

Country Study
for Japan 's Official Development Assistance
to the Republic of Indonesia
(Summary)

November 2000

Japan International Cooperation Agency

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This report is the summary of the report of the fourth country-study committee for Japan's Official Development Assistance to the Republic of Indonesia (2000), which was originally prepared in Japanese.

Highlights of the Report

1. Background to the Research

The previous country-study committee for Japan's Official Development Assistance to the Republic of Indonesia was organized in February 1998, when Indonesia had a serious economic crisis, along with the Asian currency crisis. Furthermore, the political and social situation of Indonesia became more chaotic after the fall of the Suharto administration. The Study 1998 had originally intended to propose a possible direction of Japan's ODA through the analysis of development issues of Indonesia from medium and long-term perspectives. However, it became difficult to obtain the expected results due to the turmoil of the government. Therefore, the previous study report took a short-term view as to how Japan should provide assistance for urgent needs.

The recent country-study committee for Japan's Official Development Assistance to the Republic of Indonesia was commenced in May 2000, six months after the start of the new Wahid administration. The aim of the Study was to provide prospects and proposals on Indonesian development for the medium and long-term horizon, which was not well covered in the previous study. Indonesia is in the beginning of the reform process of the political, economic and social systems, even though its economic situation remains severe. With this in mind, the Study 2000 not only proposed immediate measures for Japanese government to take up, but also reviewed the direction for future assistance to Indonesia as far as possible from a medium-term perspective.

2. Recommendation by the Study

(1) Basic direction for Japan's ODA to Indonesia

Wahid's present administration has recognized that the highest priority in its policies be given to overcome the economic crisis, however, economic recovery is tardy due to the serious impact of the crisis. Democratization and decentralization have been progressing, while public order has been disturbed as has been seen in Aceh, Maluku, and Irian Jaya.

The present administration has initiated reforms of the political, economic and social institutions to construct a new and transparent system to replace the previous order. Indonesia is currently in the stage of groping and reconstructing a new national order. The task of the Wahid administration is to establish a foundation for the new nation building.

How Japan will be involved in nation-wide institutional development has become the essential theme of assistance to Indonesia. In view of the basic direction outlined above, the Study concluded to review Japan's assistance focusing on the following four priority issues, in accordance with the Indonesian Guidelines of State Policy: Governance and Decentralization; Economic Recovery; Social Development and Poverty Alleviation; and Environmental Issues.

(2) Priority issues of Japan's ODA to Indonesia

1) Governance and Decentralization:

It is important to give assistance for the realization of good governance and the promotion of decentralization. Indonesia is in the early stage of institutional reforms and needs support for constructing new structures and rules for development. Under these circumstances, assistance to Indonesia in achieving good governance should be investigated. Priorities in this area should be given to strengthening effective and efficient government functions.

Decentralization requires the reform of political, economic and social systems in Indonesia through the redistribution of financial resources and authorities to local levels. It also has an impact on environmental problems including the best means of managing natural resources. While the progress of and the consequences of decentralization to local authorities should be monitored with caution, assistance for building local capacity is required in such areas as development of local human resources and information networks among regions.

2) Economic recovery:

Asian currency crisis had given a destructive impact on the Indonesian economy. This was not merely a temporary fall in economic growth, but led to the conditions under which economic growth could be hindered in the long term. These conditions include a crisis of financial sustainability, a functional paralysis of financial sectors and the loss of insolvency of private companies. Assistance for structural reforms by which the serious economic crisis can be overcome and prospective growth can also be assured is indispensable. From this standpoint, the development of medium and small-sized enterprises (SMEs) is required for strengthening the basis for economic growth, while special attention should be placed on rehabilitation of non-oil and gas export industrial sectors that have contributed economic development since the 1980s. The promotion of SMEs needs to be explored not only from the standpoint of social development as the foundation of employment creation but also from that of the need for vitalization of the economy and broad based growth. In assisting Indonesian SME development, the linkages between managerial/technical advice and financial support should be enhanced. In addition, assistance in revitalizing clusters of local industries in the course of decentralization as well as in administrative training for efficient SME management is important.

3) Social development and poverty alleviation:

The current conditions and problems were studied under the recognition that Indonesia is in a shift from an emergency phase of social safety net to a transitional phase of institution building from medium and long-term perspectives. The most effective forms of assistance for food, health, education and employment were reviewed respectively. Since the direction of social development is related closely to the trend in decentralization, this point requires special consideration.

4) Environmental problems:

Enormous degradation and exploitation of forest resources has been observed in Indonesia at an accelerated pace. The massive forest fires of 1997 and 1998 had an extremely serious impact on forest ecology. Furthermore, since the economic crisis of 1997 and subsequent political transition, forests throughout Indonesia have been increasingly threatened by large-scale illegal activities, including illegal logging and cultivation. In particular, the problem of forest conservation was focused. This is a very important issue since forests are the primary natural resource in Indonesia. Moreover, the prevention of haze problem (smoke pollution) due to forest fires is necessary in ensuring smooth diplomatic relationships with neighboring countries. Haze problem and excessive deforestation has symbolized the lack of governance in Indonesia. It is recommended to provide technical assistance at an operational level with an expected dissemination effect over regions, especially such assistance that is oriented for solving problems for Mangrove conservation and prevention of forest fires.

Preface

It is becoming increasingly important for the developing countries to respond effectively to such global issues as population, the environment and problems of food supply. At the same time, development assistance should respond flexibly to the diverse needs of developing countries based on the proper evaluation of specific situations and developmental stages of each recipient country. In light of this, Japan International Cooperation Agency (JICA) has been enhancing the country-specific approach in order to provide a more effective response to the major issue of developing countries. As an effort to enhance the country-specific approach, country/region-specific studies have been implemented, with the participation of external academics and researchers, to propose basic direction for Japan's development assistance to individual countries/regions. Thus far, a total of 32 country-study committees for Japan's Development Assistance have been established, the findings and conclusions of which are summarized and published in reports.

With regard to the Republic of Indonesia, the first country-study committee was organized in 1988. Thereafter, country-study committees on Indonesia were undertaken at five-year intervals. The third committee, responsible for the previous study, was organized in February 1998. This coincided with the serious political and social turmoil which besieged Indonesia following the Asian currency crisis and which triggered a severe economic crisis and led to the termination of the Suharto regime. Under these conditions, it proved difficult to fulfill the original purpose of the study, which was to analyze the medium-and long-term development issues facing Indonesia and to make recommendations concerning the future direction of aid. Hence, the report of the third committee did not go beyond making recommendations concerning Japan's immediate responses to Indonesian needs from a short-term perspective.

The current committee, the fourth country-study committee was organized to complete the task that eluded the previous study and to elucidate the medium-term perspective for Indonesian development and to present pertinent recommendations. The first session of the committee was convened in May 2000, marking the passage of six months from the establishment of the new Wahid government. While Indonesia continues to face very severe economic conditions, it is the understanding of this committee that the nation stands at the threshold of its institutional reforms affecting all aspects of its political, economic and social situations. As such, in addition to formulating recommendations concerning Japan's urgent responses, the committee has made the best possible effort to consider the future direction of Japan's official development assistance to Indonesia from a medium-term perspective.

This committee was chaired by Professor Takao Fukuchi of the Graduate School of Business Administration of Asahi University and comprised a total of fifteen members. A task force was organized for the writing of this report, which included JICA experts and other JICA senior advisors in each field. The report consists of a summarization of the discussions of the committee conducted over the course of a series of five meetings.

It is JICA's intention to extensively utilize this document as an important resource material for facilitating Japan's official development assistance to Indonesia. This report will also be distributed to various institutions and organizations for a wider use.

We take this opportunity to express our thanks to Chairman Fukuchi and the other members of the committee and the task force through whose efforts this report was completed. We also express our gratitude to the resource persons concerned who shared with us their valuable views and opinions.

November 2000

Kunihiko Saito, President
Japan International Cooperation Agency

Chairperson's Remarks

This report follows up on the report by the third country-study committee for Japan's Official Development Assistance to the Republic of Indonesia (March 1999) and intends to re-examine the directions to be taken in Japanese assistance to Indonesia in light of the changes that have occurred in that country since then.

The preceding study was undertaken in the midst of the economic turmoil triggered by the currency crisis, and the resulting report was issued three months prior to the general election, which culminated in a presidential election. This was a period of time in which political and economic conditions were extremely fluid and the most basic statistical data were not fully available. The current committee, the fourth country-study committee was organized six months after the inauguration of the Wahid government when it was observed that political and economic conditions had been relatively normalized and stabilized. This committee was aimed at re-examining the status and future directions of Japanese assistance to Indonesia from a broad-ranging perspective, while taking fully into consideration Indonesia's gradual return to a path of sound economic growth and the stance of the Indonesian government toward its new Five-Year Plan.

At the time of its inception, the committee formulated the following projections concerning the Indonesian economy. Although the level of economic activities had declined sharply after the summer of 1997 and during 1998, the process of recovery had started in 1999. With the inauguration of the new government, political conditions were becoming more stable and the process of economic recovery would henceforth gather momentum. Whereas policy management previously had been focused on short-term concerns, such as social programs for the alleviation of poverty, the Indonesian government could now be expected to gradually re-direct the focus of its attention to medium-and long-term policy concerns, such as debt reduction, sustained growth and infrastructure development. However, the political and economic situations hardly proved to be in stable condition during the six months since the inception of the committee. It would indeed be difficult to claim that political and economic conditions have made steady progress toward stabilization. On the contrary, the disturbances in the outer islands and in Jakarta underscore Indonesia's lingering social unrest. Unemployment is growing, the internal and external debt of the public sector continues to expand, as does the external debt of the private sector. The progress in the re-organization of the banking sector has been very slow, the Indonesian currency continues to trade at very low levels, and the inflow of foreign direct investment remains stagnant. To return to its pre-crisis level of real per capita income, Indonesia must maintain a 4% rate of economic growth for a period of approximately seven years. The observations of the past six months indicate that the after-effects of the economic crisis have been more serious than previously believed. Projections now show that a complete recovery will take ten years. In view of this projection, it is likely that, for the time being, policy management will have to focus on both the short-term and long-term concerns outlined above.

Three conclusions can be deduced from this judgment. First, while future Japanese assistance must assure furtherance of accountability in order to justify the expenditure to taxpayers, due consideration must also be given to effectively responding to Indonesian needs as mentioned above. Second, although the Indonesian side is feeling the pressure to take emergency measures, medium-to long-term visions over the entire economy and industrial structures are indispensable in steering the country and formulating policies toward the sound economy. As a leading bilateral donor, Japan's cooperation can play an effective and essential role in formulating both short-term and medium-to long-term policies. Third, in this period of continued political and economic uncertainty in Indonesia, it is important for Japan to maintain a clear and accurate grasp of the current situation in Indonesia through its continued efforts in the areas of information gathering, forecasting and policy analysis.

November 2000

Takao Fukuchi, Chairperson
The Forth Country-study Committee
for Japan's Official Development Assistance
to the Republic of Indonesia

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Chapter I. Overview

1. Current Conditions and Development Issues of Indonesia

The Asian currency crisis, which started with the devaluation of the Thai baht in July 1997, instigated a serious economic crisis in Indonesia at a time when the country was already feeling the impact of a serious drought and declining crude oil prices. This economic crisis resulted in widespread social instability and unrest as the population of the unemployed and impoverished grew, which led to the collapse of the Suharto regime in May 1998.

Under the Habibie government that followed, a general election was held in June 1999. In October of 1999, Abdurrahman Wahid was elected the fourth president of the Republic of Indonesia. The new president was voted into office by the People's Consultative Assembly, whose members had been elected primarily under the revised electoral laws. President Wahid is the first democratically elected president of Indonesia since its independence, which is certainly laudable.

However, the Wahid government faces a difficult future. While the top priority of the government is to overcome the effects of the economic crisis, the impact of the crisis was immense and the path to recovery has proven to be a thorny one. The progress made in democratization and the regional delegation of authority has promoted a process of decentralization. However, this process has encouraged social disorder and unrest as seen in several regions such as Aceh, Maluku and Irian Jaya.

The Suharto regime brought long-term stability to Indonesia on the basis of the following virtuous cycle. Political stability promoted economic development and the improvement of living standards, which in turn were conducive to greater political stability. Conversely, a vicious cycle took shape during the economic crisis. The crisis which gripped the lives of the common population destabilized the political order, which in turn exacerbated the economic crisis. Thus a key objective of the Habibie and Wahid governments has been to return the nation to its previous virtuous cycle.

In light of the above, while it is urgent for Indonesia to achieve economic recovery, it has been pointed out that it will take Indonesia at least six or seven years to return its economic and social conditions to the pre-crisis level in July 1997. Moreover, widespread corruption and lack of transparency in the policy-making process of the Suharto regime also pose serious problems and add to the urgency of building a highly transparent system to replace the old order. Recognizing this need, the current government has launched various initiatives for implementing reforms in the political, economic and social framework. Indonesia today is in the formative stage of a new national order which it is still trying to fully define. It can be said that the Wahid government has been charged with the vital task of

building a foundation for this new national order. Indonesia stands at a historic turning point, and the choices it makes today will largely determine the outcome of its efforts to erect a new national order characterized by freedom, equity and stability.

2. Basic Direction and Priority Areas of Development Assistance to Indonesia

Indonesia's basic future directions are summarized in the Guidelines of State Policy adopted by the People's Consultative Assembly in October 1999. This document contains the fundamental directions that should be taken into account in considering future directions of Japanese development assistance policies for Indonesia. The Guidelines of State Policy consists of the following twelve points:

- [1] Practicing the Pancasila on all levels of society and the nation.
- [2] Maintaining the dignity of people on all levels of society and the nation.
- [3] Promoting tolerance, harmony and peace in society through respect for the teachings of Islam.
- [4] Ensuring conditions of security, peace and order, and public safety.
- [5] Development of a national legal system for the establishment of the supremacy of the law and respect for human rights based on justice and truth.
- [6] Realization of a dynamic and creative society capable of coping with the forces of globalization.
- [7] Providing equal opportunities to all participants in the economy through the development of an economic system supported by fairness and the market mechanism.
- [8] Realization of regional autonomy for the achievement of regional development and its proliferation within the framework of a unified state.
- [9] Emphasis on social welfare, and the fulfillment and assurance of basic human needs.
- [10] Development of an efficient, transparent and clean bureaucracy.
- [11] Creation of a dynamic and efficient national system and morale capable of improving the character of the people of Indonesia.
- [12] Achievement of a foreign policy that is independent and dignified enough to cope with the progress of globalization.

In addition, the following five developmental issues have been laid down in the National Development Program (PROPENAS) for the years 2001-2004, which was legislated in November 2000.

- 1) Maintenance of a unified state and establishment of a democratic political system.
- 2) Realization of government by law and good governance.
- 3) Promotion of economic development and consolidation of the base for sustainable and equitable development.

- 4) Prosperity for the people and religious and cultural progress.
- 5) Promotion of regional development.

As previously mentioned, Indonesia has launched various initiatives for transforming its political, economic and social systems. One of the most important themes in Japan's future development assistance to Indonesia will revolve around the issue of how Japan can involve itself in the development of these systems. In light of the foregoing basic concepts and in conformity to the Guidelines of State Policy outlined above, the Committee decided to examine the future course of Japan's development assistance with special emphasis on the following four issues.

The first issue pertains to assistance for the realization of good governance in political and administrative matters and for the promotion of decentralization. Support for good governance in Indonesia is a theme that must be examined in the context of the fact that Indonesia stands at the starting point of institutional reforms and requires assistance in the development of new frameworks and rules. Through the re-distribution of financial resources and political authority, the process of decentralization will necessitate reforms in Indonesia's political, economic and social systems. Likewise, through its linkage with the management of natural resources, the process of decentralization will have a major impact on environmental problems.

The second issue concerns economic recovery. The Asian currency crisis has had a very serious impact on the Indonesian economy, far exceeding any temporary impediment to the process of economic growth. For a long period of time, the crisis in fiscal sustainability, the dysfunction and paralysis of the financial sector and the loss of solvency by private enterprises have created a situation hindering economic growth. Economic stability is the key to political and social stability. Therefore, it is vitally important to provide assistance in support of structural reforms ensuring future growth and conducive to overcoming the serious economic crisis, which still persists today. While the revitalization of the export-oriented non-oil and non-gas industrial sector which has underpinned economic development since the 1980s is of critical importance, action must also be taken to promote the development of small-and medium-sized enterprises (SMEs). Henceforth, it will be important to consider the promotion of SMEs, not only in the light of social development, for instance, the creation of job opportunities, but also for economic revitalization and the reinforcement of the foundation of industrial sector.

The third issue concerns social development and poverty alleviation. Reviewing the impact of the economic crisis, the response of the government and its effectiveness, the conditions and challenges in the transitional period from emergency Social Safety Nets Programs to medium-and long-term programs aimed at institutional building must be examined. Especially assistance programs in the areas of social development such as food, health services, education and employment are focused on. Due attention

must be given to the fact that the direction of social development is closely related to the future direction of the process of decentralization.

Fourthly, environmental issues are examined. Given the fact that the management of natural resources will be a more crucial issue as Indonesia moves toward a decentralized structure, this report focuses on the issues of forest management for the following specific reasons. Forests represent a vitally important natural resource for Indonesia; the prevention of haze caused by forest fires is essential to obtain harmonious and diplomatic relations with neighboring countries; and, haze problems and excessive logging stand as symbols of the poor state of governance in Indonesia.

This report deals with the above four issues, and thereafter analyzes the trends of Japan's and other bi/multilateral donors' development assistance to Indonesia, while summarizing problems to be noted in implementing development assistance.

Chapter II. Priority Areas for Development Assistance to Indonesia (Summary)

1. Governance

(1) Good Governance

Good governance denotes the management of organizations and institutions in such a way as to generate greater confidence in the political system of a country, both domestically and internationally. The most important matter to keep in mind in supporting governance in Indonesia is that confidence of the people and confidence of the international community do not necessarily match.

One of the principal aspects of Indonesia's political reform is the transition from centralized to decentralized authority. This process is also resulting in a dislocation and dissipation of authority and vested interests. As the military retreats from the village and district levels, law and order has given way to conditions of turmoil and confusion as never before witnessed. Therefore, there is special urgency in the need to bolster the capabilities of police authorities which are replacing the military in the role of maintaining public peace.

Japan's basic stance toward support for governance should include the following:

- 1) Initial emphasis should be placed on strengthening government functions.
- 2) Regarding the promotion of democracy, which is already rooted in the Indonesian tradition and culture, the central focus should be on preparing viable forums for discussion.

(2) Decentralization

Following the collapse of the Suharto regime, the Indonesian government enacted "Law Number 22 of 1999 on Regional Administration" and "Law Number 25 of 1999 on Financial Balance between Central and Regional Governments" in May 1999. These legislative initiatives were undertaken in the context of the process of democratization and reform, and signaled a major transition from a centralized to a decentralized structure of government. "The Law Number 22 of 1999 on Regional Administration" stipulates that functions of the central government be curtailed and greater authority be given to municipalities and other local and regional entities. Likewise, the authority of local and regional legislative bodies will be strengthened and the principle of checks and balances will be introduced to local administration and legislatures. On the other hand, "Law Number 25 of 1999 on Financial Balance between Central and Regional Governments" stipulates an increase in the regional flow of funds and share of government revenues from natural resources. By increasing the flow of non-earmarked general funds to regional governments, the law is designed to transfer fiscal responsibility to the local and regional levels. The actual process of decentralization is said to have been launched in January 2001.

Various preparatory tasks are currently being undertaken, including the drafting of various ordinances and directives determining the details of the application of Laws 22 and 25 of 1999.

While local governments in some areas are already making preparations for the implementation of decentralization, in most instances local governments are awaiting the enactment of ordinances and the issuance of directives by the central government. In the process of decentralization, local governments will have to play a more active role in formulating and implementing development policies. This will require the training of human resources and the strengthening of organizations and institutions on the local government level. It is also desirable to improve the capabilities of local legislatures and to bolster horizontal networks encompassing local administrative institutions, NGOs, universities, communities and the private sector to ensure mutual cooperation and participation among such entities. Moreover, in light of Indonesia's regional diversity, efforts should be made to transfer the regional development experiences of Japan's local government organizations to Indonesia and to share information on past successful cases in Indonesia. For this purpose, it will be necessary to develop various forms of networks for the transmission of such information, and these networks must be effectively utilized to promote cooperation.

2. Economy

(1) Economic Recovery

Among the countries of the ASEAN-4 and South Korea which were seriously affected by the Asian currency crisis, Indonesia stands as the most severely affected. Among the various indicators which show the decline in manufacturing activities, the devastation of investment stands most notable. This occurred against the backdrop of the precipitous decline in the value of the rupiah during the crisis by which foreign debts were explosively increased, in rupiah terms, Indonesia's private sector foreign liabilities accumulated before the crisis, thus leading to widespread insolvency among private enterprises.

Indonesia's foreign debt problem remains a serious issue for the future. While to a certain extent rescheduling agreements have been reached on public-sector liabilities, very little progress has been made with regard to private-sector debt where the pressures of matured loans already amount to approximately \$20 billion. Private-sector insolvency has bred a financial-sector crisis which looms as a serious obstacle to future efforts to achieve economic recovery. Efforts to cope with this problem will be hampered by the fact that outstanding government debt already exceeds 100% of GDP.

Given these harsh conditions, action must be taken with regard to the foreign liabilities of the

private sector. Specifically, the Jakarta Initiative must be strengthened, necessary laws and systems must be developed, active government responses to the private-sector crisis must be promoted, and international support for these initiatives must be generated. With regard to public-sector debt, it is desirable to achieve a relative reduction in debt over the medium to long terms by improving the primary fiscal balance and through economic growth. Any effort to achieve a short-term reduction in government debt entails the risk of triggering deflation and a deterioration in social services. Hence, such an approach could worsen the economic and social conditions in Indonesia.

In light of the fact that any greater domestic absorption of government debt would be difficult to achieve, foreign financial support will remain necessary for some time to come, while technical cooperation in fiscal and financial sector should be strengthened. In providing loan aid, due attention should be paid to the Indonesian policy to restrain government debt and its trends. More emphasis needs to be given to technical cooperation and grant aid aiming at self-supported recovery.

(2) Promotion of Small-and Medium-Sized Enterprises (SMEs)

The government has identified the promotion of small-and medium-sized enterprises (SMEs) as a top priority in post-crisis period for the creation of employment opportunities and for strengthening the international competitiveness of domestic industries.

The impact of the crisis on SMEs varied significantly by industry, type of business and region. By industry, the heaviest damage was sustained by the manufacturing sector. Likewise, SMEs in the construction and tourist industries were hard hit. By type of business, the most seriously affected businesses were those that targeted the domestic market, such as automobiles (including motorcycles), home appliances, and the parts and components businesses (supporting industries) supplying the machinery and metals industries. On the other hand, local industries that were not dependent on bank financing and which supplied products using local resources were relatively unharmed. Finally, in the resource-based export industries, many SMEs continued to expand and grow even during the crisis. By region, the impact of the crisis on SMEs was generally larger in Java and the urban areas as compared to the outer islands and other outlying regions.

Indonesia's SMEs faced major challenges on three fronts (management and technology, finance, and marketing). In the past, policy measures taken by the government in support of SMEs generally reflected a social-policy approach. Consequently, the effectiveness of these measures has been limited. While making improvements in the social-policy approach of the past, the primary focus of future measures for the promotion of SMEs should be gradually re-oriented toward promoting potentially viable enterprises with promising growth prospects.

The key issue in supporting SMEs will be the formulation of well-balanced and effective support packages. This will require proper consideration of the timeframe of prospective support measures and careful determination of the strata of SMEs to be targeted. From a strategic perspective, important actions must include promoting linkages between management and technology support with access to financing, providing assistance for the revitalization of local industry clusters in the process of political decentralization, and directing support to the development of human resources needed for the efficient management of SMEs.

3. Social Development and Poverty Alleviation

(1) Impact of the Economic Crisis and the Social Safety Net (SSN)

The economic crisis had a very major impact on the Indonesian society and economy. Significant increases in unemployed and impoverished populations were observed. The impact of the crisis was particularly severe in urban areas and in the island of Java. In order to ease the impact of the crisis on socially vulnerable groups, the Indonesian government launched various emergency social safety net (SSN) programs for the poor. These initiatives featured food supply programs, scholarship programs to ensure continued access to educational opportunities, maintenance of access to health care services, and the creation of employment opportunities through labor-intensive programs and the promotion of community-level economic activities.

However, the SSN programs faced the problems of how to select the beneficiaries and how to inform the public of these programs. In light of these questions, various measures have been taken to heighten the levels of transparency and accountability in these programs. Specifically, systems have been designed to deliver the funds directly to the intended beneficiaries, to include local communities in the process of selecting the beneficiaries, and the participation of NGOs in monitoring the programs and processing of grievances.

Thereafter, the government will have to re-direct its attention from emergency SSN programs to medium-and long-term programs for the alleviation of poverty. Therefore, in light of the experiences gained in the course of the implementation of SSN programs, it will be necessary to provide assistance with the following objectives: (1) upgrading the capabilities of organizations and agencies providing social services, and improving the quality of these services. (2) sharing experiences from successful cases of poverty alleviation; and, (3) making medium-to long-term improvements in the social security system.

(2) Food

Indonesia's rice output declined sharply as a result of the economic crisis and the concurrent El Nino effect. Furthermore, serious problems occurred in the supply of food during 1998 as a consequence of the disruption in distribution. To ease these impacts on impoverished populations, the government has subsidized rice prices while acting to maintain the supply of rice through special market operations. On the other hand, the drop of rice prices due to the import liberalization and the rise of production cost caused by the curtailed fertilizer subsidy led to the dwindling competitiveness of and incentives for rice production in Indonesia. Achieving food security and improving the value added to agricultural products are, therefore, future challenges facing Indonesia. The diversification of foods and the promotion of agribusiness will be important means of achieving this.

Some important issues pertaining to Indonesia's food problems and agricultural policies include the following: increased food production and effective and efficient implementation of stable food supply, improving the efficiency and competitiveness of agricultural production, and the promotion of agribusinesses and the development of necessary institutions and systems.

(3) Health Care and Medical Services

Indonesia has been working to improve the health standards of the Indonesian population through such measures as the improvement of its health and medical administration, training of health and medical personnel, and the promotion of community participation in health care systems. However, the economic crisis served to expose the vulnerability of Indonesia's poorly-financed health and medical systems. The government has endeavored to ensure that the poor and other socially vulnerable groups have access to health and medical services by implementing various SSN programs and by supporting the activities of health offices and midwives through subsidization.

At the same time, the government has been pursuing the medium-to long-term objectives of the "National Health Program 2010" which emphasizes preventive medicine and health enhancement activities and the expansion of high quality, equitable and affordable health services. For this purpose, the government has adopted the following four strategies for promoting the reform of the health and medical sector: (1) emphasis on health enhancement activities; (2) upgrading the capabilities and morals of health and medical personnel; (3) promotion of a Local Health Assurance System (JPKM); (4) decentralization.

In light of these strategies, it will be important to take the following matters into consideration in providing health and medical related support: improving the quality of health care and medical services in line with the process of decentralization, promoting the general use of mother and child health handbooks, reforming regional health security systems, and implementing countermeasures to infectious

diseases.

(4) Education

At the beginning, there was concern that the economic crisis would exert a strong impact on access to and quality of education. It was estimated more than 2.7 million students in primary and junior secondary school would drop out for economic reasons. Also, there was concern that the administration budget of each school would sharply decrease because of high inflation and much fewer donations from parents, and it would cause deterioration of education services in each school. In SSN programs in the education sector, the major components are scholarships to students from poor families, and block grants to poorer schools. However, it has been reported that the crisis has so far had only a limited effect on the sector.

Now the priority of assistance in the basic education sector should be given to promoting and establishing a decentralized education system. The government has realized that decentralization is a key to success in improving education quality and achieving universal nine-year education. Therefore, developing a decentralized education system with "school-based management" and "community participation" is now the greatest concern in the sector.

JICA has already assisted the decentralization process in the sector through an in-country training program called CORSEP (Community Participation for Strategic Education Planning for School Improvement) and a development study project called REDIP (Regional Educational Development and Improvement Project). Since these programs have been highly appreciated, continuous support in this area is quite relevant and important. In order to strengthen education administration at the local level, assistance for capacity building of local administrators with the development of education management information systems through the use of IT is also significant.

In addition, improvement of teacher quality is critical in order to enhance the equality of education over the medium-and long-terms. Accordingly assistance for both pre-and in-service teacher training is also one of the priority areas. JICA has extended a comprehensive cooperation project called IMSTEP (Project for Development of Science and Mathematics Teaching for Primary and Secondary Education) since 1998 at the National Education University in Bandung, etc. This project is expected to contribute to upgrading the quality of secondary school teachers in math and science education.

Also, in the field of higher education, the government's policy is directed at giving autonomy in education management to universities. In line with this, support should be provided in enhancing the quality of higher education and research institutions by building up linkages with regional key universities through networks including IT networks. For the medium-and long-terms, an effort should be made to

develop the training of IT engineers. This will require continued support for the development of further education in the field of science and technology.

(5) Employment

The economic crisis had a major negative impact on an employment situation in Indonesia. Growing unemployment resulted in a migration of urban manufacturing and construction workers to the agricultural sector, as well as a movement from the formal to the informal sector. While urban unemployment generated by the crisis was eventually absorbed into the urban informal sector and the rural agricultural sector, the creation of new job opportunities remains a critical issue in Indonesia. While the government has endeavored to create employment through labor-intensive programs and the promotion of community-based economic activities, it is vitally important to continue improving the labor environment. Therefore, parallel to the labor-market improvements which can be achieved through macroeconomic recovery, it will be necessary to create employment opportunities by promoting local small-and medium-sized enterprises. For the medium to long terms, support should be provided also to reform and to improve social security systems for workers.

4. Forest Conservation

Indonesia's forests face a critical situation today. The massive forest fires of 1997 and 1998 had an extremely serious impact on forest ecology. Furthermore, since the economic crisis of 1997 and subsequent political transition, forests throughout Indonesia have been increasingly threatened by large-scale illegal activities, including illegal logging and cultivation and this has led to enormous degradation and exploitation of forest resources at an accelerated pace. Other related problems including expansion of forestry-related industries started under the Suharto regime, growing volumes of debt, and forest funds have become serious issues. Based on the understanding that the resolution of the problems of forestry management is indispensable in stabilizing the Indonesian society and economy, the 8th CGI Meeting (Consultative Group Meeting on Indonesia held in Paris in July 1999) addressed various forestry-related problems for the first time. Thereafter, in the 9th CGI Meeting (held in Jakarta in February 2000), the Indonesian government made a formal commitment to reforming the forestry sector. Japan will be called on to provide continued support and assistance to these initiatives. Therefore, it would be required to provide technical assistance at an operational level with an expected dissemination effect over regions, especially such assistance that is oriented for solving problems for Mangrove conservation and prevention of forest fires.

5. Trends in Development Assistance towards Indonesia

Total amounts pledged at CGI Meetings (Consultative Group Meetings on Indonesia) have remained almost unchanged at about \$5.1-\$5.3 billion by 1997. However, as a result of emergency assistance in response to the economic crisis, pledges delivered by donors in 1998 marked nearly a 50% increase over the previous year, reaching \$7.9 billion. Thereafter, pledges declined in 1999 and 2000. Thus, at \$4.7 billion, a total amount pledged in 2000 fell below pre-crisis levels. Between 1998 and 2000, pledges were made on a disbursement basis to fill fiscal gap. Japan continues to rank as the top donor of bilateral aid agency, while the World Bank and the Asian Development Bank stand as the leading sources of multilateral aid to Indonesia. The following challenges were identified at the CGI Meeting held in February 2000 as top priority areas for development policy and assistance: (1) achievement of economic stability; (2) improvement of social safety nets and poverty alleviation; (3) governance improvement; (4) promotion of decentralization; (5) forest conservation.

The following six key issues must be borne in mind in implementing development assistance: (1) ensuring the safety and security of aid personnel; (2) increasing the level of assistance which directly reaches targeted communities and people, and greater support for private enterprises; (3) partnership with other bilateral donors and multilateral organizations, and greater cooperation in financial assistance; (4) appropriate responses to the process of decentralization; (5) accepting the burden of local costs; (6) smooth adjustment to the re-organization of Indonesia's central government ministries and agencies following the inauguration of the new government.