Chapter 7

Indonesia: Building an Inclusive Development Model

Tulus T.H. Tambunan

SME and Business Competition Studies (USAKTI)

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CHAPTER 7

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More than ten years ago, Indonesia was hit by an extremely severe economic crisis ever happened since the country's independence in 1945, known as the Asian financial crisis, which led Indonesian economy to an economic recession with -13 % of economic growth in 1998. Since then, Indonesia has become a different country. It has embarked upon a far-reaching institutional transformation and has become one of the region's most vibrant democracies. Wide reforms in all economic areas including trade, finance and industry have been carried out, and development strategy has been shifted from 'exclusive' to 'inclusive'. The main aim of this study is to examine the process of change in Indonesian development strategy from 'exclusive' oriented before the Asian financial crisis 1997/98 (during the 'New Order' era) towards "inclusive' oriented. Specifically, it discusses main important 'inclusive' policies that have been introduced or implemented so far by the Indonesian government. In addition to this, based on a number of indicators of inclusive development in the literature, the study also proposes an inclusive development index to measure its achievement.

Keywords: Indonesia, inclusive growth, development model

JEL Classification: I32, I38, O11,O20,O43.

1. Introduction

During its so-called 'New Order' era (1966-1998) Indonesia went through a rapid economic development process, with growth rates at 6 to 8 % annually. The regime also managed to push down poverty through rural economic development based on modernization in agriculture, and industrialization. With this achievement, Indonesia was often spoken of as a coming "Asian Tigers", together with Malaysia and Thailand. However, this economic performance at the macro-level concealed some problems. These were a result of the chosen development strategy which created inefficiency and market distortions. Indonesia suffered from high economic costs and a growing income gap. During the New Order era, the development process was beneficial only for certain groups of society, *i.e.* those who were considered important by policymakers, and certain regions, *i.e*. Java.

More than ten years ago, Indonesia was hit by a severe economic crisis, the worst since the country's independence in 1945, known as the Asian financial crisis, which led the Indonesian economy to an economic recession with 13 % of economic decline in 1998. Since then, Indonesia has become a different country. It has embarked upon a far-reaching institutional transformation and has become one of the region's most vibrant democracies. In social and economic terms, Indonesia has also seen much progress. Its real GDP has been growing at 5 to 6 % annually since 2002. Prudent fiscal management and a strategy of fiscal consolidation have continued the significant reduction in government debt levels. Inflation has largely been kept under control and Indonesia has a strong balance of payments, with record exports of many commodities. Public investment has steadily increased over the past five years. Poverty has declined and public services are receiving additional resources, including through community-driven development programs. Wide reforms in all economic areas including trade, finance and industry have been carried out, and development strategy has been shifted from 'exclusive' to 'inclusive'.

The main aim of this study is to examine the process of change in Indonesian development strategy from 'exclusive' oriented before the Asian financial crisis 1997/98 (during the 'New Order' era) towards "inclusive' oriented. Specifically, it discusses the main important 'inclusive' policies that have been introduced or implemented so far by the Indonesian government. In addition to this, based on a number of indicators of inclusive development proposed in the literature, the study also proposes an inclusive development index to measure its achievement.

2. Indonesian Achievements in Brief

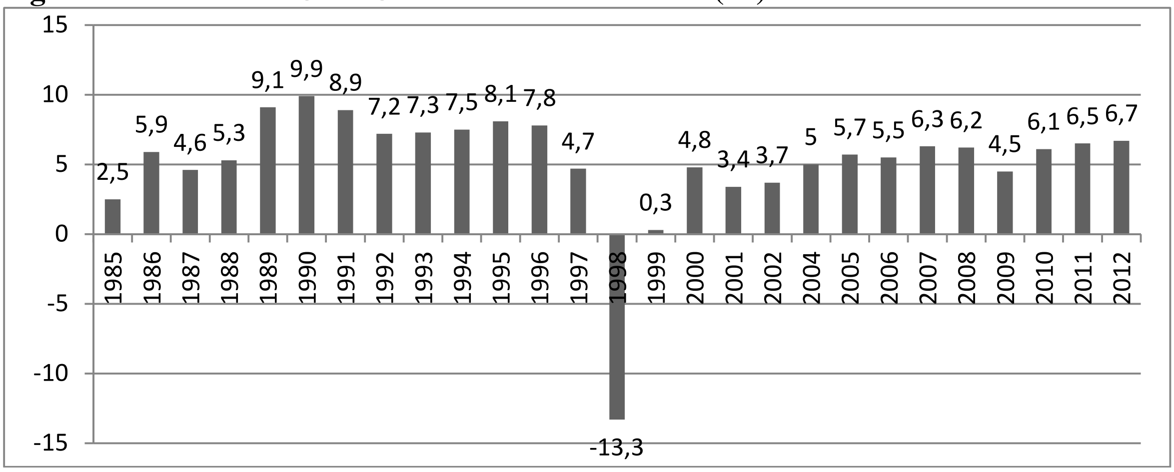
Indonesia was among only few countries in Southeast Asia which experienced high rates of annual economic growth during the "New Order" era (1966-1998) led by the former President Soeharto, and, probably among very few countries with the best performance in terms of industrialization, agricultural development (especially with respect to the implementation of the "green revolution"), GDP growth, income per capita growth and poverty reduction within the group of developing countries in Asia, Africa and Latin America. Because of its spectacular performance at that time, in its regional report the World Bank even named Indonesia, along with Malaysia and Thailand as the "new Asian tigers" following the existing ones (besides Japan), i.e. Hong Kong (before it returned to China), South Korea, Singapore, and Taiwan, province of China.

Guided by a five year economic plan (Repelita), the process of economic development in Indonesia during that period placed emphasis on two sectors, namely industry and agriculture. Starting first with an import-substitution strategy in the early 1970s and shifting gradually to an export promotion strategy in the mid 1980s, financed by money from donor countries and the World Bank, and stimulated by huge inflows of foreign direct investment (FDI), especially in manufacturing industry, Indonesia has experienced a rapid process of structural change from an agriculture-based toward an industry-based economy. Although the degree of industrial development in Indonesia, in terms of diversification, structural deepening, and technology base, was still very low as compared to South Korea and Chinese Taipei. By the end of the 1990s Indonesia's GDP share of industry had already reached around 43 %, and it was in the second rank of countries, after Malaysia, within the ASEAN.

Although the share of agriculture in GDP declined steadily during the period, as normally happens everywhere in the course of a long-term economic development process, the sector also developed well with the implementation of the so-called “green revolution”, focusing on modernization and intensification. The government at that time adopted this strategy with the aim of improving productivity and hence the incomes of farmers. It sought in this way to reduce poverty especially in rural areas and to reduce the country’s dependency on imports of agricultural commodities, in particular basic foods such as rice. The chosen strategy worked, and agricultural productivity and farmers’ incomes increased. Indonesia was even able, in certain years of the 1980s, to become self-sufficient in rice, the nation’s main staple food.

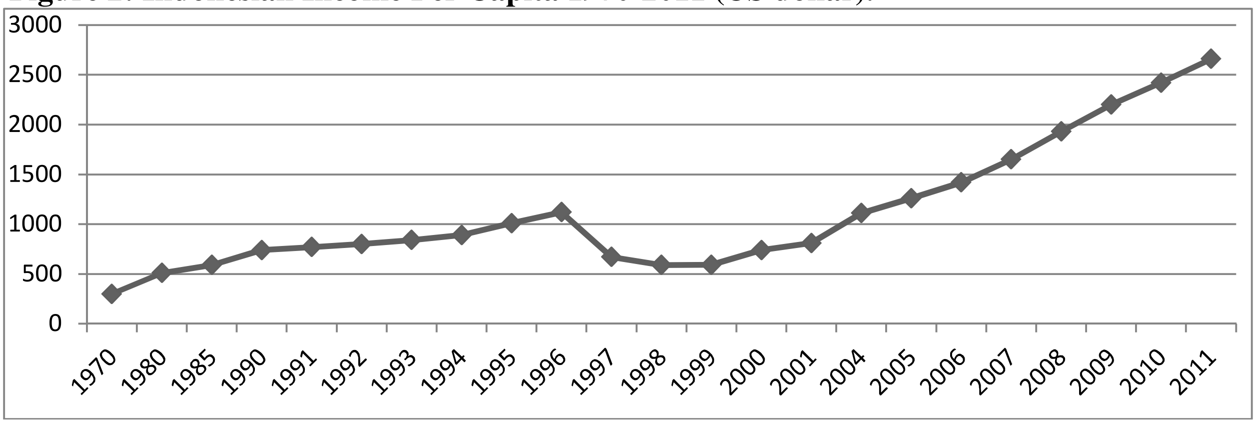
As outputs of agriculture and manufacturing industry experienced a remarkable growth, followed also by output growth in some other non mining sectors, such as trade, construction and finance, Indonesia’s overall GDP grew significantly quickly with 8 % on average per year during the 1980s and up to 1997 peaking at 9.9 % achieved in 1990 (Figure 1). Income per capita also increased steadily from less than US$500 in 1970 (which made Indonesia amongst the poorest countries in the world at that time together alongside countries such as Bangladesh, Nepal and Sri Lanka) up to slightly above US$1,000 in 1996. After a decline during the major economic crisis in the region, (generally known as the Asian financial crisis) in 1997-98, it started to rise again in 1999 and kept increasing, and it is expected to have reached more than US$2,500 in 2011 (Figure 2).

Figure 1: Indonesian GDP Growth Rate: 1985-2012 (%)



Note: Government's prediction (RAPBN, 2012)
Source: Statistical Yearbook of Indonesia (various years), BPS (www.bps.go.id).

Figure 2: Indonesian Income Per Capita 1970-2011 (US dollar).

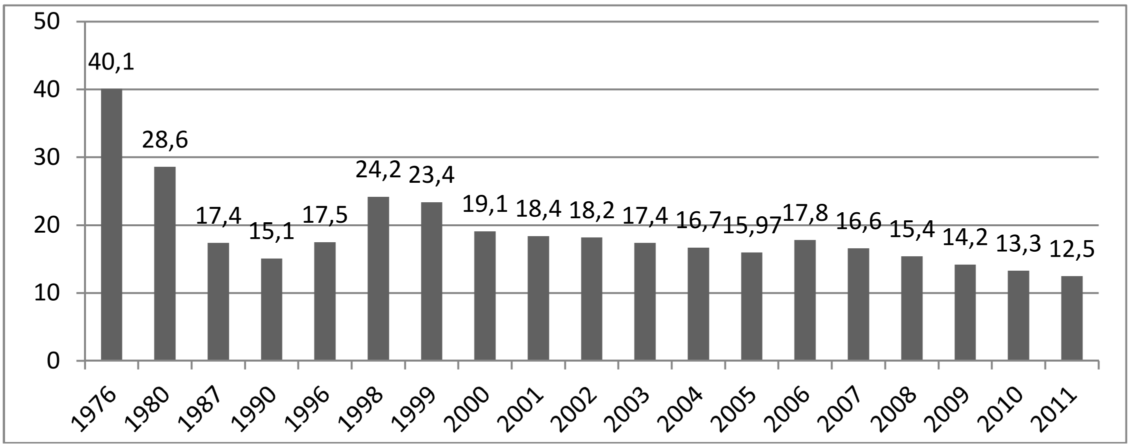


Source: Statistical Yearbook of Indonesia (various years), Indonesian National Agency of Statistics (BPS) (www.bps.go.id).

Another indicator which also clearly shows the positive results of economic development during the Soeharto era is the continued decline in the poverty rate, measured by the percentage of the country's total population living under the current national poverty lines. In 1976 the poverty rate was around 40 % and it fell to about 15 % in 1990. Because of the 1997-98 crisis, which led many companies to close down, and, as a direct result, unemployment to increase significantly, the poverty rate jumped up again to 24 % in 1998, the worst year of the crisis. Since 1999 the poverty rate has dropped and had fallen to 13.3 % in 2010. It is expected by the

World Bank that in 2011 the poverty rate in Indonesia would be around 12.5 % (Figure 3).

Figure 3: Poverty rate in Indonesia: 1976-2011 (%)



Source: Statistical Yearbook of Indonesia (various years), Indonesian National Agency of Statistics (BPS) (www.bps.go.id).

The process of economic development in Indonesia has not, however, been free of disturbances. Since the New Order era the Indonesian economy has been hit by two more major economic crises. The first was the Asian financial crisis, which started in the second half of 1997 and reached its climax in mid 1998. The crisis was triggered by a sudden capital flight from Thailand which led to a significant depreciation of its currency, the Baht, against the U.S dollar. Soon afterwards capital in huge amounts also fled from Indonesia, South Korea and the Philippines, leading to a big fall in their currencies. Indonesia was the country most impacted by the crisis, which resulted in a negative economic growth rate of - 13 %, leading the poverty rate to increase significantly. The second crisis occurred during the period 2008-2009, and is regarded as a global economic crisis since its impact was much wider than that of the 1997/98 crisis. The crisis started first in the United States in 2007 as a serious financial crisis. This crisis has been described by many economists as the most serious economic or financial crisis that the U.S. experienced since the great depression in the 1930s. Its global effects include the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activities in many countries. The crisis then rapidly developed and spread into a global economic shock, resulting in a number of bank failures, declines in various stock indexes, and huge reductions in the market value of equities and commodities. In Asia, most, if not all, countries, including China, India and Indonesia were also affected by the crisis. While many Asian countries only saw moderate deceleration in their economic growth in 2008, as the crisis intensified and export demand began to slow sharply in 2009 from the U.S, the European Union (EU) and Japan, a substantial decline in domestic economic activities took place in many of these countries in 2009.

In addition to these two crises, currently there are fears another big global economic crisis, caused by the euro-zone sovereign debt debacle. Effects are generally expected to spread to the rest of the world, including Indonesia. The main channels through which this crisis may affect Indonesia are mainly trade (although euro countries traditionally are not the most important market destinations for Indonesian exports, as compared to the US and Japan), inflows of tourists from European countries, and changes in the exchange rate of the Indonesian national currency, the rupiah, against the euro. However, it is generally expected that, as during the 2008-09 crisis, this time too Indonesia is ready to face the possible impacts of the crisis. The country's economy is generally believed to be more resilient than during the 1997-98 crisis and this is supported by recent conducive developments of key macroeconomic indicators, such as the foreign debt-GDP ratio, government financial deficits in total, as well as in percentage of GDP, and banking indicators such as the rate of non-performing loans (NPL) and capital-asset ratios.

3. Inclusive Development

3.1. Conceptual Definitions

What is inclusive development? According to Ali and Zhuang (2007), Ali and Son (2007), and Rauniyar and Kanbur (2009), among others, there is no agreed-upon and common definition of inclusive development. The concept, however, is based on 2 other concepts: inclusion and development, and inclusion is a process and also a goal. Inclusion is about society changing to accommodate differences by removing all barriers which discriminate or exclude certain individuals/groups within society. It sees society as the problem, not the person. In Rauniyar and Kanbur (2009), it is stated that inclusive development is understood to refer to economic growth coupled with equal economic opportunities. It focuses on creating economic opportunities and making them accessible to everyone in society at all levels, not just to the poor. An economic development process is said to be inclusive when all members of a society participate in and contribute to that process equally, regardless of their individual circumstances or backgrounds. In the same way, inclusive development emphasizes that economic opportunities created by economic growth are available to all, particularly the poor, to the maximum extent possible. Inclusive development therefore is the process of ensuring that all marginalized/excluded groups of a society are included in the development process. Because inclusion involves all members of a community, then collaboration, partnership, and networking among individual members in the community are core strategies to achieve inclusion.

But in order to give all members of a community the same opportunities, according to Sachs (2004), an inclusive development strategy requires three most important components. First, ensuring the exercise of civil, civic and political rights. Thus, as emphasized by Sen (1999), democracy is a truly foundational value, as it also guarantees the transparency and accountability necessary for the working of the development processes. These three rights, says Sachs are pre-conditions for inclusive development. Second, all citizens, especially disabled people, mothers and children and the elderly, must have access on an equal basis to welfare programs designed to compensate for natural or physical inequalities. Compensatory social policies financed out of the redistribution of income should also include benefits for the unemployed. Third, the whole population should also have equitable opportunities for access to public services, such as education, health protection and housing.

The idea of inclusive development came after the introduction of the Millennium Development Goals (MDGs), a United Nations program motivated by the observation that, although many countries in the world have achieved remarkable results in their long-term development, in terms of high economic growth, high income per capita, and rapid structural change from agriculture-based towards industry-based economies, in many of these countries, poverty is still high and the gap between the rich and the poor has become wider. It is widely acknowledged that sustained poverty reduction depends on a rapid pace of economic growth. But the connection is not automatic. Some fast-growing economies have failed to tackle poverty, while some slower-growing ones have been more successful. Even the United Nations Conference on Trade and Development (UNCTAD (2010)) argues that a fundamental problem in achieving the MDGs by the target date of 2015 has been the lack of a more inclusive strategy of economic development that could integrate and support its "human development" ambitions.

It is not difficult to understand why many countries in the world, especially in South Asia and some parts of Africa, still struggle with poverty (or have even witnessed increasing poverty), and have a large proportion of their citizens living in extreme states of deprivation (notably in sub-Saharan Africa). It is because many groups, so called “disadvantaged” people such as women, children, people with HIV/AIDs, ethnic minorities, nomads, and people in conflict/refugee situations have been excluded from, or marginalized in relation to, participation in economic development. Poverty is a consequence and also a cause of disability, and, thus, poverty will not be alleviated without including disabled people in the process of development.

From the above discussion, key issues of inclusive development are poverty, participation, collaboration, and networking. This means that poverty alleviation is or should be the centre of inclusive development policies, and to eliminate or reduce poverty, not only direct policies to alleviate poverty are needed but also economic development policies, programs and projects should be favorable to poverty reduction, of course not at the cost efficiency, productivity, and competitiveness.

3.2. Indonesia's Inclusive Development Strategy

3.2.1. Fundamental Development Strategies

In 1997-98 Indonesia was heavily hit by the Asian financial crisis, which was soon followed by social and political disturbances and physical conflicts. This multidimensional crisis led to the fall of the ‘New Order’ (Soeharto) regime in May 1998. Since then the Indonesian people have decided to pursue a new path in history, the path of democracy. The political system was fundamentally transformed by the implementation of democracy, decentralization, and amendment of the 1945 constitution. Social life was drastically changed. Some of public institutions are no longer functional.

Although during the 'New Order' era there were many pro-poor programs which led poverty rates to decline significantly, showing that the government in that period also tried seriously to address the poverty problem in the country, the gap between the rich and the poor did not decline significantly. In fact, during this era, it is clear that the adopted development strategy was more 'exclusive' rather than 'inclusive', as many regulations, policies and facilities were set in favor of a small group of mainly big companies (known as conglomerates) at the cost of micro, small and medium enterprises (MSMEs).

In this post-Soeharto era, known as the era of reform (*reformasi*), government attention has been shifting toward 'inclusive' development. In his address on national development from a regional perspective, before the special plenary session of the House of Regional Representatives of the Republic of Indonesia in Jakarta, August 2009, Susilo Bambang Yudhoyono (often referred to as SBY), the President of the Republic of Indonesia stated that the paradigm of development for all, in Indonesia's context, can only be carried out by adopting six fundamental development principles (SNRI, 2011).

The first fundament principle is any development strategy must be inclusive, ensuring equity and justice and respecting and maintaining the Indonesian people's diversity. The central and regional governments ought to constantly renew the common understanding and consensus in developing Indonesia. This consensus is guided by Indonesia's medium and long-term visions and missions. Indonesia's long-term direction for 2005-2025 is stated in Law Number 17 of 2007 on the National Long-Term Development Plan, and Indonesia's medium-term direction is given in each five year stage, the Medium□Term Development Plans (RPJMs). Each of the stages has a scale of priorities and development strategies that constitute a continuity of scale of priorities and development strategies of preceding periods. The basic scale of priorities and strategies of the respective RPJMNs are summarized in the following (MNDP, 2010, page I-23):

1. The first RPJM (2005-2009) is directed at reforming and developing Indonesia in all fields and is aimed at creating an Indonesia that is safe and peaceful, just and democratic, and that has an increasingly prosperous population.

2. The second RPJM (2010-2014) aims at the greater consolidation of the reform of Indonesia in all fields by emphasizing endeavors for increasing the quality of human resources, including the promotion of capacity building in science and technology and the strengthening of economic competitiveness.
3. The third RPJM (20152019) is aiming for the greater consolidation of development in a comprehensive manner in all fields by emphasizing attainment of economic competitiveness on the basis of competitiveness of natural resources and the quality of human resources and by an increasing capability to master science and technology.
4. The fourth RPJM (20202025) aims to realize an Indonesian society that is self-reliant, advanced, just, and prosperous through the acceleration of development in various fields by emphasizing a realized economic structure that is more solid on the basis of competitive advantage in various regions, and is supported by high quality and competitive human resources.

Each RPJM elaborates the vision, mission, and program of the President, the formulation of which is based on the National Long-Term Development Plan (RPJPN). It contains the national development strategy, general policies, programs of ministries/agencies, regional programs, as well as the macroeconomic framework which covers the overall economic situation, including the direction of fiscal policy, in a work plan comprising regulatory and indicative funding frameworks.

Each RPJM forms the basis for ministries and government agencies in formulating their respective Strategic Plans (Renstra-KL). Regional governments must also take into account the current RPJMN when formulating or adjusting their respective regional development plans to reach national development targets. For the implementation of the 2005-2025 National Long-Term Development Plan, the RPJMN is to be further elaborated into the Annual Government Work Plan (RKP) that will then become the basis for formulating the Draft Government Budget (RAPBN).

Currently RPJMN 2010-2014 is in operation. As with RPJM 2004-2009, RPJMN 2010-2014 is also divided into three economic development strategies, namely the ‘pro growth, pro job, and post poor’ strategies. Through the ‘pro growth’ strategy economic growth has accelerated, accompanied by an improvement of the distribution of income (growth with equity). RPJMN 2010-2014 has 14 national priorities, regional priorities which are Sumatera, Java-Bali, Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Papua, and field priorities which consist of social-cultural, economic, science and technology, infrastructure, political, defense and security, law and state apparatus, region and spatial, and natural resources and the environment.

The second fundamental development principle is that in the framework of development for all, Indonesia's development must have a territorial dimension. Each province, each regency/municipality, is a center of growth that must capitalize on all the potentials of the respective regions, whether their natural resources, human resources or geographic locations. This is the reason why the Indonesian government is seriously encouraging the regions in border areas to seize on the opportunities of regional development cooperation such as the Indonesia Malaysian Thailand growth triangle (IMT-GT) and the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), as well as border cooperation with Australia and Timor Leste. This policy of development with a territorial dimension also signifies that the government hopes to stimulate each region in enhancing their respective comparative and competitive advantages. However, the inter-regional balance must also be preserved, in order to avoid any possible inter-regional imbalance.

The third fundamental development principle is to create an integrated national economy in this era of globalization. As Indonesia is an open economy, national economic development cannot be implemented in a vacuum. Moreover, Indonesia is a member of the Association of South East Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation forum (APEC) as well as the World Trade Organization (WTO), which means that Indonesia's economy has been comprehensively linked to the global economy, and has fully committed to eliminate all trade barriers with the rest of the world. At the same time, however, Indonesia has to utilize its links with the global economy for the maximum possible benefit of the Indonesian people. In other words, Indonesia has to seize on the emerging opportunities in the globalization era, while, at the same time, protecting itself from its negative impacts.

The fourth fundamental development principle, which is also one of the keys to the success of 'development for all', is local economic development in every region, with the purpose of developing a strong domestic economy nation-wide. A strong domestic economy is the main asset for a nation wishing to succeed in the midst of the globalization onslaught. The lessons Indonesia drew from the 2008-09 global economic crisis is the fact that countries which are able to withstand the negative impacts of global recession are the countries with strong domestic economies. Furthermore, a strong domestic economy also ensures the nation's self-reliance. This is the reason why the reinforcement of inter-regional linkages becomes a prerequisite. To this end, the central and regional governments continue to enhance the quality and quantity of infrastructure, primarily in physical terms. During the 2004-2009 period, Indonesia has succeeded, among other things, in completing the construction of the bridge linking Java and Madura. This connection will significantly boost progress in Madura and the well-being of its inhabitants. Likewise, Indonesia is also planning to build a bridge between Java and Sumatra. When this is completed the distribution of development benefits that have so far been concentrated in Java will spread better to Sumatra. Indonesia will likewise continue with the completion of the construction of the Trans Kalimantan, Trans Sulawesi and Trans Papua highways. Apart from improving the physical linkages, in functional terms, Indonesia also needs to establish better inter-regional linkages. The government continues to encourage the products of one region to be used as basic materials in other regions, or to be used as finished products. For this purpose, central as well as regional governments have been working to minimize the number of trade barriers between regions, such as official levies or collections, and especially 'unofficial' levies or corruption that obstruct the emergence of investment and business communities in the respective regions.

The fifth fundamental development principle is establishing harmony and balance between growth and equity, or "growth with equity". This is a correction from previous development policy, which relied on the 'trickle-down' effect. The trickle-down effect assumes the need for prioritizing economic growth over equity. In reality, in many countries including Indonesia, this theory has failed to create welfare for all. In order to simultaneously realize growth and equity, therefore, Indonesia has adopted a triple-track objective, namely a pro-growth, pro-job, and pro-poor target for national economic development planning. High economic growth has to be achieved through the promotion of investment as well as domestic and foreign trade. The development is also aimed at creating employment opportunities by growing the real sectors of the economy and, at the same time, alleviating poverty through agricultural and rural revitalization policies as well as pro-people programs.

The sixth fundamental development principle is the essence of just and equitable development, namely development that emphasizes the promotion of human quality. In this area, the Indonesian people are to be considered not merely as objects of but, as the subject of development. In other words the human beings become actors in, as well as the focus of the development goals, so that the quality of living of Indonesians can be improved. For this purpose, therefore, the paradigm of 'development for all' gives a high priority to education, health, income and a better living environment. Environment here refers not only to a healthy and sustainable natural environment, but also to a social, political and security environment which is orderly, safe, pleasant, and democratic.

The life expectancy of Indonesians has continued to rise from 68.6 years old in 2004 to 70.7 years in 2009. The infant mortality rate has also declined from 33.9 per 1000 live births in 2004 to 26.2 per 1000 live births in 2009, while the maternal mortality rate has declined from 307 per 100,000 live births in 2003 to 228 per 100,000 live births in 2007. Meanwhile, the illiteracy rate (for inhabitants above 15 years old) in 2008 has dropped to 7.9 %, compared to 9.6 % in 2004. In general, Indonesia's human development index has gone up from 68.7 in 2004 to 71.1 in 2008.

3.2.2. Poverty Alleviation Policies

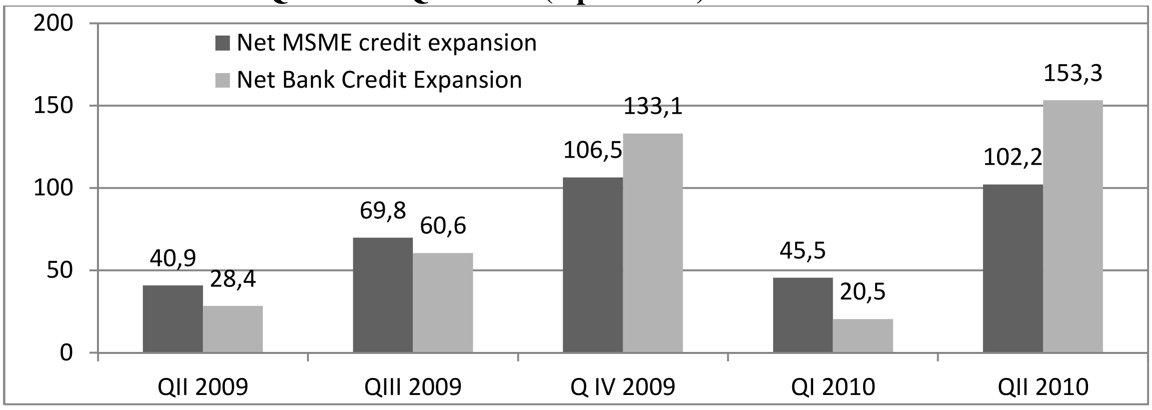
As described above, in aiming for inclusive development, the Indonesian government has adopted a triple-tracked "pro-growth", "pro-job" and "pro-poor" strategic objective. With respect to the pro-poor element, the Indonesian government currently has various programs aimed at alleviating poverty directly or indirectly. The implementation of these programs is not to substitute but to complement economic growth as the main engine of poverty elimination. The most popular among these programs is the National Self Reliant Community

Empowerment Program (PNPM Mandiri) which aims to empower the people directly at the sub-district and village levels. With the PNPM, the people in the villages can decide on the development priorities of their respective regions.

Other pro-poor programs include Unconditional Direct Cash Assistance (BLT), Public Health Insurance (*Jamkesmas*), School Operational Support (BOS), the provision of subsidies (such as subsidies for food such as rice, fertilizers, and program credits), and the Family Hope Program (PKH), which are all earmarked for poor and near-poor families all over the archipelago. The PKH is implemented in order to meet the basic needs of households when they are not able to support themselves. Some of the programs are capacity-enabling program ('not fish but the fishing rod'), such as the PNPM, which empowers people/communities through the provision of funds up to Rp 3 billion per sub-district per year, the use of which is determined by the people themselves at the village level.

In addition, the government also allocates budgets for micro, small and medium enterprises (MSMEs) in the form of subsidized credits, and the banking sector has been requested to channel certain portions of their funds as credit for MSMEs. This category of enterprises is considered very important for the following three main reasons. First, they are very labor intensive and as the majority of existing enterprises in Indonesia are in this category of enterprises (with micro and small enterprises (MSEs) as the majority), they are thus the largest source of employment creation/income generation in Indonesia. Second, most of MSMEs, in particular MSEs, are run by poor households/individuals. So, for Indonesia, one effective instrument of poverty alleviation is supporting the development of MSMEs, especially MSEs. Third, as in many other developing countries, female Indonesian entrepreneurs are mostly concentrated in MSMEs. It is generally recognized that empowerment of women is crucial for poverty alleviation, and giving women unlimited opportunities to become entrepreneurs is one effective way to empower women. The development of MSMEs is thus important for the development of female entrepreneurship. Figure 4 and Table 1 to 4 may give some idea about the importance of MSME credit in Indonesia, as part of the pro-people or pro-poor or inclusive development programs.

Figure 4: Development of MSME Net Credit Expansion versus Total Bank Credits Q.II 2009-Q.II 2010 (Rp trillion)



Source: BI (www.bi.go.id)

Table 1: MSME Credit by Sector (Rp trillion)

Sector	2002	2003	2004	2005	2006	2007	2008*	2010**
Agriculture	8.6.	8.6	12.1	12.6	13.3	16.1	19.4	18
Mining	0.5	0.6	0.9	0.97	1.3	1.5	1.8	6.1
Industry	22	24.4	26.6	32.5	36.7	37.8	46.1	53.99
Electricity, gas & clean water	0.1	0.1	0.1	0.3	1.5	0.3	0.6	0.95
Construction	3.6	4.6	5.9	7.7	10.1	13.2	17.1	21.4
Trade	38.6	52.8	67.2	87.5	107.3	134.6	157.1	194.2
Transport	3.7	5.1	6	6.5	6.6	7.2	8.6	11.96
Business services	7.96	13.3	15.6	20.7	23.5	30.5	40.9	46.99
Social services	2.2	3	4.3	5.3	6	6.7	7.6	35.3
Others	73.6	94.7	132.4	180.9	203.5	254.9	334.8	481
Total	160.98	207.1	271.1	354.9	410.4	502.8	633.95	869.9

Notes: *December; *** August.
Source: BI (www.bi.go.id).

Table 2: Development of MSME Credits by Groups of Banks (Rp trillion)

Group of Bank	2005	2006	2007	2008*	2010**	Share (%)		
						2007	2008*	2010**
State owned banks (BUMN)	122.2	144.9	176.7	226.4	318.5	35.0	35.9	36.6
Regional development	42.5	52.9	67.8	89.3	123.6	13.0	14.2	14.2
bank (BPD)	176.4	195.3	238.2	288.8	376.0	47.0	45.8	43.2
National private								
banks (NPB)	13.8	17.3	20.1	26.4	51.8	4.0	4.2	5.9
Foreign & Join								
ventured banks (FJB)	354.9	410.4	502.8	631.0	869.9	100.0	100.0	100.0
Total Credits for MSMEs								

Notes: * November; ** August
Source: BI (www.bi.go.id)

Table 3: Total MSME Credits by Group of Bank and Type of Credit, 2008-2010 (Rp trillion)

Category Bank	December 2008	December 2009	August 2010
BUMN	230.2	285.1	318.5
-micro	99.5	114.4	107.6
-small	71.2	98.3	129.9
-medium	59.5	72.5	80.9
BPD	87.7	107.7	123.6
-micro	39.0	38.9	38.9
-small	43.4	61.6	76.1
-medium	5.3	6.8	8.6
NPB	290.7	315.4	376.0
-micro	65.4	70.4	77.3
-small	96.4	110.2	139.8
-medium	128.9	134.8	159.0
FJB	25.4	29.2	51.8
-micro	12.2	12.0	34.2
-small	3.2	4.9	6.0
-medium	9.97	12.4	11.6
Total	633.95	737.4	869.9

Source: BI (www.bi.go.id)

Table 4: MSME Credits by Province, 2009 & 2010 (Rp trillion)

Province	2009 (December)	2010 (August)
Naggroe Aceh Darussalam	12.1	13.8
North Sumatera	39.4	43.97
West Sumatera	13.6	15.9
Riau	19.8	22.6
Jambi	9.0	9.5
South Sumatera	18.0	21.2
Bengkulu	5.3	5.8
Lampung	13.1	14.6
DKI Jakarta	155.5	211.4
West Java	112.6	128.9
Central Java	64.5	70.3
DI Yogyakarta	8.96	9.8
East Java	85.5	95.4
Banten	30.9	38.2
Bali	17.1	18.97
West Nusa Tenggara	7.7	8.9
East Nusa Tenggara	6.8	7.5
West Kalimantan	9.4	10.95
Central Kalimantan	4.7	5.5
South Kalimantan	10.4	11.9
East Kalimantan	16.3	19.6
North Sulawesi	9.7	12.7
Central Sulawesi	6.8	7.4
South Sulawesi	26.8	30.2
Southeast Sulawesi	4.7	5.1
Gorontalo	3.0	1.2
West Sulawesi	1.8	1.6
Maluku	2.6	3.3
North Maluku	1.7	1.7
West Papua	2.0	2.1
Papua	5.6	6.5

Source: BI (www.bi.go.id)

Most recently, the present cabinet under SBY has introduced four special credit schemes intended for MSMEs. First, *Kredit Ketahanan Pangan & Energi* (KKPE), aims to secure food and energy. The purpose of this credit scheme is provision of loans for working/investment capital only for farmers, through farmers' associations/ cooperatives. The interest rate is 5%-7% per annum for a maximum of 5 years. Second, *Kredit Pengembangan Energi Nabati & Revitalisasi Perkebunan* (KPEN-RP), aims to support energy development programs based on plantation commodities. It takes the form of loans for working/investment capital for farmers through farmers' associations/cooperatives. The interest rate is 5%-7% per annum for 13-15 years. Third, *Kredit Usaha Pembibitan Sapi* (KUPS), aims to support financing artificial breeding of cattle. It is also takes the form of loans for working/investment capital for farmers through farmers' associations/cooperatives at an interest rate of 5%-6% per annum for a maximum of 6 years. Fourth, and the most important one, the Smallholder Credit Program or *Kredit Usaha Rakyat* (KUR), aims to help financing feasible but not bankable MSMEs, which is known as credit without collateral. It takes the form of loans for working/investment capital provided to individual producers/owners of MSMEs, and cooperatives at an interest rate of 14% (KUR retail) -22% (KUR micro) per annum for maximum of 10 years.

In addition, the current government has also issued various new regulations including Presidential Instruction (Inpres) No. 6/2007 dealing with Real Sector and MSMEs Development Policy, on June 2007, which mentions the need to strengthen the credit guarantee system for MSMEs; Presidential Regulation (Perpres) No. 2/2008 relating to Guarantee Corporations; and the Ministry of Finance (MOF) Regulation No. 222/PMK.010/2008 on the Credit Guarantee Company (CGC) and the Credit Re-guarantee Company. The main aim of the CGC is to help MSMEs which have no or not enough collateral, or which have collateral but no formal license (for instance: a land certificate).

4. Inclusive Development Index

4.1. Framework of Inclusive Development Indicators

In Asian Development Bank (ADB) (2011), a set of 35 key indicators was introduced to be used in examining inclusive development. The publication identifies key policy ingredients for inclusive development, namely economic growth and employment opportunities, social inclusion, social protection, and good governance and institutions, as proposed by Zhuang (2010). The proposed indicators cover eight dimensions: (1) poverty and inequality (income and non-income); (2) economic growth and employment opportunity; (3) key infrastructure endowments; (4) access and inputs to education and health; (5) access and inputs to basic infrastructure utilities and services; (6) gender equality and opportunity; (7) social safety net; and (8) governance and institutions (Table 5). According to Zhuang (2010), inclusive economic development or growth has three policy pillars (Figure 5). Policy pillar 1 is to create productive employment and economic opportunities. Policy pillar 2 is to ensure equal access to economic opportunity. Policy pillar 3 is to protect the chronically poor and to mitigate the effects of transitory livelihood shocks caused by, among others, economic crises, natural disasters, or social unrests. In their turn, the three policy pillars must be based on good governance and institutions.

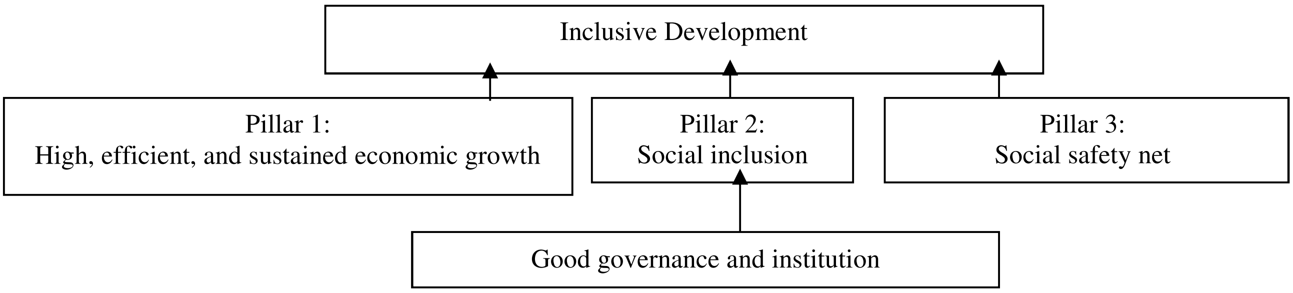
Table 5: Framework of Inclusive Development Indicators

Dimension	Policy pillar (PP)	Indicator
(1)		Income: -percentage of population living below the national poverty line -percentage of population living below $2 a day at Purchasing Power Parity (PPP)$ of the selected year -ratio of income/consumption of the top 20% to bottom 20% Non income -average years of total schooling (youth and adult) -prevalence of underweight children under five years of age -under-five mortality rate
(2)	PP 1	-growth rate of real GDP per capita at PPP $ of selected year - average growth rate per capita of income/consumption at PPP$ of selected year (lowest and highest quintile and total) -employment rate -income (GDP) elasticity of employment -ratio of own-account and family workers to wage and salaried workers
(3)		-per capita consumption of electricity -percentage of paved roads -number of cellular phone subscriptions per 100 people -depositors with other depository corporation per 1000 adult (comprises depositors with commercial banks and other deposit takers (except the central banks)
(4)	PP 2	-school life expectancy for all levels -pupil-teacher ratio (primary) -immunization coverage among 1-year-olds -physicians, nurses, and midwives per 10,000 population -government expenditure on education and health, respectively, as percentage of total government expenditure
(5)		-percentage of population with access to electricity -percentage of population using solid fuels for cooking -percentage of population using good drinking water sources -percentage of population using good sanitation facilities
(6)		-ratio of female to male in education at all levels -ratio of female to male in labor force participation -antenatal care coverage (at least one visit)

Dimension	Policy pillar (PP)	Indicator
		-percentage of seats held by women in national parliament
(7)	PP 3	-social protection and labor rating -share of social security expenditure on health in total government expenditure on health -share of social security expenditure and welfare in total government expenditure
(8)		-voice and accountability -government effectiveness -corruption perceptions index

Source: Zhuang (2010), ADB (2011).

Figure 5: Four Pillars of Inclusive Development



Source: Zhuang (2010).

4.2. Constructing an Inclusive Development Index (IDI)

As previously discussed, the concept of inclusive development is based on two other concepts, namely inclusion and economic development. Inclusion means development without barriers which discriminate or exclude certain individuals/groups of society, in other words, 'high quality' economic development, i.e. economic growth with equal economic opportunities for all members of a community. The opportunities can be employment opportunities or opportunities to conduct own businesses. But for equal opportunities to happen, there is one pre-condition, namely that all members of a community must have access on an equal basis to all public services for improving their personal capability to perform (e.g. successful entrepreneurs, highly productive workers), namely education, health care/protection, housing, food, and welfare programs for the disabled, mothers and children and the elderly to compensate for natural or physical inequalities.

Thus the 34 indicators shown above, can be reduced to only seven key indicators, which represent all dimensions and all policy pillars proposed by Zhuang.

From here, an index of inclusive development (IDI) can be calculated, which is simply the sum of the seven key indicators, which are the followings:

X_1: economic growth, measured by growth rate (%) of real GDP per capita (positive sign);

X_2: employment, measured by total employed labor force as percentage of total population or working population (positive sign). This reflects the access of members of a community to economic opportunities. As an alternative measure, the unemployment rate can be used instead (negative sign).

X_3: human development, measured by the human development index (HDI) developed by UNDP (positive sign). The index has three dimensions: long and healthy life (measured by life expectancy at birth) , knowledge (measured by mean years and expected years of schooling), and a decent standard of living (measured by gross national income (GNI) per capita. Each of the dimensions has an index, the life expectancy index, the education index, and the GNI index, respectively. This dimension thus reflects the access of members of a community to education, health and the other necessary facilities that determine the quality of human development;

X_4: poverty, measured by the percentage of total population living under the current national or international (e.g. US$1.25 per person per day) poverty line (negative sign). This reflects the access of all members of a community to all facilities, including welfare programs aimed at protecting them from poverty.

X_5: Income equality, measured by the well-known Gini coefficient (negative sign), which measures the inequality among values of a frequency distribution (for example levels of income), with a value between 0 and 1. A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has an exactly equal income); whereas, one (100 on the percentile scale) expresses maximal inequality among values (ie where only one person has all the income).

X_6: gender equality, measured by e.g. the Global Gender Index (GGI) from the World Economic Forum (WEF). The Index (positive sign) is designed to measure gender-based gaps in access to resources and opportunities in individual countries rather than the actual levels of the available resources and opportunities in those countries. The index is therefore independent of a country's level of development. The GGI examines the gap between men and women in four fundamental categories: economic participation and opportunity, educational attainment, health and survival and political empowerment. Higher scores (closer to one) mean that women's conditions in those countries are better than in those with lower scores. Alternatively, gender equity can be measured by the Gender Inequality Index (GII) from UNDP. This index has three dimensions, namely health, empowerment, and labor market with the following subsidiary indexes: a female reproductive health index, a female empowerment index, a male empowerment index, a female labor market index, and a male labor market index.

X_7: government and institutions, measured by the Corruption Perception Index (CPI), which ranks countries/territories based on how corrupt their public sector is perceived to be (positive sign). A country/territory's score indicates the perceived level of public sector corruption on a scale of 0 - 10, where 0 means that a country is perceived as highly corrupt and 10 means that a country is perceived as very clean.

Values for these indicators, based on the most recent data (years) for selected countries in Asia are presented in Table 6. As can be seen, for some indicators, some countries are doing better than the others. For instance, with respect to economic growth in 2010, Singapore (SGP) is the top, followed by China (CHN) in the second rank. With respect to poverty, based on an international poverty line, i.e. US$1.25 per person per day, again Singapore comes top, revealing itself as a non-poor country with almost zero percent, and India is shown to be the poorest nation in the group with almost 42 % of its total population being poor. For the other indicators, Singapore also performed very well. As a result, Singapore has the highest IDI (Figure 6), which means that Singapore is the most successful country in the group in implementing inclusive development.

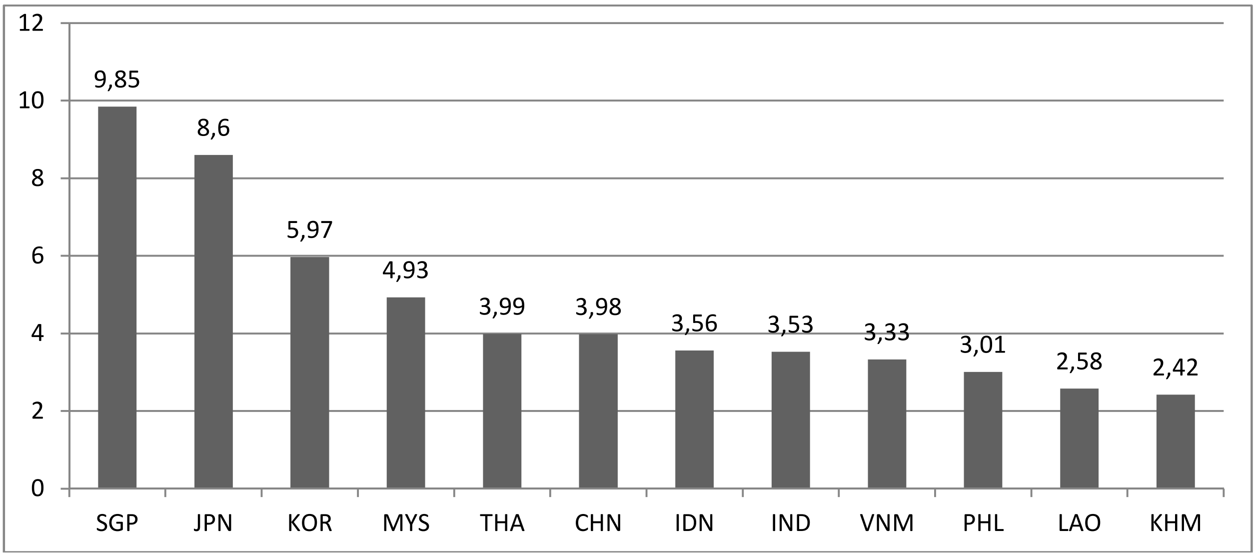
Table 6: Seven Key Indicators for IDI by Selected Asian Countries, Most Recent Data

Country	Indicator						
	X_1 (2010; %))	X_2 (%)	X_3 (2011)	X_4 (US$1.25/ person/day)(%)	X_5	X_6 (2011)	X_7 (2011)
Cambodia	5.9	-3.5 (2007)	0.52	-28.3 (2007)	-0.44 (2007)	0.500	2.1
Indonesia	6.1	-7.1 (2010)	0.62	-18.7 (2009)	-0.37 (2009)	0.505	3.0
Lao PDR	7.9	-2.5 (2009)	0.52	-33.9 (2008)	-0.37 (2008)	0.513	2.2
Malaysia	7.2	-3.0 (2012)*	0.76	0.0 (2009)	-0.46 (2009)	0.286	4.3
The Philippines	7.6	-7.3 (2010)	0.64	-22.6 (2006)	-0.44 (2006)	0.427	2.6
Singapore	14.5	-2.1 (2012)*	0.87	0.0***	-0.43 (1998)	0.086	9.2
Thailand	7.8	-1.0 (2012)*	0.68	-10.8 (2004)	-0.43 (2004)	0.382	3.4
Viet Nam	6.8	-2.3 (2011)	0.59	-13.1 (2008)	-0.38 (2008)	0.305	2.9
PRC	10.3	-4.1 (2012)*	0.69	-15.9 (2005)	-0.42 (2005)	0,209	3.6
Rep. of Korea	6.2	-3.2 (2012)*	0.90	-15.0 (2006)	-0.32 (1998)	0.111	5.4
India	8.5	-3.8 (2011/12)**	0.55	-41.6 (2005)	-0.37 (2005)	0.617	3.1
Japan	4.0	-4.4 (2012)*	0.90	-16.0 (2007)	-0.25 (1993)	0.123	8.0

Notes: * first quarter/March/April/June; ** fiscal year; *** close to zero.

Sources: ADB (Key Indicators, 2011; http://www.adb.org/data/publications/1090), The Ministry of Internal Affairs and Communications of Japan (Trading Economics; http://www.tradingeconomics.com/japan/unemployment-rate); Index Mundi (http://www.indexmundi.com/ unemployment _rate.html), Transparency International (Corruption Perception Index 2011; http://cpi.transparency.org/cpi2011/results/), World Bank (Poverty headcount ratio at $1.25 a Day (PPP); http://data.worldbank.org/indicator/SI.POV.DDAY/countries), UNDP (Human Development Index 2011; http://hdr.undp.org/en/reports/global/hdr2011/); CIA (The World Factbook; https://www.cia.gov/library/publications/the-world-factbook/fields/2046.html);Wikipedia (http://en.wikipedia.org/wiki/List_of_countries_ by_percentage_of_population_living_in_poverty)

Figure 6: Index of Inclusive Development of Selected Asian Countries, most recent years



Source: Table 6.

5. The Role of ASEAN

Since the formalization of ASEAN economic cooperation during the Bali Summit in 1976, where the Treaty of Amity and Cooperation in Southeast Asia and the Declaration of ASEAN Concord calling for cooperation on economic development was signed, and the launch of the ASEAN Preferential Trading Agreement (PTA) in 1977 to liberalize trade in the region, then followed by many other cooperation agreements after the 1997/98 Asian financial crisis, including the Framework Agreement on the ASEAN Investment Area (AIA) signed in 1998 with the aim of providing an environment conducive for the free flow of direct investment, technology and skilled professionals, the regional economy has made much progress, as reflected in the emergence of a wide range of extra- and intra-regional agreements.

The question however remains: how important is ASEAN in promoting inclusive development in member countries? Or more concrete questions: have the declines in poverty rates recorded in many member countries in the past decades been the result of ASEAN related activities, or have extra-and intra trade agreements within ASEAN generated significant increases in employment in member countries? These are important questions that need to be answered, since the end goal of commencing regional economic cooperation is to increase welfare of all members of all communities in member countries, not just to expand trade and investment activities and to achieve higher rates of national economic growth.

Indeed since the idea of inclusive development came after the introduction of the Millennium Development Goals (MDGs) 13 years ago, ASEAN is now facing a new challenge, or has a new role to play, namely to promote high and sustainable economic growth with a high quality outcome. That is, the growth created should be environmentally friendly and generate equal opportunities to all individuals in member countries. This new objective was officially adopted during the 19th ASEAN Summit in Bali (Indonesia) in 2011, with the introduction of the ASEAN Framework for Equitable Economic Development (EED), emphasizing that equitable economic development is characterized by narrowing development gaps within and between member countries, by better access to opportunities for human development, social welfare and justice, and by more inclusive participation in the process of ASEAN integration and community building. The establishment of the ASEAN Economic Community (AEC) in 2015 can perhaps be considered as a concrete effort by ASEAN towards inclusive development.

The EED Framework provides the guiding principles for inclusive and sustainable growth for all sectoral and ministerial bodies under the following five AEC Pillars: (i) inclusive and sustainable growth; (ii) connectivity; (iii) cohesive action; (iv) fostering inclusive growth; and (v) financing. Now the question is, what should ASEAN as an organization do to make sure that each of these pillars can be fully realized? There are some actions that ASEAN should take seriously. First, as economic growth will be equitable only if it is inclusive both within and between member countries, so the growth must be broadly based across sectors, regions, districts, villages and communities. Consequently, all trade, investment and other cooperation agreements within ASEAN should take into serious consideration their possible positive as well as negative effects (not only directly but also indirectly) on certain sectors, regions and groups of communities. One concrete question: have all existing trade agreements within ASEAN had positive impacts on local communities in the northern least developed regions in Indonesia or in villages alongside the Mekong river, or communities living in villages along the border between Thailand and Malaysia?

Second, to achieve sustainable and inclusive growth, the growth should be based on ensuring robust connectivity within and between member countries, which encompasses physical, institutional, and people-to-people connectivity and therefore requires adequate physical infrastructure, human capital mobility, technology transfer, and access to markets. Therefore, besides creating free trade and investment between member countries, ASEAN should also give high priority for cooperation in spheres such as building infrastructure especially in least developed/rather isolated parts of member countries, transfer of technologies and knowledge between firms, universities, R&D institutes, government bodies and non-government organizations (NGOs) within and between member countries, especially from more developed to less developed member countries. More student exchange between members and the organization of social events that connect more people between members should also be part of this effort.

Third, as ASEAN aims not only to generate a single market but also to fully integrate with the global economy, concrete measures should be taken to ensure that not only the well developed and wealthy but also the poor or least developed member countries can take advantage of the opportunities that will emerge naturally from the ASEAN single market as well as from the integration with the global economy. Therefore, there should be concrete policy actions especially to remove all obstacles to trade and investment in narrowing development gaps within as well as between member countries, so that all individuals (e.g. producers, traders, investors, workers, customers) can have equal opportunities created by the ASEAN single market and its integration with the global economy. Institutional, regulatory and policy bottlenecks that have hitherto hampered trade and investment activities in the region should be eliminated. The value chain and connectivity issues must also be well-identified to enable access to markets by those in less and especially the least developed regions within member countries. This effort must also include capacity building in local micro, small and medium enterprises (MSMEs), particularly in technology/innovation and human capital, to make them able to fully participate in and to gain from regional production, trade and investment activities within ASEAN as well as between ASEAN and the global economy.

Finally, differently from in the past, and with the current focus on inclusive development, ASEAN should also give high priority to cooperation in projects or programs that directly address poverty in the region, although the projects do not directly benefit trade and investment activities. In this respect, ASEAN can be a good regional partner for the Asian Development Bank (ADB) in initiating, formulating and implementing poverty alleviation programs or projects. On the other hand, any trade and investments agreements within ASEAN should have a special chapter dealing with the poverty consequences of the agreements or their potential benefits for local people.

6. Future Agenda for Indonesia

The success of economic development in Indonesia has already shown itself in a large number of achievements in past years, but needs to be maintained and further developed. Past achievements include the creation of basic assets that need to be enhanced and improved in years to come.

As stated by the President himself, for the near future, Indonesia must attain enhancements in the welfare of the people, in the justice sector, in the application of good governance, in the quality of democracy, and in maintaining national unity and security. For this purpose, the President launched in 2010 the Development Mission of Indonesia which is the initial part of the process towards attaining the country's longer term goals. It is a formulation of the endeavors needed and the targets to be achieved according to the vision of Indonesia by the end of the second RPJM, towards the realization of an Indonesia that is prosperous, democratic, and just. The government mission in this period is then directed at realizing an Indonesia that is more prosperous, secure, and democratic.

Efforts for realizing the vision of Indonesia are elaborated into the following missions of the government:

Mission 1: continuing development towards a prosperous Indonesia. Prosperity is measured not only in material terms, but also in spiritual terms, that will make it possible for the Indonesian people to become one in its pursuit of the ideals, and its participation in the development process in a creative, innovative, and constructive way. In this mission, important policies are related to developing and maintaining food and energy security in a sustainable way. Specifically these are climate change measures (the rehabilitation of forests and lands, enhancing the management of watersheds, developing environmentally friendly energy and transportation, controlling the emission of greenhouse gas, controlling the pollution and degradation of the environment), good governance and clean government, basic human rights, sustainable economic growth; and employment creation.

Mission 2: strengthening the pillars of democracy. Since the start of political reform in 1998 Indonesia has grown into one of the largest democracies in the world. The process of democratization has proceeded since then and shows mature development. Nevertheless, more improvements are needed to improve the political structure and to emphasize the process of democracy in institutions. Key policies in Mission 2 are related to reforming the relationship between political institutions and the security and defense institutions of the nation; reform of the political structure, placing emphasis on enhancing the performance of government institutions in the implementation of the tasks and functions that have been entrusted to them by the constitution and by laws and regulations; and the implementation of decentralization, regional autonomy, and the process of democracy in the regions.

Mission 3: strengthening the dimension of justice in all fields. The main objective of this mission is to stimulate the development and growth of strategic and fast growing regions in order to build up a sense of justice by developing marginalized regions in their vicinity, with synergistic systems of economic developed areas that cross administrative boundaries, and place greater emphasis on linkages in the chains of industrial production and distribution processes. In meeting this objective, special emphasis will be placed on a sense of justice, equity and security, in addition to community empowerment. Important policies are related to the development of selected products of the regions; allocations of special funds to develop public services; development of outer small islands and border areas; equal spread of economic growth and employment creation among metropolitan, large, medium and small cities; inducing coordination, synchronization, integration and cooperation among sectors, government institutions, the business community and society; development of the rural economy with focus on the development of infrastructure, human capital, and labor intensive agro-industries (especially for agriculture- and marine-based regions); management and utilization of natural resources; support the enhancement of business and investment opportunities in the regions; social welfare of the less fortunate groups in society, including the poor and those living in isolated, left-behind and natural disaster stricken areas; and women's empowerment.

To achieve the missions, five national development agendas have been determined, namely: economic development and increased welfare of the people (Agenda I), enhancement of good governance (Agenda II), strengthening of the pillars of democracy (Agenda III), enforcement of the law and eradication of corruption (Agenda IV), and development that is inclusive and just (Agenda V).

The agenda for increasing the welfare of the people remains the priority of the government. The final form of enhanced welfare will be reflected in increased income levels, the decrease of unemployment, and in the enhancement of the quality of life of the people. Some key policies include: (i) compilation of basic data (with names and addresses) of households that are very poor, poor, and near to poor, which is essential for directing social protection and assistance programs; (ii) the classification of programs for reducing poverty so as to facilitate and clarify coordination; (iii) harmonization and integration of programs for community empowerment in PNPM Mandiri; (iv) regulations for coordinating steps for reducing poverty between the central and regional levels, including joint responsibility for its implementation. The most important programs aimed at this goal are the Jamkesmas (Social Health Security): scholarships for poor children, provision of rice for poor households, PNPM Mandiri (Community Empowerment Program) and the KUR (Credit for Smallholders).

With respect to the second Agenda, reform of the bureaucracy has to be implemented at all ministries and government agencies as well as in regional governments. The implementation of the budgeting process and monitoring performance based on a budgeting system are also to be applied in a comprehensive way. These two measures would be accelerated by consolidating and expanding the program for speeding up bureaucracy reform in combination with a number of programs on legal reform. As the endeavors to enhance the practice of good governance are not only confined to the public sector but will also encompass the private sector, including management of state-owned companies, the government are encouraging many more enterprises to change their status into public companies in order to bring further public openness and accountability of corporations to Indonesia. This step is also considered very important in eradicating collusion, nepotism, and conflicts of interest, that could disturb the efficiency of economic activities.

To uphold the pillars of democracy, strong emphases need to be given to basic human rights; freedom of expression (including press freedom); fair checks and balances; respecting diversity; rule of law/law enforcement; equality and justice; fair general elections at a national as well as a local level; and protection for all citizens without regard to their beliefs, origins, class, or gender.

For law enforcement, which is an essential element in the process of corruption eradication, the agenda covers the processes of law making, elaboration, oversight, and the law enforcement of the enacted laws, including in corruption cases. The agenda also places attention on ensuring a free and fair judicial process. This will facilitate efforts to consolidate democracy. Problems related to the structure of the law will be resolved by increasing the independence and accountability of the law institutions, by enhancing human resources in law, and by encouraging the transparent and open practice of the judicial system. Thereby, all government parties, the business community, as well the whole law enforcement apparatus, starting from the police, the state prosecutors, to judges and legal attorneys must consistently enforce the rules of the law and the legal system.

With respect to Agenda V, in the economic field, justice is manifested in the reforms or affirmation processes for left-behind groups, the disabled people, and marginalized groups. In the social-political field, justice in participation (inclusiveness) is manifested by the increased access to political activities, to gender equality in political activities and in the removal of all forms of discrimination. In the economic field, especially with respect to efforts to reduce income gaps, one key policy is the reallocation of subsidies received by higher income groups to poor communities through directly targeted programs. The reallocation of oil fuel subsidies to education and health programs is another key policy.

Regarding efforts to alleviate poverty, various approaches have been adopted including the bottom-up development approach, which has been practiced in various programs, including PNPM MANDIRI (the National Community Empowerment Program). In this program, communities are involved in the planning phase, project selection, and the evaluation phase. The involvement of the community in the development process thereby should become an essential component of the process. Through this approach, the community will have a sense of ownership, and will voluntarily cooperate with the program while at the same time benefitting from it.

In the years to come, strengthening of justice and inclusiveness will be carried out for each development activity in each program. For example, through the Family Hope Program (PKH), conditional cash transfers for the financing of education and health will be provided for very poor communities. This policy is expected to be able to provide extra income for poor families (i.e. improve the distribution of income) in the short-term, and will create a new generation with better education and health in the long-term. In addition, the government will enhance the quality of social protection to create a family-based social assistance program.

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