892.9	16,663.8	17,531.7	19,317.0	18,957.7	19,370.3	31,497.3	33,261.6	35,145.3
a. Oil & natural gas	15,103.0	16,186.9	14,512.6	15,237.0	15,219.3	14,691.6	15,390.7	16,029.5	17,512.6	16,719.2	16,666.5	23,120.8	23,719.6	23,720.4
b. Oth. mining & quarrying	1,004.4	933.2	967.8	1,071.6	1,146.2	1,201.3	1,273.1	1,502.2	1,804.4	2,238.5	2,703.8	8,376.5	9,542.0	11,424.9
3. Manufacturing	9,896.4	12,078.8	13,430.8	14,878.1	16,235.3	18,182.3	19,855.7	22,336.9	24,585.0	26,983.6	29,484.4	73,556.3	82,725.7	91,928.0
a. Refinery oil	358.9	625.6	766.6	927.2	937.7	961.2	990.0	1,094.2	1,136.7	1,202.3	1,186.8	5,540.5	5,624.6	5,629.4
b. LNG	1,871.2	2,790.2	2,918.5	2,922.8	3,233.2	3,594.5	3,685.1	4,093.1	4,433.1	4,662.7	4,753.3	4,253.3	4,720.9	4,501.3
c. Non-oil & gas mfg.	7,666.3	8,663.0	9,745.5	10,828.1	12,064.4	13,606.6	15,180.6	17,149.6	19,015.2	21,098.6	23,544.3	63,762.5	72,380.2	81,798.3
4. Electricity, gas & water	313.9	324.0	360.9	429.8	494.6	548.9	615.8	725.7	842.8	928.2	1,022.3	3,290.2	3,707.4	4,280.8
5. Construction	4,597.2	4,393.8	4,508.0	4,609.0	4,802.9	5,259.1	5,878.0	6,872.9	7,423.7	8,223.6	9,222.5	22,512.9	25,887.5	29,190.7
6. Trade, Hotel & Restaurant	11,418.7	11,811.0	12,398.6	13,398.5	14,356.2	15,656.8	17,338.1	18,568.6	19,576.2	21,009.1	22,850.1	55,297.6	59,350.5	63,945.4
a. Retail & wholesale trade	9,810.5	10,028.0	10,412.0	11,238.0	12,004.9	13,035.4	14,446.8	15,425.3	16,213.5	17,405.8	18,968.8	44,604.8	47,528.9	51,227.2
b. Hotels & Rest.	1,608.2	1,783.0	1,986.6	2,160.5	2,351.3	2,621.4	2,891.3	3,143.3	3,362.7	3,603.3	3,881.3	10,692.8	11,821.6	12,718.2
7. Transport & Communications	4,098.1	4,443.1	4,487.0	4,668.5	4,938.5	5,211.5	5,811.5	6,367.9	6,869.4	7,554.9	8,302.2	23,248.9	25,035.8	27,147.8
a. Transport	3,693.7	4,008.1	4,031.8	4,178.2	4,393.7	4,626.0	5,151.3	5,596.4	6,002.7	6,601.3	7,192.1	20,101.2	21,225.9	22,562.4
b. Communications	404.4	435.0	455.2	490.3	544.8	585.5	660.2	771.5	866.7	953.6	1,110.1	3,147.7	3,809.9	4,585.4
8. Banks & Finance	2,358.6	2,829.0	3,020.3	3,483.1	3,659.3	3,752.2	4,290.7	4,893.8	5,535.1	6,255.7	7,069.6	14,005.3	15,944.8	18,184.5
9. Ownership of Dwellings Real Estates /c	2,355.5	2,411.5	2,460.8	2,545.1	2,653.9	2,762.2	2,877.7	2,998.8	3,119.7	3,249.3	3,411.1	9,695.1	10,086.8	10,843.0
10. Other Services	8,712.3	9,113.5	9,635.3	10,160.7	10,788.2	11,501.9	12,187.7	12,764.1	13,241.5	13,817.2	14,405.3	37,708.9	39,154.7	40,967.2
a. Public	5,711.5	5,996.7	6,455.1	6,862.1	7,366.1	7,932.1	8,396.9	8,783.3	9,052.1	9,320.0	9,508.8	22,458.1	22,752.0	23,045.9
b. Other Private & Services /d	3,000.8	3,116.8	3,180.2	3,298.6	3,422.1	3,569.8	3,790.8	3,980.8	4,189.4	4,497.2	4,898.5	15,250.8	16,402.7	17,921.3
Gross Domestic Products	77,622.8	83,037.4	85,082.0	90,080.5	94,517.9	99,981.5	107,436.8	115,217.3	123,225.2	131,184.8	139,707.1	329,775.9	354,442.0	383,051.2

* : Preliminary figures.
** : Very preliminary figures.
/a. In 1995, the Government released national accounts series using a 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.
/b. Includes the former smallholder and estate food crops under the National Accounts with 1983 base.
/c. Using 1983 base, this line refers only to Ownership of Dwellings. Using the new base, it includes Real Estates.
/d. Includes Business Services.

Source: Central Bureau of Statistics.

Table 2.2

135

INDONESIA

COUNTRY ECONOMIC REPORT

Expenditure on GDP at Current Market Prices, 1983-1995 /a
(Rp. billion)

	1983 base											1993 base		
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993	1994 *	1995 **
1. Private consumption	47,063.0	54,066.5	57,201.4	63,355.3	71,988.9	81,045.3	88,752.3	106,312.3	125,035.8	135,880.3	158,342.0	183,530.5	213,256.5	249,369.7
2. Government consumption	8,077.3	9,121.5	10,893.1	11,328.7	11,763.5	12,755.8	15,697.6	17,572.6	20,784.6	24,731.3	29,756.7	29,756.7	31,014.0	36,575.6
3. Gross fixed investment	19,467.9	20,136.1	22,366.9	24,781.9	30,980.2	36,802.6	45,659.8	55,633.4	63,893.9	70,820.2	78,243.2	86,667.3	105,380.6	128,105.3
4. Changes in stock /c	2,793.5	3,406.4	4,836.7	4,243.0	8,165.8	8,006.9	13,171.0	15,071.5	16,847.8	22,404.9	28,286.3	22,908.2	24,587.5	41,350.0 /d
5.Exports of goods and nonfactor services	19,847.0	22,999.3	21,533.9	20,009.9	29,874.3	34,665.6	42,505.0	51,953.1	62,263.8	76,384.4	85,454.3	85,296.2	96,847.0	
6. Less: Imports of goods and nonfactor services	19,625.9	19,844.7	19,835.2	21,036.2	27,955.8	31,171.4	38,601.0	50,945.7	61,375.7	70,336.6	78,064.7	78,383.0	91,873.8	
Gross Domestic Product	77,622.8	89,885.1	96,996.8	102,682.6	124,816.9	142,104.8	167,184.7	195,597.2	227,450.2	259,884.5	302,017.8	329,775.9	379,211.8	455,400.6

* : Preliminary figures.
** : Very preliminary figures.
/a. In 1995, the Government released national accounts series using a 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.
/b. Includes the former smallholder and estate food crops under the National Accounts with 1983 base.
/c. Residuals.
/d. Including net exports of goods and services.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Expenditure on GDP at Constant Market Prices, 1983 - 1995 /a
(Rp. billion)

	1983 base											1993 base		
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993	1994	1995
Private consumption	47,063.0	48,942.2	49,448.0	50,530.0	52,200.4	54,225.0	56,475.7	62,053.2	66,584.0	68,484.5	72,476.2	183,530.5	194,185.2	206,321.8
Government consumption	8,077.3	8,353.0	8,991.2	9,241.3	9,225.7	9,924.3	10,965.3	11,317.3	12,112.7	12,819.0	12,829.7	29,756.7	30,442.6	31,476.0
Gross fixed investment	19,467.9	18,296.6	19,615.8	21,421.7	22,596.8	25,200.9	28,568.1	32,731.5	34,867.2	36,589.3	38,671.2	86,667.3	98,589.0	111,281.8
Changes in stock /c	2,793.5	4,451.9	6,641.3	6,332.8	5,049.1	1,119.9	1,417.1	3,302.8	1,990.4	2,314.2	3,403.7	22,908.2	27,995.6	33,976.1 /d
Exports of goods and nonfactor services	19,847.0	21,144.9	19,494.7	22,460.3	25,744.8	26,015.5	28,733.2	28,862.8	34,600.0	39,674.8	42,296.8	85,296.2	92,981.2	
Less: Imports of goods and nonfactor services	19,625.9	18,151.2	19,109.1	19,905.6	20,299.0	16,504.2	18,722.9	23,050.3	26,929.1	28,697.0	29,970.5	78,383.0	89,751.6	
Gross Domestic Product	**77,622.8**	**83,037.4**	**85,081.9**	**90,080.5**	**94,517.8**	**99,981.4**	**107,436.5**	**115,217.3**	**123,225.2**	**131,184.8**	**139,707.1**	**329,775.9**	**354,442.0**	**383,051.2**

* : Preliminary figures.
** : Very preliminary figures.
/a. In 1995, the Government released national accounts series using a 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.
/b. Includes the former smallholder and estate food crops under the National Accounts with 1983 base.
/c. Residuals.
/d. Including net exports of goods and services.

Source: Central Bureau of Statistics.

Table 2.4 *137*

INDONESIA

COUNTRY ECONOMIC REPORT

Distribution of GDP at Current Market Prices, 1983-1995 /a
(%)

	1983 base											1993 base		
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993	1994 *	1995 **
Economic sectors														
Agriculture, forestry, fishery and livestock	22.9	22.7	23.2	24.2	23.3	24.1	23.4	21.5	19.7	19.5	18.5	17.9	17.4	17.2
Mining & quarrying	20.8	18.8	14.0	11.2	13.8	12.1	13.1	13.4	13.8	11.5	10.2	9.6	8.8	8.4
Manufacturing	12.7	14.6	16.0	16.7	16.9	18.5	18.1	19.9	21.0	21.8	22.3	22.3	23.5	24.3
Electricity, gas and water	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.6	0.8	0.8	0.9	1.0	1.0	1.1
Construction	5.9	5.3	5.5	5.2	4.9	5.0	5.3	5.5	5.7	5.9	6.0	6.8	7.4	7.7
Transport & communications	5.3	5.6	6.3	6.2	6.0	5.7	5.6	5.6	6.1	6.6	6.9	7.0	7.1	6.8
Other services	32.0	32.5	34.7	35.8	34.5	33.9	33.9	33.4	33.0	33.9	35.3	35.4	34.8	34.5
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Expenditure categories														
Private consumption	60.6	60.2	59.0	61.7	57.7	57.0	53.1	54.4	55.0	52.3	52.4	55.7	56.2	54.8
Government consumption	10.4	10.1	11.2	11.0	9.4	9.0	9.4	9.0	9.1	9.5	9.9	9.0	8.2	8.0
Gross domestic investment	28.7	26.2	28.0	28.3	31.4	31.5	35.2	36.1	35.5	35.9	35.3	33.2	34.3	39.2
Net exports	0.3	3.5	1.8	-1.0	1.5	2.5	2.3	0.5	0.4	2.3	2.4	2.1	1.3	-2.0
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* : Preliminary figures.
** : Very preliminary figures.
/a. In 1995, the Government released national accounts series using a 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Distribution of GDP at Constant Market Prices, 1983 - 1995 /a
(%)

	1983 base											1993 base		
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993	1994 *	1995 **
Economic Sectors														
Agriculture, forestry, fishery and livestock	22.9	22.3	22.7	22.0	21.4	21.2	20.4	19.4	18.4	18.5	17.6	17.9	16.7	16.1
Mining & quarrying	20.8	20.6	18.2	18.1	17.3	15.9	15.5	15.2	15.7	14.5	13.9	9.6	9.4	9.2
Manufacturing	12.7	14.5	15.8	16.3	17.2	18.2	18.5	19.4	20.0	20.6	21.1	22.3	23.3	24.0
Electricity, gas and water	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.7	1.0	1.0	1.1
Construction	5.9	5.3	5.3	5.1	5.1	5.3	5.5	5.8	6.0	6.3	6.6	6.8	7.3	7.6
Transport & communications	5.3	5.4	5.3	5.2	5.2	5.2	5.4	5.5	5.6	5.8	5.9	7.0	7.1	7.1
Other services	32.0	31.5	32.3	32.8	33.3	33.7	34.2	34.0	33.7	33.8	34.2	35.4	35.1	34.9
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Expenditure categories														
Private consumption	60.6	58.9	58.1	56.1	55.2	54.2	52.6	53.9	54.0	52.2	51.9	55.7	54.8	53.9
Government consumption	10.4	10.1	10.6	10.3	9.8	9.9	10.2	9.8	9.8	9.8	9.2	9.0	8.6	8.2
Gross domestic investment	28.7	27.4	30.9	30.8	29.2	26.3	27.9	31.3	29.9	29.7	30.1	33.2	35.7	41.8
Net exports	0.3	3.6	0.5	2.8	5.8	9.5	9.3	5.0	6.2	8.4	8.8	2.1	0.9	-3.9
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

/* : Preliminary figures.
/** : Very preliminary figures.
/a. In 1995, the Government released national accounts series using a 1993 base, based on an up-date of the 1990 Input-Output Table and refined estimates of some sub-sectors.

Source: Central Bureau of Statistics.

Table 2.6

139

INDONESIA

COUNTRY ECONOMIC REPORT

Balance of Payments, 1983/84 – 1995/96
(US$ million)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96 /c
1. Net oil exports /a	6,016	5,845	4,004	1,426	2,334	1,535	2,311	2,882	2,158	1,327	319	1,372	994
2. Net LNG exports /a	1,355	1,971	2,119	1,158	1,426	1,525	1,600	3,128	2,404	2,188	2,215	2,415	2,230
3. Non-oil exports (net)	-11522	-9784	-7955	-6635	-5466	-4919	-5510	-9751	-8914	-6076	-5474	-7275	-11167
Exports, fob	5,367	5,907	6,175	6,731	9,502	12,184	14,493	15,380	19,008	24,823	27,170	31,716	37,008
Imports, cif	-14346	-12921	-11186	-10385	-11763	-13586	-16478	-21609	-24066	-26390	-25410	-30815	-38654
Services (nonfreight)	-2543	-2770	-2944	-2981	-3205	-3517	-3525	-3522	-3856	-4509	-7234	-8176	-9521
4. Current account (1+2+3)	-4151	-1968	-1832	-4051	-1706	-1859	-1599	-3741	-4352	-2561	-2940	-3488	-7943
5. Official capital disbursements	5,793	3,519	3,432	5,472	4,575	6,588	5,516	5,006	5,600	5,755	6,195	5,651	5,704
IGGI	4,255	3,189	2,751	3,978	4,368	5,603	4,698	4,929	5,292	5,567	5,795	5,651	5,204
Special assistance						2,169	1,807	1,542	1,069	886	556	314	205
Program aid	84	52	38	48	30	23	6	0	0	0	0	0	0
Project aid	4,171	3,137	2,713	3,930	4,338	3,411	2,885	3,387	4,223	4,681	5,239	5,337	4,999
ODA	1,902	1,442	1,332	1,932	2,807	2,406	2,300	2,766	3,165	3,078	3,697	3,662	3,500
Non-ODA	2,269	1,695	1,381	1,998	1,531	1,005	585	621	1,058	1,603	1,542	1,675	1,499
Non-IGGI	1,538	330	681	1,494	207	985	818	77	308	188	400	0	500
Cash loan	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Amortization	-1010	-1292	-1644	-2129	-3049	-3763	-3686	-4082	-4182	-4840	-5132	-5546	-6052
7. Other capital (net)	1,191	499	572	1,232	1,709	-211	575	5,856	4,133	4,284	4,648	4,645	11,478
Direct investment	193	245	299	252	544	585	722	1424	1,531	1,705	1,971	2,566	5,652
Oil sector	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Others	998	254	273	980	1165	-796	-147	4,432	2,602	2,579	2,677	2,079	5,826
8. Total (4 through 8)	1,823	758	528	524	1,529	755	806	3,039	1,199	2,638	2,771	1,262	3,187
9. Errors and omissions	247	-91	-498	-1262	57	-1432	-558	263	-218	-1199	-2044	-646	-1146
10. Monetary movements /b	-2070	-667	-30	738	-1586	677	-248	-3302	-981	-1439	-727	-616	-2041

/a Gross exports less imports of goods and services of the oil and LNG sector respectively.
/b A negative amount refers to an accumulation of assets.
/c Preliminary figures.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Non – oil Exports, 1984/85 – 1994/95
(US$ million)

	Value (US $ million)										
	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Agricultural	**2,495**	**2,563**	**2,907**	**3,302**	**4,044**	**3,558**	**3,846**	**3,294**	**3,683**	**3,990**	**5,941**
Rubber	856	714	749	1,037	1,229	956	887	932	1,054	1,054	1,546
Coffee	568	659	753	499	577	452	371	362	264	345	755
Tea	211	134	106	119	137	181	154	145	144	144	99
Palm oil	95	170	114	214	313	279	284	–	–	–	–
Tobacco	44	55	72	47	43	44	72	65	79	71	57
Pepper	66	82	152	158	144	94	78	69	55	56	87
Cocoa	–	–	–	–	–	–	–	120	203	182	218
Copra cake	18	35	34	41	43	51	56	–	–	–	–
Tapioca	31	42	52	93	154	98	121	87	119	74	47
Rattan	96	80	99	162	37	–	–	–	–	–	–
Hides	40	37	45	59	68	70	58	43	45	41	48
Other foodstuff	98	122	122	153	202	250	324				
Animal products	219	274	390	488	839	781	1,076	1,076	1,266	1,476	1,653
of which shrimps	183	228	297	352	541	520	711	711	746	883	569
Others	154	159	221	234	258	302	365	396	456	547	1,431
Mineral	**775**	**799**	**719**	**1,112**	**1,556**	**1,585**	**1,441**	**1,692**	**2,209**	**2,309**	**2,725**
Tin	252	248	156	143	165	213	147	146	145	86	138
Copper	132	133	144	186	238	321	447	528	719	744	925
Nickel	121	140	112	152	438	404	326	289	283	329	377
Aluminum	208	223	201	245	301	267	202	159	199	166	257
Granite	9	8	8	6	6	9	14	18	33	13	17
Gold	0	0	51	315	323	218	68	141	170	202	75
Coal	0	0	0	0	0	0	0	363	574	648	882
Others	53	48	47	64	84	153	237	48	86	121	54
Manufactured	**2,636**	**2,812**	**3,105**	**5,087**	**6,585**	**9,351**	**10,094**	**14,021**	**18,931**	**20,871**	**23,049**
Wood products	1,167	1,217	1,586	2,461	2,884	3,454	3,414	3,700	4,330	6,141	5,263
Textiles	418	577	713	1,128	1,571	2,219	2,731	4,011	5,876	5,851	5,717
Handicraft	116	187	30	67	184	250	357	489	605	589	983
Electrical app.	134	45	46	55	105	176	259	544	1,100	1,290	1,951
Cement	14	23	47	54	85	128	69	–	–	–	–
Fertilizer	31	109	97	117	136	167	214	291	147	168	194
Others	757	655	586	1,204	1,620	2,958	3,051	4,986	6,873	6,832	8,941
Total Non-oil Exports	**5,906**	**6,174**	**6,731**	**9,501**	**12,185**	**14,495**	**15,380**	**19,007**	**24,823**	**27,170**	**31,715**

Source: Bank Indonesia (based on PEB Export Declaration Form).

Table 3.2

141

INDONESIA

COUNTRY ECONOMIC REPORT

Value of Exports by Principal Country of Destination, 1983-1995
(US$ million)

Countries	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 /a
Asean	3,476	2,487	1,982	1,515	1,703	2,079	2,429	2,515	3,197	4,360	4,746	5,704	4,871
Malaysia	58	98	77	82	94	184	220	253	342	488	586	738	802
Thailand	49	98	81	83	87	151	234	189	267	353	468	401	579
Philippines	242	166	199	108	71	87	149	161	168	181	285	365	479
Singapore	3,128	2,126	1,626	1,239	1,449	1,653	1,818	1,902	2,410	3,314	3,372	4,150	2,994
Brunei	0	0	0	2	3	4	8	11	10	25	35	50	18
Hongkong	182	261	348	345	420	554	549	618	703	881	901	1,321	1,359
Japan	9,678	10,353	8,594	6,644	7,393	8,018	9,321	10,923	10,767	10,761	11,172	10,929	10,023
Other Asia	801	1,254	1,475	1,170	1,869	2,415	2,934	4,035	5,540	6,567	6,980	7,645	7,309
Africa	79	140	160	179	150	272	217	199	394	419	463	638	474
USA	4,267	4,505	4,040	2,902	3,349	3,074	3,497	3,365	3,509	4,419	5,230	5,829	5,266
Canada	28	46	46	60	94	101	108	139	172	289	304	322	306
Other America	1,015	1,031	326	182	48	47	50	102	184	328	469	562	632
Australia	208	275	149	159	310	293	387	403	628	746	774	705	714
Other Oceania	264	236	81	83	43	31	59	84	39	53	78	67	122
EEC	953	1,036	1,113	1,340	1,541	2,152	2,338	3,028	3,742	4,843	5,295	5,825	5,273
United Kingdom	199	168	191	197	212	349	384	517	654	844	1,005	1,038	942
Netherlands	289	332	392	453	493	646	681	723	838	1,100	1,086	1,324	1,105
West Germany	252	246	255	334	361	456	493	750	907	978	1,178	1,263	1,098
Belgium & Luxemburg	33	63	45	91	109	177	173	210	258	401	366	409	435
France	53	49	71	93	102	164	209	286	386	495	500	426	421
Denmark	4	6	3	6	13	20	36	54	74	97	98	110	90
Ireland	1	4	2	2	7	17	22	35	43	46	40	37	29
Italy	120	167	152	152	175	221	234	276	382	583	615	661	633
Greece	1	1	3	6	3	2	4	9	18	29	46	63	61
Portugal	0	0	0	7	10	22	24	17	14	16	29	39	40
Spain	0	0	0	0	55	78	80	152	169	255	333	454	419
Soviet Union	50	59	78	52	82	38	100	81	40	70	125	91	104
Others in Europe	145	206	194	174	133	144	171	183	229	231	288	417	363
Total	21,146	21,888	18,587	14,805	17,136	19,219	22,159	25,675	29,142	33,967	36,823	40,053	36,814

/a As of October 1995.

Source: Central Bureau of Statistics.

Table 3.3

INDONESIA

COUNTRY ECONOMIC REPORT

Value of Imports by Principal Country of Origin, 1983-1995
(US$ million)

Countries	1983	1984 /a	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 /b
Asean	3,915	1,948	962	1,121	1,244	1,305	1,765	2,430	2,464	2,592	2,604	2,928	3,198
Malaysia	60	86	52	50	139	276	369	326	407	525	517	579	647
Thailand	209	55	48	72	75	96	210	183	278	345	235	407	654
Philippines	182	15	23	28	82	36	63	649	81	52	57	65	71
Singapore	3,465	1,791	839	969	947	896	1,122	1,272	1,699	1,670	1,793	1,877	1,826
Brunei	0	0	0	1	0	1	2	0	0	1	1	0	1
Hongkong	65	86	53	94	104	133	179	273	232	229	247	241	230
Japan	3,793	3,308	2,644	3,128	3,596	3,386	3,767	5,300	6,327	6,014	6,248	7,734	7,779
Other Asia	2,220	2,338	1,727	1,681	1,924	2,266	3,203	4,633	5,156	5,496	5,972	6,870	7,034
Africa	135	171	160	103	153	201	202	170	195	213	140	332	513
USA	2,534	2,560	1,721	1,483	1,415	1,736	2,218	2,520	3,397	3,822	3,255	3,594	3,889
Canada	186	319	198	214	303	274	311	407	354	459	410	497	676
Other America	129	139	191	174	211	224	455	519	597	488	625	755	890
Australia	402	372	461	413	463	578	925	1,186	1,378	1,413	1,399	1,542	1,701
Other Oceania	72	78	69	71	80	96	98	115	118	136	161	186	174
EEC	2,234	2,062	1,706	1,796	2,353	2,510	2,575	4,061	4,704	5,401	5,652	5,827	5,959
United Kingdom	364	297	300	342	325	340	360	440	603	719	782	710	737
Netherlands	257	266	215	189	316	258	248	550	505	507	626	564	718
West Germany	741	820	677	719	836	887	920	1,502	2,061	2,141	2,072	2,473	2,266
Belgium & Luxemburg	124	102	101	89	142	159	167	232	254	324	340	292	336
France	591	432	284	281	392	465	406	643	544	816	853	786	918
Denmark	21	20	18	26	26	22	31	61	49	124	158	106	85
Ireland	8	8	9	4	6	6	8	74	13	23	21	22	35
Italy	125	113	101	144	237	248	348	410	536	558	523	670	642
Greece	3	4	0	0	2	3	3	6	5	8	12	26	38
Portugal	0	0	0	2	6	3	2	6	4	2	2	4	6
Spain	0	0	0	0	66	120	82	136	131	178	262	174	178
Soviet Union	25	12	3	5	16	45	51	53	48	47	97	220	383
Others in Europe	641	490	365	435	510	494	611	764	899	969	1,517	1,264	1,353
Total	16,352	13,882	10,259	10,719	12,370	13,249	16,360	22,431	25,869	27,279	28,328	31,989	33,779

/a Since 1984, excludes the value of processing deals in the oil sector.
/b As of October 1995.

Source: Central Bureau of Statistics.

Table 3.4

<div align="right">

Table 4.1

</div>

INDONESIA

COUNTRY ECONOMIC REPORT

Summary of External Debt Data, 1982-94

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
External debt data													
Disbursed and outstanding debt													
(DOD) /b	18,318	21,493	22,269	26,778	32,626	40,853	41,200	44,255	48,066	52,122	53,955	57,461	63,848
Bilateral/multilateral	10,113	11,750	12,142	14,979	18,473	24,655	26,385	28,133	33,031	37,602	39,994	44,203	49,736
Other /c	8,205	9,743	10,127	11,798	14,153	16,198	14,816	16,121	15,035	14,520	13,965	13,258	14,112
Total debt outstanding, including													
undisbursed (TDO)	32,008	35,333	36,403	42,734	50,011	60,327	60,193	62,916	68,285	72,531	72,990	77,661	84,335
Bilateral/multilateral	19,326	20,483	21,435	25,275	29,298	37,134	38,799	41,210	47,256	53,211	54,639	59,457	65,713
Other /c	12,682	14,850	14,968	17,459	20,713	23,192	21,394	21,706	21,029	19,320	18,351	18,204	18,622
Commitments	7,070	5,687	4,816	4,584	4,104	5,995	6,220	7,632	6,852	8,855	8,035	8,200	7,234
Bilateral/multilateral	2,593	2,294	2,745	2,433	1,923	4,793	4,752	5,655	5,261	8,328	5,159	4,777	5,203
Other /c	4,477	3,393	2,072	2,151	2,181	1,202	1,468	1,977	1,391	2,527	2,876	3,423	2,031
Gross disbursements	3,951	4,980	3,890	3,573	4,239	5,440	6,502	7,044	5,069	7,101	7,966	7,072	7,493
Bilateral/multilateral	1,595	1,734	1,932	1,625	1,900	3,655	4,196	4,276	3,972	5,105	5,013	4,484	4,759
Other /c	2,356	3,246	1,958	1,948	2,338	1,785	2,307	2,768	1,097	1,997	2,954	2,588	2,733
Net disbursements	2,847	3,686	2,290	1,229	1,617	2,033	2,080	2,226	519	2,452	2,734	1,225	1,580
Bilateral/multilateral	1,126	1,183	1,366	1,003	1,016	2,523	2,692	2,936	2,387	3,328	3,022	2,339	1,467
Other /c	1,721	2,506	924	225	601	(490)	(612)	(708)	(1,868)	(876)	(298)	(1,114)	112
Net resource transfers	1,715	2,455	661	(416)	(455)	(239)	(445)	(549)	(2,302)	(466)	(332)	(2,030)	(1,828)
Bilateral/multilateral	732	735	804	310	96	1,449	1,592	1,560	799	1,545	1,007	89	(1,008)
Other /c	983	1,721	(143)	(727)	(550)	(1,688)	(2,037)	(2,099)	(3,101)	(2,013)	(1,339)	(2,119)	(820)
Public debt service	2,236	2,524	3,229	3,989	4,893	5,679	6,947	7,592	7,371	7,599	8,298	9,102	9,319
Amortization	1,104	1,291	1,600	2,344	2,821	3,406	4,422	4,816	4,550	4,649	5,232	5,847	5,913
Interest	1,132	1,233	1,629	1,645	2,072	2,272	2,525	2,776	2,820	2,920	3,066	3,255	3,406
Public debt service	2,236	2,524	3,229	3,989	4,893	5,679	6,947	7,592	7,371	7,599	8,298	9,102	9,319
Bilateral/multilateral	863	999	1,127	1,314	1,804	2,206	2,603	2,726	3,173	3,560	4,006	4,395	5,765
Other /c	1,373	1,525	2,102	2,675	2,889	3,473	4,344	4,867	4,198	4,009	4,293	4,707	3,554
Disbursement indicators													
Undisbursed debt/TDO /b	43	39	39	37	35	32	32	30	30	28	26	26	24
Bilateral/multilateral	48	43	43	41	37	34	32	32	30	29	27	26	24
Other /c	35	34	32	32	32	30	31	26	29	25	24	27	24
Gross disbursements/commit.	56	88	81	78	103	91	105	92	78	80	99	86	104
Bilateral/multilateral	62	76	70	67	99	76	88	76	76	81	97	94	91
Other /c	53	96	95	91	107	149	157	140	79	79	103	76	135
Gross disbursements/undisbursed													
debt and commitments /d	26	38	26	25	27	22	29	37	15	27	41	31	42
Bilateral/multilateral	14	16	16	13	15	21	24	23	20	23	25	22	22
Other /c	26	38	26	25	27	22	29	37	15	27	41	31	42
Net disbursemnts/gross disbs.	72	74	59	34	38	37	32	32	10	35	34	17	21
Bilateral/multilateral	71	68	71	62	53	69	69	69	60	65	60	52	31
Other /c	73	77	47	12	26	(27)	(35)	(26)	(170)	(44)	(10)	(43)	4
Net resource transfers/gross disbs.	43	49	17	(12)	(11)	(4)	(7)	(8)	(45)	(7)	(4)	(29)	(24)
Bilateral/multilateral	46	42	42	19	5	40	38	38	20	30	20	2	(21)
Other /c	42	53	(7)	(37)	(24)	(96)	(88)	(76)	(283)	(101)	(45)	(82)	(30)

/a Data in this sector refer to public medium and long term loans. Loans with a maturity of less than one year, credits for LNG expansion, LPG and paraxylene projects, and grants are not included.

/b End of year.

/c Suppliers' credits, loans from financial institutions, export credits, bonds and nationalization only.

/d Gross disbursements as a percentage of undisbursed debt (TDO-DOD) at beginning of year plus commitments during the year.

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

Table 4.2
Page 1 of 2

INDONESIA

COUNTRY ECONOMIC REPORT

External Public Debt Outstanding as of December 31, 1994
(US$ '000)

Type of creditor/ creditor country	Debt outstanding			Major reported new commitments Jan 1 – Dec 31 1994
	Disbursed	Undisbursed	Total	
Suppliers' Credits				
Japan	1,918,578	208,724	2,127,302	0
Korea, Republic of	399	·	399	0
Netherlands	0	21,030	21,030	0
Total suppliers' credits	1,918,977	229,754	2,148,731	0
Financial Institutions				
Austria	3,264	73,511	76,775	74,746
France	6,785	234,521	241,306	120,379
Hong Kong	938,473	928,571	1,867,044	500,000
Japan	1,465,150	890,570	2,355,720	31,510
Multiple Lenders	5,070,100	·	5,070,100	584,600
Singapore	20,052	·	20,052	0
United Kingdom	49,562	–	49,562	0
United States	0	160,000	160,000	0
Total financial institutions	7,553,386	2,287,173	9,840,559	1,311,235
Bonds				
United States	98,500	·	98,500	0
Total bonds	98,500	0	98,500	0
Nationalization				
Netherlands	86,681	·	86,681	0
Total nationalization	86,681	0	86,681	0
Multilateral Loans				
Asian Dev. Bank	6,141,645	3,921,517	10,063,162	938,513
EEC	4,081	·	4,081	0
IBRD	12,008,248	4,430,450	16,438,698	1,538,300
IDA	776,321	·	776,321	0
Intl. Fund Agr. Dev. (IFAD)	71,271	8,408	79,679	0
Nordic Invest. Bank	144,323	40,096	184,419	0
Total multilateral loans	19,145,889	8,400,471	27,546,360	2,476,813

Table 4.2
Page 2 of 2

INDONESIA

COUNTRY ECONOMIC REPORT

External Public Debt Outstanding as of December 31, 1994
(US$ '000)

Type of creditor/ creditor country	Debt outstanding			Major reported new commitments Jan 1 – Dec 31 1994
	Disbursed	Undisbursed	Total	
Bilateral Loans				
Australia	526,116	15,667	541,783	0
Austria	6,343	–	6,343	0
Belgium	95,484	38,805	134,289	5,993
Brunei	100,000	.	100,000	0
Bulgaria	570	.	570	0
Canada	314,512	228,104	542,616	0
China	32,022	12,034	44,056	0
Czechoslovakia	19,005	.	19,005	0
Denmark	57,806	4,859	62,665	0
Egypt, Arab Republic of	796	.	796	0
France	973,407	224,996	1,198,403	58,210
German Dem. Rep.	15,630	.	15,630	0
Germany, Fed.Rep.of	3,041,186	973,290	4,014,476	454,852
Hungary	4,741	.	4,741	0
India	1,571	–	1,571	0
Italy	174,801	17,608	192,409	0
Japan	20,935,545	5,619,950	26,555,495	1,978,456
Korea, Republic of	19,111	73,521	92,632	46,905
Kuwait	52,049	12,145	64,194	0
Netherlands	1,042,621	12,539	1,055,160	0
New Zealand	599	.	599	0
Norway	0	27,354	27,354	0
Other	20,000	.	20,000	0
Pakistan	1,935	.	1,935	0
Poland	26,695	.	26,695	0
Romania	3,825	.	3,825	0
Saudi Arabia	62,724	23,222	85,946	0
Spain	182,194	105,656	287,850	100,000
Switzerland	31,890	–	31,890	0
United Arab Emirates	896	.	896	0
United Kingdom	50,770	14,960	65,730	0
United States	2,483,826	173,097	2,656,923	82,060
USSR	278,539	.	278,539	0
Yugoslavia	31,997	.	31,997	0
Total bilateral loans	**30,589,206**	**7,577,805**	**38,167,011**	**2,726,476**
Export Credits				
Austria	671,015	233,521	904,536	44,666
Belgium	189,113	120,811	309,924	131,958
Denmark	65,133	32,498	97,631	0
Finland	29,510	322	29,832	0
France	1,348,341	420,370	1,768,711	21,089
Germany, Fed.Rep.of	82,512	2,979	85,491	0
Hong Kong	0	.	0	0
Japan	4,111	131,081	135,192	0
Netherlands	252,354	67,588	319,942	69,360
Norway	0	.	0	0
Singapore	14,965	2,345	17,310	0
Spain	0	100,000	100,000	100,000
Sweden	92,854	.	92,854	0
Switzerland	315,705	321,089	636,794	253,324
United Kingdom	874,960	491,408	1,366,368	78,130
United States	514,380	68,440	582,820	0
Total export credits	**4,454,954**	**1,992,452**	**6,447,405**	**698,829**
Total external public debt	**63,847,591**	**20,487,655**	**84,335,247**	**7,213,053**

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

INDONESIA

COUNTRY ECONOMIC REPORT

Service Payments, Commitments, Disbursements and Outstanding Amounts of External Public Debt
(US$ '000)

	Debt outstanding at end of period		Transactions during period					Other Changes	
	Disbursed only	Including Undisbursed	Commit-ments	Disburse-ments	Service Payments Principal	Interest	Total	Cancel-lations	Adjust-ment /a

Actual

1980	15,027,314	24,509,975	4,277,373	2,550,505	939,494	823,811	1,763,305	118,261	
1981	15,908,458	26,953,145	4,951,129	2,672,429	1,054,106	990,708	2,044,814	163,286	-1290566
1982	18,317,545	32,007,950	7,069,817	3,951,336	1,104,100	1,132,291	2,236,391	5,472	
1983	21,493,904	35,297,500	5,686,879	4,979,024	1,289,872	1,233,096	2,522,968	197,669	-616455
1984	22,264,983	36,350,948	4,816,038	3,889,587	1,599,785	1,628,892	3,228,677	25,234	
1985	26,761,715	42,768,087	4,637,815	3,552,669	2,344,003	1,642,728	3,986,731	514,815	4,638,142
1986	32,616,897	50,072,350	4,104,406	4,238,493	2,621,052	2,071,629	4,692,681	184,999	6,005,918
1987	52,500,464	71,974,304	5,994,820	7,489,770	4,058,298	2,945,015	7,003,313	635,419	-
1988	54,095,428	73,087,893	6,220,257	8,194,682	5,296,383	3,344,623	8,641,006	511,210	700,923
1989	56,394,104	78,055,925	7,632,359	9,110,916	5,872,339	3,836,528	9,708,867	307,264	3,515,277
1990	69,955,297	90,174,822	6,652,039	10,083,902	5,931,465	3,990,244	9,921,709	902,850	12,301,182
1991	79,777,923	100,187,298	8,855,192	11,915,118	6,864,757	4,596,485	11,461,242	2,001,940	10,023,981
1992	88,296,438	107,327,828	8,034,546	13,669,230	7,993,058	4,584,848	12,577,906	1,347,102	8,446,167
1993	89,477,084	109,676,608	8,200,281	8,268,962	9,293,479	4,973,854	14,267,333	447,177	3,889,152
1994	96,499,594	116,987,246	7,234,063	12,412,556	9,317,812	5,474,129	14,791,941	393,264	9,787,633

Projected

1995	91,785,459	104,467,693	–	8,240,850	10,974,965	4,155,897	15,130,862	1,544,568	-19
1996	85,805,986	93,635,162	–	4,873,028	10,832,531	3,743,110	14,575,641	–	–
1997	81,091,165	85,786,439	–	3,133,935	7,848,727	3,339,880	11,188,607	–	4
1998	75,532,289	78,153,814	–	2,073,746	7,632,642	3,061,968	10,694,610	–	17
1999	69,838,049	71,224,086	–	1,235,524	6,929,744	2,785,090	9,714,834	–	15
2000	65,353,399	66,026,018	–	713,484	5,196,133	2,453,905	7,652,038	–	66
2001	60,313,061	60,590,637	–	395,188	5,435,528	2,152,437	7,587,965	–	145
2002	56,031,741	56,204,437	–	104,881	4,386,201	1,875,598	6,261,799	–	1
2003	51,940,598	52,056,552	–	56,743	4,147,888	1,643,023	5,790,911	–	–
2004	48,097,209	48,202,702	–	10,461	3,853,850	1,423,583	5,277,433	–	–
2005	44,672,662	44,678,173	–	–	3,524,527	1,227,754	4,752,281	–	0
2006	41,315,682	41,421,171		–	3,257,000	1,052,632	4,309,632		-1
2007	38,399,688	38,505,176		–	2,915,994	898,396	3,814,390		–
2008	35,731,246	35,838,731		–	2,666,442	762,633	3,431,075		-2
2009	33,280,951	33,366,494		–	2,450,295	641,752	3,092,047		-1

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

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

Table 4.3   *147*

INDONESIA

COUNTRY ECONOMIC REPORT

DEVELOPMENT ASSISTANCE FLOWS, 1987-1992 /a

(US$ million)

COUNTRIES	1987 Comm. /b	1987 Disb. /c Gross	1987 Disb. /c Net/d	1988 Comm. /b	1988 Disb. /c Gross	1988 Disb. /c Net/d	1989 Comm. /b	1989 Disb. /c Gross	1989 Disb. /c Net/d	1990 Comm. /b	1990 Disb. /c Gross	1990 Disb. /c Net/d	1991 Comm. /b	1991 Disb. /c Gross	1991 Disb. /c Net/d	1992 Comm. /b	1992 Disb. /c Gross	1992 Disb. /c Net/d
CGI members :																		
AUSTRALIA	32.2	48.2	48.2	84.0	71.7	71.7	106.2	83.1	83.1	62.8	77.4	77.4	105.7	72.9	72.9	99.4	77.0	77.0
AUSTRIA	17.6	0.6	0.6	19.2	10.5	6.9	20.7	15.7	4.4	26.8	34.3	21.2	124.1	49.3	36.1	149.5	121.6	104.8
BELGIUM	7.1	5.8	5.8	11.9	13.3	6.2	10.7	10.7	10.7	6.5	6.5	(1.6)	6.5	42.4	37.6	6.5	8.2	2.5
CANADA	37.6	45.4	43.0	88.9	43.3	40.1	81.7	38.4	33.4	37.6	51.9	48.4	14.1	45.4	42.7	37.7	40.1	33.6
FRANCE	46.7	43.5	37.3	137.2	67.6	57.1	288.9	115.3	108.9	209.7	136.0	122.4	41.8	141.6	126.5	77.4	185.3	168.8
GERMANY	139.0	140.4	61.8	151.4	190.2	97.6	179.4	138.8	52.4	268.2	211.4	99.0	621.8	253.8	135.8	293.8	261.4	116.4
ITALY	3.9	19.8	19.4	8.1	2.8	1.3	48.4	21.2	17.3	0.5	11.3	9.8	18.0	15.8	14.3	130.9	13.8	12.5
JAPAN	1,336.3	941.1	707.3	1,701.0	1,264.7	984.9	1,455.2	1,407.1	1,145.3	1,500.9	1,131.9	867.8	1,500.9	1,382.5	1,065.5	1,508.7	1,696.5	1,356.7
NETHERLANDS	113.7	165.0	140.3	254.6	186.5	156.2	222.2	191.0	161.5	202.6	228.4	190.1	234.6	180.5	139.4	13.2	56.1	8.0
NEW ZEALAND	2.1	2.1	2.1	2.4	2.3	2.3	-	2.2	2.2	3.3	3.1	3.1	1.8	2.4	2.4	2.9	2.6	2.6
SPAIN	-	-	-	-	-	-	-	0.1	-	-	23.2	23.2	-	21.5	21.5	50.0	9.5	9.5
SWITZERLAND	16.8	7.4	7.4	8.3	28.4	28.4	7.0	21.4	21.4	19.6	19.4	19.4	53.4	13.8	13.8	23.5	29.7	29.7
UNITED KINGDOM	33.3	14.5	10.4	35.6	21.7	17.2	45.2	18.2	14.5	317.0	26.4	22.4	103.0	42.9	38.9	103.0	36.6	32.7
UNITED STATES	124.2	96.0	36.0	79.8	86.0	22.0	64.4	97.0	31.0	54.2	101.0	31.0	69.4	83.0	18.0	59.8	84.0	(1.0)
Other DAC countries :																		
DENMARK	-	0.8	0.3	-	1.1	0.6	3.4	11.5	11.1	0.6	5.7	4.9	0.8	3.0	2.2	12.0	5.9	3.7
FINLAND	1.7	1.8	1.8	8.9	5.3	5.3	0.6	5.8	5.8	3.9	2.7	2.7	1.7	3.1	3.1	1.9	1.8	1.8
IRELAND	0.1	0.6	0.1	-	-	-	-	-	-	-	-	-	0.0	-	0.0	0.0	0.0	0.0
NORWAY	3.1	0.8	0.6	-	2.2	2.0	-	1.2	0.5	-	0.3	(0.2)	0.0	0.8	(0.2)	12.3	12.6	11.8
SWEDEN	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.0	0.2	0.2	0.0	0.4	0.4
ARAB COUNTRIES	42.4	24.4	11.2	19.7	27.9	9.1	-	20.5	1.9	0.7	39.2	23.0	0.4	23.1	9.0	5.5	22.5	13.0
SUBTOTAL	1,957.8	1,558.2	1,133.6	2,611.0	2,023.5	1,506.9	2,534.0	2,199.2	1,705.6	2,714.9	2,110.2	1,564.1	2,898.3	2,378.0	1,779.7	2,588.0	2,665.6	1,984.5
MULTILATERAL																		
AS.D.B.	585.2	355.0	311.0	561.1	530.4	470.1	694.9	700.7	631.1	1,049.6	778.1	667.8	990.0	655.0	446.1	0.0	55.6	453.0
C.E.C.	37.2	6.3	6.3	2.9	8.3	8.3	1.2	13.9	13.9	26.1	13.9	12.4	27.7	12.0	12.0	45.0	13.0	13.0
IBRD	1,418.0	1,359.9	1,004.1	1,066.9	1,647.9	1,219.2	2,007.4	1,256.4	783.4	1,565.2	987.3	436.4	1,533.0	1,398.0	790.0	1,256.3	1,003.4	326.6
IDA	-	14.4	8.7	-	1.3	(4.8)	-	1.1	(7.0)	-	-	(11.2)	-	-	0.0	0.0	0.0	0.0
IFAD	13.7	16.9	15.6	0.3	12.2	10.8	_	12.6	10.1	21.9	12.8	8.6	-	9.6	4.4	0.0	9.6	4.4
U.N. AGENCIES	50.2	44.9	44.9	47.2	40.6	40.6	53.6	45.2	45.2	51.6	43.3	43.3	58.4	49.2	49.2	0.0	58.4	58.4
UNDP	-	21.2	21.2	-	20.6	20.6	-	19.1	19.1	-	17.0	17.0	-	17.2	17.2	0.0	19.0	19.0
UNTA	-	5.1	5.1	-	3.7	3.7	-	5.2	5.2	-	4.3	4.3	-	6.7	6.7	0.0	5.8	5.8
UNICEF	-	10.5	10.5	-	11.9	11.9	-	11.3	11.3	-	10.0	10.0	-	11.3	11.3	0.0	14.8	14.8
UNRWA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0
WFP	-	5.2	5.2	-	2.7	2.7	-	7.6	7.6	-	8.0	8.0	-	7.6	7.6	0.0	14.7	14.7
UNHCR	-	2.9	2.9	-	1.7	1.7	-	2.0	2.0	-	4.0	4.0	-	6.4	6.4	0.0	4.1	4.1
OTHER MULTILATERAL	-	5.3	5.3	-	6.7	6.7	-	10.0	10.0	-	8.4	8.4	-	9.3	9.3	0.0	8.0	8.0
ARAB AGENCIES	-	0.2	(1.0)	-	0.3	(1.4)	-	-	(1.0)	-	-	(2.0)	-	1.6	1.3	5.0	2.2	13.0
SUBTOTAL	2,104.3	1,802.9	1,394.9	1,678.4	2,247.7	1,749.5	2,757.1	2,039.8	1,485.7	2,714.4	1,843.8	1,163.7	2,609.1	2,134.7	1,312.3	1,306.3	1,150.2	876.4
TOTAL	4,062.1	3,361.1	2,528.5	4,289.4	4,271.2	3,256.4	5,291.1	4,239.0	3,191.3	5,429.3	3,954.0	2,727.8	5,507.4	4,512.7	3,092.0	3,894.3	3,815.8	2,860.9

/a Calendar year.
/b Commitments.
/c Disbursements.
/d Net of repayments of principal.

Source : OECD : "Geographical Distribution of Financial Flows to Developing Countries"; For Spain, As.D.B., IBRD and IDA : Debtor Reporting System, World Bank.

INDONESIA

COUNTRY ECONOMIC REPORT

Central Government Budget Summary, 1983/84–1996/97
(Rp. billion)

	Actual												Budget	
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1. Domestic revenues	14,433	15,906	19,253	16,141	20,808	23,004	28,740	39,546	41,585	47,453	52,280	61,370	66,265	78,208
2. Routine expenditures /a	8,412	9,429	11,952	13,559	17,482	20,739	24,331	29,998	30,228	34,031	38,799	43,180	47,241	56,114
3. Government saving (1–2)	6,021	6,477	7,301	2,581	3,322	2,265	4,409	9,549	11,357	13,421	13,481	18,190	19,025	22,089
4. Development expenditures	9,899	9,952	10,873	8,332	9,477	12,251	13,834	19,453	21,764	24,135	25,661	29,163	30,784	34,503
5. Balance (3–4)	(3,878)	(3,475)	(3,572)	(5,751)	(6,156)	(9,985)	(9,426)	(9,905)	(10,407)	(10,713)	(12,181)	(10,973)	(11,759)	(12,414)
Financed by:														
6. Program aid	15	69	69	1,958	728	2,041	1,007	1,397	1,563	512	441	0	0	0
7. Project aid	3,868	3,409	3,503	3,795	5,430	7,950	8,422	8,508	8,846	10,204	9,931	10,983	11,759	12,414
8. Change in balances (– = increase)	(4)	(3)	(1)	(2)	(2)	(5)	(4)	(0)	(2)	(2)	1,809	(10)	0	(0)

/a Includes debt service payments.

Source: Ministry of Finance.

Table 5.1   *149*

INDONESIA

COUNTRY ECONOMIC REPORT

Central Government Receipts, 1983/84 - 1996/97
(Rp. billion)

	Actual												Budget	
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Taxes on income	11,605	12,847	13,625	8,798	12,986	13,901	17,330	25,278	25,494	28,344	29,315	33,381	34,438	40,105
Income tax	399	451	675	2,271	2,663	3,949	5,488	6,755	9,580	11,913	15,273	18,350	19,239	23,708
Corporate tax /a	757	1,670	1,638											
Corporate tax on oil /b	9,520	10,430	11,144	6,338	10,047	9,527	11,252	17,712	15,039	15,330	12,508	13,399	13,276	14,120
Witholding tax /b	628													
IPEDA/property tax /c	132	157	168	190	275	424	590	811	875	1,101	1,534	1,632	1,923	2,277
Others /d	168	138												
Taxes on domestic consumption	1,392	1,510	3,479	5,156	4,719	6,187	7,589	9,624	11,452	13,455	15,127	17,390	21,749	27,219
Sales/value added tax	575	637	2,327	2,900	3,390	4,505	5,837	7,463	8,926	10,714	12,282	14,087	16,655	21,788
Excises	773	873	944	1,056	1,106	1,390	1,477	1,917	2,223	2,381	2,560	3,001	3,299	4,033
Other oil revenues /e	0	0	0	1,010	0	0	0	0	0	0	0	0	1,475	828
Miscellaneous levies	44	0	208	190	223	292	276	244	303	360	285	303	319	570
Taxes on international trade	916	864	658	1,039	1,122	1,348	1,759	2,530	2,152	2,661	2,902	3,338	3,588	3,611
Import duties	557	530	607	960	938	1,192	1,587	2,486	2,133	2,652	2,888	3,218	3,543	3,451
Sales tax on imports /f	255	241												
Export tax	104	91	51	79	184	156	172	44	19	?	14	120	44	160
Nontax receipts	520	687	1,492	1,147	1,977	1,569	2,062	2,115	2,487	2,993	4,936	7,260	6,491	7,268
Domestic revenue	14,433	15,906	19,253	16,141	20,803	23,004	28,740	39,546	41,585	47,453	52,280	61,370	66,265	78,203
Development funds	3,882	3,478	3,573	5,752	6,158	9,991	9,429	9,905	10,409	10,716	10,372	10,012	11,759	12,414
Program aid	15	69	69	1,958	728	2,041	1,007	1,397	1,563	512	441	0	0	0
Project aid /g	3,868	3,409	3,503	3,795	5,430	7,950	8,422	8,508	8,846	10,204	9,931	10,012	11,759	12,414
Total revenues	18,315	19,384	22,825	21,893	26,961	32,995	38,169	49,451	51,994	58,168	62,652	71,382	78,024	90,616

/a Since 1986/87 included in income tax.
/b Since 1984/85, witholding tax eliminated as separate category and combined with income tax.
/c Since January 1986, Ipeda replaced by land and building tax.
/d Classification changed to other tax (included in miscellaneous levies which consist of other taxes and stamp duty).
/e Oil subsidies shown as Government expenditures from 1977/78 (see Table 5.3).
/f Since 1984/85 classification changed to value-added tax and tax on luxury goods.
/g Includes commercial bank and suppliers' credits for development projects.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC REPORT

Central Government Expenditures, 1983/84 – 1996/97
(Rp. billion)

	Actual												Budget	
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Personnel expenditures	2,757	3,047	4,018	4,311	4,617	4,998	6,202	7,054	8,103	9,466	11,214	13,069	15,347	18,281
Wages and salaries	1,996	2,207	3,073	3,330	3,561	3,833	4,826	5,571	6,299	7,533	9,167	10,490	12,416	14,763
Rice allowance	346	407	402	406	451	518	588	640	922	888	905	1,038	1,140	1,194
Food allowance	261	271	300	288	299	327	373	382	393	473	498	801	835	1,122
Other	88	90	161	177	176	185	243	264	279	313	342	396	511	710
External	66	72	82	110	130	135	171	198	209	259	302	344	445	492
Material expenditures	1,057	1,183	1,367	1,366	1,329	1,492	1,702	1,830	2,373	2,870	3,042	4,297	4,745	6,589
Domestic	1,007	1,134	1,310	1,294	1,239	1,378	1,569	1,670	2,217	2,681	2,848	4,071	4,457	6,258
External	50	49	58	73	90	114	133	160	155	189	194	225	288	332
Subsidies to region /a	1,547	1,883	2,489	2,650	2,816	3,038	3,566	4,237	4,834	5,283	6,796	7,188	8,409	10,012
Irian Jaya	42	0	0	0	0	0	0	0	0	0	0	0	0	0
Other region	1,505	1,883	2,489	2,650	2,816	3,038	3,566	4,237	4,834	5,283	6,796	7,188	8,409	10,012
Debt service payments	2,103	2,777	3,323	5,058	8,205	10,940	11,939	13,395	13,434	15,217	17,288	18,422	18,215	20,227
Internal	30	39	20	0	39	78	149	250	251	275	121	204	319	291
External	2,073	2,737	3,303	5,058	8,166	10,863	11,790	13,145	13,183	14,942	17,167	18,218	17,896	19,936
Other expenditures	948	540	754	174	515	271	923	3,483	1,484	1,195	459 /d	204	524	1,005
Food subsidy	0	0	0	29	0	0	0	0	–	0	0	0	0	0
Oil subsidy	928	507	374	0	0	0	0	0	–	692	0	0	0	0
Others /b	20	33	380	145	515	271	923	3,483	–	503	459	204	524	1,005
Routine expenditures	8,412	9,429	11,952	13,559	17,482	20,739	24,331	29,998	30,228	34,031	38,799	43,180	47,240	56,114
Development expenditures /c	9,899	9,952	10,873	8,332	9,477	12,251	13,834	19,452	21,764	24,135	25,661	29,163	30,784	34,503
Total expenditures	18,311	19,381	22,825	21,891	26,959	32,990	38,165	49,450	51,992	58,166	64,460	72,343	78,024	90,616

/a Since 1984/85, this item is sub-divided into wage/salary and non wage/salary expenditures without identifying regions.

/b This line shows debt service transfers to PERTAMINA (1976/77 – Rp. 31.0 billion, 1977/78 – Rp. 86.4 billion), PERTAMINA subsidy (1979/80 – Rp. 81.0 billion) and expenditures on the general election (1976/77 – Rp. 37.0 billion, 1981/82 – Rp. 81.0 billion, 1985/86 – Rp. 40.0 billion).

/c For details see Tables 5.4 and 5.5.

/d Included oil subsidy.

Source: Ministry of Finance.

Table 5.3   *151*

INDONESIA

COUNTRY ECONOMIC REPORT

Development Expenditures, 1983/84 - 1996/97 /a
(Rp. billion)

	Actual												Budget	
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1. Departments	3,220	3,474	4,467	2,004	2,113	1,861	2,509	4,854	5,971	7,858	8,560	9,478	10,910	12,722
2. General INPRES programs	539	540	575	568	656	714	706	1,058	1,407	1,853	2,198	4,701	4,702	5,268
Subsidies to provinces	253	253	287	293	290	334	324	486	574	701	783	1,318 /b	1,277	1,424
Subsidies to kabupatens	194	195	189	188	263	267	270	392	583	825	1,025	2,554 /c	2,525	2,905
Subsidies to villages	92	93	99	86	102	112	112	181	250	327	390	829 /d	900	939
3. Sectoral INPRES programs	771	824	754	721	451	429	536	1,282	1,838	2,296	2,535	949	868	1,121
Primary schools	549	572	526	496	193	131	100	374	521	655	699	538 /e	499	595
Health	87	65	111	108	74	99	122	193	269	320	377	412	370	526
Markets	11	26	4	12	3	3	3	3	2	2	4	0	0	0
Replanting/reforestration	59	61	43	31	16	17	17	33	75	95	104	0	0	0
Roads	65	101	70	75	164	180	295	679	972	1,225	1,352	0	0	0
4. PBB	132	157	168	171	223	344	478	657	709	892	1,243	1,485 /f	1,750	2,072
5. Irian Jaya and East Timor	5	4	7	7	5	0	0	0	0	0	0	0	0	0
Total (2-5) : Transfer to local governments	1,448	1,526	1,503	1,467	1,334	1,486	1,720	2,998	3,953	5,040	5,976	7,135	7,320	8,461
6. Fertilizer subsidy	324	732	477	467	756	200	278	265	301	175	265	457	143	137
7. Government capital participation (PMP)	592	336	412	86	336	125	141	323	470	150	126	205	50	55
8. Others	449	475	511	514	515	629	765	505	722	708	803	905	601	714
9. Development expenditures in reserves	-	-	-	-	-	-	-	2,000	1500.0	-	-	-	-	-
Total (1 - 8)	6,032	6,543	7,370	4,537	5,054	4,301	5,413	10,944	12,919	13,931	15,730	18,180	19,025	22,089
9. Project aid	3,868	3,409	3,503	3,795	4,423	7,950	8,422	8,508	8,846	10,204	9,931	10,983	11,759	11,759
Total (1 - 9)	9,899	9,952	10,873	8,332	9,477	12,251	13,835	19,452	21,764	24,135	25,661	29,163	30,784	33,848

/a Excluding project aid in Rupiah.
/b Included subsidies aforestration and subsidies road development (provinces).
/c Included subsidies for rural housing, subsidies to market reconstruction and development, subsidies reforestration, subsidies for primary school reconstruction.
  and subsidies road development (regencies);
/d Included subsidies to backward villages.
/e Included subsidies for preliminary school reconstruction (accomodated to subsidies to regencies).
/f 91 percent from total land and building tax revenues.

Source: Ministry of Finance.

Table 5.5

INDONESIA
COUNTRY ECONOMIC REPORT

Development Expenditures by Sector, 1983/84 – 1996/97
(Rp. billion)

Sector	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	Budget 1995/96	Budget 1996/97
Agriculture and irrigation	913	1,699	1,138	890	1,937	1,614	2,049	2,308	2,713	3,240	2,977	2,887	2,677	3,146
(of which fertilizer subsidy)	(324)	(732)	(477)	(467)	(756)	(200)	(278)	(265)	(301)	(175)	(265)	(457)	(175)	(143)
Industry and mining	2,153	839	1,189	681	335	565	420	714	722	861	575	575	518	592
Electric power	660	911	1,447	960	1,085	1,955	1,397	1,707	2,286	3,042	3,230	3,230	3,514	3,800
Transportation and tourism	1,528	1,428	1,484	1,131	1,598	2,011	3,006	3,743	3,910	4,537	5,192	5,192	5,947	6,504
Manpower and transmigration	456	422	665	292	200	266	281	580	718	897	837	836	1,103	1,196
Regional development	749	791	850	999	930	1,137	1,369	1,938	2,478	2,920	3,633	3,632	4,548	5,114
Education	1,052	1,231	1,413	1,184	1,181	1,606	1,507	2,052	2,417	3,147	3,264	3,264	3,061	3,359
Population & Health	279	320	598	336	225	339	470	723	891	957	1,077	1,146	1,321	1,352
Housing and water supply	221	224	335	337	432	481	495	677	802	1,053	861	861	888	1,102
General public services /a	899	927	977	769	652	733	909	1,247	1,545	1,606	1,595	1,595	1,823	2,120
Government capital participation	234	292	221	211	219	258	625	335	411	409	364	364	0	0
Others /b	776	1,599	1,235	1,078	684	1,305	1,306	1,429	1,572	1,466	2,058	2,079	1,998	2,098
Development budget in reserves	-	-	-	-	-	-	-	2,000	1,500	-	-	-	-	-
Total development expenditures	**9,899**	**9,952**	**10,673**	**8,332**	**9,477**	**12,251**	**13,834**	**19,452**	**21,764**	**24,135**	**25,661**	**25,661**	**27,398**	**30,784**
Total (excluding fertilizer subsidy)	**9,572**	**9,220**	**10,596**	**7,865**	**8,721**	**12,051**	**13,556**	**19,187**	**21,463**	**23,960**	**25,486**	**25,486**	**27,223**	**30,641**

/a Law and order, defense and security, government apparatus.
/b Trade and cooperatives, religion, information and science. From 1979/80 includes natural resource development and environment.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC REPORT

Project Aid by Sector, 1983/84 — 1996/97
(Rp. billion)

	Actual												Budget	
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Agriculture and irrigation	155	472	180	237	576	1,087	1,345	1,513	1,763	2,169	1,801	1,205	1,605	1,549
Industry and mining	1,051	671	668	632	267	327	240	409	454	709	516	338	380	359
Electric power	1,182	653	1,172	791	769	1,783	1,269	1,314	1,830	2,400	2,550	2,746	2,967	3,102
Transportation and tourism	889	601	688	729	845	1,424	2,174	1,976	1,507	1,388	1,786	2,271	3,003	3,491
Manpower and transmigration	45	76	36	123	62	98	83	91	83	52	52	146	137	75
Regional development	7	1	8	25	4	45	121	155	240	22	122	266	425	238
Education	211	180	59	346	718	1,236	1,085	957	1,045	1,204	1,142	703	751	913
Population & Health	37	78	56	100	38	99	177	188	188	32	132	260	240	325
Housing and water supply	51	84	77	139	273	400	351	444	514	648	461	419	588	729
General public services	152	255	186	257	350	382	566	471	567	728	629	664	722	802
Government capital participation	45	160	203	185	168	213	419	100	116	235	180	0	0	0
Others /a	42	179	171	231	355	855	594	890	539	616	560	995	941	831
Total project aid /b	3,867	3,409	3,503	3,795	4,423	7,950	8,422	8,508	8,846	10,204	9,931	10,012	11,759	12,414

/a Since 1979/80 includes natural resources development and environment.
/b Includes commercial credits for development programs/projects.

Source: Ministry of Finance.

Table 6.1

INDONESIA

COUNTRY ECONOMIC REPORT

Money Supply, 1982 – 1995
(Rp. billion)

End of	Total	Currency		Demand deposits		Change over period	
		Amount	(%)	Amount	(%)	Amount	(%)
1982	7,121	2,934	41	4,187	59	635	10
1983	7,569	3,333	44	4,236	56	448	6
1984	8,581	3,712	43	4,869	57	1,012	13
1985	10,104	4,440	44	5,664	56	1,523	18
1986	11,677	5,338	46	6,339	54	1,573	16
1987	12,685	5,782	46	6,903	54	1,008	9
1988	14,392	6,246	43	8,146	57	1,707	13
1989	20,114	7,426	37	12,688	63	5,722	40
1990	23,819	9,094	38	14,725	62	3,705	18
1991	26,342	9,346	35	16,996	65	2,523	11
1992	28,779	11,478	40	17,301	60	2,437	9
1993	36,805	14,431	39	22,374	61	8,026	28
1994	45,374	18,634	41	26,740	59	8,569	23
1995	53,216	20,807	39	31,870	60	7,842	17

Source: Bank Indonesia.

Table 6.2

INDONESIA

COUNTRY ECONOMIC REPORT

Changes in Factors Affecting Money Supply, 1982-1995
(Rp. billion)

End of period	Net foreign assets	Public Sector Net claims on Central Government	Claims on official entities & public enterprises	Claims on business & individuals	Net other items	Total change in Money Supply Amount	Percentage (%)
1982	-1,237	129	689	2,260	-591	635	10
1983 /a	1,180	-1,286	-42	2,183	815	448	6
1984	3,531	-3,359	190	3,646	882	1,012	13
1985	1,750	-214	511	3.333	-115	1,523	18
1986 /b	1,870	469	252	4,547	-2496	1,573	16
1987	2,444	1,538	728	625	-4710	1,008	9
1988	-549	247	659	11,069	-3053	1,707	13
1989	409	-939	1,444	22.132	-2370	5,722	40
1990	-2171	-4113	-920	35,809	-2677	3.706	18
1991	7,499	-1355	104	20.263	-12083	2,522	11
1992	7013	-1291	492	15,257	-1475	2,438	9
1993	(934)	731	1505	30,230	-5383	8,026	28
1994	-4428	-4686	-485	37,845	1064	8,569	23
1995	7355	-7472	1435	47,374	(27)	7,842	17

/a Does not include revaluation adjustment to foreign exchange balances resulting from the rupiah
   devaluation of March 30, 1983. The adjustments amount to Rp. 1,962 billion in net foreign assets;
   Rp. 131 billion in net claims on Central government; Rp. 146 billion in claims on official entities
   and public enterprises; Rp. 106 billion in blocked account; Rp. 148 billion in claims on businesses
   and individuals; Rp. 620 billion in time and savings deposits; and Rp. 1,399 billion in net other items.
/b Includes revaluation adjustment due to devaluation on September 12. 1986.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Consolidated Balance Sheet of the Monetary System, 1982-1995
(Rp. billion)

End of period	1982	1983/a	1984	1985	1986/b	1987	1988	1989	1990	1991	1992	1993	1994	1995
Net foreign assets	5,565	8,837	12,368	14,119	15,989	18,433	17,884	18,293	16,122	23,621	30,634	29,700	25,272	32,627
Domestic credit	8,846	9,744	10,345	14,325	19,323	26,729	39,802	62,131	93,118	110,285	126,612	158,934	191,629	233,088
Claims on public sector														
Central government	-4,193	-5,739	-9,098	-9319	-8798	-8366	-7036	-8309	-12202	-13581	-14873	-14142	-18828	-26300
Claims on official entities and public enterprises	4,979	5,040	5,230	6,034	5,993	6,725	7,381	8,825	7,904	8,008	8,501	8,277	8,025	10,955
Government-blocked account	-252	-240	-116	-52	-81	-84	-66	-40	-24	0	0	0	0	0
Claims on private enterprises and individuals	8,312	10,683	14,329	17,662	22,209	28,454	39,523	61,655	97,440	115,858	132,984	164,799	202,432	248,433
Loans	7,995	10,184	13,550	16,392	20,409	26,072	36,502	55,933	89,988	105,599	115,190	142,008	180,863	223,727
Other claims	317	499	779	1,270	1,800	2,382	3,021	5,722	7,472	10,259	17,794	22,791	21,569	24,706
Assets = liabilities	14,411	18,581	22,713	28,444	35,312	45,162	57,686	80,424	109,240	133,906	157,246	188,634	216,901	265,715
Import deposits	300	242	218	268	402	424	684	632	1,048	966	890	1,699	1,540	1,779
Net other items	3,036	3,676	4,558	5,291	7,651	11,277	15,688	21,087	23,562	33,881	37,303	41,733	40,849	41,298
Money and quasi money	11,075	14,663	17,937	23,153	27,661	33,885	41,998	58,705	84,630	99,059	119,053	145,202	174,512	222,638
Money	7,121	7,569	8,581	10,104	11,677	12,685	14,392	20,114	23,819	26,341	28,779	36,805	45,374	52,677
Currency	2,934	3,333	3,712	4,440	5,338	5,782	6,246	7,426	9,094	9,346	11,478	14,431	18,634	20,807
Demand deposits	4,187	4,236	4,869	5,664	6,339	6,903	8,146	12,688	14,725	16,995	17,301	22,374	26,740	31,870
Quasi money	3,954	7,094	9,356	13,049	15,984	21,200	27,606	38,591	60,811	72,718	90,274	108,397	129,138	169,961

/a Includes changes resulting from the exchange rate adjustment of March 30, 1983 from Rp. 702.50 to Rp. 970 per US$.
/b Includes changes resulting from the exchange rate adjustment on September 12, 1986 from Rp 1,134 to Rp 1,644 per US$.

Source: Bank Indonesia.

Table 6.3   157

INDONESIA

COUNTRY ECONOMIC REPORT

Banking System Credits by Economic Sector, 1982-1995 /a
(Rp. billion)

Sectors	1982	1983 /f	1984	1985	1986 /g	1987	1988	1989	1990	1991	1992	1993 /h	1994	1995
Agriculture	**1,025**	**1,226**	**1,318**	**1,656**	**2,097**	**2,657**	**3,648**	**5,350**	**7,368**	**8,465**	**10,281**	**12,057**	**13,860**	**15,525**
In rupiah	1,025	1,226	1,318	1,656	2,097	2,631	3,610	5,281	7,176	7,979	9,173	10,368	12,026	13,661
In foreign exchange	0	0	0	0	0	26	38	69	192	486	1,108	1,689	1,834	1,864
Mining /b	**1,472**	**806**	**384**	**258**	**394**	**381**	**144**	**591**	**615**	**743**	**762**	**777**	**799**	**913**
In rupiah	1,472	806	384	258	394	371	124	456	570	614	605	416	359	434
In foreign exchange	0	0	0	0	0	10	20	135	45	129	157	361	440	479
Manufacturing industry /c	**3,923**	**5,207**	**6,667**	**7,592**	**9,005**	**10,912**	**14,956**	**20,333**	**30,502**	**33,131**	**37,458**	**51,432**	**60,211**	**72,088**
In rupiah	3,429	4,595	6,205	7,069	8,839	10,503	13,994	17,654	25,002	24,828	26,197	36,334	42,236	48,476
In foreign exchange	494	612	462	523	166	409	962	2,679	5,500	8,303	11,261	15,098	17,975	23,612
Trade /d	**4,129**	**5,132**	**6,344**	**7,255**	**8,399**	**10,247**	**13,888**	**20,109**	**29,737**	**33,049**	**32,944**	**37,794**	**44,372**	**54,224**
In rupiah	4,009	4,781	6,299	7,214	8,329	10,065	13,682	19,342	27,267	28,842	28,100	31,470	36,840	43,608
In foreign exchange	120	351	45	41	70	182	206	767	2,470	4,207	4,844	6,324	7,532	10,616
Service rendering industry /e	**1,867**	**2,277**	**3,169**	**4,183**	**4,345**	**5,460**	**7,382**	**10,424**	**17,867**	**20,066**	**25,899**	**35,824**	**50,806**	**66,584**
In rupiah	1,860	2,253	3,088	4,047	4,130	5,151	6,917	9,600	14,913	16,683	21,979	30,167	42,453	57,432
In foreign exchange	7	24	81	136	215	309	465	824	2,954	3,383	3,920	5,657	8,353	9,152
Others	**606**	**651**	**931**	**1,213**	**2,162**	**3,187**	**3,721**	**1,866**	**11,709**	**17,371**	**15,574**	**12,387**	**18,832**	**25,277**
In rupiah	606	651	929	1,210	2,156	3,143	3,667	1,709	11,197	16,326	14,653	12,374	18,824	25,265
In foreign exchange	0	0	2	3	6	44	54	157	512	1,045	921	13	8	12
Total	**13,022**	**15,299**	**18,813**	**22,157**	**26,402**	**32,844**	**43,739**	**58,673**	**97,798**	**112,825**	**122,918**	**150,271**	**188,880**	**234,611**
In rupiah	12,401	14,312	18,223	21,454	25,945	31,864	41,994	54,042	86,125	95,272	100,707	121,129	152,738	188,876
In foreign exchange	621	987	590	703	457	980	1,745	4,631	11,673	17,553	22,211	29,142	36,142	45,735

/a Credits outstanding end of period. Includes investment credits, KIK and KMKP. Excludes interbank credits,
   credits to central government and to nonresidents, and foreign exchange component of project aid.
/b Includes credits to PERTAMINA for repayment of foreign borrowing. Since March 1979, credit in foreign exchange to
   PERTAMINA has been converted to rupiah credits.
/c Processing of agricultural products is classified under manufacturing industry according to International Standard
   Industrial Classification (ISIC 1968). Starting 1980, credits for construction which were previously included in
   manufacturing industry are now included in service-rendering industry.
/d Includes credits for food procurement and hotel projects.
/e Credits for electricity, gas and water supply are included in service-rendering industry sector.
/f Includes foreign exchange revaluation amounting to Rp. 251 billion.
/g Includes revaluation adjustment due to the devaluation of September 12, 1986.
/h As of 1993 includes Commercial Banks exs. Non-Bank Financial Institutions.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Banking Credits Outstanding in Rupiah and Foreign Exchange by Group of Banks, 1984 - 1995 /a
(Rp. billion)

	1984	1985	1986 /b	1987	1988	1989	1990	1991	1992	1993 /f	1994	1995
Bank Indonesia												
direct credits /c	870	964	1,144	1,347	1,547	696	718	783	771	158	130	71
In rupiah	870	964	1,144	1,347	1,547	696	718	783	771	158	130	71
In foreign exchange	0	0	0	0	0	0	0	0	0	0	0	0
State commercial banks /d	13,345	15,374	17,782	21,676	28,631	39,579	55,826	59,861	68,236	71,760	80,010	93,480
In rupiah	12,959	14,925	17,711	21,225	27,614	37,151	50,648	52,628	58,133	59,738	68,085	79,394
In foreign exchange	386,	449	71	451	1,017	2,428	5,178	7,233	10,103	11,805	11,925	14,086
National Private Banks /e	3,552	4,746	6,272	8,423	11,910	20,216	34,975	44,452	45,352	63,995	90,504	116,886
In rupiah	3,480	4,631	6,061	8,175	11,536	18,955	31,458	39,467	39,685	55,076	76,506	99,466
In foreign exchange	72	115	211	248	374	1,261	3,517	4,985	5,667	8,919	13,998	17,420
Foreign Banks	1,046	1,073	1,204	1,406	1,913	3,115	6,177	8,512	9,330	14,733	18,366	24,245
In rupiah	914	934	1,029	1,122	1,559	2,173	3,039	3,177	2,889	6,315	8,147	10,016
In foreign exchange	132	139	175	284	354	942	3,138	5,335	6,441	8,418	10,219	14,229
Total	18,813	22,157	26,402	32,852	44,001	63,606	97,696	113,608	123,689	150,429	189,010	234,682
In rupiah	18,223	21,454	25,945	31,869	42,256	58,975	85.863	96,055	101,478	121,287	152,868	188,947
In foreign exchange	590	703	457	983	1,745	4,631	11,833	17,553	22,211	29,142	36,142	45,735

/a Credits outstanding at end of period. Includes investment credits, KIK and KMP. Excludes interbank credits, credits to
    Central Government and to non-residents, and foreign exchange component of project aid.
/b Includes revaluation adjustment due to devaluation on September 12, 1986.
/c Excludes liquidity credits, includes credits to Pertamina for repayment for foreign borrowing.
/d Includes state development bank and liquidity credits.
/e Includes liquidity credits. National private banks refer to national private commercial banks and regional development banks.
/f As of 1993 includes Commercial Banks exs. Non-Bank Financial Institutions.

Source : Bank Indonesia.

Table 6.5

INDONESIA

COUNTRY ECONOMIC REPORT

Investment Credits by Economic Sector, 1982-1995 /a
(Rp. billion)

End of period	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 /c	1992	1993 /d	1994	1995
Credits approved /b	2,679	3,900	4,509	5,898	7,966	9,814	13,500	18,263	26,450	32,906	42,333	60,858	68,681	83,578
Agriculture	467	734	809	1,402	2,274	2,584	3,393	5,009	6,811	9,788	11,534	13,426	14,509	14,283
Mining	54	57	179	229	363	382	495	481	502	517	525	880	576	650
Manufacturing industry	1,369	1,983	2,374	2,765	3,253	3,540	5,182	7,615	10,742	11,774	16,910	21,735	25,937	29,508
Trade	134	129	237	277	369	355	536	1,012	2,298	3,375	4,475	8,876	7,079	9,397
Service rendering industry	641	986	866	1,173	1,638	2,900	3,788	4,021	4,914	6,336	7,724	15,941	20,580	29,740
Others	14	11	44	52	69	53	106	125	1,183	1,116	1,165	0	0	0
Credits outstanding /b	2,099	2,861	3,802	5,471	6,486	7,635	10,422	14,292	19,961	25,748	35,994	42,713	47,136	59,274
Agriculture	322	477	555	948	1,292	1,690	2,284	3,357	4,361	5,450	7,050	8,730	9,865	10,564
Mining	34	49	178	224	367	342	372	358	372	459	459	310	196	256
Manufacturing industry	1,095	1,635	2,102	2,781	3,098	3,567	4,817	6,424	8,866	10,484	15,416	17,371	19,516	23,159
Trade	120	'115	168	396	443	435	632	1,022	1,859	3,372	4,099	7,192	6,154	8,468
Service rendering industry	519	576	770	1,098	1,215	1,560	2,249	3,010	4,060	5,032	7,896	9,110	11,405	16,827
Others	9	9	29	24	71	41	68	121	443	951	1,074	0	0	0

/a Excludes investment credits from Bank Indonesia; includes State Development Bank and Local Development Banks.
   Data with the same classification prior to 1980 are not available.
/b Excludes Small Scale Investment Credits, investment credits to the Central Government and foreign exchange components of project aid.
/c As of 1991 includes Small-scale Investment Credits.
/d As of 1993 includes Commercial Banks exs. Non-Bank Financial Institutions.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Outstanding Bank Funds in Rupiah and Foreign Exchange by Group of Banks, 1982-1995 /a
(Rp. billion)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Deposits														
State Banks	6,169	8,381	10,035	12,916	15,193	18,111	22,527	29,731	40,638	41,812	52,600	61,684	64,283	75,920
Private Banks	1,284	2,119	3,020	4,550	5,435	8,040	11,167	19,655	33,951	43,143	51,079	67,542	88,926	117,451
Regional Development Banks	411	498	700	825	797	954	1,300	1,674	2,550	3,228	3,697	4,773	6,183	7,812
Foreign Banks	1,004	1,398	1,743	1,883	2,086	2,226	2,516	3,315	6,016	6,935	7,474	8,681	11,015	13,581
Total	8,868	12,396	15,498	20,174	23,511	29,331	37,510	54,375	83,155	95,118	114,850	142,680	170,407	214,764
Share in Total Deposits														
State Banks	69.6	67.6	64.8	64.0	64.6	61.7	60.1	54.7	48.9	44.0	45.8	43.2	37.7	35.4
Private Banks	14.5	17.1	19.5	22.6	23.1	27.4	29.8	36.1	40.8	45.4	44.5	47.3	52.2	54.7
Regional Development Banks	4.6	4.0	4.5	4.1	3.4	3.3	3.5	3.1	3.1	3.4	3.2	3.3	3.6	3.6
Foreign Banks	11.3	11.3	11.2	9.3	8.9	7.6	6.7	6.1	7.2	7.3	6.5	6.1	6.5	6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Annual Growth Rate in Deposits														
State Banks	2.2	35.9	19.7	28.7	17.6	19.2	24.4	32.0	36.7	2.9	25.8	17.3	4.2	18.1
Private Banks	40.0	65.0	42.5	50.7	19.5	47.9	38.9	76.0	72.7	27.1	18.4	32.2	31.7	32.1
Regional Development Banks	16.1	21.2	40.6	17.9	-3.4	19.7	36.3	28.8	52.3	26.6	14.5	29.1	29.5	26.3
Foreign Banks	27.2	39.2	24.7	8.0	10.8	6.7	13.0	31.8	81.5	15.3	7.8	16.1	26.9	23.3
Total	10.2	33.5	25.0	30.2	16.5	24.8	27.9	45.0	52.9	14.4	20.7	24.2	19.4	26.0

/a Total funds are the sum of demand, time and savings deposits. Figures differ from the monetary survey because these include
   Central Government accounts. Rural credit banks are excluded.

Source : Bank Indonesia.

Table 6.7   *161*

INDONESIA

COUNTRY ECONOMIC REPORT

Interest Rates on Deposits at Commercial Banks, 1982-1995 /a
(% p.a)

End of Period	Demand Deposits /b	TABANAS Savings Deposits /c	TASKA Savings Deposits /d	Certificate of Deposits /e	Time Deposits									
					State Bank					Private National Bank /a				
					Less than 3 mos /f	3 mos	6 mos	12 mos	24 mos	Less than 3 mos /f	3 mos	6 mos	12 mos	24 mos
1982	1.8-3	6-15	9.0	12.5	7.7	8.6	6.0	9.0	12-15	16.9	17.1	18.5	19.3	18.8
1983 /g	1.8-3	12-15	9.0	15.4	14.4	14.8	13.1	17.5	12.5	18.7	17.4	18.8	19.7	19.3
1984	1.8-3	12-15	9.0	16.5	15.1	17.1	17.2	18.7	17.2	19.8	20.7	20.7	20.4	21.0
1985	1.8-3	12-15	9.0	14.5	13.4	14.6	16.0	17.8	18.3	14.6	15.9	17.8	19.8	21.3
1986	1.8-3	12-15	9.0	14.0	13.3	14.2	14.7	15.2	16.0	14.8	15.5	16.2	17.3	20.1
1987	1.8-3	15.0	9.0	15.6	15.5	17.0	17.3	17.0	17.4	17.3	18.6	19.3	19.1	19.9
1988	1.8-3	15.0	9.0	15.9	15.8	18.1	18.4	18.7	18.8	20.2	20.1	20.3	20.2	20.9
1989	n.a	n.a	n.a	16.3	15.1	16.2	17.2	18.7	18.8	17.0	18.0	18.8	19.7	20.5
1990	n.a	n.a	n.a	15.9	20.5	20.7	20.7	20.5	20.0	20.9	21.3	21.3	21.2	21.0
1991	8.9	n.a	n.a	19.0	20.0	21.3	22.3	22.5	21.0	21.8	22.6	23.3	23.4	18.6
1992	7.2	n.a	n.a	15.7	14.6	15.7	17.3	18.6	20.7	16.5	17.7	18.9	19.6	16.6
1993	5.3	n.a	n.a	15.1	8.3	9.3	12.3	13.5	15.9	11.3	12.6	14.0	14.5	18.5
1994	4.9	n.a	n.a	15.1	11.2	10.6	12.4	11.9	13.5	15.4	15.4	14.6	14.1	17.9
1995	5.6	n.a	n.a	17.5	15.2	14.9	16.1	15.4	14.6	17.3	17.8	17.8	17.1	15.7

/a Weighted average rate of interest at selected banks.
/b From March 1983, 3% for amounts above Rp. 50 million, 1.8% for Rp. 1 to 50 million, and individually determined for amounts less than Rp. 1 million
/c "TABANAS" or "Tabungan Pembangunan Nasional" (National Development Savings) is an ordinary savings account sponsored by "Bank
    Tabungan Negara" (State Saving Bank) and offered by all state owned and some private national commercial banks, and post
    offices. Until June 1, 1983: 15% for amounts of Rp. 200,000 or less; 6% above Rp. 200,000. From June 1983: 15% for Rp 1
    million or less; 12% for more than Rp. 1 million. From July 1987 to November 1989 : 15% for all denominations. Thereafter left to banks' descretion.
/d "TASKA" or "Tabungan Asuransi Berjangka " (Insured Time Deposits) is an ordinary time deposits sponsored by "Bank Tabungan
    Negara" and offered by the same institutions described in (c) above.
/e Midpoint of range for six months rates.
/f One month time deposits rate used as representative rate.
/g Ceiling on time deposit interest rates at state banks removed on June 1, 1983.
    12% legal minimum rate starting in June 1983 for 24 months State Bank time deposit.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Principal Agricultural Products by Subsectors, 1982-1994
('000 tons)

Product	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 /a
Food crops													
Rice /b	22.837	35.302	38,134	39,033	39,726	40,078	41,676	44.726	45.179	44.689	48.240	48.181	46.641
Corn	3.235	5,087	5,288	4,330	5.920	5.155	6,652	6.193	6.734	6,256	7,995	6,460	6,869
Cassava	12,988	12,103	14,167	14,037	13,312	14,356	15,471	17,117	15,830	15,954	16,516	17,285	15,729
Sweet potato	1.676	2,213	2,156	2,161	2.091	2.013	2,159	2,224	1,971	2,039	2,171	2,088	1.845
Soya beans (shelled)	521	536	769	870	1,227	1,161	1,270	1,315	1,487	1,555	1,870	1,709	1,565
Groundnuts (shelled)	437	460	535	528	642	533	589	620	651	652	739	639	632
Fisheries													
Saltwater fish	1.490	1,682	1,713	1,822	1,923	2,017	2,170	2,272	2,370	2,505	2,692	2,886	3.056
Freshwater fish	524	533	548	573	607	653	711	765	793	807	851	909	962
Meat and dairy													
Meat	629	650	742	808	860	895	937	971	1.028	1,099	1,239	1,378	1,469
Eggs	297	319	355	370	432	452	443	456	484	510	572	573	580
Milk /c	117	143	179	192	220	235	265	338	346	360	367	388	389
Cash crops													
Rubber	900	1,007	1,033	1,055	1.109	1.130	1,176	1,209	1,275	1,284	1,399	1,476	1,499
Palm oil	884	979	1,147	1,243	1,350	1.506	1,800	1,965	2,413	2,658	3,266	3,421	4,094
Coconut/copra	1.718	1.604	1,750	1,920	2,114	2,075	2,139	2,208	2,332	2,337	2,455	2,606	2,631
Coffee	281	305	315	311	339	380	386	401	413	419	437	439	446
Tea	94	110	126	127	136	126	137	141	155	159	154	165	169
Cloves	32	41	49	42	55	58	61	55	66	84	73	67	69
Pepper	34	46	46	41	40	49	56	68	70	69	65	66	68
Tobacco	106	109	108	161	164	113	116	81	156	161	112	121	140
Cane sugar	1,627	1,628	1,810	1,899	1,894	2,176	1,918	2,108	2,119	2,253	2,307	2,330	2,352
Cotton /d	13	14	12	45	53	48	39,731	38,374	32,857	13,443	12,670	13,772	15,304
Forestry /e													
Teakwood	692	718	758	777	798	689	725	725	780	778	780	745	805
Other timber	13,236	24,180	27,716	24,277	27,403	28,255	28,485	24,409	25,312	23,892	28,267	26,848	21,284

/a Preliminary figures.
/b Paddy production starting 1983.
/c In million of liters.
/d In tons.
/e In '000 cubic meters.

Source: Supplement to the President's Report to Parliament, August 16, 1995.

Table 7.1

163

Table 7.2

INDONESIA

COUNTRY ECONOMIC REPORT

Production of Major Crops by Type of Estate, 1984-1994
('000 tons)

Product	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 /a
Smallholders											
Rubber	704	720	763	795	839	853	913	919	1,030	1,102	1,118
Coconut/copra	1,737	1,905	2,098	2,055	2,117	2,193	2,313	2,317	2,426	2,558	2,579
Coffee	291	288	316	359	362	377	384	390	409	410	416
Cloves	48	41	53	57	59	53	64	82	70	66	67
Tea	24	30	31	25	26	25	31	32	32	37	38
Sugar	1,397	1,450	1,417	1,744	1,499	1,621	1,609	1,610	1,653	1,685	1,690
Tobacco	104	156	159	110	113	77	152	157	110	119	137
Pepper	46	41	40	49	56	68	70	69	65	66	67
Cotton	12	45	53	48	40	38	33	13	13	14	15
Palm oil	0	0	0	0	0	0	0	0	0	0	0
Palm kernel	0	0	0	0	0	0	0	0	0	0	0
Private estates											
Rubber	121	124	150	135	143	141	145	146	163	166	170
Coconut/copra	13	15	16	20	22	15	19	20	29	30	35
Coffee	9	10	10	8	10	11	13	13	11	12	13
Cloves	1	1	2	1	2	2	2	2	2	2	3
Tea	18	17	18	21	23	26	29	30	28	33	34
Sugar	83	106	106	109	103	181	204	257	178	251	252
Tobacco	0	0	0	0	0	0	0	0	0	0	0
Pepper	0	0	0	0	0	0	0	0	0	0	0
Cotton	0	0	0	0	0	0	0	0	0	0	0
Palm oil	329	339	385	352	435	597	789	884	1,077	1,370	1,410
Palm kernel	69	71	73	76	87	119	179	181	172	209	216
Government estates											
Rubber	208	211	196	200	194	215	217	219	205	208	212
Coconut/copra	0	0	0	0	0	0	0	0	0	0	0
Coffee	15	13	13	13	14	13	16	16	17	17	18
Cloves	0	0	0	0	0	0	0	0	0	0	0
Tea	84	80	87	80	88	90	95	97	94	95	97
Sugar	330	343	371	323	316	306	306	386	476	394	410
Tobacco	4	5	5	3	3	4	4	4	2	2	3
Pepper	0	0	0	0	0	0	0	0	0	0	0
Cotton	0	0	0	0	0	0	0	0	0	0	0
Palm oil	818	904	965	1,154	1,365	1,368	1,624	1,774	2,189	2,051	2,684
Palm kernel	178	187	193	243	273	274	325	370	388	393	508
Total											
Rubber	1,033	1,055	1,109	1,130	1,176	1,209	1,275	1,284	1,399	1,476	1,499
Coconut/copra	1,750	1,920	2,114	2,075	2,139	2,208	2,332	2,337	2,455	2,588	2,614
Coffee	315	311	339	380	386	401	413	419	437	439	446
Cloves	49	42	55	58	61	55	66	84	73	67	69
Tea	126	127	136	126	137	141	155	159	154	165	169
Sugar	1,810	1,899	1,894	2,176	1,918	2,108	2,119	2,253	2,307	2,329	2,352
Tobacco	108	161	164	113	116	81	156	161	112	121	140
Pepper	46	41	40	49	56	68	70	69	65	66	67
Cotton	12	45	53	48	40	39	33	14	13	14	15
Palm oil	1,147	1,243	1,350	1,506	1,800	1,965	2,413	2,658	3,266	3,421	4,094
Palm kernel	247	258	266	319	360	393	504	551	559	602	723

/a Preliminary figures.

Source: Supplement to President's Report to Parliament, August 18, 1995.

Table 7.3

INDONESIA

COUNTRY ECONOMIC REPORT

Rice - Area Harvested, Production and Yield, 1982-1994

Year	Area harvested ('000 ha)	Average yield (tons/ha)	Paddy output ('000 tons)	Rice output /a ('000 tons)	Growth (%)
1982	8,988	3.74	33,584	22,837	2.5
1983	9,162	3.85	35,302	24,006	5.1
1984	9,764	3.91	38,134	25,933	8.0
1985	9,902	3.97	39,033	26,542	2.3
1986	9,988	4.00	39,726	27,014	1.8
1987	9,923	4.04	40,078	27,253	0.9
1988	10,138	4.11	41,676	28,340	4.0
1989	10,531	4.25	44,726	29,072	2.6
1990	10,502	4.30	45,179	29,366	1.0
1991	10,282	4.35	44,689	29,048	-1.1
1992	11,103	4.34	48,240	31,356	7.9
1993	11,013	4.38	48,181	31,318	-0.1
1994	10,734	4.35	46,641	30,317	-3.2

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

Source: Central Bureau of Statistics.

Table 7.4

INDONESIA

COUNTRY ECONOMIC REPORT

Area Covered Under Rice Intensification Programs, 1982-1994
('000 ha)

Year	BIMAS /a	INMAS /b	Total	Of which INSUS /c
1982	1,296	5,047	6,343	2,945
1983	1,308	5,387	6,695	3,477
1984	434	6,936	7,369	3,806
1985	200	7,461	7,661	4,100
1986	258	7,533	7,791	4,480
1987	n.a	n.a	8,035	4,922
1988	n.a	n.a	8,283	5,837
1989	n.a	n.a	8,826	6,847
1990	n.a	n.a	8,876	7,260
1991	n.a	n.a	8,734	7,162
1992	n.a	n.a	9,396	7,870
1993	n.a	n.a	9,489	8,065
1994	n.a	n.a	9,447	8,325

/a BIMAS = Bimbingan massal (Mass rice planting guidance program).
/b INMAS = Intensifikasi massal (Mass intensification program).
/c INSUS = Intensifikasi khusus (Special intensification program).

Source: Supplement to the President's Report to Parliament, August 16, 1995.

INDONESIA

COUNTRY ECONOMIC REPORT

Index of Manufacturing Production by Selected Industry Group, 1986-1995 /a
(1983 = 100)

Code of Industry Group	Description /b	1986	1987	1988	1989	1990	1991	1992	1993	1994 /c	1995 /d
31121	Condensed and dried milk, creamery and processed butter, fresh and preserved cream (6)	87.5	94.0	123.3	122.5	142.2	154.1	160.6	215.6	132.3	159.4
31330	Malt liquor and malt (5)	94.4	113.2	116.4	117.2	146.8	160.1	142.0	173.5	115.5	140.1
31420	Clove cigarettes (80)	147.4	166.5	177.7	198.2	226.4	165.5	165.3	176.2	117.2	114.3
31430	Other cigarettes (13)	78.8	81.9	79.2	78.2	80.7	95.4	111.3	87.1	118.0	129.1
32111	Yarn and thread (53)	129.9	130.5	169.0	196.2	253.5	273.7	313.1	312.0	100.9	98.7
32112	Weaving mills (except jute weaving products (409)	130.7	144.3	172.8	187.6	216.9	215.0	238.2	236.3	104.1	105.3
32114	Batik (65)	95.8	81.8	83.9	111.1	144.0	218.5	190.0	176.5	141.8	126.1
32130	Knitting mills (73)	219.2	233.3	239.8	312.6	347.2	449.2	332.0	324.4	155.1	134.5
32400	Footwear (32)	113.1	91.5	111.2	184.9	208.2	230.4	324.5	355.2	95.6	84.0
33113	Plywood (40)	139.3	192.7	242.1	266.2	256.7	273.7	295.7	268.0	104.5	107.3
34111	Paper manufacture (all kinds) (23)	159.2	158.7	242.0	251.5	298.1	292.2	428.8	459.2	97.2	112.3
35110	Basic chemicals (except fertilizer) (50)	119.0	156.4	139.0	152.9	174.0	189.5	151.8	178.1	86.7	83.4
35120	Fertilizer (10)	166.0	121.8	129.7	143.7	158.1	158.1	152.1	153.6	108.6	94.7
35210	Paint, varnish, and lacquers (25)	135.6	126.5	91.2	129.9	136.6	127.2	182.6	283.7	101.6	95.7
35232	Matches (8)	108.7	142.3	175.5	154.4	167.3	178.5	216.0	113.6	100.3	105.5
35510	Tyres and tubes (22)	109.5	79.2	109.7	141.2	157.4	205.6	223.8	220.2	89.8	73.4
36210	Glass and glass products (21)	178.0	149.3	124.6	145.2	163.3	254.6	236.8	265.8	118.6	144.2
36310	Cement (7)	144.4	150.9	149.8	198.1	206.4	217.9	244.9	300.7	134.4	149.9
37100	Basic iron and steel industries (16)	154.9	147.1	167.4	199.0	259.1	476.5	427.1	552.8	110.5	101.8
38130	Structural metal products (59)	110.2	118.7	125.7	180.8	224.4	190.9	210.4	202.3	188.0	155.0
38312	Drycell batteries (7)	123.9	115.5	158.6	179.1	192.6	158.7	174.1	190.8	104.5	116.4
38320	Radio, TVs, cassettes, other communication equipment and apparatus (23)	90.6	88.9	118.1	153.9	180.8	114.7	111.2	113.1	109.5	98.0
38430	Motor vehicles assembly and manufacture (23)	114.7	126.8	115.8	132.5	200.0	212.9	116.0	98.0	153.8	81.0
38440	Motor cycles and three wheel motor vehicles, assembly and manufacture (11)	98.0	81.3	76.8	106.0	104.9	187.6	252.1	322.7	72.9	85.3
	General Index	128.4	143.5	164.2	184.1	209.4	232.3	257.9	286.8	117.6	121.5

/a The annual figures shown here are calculated as the average of quarterly indices.
/b Figures in brackets "( )" indicate the number of establishments covered in that group
/c Starting in 1994, the base year is 1993=100.
/d Second quarter 1995.

Source: Central Bureau of statistics.

Table 8.1 *167*

INDONESIA

COUNTRY ECONOMIC REPORT

Production of Minerals, 1984 - 1995

Year	Petroleum (mln bbls)	Tin concentrate	Copper ore concentrate	Nickel ore ('000 tons)	Bauxite	Coal	Iron sand concentrate	Gold /a (kg)	Silver /a (kg)	Natural gas (mcf)
1984	516.5	23.2	190.3	1,066.8	1,003.2	1,468.2	83.0	2,247.1	38,584.7	1,521.5
1985	483.8	21.8	223.4	961.9	830.5	1,942.1	130.9	2,604.4	38,075.2	1,580.0
1986	507.2	24.0	251.2	1,533.1	648.8	2,572.3	153.3	2,947.5	44,075.1	1,628.9
1987	479.0	26.1	259.8	1,825.7	635.3	2,813.5	194.0	3,116.7	49,046.2	1,732.1
1988	484.7	30.6	294.7	1,733.2	505.8	4,094.6	202.7	3,877.0	57,603.0	1,846.9
1989	514.2	31.3	331.5	2,020.9	862.3	9,246.7	142.7	4,624.5	63,597.2	1,968.3
1990	533.6	30.4	398.6	2,217.4	1,205.7	10,461.5	145.4	9,355.3	62,158.4	2,828.2
1991	581.2	30.4	656.5	2,300.3	1,406.1	14,143.0	173.2	13,889.1	63,452.0	2,465.8
1992	550.7	28.2	906.7	2.511.6	803.5	23,120.5	287.8	37,986.0	65,117.9	2,586.3
1993	547.4	28.6	928.2	1,975.8	1,320.4	27,584.4	341.3	41,575.8	90,285.4	2,663.9
1994	550.8	30.6	1,065.5	2,302.0	1,342.4	28,601.8	334.9	44,842.9	105,961.1	2,949.6
1995 /a	271.2	15.2	671.9	1,037.7	355.3	16,394.3	183.5	27,919.2	125,223.9	1,505.9

/a Jan - June 1995.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Crude Oil Production by Company, 1981-1995
('000 bbls)

	PERTAMINA	LEMIGAS	Contract of work Caltex	Contract of work C & T	Contract of work Stanvac	Subtotal	Production sharing contract	Total	Average daily output
1981	29,515	175	255,515	1,799	13,141	270,455	284,693	584,838	1,602
1982	27,375	195	175,928	1,422	13,214	190,564	270,055	488,189	1,338
1983 /a	26,947	233	191,307	1,411	11,766	204,484	286,384	518,048	1,419
1984	31,002	203	-	1,533	4,372	5,905	513,652	550,762	1,505
1985	30,071	170	-	1,358	5,130	6,488	453,190	489,919	1,342
1986	29,328	193	-	1,228	6,085	7,313	478,078	514,912	1,411
1987	26,775	210	-	1,236	8,354	9,590	475,854	512,429	1,404
1988	24,789	/b	-	1,368	13,413	14,781	451,941	491,511	1,343
1989	25,567	/b	-	2,044	13,233	15,277	473,341	514,185	1,409
1990	24,483	/b	-	1,972	10,587	12,559	496,664	533,706	1,462
1991	24,989	/b	-	1,462	8,845	10,307	545,937	581,233	1,592
1992	24,722	/b		1,401	8,136	9,537	516,409	550,668	1,505
1993	26,427	/b		1,327	5,304	6,631	517,567	550,625	1,509
1994	23,826	/b		.	.	.	527,410	551,236	1,510
1995	20,511	/b		.	.	.	526,084	546,595	1,498

/a Since May 1983, contract of work data have been consolidated.

/b Since 1988, Lemigas data have been included in Pertamina.

Source: Ministry of Mines and Energy, Directorate General Oil & Gas.

Table 8.3   *169*

INDONESIA

COUNTRY ECONOMIC REPORT

Petroleum Product Supply and Demand, 1981 - 1995
(million bbls)

		1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
1	Production of crude	584.8	488.2	518.0	550.8	489.9	514.9	512.4	491.5	514.2	533.7	550	550.7	551.2	551.2	546.6
2	Crude imports	37.0	22.0	25.7	34.2	32.1	27.7	30.2	31.2	28.1	45.7	45	49.4	70.8	70.8	67.8
3	Subtotal (1+2)	621.8	510.2	543.7	585.0	522.0	542.6	542.6	522.7	542.3	579.4	595.0	600.1	622.0	622.0	614.4
4	Crude exports	383.4	320.9	336.2	354.6	295.1	327.4	291.9	276.6	291.5	288.7	330.5	292.9	282.2	324	301.8
5	Crude available for refineries (3-4)	238.4	189.3	207.5	230.4	226.9	215.2	250.7	246.1	250.8	290.7	264.5	307.2	339.8	298.0	312.6
6	Changes in crude stocks (decrease =)	44.7	6.7	23.5	39.7	27.1	-2.3	16.9	0.3	3.2	16.9	19.7	14.3	2.3	12.7	12.4
7	Refinery input (including swaps) (5-6)	193.7	182.6	184.0	190.7	199.8	217.5	233.8	245.8	247.6	273.8	284.8	301.7	337.5	310.7	325
8	Refinery consumption	6.5	6.5	7.2	9.2	13.1	13.3	13.0	13.0	13.9	14.3	16.0	15.3	14.9	17.3	18.9
9	Refinery output (7-8)	187.2	176.1	176.8	181.5	186.7	204.2	220.8	232.8	233.7	259.5	268.8	286.4	322.6	293.4	306.1
10	Exports of refined products (11+12)	49.9	39.0	43.3	66.0	47.3	55.2	62.4	63.7	55.4	57.8	56.0	66.1	52.0	62.8	78.4
11	Waxy residues	47.9	33.7	40.5	49.9	32.1	34.9	42	45.3	40.6	42.0	43.3	53.6	43.8	47.4	51.5
12	Bunker fuel, AVTUR, etc	2.0	5.3	2.8	16.1	15.2	20.3	20.4	18.4	14.8	15.8	12.7	12.5	8.2	15.4	26.9
13	Available for domestic consumption (9-10)	137.3	137.1	133.5	115.5	139.4	149.0	158.4	169.1	178.3	201.7	212.8	220.3	270.6	230.6	227.7
14	Product imports	42.6	28.0	23.5	5.0	2.7	5.4	10.3	13.3	21.3	23.9	21.8	23.8	46	37.3	48.6
15	Total supply (13+14)	179.9	165.1	157.0	120.5	142.1	154.4	168.7	182.4	199.6	225.6	234.6	244.1	316.6	267.9	276.3
16	Domestic consumption	156.0	161.1	155.5	157.6	155.3	152.8	162.9	171.3	183.6	211.4	225.6	246.2	263.3	260.4	273.4
17	Changes in refined stocks (15-16)	23.9	4.0	1.5	37.1	13.2	1.6	5.4	11.1	16.0	14.2	9.0	2.1	53.3	7.5	2.9

Source: Ministry of Mines and Energy, Directorate General Oil & Gas

INDONESIA

COUNTRY ECONOMIC REPORT

Domestic Sales of Petroleum Products, 1981-1995 /a
('000 bbls)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Aviation gas	110	103	83	73	66	63	56	60	60	59	58	54	51	50	51
Aviation turbo	4,869	4,899	3,686	4,374	4,442	3,806	4,199	4,445	4,286	4,607	4,889	5,315	6,039	10,188	10,969
Premium gasoline	392	238	247	523	738	1,024	1,431	1,838	2,451	1,047	/b	/b	/b	/b	/b
Regular gasoline	25,648	25,709	24,380	24,909	25,206	27,083	29,048	30,855	33,199	39,005	43,023	45,308	46,733	52,463	57,798
Kerosene	52,497	51,778	48,224	45,213	43,954	43,618	43,352	44,664	46,601	49,472	50,573	53,850	54,242	56,110	58,188
Motor diesel	44,737	48,918	49,790	48,567	47,682	47,421	54,075	59,143	64,508	72,950	80,837	92,061	104,460	100,730	106,755
Industrial diesel	9,391	9,311	9,978	10,285	10,329	8,855	8,319	8,809	9,515	10,720	10,806	11,318	11,445	11,174	10,069
Fuel oil	17,587	19,341	21,149	23,625	22,863	18,004	19,054	18,097	18,329	24,847	28,899	29,313	30,154	25,456	25,543
Total	155,231	160,297	157,537	157,569	155,280	149,874	159,534	167,911	178,949	202,707	219,085	237,219	253,124	256,171	269,373

/a Excluding lubricating oil and similar products.
/b Discontinued.

Source: Ministry of Mines and Energy, Directorate General Oil and Gas.

Table 8.5

Table 9.1

INDONESIA

COUNTRY ECONOMIC REPORT

Consumer Price Index, 1979 - 1995 /a /b
(April 1977 - March 1978 = 100)

End of	Foodstuff	Housing	Clothing	Others	Total	Change (%) /c
1979	141.1	140.9	168.2	137.7	143.1	21.8 /d
1980	165.6	168.7	190.8	159.1	167.6	16.0
1981	179.3	182.3	198.2	168.8	179.8	7.1
1982	192.7	209.8	205.0	189.3	197.9	9.7
1983	212.7	238.1	214.0	221.5	221.5	11.5
1984	226.4	270.0	220.6	246.5	241.6	8.8
1985	230.9	289.4	228.0	259.7	252.2	4.3
1986	263.9	302.9	250.4	275.0	275.3	9.2
1987	296.1	321.4	270.4	297.9	300.8	9.2
1988	320.1	335.4	280.0	307.4	317.6	5.6
1989	104.1	109.6	108.1	105.7	106.4	6.1
1990	111.5	123.9	113.4	118.6	117.0	9.9
1991	122.6	133.7	119.5	135.0	128.6	9.9
1992	130.2	140.0	128.3	139.7	135.1	5.0
1993	136.8	163.2	138.9	154.0	148.8	10.2
1994	157.0	178.6	147.5	161.7	163.2	9.7
1995	179.1	188.9	157.4	173.3	177.8	9.0

/a The consumer price index for Indonesia has been used commencing March 1979 to replace
 the Jakarta cost of living index.

/b Starting 1989, using new base period (April 1988-March 1989 = 100).

/c End-year basis

/d Percentage change of CPI for the period January through December 1979 using the rate of
 increase of the Jakarta cost of living index for period January through
 March 1979.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Indonesia Wholesale Price Index, 1983-1995 /a
(1983 = 100)

Sectors /b	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 /c
Agriculture (44)	100	113	118	128	145	163	177	191	206	225	251	327	363
Mining & quarrying (6)	100	109	117	125	132	143	156	169	188	201	218	250	274
Manufacturing (140)	100	103	115	123	143	156	166	176	194	206	218	243	262
Imports (53)	100	113	119	129	158	164	178	191	201	208	211	219	236
Exports (38)	100	111	112	85	118	118	131	159	153	159	157	166	177
Excluding petroleum (34)	100	114	115	130	170	183	195	195	203	212	226	278	304
Petroleum (4)	100	112	113	73	103	99	112	148	139	143	137	133	140
General index (281)	100	111	116	116	142	149	162	178	187	197	204	226	244
General index excluding exports (243)	100	111	117	127	149	160	173	185	199	210	221	249	267
General index excluding exports of petroleum (224)	100	110	116	125	146	161	172	182	198	211	227	237	270

/a This new index replaces the previous WPI based on 1975.
Figures show the average for year.
/b Figures within brackets "( )" indicate the number of items
represented in that sector.
/c November 1995.

Source: Central Bureau of statistics.

Table 9.2   *173*

INDONESIA

COUNTRY ECONOMIC REPORT

Domestic Prices of Petroleum Products,1984 — 1995
(Rp./liter)

	1984 /a	1985 /b	1986	1987	1988	1989	1990 /c	1991 /d	1992	1993 /e	1994	1995
Aviation gas	300	330	250	250	250	250	330	400	400	420	420	420
Aviation turbo	300	330	250	250	250	250	330	400	400	420	420	420
Premium gasoline	400	440	440	440	440	440	/f	/f	/f	/f	/f	/f
Regular gasoline	350	385	385	385	385	385	450	550	550	700	700	700
Kerosene	150	165	165	165	165	165	190	220	220	280	280	280
Motor diesel	220	242	200	200	200	200	245	300	300	380	380	380
Industrial diesel	200	220	200	200	200	200	235	285	285	360	360	360
Fuel oil	200	220	200	200	200	200	220	220	220	240	240	240

/a Price increased on January 12.
/b Price increased on April 1, due to the application of 10% VAT.
/c Price increased on May 25.
/d Price increased on July 11.
/e Price increased on January 8.
/f Discontinued.

Source: Ministry of Mines and Energy, Directorate General Oil and Gas.

INDONESIA

COUNTRY ECONOMIC REPORT

Approved Foreign Investment by Sector, 1981-1995 /a
(US$ million)

Sector	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agriculture	25	9	10	0	9	126	117	8	122	117	14	66	138	690	1,153
Forestry	115	32	7	0	0	0	5	26	4	20	1	138	22	0	0
Fishery	22	3	21	0	11	4	12	46	47	20	11	28	0	40	231
Mining & quarrying	29	0	0	0	0	0	0	0	0	116	0	2,312	0	0	0
Manufacturing	834	1,120	2,615	1,002	687	537	852	3,828	4,246	5,822	3,970	5,669	3,423	18,739	30,441
Food	41	6	83	77	6	34	54	231	223	99	382	213	141	1,235	1,332
Textiles & leather	139	26	12	1	7	9	118	213	581	1,094	532	591	419	396	471
Wood & wood products	124	5	13	0	0	32	45	104	106	218	62	34	50	68	263
Paper & paper products	49	0	722	0	25	47	109	1,506	211	730	822	686	202	5,120	2,540
Chemicals & rubber	236	317	183	96	338	294	209	1,544	2,512	1,991	923	2,342	1,171	7,743	19,368
Nonmetallic minerals	20	57	50	0	3	0	251	30	184	125	133	841	98	632	289
Basic metals	85	3	836	609	65	39	7	61	106	825	197	47	186	2,082	292
Metal products	141	706	716	210	244	82	57	129	292	460	856	863	1,114	1,423	2,258
Others	0	0	1	9	0	0	3	10	30	281	62	52	42	40	3,628
Construction	49	11	44	17	122	65	42	2	16	77	26	41	97	77	206
Trade & hotels	0	17	78	84	0	0	196	405	98	874	4,019	919	1,088	430	1,029
Wholesale trade	0	0	0	0	0	0	0	0	0	0	0	0	693	87	31
Hotels	0	17	78	84	0	0	196	405	98	874	4,019	919	394	344	999
Transport & communications	0	0	0	4	0	70	213	3	5	803	167	14	85	145	5,539
Real estate and business servic	18	204	108	0	29	25	20	117	181	902	570	1,136	3,292	3,604	1,314
Total	1,091	1,397	2,882	1,107	859	826	1,357	4,435	4,719	8,750	8,778	10,323	8,144	23,724	39,915

/a Intended Capital Investment. Amount represents original approvals plus expansions minus cancellations

Source: Investment Coordinating Board (BKPM)

Table 10.1

INDONESIA

COUNTRY ECONOMIC REPORT

Approved Domestic Investment by Sector, 1981-1995 /a
(Rp billion)

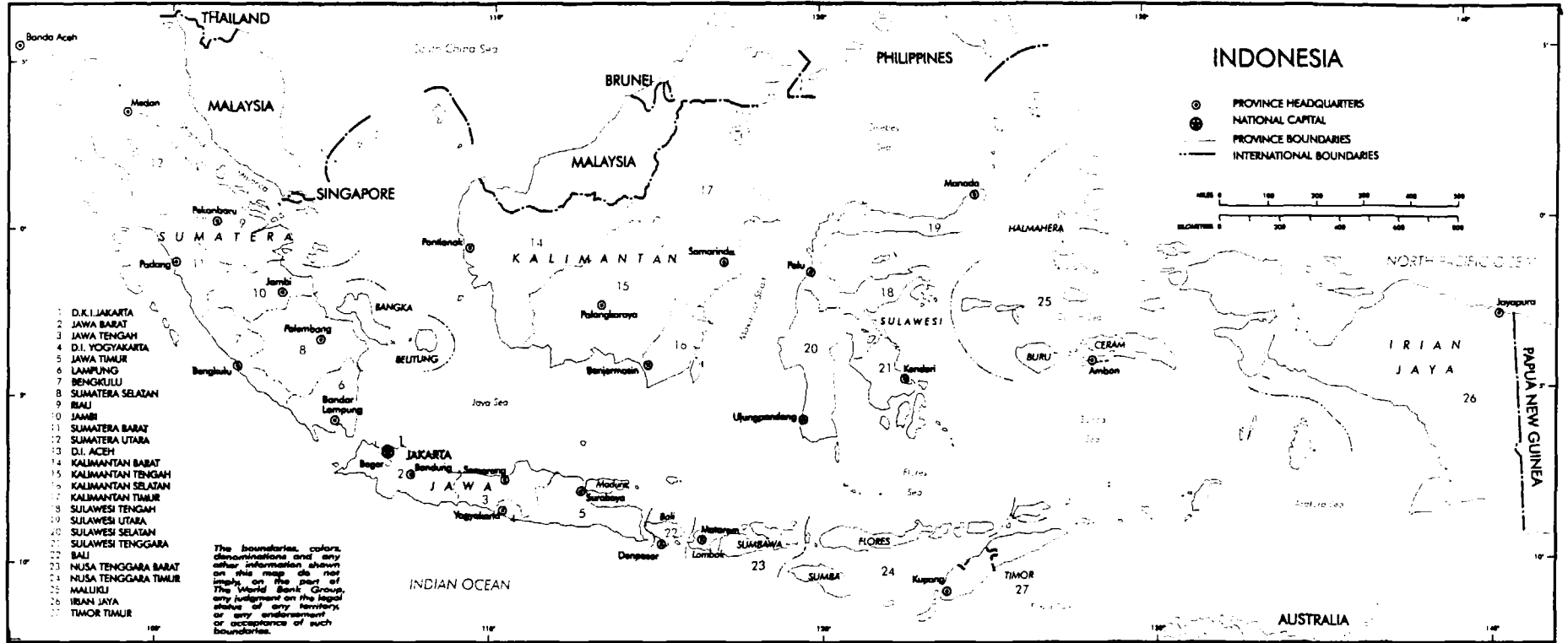| Sector	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agriculture, fisheries and livestock	60	62	681	277	899	1,879	2,885	2,698	3,418	6,442	3,468	1,952	2,835	7,140	8,621
Forestry	175	93	149	19	37	21	640	487	252	593	310	534	258	262	1,476
Mining	13	52	578	8	38	89	290	111	94	155	182	236	69	112	205
Manufacturing	1,306	1,419	3,792	1,332	1,632	1,842	5,518	9,747	12,931	39,850	27,624	19,079	24,037	31,933	43,962
Textiles	195	110	104	127	97	263	1,289	2,309	3,563	12,561	3,646	2,546	3,539	5,518	7,177
Chemicals	193	205	766	272	928	773	2,047	3,039	4,062	7,894	8,425	3,299	7,689	5,150	8,740
Electrical goods	0	0	0	0	0	0	0	0	0	0	0	0	5	12	620
Other manufacturing	918	1,104	2,922	933	607	806	2,183	4,399	5,307	19,395	15,553	13,235	12,804	21,253	27,425
Construction	8	16	195	67	270	74	50	31	146	87	275	215	187	731	848
Hotels	54	76	255	214	312	17	139	537	1,265	4,703	3,895	3,115	3,051	4,342	3,792
Real estate	5	74	204	31	267	169	174	846	936	1,783	2,633	536	3,049	3,336	4,659
Others /b	70	157	1,151	1	296	325	569	460	551	2,898	1,785	3,675	5,965	5,434	6,290
Total	1,691	1,949	7,005	1,949	3,750	4,417	10,265	14,916	19,594	56,511	41,078	29,342	39,450	53,289	69,853

/a Figures refer to intended capital investments, and represent original approvals plus approved expansion minus cancellations.
/b Includes transportation sector.

Source: Investment Coordinating Board.

MAP SECTION

INDONESIA

THAILAND

Banda Aceh

MALAYSIA

Medan

SINGAPORE

SUMATERA

Pekanbaru

Padang

Jambi

Palembang

BANGKA

BEUTUNG

Bengkulu

Bandar Lampung

South China Sea

BRUNEI

MALAYSIA

Pontianak

KALIMANTAN

Samarinda

Palangkaraya

Banjarmasin

Java Sea

JAKARTA

Bogor

Bandung   Semarang

JAWA

Yogyakarta

Madura
Surabaya

Bali

Denpasar   Mataram

Lombok

SUMBAWA

SUMBA

PHILIPPINES

Manado

HALMAHERA

Palu

SULAWESI

Kendari

Ujungpandang

BURU   CERAM

Ambon

Flores Sea

FLORES

TIMOR

Kupang

NORTH PACIFIC OCEAN

Jayapura

IRIAN JAYA

PAPUA NEW GUINEA

INDIAN OCEAN

AUSTRALIA

1   D.K.I. JAKARTA
2   JAWA BARAT
3   JAWA TENGAH
4   D.I. YOGYAKARTA
5   JAWA TIMUR
6   LAMPUNG
7   BENGKULU
8   SUMATERA SELATAN
9   RIAU
10 JAMBI
11 SUMATERA BARAT
12 SUMATERA UTARA
13 D.I. ACEH
14 KALIMANTAN BARAT
15 KALIMANTAN TENGAH
16 KALIMANTAN SELATAN
17 KALIMANTAN TIMUR
18 SULAWESI TENGAH
19 SULAWESI UTARA
20 SULAWESI SELATAN
21 SULAWESI TENGGARA
22 BALI
23 NUSA TENGGARA BARAT
24 NUSA TENGGARA TIMUR
25 MALUKU
26 IRIAN JAYA
27 TIMOR TIMUR

IMAGING

Report No: 15383 IND
Type: ER