

## Main Report

### Volume-I: Socio-economic Conditions

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## CHAPTER-1. OUTLINE OF THE STUDY

1. In response to a request from the Government of the Republic of Indonesia (hereinafter referred to as “GOE”), the Government of Japan (hereinafter referred to as “GOJ”) has decided to conduct the Study for Development of the Greater Jakarta Metropolitan Ports in the Republic of Indonesia (hereinafter referred to as “the Study”).
2. Accordingly, the Japan International Cooperation Agency (hereinafter referred to as “JICA”), the official agency responsible for the implementation of the technical cooperation programs of GOJ, dispatched a preparatory study team to Indonesia in November 2001, and reached an agreement with GOE on the scope of the Study.
3. JICA dispatched a full-scale study team (hereinafter referred to as “the Study Team”, in May 2002 to carry out the Study. The reports submitted to the Indonesian side through the Ministry of Communication by the Study Team are as follows:

Inception Report	Submitted in May 2002
Progress Report (I)	Submitted in September 2002
Interim Report (I)	Submitted in November 2002
Progress Report (II)	Submitted in February 2003
Interim Report (II)	Submitted in May 2003
Progress Report (III)	Submitted in July 2003
Draft Final Report	Submitted in September 2003
Final Report	Completed in November 2003

### 1-A BACKGROUND OF THE STUDY

4. The Indonesian economy now appears to be in the process of recovery following the economic crisis of 1997. The Indonesian economy had enjoyed a high growth rate of not less than 6% in 1980s and the first half of 1990s. Nevertheless, annual income per capita in Indonesia has been low compared to other Asian countries partly due to its large population. Accordingly, it is essential for Indonesia to attain steady and sustainable economic growth.
5. Jakarta DKI, West Java province and Banten province (hereinafter referred to as “the West Java area”) will continue to play an important role in Indonesia’s socio-economic development. In fact, the West Java area, including the capital city Jakarta, has large shares of population and GDP for all Indonesia (around 30 % and 25% respectively). Huge investment has been made in this area and new industrial areas are now being developed. Investment in this area is vital to the overall recovery of the Indonesian economy.
6. It can be said that the recent increase in import and export cargo is largely a result of the economic recovery as well as the investment initiatives mentioned above. Particularly, the port of Tanjung Priok located in Jakarta city and being the most multifunctional primary port in Indonesia, handled over 2.3 million TEUs in 2001 in container throughput. It ranks 20th among world container ports, handling around half of the total container cargo in Indonesia.
7. In order to alleviate the severe economic situation and to achieve sustainable economic growth, the most important task is to establish an effective and efficient cargo distribution system which can serve the trading industry sector’s needs for reliable transportation services. However, it is a fact that the capital port, namely the Port of Tanjung Priok, is facing some

difficulties stemming from its location in the center of the capital city. The Port area as well as the hinterland city area is heavily congested, and this results in inefficient cargo movement.

8. Under this situation, Indonesian Port Corporation 2 (IPC2), which is responsible for the development of main ports located in the West Java area, has been examining the feasibility of developing an alternative container port to Tanjung Priok Port in the Bojonegara area, since the demand volume of container cargo in West Java area will exceed the present cargo handling capacity of Tanjung Priok Port in a few years. The Bojonegara area would seem to have a number of advantages because of its location facing the international sea lane i.e. the Sunda strait and relative calmness of the bay behind small islands. With regard to the method of its development, IPC2 is considering private sector participation provided that the project is viable enough to attract the private investment.

9. On the other hand, in recent years, the global circumstances surrounding container cargo have been changing dramatically. Major trends and strategy of world container carriers are: alliances of shipping lines; selecting hub ports called by large-sized container fleets; intensive investment in strategic ports by container terminal operators. These trends make the criteria of selecting ports more severe, and thus, global competition among ports to attract as many cargoes as possible is heated. The emergence of a new container terminal can pose a real threat to existing neighboring terminals such as in the case in Tanjung Pelepas Port in Malaysia and the Port of Singapore.

10. Taking into consideration the above situation, the development of container ports in West Java area is extremely urgent. Thus, a comprehensive study to formulate a strategic plan for port development in West Java area was urgently needed considering the development projects in both Tanjung Priok Port and the Bojonegara Port.

## **1-B PURPOSE OF THE STUDY**

11. The purposes of the Study are:

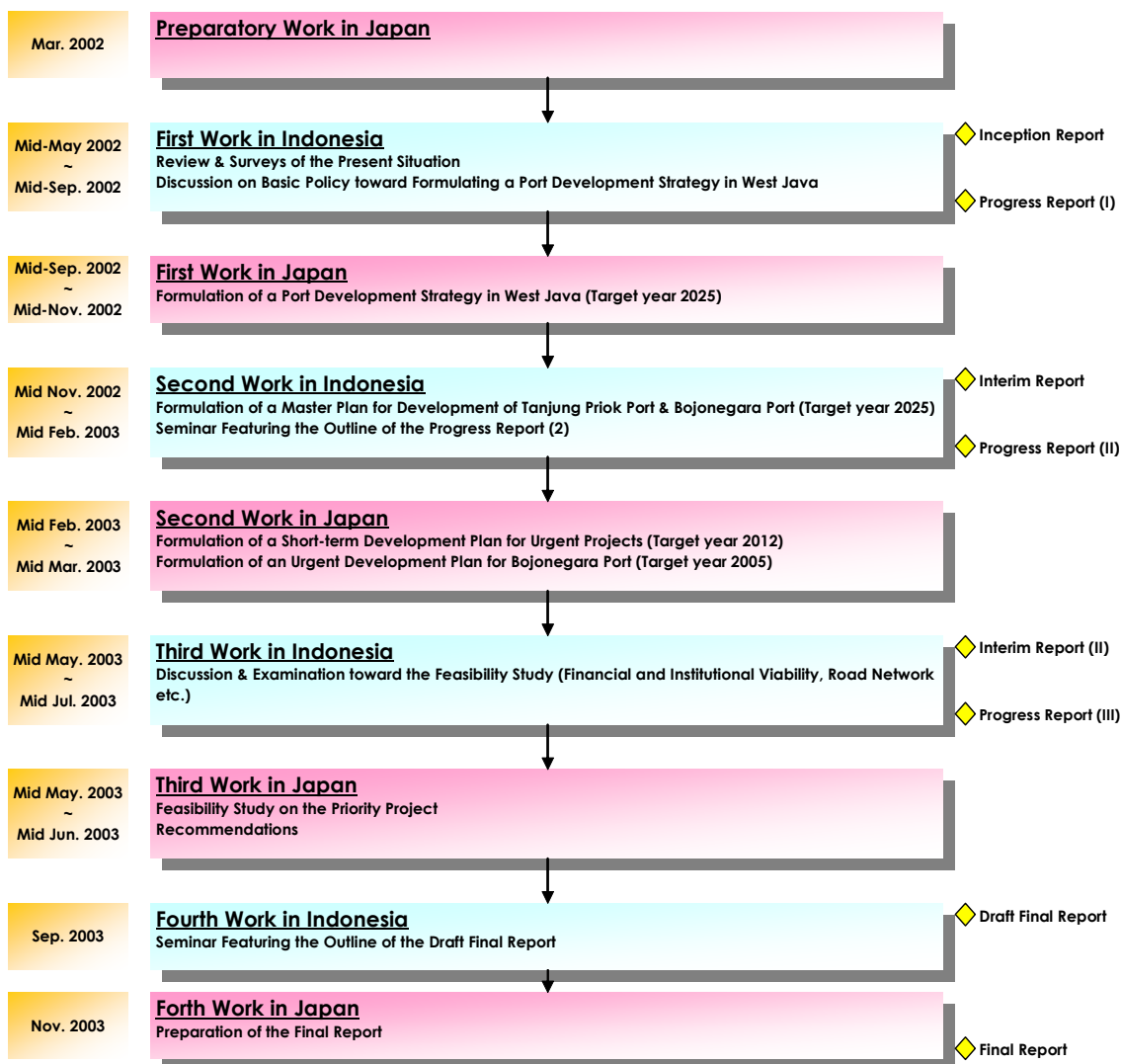
- To identify the development potential of the ports in the Study Area and to define the future role of ports in the Study Area;
- To prepare a port development/administration strategy in the Study Area comprising demand forecast, a port development concept including a role as an international/regional container hub port, a port administration / management system, introduction of privatization schemes, and so forth (target year 2025);
- To prepare a master plan for comprehensive development/administration of Tanjung Priok Port and Bojonegara Port, taking into account proper functional allotment between two ports (target year 2025);
- To prepare a short-term development/administration plan for Tanjung Priok Port and Bojonegara Port (target year 2012);
- To carry out a feasibility study for the priority project (target year 2012).

## **1-C STUDY AREA**

12. The Study covers such ports as Tanjung Priok Port, Bojonegara Port, and the other ports including special wharves in the northern part of the coastal area in the West Java area as well as hinterlands of these ports.

1-D STUDY SCHEDULE

13. Work schedule of the Study is shown in below.



1-E IMPLEMENTATION ORGANIZATION

**JICA Study Team**

14. The Study Team was made up of the experts listed below.

Expert	Assignment
Mr. Hidehiko KURODA	Team Leader / Port Policy
Mr. Koichi MIYAKE	Port Planning (1) / Port Facility Planning
Mr. Masahiro IWADA	Port Planning (2) / Port Functional Allotment
Mr. Mitsugu KAWADA	Port Administration /Port Management Body System Port Administration /Administration System /Capacity Building
Mr. Masayuki FUJIKI	Management & Operation(1) / Management & Operation Planning
Mr. Yoshihisa TATENO	Management & Operation(2) / Privatization
Mr. Atsushi SATO	Engineering Design
Mr. Hiroshi KATO	Demand Forecast
Mr. Toshihiko KAMEMURA	Economic Analysis / Financial Analysis
Mr. Taichiro KURAYAMA	Road Planning
Mr. Ken OMURA	Inter-model Terminal Area Re-development
Mr. Toru WATANABE	Natural Condition
Mr. Kazutoshi KASHIMA	Construction Program / Cost Estimation
Mr. Kennichi KURAMOTO	Environmental Consideration
Mr. Hiroshi MAEDA	Coordination
Mr. Kenji NAKANISHI	Coordination

15. Ministry of Communication (hereinafter referred to as “MOC”), served as a counterpart agency of the Study Team. MOC established a steering committee composed by officials of the following agencies.

MOC  
BAPPENAS  
Indonesia Port Corporation 2 (hereinafter referred to as “IPC-2”)  
Ministry of State-owned Enterprises  
Related provincial governments (Jakarta DKI and Banten)

16. The committee was chaired by Ir. Tjuk Sukardiman, Director General of Sea Communication, MOC (or represented by Ir. Djoko Pramono, Director of Ports and Dredging). MOC also established a working team to coordinate the day-to-day progress of the Study. Ir. Djoko Pramono, Director of Ports and Dredging (or represented by Ir. Suwandi Saputro, Head of Sub Directorate of Port Development).

## 1-F COMPOSITION OF THE REPORTS

17. Final report of this Study consists of Summary Report, Main Report (Volume I to IV) and Supporting Report of Engineering Study.

- ◆ Summary Report
- ◆ Main Report (Vol.I)                      Socio-economic Conditions
- ◆ Main Report (Vol.II)                    Development Potential and Strategy
- ◆ Main Report (Vol.III)                    Master Plan
- ◆ Main Report (Vol.IV)                    Feasibility Study
- ◆ Supporting Report of Engineering Study

## CHAPTER-2. OVERVIEW OF SOCIO-ECONOMY IN INDONESIA AND THE STUDY AREA

### 2-A GEOGRAPHICAL FEATURE

#### 2-A-1 Topography & Climate

##### 1) Topography

18. The study area, defined as the northern part of the coastal area in western Java as well as hinterlands of these parts, comprises three provinces, DKI Jakarta, Banten and West Java, and its extension of the coastal line stretches about 400 km. The northern part of the coastal area of western Java is characterized by the following:

- The topography of the coastal area consists of a narrow band of low lying coastal flats constrained by the sea on the north and mountains on the south.
- The coastal areas adjacent to the west of Jakarta are swampy lowlands that are difficult to use and left undeveloped mainly due to environmental reasons.
- Much of its coastline exposed to the Java Sea is shallow with a tidal range of only about 1 meter. The coastal area suffers from siltation and it seems to be difficult to maintain a deep navigation channel.
- The only suitable sites for port development are on the coastline from the west of Banten Bay to Anyer. The sites in the coastal area are comprised of rocky beaches and coral reef in the shallow parts.

##### 2) Climate

19. The region including the Study area has a tropical monsoon climate (Table 2-A-1). Temperature (23°C - 33°C) and humidity (57 % - 93 %) are high with small seasonal variation. Rainfall is high with the yearly total about 1,800 mm. In the rainy season from November to March, it has about four to five times as much rain as the dry season from June to September. Winds are frequently light to moderate through the year although strong winds are more likely in the rainy season from November to March. Gale force winds are rare.

##### 3) Sea Currents

20. In the open sea, the direction of the predominant surface current generally sets in the same direction to which the monsoon wind is blowing. (Figure 2-A-1) From November to March, the current set ESE in Java Sea with an average rate of 0.75 - 1.25 knots (0.4 - 0.6 m/s). Between May and September the direction of the current is reversed with a WNW set in Java Sea with an average rate of about 0.75 knots. Maximum rates are usually less than 2 knots (1 m/s). Tidal streams are generally weak in the open sea and, in general, negligible compared with the seasonal currents driven by the monsoon winds.

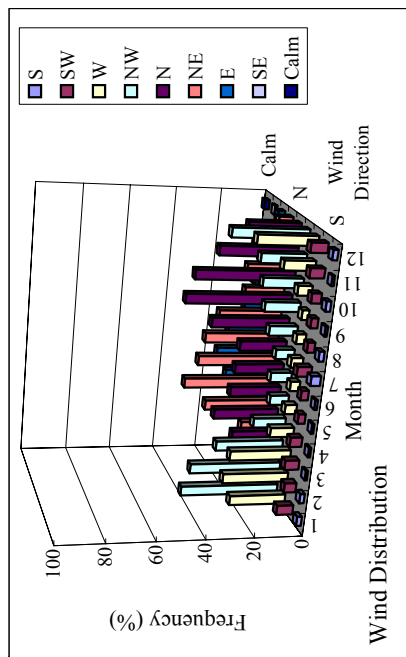
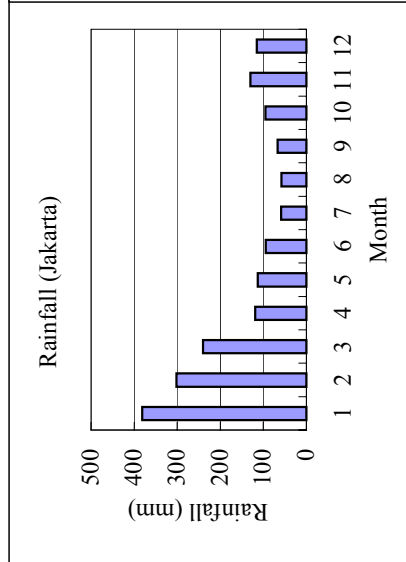
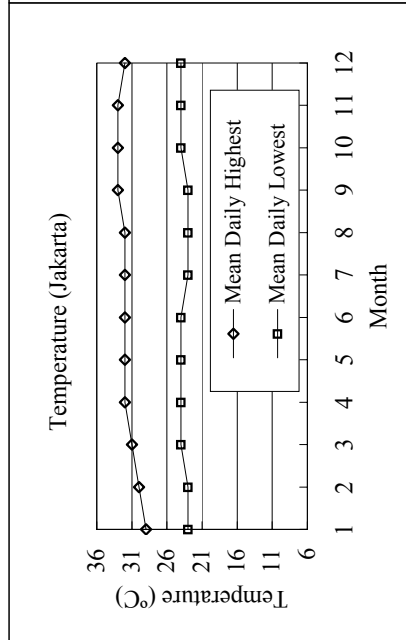
**Table 2-A-1 Climate of West Java Region Compiled from Observation 1936 - 1994**

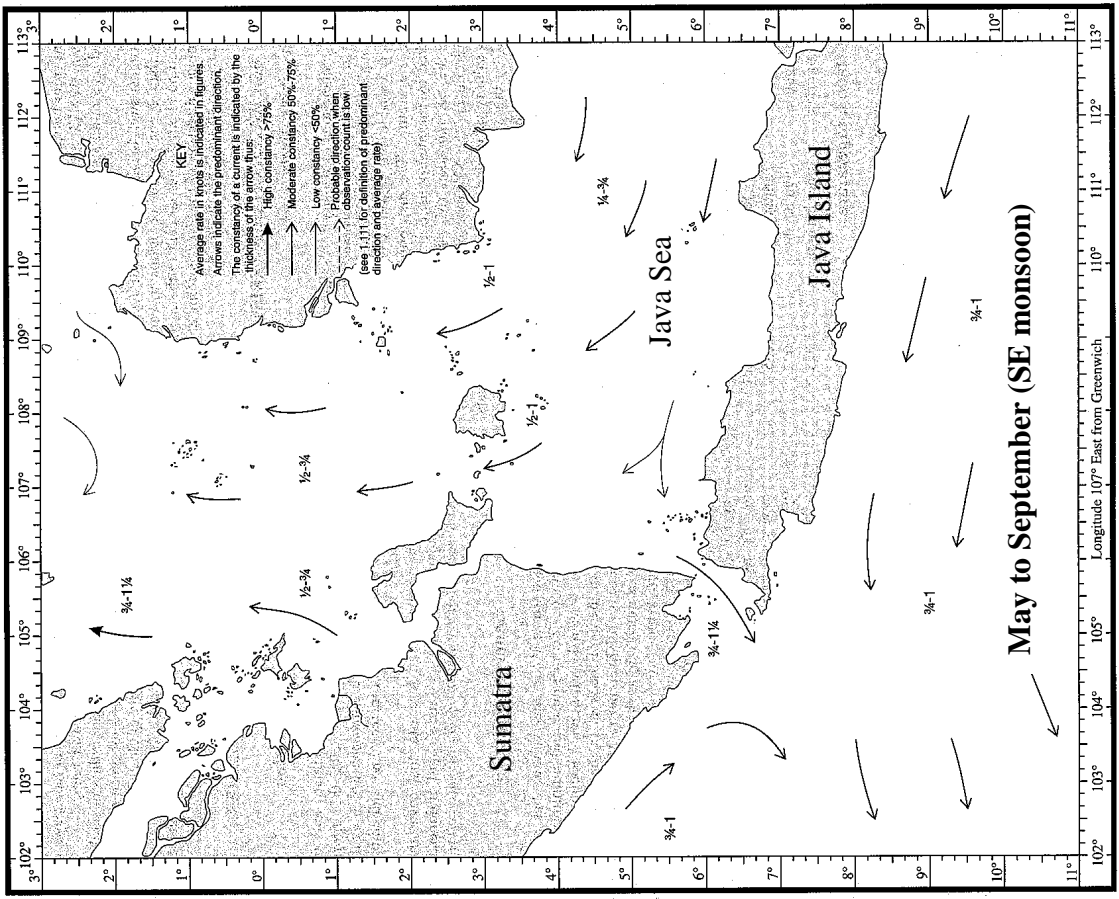
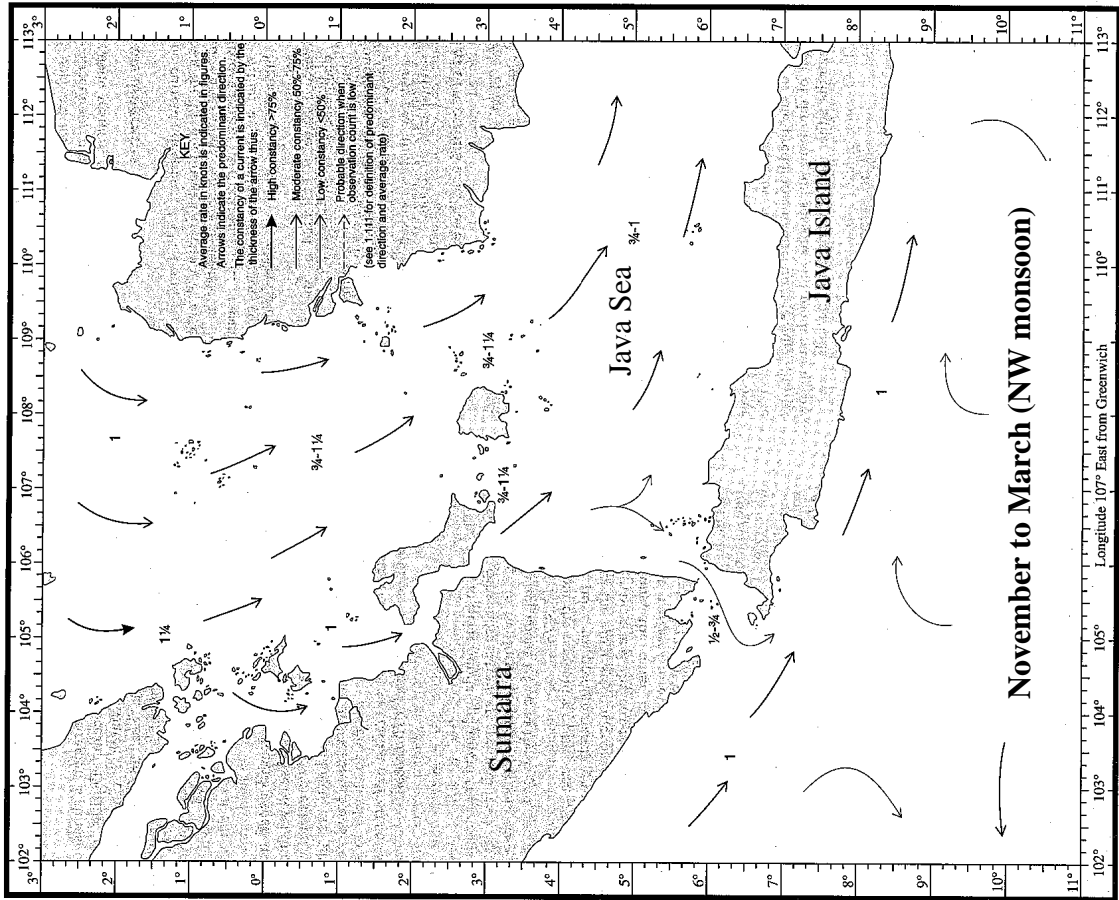
**Figure 2-A-1 Predominant Surface Current of Sea around West Java**

### Climate of West Java Region compiled from observation 1936 - 1994

(Source: Indonesia Pilot, Volume I, Second Edition 1996, The UK Hydrographic Office)

Month	Temperature (°C)		Humidity (%)		Precipitation		Wind Distribution (%)														Mean Wind Speed (knot)			Number of Days with					
	Mean Daily Highest	Mean Daily Lowest	7:00	13:00	Average Fall (mm)	Days with over 0.3 mm	7:00							13:00							7:00	13:00	13:00	Gale	Fog	Thunder			
							N	NE	E	SE	S	SW	W	NW	Calm	N	NE	E	SE	S	SW	W	NW	Calm	7:00	13:00			
January	29	23	92	73	381	20	6	4	4	5	8	11	14	6	42	18	3	2	1	2	7	24	42	1	2	6	0	5	10
February	30	23	93	72	302	18	5	2	3	7	10	11	10	5	47	18	4	2	1	2	5	28	39	1	2	6	0	2	12
March	31	24	93	69	240	16	4	2	4	6	6	10	9	3	56	19	12	3	2	1	6	26	29	2	2	6	0	4	12
April	32	24	92	66	119	11	2	2	6	9	8	5	4	1	63	28	29	10	2	1	5	10	14	1	1	5	Rare	5	10
May	32	24	91	66	113	10	2	4	10	12	7	2	1	1	61	22	39	18	3	1	3	5	8	1	1	5	Rare	3	10
June	32	24	89	63	94	7	3	6	8	10	7	2	1	1	62	21	34	23	3	1	3	4	9	2	1	6	0	Rare	5
July	32	23	88	58	59	5	4	5	7	13	10	3	2	1	55	20	32	19	4	4	6	5	8	2	1	6	0	2	3
August	32	23	88	57	58	5	3	5	9	15	12	3	2	1	50	33	27	13	5	2	3	4	12	1	1	6	0	1	6
September	33	23	87	57	67	5	3	4	1	12	18	2	2	2	47	45	17	8	7	1	3	3	15	1	1	6	0	1	7
October	33	24	86	60	95	8	4	3	6	13	14	5	3	2	50	42	17	6	5	2	4	6	17	1	1	6	0	1	7
November	33	24	91	64	130	12	4	3	6	9	13	8	5	1	51	33	15	7	4	1	6	13	19	2	2	6	0	3	13
December	32	24	91	68	115	15	5	3	5	7	10	12	14	3	41	22	6	3	1	2	7	25	32	2	2	6	Rare	2	9
Total					1773	132																						29	104
Mean	31.8	23.6	90.1	64.4	147.8	11.0	4	4	6	10	10	6	6	2	52	27	20	10	3	2	5	13	20	1	1.4	5.8		2.6	8.7





**Predominant Surface Current of Sea around West Java**  
 (Source: Indonesia Pilot, Vol.1, Second Edition 1996)

## 2-A-2 Land use & Population

### 1) Land Use

21. Trends of land use in the Study area are featured as follows.

- The Greater Jakarta area continues to sprawl out from the center, mainly south toward Bogor, but also west toward Tangerang and east toward Bekasi. Much new residential, commercial and light industrial development is taking place east of Bekasi and around Bandung.
- Although a lot of industries concentrate in DKI Jakarta, the economy of Jakarta largely depends on “Trade, hotel and restaurant” industry (about 23% of GRDP), “Financial, real estate services” industry (about 22%) and manufacture industry (about 21%). The central area of Jakarta is increasingly changing to a service center of commercial and financial activities rather than an industrial city.
- With respect to Banten province, in which the proposed Bojonegara development site is located, economic development depends on light industry between Tangerang and Serang, and heavy industry in the Cilegon area and along the Banten peninsula.

### 2) Population

22. Population of Indonesia is characterized in the following two aspects; size of population and its unevenly distribution among islands.

23. According to 2000 Population Census, total population of Indonesia is 203.5 million, which is the third largest in Asia after about 1,266 million people in China and about 987 million people in India. Population growth rate nationwide is 1.35 % during 1990s, which was 1.98 % during the previous decade. The decrease rate of population growth is the fruit of family planning encouraged by the government. DKI Jakarta is one of the District/Province with the growth rate less than one per cent.

24. Features of the Indonesia’s population are not only its vast size but also uneven distribution over the territory. Figures of area and population including GRDP are shown in Table 2-A-2. Nearly 60% of the total population in Indonesia resides in Java Island, which has area of only 6.6% of the total land area in Indonesia. Population of DKI Jakarta and West Java (including Banten) in 2000 are 8,385 thousand and 43,553 thousand, respectively. Since 2001 Banten are no longer part of West Java Province, and its population was 8,098 thousand in 2000.

25. Population density is remarkable in Java Island. While the area of the three provinces (DKI Jakarta, West Java and Banten) accounts for 2.3 % of the total area of Indonesia, the population of these provinces accounts for more than 25 % of the total population in Indonesia. The population density of DKI Jakarta (12,628 per km<sup>2</sup>) is over ten times as much as the average of the three provinces (1,185 per km<sup>2</sup>).



Table 2-A-2 Area &amp; Population

(Unit)	Area		Population 2000		Population Density	GRDP 2000 at current prices	
	(km <sup>2</sup> )	(%)	(1,000)	(%)	(per km <sup>2</sup> )	(Billion Rp.)	(%)
DKI Jakarta <sup>1)</sup>	664	0.0%	8,385	4.1%	12,628	188,036	14.6%
Jawa Barat <sup>2)</sup>	34,017	1.8%	35,455	17.4%	1,042	134,661	10.4%
Banten <sup>3)</sup>	9,160	0.5%	8,098	4.0%	884	46,969	3.6%
Sub-toal	43,841	2.3%	51,938	25.5%	1,185	369,666	28.6%
Jawa <sup>4)</sup>	127,499	6.6%	120,430	59.2%	945	585,192 *	45.3%
Sumatra <sup>4)</sup>	482,393	25.1%	42,665	21.0%	88	224,456 *	17.4%
Bali, Nusa Tenggara <sup>4)</sup>	73,135	3.8%	10,876	5.3%	149	28,361 *	2.2%
Kalimantan <sup>4)</sup>	547,891	28.5%	10,947	5.4%	20	89,186 *	6.9%
Sulawesi <sup>4)</sup>	191,800	10.0%	14,446	7.1%	75	47,146 *	3.7%
Maluku, Papua <sup>4)</sup>	499,852	26.0%	4,091	2.0%	8	22,322 *	1.7%
Indonesia <sup>4)</sup>	1,922,570	100.0%	203,456	100.0%	106	1,290,684	100.0%

Source 1) Jakarta Dalam Angka 2000, BPS - Statistics DKI Jakarta

2) Jawa Barat Dalam Angka 2000, BPS, Propinsi Jawa Barat

3) Banten Dalam Angka Tahun 2000, Bappeda Propinsi Banten dan BPS Kabupaten Serang

4) Statistik Indonesia 2000, Badan Pusat Statistik, Jakarta - Indonesia

\* 1999 value

## 2-B ADMINISTRATION SYSTEM

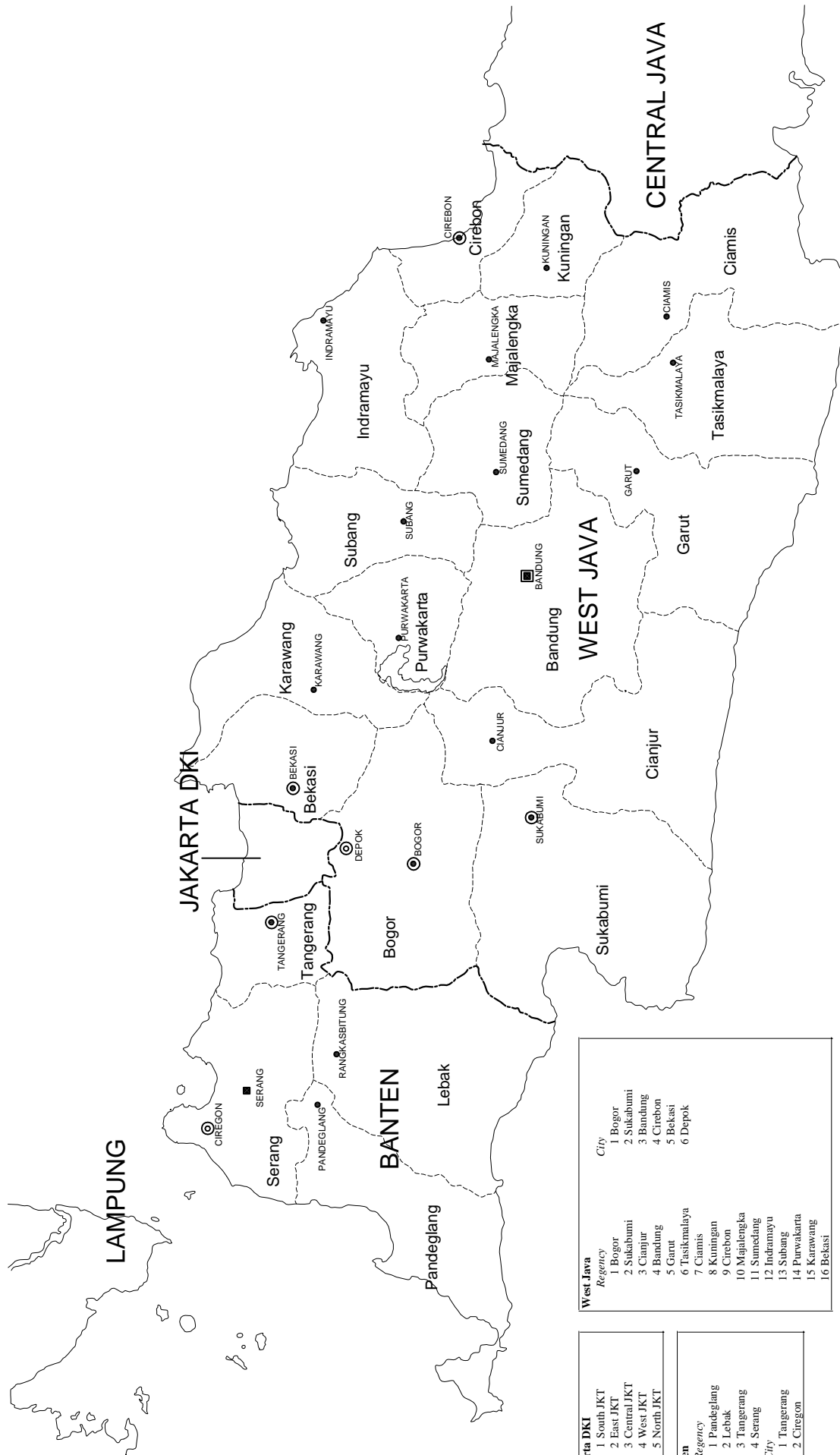
26. The Indonesian government has started a wide-ranging process of decentralization, transferring major administrative and fiscal responsibilities to local governments based on the Law No.22, 1999. Under these circumstances, administration system of Indonesia has been dramatically changing.

27. As of July 2002, there are 28 provinces (*Propisini*), 2 special regions (Aceh and Yogyakarta) and 1 special capital city district i.e. Jakarta (*Daerah Khusus Ibukota*). It is noted that the province of West Java and Irian Jaya have been divided into two new provinces, i.e. Central Irian Jaya and West Irian Jaya, Banten and West Java respectively, under the recent decentralization movement. Each province has its capital city and there are regencies/cities (*Kabupaten/Kota*) under the province, which are thought to become the key administrative units in the decentralization.

28. Administration of the Study area is as follows: DKI Jakarta consists of 5 districts. The capital of Banten province is Serang city and consists of 4 regencies and 2 cities including capital city. The capital of West Java province is Bandung city and consists of 16 regencies and 6 cities including the capital.

### Figure 2-B-1 Province, Regency and City

29. Head of the Government is President, and cabinet member is appointed by the President. There are three (3) coordinating minister, nine (9) state ministers and seventeen (17) ministers as of July 2002. As for transport sector, Minister for Transportation takes charge of Department of Transport (*Perhubungan*), while State-Owned Enterprises (SOEs) such as PT. Pelindo, PT. Pelni are partly under the control of State Minister for State-Owned Enterprises in the field of their financial aspect.



West Java	
<b>Regency</b>	1 Bogor
	2 Sukabumi
	3 Cianjur
	4 Bandung
	5 Cirebon
	6 Depok
<b>City</b>	7 Ciamis
	8 Tasikmalaya
	9 Cirebon
	10 Majalengka
	11 Sumedang
	12 Indramayu
	13 Subang
	14 Purwakarta
	15 Karawang
	16 Bekasi

Jakarta DKI	
<b>Regency</b>	1 South JKT
	2 East JKT
	3 Central JKT
	4 West JKT
	5 North JKT

Banten	
<b>Regency</b>	1 Pandeglang
	2 Lebak
	3 Tangerang
	4 Serang
<b>City</b>	1 Tangerang
	2 Cirebon

## 2-C ECONOMIC PERFORMANCE IN THE PAST

### 2-C-1 GDP & GRDP

**30.** Following robust economic growth that began in the early 1990's, the Indonesian economy suffered a steep 13.1% drop in 1998 during the Asian economic crisis. Economic growth recovered only in 2000 at a rate of 4.9%, after registering a marginal growth rate of 0.8% in 1999. It is reported that a 3.3% growth rate was also registered in 2001. Most economists agree that Indonesia needs a sustained period of strong economic growth and low inflation in order to consolidate its recovery from the 1997-98 financial crisis. Indonesia's present 4-percent GDP growth rate is only slightly more than half of the 7.2 percent average GDP growth the country experienced from 1990-96. (Table 2-C-1)

**Table 2-C-1 Growth of GDP and GDP per capita**

**31.** These positive economic growth rates, however, are not enough to provide working opportunities for Indonesian people since current unemployment rate is between 15-20% in Indonesia. Economists calculate that Indonesia's labor force is increasing by 2.2-2.7% a year, a growth rate equivalent to 2-2.5 million new job seekers each year. The National Development Planning Agency (BAPPENAS) in turn estimates that 4% GDP growth translates into an increase in the demand for labor of 2.4%, or 2.2 million new job opportunities per year. These figures make it clear that in order to re-employ large numbers of workers who lost their jobs during the 1997-98 crisis and absorb new labor market entrants, Indonesia needs a sustained period of GDP growth well above 4%.

**32.** Regarding industrial origin, Manufacturing Industry sector has been playing the leading role for economic growth, and its contribution to GDP accounted for 26.0 % in 2000. The next significant industry is Agriculture sector with contribution to GDP of 16.9%, followed by Trade, hotel and restaurant sector with 12.9% contribution. On the other hand, Transportation and Communication sector registered the highest growth rate at 9.38% in 2000, followed by electricity-gas and water supply sector at 8.78 %.

**33.** Among the 26 provinces in Indonesia, West Java Province has the highest GRDP value in terms of GRDP without oil & gas at constant 1993 price. West Java Province accounts for 16.56% of the national total GDP, and DKI Jakarta is second, producing 16.33% of the national total. Combined share of the two provinces accounts for one third of Indonesian GDP. (Table 2-C-2)

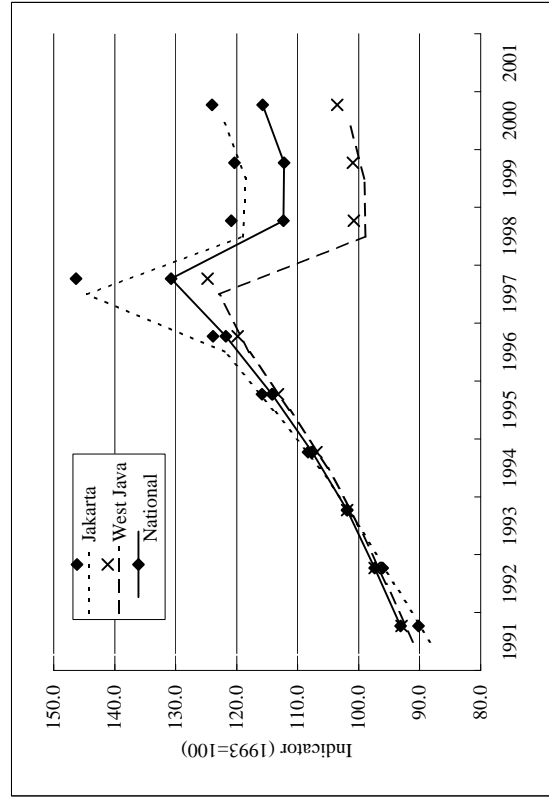
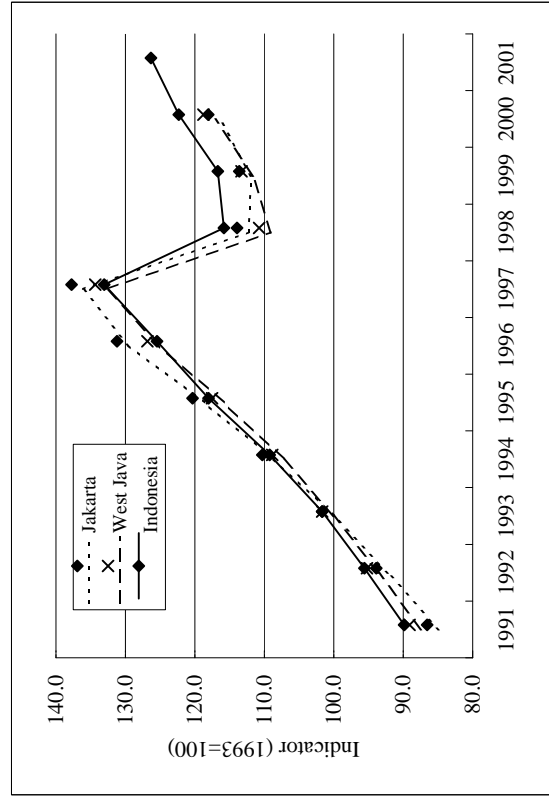
**Table 2-C-2 GRDP by Province/Regency**

### 2-C-2 Employment

**34.** Number of labor force in Indonesia is about 91 million in 2002, and 43.8% of them have been working for Agriculture, Forestry, Hunting and Fisheries sector. The second largest sector is Wholesale Trade, Retail Trade, Restaurant and Hotel sector with 19.2% of the total work force, and the third is Manufacturing Industry of 13.3%.

**35.** Among 91 million labor force in whole Indonesia, 55 million workers reside in Java Island. As for manufacturing industry, 9.3 million workers reside in Java Island, which account for 17.0% of the total labor force in Java while account for 76.9% of total labor force of manufacturing industry in whole Indonesia.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>GDP(GRDP)</b>											
DKI Jakarta											
Total	43,389	47,134	51,106	55,505	60,649	66,202	69,543	57,381	57,215	59,492	
growth rate		8.6%	8.4%	8.6%	9.3%	9.2%	5.0%	-17.5%	-0.3%	4.0%	
Total (exc. Oil)	43,389	47,134	51,106	55,505	60,649	66,202	69,543	57,381	57,215	59,492	
West Java											
Total	47,160	50,464	53,940	57,823	62,491	67,522	71,569	58,848	60,201	63,150	
growth rate		7.0%	6.9%	7.2%	8.1%	8.1%	6.0%	-17.8%	2.3%	4.9%	
Total (exc. Oil)	43,803	47,050	50,785	54,937	59,754	64,717	68,011	55,267	57,288	60,301	
DKI + WJ											
Total	90,549	97,597	105,046	113,328	123,140	133,724	141,112	116,228	117,416	122,642	
growth rate		7.8%	7.6%	7.9%	8.7%	8.6%	5.5%	-17.6%	1.0%	4.5%	
Total (exc. Oil)	87,192	94,184	101,891	110,442	120,403	130,919	137,554	112,647	114,503	119,793	
National											
Total	290,871	309,660	329,776	354,641	383,768	408,233	433,246	376,375	379,934	411,132	
growth rate		6.5%	6.5%	7.5%	8.2%	6.4%	6.1%	-13.1%	0.8%	4.9%	3.3%
Total (exc. Oil)	261,839	278,753	296,861	320,652	350,290	379,492	398,676	341,993	345,733	363,676	378,154
GDP (GRDP) per capita											
DKI Jakarta											
Total	5,130	5,472	5,810	6,181	6,621	7,087	8,393	6,914	6,883	7,095	
Total (exc. Oil)	5,130	5,472	5,810	6,181	6,621	7,087	8,393	6,914	6,883	7,095	
West Java											
Total	1,300	1,363	1,427	1,499	1,589	1,683	1,754	1,411	1,413	1,450	
Total (exc. Oil)	1,207	1,271	1,344	1,425	1,519	1,613	1,667	1,326	1,345	1,385	
National											
Total	1,566	1,639	1,717	1,815	1,929	2,058	2,213	1,896	1,895	1,955	
Total (exc. Oil)	1,365	1,455	1,543	1,641	1,760	1,884	2,036	1,723	1,726	1,788	



GRDP at Constant Price (1993) (Including Oil & Gas)

	1993	1994	1995	1996	1997	1998	1999	%(1999)
<b>DKI Jakarta</b>	<b>51,033,816</b>	<b>55,420,253</b>	<b>60,530,155</b>	<b>66,038,896</b>	<b>69,037,231</b>	<b>57,422,634</b>	<b>57,557,978</b>	<b>45.5%</b>
DKI Jakarta	9,206,553	10,080,806	11,125,088	12,322,480	12,875,978	10,303,456	10,456,635	8.3%
DKI Jakarta	10,158,839	11,008,464	11,985,722	12,950,693	13,236,325	11,181,461	11,094,449	8.8%
DKI Jakarta	11,817,258	12,857,296	13,998,581	15,178,089	15,843,063	14,107,448	14,117,274	11.2%
DKI Jakarta	8,636,064	9,349,970	10,153,464	11,028,742	11,588,464	9,229,655	9,201,813	7.3%
DKI Jakarta	11,215,102	12,123,717	13,267,299	14,558,892	15,493,401	12,600,614	12,687,807	10.0%
<b>Banten</b>	<b>12,815,253</b>	<b>14,187,957</b>	<b>15,752,177</b>	<b>17,643,770</b>	<b>18,855,493</b>	<b>16,315,033</b>	<b>16,686,212</b>	<b>13.2%</b>
Banten	878,578	925,609	986,516	1,051,553	1,086,227	1,001,612	1,079,959	0.9%
Banten	762,461	831,615	904,687	985,021	1,007,561	907,809	930,883	0.7%
Banten	3,112,532	3,352,197	3,654,565	4,043,729	4,284,215	3,887,337	3,969,481	3.1%
Banten	4,299,276	4,638,237	4,981,190	5,419,278	5,653,568	4,838,098	4,876,679	3.9%
Banten	3,762,405	4,440,299	5,225,220	6,144,189	6,823,922	5,680,177	5,829,210	4.6%
<b>West Java</b>	<b>42,390,542</b>	<b>45,605,441</b>	<b>49,892,700</b>	<b>59,175,340</b>	<b>61,276,638</b>	<b>51,626,178</b>	<b>52,319,887</b>	<b>41.3%</b>
West Java	4,847,220	5,328,347	5,788,184	6,465,439	6,773,654	5,370,469	5,455,736	4.3%
West Java	1,713,096	1,835,582	1,966,498	2,136,986	2,205,338	1,966,650	1,998,980	1.6%
West Java	1,653,153	1,745,519	1,862,700	1,992,995	2,066,086	1,930,776	1,968,939	1.6%
West Java	5,659,086	6,158,783	6,797,686	7,513,143	7,883,717	6,340,795	6,529,082	5.2%
West Java	1,847,235	1,960,030	2,097,796	2,240,597	2,308,398	2,039,660	2,091,123	1.7%
West Java	1,710,878	1,814,487	1,947,537	2,096,348	2,172,211	1,885,284	1,928,081	1.5%
West Java	1,690,733	1,784,189	1,922,256	2,052,802	2,128,518	1,940,468	1,986,388	1.6%
West Java	744,134	787,963	838,207	896,980	928,016	875,472	886,579	0.7%
West Java	1,422,972	1,526,057	1,648,830	1,772,430	1,832,149	1,451,613	1,503,946	1.2%
West Java	862,539	928,701	981,054	1,091,827	1,147,607	1,040,316	1,076,621	0.9%
West Java	892,018	948,517	1,014,441	1,090,688	1,122,128	989,773	1,013,470	0.8%
West Java	4,505,093	4,321,312	4,311,458	5,663,225	5,286,850	5,000,035	4,510,767	3.6%
West Java	1,378,375	1,453,585	1,553,002	1,667,729	1,722,417	1,598,891	1,635,275	1.3%
West Java	751,906	846,870	910,656	980,760	1,001,254	884,193	901,656	0.7%
West Java	2,168,380	2,367,865	2,564,733	2,798,437	2,924,863	2,345,950	2,477,859	2.0%
West Java	4,304,889	4,977,227	5,703,114	5,992,233	6,407,593	5,038,759	5,127,352	4.1%
West Java	531,025	570,201	640,030	1,045,309	1,098,516	915,583	945,634	0.7%
West Java	307,493	330,999	479,948	514,817	534,714	443,006	457,169	0.4%
West Java	4,719,953	5,188,911	5,773,486	6,311,148	6,593,227	5,294,952	5,443,351	4.3%
West Java	680,363	730,297	791,085	1,201,789	1,281,588	1,212,895	1,240,699	1.0%
West Java				3,649,657	3,857,794	3,060,637	3,141,178	2.5%
<b>West Java &amp; Banten</b>	<b>55,205,794</b>	<b>59,793,398</b>	<b>65,644,877</b>	<b>76,819,109</b>	<b>80,132,131</b>	<b>67,941,211</b>	<b>69,006,099</b>	<b>54.5%</b>
<b>Total</b>	<b>106,239,610</b>	<b>115,213,651</b>	<b>126,175,032</b>	<b>142,858,005</b>	<b>149,169,362</b>	<b>125,363,844</b>	<b>126,564,076</b>	<b>100.0%</b>

36. Viewing from the employment statistics, Manufacturing Industry sector is concentrated in Java Island.

**Table 2-C-3 Employees aged 15 year and over by Island and Industry (April 2002)**

	000 persons				
	Indonesia	%	Jawa Isd.	%	% to Indonesia
Agriculture, Forestry, Hunting and Fishery	39,744	43.8%	19,685	36.1%	49.5%
Manufacturing Industry	12,086	13.3%	9,294	17.0%	76.9%
Construction	3,838	4.2%	2,564	4.7%	66.8%
Wholesale, Retail Trade, Hotel and Restaurant	17,469	19.2%	11,705	21.4%	67.0%
Transportation Storage and Communication	4,448	4.9%	3,001	5.5%	67.5%
Financing, Insurance, Real Estate & Business Services	1,128	1.2%	835	1.5%	74.0%
Community, Social and Personal Services	11,003	12.1%	6,865	12.6%	62.4%
Others (Mining & Quarrying, electricity, Gas & Water)	1,091	1.2%	642	1.2%	58.9%
Total	90,807	100.0%	54,591	100.0%	60.1%

Source: Economic Indicator April 2002 (BPS)

## 2-C-3 Investment

### 1) Before the crisis

37. In the world of economics, investment is really essential to support economic growth and improvement of employment opportunities. Government has, therefore, paid efforts to attract domestic/foreign investors to invest their capital intensively and various policies have been done in the early stage of Repelita VI (Five year development plan; 1994-1998) to stimulate investment from both domestic and foreign entities.

38. Since the early 1990's, the government gradually opened previously restricted sectors to foreign investment. Services sectors remain restricted to foreign investment, while ports, electricity generation, telecommunications, shipping, airlines, railways, and water supply have been opened in part or in full. The government is continuing to develop policies on the private provision of infrastructure through Build-Own-Operate and/or Build-Operate-Transfer schemes, particularly for electric power, telecommunications, and roads. However, full foreign ownership is not permitted in these sectors. Local partners are required to own anywhere from five to 51 percent of these investments.

39. The government had also several programs using public funds for national economic development especially for small and medium enterprises and businesses including informal and traditional business. Special attentions were paid to help promote agro-industry and agro-business in the rural and remote areas such as Eastern Indonesia.

40. Many programs had been implemented by the government in the early stage of Repelita VI, however, their policies and practices were hampered by the economic crisis which occurred in the middle of 1997. Since then investment mind has been chilled in both domestic and foreign. Furthermore, electric generating plants for example, that were developed as independent power projects under Power Purchase Agreements, ran into difficulties with the sharp depreciation of the Rupiah and led the Indonesian Government to postpone or seek re-negotiation of the financial terms of these projects.

## 2) *Recent Trends of Domestic Investment*

41. Table 2-C-4 shows new domestic investment projects which have been approved by the government (BKPM: Capital Investment Coordinating Board) since 1996. Number of approved projects was 810 in 1996, since then it continues to decrease to 718 in 1997, 324 in 1998, and 249 in 2001. Number of approved projects in 2001 was only 30 per cent of that before the economic crisis. Total amount of investment also declined sharply after the crisis. Total amount of new investment approved was 119,873 Billion Rupiahs in 1997, and that in 2001 was 58,673 Billion Rupiahs. The latter is less than one half of the former.

**Table 2-C-4 Approved Domestic Investment Projects**

42. Manufacturing industries sector has been keeping the dominant sector since the economic crisis. In 1996 the manufacturing sector accounted for about 60 per cent of the total amount of the new projects approved, and in 2000 the share of this sector rose to 90 per cent. Transport sector has played far less important roles in investment world. Although this sector was the second largest in number of new projects in 2001, their total investment amount was 1,489 Billion Rupiah, which account for only 2.5 per cent of the total amount of new investment approved.

43. Looking at locations of the new investment projects, West Java has been the center of the investment world although its share varies year by year. It is also interesting to know that locations of new investment approved, both for number of projects and amount of investment, shifted to DKI Jakarta from West Java in 2001.

## 3) *Recent Trends of Foreign Investment*

44. Table 2-C-5 shows new domestic investment projects which have been approved by the government (BKPM). It is said that foreign investment from 1967 until June 1998 totals about US\$213 Billion with 6,035 projects. Most foreign fund flew into Manufacturing sector, totaling US\$137 Billion, or 64 per cent of the total foreign investment. Then Electricity, gas and water sector became the next choice with US\$15 Billion, or about 7% of the total.

**Table 2-C-5 Approved Foreign Investment Projects**

45. After the crisis, foreign investment fell to about one third of the pre-crisis level. Two major sectors, Manufacturing sector and Wholesale and retail, restaurants and hotels sector, remain dominant in this field, collectively accounting for 70 to 80% of the total foreign investment.

46. Distribution of investment by location indicates development of each region. If west Java and DKI Jakarta are combined, they account for about 60% of the total project number, and 20 to 30% of the total project value.

\* *BKPM approval reports, source of above two Tables, should be treated cautiously and used as no more than an indicator of possible trends because they represent applications to invest and not actual projects or money. Moreover, the value of the investment in an application is the investor's estimate and may not accurately reflect actual investments made. Indonesia does not report on actual investments.*

*Investment in Indonesia is categorized as either domestic (PMDN) or foreign (PMA). An investment with any degree of direct foreign ownership is defined as PMA. The Capital Investment Coordinating Board (BKPM) -- now subsumed under the Board of Investment and State-Owned Enterprises (BPM-PBUMN) -- plays a key role in promoting foreign investment and approving project proposals.*

APPROVED DOMESTIC INVESTMENT PROJECTS BY ECONOMIC SECTOR  
(BILLION RUPIAHS)

Economic Sector	1996		1997		1998		1999		2000		2001	
	Project (2)	Investment (3)	Project (4)	Investment (5)	Project (6)	Investment (7)	Project (8)	Investment (9)	Project (10)	Investment (11)	Project (12)	Investment (13)
Agriculture, hunting, forestry and fisheries	158	16,071.4	146	14,807.8	47	5,315.1	29	2,408.3	34	4,137.8	16	1,378.0
Mining and Quarrying	13	460.1	7	126.3	4	116.3	4	174.0	2	36.4	10	1,198.2
Manufacturing	314	59,217.7	304	79,334.3	147	44,908.0	126	46,745.5	199	83,059.5	133	43,966.4
Electricity, Gas and Water	7	3,485.5	6	11,151.2	2	138.4	1	117.9	1	100.0	-	-
Construction	28	1,550.0	20	877.0	9	1,992.0	6	395.1	12	843.4	7	2,006.9
Wholesale and retail, restaurants and hotels	64	5,151.2	56	2,632.8	34	1,231.8	29	1,670.9	32	420.4	13	2,551.8
Transport, storages and communication	115	3,065.0	100	4,649.4	45	3,260.5	19	225.3	44	1,992.8	55	1,488.5
Financing, insurance, real estate and business service	53	9,425.7	31	4,300.5	13	1,547.5	6	995.5	4	225.6	6	4,540.9
Community, Social and personal services	58	2,288.6	48	1,993.7	23	2,239.7	17	817.5	26	1,511.8	9	1,542.2
<b>Total</b>	<b>810</b>	<b>100,715.2</b>	<b>718</b>	<b>119,873.0</b>	<b>324</b>	<b>60,749.3</b>	<b>237</b>	<b>53,550.0</b>	<b>354</b>	<b>92,327.7</b>	<b>249</b>	<b>58,672.9</b>

APPROVED DOMESTIC INVESTMENT PROJECTS BY LOCATION  
(BILLION RUPIAHS)

Location	1996		1997		1998		1999		2000		2001	
	Project (2)	Investment (3)	Project (4)	Investment (5)	Project (6)	Investment (7)	Project (8)	Investment (9)	Project (10)	Investment (11)	Project (12)	Investment (13)
Greater Jakarta	0	14,395.5	148	8,553.5	63	4,289.7	32	1,260.5	85	3,474.9	52	7,845.5
West Java	187	19,212.9	202	37,423.5	72	8,117.1	59	18,393.9	95	9,601.9	30	4,614.5
Central Java	32	3,366.9	28	5,764.2	20	2,574.9	14	849.6	17	1,486.9	11	2,184.8
DI. Yogyakarta	3	222.5	4	235.6	1	6.0	5	34.6	3	119.9	5	105.5
East Java	67	6,512.6	52	11,704.0	26	3,883.8	16	1,588.3	30	2,871.2	14	3,122.6
Others	329	57,005	284	1,135,072	142	41,878	111	31,423	124	74,772.9	137	40,800.0
<b>Total</b>	<b>618</b>	<b>100,715.2</b>	<b>718</b>	<b>1,198,752.9</b>	<b>324</b>	<b>60,749.3</b>	<b>237</b>	<b>53,550.0</b>	<b>354</b>	<b>92,327.7</b>	<b>249</b>	<b>58,672.9</b>

Note : - Annual Figures are number of new project only and expansion  
- A number of project without investment means contract of work , otherwise,  
it would mean expansion if there is investment without project  
Source : Capital Investment Coordination Board  
Timor Timur until August 1999



**APPROVED FOREIGN INVESTMENT PROJECTS BY ECONOMIC SECTOR**  
(MILLION RUPIAHS)

Economic Sector	1996		1997		1998		1999		2000		2001	
	Project	Investment	Project	Investment	Project	Investment	Project	Investment	Project	Investment	Project	Investment
Agriculture, hunting, forestry and fisheries	60	1,521.6	13	463.7	53	998.2	44	491.2	40	443.3	32	389.7
Mining and Quarrying	4	1,696.7	1	1.6	81	0.3	1	14.1	3	2.4	20	118.7
Manufacturing	460	16,072.1	450	23,017.3	410	8,388.2	439	6,929.2	487	10,702.7	419	5,131.4
Electricity, Gas and Water	8	3,808.5	8	1,839.9	6	1,795.4	2	2,310.0	1	0.4	4	37.3
Construction	62	296.8	58	306.8	36	197.8	22	153.4	50	225.2	30	47.6
Wholesale and retail, restaurants and hotels	121	1,761.7	38	472.0	215	672.9	417	507.7	547	1,670.8	493	1,231.2
Transport, storage and communication	20	695	36	5,900	23	79.0	61	102.7	61	1,218.7	86	378.2
Financing, insurance, real estate and business service	37	3,000.3	20	1,397.6	19	1,270.9	20	179.4	21	301.6	20	177.4
Community, Social and personal services	187	1,076.2	166	433.6	192	160.4	158	202.9	298	848.0	213	1,516.0
<b>Total</b>	<b>959</b>	<b>29,928.5</b>	<b>790</b>	<b>33,832.5</b>	<b>1,035</b>	<b>13,563.1</b>	<b>1,164</b>	<b>10,890.6</b>	<b>1,508</b>	<b>15,413.1</b>	<b>1,317</b>	<b>9,027.5</b>

**APPROVED FOREIGN INVESTMENT PROJECTS BY LOCATION**  
(MILLION RUPIAHS)

Location	1996		1997		1998		1999		2000		2001	
	Project	Investment	Project	Investment	Project	Investment	Project	Investment	Project	Investment	Project	Investment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Greater Jakarta	327	4,403.9	246	6,136.1	334	1,700.1	429	783.8	734	3,273.1	602	1,151.6
West Java	297	7,760.1	298	7,973.3	237	5,504.1	281	1,498.2	340	3,137.5	202	1,190.8
Central Java	28	3,273.7	18	2,195.7	39	3,066.7	55	69.7	36	3,082.4	43	117.0
DI. Yogyakarta	2	69.0	4	14.3	10	6.0	10	10.5	16	3.9	11	10.2
East Java	85	2,401.7	58	4,215.6	66	563.5	67	273.7	62	1,115.7	21	1,676.5
Others	220	12,020.1	166	13,297.5	349	2,722.7	322	8,254.7	320	4,800.5	438	4,881.4
<b>Total</b>	<b>959</b>	<b>29,928.5</b>	<b>790</b>	<b>33,832.5</b>	<b>1,035</b>	<b>13,563.1</b>	<b>1,164</b>	<b>10,890.6</b>	<b>1,508</b>	<b>15,413.1</b>	<b>1,317</b>	<b>9,027.5</b>

Note :- Annual Figures are number of new project only and expansion  
 - A number of project without investment means contract of work ; otherwise,  
 it would mean expansion if there is investment without project  
 Source : Capital Investment Coordination Board

BKPM, or the corresponding provincial board (BKPM), approves foreign and domestic investment in all other sectors.

#### 2-C-4 Trade

47. Statistics on Indonesian trade are basically divided into two categories, namely with oil and gas and without oil and gas. In 2000, without oil and gas export reached 77 percent of the total Indonesian export value while without oil and gas import accounts for 82 percent of the total import value.

48. Figure 2-C-1 shows historical development of Indonesian without oil and gas trade, both export and import, in monetary terms. Due to the economic and financial crisis, export value slightly decreased by 2 per cent in 1998, and again dropped by more than 5 per cent in 1999. After the two consecutive years' slump, Indonesian non-oil and gas export increased by 22.85 per cent, from US\$38,873 Billion in 1999 to US\$47,757 Million in 2000.

49. Import activities were more severely influenced by the economic crisis than export activity judging by the statistics. Import value had decreased one year earlier than the export value decreased. In 1998 import value sharply dropped by about 35 per cent and the decreasing tendency of import value continued to year 1999. Import value of US\$27,495 million in 2000 is the same level of 1993 and 1994.

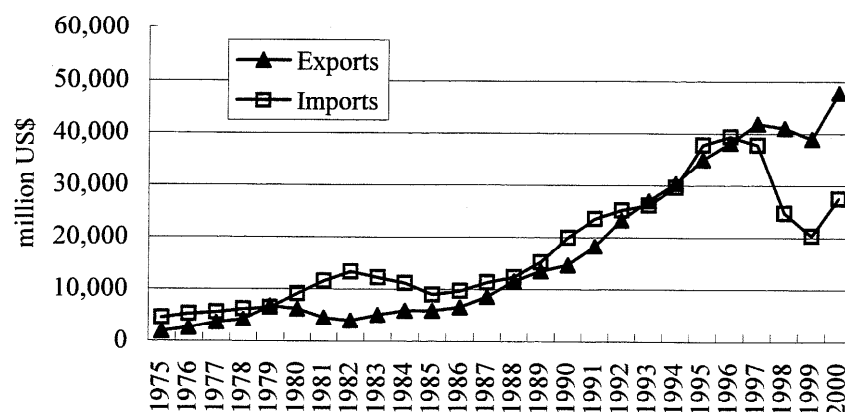


Figure 2-C-1 Value of Foreign Trade

50. According to the data of export volume by port of exportation, Sumatra is the biggest export base, namely about 100 million tons cargo were exported through the Sumatra ports in 2000. The second largest export base is Kalimantan and 87 million tons cargo were exported from the Kalimantan ports.

51. Indonesia's main export commodities are rubber, tea, tobacco, shrimp, and coffee in the agriculture sector, and copper and tin in the mining sector. Garment, textile, and plywood also play a significant role. Electronic appliances export has been increasing recently.

52. Table 2-C-6 shows main trading partners both for export and import. Looking at the total trade value, Japan is the most significant trade partner in terms of total trade value. Total trade volume between Indonesia and Japan reaches nearly 55 million tons and US\$20 billion. The second is the United States of America, totaling about 11 million tons and US\$12 billion. Singapore is also an important trade partner and the largest volume of export cargo goes to

Singapore. Australia is a big neighboring country and one of the biggest trade partners. In 2000, Indonesia exported US\$1.5 billion worth goods and imported US\$1.7 billion worth goods to/from Australia.

53. Indonesia's main export commodities are rubber, tea, tobacco, shrimp, and coffee in the agriculture sector, and copper and tin in the mining sector. Garment, textile, and plywood also play a significant role. Electronic appliances export has been increasing recently.

**Table 2-C-6 Main Trading Partners**

Volume : Thousand M. Ton  
Value: US\$ Mil.

Trade Partner	Export		Import		Total	
	Volume	Value	Volume	Value	Volume	Value
ASEAN	73,844	10,818	17,195	6,462	91,039	17,280
Malaysia	4,593	1,972	3,027	1,129	7,619	3,101
Muangthai/Thailand	5,066	1,027	3,261	1,109	8,327	2,136
Filipina/Philippines	4,960	820	143	115	5,103	934
Singapura/Singapore	57,908	6,562	9,376	3,789	67,283	10,351
Brunei Darussalam	35	26	86	17	120	42
Vietnam1)	1,199	361	1,303	303	2,502	664
Kamboja2)	85	52	0	1	85	52
Hongkong	4,353	1,554	329	342	4,682	1,897
Jepang/Japan	52,078	14,415	2,766	5,397	54,844	19,813
Rest of Asia	61,126	13,417	23,866	9,218	84,992	22,635
Afrika/Africa	3,493	1,099	2,591	825	6,085	1,924
Amerika Serikat/USA	6,606	8,475	4,582	3,390	11,188	11,866
Kanada/Canada	238	404	1,684	638	1,921	1,042
Rest of America	2,284	1,075	2,665	597	4,948	1,671
Australia	4,099	1,519	5,611	1,694	9,710	3,213
Rest of Oceania	294	175	410	266	704	441
European Union	15,652	8,669	4,157	4,163	19,810	12,833
Inggris/United Kingdom	582	1,508	716	557	1,298	2,065
Belanda/Netherlands	5,529	1,837	736	434	6,264	2,272
Perancis/France	272	718	249	400	522	1,118
Jerman/Germany	1,108	1,443	992	1,245	2,100	2,688
Belgium/Luxemburg	470	841	37	263	507	1,104
Denmark	49	135	566	240	615	375
Irlandia/Ireland	342	68	12	44	354	112
Italia/Italy	2,599	758	367	217	2,966	975
Yunani/Greece	180	99	54	150	233	249
Portugis/Portugal	99	50	26	66	124	117
Spanyol/Spain	4,252	932	265	345	4,517	1,277
Austria	7	27	7	15	15	42
Finlandia/Finland	97	140	0	2	97	142
Swedia/Sweden	68	113	130	185	198	298
Re: Rest of Europe	1,036	504	1,533	522	2,569	1,026
<b>Jumlah/Total</b>	<b>225,104</b>	<b>62,124</b>	<b>67,389</b>	<b>33,515</b>	<b>292,493</b>	<b>95,639</b>

Source: Statistical Yearbook of Indonesia 2000

**2-C-5 Financial Performance of the Government & Provinces (West Java & Banten)****1) Financial Situation of Central Government**

54. Prior to the economic crisis, Indonesia had a relatively comfortable debt situation. The GOI borrowed abroad each year, primarily from the World Bank, Asian Development Bank, and a group of bilateral donors grouped in the Consultative Group on Indonesia (CGI). The proceeds were used to fund the development budget. By long-established convention, the GOI avoided domestic borrowing, and Indonesia's debt/GDP was sustainable. Indonesia's debt management policies were an important part of what was widely viewed as a prudent macroeconomic management strategy.

55. This situation changed in 1998-99, when Indonesia for the first time developed a large domestic debt stemming from the costs of the country's banking sector bailout. As Table 2-C-7 indicates, Indonesia's official debt burden increased from 27% of GDP prior to the financial crisis to approximately 100% of GDP at the end of 2000. Although Indonesia has shouldered high debt/GDP ratios in the past (most recently in the late 1980s), the costs of servicing the country's official debt has placed a heavy burden on the budget. In 2001, interest payments on Indonesia's domestic and foreign debt were forecast to reach almost 35 percent of central government expenditures.

**Table 2-C-7 Foreign and Domestic Debt, 1995-2000**

(USD Billions)				
	Foreign	Domestic	Total	Debt/GDP
1995	63.5	0.0	63.5	31%
1996	56.3	0.0	56.3	25%
1997	57.9	0.0	57.9	27%
1998	67.3	0.0	71.5	72%
1999(1)	75.8	68.7	144.5	102%
2000(2)	74.8	78.0	152.8	100%

(1) 1999 domestic debt figure based on Rp 312 trillion in bank recapitalization bonds issued, plus Rp 228 trillion in bonds issued to repay Bank Indonesia for liquidity credits, converted at the 1999 average exchange rate of Rp 7855/USD.

(2) 2000 domestic debt figure based on Rp 430 trillion in bank recapitalization bonds plus Rp 228 trillion in bonds issued to BI, converted at the 2000 average exchange rate of Rp 8430/USD. Foreign debt figure through October 2000.

Source: Bank Indonesia.

**2) Financial Situation of Local Government**

56. Financial situation of local government in the Study area, DKI Jakarta and Banten province, are shown in Table 2-C-8

**Table 2-C-8 Financial Situation of Local Government in West Java area****2-D SOCIO-ECONOMIC REFORMS OF THE GOVERNMENT -IN THE PAST & TOWARD THE FUTURE****2-D-1 Basic Direction**

57. After the economic crisis, Indonesia continues to struggle with the wreckage of its 1997-98 economic collapse and efforts has been directing to return to the sustained economic growth which it enjoyed before 1997. The economy has been recovering in 2000, however, recent signs

**ACTUAL RECEIPTS AND EXPENDITURES OF REGENCY/MUNICIPALITY GOVERNMENT  
THROUGHOUT INDONESIA  
1998/1999-1999/2000  
(000 RUPIAH)**

Indonesia Kinds of Receipts/Expenditures	1998/1999			1999/2000			West Java			Sarano			Cirebon		
	(1)	(2)	share(%) (3)	(1)	(2)	share(%) (3)	(1)	(2)	share(%) (3)	(1)	(2)	share(%) (3)	(1)	(2)	share(%) (3)
<b>A. RECEIPTS</b>	20,853,872,179	28,431,019,571	100	3,159,240,333	4,168,031,272	100.0	133,872,042	179,191,743	100.0	45,094,844	66,169,860	100	1,796,417	1,796,417	2.7
1. Previous year surplus	500,593,742	1,190,545,563	4.2	68,587,520	159,635,312	3.8	5,858,703	12,777,035	7.1	660,166	1,796,417	2.7	1,796,417	1,796,417	2.7
2. Local Gov. Original Receipt	2,323,129,128	2,790,707,402	9.8	509,000,162	618,496,870	14.8	36,433,020	43,217,598	24.1	13,126,747	14,035,099	21.2	14,035,099	14,035,099	21.2
2.1 Local Taxes Receipt	1,118,684,955	1,406,872,514	4.9	205,410,222	270,802,553	6.5	20,802,553	27,802,553	15.5	2,780,802	3,513,866	5.3	3,513,866	3,513,866	5.3
2.2 Revenues Receipt	839,861,283	1,006,925,977	3.5	210,047,214	261,485,958	6.3	21,047,214	26,485,958	15.0	2,620,083	2,494,234	3.8	2,494,234	2,494,234	3.8
2.3 Local Gov. Corporate Profit	60,388,445	76,248,781	0.3	11,345,805	9,431,302	0.2	9,431,302	9,431,302	5.2	834,167	660,262	1.0	660,262	660,262	1.0
2.4 Other Receipt	304,194,445	300,660,130	1.1	82,196,941	76,777,057	1.8	82,196,941	76,777,057	4.5	6,891,695	7,366,737	11.1	7,366,737	7,366,737	11.1
3. Incomes from higher level government and or authority	17,862,906,357	24,362,034,006	85.7	2,573,132,666	3,388,472,788	81.3	91,580,319	123,197,110	68.8	31,307,931	50,338,344	76.1	50,338,344	50,338,344	76.1
3.1 Tax share	2,374,817,596	2,847,260,371	10.0	369,794,562	469,616,161	11.3	369,794,562	469,616,161	27.1	-	-	-	-	-	-
3.2 Non tax share	365,914,798	534,231,696	1.9	11,654,090	50,245,751	1.2	11,654,090	50,245,751	0.3	-	-	-	-	-	-
3.3 Subsidies to local government	10,211,491,148	14,117,816,172	49.7	1,477,256,511	1,938,999,758	46.5	1,477,256,511	1,938,999,758	71.4	1,477,256,511	1,938,999,758	71.4	1,938,999,758	1,938,999,758	71.4
3.4 Development contribution	4,849,669,585	6,555,422,613	23.1	714,069,552	885,470,996	21.2	714,069,552	885,470,996	21.2	714,069,552	885,470,996	21.2	885,470,996	885,470,996	21.2
3.5 Other receipt	61,013,230	280,303,154	1.0	357,951	44,140,122	1.1	357,951	44,140,122	0.1	44,140,122	44,140,122	0.1	44,140,122	44,140,122	0.1
4. Local Gov.loan	167,242,952	87,732,600	0.3	8,519,965	1,426,302	0.0	8,519,965	1,426,302	0.0	1,426,302	1,426,302	0.0	1,426,302	1,426,302	0.0
<b>D. TOTAL EXPENDITURES (B + C)</b>	19,624,106,113	27,070,098,230	100.0	3,008,869,672	3,997,381,098	100	121,095,007	170,196,609	100	43,298,427	62,061,667	100.0	62,061,667	62,061,667	100.0
<b>B. CURRENT EXPENDITURES</b>	13,354,123,478	14,052,519,986	51.9	2,573,132,666	3,388,472,788	84.8	81,033,129	116,250,710	68.3	34,296,471	46,448,186	74.8	46,448,186	46,448,186	74.8
1. Personnel current expenditure	9,903,277,534	14,052,519,986	51.9	1,476,955,038	2,041,930,387	51.1	48,520,335	67,553,592	39.7	19,994,851	27,519,195	44.3	27,519,195	27,519,195	44.3
2. Material current expenditure	1,297,882,175	1,721,484,709	6.4	223,846,611	321,744,453	8.0	10,041,456	14,176,244	8.3	3,738,212	5,748,121	9.3	5,748,121	5,748,121	9.3
3. Repair and maintenance current expenditure	281,965,434	356,415,999	1.3	48,503,295	62,363,543	1.6	2,625,512	3,465,225	2.0	602,708	892,890	1.4	892,890	892,890	1.4
4. Official travel expenditure	154,001,805	200,937,613	0.7	14,892,338	18,787,371	0.5	642,371	802,600	0.5	316,239	316,239	0.5	316,239	316,239	0.5
5. Other current expenditure	604,517,505	1,177,128,517	4.3	163,292,720	203,201,232	5.1	14,865,866	16,786,159	9.9	8,264,876	9,536,376	15.4	9,536,376	9,536,376	15.4
6. Debt and interest repayment	115,782,993	128,430,197	0.5	18,516,666	17,340,625	0.4	-	-	-	248,403	385,167	0.6	385,167	385,167	0.6
7. Funds/subsidy	245,609,471	360,009,330	1.3	46,927,539	88,906,002	2.2	3,100,523	8,169,473	4.8	188,782	206,588	0.3	206,588	206,588	0.3
8. Other current expenditure	294,706,409	470,805,793	1.7	47,169,929	78,780,483	2.0	637,066	78,780,483	2.4	988,220	1,693,360	2.7	1,693,360	1,693,360	2.7
9. Unpredicted current expenditure	96,380,152	174,105,125	0.6	7,830,421	29,227,281	0.7	600,000	1,292,107	0.8	-	140,250	0.2	140,250	140,250	0.2
<b>C. DEVELOPMENT EXPENDITURES</b>	6,269,982,635	8,428,260,961	31.1	960,835,215	1,162,150,131	29.1	40,061,878	53,945,899	31.7	9,001,956	15,613,481	25.2	15,613,481	15,613,481	25.2
1. Industry	19,726,159	82,986,877	0.3	2,615,925	10,356,389	0.3	223,977	690,000	0.4	15,600	55,000	0.1	55,000	55,000	0.1
2. Agriculture and Forestry	241,630,307	396,228,383	1.5	32,432,003	45,172,834	1.1	1,304,503	1,446,936	0.9	101,745	198,880	0.3	198,880	198,880	0.3
3. Natural water resources and Irrigations	73,883,294	135,028,651	0.5	14,028,851	31,756,723	0.8	79,685	771,294	0.5	-	-	-	-	-	-
4. Manpower	35,143,754	28,210,069	0.1	13,078,426	5,895,151	0.1	184,809	329,500	0.2	-	-	-	-	-	-
5. Trade, Unfolding regional initiative, regional financial and cooperatives	245,943,196	386,158,789	1.4	39,158,480	52,190,602	1.3	1,765,328	3,635,425	2.1	258,260	367,805	0.6	367,805	367,805	0.6
6. Transportation	1,785,122,359	2,207,504,016	8.2	251,651,440	298,966,237	7.5	14,798,459	12,891,210	7.6	1,891,642	2,440,760	3.9	2,440,760	2,440,760	3.9
7. Mining and energy	27,403,482	33,351,838	0.1	3,305,969	3,973,791	0.1	115,595	175,000	0.1	-	-	-	-	-	-
8. Tourism and regional communications	57,665,141	151,306,590	0.6	4,700,870	7,168,008	0.2	179,730	416,590	0.2	117,761	80,000	0.1	80,000	80,000	0.1
9. Regional development and resettlement	1,059,922,285	930,116,579	3.4	189,437,683	107,866,473	2.7	1,968,677	913,992	0.5	338,768	381,200	0.6	381,200	381,200	0.6
10. Environment and lay out	222,478,274	463,782,782	1.7	34,021,041	85,399,307	2.1	607,136	2,718,132	1.6	405,845	2,488,840	4.0	2,488,840	2,488,840	4.0
11. Education, national culture, credentials, youth and sport	891,002,723	966,677,841	3.6	136,070,559	152,084,983	3.8	5,497,303	5,985,116	3.5	1,812,136	2,718,364	4.4	2,718,364	2,718,364	4.4
12. Demography and family welfare	34,486,020	43,617,962	0.2	4,245,098	5,996,209	0.2	66,605	124,980	0.1	-	-	-	-	-	-
13. Health, social welfare, women participation, child and adolescent	365,949,953	422,193,640	1.6	47,605,381	47,125,752	1.2	3,010,557	2,223,396	1.3	503,317	1,113,283	1.8	1,113,283	1,113,283	1.8
14. Dwelling and residence	343,385,948	803,474,714	3.0	48,813,919	104,430,221	2.6	1,210,995	4,855,343	2.9	249,950	3,225,181	5.2	3,225,181	3,225,181	5.2
15. Religion	52,872,608	80,031,034	0.3	13,215,506	14,417,276	0.4	590,443	260,800	0.2	77,500	116,080	0.2	116,080	116,080	0.2
16. Science and technology	74,009,942	113,612,097	0.4	13,477,138	16,858,514	0.4	1,144,549	1,278,947	0.8	671,103	280,892	0.5	280,892	280,892	0.5
17. Law	13,857,283	23,851,451	0.1	3,336,958	3,895,701	0.1	199,869	199,584	0.1	22,000	75,000	0.1	75,000	75,000	0.1
18. Civil servants and control	612,982,637	986,510,814	3.6	97,945,451	142,228,050	3.6	5,126,293	10,916,829	6.4	2,515,829	1,979,196	3.2	1,979,196	1,979,196	3.2
19. Politics, information, communication and mass communication	35,857,283	5,313,973	0.2	5,313,973	952,400	0.6	3,209,087	952,400	0.6	2,000	35,000	0.1	35,000	35,000	0.1
20. Security and public order	21,930,286	67,259,653	0.2	3,182,097	10,897,745	0.3	451,198	300,000	0.2	18,500	58,000	0.1	58,000	58,000	0.1
21. Development subsidies to lower level government	55,530,701	47,069,684	0.2	3,198,447	6,249,478	0.2	1,216,000	2,855,000	1.7	-	-	-	-	-	-

point to an economic slowdown being estimated GDP growth in 2001 to be 3.3% by WB, down from 4.8% in 2000.

58. In Indonesia, the government's indebtedness prevents it from sustaining economic recovery by fiscal means and therefore the private sector engine must provide traction. For the private sector to succeed, progress will be required on two fronts:

- Removal of structural constraints that impede private investment; and
- Development of institutions that improve the quality of governance.

59. With regard to structural reforms for growth, the Indonesian government reached an agreement with the IMF on a three-year economic stabilization and recovery program. The agreement has been revised repeatedly in response to deteriorating macroeconomic conditions and political changes, however, the following are the key economic and structural reform challenges of the Indonesian Government.

- Restoring balance to Indonesia's economy by reducing inflation, controlling the GOI's budget deficit, and spurring economic growth.
- Enhancing the environment for foreign investment by improving security, reducing political conflict, and improving the functioning of Indonesia's commercial courts.
- Increasing state budget revenues by expanding Indonesia's income tax base and privatizing state-owned enterprises (SOEs).
- Refining budget mechanisms under fiscal decentralization in order to improve administrative capacity at the district level, improve the equity of resource transfers among the regions, and reduce the overall fiscal burden of the program on the central government budget.
- Increasing transparency and accountability of government operations.

60. Those challenges are basically being coped with by moving in the following two directions: *Privatization and Decentralization*.

## 2-D-2 Privatization

### 1) *Before the Crisis*

61. 'Privatization' in Indonesian context includes both meanings of 'Privatizing State-Owned Enterprises (hereinafter referred to as "SOEs")' and 'Private Sector Participation'. Although two of these are in the same direction, the latter has broader meaning covering the former as well as such scheme as BOT. Both 'privatization's have been progressed having close relations each other.

62. The history of SOEs dates back to 1960, Law No.19/1960, being followed by Law No.9/1967 grouping SOEs into three categories: *Perjan (Perusahaan Jawatan)* meaning companies under the service of government ministries, *Perum (Perusahaan Umum)* meaning public companies, and *Persero* which is closer in meaning to limited liabilities companies.

63. In 1988, Keppres (Presidential Decree) No.5/1988 was issued to streamlined SOEs providing the framework for improving their performance. A number of measures were taken under the Keppres, including the flotation of minority shareholdings in some companies on Indonesian and other stock exchanges, the use of a wide variety of reform tools such as

restructuring, mergers. Other forms of private sector participation (including public share offerings and new scheme of cooperation namely BOT) were authorized at the same time.

64. Based on the above Keppres, in 1990s, by the time the Asian economic crisis began in mid-1997, Indonesia had made significant strides in expanding private sector participation in infrastructure. Private sector has been allowed to invest in SOEs' activities especially in power generation activities and toll road constructions. First power purchase agreement between State-Owned PT.PLN which has primary responsibility for the provision of electricity within Indonesia and a private company. By the end of 1997, PT. PLN had signed 26 power purchase agreements with private investors, though, only one power plant as in operation by 1997. With regarding to toll road constructions, by the end of 1997, the private sector had participated under a BOT system in constructing 148km of toll road, while approximately 31% of total toll road length directly operated by State-Owned PT. Jasa Marga which has responsibility for constructing toll road.

## 2) *After the Crisis*

65. The crisis was a hard hit for Indonesia against the movement of expanding private sector participation, crashing demand for infrastructure and related services. Input price guarantees by SOEs resulted in severe cash flows shortages and SOEs sought to amend their agreement such as power purchase agreements and BOT agreements to pay producers or services providers in local currency at a rate far below the market. Most private sector participation projects, including those that had reached financial disclosure and begun construction, were suspended or cancelled by Keppres (Presidential Decree) No.39/1997.

66. In terms of privatizing SOEs, to enhance the efficiency of SOEs and as part of Indonesia's ongoing IMF-supported economic reform program, the GOI established an ambitious timetable to divest majority ownership in SOEs. However, difficulties establishing the valuation of the state-owned firms, resistance from senior managers and political leaders to selling key national assets, and the challenge of attracting buyers in an uncertain political and economic environment had resulted in the program never getting off the ground.

67. On June 29, 2000, the GOI launched a revised State-Owned Enterprise Master plan in response to concerns about lagging privatization and continuing "high-cost" practices in the 164 enterprises. The revised plan aimed to accelerate SOE restructuring and privatization and to establish good governance practices, i.e., transparency, independence, and accountability. The government slated 10 SOEs from a variety of sectors, including mining, plantations, airport operations and fertilizer to be fully or partially privatized before the end of 2000, with profits expected to total Rp 6.5 trillion (USD 604 million). The obstacles facing the privatization process have persisted, however, and the government failed to meet its FY 2000 target. It has set the same target for FY 2001, but has conducted only two small initial public offerings of state pharmaceutical companies netting USD 23 million.

68. On September 17 2001, Keppres No.64/2001 went into effect enforcing the right of the Minister for State-Owned Enterprises over all the SOEs including those in the financial and transportation sectors which were previously controlled by the relevant Ministers. Since then, at least 6 SOEs were declared ready to float shares on the Jakarta Stock Exchange. For the 2001-2002 period, the Government plans to privatize at least 16 SOEs to generate funds for two purposes: to pay the interest of re-capitalization bonds, and to help reducing State Budget deficit. Pelindo I-IV is not included in the above plan.

69. With regard to private sector participation, corresponding with the recent recovering economic condition in Indonesia, the Keppres No.39/1997 mentioned in paragraph 65 has replaced by new Keppres No.15/2002, pushing the related Ministers to expedite evaluating

feasibility and resuming the projects which had been postponed and/or re-investigated in Keppres No.39/1997.

### 3) *Performance of SOEs*

70. The recent performance of SOEs is given in Table 2-D-1. It is said that significant amount of the net profit go to the fulfillment of government financial obligations, and many economists point out their poor performance and slow pace of their privatization program. In fact, even though the government has shares in all SOEs, government ownership is indirect (less than 50%) in merely 21 enterprises while government maintains direct ownership status in the rest of 174 in 2001. The current issues coming into a topic of public discussion is how to promote transparency and efficiency in SOEs as well as their privatization per se.

**Table 2-D-1 Performance of SOEs**

Number of SOE	Total Assets	Total Debt	% for TL. Assets	Total Earning	Operational Profit	Trillion Rp		
						Net Profit	% for TL. Assets	
2000	188	861.5	634.0	73.6%	169.3	19.5	13.4	1.6%
2001	195	845.2	606.0	71.7%	199.6	27.0	20.2	2.4%

Source: Office of Minister of SOEs and Published Statement

### 4) *Some Profiles of Privatization in Transport Sector*

71. Indonesia has been one of the main East Asian countries implementing private toll road BOTs. In developing a framework for private sector participation in roads, the Government has passed through the following stages:

- Toll roads financed, constructed and operated by a government body (1978-1983)
- Toll roads financed with foreign development loans (1983-1990)
- Non competitive engagement of the private sector in toll road construction and operation through BOT projects (1987-1993)
- Open competitive and tendering of BOT toll road projects (1994-present)

72. Railways are state-owned, however, Perum Kerata Api (SOE) started partial privatization by inviting private companies to form service joint ventures on a profit-sharing basis.

73. In port development, Indonesia awarded a management contract to a private company for operating container terminal in Tanjung Priok, as in detailed description in another chapter.

74. One of the liberalization of the shipping industry in recent years has been to raise the maximum allowed foreign equity holding from 80% to 95%.

75. With regard to airport investment, reforms introduced in 1994 enables a greater extent of private and foreign investment in airports primarily through the BOT scheme.

### 2-D-3 Decentralization

76. On January 1, 2001, two decentralization laws (Law 22&25/1999) devolving authority and funding to district governments entered into effect. Local governments were simultaneously given responsibility for public sector activities in health, education, and rural and urban infrastructure, along with authority over more than 2.3 million former central government staff.



The revenue sharing provisions of Law 25/1999 on fiscal decentralization also added a new structural burden to the central government budget. This requires the central government to transfer to the regions 25 percent of central government revenues. It also contains provisions requiring the central government to share natural resource revenues with the regions.

77. The process of decentralization generates local responsibility for local problems, and encourages participation and regional relevance of public sector services and initiatives. Set against a backdrop of several decades of increasing central government authority, decentralization is a radical move. Local governments have made considerable efforts to meet their new responsibilities, however, major deficiencies remain in operating guidelines for local service providers, particularly in introducing minimum service standards and ensuring compliance and consistency between local regulations and national policies. In addition, observers highlight uneven capacity at the regional level to administer the budgets, as well as wide disparities in revenues between resource-rich and poor regions

78. In addition, the newly amended law on local taxation gives local governments the freedom to impose new taxes and levies within certain limits. Many local governments enacted new taxes in the first half of 2001. Many of these measures threaten to discourage trade, transit, and business activities across regions. It is not clear whether the central government will act to rein in those taxes that are unnecessarily burdensome. Local governments now have the authority to approve investments in all areas except oil and gas, however, investment rules and procedures such as approval criteria for new investments, licensing arrangements remain unclear.

79. The situation is almost same in infrastructure development such as road and port. Local governments now strongly intend to have their own plan for infrastructure development viewing from the local interest, while the central government has plans from the national social-economic viewpoint. At present, we find a lot of inconsistency and controversy among the plans. Planning rules and procedures as well as financial scheme for infrastructure development still remain unclear.

## **2-E NATIONAL/REGIONAL DEVELOPMENT PLAN**

### **2-E-1 National Development Plan**

80. Basic national development planning scheme is as follows: ‘Guidelines for National Development’ (GBHN) and Five-Year Plan together set out the basis for national development plan in Indonesia. GBHN consist of long-range general guidelines, setting out the general framework of objectives and policy directions for a period of 25 years, and five-year general guidelines, setting out the specific objectives and policy directions for each five-year phase of the long-range period. Practically, Five-Year Plans called ‘PROPENAS’, which was formerly called ‘REPELITA’ before the economic crisis, should be made based on 25-Year Long-term Development Plan (PJP).

81. In chronicle, there were five (5) REPELITAs which had been carried out under the PJP I (1969-1994) followed by REPELITA VI (1994/95-1998/99) under the PJP II (1994-2019). However, being influenced by the crisis, REPELITA VI was suspended and re-examined, and as a result, based on the latest GBHN (1999-2004), the current Five-Year Plan, PROPENAS (2000-2004), has been formulated by BAPPENAS, National Development Planning Agency which is responsible for preparing long, medium and short-term planning from the national view point.

82. On the other hand, new long-term plan which should give a base for Five-Year Plan, has not been revised so far. According to BAPPENAS, a new long-term plan covering 20 to 25 years is being currently examined.

83. PROPENAS (2000-2004) raises five (5) major problems that are currently faced by Indonesia. They are:

- Growing social conflict and emerging symptoms of national disintegration
- Weak enforcement of law and human rights
- Slow economic recovery
- Declining level of social welfare, increasing social illnesses and weakening level of national resilience; and
- Slow progress in strengthening the capacity of regional and community development

84. On the basis of these problems and expecting challenges, PROPENAS raises five (5) national development priorities. From the economic view point, priority is given to accelerating economic recovery and strengthening the foundation of sustainable and fair development, which includes the following programs:

- To create macro-economic stability that is conducive for increasing investment and exports
- To stimulate increases in competitiveness especially for increasing non-oil & gas exports
- To promote investment mainly equity rather than loan
- To provide economic development facilities and infrastructure restructuring.

85. With regard to macro-economic framework, PROPENAS summarized its projection as shown in Table 2-E-1 paying close attention to the following factors that will affect macro-economic stability in Indonesia:

- Inflation rate stability
- Reducing fluctuation of the Rupiah to foreign currencies
- Export price of Indonesian crude oil
- Private and government consumption expenditures

Table 2-E-1 Macro-economic Framework

Indicator	1999	2000	2001	2002	2003	2004
Inflation rate, CPI (%)	2.0%	7-9%	6-8%	5-7%	4-6%	3-5%
Exchange rate (Rp/US\$)	7,809	7,000	7,000	6,500	6,500	6,500
GDP growth (%)	0.3%	4-5%	4.5-5.5%	5-6%	6-7%	6-7%
Agriculture	2.1%	1.4%	2.5%	2.5%	2.7%	2.9%
Manufacturing Industry	2.6%	4.8%	6.4%	7.3%	8.4%	9.2%
Non-oil and gas	2.2%	5.5%	6.9%	7.9%	9.2%	10.0%
Others	▲ 1.2%	5.3%	5.5%	6.0%	6.2%	6.4%
Contribution to GDP growth						
Consumption	2.6%	0.9%	1.0%	2.6%	3.0%	3.8%
Private	2.5%	1.4%	1.8%	2.9%	3.0%	3.8%
Government	0.0%	▲ 0.5%	▲ 0.8%	0.0%	▲ 0.1%	0.0%
Investment	▲ 5.3%	0.4%	2.0%	2.6%	3.6%	3.1%
Private	▲ 5.6%	0.6%	1.7%	2.4%	3.1%	3.3%
Government	0.4%	▲ 0.2%	0.3%	0.2%	0.5%	▲ 0.2%
Export (net)	3.0%	3.2%	2.2%	0.5%	▲ 0.2%	▲ 0.2%
Private	▲ 11.3%	1.3%	2.3%	1.1%	0.8%	1.0%
Government	14.3%	1.9%	▲ 0.1%	▲ 0.6%	▲ 1.0%	▲ 1.3%
GDP per/c (at 1998 constant, Rp)	4,785.0	4,929.0	5,111.0	5,328.0	5,583.0	5,873.0
GDP per/c growth		3.0%	3.7%	4.2%	4.8%	5.2%
Current account deficit / GDP (%)	4.0%	4.8%	3.7%	1.8%	0.0%	-1.1%
Total investment (% in GNI)	12.5%	19.3%	20.5%	22.2%	24.7%	28.3%
Private	7.2%	14.6%	15.7%	17.4%	19.6%	23.8%
Government	5.3%	4.7%	4.9%	4.8%	5.1%	4.5%

Source: PROPENAS

86. According to the framework of national development planning, each sectoral Department (Ministry) should draw up five-year strategic plan (RENSTRA) based on the PROPENAS, however, not all of sectoral RENSTRA has been formulated up to now. The latest RENSTRA for the transport sector has been issued in May 2002.

87. On annual basis, the plan called REPETA should be made for each fiscal year based on the PROPENAS in its duration. According to the draft of REPETA for 2003, macro-economic indicators are predicted as in Table 2-E-2. In reflecting recent economic slowdown and increasing inflation, the economic growth rate target is re-estimated lower than the original such as from 6-7% to 5-6% of GDP growth in 2004, while inflation rate in the same year is revised from original 3-5% to 7-9%.

Table 2-E-2 Macro-economic Indicators

Indicator	1999	2000	2001	2002	2003	2004	2005
Inflation rate, CPI (%)	2.0%	9.4%	12.5%	9-10%	8-10%	7-9%	6-8%
Exchange rate (Rp/US\$)	7,809	8,438	10,255	8,750	8,550	8,500	8,500
GDP growth (%)	0.3%	4.9%	3.3%	3.5-4.5%	4.5-5.5%	5-6%	5.5-6.5%
GDP per/c (at 1998 constant, Rp)	4,785.0	4,967.0	5,058.0	5,186.0	5,370.0	5,588.0	5,843.0
GDP per/c growth		3.8%	1.8%	2.5%	3.5%	4.1%	4.6%
Current account deficit / GDP (%)	4.0%	3.2%	3.7%	2.5%	1.0%	-0.1%	-1.0%
Total investment (% in GNI)	12.5%	19.3%	20.5%	22.2%	24.7%	28.3%	28.3%
Private	7.2%	11.2%	13.8%	15.9%	17.0%	19.1%	21.4%
Government	5.3%	4.6%	3.9%	4.6%	5.3%	5.7%	5.2%

Source: REPETA for 2003 (National Annual Plan)

## 2-E-2 Regional Development Plan

88. The framework of regional development planning was drastically changed in the stream of decentralization. The PROPENAS, national development plan, does not give any concrete

activities for individual regional development except for a few special areas, while the former REPELITA had given the development guidelines for the Province. The authority to draw specific plans for regional development was given to the local government. Each province and/or regency/city (*Kabupaten/Kota*) should prepare a five-year program (PROPEDA) which contains a basic guideline for regional development, and a five-year strategic plan (RENSTRADA) which gives concrete targets, projects, evaluation scheme etc. BAPPEDA, Regional Planning Board under the jurisdiction of Department (Ministry) of Home Affairs, is playing a key role in formulating the program and/or plan and coordinating among sectoral units of province, regency/city and central government.

89. At this moment, the progress of PROPEDA/RENSTRADA is at a different level in each province, regency/city. While some have already finalized their plans, the lack of human resources at local governments due to decentralization and confusion over financial allocation between the central and local governments is making this a difficult task. The details of regional development plan of the Study area is described in Chapter VI-A

### 2-E-3 Industrial Development Policies/Plans

90. One of the key measures for overcoming the crisis and for strengthening the foundation for sustainable development is the effort to increase the global competitiveness of Indonesian economy. In pursuit of this goal, the following five main strategies are formulated:

- To promote exports;
- To promote industries with competitive advantage;
- To strengthen market institutions
- To promote tourism; and
- To increase science and technological capability.

91. In the latest GBHN 1999-2004, Indonesian Government clearly states the new industrial development policy to overcome economic and financial crisis which started in the middle of 1997. The new policy emphasizes the importance to strengthen global competitiveness of Indonesian industries, and suggests the comparative advantage of natural and human resources in Indonesia. It also states that the promotion of local resource-based small and medium scale industries should be enhanced.

92. In order to improve global competitiveness of Indonesian products, efforts should not be confined to the promotion of the manufacturing industry but also cover the whole chain-link of production and distribution activities. In this regards, the new industrial development policy calls for restructure of the entire production and distribution basis.

93. In the context of consolidating development of the primary, secondary and tertiary sectors, the industrial cluster approach is proposed. Applying this methodology, it is expected that the linkages among several industrial sectors will be tightened and that networks connecting the entire production and distribution circles will be created and functioned.

94. The promotion of industrial clusters requires the formation of the national industrialization strategy. The formation needs to involve the government, including local government, as well as private circle entities. The new industrial policy also aims at promoting of exploitation of local resources, and creating a conducive local business environment.

## 2-F ENVIRONMENTAL CONSERVATION POLICY

### 2-F-1 Environmental Policy in Indonesia

95. Indonesia is famous for the highest biodiversity, 20 % of total fauna and flora in the world (about 325,000 species) live in this country where shares only 1.3 % of total land area in the world. However Indonesia has taken precedence over economic policy and industrial development, as a result serious environmental destruction appears. Also recent population growth and urbanization cause serious damage to the living environment and human health.

96. Indonesian Government established Environmental Impact Management Agency (*Badan Pengendalian Dampak Lingkungan: BAPEDAL*) in 1990, and restructured State Ministry for Environment (*Kantor Menteri Negara Lingkungan Hidup: MENEG LH*) in 1993 for environmental management. These two agencies demarcated environmental management, *MENEG LH* was in charge of Indonesian general environmental policy, such as establishment of law and regulation. *BAPEDAL* functioned as the examination organization of Environmental Impact Assessment (*Analisis Mengenai Dampak Lingkungan: AMDAL*). *MENEG LH* and *BAPEDAL* however were integrated under the Megawati administration in 2001.

97. Indonesia Government's policy on environmental conservation is stated in PROPENAS 2000-2004. Government aims at the "Sustainable Use of Natural Resources and Environmental Management", by carrying out the following activities:

- Applying environmentally-sound technology;
- Revising and enforcing related laws and regulations;
- Improving welfare of local community;
- Strengthening local community activity in environmental management; and
- Increasing public awareness and participation.

98. *BAPEDAL* which is recently combined with *MENEG LH* has prompted the following activities as important theme for starting by 2004, based on PROPENAS:

- New Clean Water Program;
- Blue Sky Program
- Sustainable Natural Resources Program;
- Coastal Management Program;
- Clean City Program;
- Sustainable Earth Program; and
- Environmental Management Program.

### 2-F-2 Concept of Environmental Impact Assessment

99. Regarding environmental management, since a new environmental management law was established in 1997, the former environmental management law established in 1982 was repealed. The features of the new law are as follows:

100. Strengthening environmental regulations for project activities.

**101.** In order to prevent environmental pollution and negative impacts and to inspect compliance with the environmental regulations (Clause 22nd – 24th), violations of the regulations shall be punished (Clause 25th – 27th). The regulation lays down the rules of investigation for government officers.

- Strengthening penalties for acts of violation of environmental regulations.

In case of intentional violation, 500 million Rupiah or ten years imprisonment shall be fined.

- Strengthening environmental dispute settlement.

The new law prescribes the right of filing suit in court for violation of the environmental regulations by organizations or communities (Clause 37th – 39th).

- Installation of the regulations of environmental information rights for the people of Indonesia.

The new law prescribes that everybody has the right to know environmental information. Promoters must provide the environmental information about their projects to public.

**102.** Development projects in environmentally sensitive areas require Environmental Impact Assessment (EIA) according to the living environmental management law established in 1997. The procedure known as “AMDAL” (*Analisis Mengenai Dampak Lingkungan*), specifies that a project executing organization is required to submit the Environmental Impact Analysis (*Studi Analisis Dampak Lingkungan: ANDAL*), Environmental Management Plan (*Rencana Pengelolaan Lingkungan: RKL*) and Environmental Monitoring Plan (*Rencana Pemantauan Lingkungan: RPL*) to the government agency concerned.

**103.** Under *LH*, there is an environmental monitoring center for environmental monitoring and information, which gathers the environmental data and information for examination of the EIA reports. Moreover, there are *LH* branch offices in some provinces. These offices called “BAPEDALDA” (*Badan Pengendalian Dampak Lingkungan Daerah*) belong to local governments.

### 2-F-3 Environment Impact Assessment Procedure

**104.** *AMDAL* is an integrated review process to coordinate the planning and the proposed development activities, particularly of their ecological, socio-economic and cultural components.

**105.** Indonesian Environmental Impact Assessment (EIA) law was amended in 1999, and the new EIA procedure took effect in November 2000. *MENEG LH* is responsible for the overall coordination of the EIA study.

**106.** According to the new procedure of EIA study, development projects classified as shown in Table 2-F-1, are required to follow a procedure for approval of their environmental impact assessment (*AMDAL*) if they are beyond a certain scale (See Table 2-F-2 and Table 2-F-3). The procedure includes preparation of *ANDAL*, *RPL* and *RKL*. The procedure must include public participation in the process as shown in Figure 2-F-1.

**Table 2-F-1 Classification of development project type for AMDAL**

	<b>Classification</b>	<b>Example</b>
I	Mining and Energy sector	General mining, Electric facility
II	Trading and Industry Sector	Cement industry, Pulp industry, Metal industry, Business center
III	Transmigration Sector	Development plan of transmigration settlement
IV	Tourism and Culture	Recreation park, Tourism resort
V	Communication Sector	Railway, Construction of port, airport, rail station
VI	Defense and Security Sector	Warehouse for ammunition, Navy/Army base
VII	Nuclear Development Sector	Construction/operate nuclear reactor and non reactor nuclear installation
VIII	Agriculture Sector	Land development in forest area, Shrimp/Fish pond cultivation
IX	Forestry and Estate Sector	Forest concession, Annual/Perennial tree crop
X	Public Work Sector	Dam construction, Irrigation area, Swamp/River development, Waste treatment
XI	Control of Dangerous and Poison Material	Control/Waste facility for dangerous and poison material

Source: Decree Ministry of Environment No. 3, 2000

**Table 2-F-2 Criteria for AMDAL Requirement (Port Development Project)**

<b>Project Type</b>	<b>Project Description</b>	<b>Criteria of Development Project which Requires AMDAL</b>
Port development project	Berthing facility	Facility with length exceeding 200 m or area exceeding 6,000 m <sup>2</sup>
	Breakwater	Length of 200 m or more
	Port facility	5 ha or more
	Mooring buoy	10,000 DWT or more
Dredging	Initial dredging	Dredged soil volume more than 250,000 m <sup>3</sup>
	Maintenance dredging	Dredged soil volume more than 500,000 m <sup>3</sup>
Reclamation		More than area 25 ha or dredged soil volume 500,000 m <sup>3</sup>
Soil dumping		Dumped soil volume more than 250,000 m <sup>3</sup>

Source: Revised Environmental Impact Assessment Procedure in Indonesia

**Table 2-F-3 Criteria for AMDAL Requirement (Road Development Project)**

<b>Project type</b>	<b>Project description</b>	<b>Criteria of development project which requires AMDAL</b>
Construction	Toll Way Construction	All Size
	Construction of Fly Over and Subway	2 km
Construction and/or upgrading of Road with Widening in out of Right of Way	Big City/Metropolitan	≥ 10 Km Length or ≥ 10 Ha Large
	Medium City	≥ 30 Km Length or ≥ 15 Ha Large
	Rural Area	≥ 50 Km Length

Source: Revised Environmental Impact Assessment Procedure in Indonesia

107. The major differences in the new law from the former one are strength of public participation in the assessment procedure and simplification by omission of IEE (Initial Environmental Examination). In the EIA procedure, hearings with persons (parties) concerned with the project activities are required at certain steps.

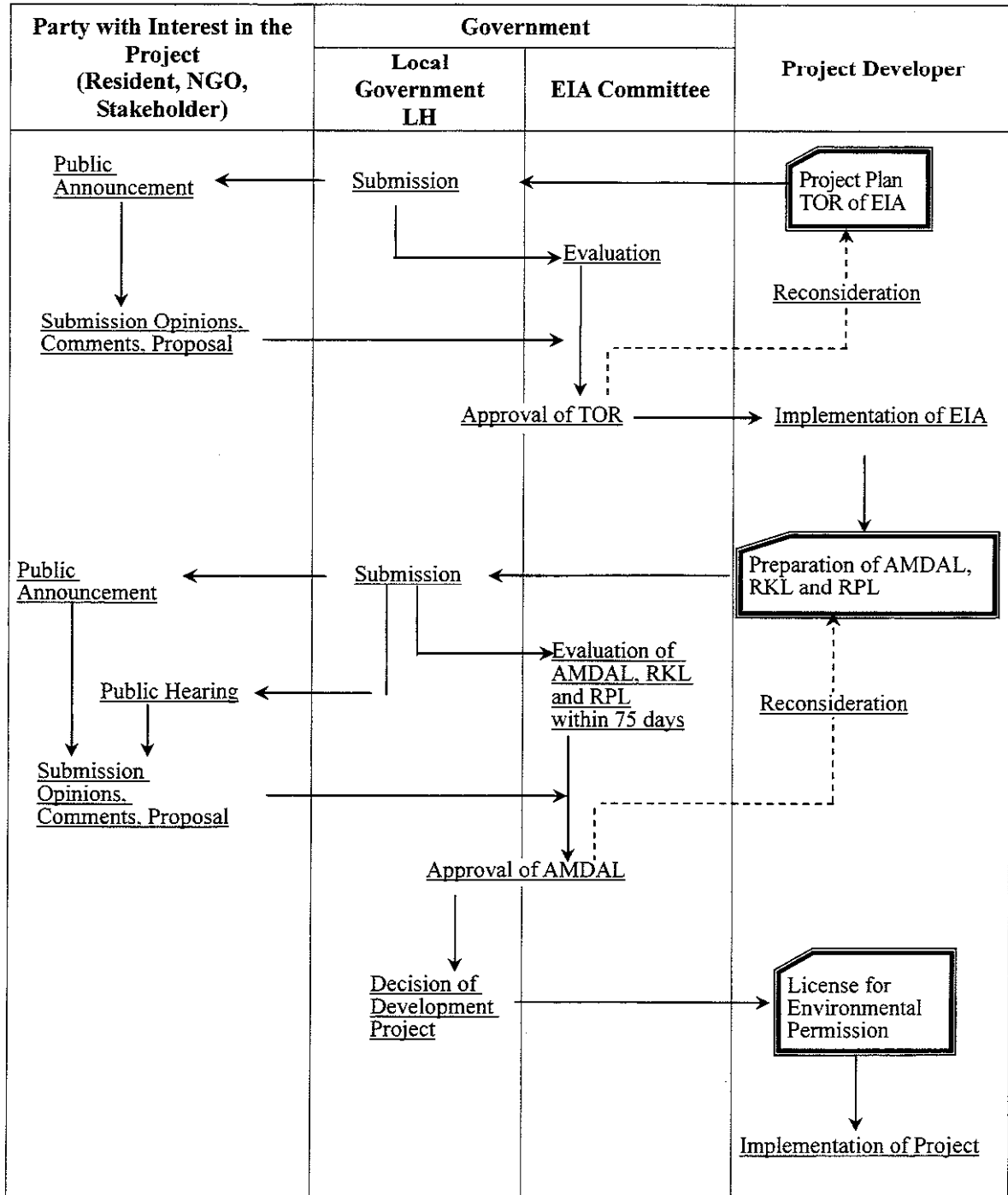


Figure 2-F-1 Procedure of EIA